HEARTLAND BANK

Disclosure Statement

For the six months ended 31 December 2018

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 2018 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 six months ended 31 December 2018 form part of, and should be read in conjunction with, this Disclosure Statement.

On 19 September 2018, Heartland Bank Limited shareholders approved a corporate restructure that resulted in Heartland Bank Limited becoming a wholly owned subsidiary of a new company, Heartland Group Holdings Limited. On 31 October 2018, shares in Heartland Bank Limited were exchanged for shares in Heartland Group Holdings Limited, and Heartland Bank Limited's Australian group of companies transferred to Heartland Group Holdings Limited.

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.

The address for service of the ultimate parent, Heartland Group Holdings Limited, 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

The following Directors have resigned since the signing of the 30 June 2018 Disclosure Statement.

Sir Christopher R Mace

Gregory R Tomlinson

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

Bruce R Irvine (Chair)

Jeffrey K Greenslade

Edward J Harvey

Ellen F Comerford

Graham R Kennedy

Geoffrey T Ricketts

Vanessa C M Stoddart

AUDITOR

KPMG
KPMG Centre
18 Viaduct Harbour Avenue
Auckland

AMENDMENTS TO CONDITIONS OF REGISTRATION

The Conditions of Registration applying to the Bank were amended on 1 October 2018 to refer to revised versions of the RBNZ Banking Supervision Handbook documents:

- Liquidity Policy (BS13) which includes changes to the calculation of liquidity ratios as a consequence of the removal of off-quarter disclosure statements; and
- Framework for Restrictions on High-LVR Residential Mortgage Lending (BS19) which includes changes to the High-LVR restrictions.

CONDITIONS OF REGISTRATION

These conditions apply on and after 1 October 2018.

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 Group's 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.

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

CONDITIONS OF REGISTRATION (CONTINUED)

(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).

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:

[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)

“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 January 2018 and “Liquidity Policy Annex: Liquid Assets” (BS13A) dated October 2018.
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
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.

CONDITIONS OF REGISTRATION (CONTINUED)

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) dated September 2013.

    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.

CONDITIONS OF REGISTRATION (CONTINUED)

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 65%, 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 15% 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 January 2018:

“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 2018.

PENDING PROCEEDINGS OR ARBITRATION

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

CREDIT RATINGS

As at the date of signing this Disclosure Statement, the Bank's credit rating issued by Fitch Australia Pty Ltd (Fitch Ratings) was BBB stable. This BBB credit rating was issued on 14 October 2015 and is applicable to long term unsecured obligations payable in New Zealand, in New Zealand dollars. This BBB stable credit rating was affirmed by Fitch Ratings on 1 November 2018.

The following is a summary of the descriptions of the ratings categories for rating agencies for the rating of long-term senior unsecured obligations:

Fitch Ratings	Standard & Poor's	Moody's Investors Service	Description of Grade
AAA	AAA	Aaa	Ability to repay principal and interest is extremely strong. This is the highest investment category.
AA	AA	Aa	Very strong ability to repay principal and interest in a timely manner.
A	A	A	Strong ability to repay principal and interest although somewhat susceptible to adverse changes in economic, business or financial conditions.
BBB	BBB	Baa	Adequate ability to repay principal and interest. More vulnerable to adverse changes.
BB	BB	Ba	Significant uncertainties exist which could affect the payment of principal and interest on a timely basis.
B	B	B	Greater vulnerability and therefore greater likelihood of default.
CCC	CCC	Caa	Likelihood of default considered high. Timely repayment of principal and interest is dependent on favourable financial conditions.
CC - C	CC - C	Ca - C	Highest risk of default.
RD to D	D	-	Obligations currently in default.

Credit ratings from Fitch Ratings and Standard & Poor’s may be modified by the addition of a plus or minus sign to show relative status within the major rating categories. Moody’s Investors Service apply numerical modifiers 1, 2, and 3 to show relative standing within the major rating categories, with 1 indicating the higher end and 3 the lower end of the rating category.

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 six months ended 31 December 2018:

   (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 19 February 2019 and has been signed by all the Directors.

B. R. Irvine (Chair - Board of Directors)

G. R. Kennedy

J. K. Greenslade

G. T. Ricketts

E. F. Comerford

V. C. M. Stoddart

E. J. Harvey

CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 31 December 2018

$000	NOTE	Unaudited 6 mths to Dec 2018	Restated 6 mths to Dec 2017	Restated 12 mths to Jun 2018
Continuing Operations				
Interest income	2	143,367	134,920	272,323
Interest expense	2	57,244	54,275	108,737
Net interest income		**86,123**	**80,645**	**163,586**
Operating lease income		2,871	3,082	5,675
Operating lease expenses		1,801	2,132	4,005
Net operating lease income		**1,070**	**950**	**1,670**
Lending and credit fee income		1,271	962	1,837
Other income		1,702	1,825	9,176
Net operating income		**90,166**	**84,382**	**176,269**
Operating expenses	3	41,159	38,239	76,291
Profit before impaired asset expense and income tax		**49,007**	**46,143**	**99,978**
Impaired asset expense	4	13,164	10,133	21,833
Profit before income tax from continuing operations		**35,843**	**36,010**	**78,145**
Profit before income tax from discontinued operations	4, 5	6,169	7,235	16,149
Income tax expense		11,616	12,159	26,781
Profit for the period		**30,396**	**31,086**	**67,513**
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		781	(492)	72
Movement in debt instrument fair value reserve, net of income tax		170	1,034	981
Movement in foreign currency translation reserve, net of income tax		(4,241)	2,510	2,315
Items that will not be reclassified to profit or loss:				
Movement in defined benefit reserve, net of income tax		-	231	340
Other comprehensive income / (loss) for the period, net of income tax		**(3,290)**	**3,283**	**3,708**
Total comprehensive income for the period		**27,106**	**34,369**	**71,221**

Total comprehensive income for the period is attributable to the shareholder(s).

The notes on pages 17 to 46 are an integral part of these consolidated interim financial statements.

HEARTLAND BANK

CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY

For the six months ended 31 December 2018

$000	NOTE	Share Capital	Treasury Shares Reserve	Employee Benefits Reserve	Foreign Currency Translation Reserve	Debt Instrument Fair Value Reserve	Defined Benefit Reserve	Hedging Reserve	Retained Earnings (restated)	Total Equity (restated)
Unaudited - Dec 2018										
Balance at 1 July 2018		**544,927**	**(2,612)**	**2,558**	**1,260**	**1,590**	**257**	**(1,080)**	**117,260**	**664,160**
Impact of NZ IFRS 9 (net of tax)									(18,231)	(18,231)
Restated opening balance		**544,927**	**(2,612)**	**2,558**	**1,260**	**1,590**	**257**	**(1,080)**	**99,029**	**645,929**
Total comprehensive income for the period										
Profit for the period		-	-	-	-	-	-	-	30,396	30,396
Other comprehensive income / (loss) , net of income tax		-	-	-	(4,241)	170	-	781	-	(3,290)
Total comprehensive income for the period		**-**	**-**	**-**	**(4,241)**	**170**	**-**	**781**	**30,396**	**27,106**
Contributions by and distributions to owners										
Dividends paid	8	-	-	-	-	-	-	-	(30,808)	(30,808)
Special Dividend to Heartland Group Holdings Limited	5	-	-	-	-	-	-	-	(62,095)	(62,095)
Dividend reinvestment plan	8	8,584	-	-	-	-	-	-	-	8,584
Transfer of treasury shares		(2,340)	2,340	-	-	-	-	-	-	-
Release of FCTR on demerger			-	-	2,981	-	-	-	(2,981)	-
Shares cancelled		(272)	272						-	-
Share based payments		-	-	383	-	-	-	-	-	383
Total transactions with owners		**5,972**	**2,612**	**383**	**2,981**	**-**	**-**	**-**	**(95,884)**	**(83,936)**
Balance at 31 December 2018		**550,899**	**-**	**2,941**	**-**	**1,760**	**257**	**(299)**	**33,541**	**589,099**
Unaudited - Dec 2017										
Balance at 1 July 2017		**473,128**	**(2,612)**	**3,118**	**(1,055)**	**609**	**(83)**	**(1,152)**	**97,642**	**569,595**
Total comprehensive income for the period										
Profit for the period		-	-	-	-	-	-	-	31,086	31,086
Other comprehensive income/(loss), net of income tax		-	-	-	2,510	1,034	231	(492)	-	3,283
Total comprehensive income for the period		**-**	**-**	**-**	**2,510**	**1,034**	**231**	**(492)**	**31,086**	**34,369**
Contributions by and distributions to owners										
Dividends paid	8	-	-	-	-	-	-	-	(28,393)	(28,393)
Dividend reinvestment plan	8	7,495	-	-	-	-	-	-	-	7,495
Issue of share capital		59,225	-	-	-	-	-	-	-	59,225
Transaction costs associated with capital raising		(681)	-	-	-	-	-	-	-	(681)
Share based payments		-	-	216	-	-	-	-	-	216
Shares vested		709	-	(1,196)	-	-	-	-	-	(487)
Total transactions with owners		**66,748**	**-**	**(980)**	**-**	**-**	**-**	**-**	**(28,393)**	**37,375**
Balance at 31 December 2017		**539,876**	**(2,612)**	**2,138**	**1,455**	**1,643**	**148**	**(1,644)**	**100,335**	**641,339**

The notes on pages 17 to 46 are an integral part of these consolidated interim financial statements.

HEARTLAND BANK

CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY (CONTINUED)

For the six months ended 31 December 2018

$000	NOTE	Share Capital	Treasury Shares Reserve	Employee Benefits Reserve	Foreign Currency Translation Reserve	Debt Instrument Fair Value Reserve	Defined Benefit Reserve	Hedging Reserve	Retained Earnings (restated)	Total Equity
Jun 2018										
Balance at 1 July 2017		**473,128**	**(2,612)**	**3,118**	**(1,055)**	**609**	**(83)**	**(1,152)**	**97,642**	**569,595**
Total comprehensive income for the year										
Profit for the year		-	-	-	-	-	-	-	67,513	67,513
Other comprehensive income / (loss), net of income tax		-	-	-	2,315	981	340	72	-	3,708
Total comprehensive income for the year		**-**	**-**	**-**	**2,315**	**981**	**340**	**72**	**67,513**	**71,221**
Contributions by and distributions to owners										
Dividends paid	8	-	-	-	-	-	-	-	(47,895)	(47,895)
Dividend reinvestment plan	8	12,745	-	-	-	-	-	-	-	12,745
Issue of share capital		59,225	-	-	-	-	-	-	-	59,225
Transaction costs associated with capital raising		(910)	-	-	-	-	-	-	-	(910)
Share based payments		-	-	666	-	-	-	-	-	666
Shares vested		739	-	(1,226)	-	-	-	-	-	(487)
Total transactions with owners		**71,799**	**-**	**(560)**	**-**	**-**	**-**	**-**	**(47,895)**	**23,344**
Balance at 30 June 2018		**544,927**	**(2,612)**	**2,558**	**1,260**	**1,590**	**257**	**(1,080)**	**117,260**	**664,160**

The notes on pages 17 to 46 are an integral part of these consolidated interim financial statements.

CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION

As at 31 December 2018

$000	NOTE	Unaudited Dec 2018	Unaudited Dec 2017	Audited Jun 2018
Assets				
Cash and cash equivalents		75,770	117,316	49,588
Investments		318,961	294,197	340,546
Investment properties		9,196	1,724	9,196
Due from related parties	9	47,923	-	-
Finance receivables	6	3,463,992	3,783,091	3,984,941
Operating lease vehicles		16,430	17,551	17,524
Other assets		16,503	15,522	14,411
Intangible assets		58,051	71,365	74,401
Deferred tax asset		11,192	6,718	5,319
Total assets		**4,018,018**	**4,307,484**	**4,495,926**
Liabilities				
Borrowings	7	3,412,766	3,633,423	3,796,058
Current tax liabilities		851	6,722	11,459
Trade and other payables		15,302	26,000	24,249
Total liabilities		**3,428,919**	**3,666,145**	**3,831,766**
Equity				
Share capital		550,899	539,876	544,927
Treasury shares		-	(2,612)	(2,612)
Retained earnings and reserves		38,200	104,075	121,845
Total equity		**589,099**	**641,339**	**664,160**
Total equity and liabilities		**4,018,018**	**4,307,484**	**4,495,926**

Total interest earning and discount bearing assets	3,840,471	4,179,777	4,361,014
Total interest and discount bearing liabilities	3,396,306	3,626,752	3,789,144

The notes on pages 17 to 46 are an integral part of these consolidated interim financial statements.

HEARTLAND BANK

CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS

For the six months ended 31 December 2018

$000	NOTE	Unaudited 6 mths to Dec 2018	Unaudited 6 mths to Dec 2017	Audited 12 mths to Jun 2018
Cash flows from operating activities				
Interest received		144,412	139,100	280,471
Operating lease income received		2,961	2,618	4,941
Lending, credit fees and other income received		1,871	3,335	10,398
Operating inflows		**149,244**	**145,053**	**295,810**
Payments to suppliers and employees		48,639	33,543	73,672
Interest paid		76,833	63,266	123,783
Taxation paid		15,907	14,559	23,818
Operating outflows		**141,379**	**111,368**	**221,273**
Net cash flows from operating activities before changes in operating assets and liabilities		**7,865**	**33,685**	**74,537**
Proceeds from sale of operating lease vehicles		2,414	2,804	5,577
Purchase of operating lease vehicles		(2,996)	(2,887)	(7,163)
Net movement in finance receivables		(224,748)	(237,056)	(431,863)
Net movement in deposits		105,529	131,864	307,733
Net cash flows (applied to) / from operating activities		**(111,936)**	**(71,590)**	**(51,179)**
Cash flows from investing activities				
Net proceeds from sale of investment properties		-	3,185	3,185
Proceeds from sale of office fit-out, equipment and intangible assets		-	16	-
Sale of equity investment		-	-	300
Net decrease in investments		21,928	23,159	-
Total cash provided from investing activities		**21,928**	**26,360**	**3,485**
Purchase of office fit-out, equipment and intangible assets		2,378	2,437	8,837
Net increase in investments		-	-	23,107
Purchase of equity investment		-	-	7,472
Total cash applied to investing activities		**2,378**	**2,437**	**39,416**
Net cash flows from / (applied to) investing activities		**19,550**	**23,923**	**(35,931)**
Cash flows from financing activities				
Net increase/(decrease) in wholesale funding		232,404	(79,703)	(93,507)
Proceeds from issue of Unsubordinated Notes		-	150,000	150,000
Increase in share capital		-	59,225	58,315
Total cash provided from financing activities		**232,404**	**129,522**	**114,808**
Dividends paid	8	22,224	20,898	35,150
Repayments of subordinated Notes	7	22,846	-	-
Transaction costs associated with capital raising		-	681	-
Total cash applied to financing activities		**45,070**	**21,579**	**35,150**
Net cash flows from financing activities		**187,334**	**107,943**	**79,658**
Net increase / (decrease) in cash held		**94,948**	**60,276**	**(7,452)**
Opening cash and cash equivalents		49,588	57,040	57,040
Cash transferred on corporate restructure		(68,766)	-	-
Closing cash and cash equivalents		**75,770**	**117,316**	**49,588**

The notes on pages 17 to 46 are an integral part of these consolidated interim financial statements.

CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS (CONTINUED)

For the six months ended 31 December 2018

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

$000	Unaudited 6 mths to Dec 2018	Unaudited 6 mths to Dec 2017	Audited 12 mths to Jun 2018
Profit for the period	**30,396**	**31,086**	**67,513**
Add / (less) non-cash items			
Depreciation and amortisation expense	2,697	2,311	4,638
Depreciation on lease vehicles	1,676	1,975	3,771
Capitalised net interest income	(13,944)	(10,884)	(26,373)
Impaired asset expense	13,164	10,416	22,067
Provision transfer on demerger	619	-	-
Total non-cash items	**4,212**	**3,818**	**4,103**
Add / (less) movements in operating assets and liabilities:			
Finance receivables	(224,748)	(237,056)	(431,863)
Operating lease vehicles	(582)	(488)	(2,257)
Other assets	(3,356)	1,814	(635)
Current tax	(8,561)	(3,134)	1,603
Derivative financial instruments revaluation	(1,948)	(1,273)	(1,638)
Deferred tax	(7,006)	1,134	2,533
Deposits	105,529	131,864	307,733
Other liabilities	(5,872)	645	1,729
Total movements in operating assets and liabilities	**(146,544)**	**(106,494)**	**(122,795)**
Net cash flows applied to operating activities	**(111,936)**	**(71,590)**	**(51,179)**

The notes on pages 17 to 46 are an integral part of these consolidated interim financial statements.

Basis of Reporting

Reporting entity

The interim financial statements presented are the consolidated financial statements comprising Heartland Bank Limited (the Bank) and its subsidiaries (the Banking Group).

On 31 October 2018, Heartland Bank Limited (the Bank), became a wholly owned subsidiary of Heartland Group Holdings Limited (HGH Ltd). Shares in the Bank were exchanged on a one for one basis for shares in HGH Ltd. The Australian group of companies that were previously held by the Bank were transferred to HGH Ltd. The transfer of the Australian group of companies, has resulted in the Australian group being classified as a Discontinued operation as at the six months ended 31 December 2018. This is disclosed in more detail in Note 5 - Discontinued operations.

As at 31 December 2018, the Bank is a 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 disclosure statement was restated and reissued on 28 March 2019 to enhance the disclosure of credit exposures to individual counterparties in note 12(d).

The interim financial statements presented here are for the following periods:

- 6 month period ended 31 December 2018 - Unaudited
- 6 month period ended 31 December 2017 - Restated and unaudited
- 12 month period ended 30 June 2018 - Restated

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 the Registered Bank disclosure statement (New Zealand Incorporated Registered Banks) 2014 (as amended)(the order). 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 2018.

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 2018, with the exception of those noted below.

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

As required by NZ IFRS 5 - Non Current Assets Held for Sale and Discontinued Operations, the sale of the Australian group of companies has resulted in the reclassification of balances in the Statement of Comprehensive Income into 'Profit before income tax from discontinued operations' and 'Profit before income tax from continuing operations'. The Statement of Financial Position and Statement of Cashflows continue to include items from Discontinued operations within each line item. A summary of cash flow and net assets and liabilities is presented in the relevant sections of note 5 - Discontinued operations.

Change in Accounting policy

The Banking Group adopted NZ IFRS 9 - Financial Instruments and NZ IFRS 15 - Revenue from Contracts with Customers from 1 July 2018 . There have been no changes in previously reported financials.

NZ IFRS 9 Financial Instruments

In accordance with the transition provisions of NZ IFRS 9 the classification and measurement requirements of this standard have been applied retrospectively by adjusting affected opening balances at the date of initial application with no restatement of comparative periods.

The following changes have been made to accounting policies as result of the application of NZ IFRS 9.

Impairment of finance receivables
At each reporting date, the Banking Group assess whether there has been a significant increase in credit risk since initial recognition based on the "expected credit loss" (ECL) model.

The ECL model is a forward looking model where impairment allowances are recognised before losses are actually incurred. On initial recognition, an impairment allowance is made, based on events that are possible in the next 12 months.

After initial recognition, the Banking Group applies a three stage test to measuring ECL's. Assets may migrate through the following stages based on their change in credit quality since initial recognition.

Stage 1 - 12 months ECL
No evidence of impairment (past due 30 days or less)

Stage 2 - Lifetime ECL not credit impaired
Significant increase in credit risk (greater than 30 but less than 90 days past due)

Stage 3 - Lifetime ECL credit impaired
Objective evidence of impairment, so are considered to be in default or otherwise credit impaired (90 days past due or more)

Change in Accounting policy (continued)

In determining whether credit risk has increased all available information relevant to the assessment including information about past events, current conditions and reasonable and supportable forecasts of economic conditions at the reporting date are taken into consideration.

The calculation of expected credit loss is modelled for portfolios of like assets. For portfolios which are either new or to small to model, judgement is used to determine impairment provisions.

Impairment of Investments

The requirements of NZ IFRS 9 also apply to the Banks Investments. The impact of which has been assessed as not material.

The table below shows the changes to classification and measurement of the Banking Group's financial assets due to the adoption of NZ IFRS 9. There are no changes in the classification or measurement category of the Banking Group's financial liabilities.

Financial instruments	NZ IAS 39 Measurement category	NZ IFRS 9 Measurement category	NZ IAS 39 carrying value Jun 2018	NZ IFRS 9 carrying value Jun 2018
Financial assets				
Bank bonds and floating rate notes	Available for sale (**AFS**)	Fair Value through other Comprehensive income (**FVOCI**)	230,754	230,754
Public sector securities & Corporate bonds	AFS	FVOCI	57,818	57,818
Local authority stock	AFS	FVOCI	42,280	42,280
Equity investments	Fair value through profit or loss (**FVTPL**)	FVOCI – for equity	9,694	9,694
Finance receivables - Reverse Mortgages	Amortised cost	FVTPL	1,129,956	1,132,620
Finance receivables - Other	Amortised cost	Amortised cost	2,854,985	2,826,974
Trade receivables	Amortised cost	Amortised cost	1,613	1,613

The table below is a reconciliation of the balance sheet detailing the changes from NZ IAS 39 to NZ IFRS 9.

$000	Audited 12 mths to Jun 2018	Impact of NZ IFRS 9 Restatement	Restated 1 July 2018
Assets			
Cash and cash equivalents	49,588	-	49,588
Investments	340,546	-	340,546
Investment properties	9,196	-	9,196
Finance receivables	3,984,941	(25,347)	3,959,594
Operating lease vehicles	17,524	-	17,524
Other assets	14,411	-	14,411
Intangible assets	74,401	-	74,401
Deferred tax asset	5,319	7,116	12,435
Total assets	**4,495,926**	**(18,231)**	**4,477,695**
Liabilities			
Borrowings	3,796,058	-	3,796,058
Current tax liabilities	11,459	-	11,459
Trade and other payables	24,249	-	24,249
Total liabilities	**3,831,766**	**-**	**3,831,766**
Equity			
Share capital	542,315	-	542,315
Retained earnings and reserves	121,845	(18,231)	103,614
Total equity	**664,160**	**(18,231)**	**645,929**
Total equity and liabilities	**4,495,926**	**-**	**4,477,695**

Change in Accounting policy (continued)

Impact of new impairment model

Additional provision for impairment recognised at 1 July 2018 on:	
- Finance Receivables - Other	(25,929)
- Finance Receivables - Reverse Mortgages	582
Provision for Impairment at 1 July 2018	(25,347)
Less Tax impact	7,116
Net impact on retained earnings	**(18,231)**

NZ IFRS 15 Revenue from Contracts with customers

The Banking Group adopted NZ IFRS 15 on 1 July 2018. This standard provides a principles based approach for revenue recognition and introduces the concept of recognising revenue for performance obligations as they are satisfied.

The Banking Group has adopted this standard retrospectively with the cumulative effect of initial application recognised as an adjustment to opening balances and has applied all practical expedients applicable. There have been no changes to previously reported financials.

Accounting standards issued not yet effective

Standard and description	***Effective for annual years beginning on or after:***	***Expected to be initially applied in year ending:***
NZ IFRS 16 Leases, contains guidance on identification, recognition, measurement, presentation, and disclosure of leases by lessees and lessors.	1 Jan 2019	30 Jun 2020
NZ IFRS 17 Insurance Contracts, establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts.	1 Jan 2021	30 Jun 2022
NZ IFRS 9 Financial Instruments, contains relaxed requirements for hedged effectiveness, and expanded disclosures.	1 Jan 2019	30 Jun 2020

The Banking Group is currently assessing the impact of NZ IFRS 16 and NZ IFRS 17, and it is not practicable to quantify the effect at the date of the publication of these financial statements.

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. Certain operating expenses, such as premises, IT and support centre costs are not allocated to operating segments and are included in Other.

Internal structures have changed during the current year. Previously reported Household segment has been disaggregated to show Motor, Reverse Mortgages and Other Personal. Prior years have been restated accordingly.

Operating segments

The Banking Group operates predominantly within New Zealand and Australia and comprises the following main operating segments:

Motor	Providing motor vehicle finance
Reverse Mortgages	Providing reverse mortgage lending within New Zealand
Other Personal	Providing a comprehensive range of financial services – including term, transactional and savings based deposit accounts and personal loans
Business	Providing term debt, plant and equipment finance, commercial mortgage lending and working capital solutions for small-to-medium sized businesses.
Rural	Providing specialist financial services to the farming sector primarily offering livestock finance, rural mortgage lending, seasonal and working capital financing, as well as leasing solutions to farmers.
Australia	Providing reverse mortgage lending and other financial services within Australia (Discontinued Operations)

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.

$000	Motor	Reverse Mortgages	Other Personal	Business	Rural	Australia	Other	Total
Unaudited - 6 months ended 31 December 2018								
Net interest income	27,716	9,937	8,304	26,904	15,426	-	(2,164)	86,123
Net other income	467	112	1,195	723	404	-	1,142	4,043
Net operating income	**28,183**	**10,049**	**9,499**	**27,627**	**15,830**	**-**	**(1,022)**	**90,166**
Operating expenses	1,203	1,261	2,975	4,539	1,899		29,282	41,159
Profit / (loss) before impaired asset expense and income tax	**26,980**	**8,788**	**6,524**	**23,088**	**13,931**	**-**	**(30,304)**	**49,007**
Impaired asset expense	4,654	-	5,036	3,812	(135)	-	(203)	13,164
Profit / (loss) before income tax	**22,326**	**8,788**	**1,488**	**19,276**	**14,066**	**-**	**(30,101)**	**35,843**
Profit / (loss) before income tax from Discontinued operations	-	-	-	-	-	6,169	-	6,169
Income tax expense	-	-	-	-	-	-	11,616	11,616
Profit / (loss) for the period	**22,326**	**8,788**	**1,488**	**19,276**	**14,066**	**6,169**	**(41,717)**	**30,396**
Total assets	1,021,673	479,855	200,823	1,083,029	634,486	-	598,152	**4,018,018**
Total liabilities	-	-	-	-	-	-	3,428,919	**3,428,919**

1 Segmental analysis (continued)

$000	Motor	Reverse Mortgages	Other Personal	Business	Rural	Australia	Other	Total
Restated and unaudited - 6 months ended 31 December 2017								
Net interest income	24,397	8,739	5,740	25,734	16,245	-	(210)	80,645
Net other income	1,472	116	1,142	402	25	-	580	3,737
Net operating income	**25,869**	**8,855**	**6,882**	**26,136**	**16,270**	**-**	**370**	**84,382**
Operating expenses	1,551	913	3,383	4,011	2,146	-	26,235	38,239
Profit / (loss) before impaired asset expense and income tax	**24,318**	**7,942**	**3,499**	**22,125**	**14,124**	**-**	**(25,865)**	**46,143**
Impaired asset expense	4,139	70	2,302	2,259	1,363	-	-	10,133
Profit / (loss) before income tax from continuing operations	**20,179**	**7,872**	**1,197**	**19,866**	**12,761**	**-**	**(25,865)**	**36,010**
Profit / (loss) before income tax from Discontinued operations	-	-	-	-	-	7,235	-	7,235
Income tax expense	-	-	-	-	-	-	12,159	12,159
Profit / (loss) for the period	**20,179**	**7,872**	**1,197**	**19,866**	**12,761**	**7,235**	**(38,024)**	**31,086**
Total assets	886,301	427,892	151,588	1,031,647	676,630	609,033	524,393	**4,307,484**
Total liabilities							3,666,145	**3,666,145**

$000	Motor	Reverse Mortgages	Other Personal	Business	Rural	Australia	Other	Total
Restated - 12 months ended 30 June 2018								
Net interest income	50,328	18,189	12,421	51,189	32,122	-	(663)	163,586
Net other income	2,515	262	2,392	1,124	163	-	6,227	12,683
Net operating income	**52,843**	**18,451**	**14,813**	**52,313**	**32,285**	**-**	**5,564**	**176,269**
Operating expenses	2,914	1,670	6,552	8,130	4,351	-	52,674	76,291
Profit / (loss) before impaired asset expense and income tax	**49,929**	**16,781**	**8,261**	**44,183**	**27,934**	**-**	**(47,110)**	**99,978**
Impaired asset expense	7,778	(362)	5,741	6,275	2,400	-	1	21,833
Profit / (loss) before income tax from continuing operations	**42,151**	**17,143**	**2,520**	**37,908**	**25,534**	**-**	**(47,111)**	**78,145**
Profit / (loss) before income tax from Discontinued operations	-	-	-	-	-	16,149	-	16,149
Income tax expense	-	-	-	-	-	-	26,781	26,781
Profit / (loss) for the period	**42,151**	**17,143**	**2,520**	**37,908**	**25,534**	**16,149**	**(73,892)**	**67,513**
Total assets	955,088	454,016	178,309	1,048,239	654,935	695,251	510,088	**4,495,926**
Total liabilities							3,831,766	**3,831,766**

2 Net interest income

Interest income and expense is recognised in profit or loss using the effective interest method. The effective interest rate is established on initial recognition of the financial assets and liabilities and is not revised subsequently. The calculation of the effective interest rate includes all yield related fees and commissions paid or received that are an integral part of the effective interest rate.

Interest on the effective portion of a derivative designated as a cash flow hedge is initially recognised in the hedging reserve. It is released to profit or loss at the same time as the hedged item or when the hedge relationship is subsequently deemed to be ineffective, should this occur.

$000	NOTE	Unaudited 6 mths to Dec 2018	Restated 6 mths to Dec 2017	Restated 12 mths to Jun 2018
Interest income				
Cash and cash equivalents		312	435	842
Investments		4,906	4,766	9,515
Finance receivables		138,149	129,719	261,966
Total interest income		**143,367**	**134,920**	**272,323**
Interest expense				
Retail deposits		48,595	44,904	90,880
Bank and securitised borrowings		2,200	5,416	8,634
Subordinated and unsubordinated Notes	7	5,039	2,568	6,596
Net interest expense on derivative financial instruments		1,410	1,387	2,627
Total interest expense		**57,244**	**54,275**	**108,737**
Net interest income*		**86,123**	**80,645**	**163,586**

* Net interest income from Discontinued operations is included in Revenue within Note 5 - Discontinued operations.

3 Operating expenses

$000	Unaudited 6 mths to Dec 2018	Restated 6 mths to Dec 2017	Restated 12 mths to Jun 2018
Personnel expenses	20,774	21,611	43,538
Directors' fees	439	498	943
Superannuation	493	401	768
Audit and review of financial statements [1]	319	221	381
Other assurance services paid to auditor [2]	15	57	36
Other fees paid to auditor [3]	-	121	121
Depreciation - property, plant and equipment	889	697	1,377
Amortisation - intangible assets	1,803	1,610	3,252
Operating lease expense as a lessee	831	957	1,872
Legal and professional fees	1,226	949	2,143
Other operating expenses [4]	14,370	11,117	21,860
Total operating expenses*	**41,159**	**38,239**	**76,291**

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

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

[3] Other fees paid to the auditor include professional fees in connection with regulatory advisory services and a Health and Safety framework review.

[4] Other operating expenses includes foreign exchange loss as a result of the corporate restructure $2.9m.

* Total operating expenses from Discontinued operations is included in Expenses within Note 5 - Discontinued operations.

4 Impaired asset expense

The Banking Group adopted NZ IFRS 9 which sets out new requirements for impairment of financial assets using the ECL approach. (Refer note 1)

$000		Unaudited 6 mths to Dec 2018	Unaudited 6 mths to Dec 2017	Unaudited 12 mths to Jun 2018
Non-securitised				
Individually impaired expense		(425)	1,876	5,190
Collectively impaired expense		14,245	8,383	16,889
Total non-securitised impaired asset expense		**13,820**	**10,259**	**22,079**
Securitised				
Collectively impaired expense		(29)	157	(12)
Total securitised impaired asset expense		**(29)**	**157**	**(12)**
Total				
Individually impaired expense		(425)	1,876	5,190
Collectively impaired expense		14,216	8,540	16,877
Total impaired asset expense*	13(d)	**13,791**	**10,416**	**22,067**

* Includes impaired asset expense in discontinued operation (note 5)

5 Discontinued operations

At the Annual Shareholder Meeting in September 2018, Heartland Bank Limited shareholders approved a corporate restructure that resulted in Heartland Bank Limited becoming a wholly owned subsidiary of a new company, Heartland Group Holdings Limited. On 31 October 2018, shares in Heartland Bank Limited were exchanged for shares in Heartland Group Holdings Limited, and the Australian group of companies were transferred from Heartland Bank Limited to Heartland Group Holdings Limited.

To reflect this change, the comparative consolidated statements have been restated to remove the Australian group of companies, and show the discontinued operation separately from continuing operations.

(a) Results of discontinued operation

$000		Unaudited 4 mths to Oct 2018	Unaudited 6 mths to Dec 2017	Unaudited 12 mths to Jun 2018
Net operating income		8,533	9,527	20,525
Operating expenses		1,737	2,009	4,142
Results from operating activities		**6,796**	**7,518**	**16,383**
Impaired asset expense	4	627	283	234
Profit before income tax		**6,169**	**7,235**	**16,149**
Income Tax expense		1,649	2,026	4,522
Profit/(loss) from discontinued operation		**4,520**	**5,209**	**11,627**

The profit from the discontinued operation of $6.2 million (June 2018: $16.1 million, Dec 2017: $7.2 million) is attributable entirely to the Banking Group.

5 Discontinued operations (continued)

(b) Cash flow of discontinued operation

$000	NOTE	Unaudited 4 mths at 31 Oct 2018	Unaudited 6 mths to Dec 2017	Unaudited 12 mths to Jun 2018
Cash flows from (used in) discontinued operation				
Net cash flows (applied to) / from operating activities		(8,060)	(21,591)	(105,259)
Net cash flows from / (applied to) investing activities		-	5,492	578
Net cash flows from financing activities		57,883	15,658	113,969
Net cash flows for the year		49,823	(441)	9,288

(c) Financial position of discontinued operation

$000	NOTE	Unaudited as at 31 Oct 2018	Unaudited as at Dec 2017	Unaudited as at Jun 2018
Cash and cash equivalents		68,766	8,940	18,943
Finance receivables		725,725	616,485	721,236
Other assets		917	105	80
Deferred tax asset		1,133	60	(524)
Borrowings		665,950	537,969	614,510
Current tax liabilities		2,047	3,684	2,968
Trade and other payables		81,865	43,147	75,425
Net assets and liabilities		**46,679**	**40,790**	**46,832**

(d) Profit on disposal

	$000
In specie dividend to Heartland Group Holdings Limited	62,095
Total consideration received	**62,095**
Net Assets	46,679
Goodwill	15,416
Gain/(loss) on disposal	**-**

Financial Position

6 Finance receivables

$000	NOTE	Unaudited Dec 2018	Unaudited Dec 2017	Audited Jun 2018
Non-securitised				
Neither at least 90 days past due nor impaired		3,296,681	3,617,858	3,863,764
At least 90 days past due		34,854	36,634	27,893
Individually impaired		35,889	35,944	45,186
Gross finance receivables		**3,367,424**	**3,690,436**	**3,936,843**
Less provision for impairment		(55,412)	(28,256)	(29,367)
Less fair value adjustment for present value of future losses over expected life		(1,611)	(3,325)	(2,824)
Total non-securitised finance receivables		**3,310,401**	**3,658,855**	**3,904,652**
Securitised				
Neither at least 90 days past due nor impaired		154,642	124,103	79,809
At least 90 days past due		197	440	784
Individually impaired		-	-	-
Gross finance receivables		**154,839**	**124,543**	**80,593**
Less provision for impairment		(1,248)	(307)	(304)
Total securitised finance receivables		**153,591**	**124,236**	**80,289**
Total				
Neither at least 90 days past due nor impaired		3,451,323	3,741,961	3,943,573
At least 90 days past due		35,051	37,074	28,677
Individually impaired		35,889	35,944	45,186
Gross finance receivables		**3,522,263**	**3,814,979**	**4,017,436**
Less provision for impairment		(56,660)	(28,563)	(29,671)
Less fair value adjustment for present value of future losses over expected life		(1,611)	(3,325)	(2,824)
Total finance receivables		**3,463,992**	**3,783,091**	**3,984,941**

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

6 Finance receivables (continued)

(a) Movement in provision

The following table details the movement from the opening balance to the closing balance of provision for impairment by class

	12 month ECL	ECL Not credit impaired	Lifetime ECL Credit impaired	Collective provision Jun 18	Specific provision	Total
Non-securitised						
Impairment allowance as at 30 June 2018	-	-	-	20,301	9,066	29,367
Restated for adoption of NZ IFRS 9	29,356	1,438	14,909	(20,301)	(169)	25,233
Restated impairment allowance as at 1 July 2018	29,356	1,438	14,909	-	8,897	54,600
Changes in loss allowance						
Transfer to 12 month	588	(560)	(28)	-	-	-
Transfer to lifetime not credit impaired	(1,127)	1,189	(62)	-	-	-
Transfer to lifetime credit impaired	(1)	(731)	732	-	-	-
Transfer to specific provision	(1,443)	(9)	(751)	-	2,203	-
Effect of changes in foreign exchange rate	(67)	(6)	(3)	-	-	(76)
Impaired asset expense	2,830	348	11,067	-	(425)	13,820
Write offs	-	-	(7,953)	-	(4,503)	(12,456)
Transfer to/from securitised	(776)	15	484	-	-	(277)
Recovery of amounts written off	-	-	293	-	13	306
Sale of portfolio	(505)	-	-	-	-	(505)
Impairment allowance as at 31 December 2018	**28,855**	**1,684**	**18,688**	**-**	**6,185**	**55,412**
Securitised						
Impairment allowance as at 30 June 2018	-	-	-	304	-	304
Restated for adoption of NZ IFRS 9	546	20	434	(304)	-	696
Restated impairment allowance as at 1 July 2018	546	20	434	-	-	1,000
Changes in loss allowance						
Transfer to 12 month	12	(11)	(1)	-	-	-
Transfer to lifetime not credit impaired	(17)	19	(2)	-	-	-
Transfer to lifetime credit impaired	-	(5)	5	-	-	-
Transfer to specific provision	-	-	-	-	-	-
Effect of changes in foreign exchange rate	-	-	-	-	-	-
Impaired asset expense	(155)	13	113	-	-	(29)
Write offs	-	-	-	-	-	-
Transfer to/from un-securitised	776	(15)	(484)	-	-	277
Recovery of amounts written off	-	-	-	-	-	-
Impairment allowance as at 31 December 2018	**1,162**	**21**	**65**	**-**	**-**	**1,248**
Total						
Impairment allowance as at 30 June 2018	-	-	-	20,605	9,066	29,671
Restated for adoption of NZ IFRS 9	29,902	1,458	15,343	(20,605)	(169)	25,929
Restated impairment allowance as at 1 July 2018	29,902	1,458	15,343	-	8,897	55,600
Changes in loss allowance						
Transfer to 12 month	600	(571)	(29)	-	-	-
Transfer to lifetime not credit impaired	(1,144)	1,208	(64)	-	-	-
Transfer to lifetime credit impaired	(1)	(736)	737	-	-	-
Transfer to specific provision	(1,443)	(9)	(751)	-	2,203	-
Effect of changes in foreign exchange rate	(67)	(6)	(3)	-	-	(76)
Impaired asset expense	2,675	361	11,180	-	(425)	13,791
Write offs	-	-	(7,953)	-	(4,503)	(12,456)
Recovery of amounts written off	-	-	293	-	13	306
Sale of portfolio	(505)	-	-	-	-	(505)
Impairment allowance as at 31 December 2018	**30,017**	**1,705**	**18,753**	**-**	**6,185**	**56,660**

6 Finance receivables (continued)

(b) Summary of Provision

$000	Securitised	Non Securitised	Total
Unaudited - 6 months ended 31 December 2018			
Specific Provision	-	6,185	6,185
Collective provision measured on a 12 month ECL	1,162	28,855	30,017
Collective provision for assets not credit impaired	21	1,684	1,705
Collective provision for assets credit impaired	65	18,688	18,753
Total provision for impairment	**1,248**	**55,412**	**56,660**

	Total Dec 2017	Total Jun 2018
Specific provision for impaired assets	8,743	9,066
Collective provision for impaired assets	19,820	20,605
Total provision for impairment	28,563	29,671

(c) Impact of changes in gross carrying amount of ECL

The following provides an explanation of how significant change in the gross carrying value of the Finance receivables have contributed to the changes in the provision for impairment. The provision for impairment reflects ECL measured using the 3 stage approach under NZ IFRS 9 (refer to Basis of reporting).

Overall the net increase in the total provision for impairment was $1.1 million which was primarily driven by an increase in stage 3 collective provisions offset by a reduction in specific provisions.

Collective 12 months ECL provisions (stage 1) increased $0.1m. Growth in receivables of $104 million, primarily consumer lending with higher average ECL rates, added $2.7m to stage 1 provisions however this was offset by reductions in provisions on loans moving to stage 2 and 3 or specifically provided.

Collective lifetime not credit impaired provisions (stage 2) increased $0.2m. $45 million of receivables transferred to stage 2 due to deterioration in credit quality which was offset by a similar amount which was repaid or transferred to stage 1 or 3.

Collective lifetime credit impaired provisions (stage 3) increased $3.4m driven by an increase a net increase in receivables of $12 million most of which were loans with higher ECL rates.

The reduction in specific provisions of $2.7 million is primarily the result of the write off of previously provided loans.

(d) Credit risk adjustment on financial assets designated at fair value through profit and loss

There were no credit risk adjustments in individual financial assets.

Credit risk adjustments on financial assets designated at fair value through profit and loss are presented in the following table.

	Securitised Dec 2018	Non Securitised Dec 2018	Total Dec 2018
Credit risk adjustments on collective groups of financial assets			
Opening balance as at 30 June 2018	-	2,824	2,824
Effect of changes in foreign exchange rate	-	(26)	(26)
Restated for adoption of NZ IFRS 9	-	(582)	(582)
Charge to income statement	-	-	-
Sale of assets		(605)	(605)
Closing balance as at 31 December 2018	-	1,611	1,611

7 Borrowings

$000	NOTE	Unaudited 6 mths to Dec 2018	Unaudited 6 mths to Dec 2017	Audited 12 mths to Jun 2018
Deposits		2,988,365	2,703,234	2,881,805
Subordinated Bonds		-	3,379	3,378
Subordinated Notes		-	22,277	22,172
Unsubordinated Notes		151,902	151,902	151,853
Bank borrowings		144,555	637,572	689,346
Borrowings - securitised	17(d)	127,944	115,059	47,504
Total borrowings		**3,412,766**	**3,633,423**	**3,796,058**

On 21 September 2017, the Bank issued unsubordinated fixed rate notes (Unsubordinated Notes). These notes are paid a fixed rate of interest every 6 months.

Deposits and unsubordinated notes rank equally and are unsecured. The subordinated bonds and subordinated notes (settled early on 31 October 2018) ranked below all other general liabilities of the Banking Group.

Securitised borrowings as at 31 December 2018 are held by investors in the Heartland Auto Receivables Warehouse Trust (Auto Warehouse). Securitised borrowings at previous period end dates were held by investors in the Heartland ABCP Trust 1 (ABCP Trust). Both Trusts were established to acquire motor vehicle loans as part of a securitisation facility. Securitised borrowings held by investors in Auto Warehouse rank equally with each other and are secured over the assets of the Auto Warehouse.

On 29 August 2018 the assets of ABCP Trust were acquired by Heartland Bank Limited. On the same day Heartland Bank Limited sold the acquired assets to Auto Warehouse at the same value. Refer Note 14.

Auto Warehouse has bank facilities of $250 million at 31 December 2018, with $128 million drawn. Bank facilities held by ABCP Trust at 31 December 2017 were $175 million and 30 June 2018 were $100 million.

8 Share capital and dividends

000s	Unaudited Dec 2018 Number of shares	Unaudited Dec 2017 Number of shares	Audited Jun 2018 Number of shares
Issued shares			
Opening balance	560,588	516,236	516,236
Cancelled shares	(441)	-	-
Shares issued during the period	-	37,161	37,224
Dividend reinvestment plan	5,283	4,163	7,128
Closing balance	**565,430**	**557,560**	**560,588**
Less treasury shares	-	(2,299)	(2,299)
Net closing balance	**565,430**	**555,261**	**558,289**

Under dividend reinvestment plans, the Bank issued 5,282,619 new shares at $1.6250 per share on 21 September 2018 (December 2017: 4,163,008 new shares at $1.8004 per share on 21 September 2017; June 2018: 4,163,008 new shares at $1.8004 per share on 21 September 2017 and 2,965,048 new shares at $1.7707 per share on 3 April 2018).

(a) Dividends paid

	Dec 2018			Dec 2017			Jun 2018		
	Date declared	Cents per share	$000	Date declared	Cents per share	$000	Date declared	Cents per share	$000
Final dividend	15 Aug 18	5.5	30,808	14 Aug 17	5.5	28,393	14 Aug 17	5.5	28,393
Interim dividend		-	-	-	-	-	20 Feb 18	3.5	19,502
In specie dividend	31 Oct 18	-	62,095	-	-	-	-	-	-
Total dividends paid		**5.5**	**92,903**		**5.5**	**28,393**		**9.0**	**47,895**

9 Related party transactions and balances

(a) Transactions with key personnel

Key personnel, being directors of the Bank, the Chief Executive Officer (CEO) and those executive staff reporting directly to the CEO and their immediate relatives, have transacted with the Banking Group during the period as follows:

$000	Unaudited Dec 2018	Unaudited Dec 2017	Audited Jun 2018
Transactions with key personnel			
Interest income	-	3	5
Interest expense	(31)	(69)	(128)
Total transactions with key personnel	**(31)**	**(66)**	**(123)**
Due from / (to) key personnel			
Finance receivables	-	63	-
Borrowings - deposits	(2,960)	(8,464)	(2,412)
Total due (to) key personnel	**(2,960)**	**(8,401)**	**(2,412)**

(b) Sale of Australian entities

On 31 October 2018 the Australian entities owned by Heartland Bank Limited were transferred to Heartland Group Holdings Limited pursuant to a corporate restructure approved by the shareholders of Heartland Bank Limited. The transfer was effected by an in specie dividend of $62m which equalled the net asset value of those entities plus allocated goodwill at the date of the transaction.

(c) Purchase of Australian receivables

On 31 October 2018 Heartland Bank Limited purchased NZD $85.2m of receivables from Heartland Group Holdings Limited. These assets were purchased at market value and settled in AUD.

(d) Due from related parties

$000	Unaudited Dec 2018	Unaudited Dec 2017	Audited Jun 2018
Due from			
Australian Seniors Finance Limited	47,923	-	-
Total due from related parties	**47,923**	**-**	**-**

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 Consolidated 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, with the fair value being based on quoted market prices (Level 1 under the fair value hierarchy) or modelled using observable market inputs (Level 2 under the fair value hierarchy).

10 Fair value (continued)

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

Investments (continued)

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 valued 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

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 including an assessment of the no negative equity guarantee (Level 3 under the fair value hierarchy).

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 re-measured 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 Consolidated Interim Statement of Financial Position.

$000	Level 1	Level 2	Level 3	Total
Unaudited - Dec 2018				
Assets				
Investments	209,048	100,219	9,694	318,961
Finance receivables	-	-	479,855	479,855
Derivative assets held for risk management	-	1,238	-	1,238
Total assets measured at fair value	**209,048**	**101,457**	**489,549**	**800,054**
Liabilities				
Derivative liabilities held for risk management	-	148	-	148
Total liabilities measured at fair value	**-**	**148**	**-**	**148**
Unaudited - Dec 2017				
Assets				
Investments	284,856	-	9,341	294,197
Finance receivables	-	3,717	-	3,717
Total assets measured at fair value	**284,856**	**3,717**	**9,341**	**297,914**
Liabilities				
Derivative liabilities held for risk management	-	2,568	-	2,568
Total liabilities measured at fair value	**-**	**2,568**	**-**	**2,568**
Audited - Jun 2018				
Assets				
Investments	140,282	190,570	9,694	340,546
Finance receivables	-	454	-	454
Total assets measured at fair value	**140,282**	**191,024**	**9,694**	**341,000**
Liabilities				
Derivative liabilities held for risk management	-	1,639	-	1,639
Total liabilities measured at fair value	**-**	**1,639**	**-**	**1,639**

10 Fair value (continued)

(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 these 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
$000		**Dec 2018**	**Dec 2018**	**Dec 2017**	**Dec 2017**	**Jun 2018**	**Jun 2018**
Assets							
Cash and cash equivalents	Level 1	75,770	75,770	117,316	117,316	49,588	49,588
Finance receivables	Level 3	2,817,218	2,830,546	3,645,531	3,655,138	3,891,458	3,904,198
Finance receivables - securitised	Level 3	154,152	153,591	124,344	124,236	80,614	80,289
Other financial assets	Level 3	1,337	1,337	5,189	5,189	1,613	1,613
Total financial assets		**3,048,477**	**3,061,244**	**3,892,380**	**3,901,879**	**4,023,273**	**4,035,688**
Liabilities							
Borrowings	Level 2	3,289,665	3,284,822	3,521,873	3,518,364	3,744,634	3,748,554
Borrowings - securitised	Level 2	127,944	127,944	115,059	115,059	47,504	47,504
Other financial liabilities	Level 3	-	-	23,352	23,352	22,610	22,610
Total financial liabilities		**3,417,609**	**3,412,766**	**3,660,284**	**3,656,775**	**3,814,748**	**3,818,668**

Further information on valuation techniques and assumptions used for determining fair value is included in Note 17 of the Bank's Annual Report for the year ended 30 June 2018.

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, refer to the Bank's Annual Report for the year ended 30 June 2018.

12 Credit risk exposure

Credit risk is the risk that a borrower will default on any type of debt by failing to make payments when it is obligated to do so. The risk is primarily that of the lender and includes loss of principal and interest, disruption to cash flows and increased collection costs.

Credit risk is managed to achieve sustainable and superior risk-reward performance whilst maintaining exposures within acceptable risk "appetite" parameters. This is achieved through the combination of governance, policies, systems and controls, underpinned by sound commercial judgement as described below.

To manage this risk the 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 credit risk management strategies ensure that:

- Credit origination meets agreed levels of credit quality at point of approval.
- Sector and geographical risks are actively managed.
- Industry concentrations are actively monitored.
- Maximum total exposure to any one debtor is actively managed.
- Changes to credit risk are actively monitored with regular credit reviews.

12 Credit risk exposure (continued)

(a) Maximum exposure to credit risk

The following table represents 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 Consolidated Interim Statement of Financial Position.

$000	Unaudited Dec 2018
Cash and cash equivalents	75,770
Investments	309,267
Finance receivables	3,463,992
Due from related parties	47,923
Derivative financial assets	1,238
Other financial assets	1,337
Total on balance sheet credit exposures	**3,899,527**

(b) Concentration of credit risk by geographic region

New Zealand:	
Auckland	1,169,145
Wellington	248,515
Rest of North Island	1,153,880
Canterbury	483,656
Rest of South Island	598,085
Australia:	
Queensland	14,292
New South Wales	38,699
Victoria	19,414
Western Australia	8,326
South Australia	3,464
Rest of Australia	2,662
Rest of the world [1]	211,475
	3,951,613
Collective provision	(50,475)
Less acquisition fair value adjustment for present value of future losses	(1,611)
Total on balance sheet credit exposures	**3,899,527**

[1] These overseas assets are primarily NZD-denominated investments in AA+ and higher rated securities issued by offshore supranational agencies ("Kauri Bonds").

12 Credit risk exposure (continued)

(c) Concentration of credit risk by industry sector

Agriculture	728,971
Forestry and Fishing	84,871
Mining	16,542
Manufacturing	68,032
Finance & Insurance	421,247
Wholesale Trade	38,530
Retail Trade	221,509
Households	1,593,276
Property and Business Services	418,659
Transport and Storage	222,020
Other	137,956
	3,951,613
Collective provision	(50,475)
Less acquisition fair value adjustment for present value of future losses	(1,611)
Total on balance sheet credit exposures	**3,899,527**

(d) Credit exposure to individual counterparties

The Banking Group measures its concentration of credit risk to individual counterparties at the reporting date based on actual exposures. Peak aggregate end-of-day credit exposure is determined by taking the maximum end-of-day aggregate amount of credit exposure over the period. The exposure is then divided by the Banking Group's Common Equity Tier 1 Capital (CET1) as at the reporting date.

At 31 December 2018 the Banking Group had one 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) (December 2017: nil; June 2018: 1).

The exposure information in the table below excludes exposures to connected persons, the central government or central bank of any country with a long term credit rating of A- or A3 or above, or its equivalent and any supernational or quasi-sovereign agency with a long term credit rating of A- or A3 or above, or its equivalent.

	As at 31 Dec 2018	Peak end-of-day over 6 months to 31 Dec 2018
Exposures to banks		
Total number of exposures to banks that are greater than 10% of CET1 capital	1	1
with a long term credit rating of A- or A3 or above, or its equivalent	1	1
10% to less than 15% of CET1 capital	1	1
with a credit rating of at least BBB- or Baa3, or its equivalent, and at the most BBB+ or Baa1 or its equivalent.	-	-

Exposures to non-banks		
Total number of exposures to non-banks that are greater than 10% of CET1 capital	-	-
with a long term credit rating of A- or A3 or above, or its equivalent	-	-
10% to less than 15% of CET1 capital	-	-
with a credit rating of at least BBB- or Baa3, or its equivalent, and at the most BBB+ or Baa1 or its equivalent.	-	-

This note was restated and reissued on 28 March 2019 to enhance the disclosure of credit exposures to individual counterparties.

13 Asset quality

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

Corporate	Business lending including rural lending.
Residential	Lending secured by a first ranking mortgage over a residential property used primarily for residential purposes either by the
All Other	This relates primarily to consumer lending to individuals.

(a) Finance receivables by credit risk concentration

$000	NOTE	Corporate	Residential	All Other	Total
Unaudited - Dec 2018					
Neither at least 90 days past due nor impaired		2,031,407	570,642	849,274	3,451,323
At least 90 days past due		13,094	368	21,589	35,051
Individually impaired		32,363	32	3,494	35,889
Gross Finance Receivables		2,076,864	571,042	874,357	3,522,263
Fair value adjustment for present value of future losses		-	(1,611)	-	(1,611)
Provision for impairment	13(d)	(29,703)	(144)	(26,813)	(56,660)
Total net finance receivables		**2,047,161**	**569,287**	**847,544**	**3,463,992**

(b) Past due but not impaired

Unaudited - Dec 2018					
Less than 30 days past due		30,404	2,072	34,015	66,491
At least 30 days but less than 60 days past due		16,386	72	11,215	27,673
At least 60 days but less than 90 days past due		6,408	710	5,259	12,377
At least 90 days past due		13,094	368	21,589	35,051
Total past due but not impaired		**66,292**	**3,222**	**72,078**	**141,592**

(c) Individually impaired assets

Unaudited - Dec 2018					
Opening		41,237	30	3,337	44,604
Additions		17,900	2	1,531	19,433
Deletions		(13,959)	-	(1,374)	(15,333)
Write offs		(12,815)	-	-	(12,815)
Closing gross individually impaired assets		**32,363**	**32**	**3,494**	**35,889**
Less: provision for individually impaired assets	13(d)	6,185	-	-	6,185
Total net impaired assets		**26,178**	**32**	**3,494**	**29,704**

13 Asset quality (continued)

(d) Movements in credit loss allowance

	12 month ECL	Lifetime ECL Not credit impaired	Lifetime ECL Credit impaired	Collective provision June 18	Specific provision	Total
Corporate						
Impairment allowance as at 30 June 2018	-	-	-	10,845	8,672	19,517
Restated for adoption of NZ IFRS 9	20,190	697	2,315	(10,845)	-	12,357
Restated impairment allowance as at 1 July 2018	20,190	697	2,315	-	8,672	31,874
Changes in loss allowance						
Transfer to 12 month	93	(89)	(4)	-	-	-
Transfer to lifetime not credit impaired	(336)	342	(6)	-	-	-
Transfer to lifetime credit impaired	(685)	(80)	765	-	-	-
Transfer to specific provision	(1,443)	(4)	(756)	-	2,203	-
Effect of changes in foreign exchange rate	-	-	-	-	-	-
Impaired asset expense	790	(14)	2,778	-	(200)	3,354
Write offs	-	-	(1,035)	-	(4,503)	(5,538)
Recovery of amounts written off	-	-	-	-	13	13
Impairment allowance as at 31 December 2018	**18,609**	**852**	**4,057**	-	**6,185**	**29,703**
Residential						
Impairment allowance as at 30 June 2018	-	-	-	1,921	193	2,114
Restated for adoption of NZ IFRS 9	44	4	-	(1,921)	(169)	(2,042)
Restated impairment allowance as at 1 July 2018	44	4	-	-	24	72
Changes in loss allowance						
Transfer to 12 month	1	(1)	-	-	-	-
Transfer to lifetime not credit impaired	(1)	1	-	-	-	-
Transfer to lifetime credit impaired	-	(2)	2	-	-	-
Transfer to specific provision	-	-	-	-	-	-
Effect of changes in foreign exchange rate	-	-	-	-	-	-
Impaired asset expense	(12)	2	106	-	(24)	72
Write offs	-	-	-	-	-	-
Recovery of amounts written off	-	-	-	-	-	-
Impairment allowance as at 31 December 2018	**32**	**4**	**108**	-	-	**144**
All other						
Impairment allowance as at 30 June 2018	-	-	-	7,839	201	8,040
Restated for adoption of NZ IFRS 9	9,668	757	13,028	(7,839)		15,614
Restated impairment allowance as at 1 July 2018	9,668	757	13,028	-	201	23,654
Changes in loss allowance						
Transfer to 12 month	506	(481)	(25)	-	-	-
Transfer to lifetime not credit impaired	(807)	865	(58)	-	-	-
Transfer to lifetime credit impaired	684	(654)	(30)	-	-	-
Transfer to specific provision	-	(5)	5	-	-	-
Effect of changes in foreign exchange rate	(66)	(6)	(3)	-	-	(75)
Impaired asset expense	1,898	372	8,296	-	(201)	10,365
Write offs	-	-	(6,919)	-	-	(6,919)
Recovery of amounts written off	-	-	293	-	-	293
Sale of portfolio	(505)	-	-	-	-	(505)
Impairment allowance as at 31 December 2018	**11,378**	**848**	**14,587**	-	-	**26,813**
Total						
Impairment allowance as at 30 June 2018	-	-	-	20,605	9,066	29,671
Restated for adoption of NZ IFRS 9	29,902	1,458	15,343	(20,605)	(169)	25,929
Restated impairment allowance as at 1 July 2018	29,902	1,458	15,343	-	8,897	55,600
Changes in loss allowance						
Transfer to 12 month	600	(571)	(29)	-	-	-
Transfer to lifetime not credit impaired	(1,144)	1,208	(64)	-	-	-
Transfer to lifetime credit impaired	(1)	(736)	737	-	-	-
Transfer to specific provision	(1,443)	(9)	(751)	-	2,203	-
Effect of changes in foreign exchange rate	(66)	(6)	(3)	-	-	(75)
Impaired asset expense	2,676	360	11,180	-	(425)	13,791
Write offs	-	-	(7,954)	-	(4,503)	(12,457)
Recovery of amounts written off	-	-	293	-	13	306
Sale of portfolio	(505)	-	-	-	-	(505)
Impairment allowance as at 31 December 2018	**30,019**	**1,704**	**18,752**	-	**6,185**	**56,660**

13 Asset quality (continued)

(e) Movements in credit risk adjustments

		Corporate Dec 2018	Residential Dec 2018	All other Dec 2018	Total Dec 2018
Credit risk adjustments on individual financial assets					
Opening balance as at 30 June 2018		8,672	193	201	9,066
Restated for adoption of NZ IFRS 9		-	(169)	-	(169)
Restated Impairment allowance as at 30 June 2018		8,672	24	201	8,897
Changes in loss allowance					
Transfer to 12 month		-	-	-	-
Transfer to lifetime not credit impaired		-	-	-	-
Transfer to lifetime credit impaired		-	-	-	-
7 Transfer to specific provision		2,203	-	-	2,203
Effect of changes in foreign exchange rate		-	-	-	-
Impaired asset expense	4	(200)	(24)	(201)	(425)
Write offs		(4,503)	-	-	(4,503)
Recovery of amounts written off		13	-	-	13
Closing balance as at 31 December 2018		6,185	-	-	6,185
Credit risk adjustments on collective groups of financial assets					
Impairment allowance as at 30 June 2018		10,845	1,921	7,839	20,605
Restated for adoption of NZ IFRS 9		12,357	(1,873)	15,614	26,098
Restated Impairment allowance as at 30 June 2018		23,202	48	23,453	46,703
Changes in loss allowance					
Transfer to 12 month		-	-	-	-
Transfer to lifetime not credit impaired		-	-	-	-
Transfer to lifetime credit impaired		-	-	-	-
Transfer to specific provision		(2,203)	-	-	(2,203)
Effect of changes in foreign exchange rate		-	-	(75)	(75)
Impaired asset expense	4	3,554	96	10,566	14,216
Write offs		(1,035)	-	(6,919)	(7,954)
Recovery of amounts written off		-	-	293	293
Sale of portfolio		-	-	(505)	(505)
Closing balance as at 31 December 2018		23,518	144	26,813	50,475
		29,703	**144**	**26,813**	**56,660**

(f) Undrawn balances for individually impaired assets

As at 31 December 2018 there $0.01 million undrawn lending commitments to counterparties for whom drawn balances are classified as individually impaired (December 2017: $0.20 million; June 2018: $0.20 million).

(g) 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 2018, the Banking Group had $2.29 million assets under administration (December 2017: $1.60 million; June 2018: $1.19 million).

14 Liquidity risk

The Banking Group holds the following financial assets for the purpose of managing liquidity risk:

$000	**Unaudited Dec 2018**
Cash and cash equivalents	75,770
Investments	309,267
Undrawn committed bank facilities	122,056
Total liquidity	**507,093**

14 Liquidity risk (continued)

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 table represents undiscounted future principal and interest cash flows. As a result, the amounts in the table below may differ to the amounts reported in the Consolidated Interim Statement of Financial Position.

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.

$000	On Demand	0-6 Months	6-12 Months	1-2 Years	2-5 Years	5+ Years	Total
Unaudited - Dec 2018							
Financial assets							
Cash and cash equivalents	75,770	-	-	-	-	-	75,770
Investments	-	87,940	25,643	107,534	101,263	9,694	332,074
Finance receivables	-	827,498	494,834	684,735	1,285,424	2,713,992	6,006,483
Finance receivables - securitised	-	38,166	35,096	58,367	41,923	-	173,552
Derivative financial assets	-	1,238	-	-	-	-	1,238
Other financial assets	-	1,337	-	-	-	-	1,337
Total financial assets	**75,770**	**956,179**	**555,573**	**850,636**	**1,428,610**	**2,723,686**	**6,590,454**
Financial liabilities							
Borrowings	919,161	1,434,073	584,482	215,055	208,952	682	3,362,405
Borrowings - securitised	-	18,795	21,109	93,647	-	-	133,551
Derivative financial liabilities	-	148	-	-	-	-	148
Other financial liabilities	-	16,005	-	-	-	-	16,005
Total financial liabilities	**919,161**	**1,469,021**	**605,591**	**308,702**	**208,952**	**682**	**3,512,109**
Net financial (liabilities) / assets	**(843,391)**	**(512,842)**	**(50,018)**	**541,934**	**1,219,658**	**2,723,004**	**3,078,345**
Unrecognised loan commitments	78,535	-	-	-	-	-	78,535
Undrawn committed bank facilities	122,056	-	-	-	-	-	122,056

Undrawn committed bank facilities of $122 million are available to be drawn down on demand. To the extent drawn, $122 million is contractually repayable in 1-2 years' time upon facility expiry.

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.

$000	0-3 Months	3-6 Months	6-12 Months	1-2 Years	2+ Years	Non-interest bearing	Total
Unaudited - Dec 2018							
Financial assets							
Cash and cash equivalents	75,764	-	-	-	-	6	75,770
Investments	63,232	20,080	21,850	125,734	78,370	9,695	318,961
Due from related parties						47,923	47,923
Finance receivables	2,108,543	160,972	286,910	435,562	308,624	9,790	3,310,401
Finance receivables - securitised	14,879	15,654	30,148	52,732	40,179	-	153,592
Derivative financial assets	1,238	-	-	-	-	-	1,238
Other financial assets	-	-	-	-	-	1,337	1,337
Total financial assets	**2,263,656**	**196,706**	**338,908**	**614,028**	**427,173**	**68,751**	**3,909,222**
Financial liabilities							
Borrowings	1,705,660	605,703	566,112	196,392	194,347	16,608	3,284,822
Borrowings - securitised	127,944	-	-	-	-	-	127,944
Derivative financial liabilities	148	-	-	-	-	-	148
Other financial liabilities	-	-	-	-	-	16,005	16,005
Total financial liabilities	**1,833,752**	**605,703**	**566,112**	**196,392**	**194,347**	**32,613**	**3,428,919**
Effect of derivatives held for risk management	390,757	(110,563)	(51,844)	(269,285)	40,935	-	-
Net financial assets / (liabilities)	**820,661**	**(519,560)**	**(279,048)**	**148,351**	**273,761**	**36,138**	**480,303**

16 Concentrations of funding

(a) Concentration of funding by industry

$000	Unaudited Dec 2018
Agriculture	78,120
Forestry and Fishing	19,561
Mining	155
Manufacturing	11,932
Finance & Insurance	573,672
Wholesale Trade	8,871
Retail Trade	15,584
Households	2,302,366
Property and Business Services	100,142
Transport and Storage	4,340
Other	146,121
	3,260,864
Subordinated notes	-
Unsubordinated notes	151,902
Total borrowings	**3,412,766**

16 Concentrations of funding (continued)

(b) Concentration of funding by geographical area

Auckland	1,032,541
Wellington	273,389
Rest of North Island	752,611
Canterbury	918,442
Rest of South Island	251,470
Overseas	184,313
Total borrowings	**3,412,766**

Other Disclosures

17 Structured entities

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

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

$000	Unaudited Dec 2018	Unaudited Dec 2017	Audited Jun 2018
Deposits	140,012	97,546	115,095

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

SW Trust and ASF Trust form part of Australian Seniors Finance reverse mortgage business and 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 ASF. The reverse mortgage loans held by the Trusts were set aside for the benefit of the funder and bank depositors had no recourse to these assets. On 31 October 2018 the assets of SW Trust and ASF Trust were sold to Heartland Group Holdings Limited.

$000	Unaudited Dec 2018	Unaudited Dec 2017	Audited Jun 2018
Cash and cash equivalents	-	8,940	12,207
Finance receivables	-	616,485	676,837
Borrowings	-	(537,969)	(14,510)
Derivative financial instruments	-	(195)	-

(c) *Heartland ABCP Trust 1 (ABCP Trust)*

At 30 June 2018 and 31 December 2017 the Banking Group had securitised a pool of receivables comprising commercial and motor vehicle loans sold to ABCP Trust.

The Banking Group continued to recognise the securitised assets and associated borrowings in the Consolidated Statement of Financial Position. Although the Banking Group recognised those interests in the ABCP Trust, the loans sold to the Trust were set aside for the benefit of investors in the ABCP Trust and other depositors and lenders to the Banking Group had no recourse to those assets.

On 29 August 2018 the assets of the ABCP Trust were purchased by Heartland Bank Limited and the ABCP Trust dissolved.

$000	Unaudited Dec 2018	Unaudited Dec 2017	Audited Jun 2018
Cash and cash equivalents	-	11,360	3,625
Finance receivables - securitised	-	124,236	80,269
Borrowings - securitised	-	(115,059)	(47,504)
Derivative financial liabilities - securitised	-	(822)	(496)

17 Structured entities (continued)

(d) Heartland Auto Receivables Warehouse Trust (Auto Warehouse)

At 31 December 2018 the Banking Group had securitised a pool of receivables comprising commercial and motor vehicle loans sold to Auto Warehouse.

The Banking Group continues to recognise the securitised assets and associated borrowings in the Consolidated Statement of Financial Position. Although the Banking Group recognises those interests in Auto Warehouse, the loans sold to the Trust are set aside for the benefit of investors in Auto Warehouse and other depositors and lenders to the Banking Group have no recourse to those assets.

$000	NOTE	Unaudited Dec 2018	Unaudited Dec 2017	Audited Jun 2018
Cash and cash equivalents - securitised		7,821	-	-
Finance receivables - securitised	6	153,837	-	-
Borrowings - securitised	7	(127,944)	-	-
Derivative financial liabilities - securitised		(33)	-	-

18 Capital adequacy

The Banking Group is subject to regulation by the Reserve Bank of New Zealand (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 prescribe 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 the 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 (RWAs).

- 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 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 2018.

18 Capital adequacy (continued)

Internal Capital Adequacy Assessment Process (ICAAP)

The Banking Group has an ICAAP which complies with the requirements set out in the "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 1 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 1 and Pillar 2).

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. See Note 18(l) for further details.

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

(a) Capital ratios

$000	Unaudited Dec 2018
Tier 1 capital	
CET1 capital	
Paid-up ordinary shares issued by the Bank	550,899
Retained earnings (net of appropriations)	33,541
Accumulated other comprehensive income and other disclosed reserves	4,659
Less deductions from CET1 capital	
Intangible assets	(58,051)
Deferred tax assets	(11,192)
Hedging reserve	299
Defined benefit superannuation fund asset	(813)
Total CET1 capital	**519,342**
AT1 capital	
Nil	-
Total Tier 1 capital	**519,342**
Tier 2 capital	
Nil	-
Total Tier 2 capital	**-**
Total capital	**519,342**

(b) Capital structure

The following details summarise each instrument included within Total capital. None of these instruments are subject to phase-out from eligibility as capital under the RBNZ's Basel III transitional arrangements.

Ordinary shares

In accordance with BS2A, ordinary share capital is classified as CET1 capital. 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.

18 Capital adequacy (continued)

Retained earnings

Retained earnings is the accumulated profit or loss that has been retained in the Banking Group. Retained earnings is classified as CET1 capital.

Reserves classified as CET1 capital

Employee benefits reserve	The employee benefits reserve comprises employee share options which have been recognised as an expense but not yet been exercised and converted into ordinary shares.
Debt instrument fair value reserve	The debt instrument fair value reserve comprises the changes in the fair value of debt instrument securities, net of tax. These changes are recognised in profit or loss as other income when the debt instrument is either derecognised or impaired.
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.
Hedging reserve	The hedging reserve comprises the fair value gains and losses associated with the effective portion of designated cash flow hedging instruments.

18 Capital adequacy (continued)

(c) Credit risk

(i) On-balance-sheet exposures

	Total exposure after credit risk mitigation	Average Risk weight	Risk weighted exposure	Minimum Pillar 1 capital requirement
	$000	%	$000	$000
Unaudited - Dec 2018				
Cash	6	0%	-	-
Multilateral development banks	98,736	0%	-	-
Multilateral development banks	105,212	20%	21,042	1,683
Banks - Tier 1	109,330	20%	21,866	1,749
Banks - Tier 2	8,190	50%	4,095	328
Banks - Tier 3	19,448	100%	19,448	1,556
Public sector entity (AA- and above)	24,278	20%	4,856	388
Public sector entity (A- and above)	-	50%	-	-
Corporates (AA- and above)	-	20%	-	-
Corporates (A- and above)	6,299	50%	3,150	252
Corporates (BBB- and above)	13,539	100%	13,539	1,083
Welcome Home Loans - loan to value ratio (LVR) <= 90%[1]	3,394	35%	1,188	95
Welcome Home Loans - LVR 90% >= 100%[1]	198	50%	99	8
Reverse Residential mortgages <= 60% LVR	518,442	50%	259,221	20,738
Reverse Residential mortgages 60 <= 80% LVR	12,519	80%	10,015	801
Reverse Residential mortgages > 80% LVR	2,091	100%	2,091	167
Non Property Investment Mortgage Loan <=80% LVR	18,505	35%	6,477	518
Non Property Investment Mortgage Loan 80 <= 90% LVR	2,753	50%	1,377	110
Non Property Investment Mortgage Loan 90 <= 100% LVR	448	75%	336	27
Non Property Investment Mortgage Loan > 100% LVR	1,108	100%	1,108	89
Property Investment Mortgage Loan <= 80% LVR	9,915	40%	3,966	317
Property Investment Mortgage Loan 80 <= 90% LVR	1,004	70%	703	56
Property Investment Mortgage Loan 90 <= 100% LVR	-	90%	-	-
Property Investment Mortgage Loan < 100% LVR	-	100%	-	-
Past due residential mortgages	355	100%	355	28
Other past due assets - provision >= 20%	22,462	100%	22,462	1,797
Other past due assets - provision < 20%	30,834	150%	46,252	3,700
All other equity holdings	9,694	400%	38,776	3,102
Other assets	2,929,202	100%	2,929,202	234,336
Not risk weighted assets	70,056	0%	-	-
Total on balance sheet exposures	**4,018,018**		**3,411,624**	**272,928**

[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.

18 Capital adequacy (continued)

(ii) Off-balance sheet exposures

	Total exposure	Credit conversion factor	Credit equivalent amount	Average risk weight	Risk weighted exposure	Minimum Pillar 1 capital requirement
	$000	%	$000	%	$000	$000
Unaudited - Dec 2018						
Off balance sheet exposures						
Direct credit substitute	4,236	100%	4,236	100%	4,236	339
Performance-related contingency	2,181	50%	1,091	100%	1,091	87
Other commitments where original maturity is more than one year	88,161	50%	44,081	100%	44,081	3,526
Other commitments where original maturity is more than one year	6,119	50%	3,060	50%	1,530	122
Other commitments where original maturity is less than or equal to one year	3,051	20%	610	100%	610	49
Market related contracts: [1]						
Interest rate contracts	496,702	n/a	-	20%	-	-
Interest rate contracts	460,866	0.5%	2,304	20%	461	37
Total off balance sheet exposures	**1,061,316**		**55,382**		**52,009**	**4,160**

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

(d) Additional mortgage information - LVR range

$000	On balance sheet exposures	Off balance sheet exposures [2]	Total exposures
Unaudited - Dec 2018			
Does not exceed 80%	559,381	10,044	569,425
Exceeds 80% but not 90%	9,242	-	9,242
Exceeds 90%	2,109	-	2,109
Total exposures	**570,732**	**10,044**	**580,776**

[2] Off balance sheet exposures represent unutilised limits.

At 31 December 2017 $1.12 million relating to Welcome Home Loans, whose credit risk is mitigated by the Crown is included in "Exceeds 90% residential mortgages". Other loans in the exceeds 90% LVR range are primarily business and rural lending where residential mortgage security is only a part of the total security. For capital adequacy calculations only the value of first mortgages over residential property is included in the LVR calculation, in accordance with BS2A. All new residential mortgage loans are in respect of non property investments lending and have a loan-to-valuation ratio of less than or equal to 80%.

(e) Reconciliation of mortgage related amounts

$000	Unaudited Dec 2018
Loans and advances - loans with residential mortgages	570,732
On balance sheet residential mortgage exposures subject to the standardised approach	**570,732**
Off balance sheet mortgage exposures subject to the standardised approach	10,044
Total residential exposures subject to the standardised approach	**580,776**

18 Capital adequacy (continued)

(f) Credit risk mitigation

As at 31 December 2018 the Banking Group has $3.59 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

$000	Implied risk weighted exposure	Total operational risk capital requirement
Unaudited - Dec 2018		
Operational risk	235,036	18,803

(h) Market risk

$000		Implied risk weighted exposure	Aggregate capital charge
Unaudited - Dec 2018			
Market risk end-of-period capital charge	Interest rate risk only	130,569	10,446
Market risk peak end-of-day capital charge	Interest rate risk only	149,469	11,958
Market risk end-of-period capital charge	Foreign currency risk only	89,548	7,164
Market risk peak end-of-day capital charge	Foreign currency risk only	183,252	14,660

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.

(i) Total capital requirements

$000	Total exposure after credit risk mitigation	Risk weighted exposure or implied risk weighted exposure	Total capital requirement
Unaudited - Dec 2018			
Total credit risk			
On balance sheet	4,018,018	3,411,624	272,928
Off balance sheet	1,061,316	52,009	4,160
Operational risk	n/a	235,036	18,803
Market risk	n/a	220,117	17,610
Total	**n/a**	**3,918,786**	**313,501**

(j) Capital ratios

	Unaudited Dec 2018	Unaudited Dec 2017
Capital ratios compared to minimum ratio requirements		
Common Equity Tier 1 capital expressed as a percentage of total risk weighted exposures	13.25%	14.31%
Minimum Common Equity Tier 1 capital as per Conditions of Registration	4.50%	4.50%
Tier 1 capital expressed as a percentage of total risk weighted exposures	13.25%	14.31%
Minimum Tier 1 capital as per Conditions of Registration	6.00%	6.00%
Total capital expressed as a percentage of total risk weighted exposures	13.25%	14.76%
Minimum Total capital as per Conditions of Registration	8.00%	8.00%
Buffer ratio	5.25%	6.76%
Buffer ratio requirement	2.50%	2.50%

18 Capital adequacy (continued)

(k) Solo capital adequacy

	Unaudited Dec 2018	Unaudited Dec 2017
Common Equity Tier 1 capital expressed as a percentage of total risk weighted exposures	13.74%	15.70%
Tier 1 capital expressed as a percentage of total risk weighted exposures	13.74%	15.70%
Total capital expressed as a percentage of total risk weighted exposures	13.74%	16.19%

For the purposes of calculating capital adequacy on a solo basis, subsidiaries which are both wholly owned and wholly funded by the Bank are to be consolidated with the Bank. Therefore, capital adequacy on a solo basis is calculated based on the Bank and its subsidiaries excluding Auto Receivables Warehouse Trust.

(l) Capital for other material risks

In addition to the material risks included in the calculation of the capital ratios, the Banking Group has identified other material risks to be included in the capital allocation (being concentration risk, strategic/ business risk, reputational risk, regulatory and model risk). As at 31 December 2018, the Banking Group has made an internal capital allocation of $48.2million (December 2017: $104.89 million) to cover these risks.

19 Insurance business, securitisation, funds management and other fiduciary activities

Insurance business

The Banking Group conducts insurance business through its subsidiary MARAC Insurance Limited (MIL).

The Banking Group's aggregate amount of insurance business comprises the total consolidated assets of MIL of $13.3 million, which is 0.34% of the total consolidated assets of the Banking Group.

The Banking Group's objective is to minimise the insurance risk to within acceptable levels through the policies and procedures implemented by management. Should adverse conditions arise, these policies and procedures are expected to mitigate the impact of the conditions on 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 either underwritten by MIL, a subsidiary of the Bank, or sold by MIL on behalf of other parties who underwrite those products themselves. There have been no material changes in the Banking Group's marketing and distribution of insurance products since the reporting date of the previous disclosure statement.

Securitisation, funds management and other fiduciary activities

Changes to the Bank's involvement in securitisation activities are set out in note 17. There have been 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.

20 Contingent liabilities and commitments

$000	Unaudited Dec 2018	Unaudited Dec 2017	Audited Jun 2018
Letters of credit, guarantee commitments and performance bonds	6,417	6,890	6,847
Total contingent liabilities	**6,417**	**6,890**	**6,847**
Undrawn facilities available to customers	78,535	164,153	180,940
Conditional commitments to fund at future dates	18,797	77,410	94,239
Total commitments	**97,332**	**241,563**	**275,179**

21 Events after 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 Review Report

To the shareholder of Heartland Bank Limited

Report on the consolidated half year disclosure statement of Heartland Bank Limited (the "bank") and its controlled entities (the "banking group")

Review conclusion

Based on our review of the interim consolidated disclosure statement and supplementary information of the bank and the banking group on pages 11 to 46, nothing has come to our attention that causes us to believe that:

i. the interim consolidated disclosure statement do not present fairly in all material respects the banking group's financial position as at 31 December 2018 and its financial performance and cash flows for the 6 month period ended on that date;

ii. the interim consolidated disclosure statements (excluding the supplementary information disclosed in accordance with Schedules 5, 7, 9, 13, 16 and 18 of the Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order 2014 (as amended) (the "Order")), have not been prepared, in all material respects, with NZ IAS 34 *Interim Financial Reporting* ("NZ IAS 34");

iii. the supplementary information, does not fairly state, in all material respects, the matters to which it relates in accordance with Schedules 5, 7, 13, 16 and 18 of the Order; and

iv. the supplementary information relating to capital adequacy and regulatory liquidity requirements, has not been prepared, in all material respects, in accordance with the Registered Banks conditions of registration, Capital Adequacy Framework (Standardised Approach) (BS2A) and disclosed in accordance with Schedule 9 of the Order.

We have completed a review of the accompanying consolidated half year disclosure statement which comprises:

- the interim consolidated financial statements formed of:
  - the interim consolidated statement of financial position as at 31 December 2018;
  - the interim consolidated statements of comprehensive income, changes in equity and cash flows for the 6 month period then ended; and
  - notes to the interim consolidated financial statements, including a summary of significant accounting policies and other explanatory information.
- the supplementary information prescribed in Schedules 5, 7, 9, 13, 16 and 18 of the Order.

Basis for conclusion

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

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.

Our firm has also provided other services to the bank in relation to AGM scrutineering. 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 reviewer of the bank. The firm has no other relationship with, or interest in, the banking group.

Emphasis of matter - reissuance of consolidated half year disclosure statement

The consolidated half year disclosure statement has been re-issued as a result of further disclosure with regards to the credit exposures to individual counterparties as disclosed in note 12(d). Our opinion is not modified in respect of this matter.

Use of this independent review report

This independent review report is made solely to the shareholder as a body. Our review work has been undertaken so that we might state to the shareholder those matters we are required to state to them in the independent 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 shareholder as a body for our review work, this independent review report, or any of the opinions we have formed.

Responsibilities of the Directors for the consolidated half year disclosure statement

The Directors, on behalf of the group, are responsible for:

- the preparation and fair presentation of the consolidated half year disclosure statement in accordance with NZ IAS 34 and Schedules 3, 5, 7, 13, 16 and 18 of the Order;
- the preparation and fair presentation of the supplementary information in regards to capital adequacy and regulatory liquidity requirements in accordance with the Registered Banks conditions of registration, Capital Adequacy Framework (Standardised Approach) (BS2A) and Schedule 9 of the Order;
- implementing necessary internal control to enable the preparation of a consolidated half year disclosure statement that is fairly presented and free from material misstatement, whether due to fraud or error; and
- assessing the ability to continue as a going concern. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the review of the consolidated half year disclosure statement

Our responsibility is to express a conclusion on the interim consolidated half year disclosure statement based on our review. We conducted our review in accordance with NZ SRE 2410. NZ SRE 2410 requires us to conclude whether anything has come to our attention that causes us to believe that the:

— the interim consolidated disclosure statement do not present fairly in all material respects the banking group's financial position as at 31 December 2018 and its financial performance and cash flows for the 6 month period ended on that date;

— the interim consolidated disclosure statement do not, in all material respects, comply with NZ IAS 34;

— the supplementary information does not, fairly state, in all material respects, the matters to which it relates in accordance with Schedules 5, 7, 13, 16 and 18 of the Order; and

— the supplementary information relating to capital adequacy and regulatory liquidity requirements is not, prepared in all material respects, in accordance with the Registered Banks Conditions of Registration, Capital Adequacy Framework (Standardised Approach) (BS2A) and disclosed in accordance with Schedule 9 of the Order.

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 interim consolidated disclosure statement.

KPMG

KPMG

Auckland

28 March 2019