HEARTLAND
GROUP

NZX/ASX Release

Heartland announces full year net profit after tax of $72.0 million (or $78.9 million adjusted to remove economic overlay for COVID-19)

17 September 2020

Heartland Group Holdings Limited (**Heartland**) (**NZX/ASX: HGH**) achieved a net profit after tax (**NPAT**) of $72.0 million for the financial year ended 30 June 2020 (**FY2020**). Included within this NPAT is an economic overlay of $9.6 million pre-tax which Heartland applied to its potential credit losses in response to the ongoing uncertainties relating to the COVID-19 pandemic. The adjusted NPAT (which excludes this economic overlay) is $78.9 million[1].

Highlights for FY2020[2]

- NPAT of $72.0 million.
- Adjusted NPAT of $78.9 million (removing the economic overlay of $9.6 million pre-tax), up 7.2% ($5.3 million).
- Gross finance receivables (**Receivables**)[3] of $4.6 billion, up 4.9% ($215.0 million)[4].
- Return on equity (**ROE**) of 11.4%, up 31 basis points (**bps**).
- Net interest margin (**NIM**)[5] of 4.33%, flat on FY2019.
- Net operating income (**NOI**) of $235.3 million, up 13.2%.
- Cost to income ratio (**CTI**) of 45.4%, up 3.8 percentage points (**pp**). After allowing for changes in the accounting treatment and one-off impacts, the underlying CTI is 44.5%, up 4.6 pp as a result of significant investments in areas of strategic importance.
- FY2020 final dividend of 2.5 cents per share (**cps**), taking FY2020 total dividend to 7.0 cps – a decrease of 3.0 cps (as a consequence of restrictions imposed by the Reserve Bank of New Zealand (**RBNZ**) on distributions by banks in New Zealand).
- A dividend yield of 8.2%[6] (8.6%[7] in FY2019).
- Earnings per share (**EPS**) of 13.7 cps, up 5.2%.

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[1] Heartland's FY2020 results present reported and adjusted financial information. These measures are considered useful for investors because they adjust for one-off impacts, which allows for better comparability with past performance. A reconciliation of adjusted financial information is set out on pages 31 and 32 of the accompanying results presentation.
[2] All comparative results are based on restated audited full year consolidated financial statements of Heartland for the year ended 30 June 2019 (**FY2019**).
[3] Gross finance receivables also includes Reverse Mortgages.
[4] Excluding the impact of changes in foreign currency exchange (**FX**) rates.
[5] NIM calculated based on average gross interest earning assets.
[6] FY2020 total fully imputed dividends divided by share price as at 16 September 2020 of $1.19.
[7] FY2019 total fully imputed dividends divided by share price as at 14 August 2019 of $1.62.

- Heartland has transitioned through a number of strategic phases to establish itself as a digitally-led financial services group, ‘a financial technology company (**fintech**) with a bank licence’.
- In May 2020, Fitch Ratings (**Fitch**) affirmed Heartland’s Long-Term Issuer Default Ratings and Outlooks. Heartland Bank Limited (**Heartland Bank**) was one of only two Australasian banks to have no reduction or adverse change to its rating or outlook as it entered the economic downturn.
- Established new products to support customers affected by COVID-19.
- Digital tools such as electronic document signing and biometric facial recognition enabled motor vehicle dealers to continue to offer Heartland’s motor vehicle finance despite alert level restrictions on in-person interactions.
- Heartland Bank awarded Canstar’s 2020 Bank of the Year – Savings and Canstar’s 5-Star Rating for Outstanding Value Savings Account for its Direct Call and YouChoose accounts.
- Heartland Bank Reverse Mortgages awarded Consumer Trusted accreditation for the fourth year in a row.
- Heartland Bank a finalist in the Diversity Works NZ Diversity Awards in the Cultural Celebration category.
- Heartland Bank became an accredited Living Wage employer, and part of the first Living Wage accredited industry in New Zealand.

COVID-19 RESPONSE

The COVID-19 pandemic and resulting alert level restrictions created an uncertain economic environment for many of Heartland's customers. Heartland responded by contacting Consumer, small-to-medium enterprise (**SME**) and Business customers to offer support.

Consumer customers, representing $143 million of loans, took up the various offers of support, as did SME and Business customers, representing $510 million of loans. Support options included payment holidays of 1-3 months, reduced principal and interest only payments.

Most of Heartland's customers have returned to pre-COVID-19 payment schedules. At 27 August 2020, 96% of Consumer loans and 98% of SME and Business loans were on usual (or pre-COVID-19) repayment schedules or had taken up Heartland Extend.

Heartland Extend is a new product, launched in May 2020, allowing customers the flexibility to manage the term of their loan to suit cashflow needs. Across all of Heartland's customers, at 14 September 2020, 1,601 customers, representing $116.4 million of loans, had taken up Heartland Extend. This offer will be extended to non-customers.

Heartland became one of nine providers of the New Zealand Government's Business Finance Guarantee Scheme (**BFGS**). Heartland is offering business loans under the BFGS not only to its own customers, but to any business that qualifies.

During the period 1 March to 30 June 2020, Heartland:

- enabled 46 Australian seniors to apply for a Heartland Reverse Mortgage online, from the safety of their own home
- approved $356 million in new lending, including:
  - $165 million for Motor
  - $66 million for Australian Reverse Mortgages
  - $84 million for Business
  - $25 million for New Zealand Reverse Mortgages.

Heartland was quick to mobilise its employees to support customers despite alert level restrictions limiting occupancy in its places of work. Employees were provided with the appropriate systems, tools and resourcing to enable them to work remotely. Heartland redeployed employees to areas of the business experiencing high demand and brought on additional permanent and contract staff to meet customer needs.

Considerable uncertainty remains and as a consequence, Heartland will create an economic overlay of 8.8% of its NPAT for the financial year (see page 6).

DIGITAL EVOLUTION

Since listing on the NZX in 2011 and becoming a bank in 2012, Heartland has progressed through a number of strategic phases to establish itself as a digitally-led financial services group, 'a fintech with a bank licence'.

This, together with its best or only approach to its products and services, has successfully differentiated it from mainstream banks, best exemplified by a significantly higher NIM. It has been named the Canstar Savings Bank of the Year for three consecutive years and is the recipient of multiple awards for its reverse mortgages. Its digital platforms for deposits, small business and mortgage lending are world class in terms of financial technology.

Heartland is digitalising everything it does – its distribution, its processing and how it markets to customers.

At the centre of Heartland's digital strategy is the ongoing enhancement of the Heartland Mobile App. Mobile phones are increasingly becoming the electronic channel of choice for all adults[8]. Heartland believes customers will increasingly turn to their smartphones for all interactions with service providers and the Heartland Mobile App will continue to be enhanced to meet this customer expectation – it will be Heartland's virtual branch on every corner.

Heartland's digital platforms have enabled customers to access products and services despite alert level restrictions on in-person interactions. Heartland's digital facial recognition (biometrics) and electronic document signature (DocuSign) innovations provide customers with an end-to-end contactless onboarding and fulfilment process. From 25 March to 13 May 2020 during the height of alert level 3 and 4 lockdowns, dealers were able to progress vehicle loan applications by sending biometrics facial recognition links to 142 people.

Increased investment will be undertaken in technology to expand digital capability to meet Heartland's growth aspirations and the needs of customers in both New Zealand and Australia – particularly in a post-COVID-19 world where the ability to interact online is of even greater importance.

FINANCIAL RESULTS

Financial position

Receivables increased by $215.0 million (4.9% growth)[9] mainly due to growth in Reverse Mortgages, Business Intermediated, Motor, Open for Business (**O4B**) and Harmoney, offset by decreases in non-core lending, specifically Business Relationship and Rural Relationship.

Total assets increased by $389.1 million (7.9% growth), primarily driven by the $234.0 million (5.4%) increase in net finance receivables. Liquid assets, comprising cash, cash equivalents and investments

[8] According to Deloitte's 2019 global mobile consumer survey.
[9] Excluding the impact of changes in FX rates.

increased by $127.2 million (30.5% growth). This reflected the precaution of a strong liquidity buffer through the period of COVID-19 uncertainty.

Total funding[10] increased by $320.9 million (7.6% growth).

During the reporting period, net assets increased by $24.3 million to $700.0 million. Net tangible assets (**NTA**) increased by $15.8 million to $610.0 million, resulting in an NTA per share of $1.05 (30 June 2019: $1.04).

Profitability

NPAT was $72.0 million, a $1.6 million (2.2%) decrease on FY2019. Adjusted NPAT[11] was $78.9 million, a $5.3 million (7.2%) increase on FY2019.

ROE was 10.5%, down 59 bps from FY2019. Adjusted ROE[11] was 11.4%, up 31 bps from FY2019.

EPS was 12.5 cps, down 0.5 cps from FY2019. Adjusted EPS[11] was 13.7 cps, up 0.7 cps from FY2019 as a result of an increase in underlying NPAT.

	FY2020	FY2019
NOI[12] ($m)	235.3	208.0
NPAT ($m)	72.0	73.6
Adjusted NPAT ($m)	78.9	73.6
NIM	4.33%	4.33%
NIM excl. liquid assets[13]	4.59%	4.46%
CTI	45.4%	41.6%
Adjusted impairment expense ratio	0.44%	0.49%
Adjusted ROE	11.4%	11.1%
Adjusted EPS	13.7 cps	13.0 cps

Income

Total NOI was $235.3 million, an increase of $27.4 million (13.2%) on FY2019.

The required accounting standard change in respect of upfront reverse mortgage fees contributed $6.4 million to the FY2020 NOI (and resulted in a corresponding contribution of $7.4 million in operating expenses). Adjusted for this, NOI increased by $21.7 million (10.5%) compared with

[10] Total funding includes retail deposits and other borrowings.
[11] Excluding the impact of $9.6 million pre-tax economic overlay due to COVID-19.
[12] NOI includes fair value gains/losses on investments.
[13] NIM is calculated based on average gross interest earning assets excluding liquid assets.

FY2019, largely due to a $22.4 million (11.5%) increase in underlying net interest income. Underlying other operating income decreased by $0.7 million (5.2%) compared with FY2019, primarily due to a lower net operating lease, insurance and fee income result.

NOI was $1.9 million (1.6%) lower in the second half (**2H2020**) compared with the first half of FY2020 (**1H2020**). Excluding the impact of the required accounting standard change in respect of upfront reverse mortgage fees and fair value gains on equity investments from 1H2020, underlying NOI was $2.6 million (2.3%) higher half-on-half.

Heartland's NIM for FY2020 was 4.33%, flat on FY2019.

Net interest income was $6.3 million higher in 2H2020, a 5.7% increase half-on-half. This was a result of a $4.6 million (6.8%) decrease in interest expense which was primarily due to 28 bps reduction in cost of funds, and a $1.7 million (1.0%) increase in interest income largely driven by $117.5 million increase in interest earning assets.

Expenses

Operating expenses were $106.8 million, an increase of $21.0 million (24.5%) on FY2019. The required accounting standard change in respect of upfront reverse mortgage costs contributed $7.4 million to FY2020 operating expenses. Adjusted for this, underlying operating expenses were $14.8 million (17.5%) higher compared with FY2019.

The CTI increased to 45.4%, compared with 41.6% in FY2019, while on an underlying basis this was 44.5% in the current period, compared with 39.9% in FY2019.

Higher operating expenses were primarily due to a $7.3 million (15.1%) increase in staff expenses. While many organisations are downsizing, Heartland employed 23 new people in permanent or fixed term roles between March and June 2020 to provide additional support to customers.

Heartland has also invested in technical expertise in areas of strategic importance (for example, in its digital and finance teams) to reduce the reliance on external service providers and enable Heartland to adopt a more agile delivery model, reflecting the growing maturity of the business and the need to respond to an increasingly complex and regulated operating environment.

Higher operating expenses were also due to a $3.3 million (97.6%) increase in marketing investment across both New Zealand and Australian markets to drive product and brand awareness.

IMPACT OF COVID-19 ON PROVISIONING

Since March 2020, the economy has been disrupted by measures put in place to limit the impact of the spread of COVID-19. It has also been disrupted by the downstream effects of the deterioration that COVID-19 has caused in the global economy.

Countermeasures implemented by Government (including the Government's support and fiscal programmes) and the RBNZ have assisted to mitigate the impact of those measures. As noted elsewhere, Heartland has also worked closely with its customers to understand their needs and provide them with the financial support that best meets their requirements.

On 18 May 2020, during this period of disruption, Fitch affirmed the Long-Term Issuer Default Ratings for Heartland, Heartland Bank and Heartland Australia Group Pty Ltd (**Heartland Australia**) with outlook remaining stable. Heartland was one of only two Australasian banks to have no reduction or adverse change to its rating or outlook as it entered the economic downturn.

The affirmation reflects Fitch's view that Heartland has solid buffers to withstand its base-case scenario and enters the economic downturn with sufficient headroom in its key financial metrics. Fitch noted that "the ratings of [Heartland Group] and [Heartland Bank] are driven by the group's consolidated risk profile, which reflect its stronger-than-peer profitability".

Heartland does not have a material exposure to the industries most profoundly affected by COVID-19 (tourism, hospitality, retail business)[14], nor the demographic most impacted by rising unemployment (15-24 year olds)[15]. In addition, a significant proportion of Heartland's book has shown resilience to the economic disruption – in particular the Reverse Mortgage books in Australia and New Zealand (where borrower behaviour remains largely unchanged) and the Rural portfolio.

Taking into account Heartland's differentiated portfolio composition, management's experience and understanding of Heartland's customers, and assuming management's forecast of future economic conditions transpires to be accurate, Heartland determined that there was no reason to consider that its existing provisions were not adequate. However, Heartland recognises that its support arrangements and the significant Government support mean that traditional indicators of increased credit risk may not provide an accurate measure of credit quality.

Against that backdrop, Heartland has taken an economic overlay of $9.6 million pre-tax to allow for the uncertainty created by COVID-19. Economic overlays are deployed to supplement existing methods of calculating expected credit loss where the economic environment is outside that contemplated by existing methods and have been used by banks as a response to the uncertainty created by COVID-19. Importantly, an overlay does not represent actual or current losses, but provides a buffer against any losses that the uncertainty may give rise to.

The bulk of Heartland's overlay has been apportioned to the Consumer and SME portfolios. Heartland will continue to monitor that overlay, and it may change over time as the position develops and Heartland comes to have greater certainty as to the impact.

Heartland's total provision coverage ratio excluding the $9.6 million pre-tax economic overlay due to COVID-19 is 1.71%[16] as at 30 June 2020. This is a relatively strong position compared with most of its

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[14] Heartland's total exposure to the retail, accommodation and transport (excluding road freight transport) industries at 30 June 2020, based on borrower ANZSIC codes, was 2.84%, 2.17% and 1.15% respectively.
[15] At 10 August 2020, Heartland's exposure to customers in this age bracket is 2.9% in Motor, 0.7% in personal lending and 0.9% in Harmoney.
[16] Calculated as total provisions over gross finance receivables excluding Reverse Mortgages.

peers. The COVID-19 economic overlay further increased the total provision coverage ratio to 2.02% as at 30 June 2020.

The table below compares Heartland's provision coverage ratio[17] year-on-year, including the impact of the $9.6 million pre-tax economic overlay due to COVID-19.

	30 June 2020			30 June 2019		
	Gross Receivables $m	**Total Provision $m**	**Provision Coverage Ratio**	**Gross Receivables $m**	**Total Provision $m**	**Provision Coverage Ratio**
Motor	1,126	17.8	1.58%	1,089	14.1	1.30%
Harmoney NZ	146	7.6	5.20%	151	5.5	3.66%
Harmoney AU	54	3.1	5.77%	38	1.7	4.55%
Personal Loans	12	1.8	15.05%	17	2.0	12.18%
Open for Business	155	8.5	5.46%	133	4.8	3.63%
Business Intermediated	499	7.6	1.53%	425	5.7	1.34%
Business Relationship	496	8.1	1.62%	560	11.4	2.03%
Rural	606	8.2	1.35%	656	13.1	2.00%
Retail Mortgages	14	-	0.00%	20	-	0.00%
	3,108	**62.7**	**2.02%**	**3,090**	**58.5**	**1.89%**

Impairments

Including the overlay mentioned above, impairment expense increased by $8.7 million (42.3%) to $29.4 million. Impairment expense as a percentage of average receivables increased from 0.49% in FY2019 to 0.65% in FY2020.

On an adjusted[18] basis, impairment expense decreased by $0.9 million (4.1%) to $19.8 million, and impairment expense as a percentage of average receivables decreased from 0.49% in FY2019 to 0.44% in FY2020. This reflects improving quality and improved collections processes.

[17] Being total provisions divided by gross receivables.
[18] Excluding the impact of $9.6 million pre-tax economic overlay due to COVID-19.

Additionally, refined provisioning methodologies in accordance with IFRS9 have resulted in a reduced impairment expense.

BUSINESS PERFORMANCE

New Zealand Reverse Mortgages

New Zealand Reverse Mortgages NOI was $23.5 million, an increase of $2.7 million (12.7%) compared with FY2019.

New Zealand Reverse Mortgage Receivables increased $49.6 million (9.7%) to $559.9 million, driven by an investment in marketing to increase brand awareness and digital channel enhancements.

Motor

Motor NOI was $60.6 million, an increase of $3.5 million (6.2%) compared with FY2019.

Motor Receivables increased $37.0 million (3.4%) to $1,125.6 million mainly due to an increase in the Motor dealer book (car dealerships, brokers and partnerships such as Kia and Jaguar/Land Rover).

Following a strong result in 1H2020, 2H2020 was characterised by higher repayment levels in Motor. While new lending held up strongly in the period 1 March to 30 June 2020 ($164.8 million) repayments were $164.2 million (partly due to customers consolidating debt due to low interest residential mortgage rates). As a result, Motor posted a largely flat volume growth in 2H2020.

Generating much of Motor's new lending in 2H2020 was Heartland Bank's innovative digital platforms, which allowed motor dealers to safely provide vehicle finance to New Zealanders even when alert levels restricted in-person interactions with customers.

Harmoney and other personal lending

Harmoney NOI was $17.2 million, an increase of $4.8 million (39.1%) compared with FY2019.

Harmoney Receivables increased $10.1 million (5.3%), with the New Zealand Harmoney portfolio contracting $5.6 million (3.7%) to $145.9 million, while the Australia Harmoney portfolio increased $15.7 million (40.9%) to $54.0 million. Both New Zealand and Australian portfolios contracted in 2H2020 as a result of slowdown in new lending following the COVID-19 outbreak.

Harmoney impairments were higher in FY2020 primarily due to additional provisions taken up to cover potential future COVID-19 losses, as well as the impact of strong growth in Australia which resulted in an increase in stage one provisions. Prior to the COVID-19 lockdown, loss rates in FY2020 had been lower than FY2019 in both New Zealand and Australia. Adjusted for the COVID-19 overlay, FY2020 impairment rate for New Zealand and Australia Harmoney portfolio is 3.4% and 4.1% respectively (4.1% and 4.9% in FY2019). FY2020 impairment rate for New Zealand and Australia Harmoney portfolio is 4.7% and 5.6% respectively.

Business Intermediated

Business Intermediated lending NOI was $21.9 million, an increase of $4.3 million (24.3%) compared with FY2019.

Business Intermediated Receivables increased $73.6 million (17.3%) to $499.0 million, reflecting Heartland Bank's growth focus on this portfolio.

Business Relationship

Business Relationship lending NOI was $24.8 million, a decrease of $3.8 million (13.4%) compared with FY2019.

Business Relationship Receivables decreased a further $19.7 million in 2H2020 to $495.7 million as a result of the strategic focus on reducing concentration risk in low margin exposures, posting a $63.9 million (11.4%) decrease in FY2020.

O4B

O4B NOI was $14.7 million, an increase of $5.1 million (53.7%) compared with FY2019.

O4B Receivables increased $21.8 million (16.4%) to $155.1 million. Whilst O4B growth slowed down in 2H2020, ongoing investments in operational capacity, automation and marketing to increase product awareness are expected to fuel recovery to pre-COVID-19 levels and growth in future periods.

Rural

Rural lending NOI was $30.7 million, a decrease of $1.0 million (3.1%) compared with FY2019.

Rural Receivables decreased by $50.7 million (7.7%) to $605.7 million. Rural Relationship Receivables reduced by $22.2 million in 2H2020 to $490.4 million as optimisation of non-core Rural Relationship lending to reduce low margin concentration continues, posting a $44.4 million (8.3%) decrease in FY2020. At the same time, Livestock Receivables decreased by $6.3 million (5.2%) to $115.3 million.

Australia

Australian operations NOI was $34.3 million, an increase of $11.6 million (51.0%) compared with FY2019.

Australian Reverse Mortgage Receivables increased by $149.1 million (18.4%)[19] to $957.5 million. Heartland remains the leading originator of reverse mortgages in Australia with 12-month market

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[19] Excluding the impact of changes in FX rates.

share increasing from 21%[20] to 26%[21], and a similar trend expected in the future.

FUNDING AND LIQUIDITY

New Zealand

Heartland Bank increased borrowings by $131.8 million (3.8%), primarily as a result of growth in deposits of $115.6 million (3.7%) and growth in other borrowings of $16.2 million (4.7%).

Deposits grew $100.5 million (3.2%) in the April-June 2020 quarter (**Q4**) as a result of strong promotional activity with Heartland Bank continuing to be a consistent rate leader during the lockdown period and beyond. Heartland Bank's focus is on the reduction of risk concentrations in its deposit book and shifting its deposit mix in favour of lower rate call deposits where Heartland is relatively underweight.

Within other borrowings, money market and registered certificate of deposit borrowings reduced by $59.8 million in aggregate, while borrowings under the auto warehouse facility increased by $65.6 million as part of a strategy to shift funding away from short-term uncommitted sources in favour of committed wholesale lines.

Heartland Bank increased total liquidity by $205 million (39%). This was a result of growth in cash and cash equivalents of $66 million (169%), growth in investments of $55 million (16%) and growth in undrawn committed facilities of $205 million (39%).

In response to the uncertain economic and liquidity impacts of COVID-19, Heartland Bank increased its committed auto warehouse facility from $150 million to $300 million, and increased its target holding of cash and cash equivalents. As such Heartland Bank holds liquidity well in excess of regulatory minimums.

Heartland cancelled its $25 million undrawn corporate debt facility in May 2020.

Australia

Heartland Australia increased borrowings by A$168.4 million (24.7%) as a result of growth in reverse mortgage warehouse funding of A$73.2 million (11.6%) and a A$100 million medium-term note (**MTN**) issuance.

To support its growth, Heartland has secured A$142 million of long-term funding for its Australian Reverse Mortgage business. The innovative Australian reverse mortgage-backed syndicated loan securitisation transaction announced on 15 September 2020 is funded by established offshore institutional investors. The first-of-its-kind transaction achieves another milestone in executing

[20] Based on APRA ADI Property Exposure combined with Heartland Seniors Finance data as at 31 March 2019.
[21] Based on APRA ADI Property Exposure combined with Heartland Seniors Finance data as at 31 March 2020.

Heartland's strategy to diversify type, source and tenor of its Australian funding and importantly evidences market liquidity to existing warehouse funders.

The financing structure provides Heartland access to deep pools of efficient long-dated funding that is typically unavailable to most Australian non-bank financial institutions. Heartland's high-quality reverse mortgage asset portfolio has enabled the structure to achieve leverage[22] of 98%.

During the financial year, Heartland Australia successfully continued to execute on its strategic funding programme to cater for the strong growth that continues to be generated.

Other funding activity included:

- execution and utilisation of a new A$250 million reverse mortgage funding warehouse provided by a major Australian financial institution
- issuance of A$100 million new MTNs.

Heartland now has access to committed Australian reverse mortgage loan funding of A$1 billion in aggregate. Further expansion of existing warehouse funding through increased senior limits and introduction of mezzanine funding is planned together with continued optimisation of long-term duration matched funding.

REGULATORY UPDATE

As a result of COVID-19, some delays to regulatory change timeframes were announced in 2H2020. However, a significant volume of regulatory change continues to be upcoming. Key changes include the proposed Financial Markets (Conduct of Institutions) Amendment Bill (**Conduct Bill**) and Phase 2 of the review of the Reserve Bank of New Zealand Act 1989 (**RBNZ Act**).

If enacted, the Conduct Bill would introduce a new conduct regime for registered banks (including Heartland Bank), licensed insurers and non-bank deposit takers in New Zealand.

The Government has made a number of in-principle decisions in relation to its review of the RBNZ Act which will affect the New Zealand financial system, including proposing a depositor protection scheme and significant strengthening of accountability requirements for directors and executives.

A consultation paper for the proposed changes to the RBNZ Act has been published with submissions due on 23 October 2020. Heartland will continue to monitor progress in respect of the review, and any bill which is subsequently introduced to Parliament.

STRATEGIC PRIORITIES

Heartland has three core strategic objectives: acquiring scale as a New Zealand bank, expanding in Australia and digitalising everything it does.

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[22] Being total senior debt divided by total reverse mortgages funded.

New Zealand

Heartland remains dedicated to providing customers with banking products and services through best or only digital channels.

Within this, Heartland Bank has developed a unique, low-cost operating model in New Zealand, through the digitalisation of its core distribution channels and fulfilment processes. Heartland views growing scale through consolidation in the banking industry as a potential opportunity to expand this low-cost model and create greater access to capital for other industry participants. At a time when other participants are required to raise additional capital and the industry in general faces additional investment in technology and regulatory compliance, consolidation may be considered attractive.

In March, Heartland Bank entered into the retail mortgage market with its new online Home Loans platform. The trial sought to test the appetite of the New Zealand market for a digital home loan product which allows Kiwis to apply and receive a conditional approval online, without the need to go into a bank or meet with a mortgage manager. The trial was successful, with $50 million of conditional home loan approvals being given in the month the trial was run. Heartland Bank expects to relaunch its Home Loans product during the financial year ending 30 June 2021 (**FY2021**) with a rate as market leading as that offered during the trial.

Australia

Growth has continued in Australia's Reverse Mortgage business, despite the impact of COVID-19 on the Australian market. Investment in marketing activity will continue for reverse mortgages in Australia to grow reach and drive leads.

Heartland launched its O4B unsecured small business lending platform in Australia in late 2019. Due to the impact of COVID-19, Heartland paused lending through the Australian platform in March, but intends to relaunch O4B in Australia this calendar year.

Heartland has had success in the consumer and small business markets in New Zealand, and is now focused on replicating that success in Australia. Heartland currently has small exposures to those markets through its partners, such as Harmoney, and is targeting growth in both areas, with an appetite for both organic and acquisition growth opportunities.

Digital

Heartland's strategy to digitalise everything it does is described in detail above under Digital Evolution on page 4.

FINAL DIVIDEND

Heartland is pleased to declare a 2020 final dividend of 2.5 cps, taking the total dividend for FY2020 to 7.0 cps (3.0 cps down on FY2019). The dividend yield of 8.2%[23] compares to 8.6%[24] in FY2019. The dividend decrease reflects restrictions imposed by the RBNZ on distributions by banks in New Zealand. However, the continued growth in Heartland's Australian operations enable it to distribute earnings derived from assets held outside of Heartland Bank. Heartland expects to return to a pay-out ratio aligning to historical levels once the RBNZ restrictions are removed.

The final dividend will be paid on Friday 9 October 2020 (**Payment Date**) to shareholders on the company's register as at 5.00pm on Friday 25 September 2020 (**Record Date**) and will be fully imputed.

Heartland has a Dividend Reinvestment Plan (**DRP**), giving eligible shareholders the opportunity to reinvest some or all of their dividend payments into new ordinary shares. The DRP will apply to the final dividend with a 2.0% discount[25].

The DRP offer document and participation form is available on Heartland's shareholder website at: https://shareholders.heartland.co.nz/shareholder-resources/dividends.

OPTIMISATION OF VALUE WITHIN THE GROUP

As described above, Heartland has a strategy to:

1. acquire scale in banking in New Zealand
2. expand in Australia
3. digitalise everything it does.

This strategy aligns with the core strengths of Heartland's businesses, being:

1. an established financial technology business in New Zealand based on SME and consumer lending with the potential to grow its start-up platforms in Australia
2. a leading provider of motor vehicle finance in New Zealand with potential to capture further market share
3. the largest active provider of Reverse Mortgages in Australia
4. a New Zealand bank based on business, rural and household lending with the potential to develop a low-cost model through digitalisation and increased scale through consolidation.

Current bank price-to-earnings ratio multiples are below many of those for finance companies and fintechs, and Heartland recognises that its current share price may not appropriately reflect the

[23] FY2020 total fully imputed dividends divided by share price as at 16 September 2020 of $1.19.
[24] FY2019 total fully imputed dividends divided by share price as at 14 August 2019 of $1.62.
[25] That is, the strike price under the DRP will be 98.0% of the volume weighted average sale price of Heartland shares over the five trading days following the Record Date. For the full details of the DRP and the Strike Price calculation, refer to Heartland Group Holdings Limited DRP offer document dated 10 December 2018.

underlying nature of its businesses. Consequently, the Board has asked management to explore this and identify means of optimising value.

LOOKING FORWARD

In Digital, an increased emphasis on development of the Heartland Mobile App for the New Zealand market will be the focus. This App will afford more interaction to meet customer needs and greater distribution to new customers.

Across the New Zealand activities, Heartland expects continued growth in Motor and Business, as well as Reverse Mortgages.

In Australia, growth in Reverse Mortgages is expected to continue (supported by further issuance from its recently established long-term funding structure), alongside expansion in SME and Consumer activities.

Heartland's commitment to diversity and inclusion remains an integral part of its overall strategy. FY2021 will see Heartland's continued focus on further developing and embedding its Māori initiatives, including growth in its Manawa Ako internship programme. Heartland's Environmental, Social and Governance (**ESG**) strategy will also continue, with a focus on reducing the environmental impact of Heartland's operations and providing products and services which support customers to make behaviour changes consistent with a circular economy.

Alongside this, Heartland remains committed to supporting customers through any future COVID-19 related uncertainties.

Heartland currently expects its NPAT for the year ending 30 June 2021 to be in the range of $83 million to $85 million.

- Ends -

For further information, please contact the person(s) who authorised this announcement:

Jeff Greenslade
Chief Executive Officer
M 027 382 0023

Andrew Dixson
Chief Financial Officer
M 027 263 2666

Address:
Level 3, Heartland House
35 Teed Street
Newmarket, Auckland
New Zealand

For media enquiries, please contact:
Nicola Foley
Head of Communications
M 027 345 6809

2020 Annual Results

17 September 2020

HEARTLAND

Important notice

- This presentation has been prepared by Heartland Group Holdings Limited (NZX/ASX: HGH) (the Company or Heartland) for the purpose of briefings in relation to its financial statements.
- The presentation and the briefing (together the Presentation) contain summary information only, and you should not rely on the information in the Presentation in isolation from the full detail in the financial statements.
- The information in the Presentation has been prepared with due care and attention. However, no person (including the Company and its directors, shareholders and employees) will be liable to any other person for any loss arising in connection with the Presentation.
- The Presentation outlines a number of the Company's forward-looking plans and projections. Those plans and projections reflect current expectations, but are inherently subject to risk and uncertainty, and may change at any time. There is no assurance that those plans will be implemented or that projections will be realised.
- No person is under any obligation to update this presentation at any time after its release to you or to provide you with further information about the Company.
- The information in this presentation is of a general nature and does not constitute financial product advice, investment advice or any recommendation. Nothing in this presentation constitutes legal, financial, tax or other advice.

FY2020 highlights

Financial performance

Net operating income
+13.2% vs FY2019

$235.3m

Net profit after tax[1]
-2.2% vs FY2019

$72.0m

$78.9m (+7.2%)

excluding the economic overlay

Gross finance receivables[2]
+4.9% vs FY2019[3]

$4.623b

1. Including the impact of $9.6m pre-tax economic overlay due to COVID-19; excluding the overlay, net profit after tax (**NPAT**) is $78.9m (+7.2% vs FY2019).
2. Gross finance receivables (**Receivables**) also includes Reverse Mortgages.
3. Excluding the impact of changes in foreign currency exchange rate (FX).

Strategic highlights

- Heartland is established as a digitally-led financial services group, 'a financial technology company (**fintech**) with a bank licence'.
- In May, Fitch Ratings affirmed Heartland's Long-Term Issuer Default Ratings and Outlooks (one of only two Australasian banks to have no reduction or adverse change to its rating or outlook as it entered the economic downturn).
- Limited exposure to industries and demographics most profoundly affected by the pandemic.
- Quickly established new products to support customers impacted by COVID-19.
- Digital tools and platforms enabled Heartland to serve and onboard new customers during lockdown.
- First-of-its-kind long-term funding secured for Australian reverse mortgages, enabling further growth.
- Continued improvement in underlying ROE.
- Final dividend of 2.5 cps, resulting in a total dividend of 7.0 cps and dividend yield of 8.2%[1].
- The Board has asked management to explore ways of optimising value within Heartland's existing businesses.

1. FY2020 total fully imputed dividends divided by share price as at 16 September 2020 of $1.16.

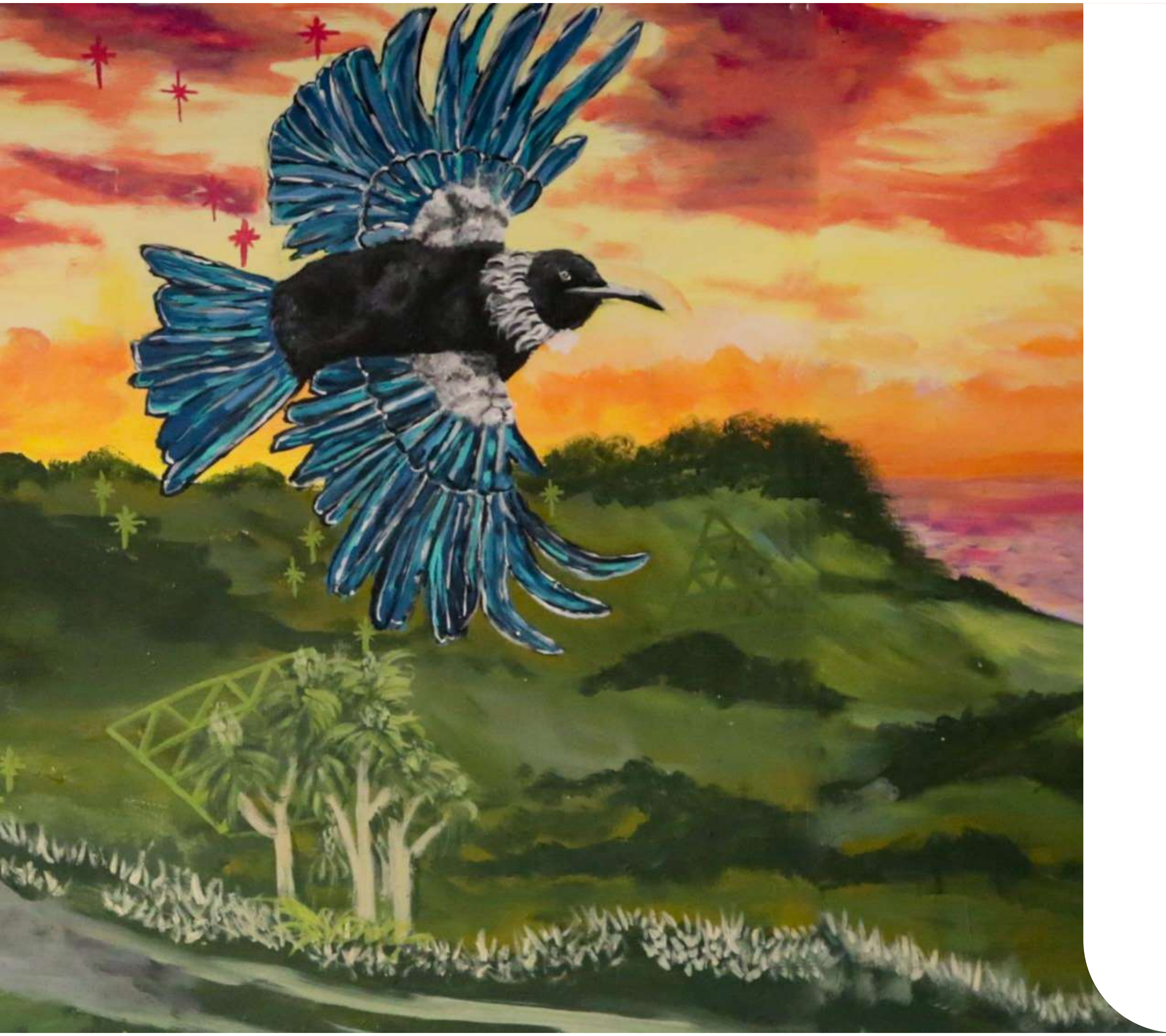
COVID-19 response

- **Contacted customers potentially vulnerable** to the pandemic to determine support required – particularly Consumer, SME and Business customers.
  - Consumers representing $143 million of loans took up offers of support.
  - SME and Business customers representing $510 million of loans took up offers of support.

- Established new product: **Heartland Extend**.

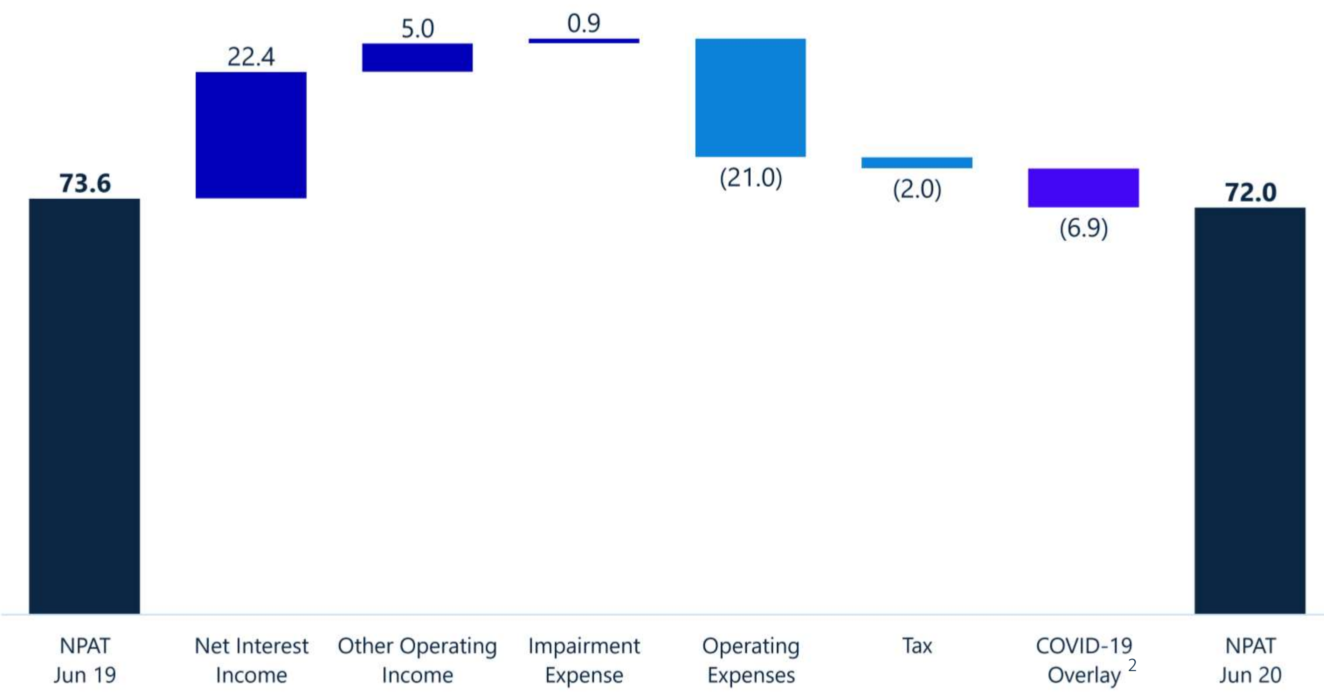
- Offering NZ Government's **Business Finance Guarantee Scheme** to existing and new customers.

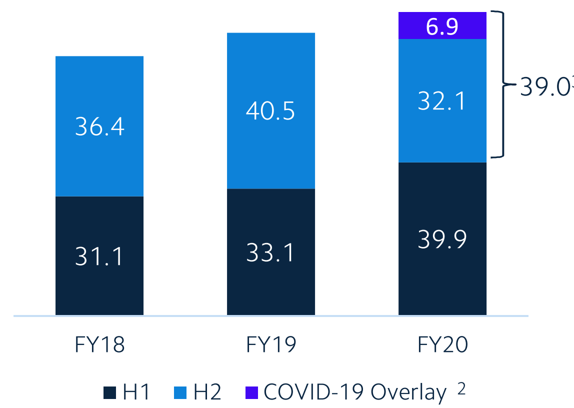
- Most customers have returned to pre-COVID-19 payment schedules.
  - At 27 August 2020, 96% of Consumer loans and 98% of SME and Business loans are on usual (or pre-COVID) repayment schedules or have taken up Heartland Extend.
  - Reverse Mortgages and Rural remain resilient.



Financial results

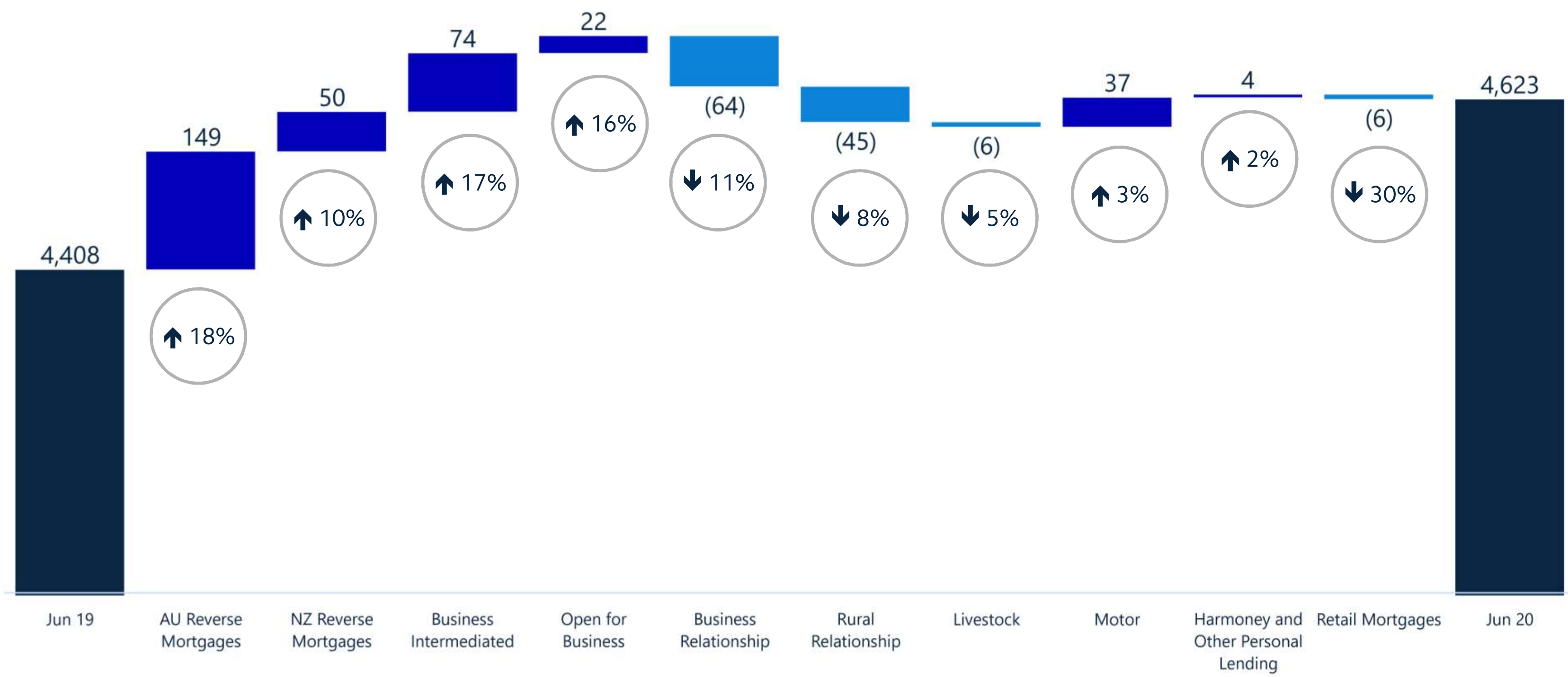
Growth in profitability





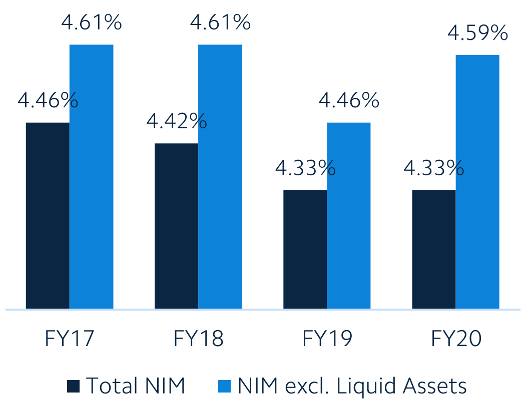
1. All figures in NZ$m.
2. Post-tax impact of $9.6m economic overlay due to COVID-19.
3. 2H2020 NPAT in NZ$m excluding the impact of $9.6m pre-tax economic overlay due to COVID-19.

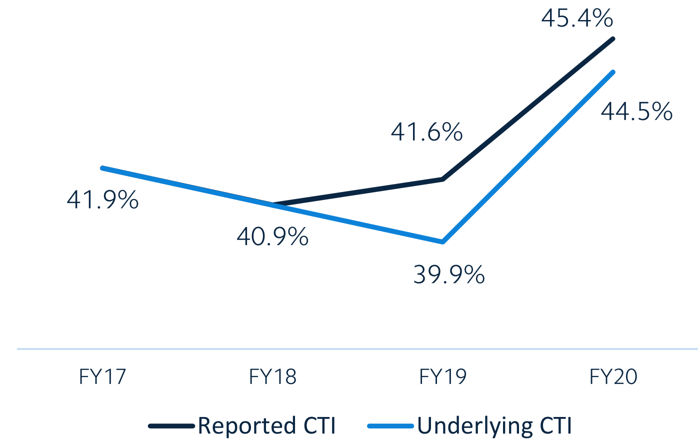
Growth in receivables

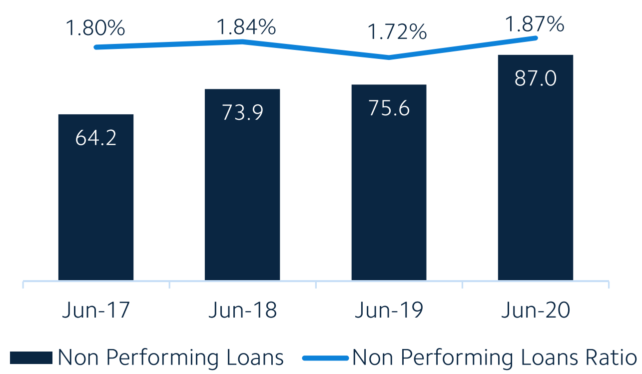


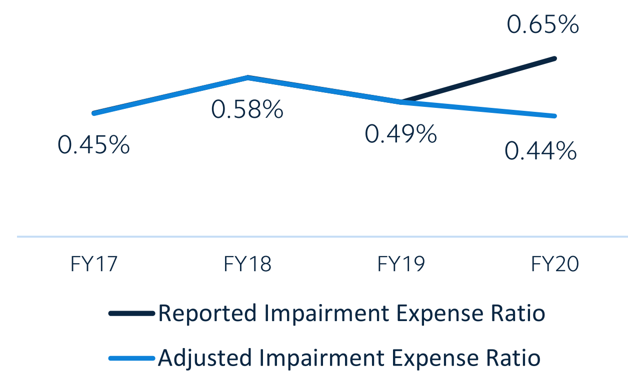
1. The graph shows year-to-date (YTD) movement in Receivables by individual portfolio excluding the FX impact.
2. All figures in NZ$m.

Key performance measures





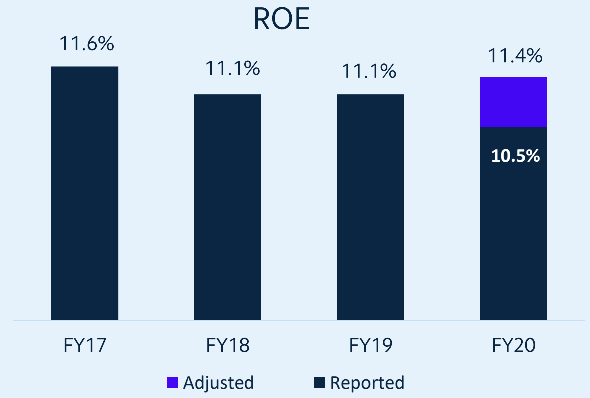


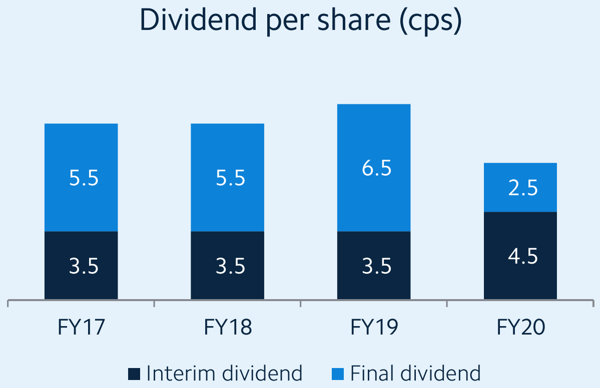


1. NIM is calculated as net interest income/average interest earning assets.
2. Underlying CTI excludes impacts of the required accounting standard change and one-off impacts.
3. Impairment expense ratio is calculated as impairment expense/average gross finance receivables.
4. Adjusted impairment expense ratio excludes the impact of $9.6m pre-tax economic overlay due to COVID-19.

Shareholder return

- Adjusted ROE (excluding economic overlay) of 11.4% (up 31 bps vs FY2019)[1].
- Earnings per share (**EPS**) (including the economic overlay) of 12.5 cps, down 0.5 cps compared to FY2019. Excluding the economic overlay, EPS is 13.7 cps (+0.7 cps vs FY2019).
- Final dividend of 2.5 cps (reduced as a result of RBNZ restrictions on bank distributions).
- Total dividend for FY2020 of 7.0 cps, down 3.0 cps on FY2019.
- Dividend yield of 8.2%[2].





1. Including the impact of $9.6m pre-tax economic overlay due to COVID-19, ROE is 10.5%
2. FY2020 total fully imputed dividends divided by share price as at 16 September 2020 of $1.19.

Economic overlay and impairments

- Excluding the COVID-19 Overlay, impairment expense as a percentage of average receivables decreased from 0.49% in FY2019 to 0.44% in FY2020. This reflects improving quality and improved collections processes.
- Heartland was one of only two Australasian financial institutions to have no reduction or adverse change to its Long-Term Issuer Default Ratings or outlook by Fitch as it entered the economic downturn (affirmed in May 2020).
- Heartland had limited exposure to industries[1] most profoundly affected by COVID-19, and the demographic most impacted by rising unemployment (15-24 year olds)[2] and a significant proportion of Heartland's book has shown resilience to the economic disruption.
- Heartland conducted a significant customer contact and support program during COVID-19, and has strong customer insight as a result.
- Although Heartland is comfortable with its current position, there remains significant uncertainty around future economic conditions, and Heartland has accordingly taken an economic overlay of $9.6 million (pre-tax).
- Heartland's total provision coverage ratio excluding the $9.6 million economic overlay was 1.71%[3] as at 30 June 2020. Including the COVID-19 economic overlay, the total provision coverage ratio increased to 2.02% as at 30 June 2020.
- Including the economic overlay, impairment expense as a percentage of average receivables increased from 0.49% in FY2019 to 0.65% in FY2020.

1. Heartland's total exposure to the retail, accommodation and transport (excluding road freight transport) industries at 30 June 2020, based on borrower ANZSIC codes, was 2.84%, 2.17% and 1.15% respectively.
2. At 10 August 2020, Heartland's exposure to customers in this age bracket is 2.9% in Motor, 0.7% in personal lending and 0.9% in Harmoney.
3. Calculated as total provisions over gross finance receivables excluding Reverse Mortgages.

Divisional summary

Australia

Australia Reverse Mortgages

- Net operating income increased **51.0%** to **$34.3 million**.
- Receivables increased **18%**[1] to **$958 million**.
- Strong growth in the portfolio, driven by investment in marketing, resulted in market share increasing to 26%, with a similar trend expected to continue in the future.

O4B

- O4B small business lending platform launched in Australia in 1H2020.
- Due to the impact of COVID-19, lending was paused in March, but is intended to relaunch this calendar year.

Funding

- Heartland Australia increased borrowings by A$168.4 million (24.7%).
- Heartland has secured A$142 million of long-term funding for its Australian Reverse Mortgage business.
- Heartland now has access to committed Australian reverse mortgage loan funding of A$1 billion in aggregate.

1. Excluding the impact of changes in FX rates.

As at 30 June 2020

$958m

+18% growth since June 2019[1]

NZ Reverse Mortgages

- Net operating income increased 12.7% to $23.5 million.
- Receivables increased 10% to $560 million.
- Growth in NZ Reverse Mortgages driven by an investment in marketing to increase brand awareness, and digital channel enhancements.

As at 30 June 2020

$560m

+10% growth since June 2019

Open for Business (**O4B**)

- Net operating income increased 53.7% to $14.7 million.
- Receivables increased 16% to $155 million.
- Ongoing investment in operational capacity, automation and marketing to increase product awareness is expected to fuel recovery to pre-COVID-19 levels and growth in future periods.

As at 30 June 2020

$155m

+16% growth since June 2019

Business Intermediated

- Net operating income increased 24.3% to $21.9 million.
- Receivables increased 17% to $499 million.
- Business Intermediated remains an area of growth for Heartland Bank.
- The Business Intermediated portfolio is the provision of business finance through intermediated partners such as Hino, Isuzu and Mainfreight, predominantly for truck and trailer, plant and equipment finance.

As at 30 June 2020

$499m

+17% growth since June 2019

Motor Finance

- Net operating income increased 6.2% to $60.6 million.
- Receivables increased 3% to $1,126 million.
- New lending held up strongly in Q4, however higher levels of repayments resulted in a largely flat volume growth in 2H2020.
- New lending during COVID-19 lockdown was possible through digital platforms allowing dealers to interact with customers safely in a contactless environment.

As at 30 June 2020

$1,126m

+3% growth since June 2019

Harmoney and other personal lending

- Net operating income increased **13.3%** to **$21.4 million**.
- Harmoney Receivables increased **4.6%**[1] to **$199 million**.
- Both New Zealand and Australian portfolios contracted in 2H2020 as a result of slowdown in new lending following the COVID-19 outbreak.
- Harmoney impairments were higher in FY2020 due primarily to additional provisions taken up to cover future COVID-19 losses as well as the impact of strong growth in Australia which resulted in an increase in stage one provisions.

As at 30 June 2020

$211m

+2% growth since June 2019[1]

1. Excluding the impact of changes in FX rates.

Livestock Finance

- Net operating income increased 12.1% to $6.6 million.
- Receivables decreased 5% to $115 million.
- Growth in Livestock Finance was impacted by the effects of drought and COVID-19 on the rural sector across New Zealand.

As at 30 June 2020

$115m

-5% decrease since June 2020

Relationship

- Net operating income decreased **10.2%** to **$48.9 million**.
- Receivables decreased **10%** to **$986 million**.
- Receivables continued to decrease in the Business and Rural Relationship portfolios as a result of the strategic focus on reducing concentration risk in low margin exposures.

As at 30 June 2020

$986m

-10% decrease since June 2019

1. Includes Business and Rural Relationship.

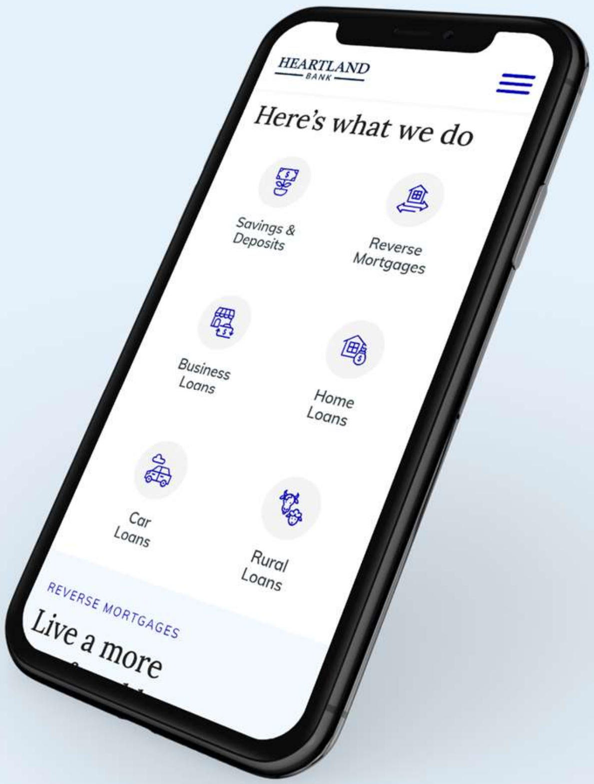
Funding

New Zealand

- Heartland Bank increased borrowings by $131.8 million (3.8%).
- Deposits grew $100.5 million (3.2%) in Q4 as a result of promotional activity and continued market-leading rates.
- Heartland Bank increased total liquidity by $205 million (39%).
- Heartland Bank holds liquidity well in excess of regulatory minimums.

Australia

- Heartland Australia increased borrowings by A$168.4 million (24.7%).
- Heartland has secured A$142 million of funding through a long-term Australian reverse mortgage-backed syndicated loan securitisation transaction.
- Heartland now has access to committed Australian reverse mortgage loan funding of A$1 billion in aggregate.



Strategic update

Core strategic objectives

New Zealand

Acquire scale in NZ

- Differentiated low-cost operating model.
- Exploring opportunities for consolidation.
- Providing banking products and services through best or only channels.
- Relaunch of Home Loans expected.

Australia

Expand in Australia

- Needs-based usage of Reverse Mortgages expected to continue.
- Relaunch of O4B unsecured SME lending platform expected.
- Exploring opportunities for acquisition and organic growth in Consumer and Business markets.

Digital

Digitalise everything Heartland does

- Continuing to digitalise distribution, processing and marketing.
- Ongoing enhancements to in the Heartland Mobile App.
- Increasing investment in technology to expand digital capability in NZ and Australia.

Strategic focus: The Board has asked management to explore ways of optimising value within Heartland's existing businesses.

Customers and culture

Diversity Works NZ **Diversity Awards finalist** for Cultural Celebration

Heartland Bank became an accredited **Living Wage employer**

50 Māori and Pasifika students participated in the **Manawa Ako internship**

Employed **23 FTE between March-June** to support customers through COVID-19

Heartland Bank awarded **Canstar's 2020 Savings Bank of the Year** for the third year in a row

Direct Call Account and YouChoose awarded **Canstar's 5-Star Rating for Outstanding Value Savings Account**

NZ Reverse Mortgage remains **Consumer Trusted** – for the fourth year in a row

Continuous enhancements to **Heartland Mobile App and websites** to improve user experience

Regulatory update

- Some delays in place for regulatory change timeframes due to COVID-19.

- A significant volume of regulatory change continues, including:
  - proposed Financial Markets (Conduct of Institutions) Amendment Bill (**Conduct Bill**)
  - Phase 2 of the review of the Reserve Bank of New Zealand Act 1989 (**RBNZ Act**).

- NZ Government's various temporary regulatory relief and guidance for businesses and individuals impacted by COVID-19, aided Heartland to support customers during this time.

- Currently working to implement changes resulting from the Privacy Bill 2020 and Financial Services Legislation Amendment Act 2019.

FY2021 outlook

Supporting customers through **digital platforms and products**

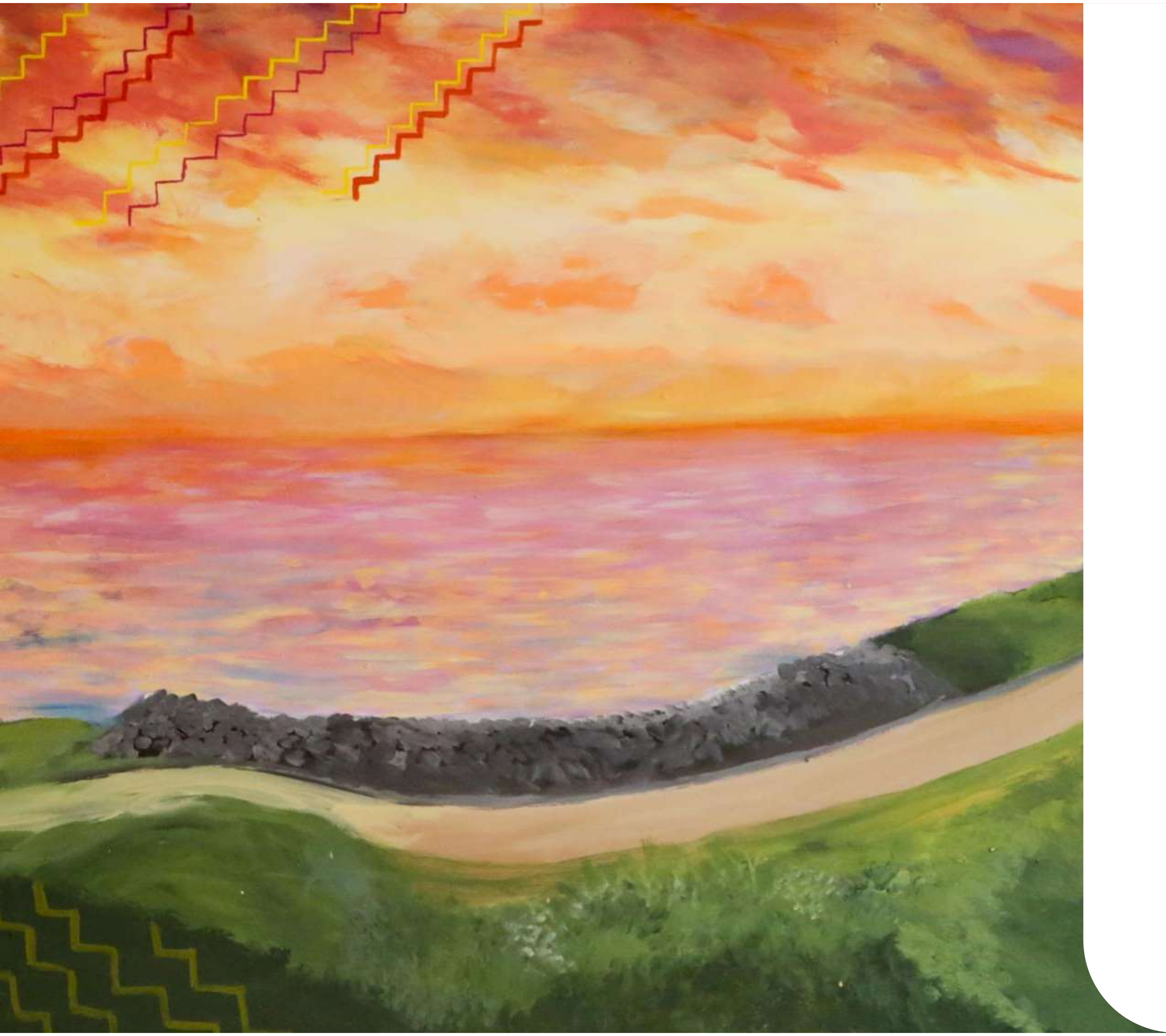
Continued growth in **Motor, Business and Reverse Mortgages**

Reverse Mortgage growth supported by **long-term funding structure**

Further developing and embedding Heartland's **Māori strategy**

Focus on **reducing the environmental impact** of Heartland's operations

NPAT for FY2021 in the range of $83 million to $85 million



Appendices

Appendix – Financial position

$m	30 June 2020	30 June 2019	Movement ($m)	Movement (%)
Liquid Assets	544	417	127	30.5%
Net Finance Receivables	4,584	4,350	234	5.4%
Other Assets	190	162	28	17.2%
TOTAL ASSETS	5,318	4,929	389	7.9%
Retail Deposits	3,264	3,154	111	3.5%
Other Borrowings	1,268	1,058	210	19.9%
Other Liabilities	86	42	44	104.3%
Equity	700	676	24	3.6%
TOTAL EQUITY & LIABILITIES	5,318	4,929	389	7.9%

Appendix – Financial performance

$m	FY2020	FY2019	Change ($)	Change (%)
Net Operating Income[1]	235.3	208.0	27.3	13.2%
Operating Expenses	(106.8)	(85.8)	21.0	24.5%
Impairment Expense	(29.4)	(20.7)	8.7	42.3%
Profit Before Tax	**99.1**	**101.5**	**(2.4)**	**(2.3%)**
Tax Expense	(27.2)	(27.9)	(0.7)	(2.6%)
Net Profit After Tax	**72.0**	**73.6**	**(1.6)**	**(2.2%)**

Net Interest Margin	4.33%	4.33%	- bps
Cost to Income Ratio	45.4%	41.6%	3.8 pp
Return on Equity	10.5%	11.1%	(59 bps)
Earnings per Share	12.5 cps	13.0 cps	(5.0 cps)

1. Includes fair value movements.

Appendix – Reconciliation of Reported with Adjusted Results

$m	FY2020
Reported NPAT	72.0
Add:	
Impact of COVID-19 economic overlay (post-tax)	6.9
Adjusted NPAT	78.9
Weighted average no. of shares (000)	576,929
Reported EPS	12.5
Adjusted EPS	13.7
Reported average equity	685
Adjusted average equity	691
Reported ROE	10.5%
Adjusted ROE	11.4%

$m	FY2020
Reported impairment expense	29.4
Less:	
Covid-19 economic overlay (pre-tax)	(9.6)
Adjusted impairment expense	19.8
Average gross finance receivables	4,527
Reported impairment expense ratio	0.65%
Adjusted impairment expense ratio	0.44%

Appendix – Reconciliation of Reported with Underlying Results

$m	FY2020	FY2019
Reported NOI	235.3	208.0
Less:		
Upfront Reverse Mortgage fees	(2.8)	-
Underlying NOI	232.5	208.0
Reported OPEX	106.8	85.8
Less:		
Upfront Reverse Mortgage costs	(3.3)	-
Corporate restructure costs	-	(3.1)
Underlying OPEX	103.5	82.7
Reported CTI	45.4%	41.6%
Underlying CTI	44.5%	39.9%

Thank you

For Heartland's FY2020 Annual Results announcement, please see shareholders.heartland.co.nz

HEARTLAND

HEARTLAND GROUP

Results announcement

(for Equity Security issuer/Equity and Debt Security issuer)

Updated as at 17 October 2019

Results for announcement to the market		
Name of issuer	Heartland Group Holdings Limited	
Reporting Period	12 months to 30 June 2020	
Previous Reporting Period	12 months to 30 June 2019	
Currency	NZD	
	Amount (000s)	**Percentage change**
Revenue from continuing operations	$235,346	13.2%
Total Revenue	$235,346	13.2%
Net profit/(loss) from continuing operations	$71,972	-2.2%
Total net profit/(loss)	$71,972	-2.2%
Interim/Final Dividend		
Amount per Quoted Equity Security	$0.02500000	
Imputed amount per Quoted Equity Security	$0.00972222	
Record Date	25/09/2020	
Dividend Payment Date	09/10/2020	
	Current period	**Prior comparable period**
Net tangible assets per Quoted Equity Security	$1.05	$1.04
A brief explanation of any of the figures above necessary to enable the figures to be understood	Please refer to the audited financial statements that accompany this announcement for a further explanation of these figures.	
Authority for this announcement		
Name of person authorised to make this announcement	Andrew Dixson, Chief Financial Officer	
Contact person for this announcement	Andrew Dixson, Chief Financial Officer	
Contact phone number	09 927 9274	
Contact email address	Andrew.Dixson@heartland.co.nz	
Date of release through MAP	17/09/2020	

Audited financial statements accompany this announcement.

Financial Statements

HEARTLAND
GROUP

FOR THE 12 MONTHS ENDED 30 JUNE 2020

CONTENTS

Financial Statements

GENERAL INFORMATION

These financial statements are issued by Heartland Group Holdings Limited (**HGH**) and its subsidiaries (the **Group**) for the year ended 30 June 2020.

Name and address for service

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

Details of incorporation

HGH was incorporated in New Zealand under the Companies Act 1993 on 19 July 2018.

AUDITOR

KPMG
KPMG Centre
18 Viaduct Harbour Avenue
Auckland

OTHER MATERIAL MATTERS

There are no material matters relating to the business or affairs of the Group that are not contained elsewhere in these consolidated financial statements which would, if disclosed in these consolidated financial statements, materially affect the decision of a person to subscribe for debt or equity instruments of which the Group is the issuer.

DIRECTORS

All Directors of HGH reside in New Zealand with the exception of Ellen Comerford who resides in Australia. Communications to the Directors can be sent to Heartland Group Holdings Limited, 35 Teed Street, Newmarket, Auckland. At the time of the signing of these consolidated financial statements the Directors of HGH and their details were:

Name: Geoffrey Thomas Ricketts CNZM
Chairman - Board of Directors
Type of Director: Independent Non-Executive Director
Qualifications: LLB (Hons), LLD *(honoris causa),* CFInstD
Occupation: Company Director
External Directorships:

Janmac Capital Limited, Maisemore Enterprises Limited, MCF2 Message4U Limited, MCF 2 Nexus Limited, MCF 7 Limited, MCF 8 Limited, MCF 9 Limited, MCF 10 Limited, MCF2 (Fund 1) Limited, MCF2A General Partner Limited, MCF2 GP Limited, MCF3 GP Limited, MCF3B General Partner Limited, MCF3A General Partner Limited, MCF2 FFF-GK Limited, MCF3 Cook Limited, MCF3 TEG Limited, MCF3 Squiz Limited, MC Medical Properties Limited, Mercury Capital No.1 Fund Limited, Mercury Capital No. 1 Trustee Limited, Mercury Medical Holdings Limited, New Zealand Catholic Education Office Limited, NZCEO Finance Limited, O & E Group Services Limited, Oceania and Eastern Finance Limited, Oceania and Eastern Group Funds Limited, Oceania and Eastern Holdings Limited, Oceania and Eastern Limited, Oceania and Eastern Securities Limited, Oceania North Limited, Oceania Securities Limited, Quartet Equities Limited, The Centre for Independent Studies Limited.

Name: Ellen Frances Comerford
Type of Director: Independent Non-Executive Director
Qualifications: BEc
Occupation: Company Director
External Directorships:

Auscred Limited, Hollard Holdings Australia Pty Limited, The Hollard Insurance Group Pty Limited, Comerford Gohl Holdings Pty Limited.

Name: Sir Christopher Robert Mace KNZM
Type of Director: Independent Non-Executive Director
Qualifications: CMInstD
Occupation: Company Director
External Directorships:

Akitu Equities Limited, Akitu Capital Limited, Akitu Group Company No 1 Limited, Akitu Group Company No 2 Limited, Akitu Group Company No 3 Limited, Akitu Health Services Limited, Akitu Investments Limited, Akitu Investments No 2 Limited, Goldburn Resources Limited, Helicopter Enterprises Limited, Janik Equities Limited, Janmac Capital Limited, J N S Capital Limited, Mace Capital Limited, Mace Construction Limited, Mace Developments Limited, Mace Enterprises Limited, Mace Investments Limited, Maisemore Enterprises Limited, Nuffield Forestry Limited, Oceania and Eastern Finance Limited, Oceania and Eastern Group Funds Limited, Oceania and Eastern Holdings Limited, Oceania and Eastern Limited, Oceania and Eastern Securities Limited, O & E Group Services Limited, Paroa Bay Station Limited, PPT Trustee (NZ) Limited, Quartet Equities Limited, Ryburn Lagoon Trust Limited, St. Just Enterprises Limited, Te Puia Tapapa GP Limited, The Aotearoa Circle.

Name: Gregory Raymond Tomlinson
Type of Director: Non-Independent Non-Executive Director
Qualifications: AME
Occupation: Company Director
External Directorships:

Alta Cable Holdings Limited, Argenta Limited, Chippies Vineyard Limited, Forte Health Group Limited, Forte Health Limited, Impact Capital Limited, Indevin Group Limited, Little Ngakuta Trust Company Limited, Mountbatten Trustee Limited, Nearco Stud Limited, Oceania Healthcare Limited, Pelorus Finance Limited, St Leonards Limited, The Icehouse Limited, Tomlinson Group NZ Limited, Tomlinson Holdings Limited, Tomlinson Group Investments Limited, Tomlinson Ventures Limited.

Name: Jeffrey Kenneth Greenslade
Type of Director: Non-Independent Executive Director
Qualifications: LLB
Occupation: Chief Executive Officer of HGH

External Directorships:
Henley Family Investments Limited.

DIRECTORS' STATEMENTS

The consolidated financial statements are dated 17 September 2020 and have been signed by all the Directors.

G T Ricketts (Chair)

E F Comerford

J K Greenslade

Sir C R Mace

G R Tomlinson

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 30 June 2020

$000's	Note	June 2020	June 2019
Interest income	3	346,802	330,041
Interest expense	3	130,129	135,734
Net interest income		**216,673**	**194,307**
Operating lease income	4	5,946	6,337
Operating lease expense	4	4,063	3,670
Net operating lease income		**1,883**	**2,667**
Lending and credit fee income		10,811	6,642
Other income	5	3,882	2,435
Net operating income		**233,249**	**206,051**
Operating expenses	6	106,794	85,798
Profit before impaired asset expense and income tax		**126,455**	**120,253**
Fair value gain on investment		2,097	1,936
Impaired asset expense	8	29,419	20,676
Profit before income tax		**99,133**	**101,513**
Income tax expense	9	27,161	27,896
Profit for the year		**71,972**	**73,617**
Other comprehensive income			
Items that are or may be reclassified subsequently to profit or loss, net of income tax:			
Effective portion of change in fair value of derivative financial instruments		(2,179)	(4,762)
Movement in fair value reserve		766	2,968
Movement in foreign currency translation reserve		114	(5,281)
Items that will not be reclassified to profit or loss, net of income tax:			
Movement in defined benefit reserve		-	(86)
Other comprehensive (loss) for the year, net of income tax		**(1,299)**	**(7,161)**
Total comprehensive income for the year		**70,673**	**66,456**
Earnings per share			
Basic earnings per share	10	12c	13c
Diluted earnings per share	10	12c	13c

Total comprehensive income for the year is attributable to the owners of the Group.

The notes to the financial statements form an integral part of, and should be read in conjunction with, these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 30 June 2020

		June 2020				June 2019			
$000's	**Note**	**Share Capital**	**Reserves**	**Retained Earnings**	**Total Equity**	**Share Capital**	**Reserves**	**Retained Earnings**	**Total Equity**
Balance at beginning of year		**558,970**	**(4,297)**	**120,995**	**675,668**	**542,315**	**4,585**	**117,260**	**664,160**
NZ IFRS 9 adjustment		-	-	-	-	-	-	(19,283)	(19,283)
NZ IFRS 16 adjustment	1	-	-	(751)	(751)	-	-	-	-
Restated balance at beginning of year		**558,970**	**(4,297)**	**120,244**	**674,917**	**542,315**	**4,585**	**97,977**	**644,877**
Total comprehensive income for the year									
Profit for the year		-	-	71,972	71,972	-	-	73,617	73,617
Other comprehensive (loss), net of income tax		-	(1,299)	-	(1,299)	-	(7,161)	-	(7,161)
Total comprehensive income for the year		**-**	**(1,299)**	**71,972**	**70,673**	**-**	**(7,161)**	**73,617**	**66,456**
Contributions by and distributions to owners									
Dividends paid	16	-	-	(62,993)	(62,993)	-	-	(50,599)	(50,599)
Dividend reinvestment plan	16	16,895	-	-	16,895	14,333	-	-	14,333
Issue of share capital		-	-	-	-	-	-	-	-
Transaction costs associated with capital raising		(28)	-	-	(28)	(18)	-	-	(18)
Share based payments		-	516	-	516	-	619	-	619
Shares vested		420	(420)	-	-	2,340	(2,340)	-	-
Total transactions with owners		**17,287**	**96**	**(62,993)**	**(45,610)**	**16,655**	**(1,721)**	**(50,599)**	**(35,665)**
Balance at the end of the year		**576,257**	**(5,500)**	**129,223**	**699,980**	**558,970**	**(4,297)**	**120,995**	**675,668**

The notes to the financial statements form an integral part of, and should be read in conjunction with, these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2020

$000's	Note	June 2020	June 2019
Assets			
Cash and cash equivalents		147,179	74,496
Investments	11	413,340	354,928
Investment properties		11,132	11,132
Derivative financial instruments	12	17,246	14,491
Finance receivables	13	3,045,195	3,031,128
Finance receivables - reverse mortgages	13	1,538,585	1,318,677
Operating lease vehicles	14	17,603	15,516
Right of use assets	18	18,362	-
Other assets	18	19,558	27,208
Intangible assets	18	72,813	71,924
Deferred tax asset	9	17,123	9,531
Total assets		**5,318,136**	**4,929,031**
Liabilities			
Deposits	15	3,264,192	3,153,681
Other borrowings	15	1,267,931	1,057,568
Tax liabilities		12,303	7,532
Derivative financial instruments	12	17,012	11,147
Lease liabilities	18	20,456	-
Trade and other payables	18	36,262	23,435
Total liabilities		**4,618,156**	**4,253,363**
Equity			
Share capital	16	576,257	558,970
Retained earnings and reserves		123,723	116,698
Total equity		**699,980**	**675,668**
Total equity and liabilities		**5,318,136**	**4,929,031**

Total interest earning and discount bearing assets		5,114,348	4,757,615
Total interest and discount bearing liabilities		4,518,174	4,199,564

The notes to the financial statements form an integral part of, and should be read in conjunction with, these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 30 June 2020

$000's	Note	June 2020	June 2019
Cash flows from operating activities			
Interest received		258,665	249,193
Operating lease income received		5,934	5,392
Lending, credit fees and other income received		16,037	7,284
Operating inflows		**280,636**	**261,869**
Interest paid		117,313	143,252
Payments to suppliers and employees		82,874	87,528
Taxation paid		24,619	25,895
Operating outflows		**224,806**	**256,675**
Net cash flows from operating activities before changes in operating assets and liabilities		**55,830**	**5,194**
Proceeds from sale of operating lease vehicles		4,969	4,959
Purchase of operating lease vehicles		(9,938)	(5,496)
Net movement in finance receivables		(171,617)	(329,378)
Net movement in deposits		110,993	270,232
Net cash flows (applied to) operating activities		**(9,763)**	**(54,489)**
Cash flows from investing activities			
Sale of property, plant and equipment and intangible assets		118	-
Total cash provided from investing activities		**118**	**-**
Purchase of property, plant and equipment and intangible assets		6,739	4,514
Net increase in investments		55,549	11,226
Total cash applied to investing activities		**62,288**	**15,740**
Net cash flows (applied to) investing activities		**(62,170)**	**(15,740)**
Cash flows from financing activities			
Net increase / (decrease) in wholesale funding		85,795	(14,580)
Proceeds from issue of Unsubordinated Notes		106,952	177,247
Total cash provided from financing activities		**192,747**	**162,667**
Dividends paid	16	46,098	36,266
Repayments of subordinated notes		-	26,206
Payment of lease liabilities		2,005	-
Transaction costs associated with capital raising		28	18
Total cash applied to financing activities		**48,131**	**62,490**
Net cash flows from financing activities		**144,616**	**100,177**
Net increase in cash held		**72,683**	**29,948**
Opening cash and cash equivalents		74,496	44,548
Closing cash and cash equivalents		**147,179**	**74,496**

The notes to the financial statements form an integral part of, and should be read in conjunction with, these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 30 June 2020

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

$000's	Note	June 2020	June 2019
Profit for the year		**71,972**	**73,617**
Add / (less) non-cash items:			
Depreciation and amortisation expense		9,161	5,760
Depreciation on lease vehicles	14	3,634	3,363
Capitalised net interest income and fee income		(77,429)	(81,325)
Impaired asset expense	8	29,419	20,676
Investment fair value movement		(2,097)	(1,936)
Other non-cash items		2,488	1,750
Total non-cash items		**(34,824)**	**(51,712)**
Add / (less) movements in operating assets and liabilities:			
Finance receivables		(171,617)	(329,378)
Operating lease vehicles		(4,969)	(537)
Other assets		9,528	(5,599)
Current tax		4,771	(3,927)
Derivative financial instruments		931	(8,231)
Deferred tax		(7,592)	(4,212)
Deposits		110,993	270,232
Other liabilities		11,044	5,258
Total movements in operating assets and liabilities		**(46,911)**	**(76,394)**
Net cash flows applied to operating activities		**(9,763)**	**(54,489)**

The notes to the financial statements form an integral part of, and should be read in conjunction with, these consolidated financial statements.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2020

1 Financial statements preparation

Reporting entity

The financial statements presented are the consolidated financial statements comprising Heartland Group Holdings Limited (**HGH**) and its subsidiaries (the **Group**). Refer Note 25 – Significant subsidiaries for further details.

As at 30 June 2020, HGH is a company incorporated in New Zealand under the Companies Act 1993 and a Financial Market Conduct (**FMC**) reporting entity for the purposes of the Financial Markets Conduct Act 2013.

Basis of preparation

The financial statements have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand (**NZ GAAP**) and the NZX Main Board Listing Rules and the ASX Listing Rules. The financial statements comply with New Zealand equivalents to International Financial Reporting Standards (**NZ IFRS**) and other applicable Financial Reporting Standards as appropriate for profit-oriented entities. The financial statements also comply with International Financial Reporting Standards (**IFRS**) as issued by the International Accounting Standards Board.

The financial statements are presented in New Zealand dollars which is the Group's functional and presentation currency. Unless otherwise indicated, amounts are rounded to the nearest thousand dollars.

The financial statements have been prepared on a going concern basis after considering the Group's funding and liquidity position.

The accounting policies adopted have been applied consistently throughout the periods presented in these financial statements.

Certain comparative balances have been reclassified to align with the presentation used in the current financial year. These reclassifications have no impact on the overall financial performance or financial position for the comparative year.

Basis of measurement

The financial statements have been prepared on the basis of historical cost, except for certain financial instruments and investment property, which are measured at their fair values as identified in the accounting policies set out in the accompanying notes to the financial statements.

Principles of consolidation

The consolidated financial statements of the Group incorporate the assets, liabilities and results of all controlled entities. Controlled entities are all entities in which the Group is exposed to, or has rights to, variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Intercompany transactions, balances and any unrealised income and expense (except for foreign currency translation gains or losses) between controlled entities are eliminated.

Assets and liabilities in a transactional currency that is not the New Zealand dollar, are translated at the exchange rates ruling at balance date. Revenue and expense items are translated at the spot rate at the transaction date. Exchange differences are taken to the consolidated statement of comprehensive income.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2020

1 Financial statements preparation (continued)

Changes in accounting standards

Impact of adopting NZ IFRS 16 Leases

The Group has adopted NZ IFRS 16 retrospectively from 1 July 2019, but has not restated comparatives for the 2019 reporting period, as permitted under the specific transitional provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on 1 July 2019.

The Group leases office space, car parks, equipment and cars. Rental contracts are typically made for fixed periods but may have extension options. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions.

Until 30 June 2019, leases of property, plant and equipment were classified as either finance or operating leases. Payments made under operating leases (net of any incentives received from the lessor) were charged to profit or loss.

From 1 July 2019, leases are recognised as a right-of-use asset and a corresponding lease liability at the date at which the leased asset is available for use by the Group. The right-of-use assets are initially measured at cost, comprising the amount of the initial measurement of the lease liability, any lease payments made at or before the commencement date less any lease incentives received, any initial direct costs and restoration costs. The right-of-use asset is depreciated over the shorter of the asset's estimated useful life and the lease term on a straight-line basis. The estimated useful life of right-of-use assets are determined on the same basis as those of property, plant and equipment.

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option. Extension options are only included in the lease term if the lease is reasonably certain to be extended.

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less.

On adoption of NZ IFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of NZ IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the Group's incremental borrowing rate as at 1 July 2019. The weighted average Group's incremental borrowing rate applied to the lease liabilities on 1 July 2019 was 2.9%.

The Group elected not to reassess whether a contract is, or contains, a lease at the date of initial application. Instead, for contracts entered into before the transition date, the Group relied on its assessment made applying NZ IAS 17 and NZ IFRIC 4 Determining whether an Arrangement contains a Lease.

$000's	
Operating lease commitments as at 30 June 2019	**12,497**
Discounted using the Group's incremental borrowing rate on initial application	(1,060)
Adjustments relating to changes in the index or rate effective variable payments	316
Lease liability recognised as at 1 July 2019	**11,753**
Of which are:	
Current lease liabilities	1,947
Non-current lease liabilities	9,806
Total lease liabilities	**11,753**

1 Financial statements preparation (continued)

The associated right-of-use assets which are predominantly property leases were measured on a retrospective basis as if the new rules had always been applied. There were no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application.

The change in accounting policy affected the following items in the consolidated statement of financial position as at 1 July 2019.

- Right-of-use assets: increased by $10.7 million
- Deferred tax assets: increased by $0.3 million
- Lease liabilities: increased by $11.8 million

The net impact on retained earnings on 1 July 2019 was a decrease of $0.8 million.

The adoption of NZ IFRS 16 has no material impact to the Group's leasing business where the Group acts as the lessor.

There have been no other changes to accounting policies or new or amended standards that are issued and effective that are expected to have a material impact on the Group.

Accounting standards issued but not yet effective

NZ IFRS 17 Insurance Contracts was issued in July 2017 and is applicable to general and life insurance contracts. NZ IFRS 17 will replace NZ IFRS 4 Insurance Contracts. In March 2020, the effective date of NZ IFRS 17 was deferred by one year. As such it is expected that the standard will be effective for the Group's reporting for the financial year ending 30 June 2024, including 30 June 2023 comparatives.

The Group conducts insurance business through its subsidiary MARAC Insurance Limited (**MIL**). MIL has entered into a distribution agreement with DPL Insurance Limited (**DPL**) to distribute DPL's insurance products through its network and has stopped writing insurance policies in February 2020. The Group will assess the impact arising from NZ IFRS 17 in conjunction with this new arrangement.

Other amendments to existing standards that are not yet effective are not expected to have a material impact on the Group.

Estimates and judgements

The preparation of the Group's consolidated financial statements requires the use of estimates and judgements. This note provides an overview of the areas that involve a higher degree of judgement or complexity. Detailed information about each of these estimates and judgements is included in the relevant notes together with the basis of calculation for each affected item in the financial statements.

- Provisions for impairment - The effect of credit risk is quantified based on the Group's best estimate of future cash repayments and proceeds from any security held or by reference to risk profile groupings, historical loss data and forward-looking information. Refer to Note 8 - Impaired asset expense, and Note 13 - Finance receivables for further details.
- Fair value of reverse mortgages - Fair value is quantified by the transaction price and the Group's subsequent best estimate of the risk profile of the reverse mortgage portfolio. Refer to Note 20 - Fair value for further details.
- Goodwill - Determining the fair value of assets and liabilities of acquired businesses requires the Group to exercise judgement. The carrying value of goodwill is tested annually for impairment, refer to Note 18 - Other balance sheet items.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2020

1 Financial statements preparation (continued)

Assumptions made at each reporting date (e.g. the calculation of the provision for impairment and fair value adjustments) are based on best estimates as at that date. Although the Group has internal controls in place to ensure that estimates can be reliably measured, actual amounts may differ from these estimates. The estimates and judgements used in the preparation of the Group's financial statements are continually evaluated. They are based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity. Revisions to accounting estimates are recognised in the reporting period in which the estimates are revised and in any future periods affected.

COVID-19 Pandemic - Impact on Estimates and Judgements

On 11 March 2020, COVID-19 was declared a pandemic by the World Health Organisation. The domestic economy has been significantly disrupted by measures put in place to limit the impact of the spread of COVID-19 among the community, and also by the downstream effects of the deterioration that COVID-19 has caused in the global economy. Countermeasures implemented by Government (including the Government's support and fiscal programmes) and the Reserve Bank of New Zealand have assisted to mitigate the impact of those measures – however, the unprecedented nature of the current environment and the number of variables which impact on that environment means that significant uncertainty around future economic conditions remains.

The Group has responded to the pandemic by working with its customers to understand their needs and provide them with the financial support that best meets their requirements. To date, that support has included participating in industry wide measures (such as the mortgage deferrals programme and the provision of liquidity under the Business Finance Guarantee Scheme (**BFGS**) program), and implementing other measures such as temporary payment reduction or payment deferral arrangements for both business and consumer customers. The Group has also developed a product, Heartland Extend, which provides customers with flexible payment options.

The accounting judgement that is most impacted by the pandemic relates to expected credit losses (**ECL**) on finance receivables at amortised cost. The Group's accounting policy for the recognition and measurement of the allowance for ECL is described in Note 8 Impaired asset expense. The Group measures the allowance for ECL using an expected credit loss impairment model in compliance with NZ IFRS 9 Financial Instruments.

The impact of the pandemic has also been considered where there is significant use of forward-looking estimates and judgement, primarily when identifying impairment indicators for goodwill and intangible assets and calculating the recoverable amount.

The impact of the COVID-19 pandemic on each of these estimates and judgements is discussed further in the following notes to the consolidated financial statements:

- Note 8 - Impaired asset expense
- Note 13 - Finance receivables
- Note 18 - Other balance sheet items - Goodwill
- Note 20 - Fair value

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2020

1 Financial statements preparation (continued)

Financial assets and liabilities

Financial Assets

Financial assets are classified based on:

- The business model within which the assets are managed; and
- Whether the contractual cash flows of the instrument represent solely payment of principal and interest (**SPPI**).

The Group determines the business model at the level that reflects how groups of financial assets are managed. When assessing the business model, the Group considers factors including how performance and risks are managed, evaluated and reported and the frequency and volume of, and reason for sales in previous periods.

Financial assets are classified into the following measurement categories:

Financial Assets	**Measurement Category**	**Note**
Bank bonds and floating rate notes	Fair value through other comprehensive income (**FVOCI**)	11
Public sector securities and corporate bonds	FVOCI	11
Local authority stock	FVOCI	11
Equity investments	Fair value through profit or loss (**FVTPL**)	11
Finance receivables – reverse mortgages	FVTPL	13
Finance receivables	Amortised cost	13

Financial assets measured at amortised cost
Financial assets are measured at amortised cost if they are held within a business model whose objective is achieved through holding the financial asset to collect contractual cash flows which represent SPPI on the principal balance.

Financial assets at amortised cost are initially recognised at fair value and subsequently measured at amortised cost using the effective interest rate method.

Financial assets measured at FVOCI
Financial assets are measured at FVOCI if they are held within a business model whose objective is achieved both through collecting contractual cash flows which represent SPPI on the principal balance or selling the financial asset.

Financial assets at FVOCI are measured at fair value with unrealised gains and losses recognised in other comprehensive income except for interest income, impairment charges and foreign exchange gains and losses, which are recognised in profit or loss.

1 Financial statements preparation (continued)

Financial assets measured at FVTPL
Financial assets are measured at FVTPL if:

- They are held within a business model whose objective is achieved through selling or repurchasing the financial asset in the near term, or forms part of a portfolio of financial instruments that are managed together and for which there is evidence of short-term profit taking; or
- They are designated at FVTPL upon initial recognition to eliminate or reduce an accounting mismatch.

Financial assets at FVTPL are measured at fair value with subsequent changes in fair value recognised in profit or loss.

Financial Liabilities

Financial liabilities are classified into the following measurement categories:

- Those to be measured at amortised cost;
- Those to be measured at FVTPL.

Financial liabilities measured at amortised cost
Financial liabilities are measured at amortised cost if they are not held for trading or designated at FVTPL.

Financial liabilities measured at amortised cost are accounted for using the effective interest rate method.

Financial liabilities measured at FVTPL
Financial liabilities are measured at FVTPL if:

- They are held for trading whose principal objective is achieved through selling or repurchasing the financial liability in the near term, or forms part of a portfolio of financial instruments that are managed together and for which there is evidence of short-term profit taking; or
- They are designated at FVTPL upon initial recognition to eliminate or reduce an accounting mismatch.

Financial liabilities at FVTPL are measured at fair value with subsequent changes in fair value recognised in profit or loss.

Further details of the accounting policy for each category of financial asset or financial liability mentioned above is set out in the note for the relevant item.

The Group's policies for determining the fair value of financial assets and financial liabilities are set out in Note 20 - Fair value.

Recognition

The Group initially recognises finance receivables and borrowings on the date that they are originated. All other financial assets and liabilities (including assets and liabilities designated at FVTPL) are initially recognised on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2020

1 Financial statements preparation (continued)

Derecognition

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognised as a separate asset.

The Group enters into transactions whereby it transfers assets recognised on its consolidated statement of financial position, but retains either all risks or rewards of the transferred assets or a portion of them. If all or substantially all risks and rewards are retained, then the transferred assets are not derecognised from the consolidated statement of financial position. Transfers of assets with the retention of all or substantially all risks and rewards include, for example, securitised assets and repurchase transactions.

Financial liabilities are derecognised when the obligation is discharged, cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, the exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, with the difference in the respective carrying amounts recognised in profit or loss.

Offsetting financial instruments

The Group offsets financial assets and financial liabilities and reports the net balance in the balance sheet where there is currently a legally enforceable right to set off and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

Performance

2 Segmental analysis

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

Operating segments

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

Motor	Motor vehicle finance.
Reverse mortgages	Reverse mortgage lending within New Zealand.
Other personal	A comprehensive range of financial services - including term, transactional and personal loans to individuals.
Business	Term debt, plant and equipment finance, commercial mortgage lending and working capital solutions for small-to-medium sized businesses.
Rural	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	Reverse mortgage lending and other financial services within Australia.

Certain operating expenses, such as premises, IT and support centre costs are not allocated to operating segments and are included in Other. Liabilities are managed centrally and therefore are not allocated across the operating segments.

The Group's operating segments are different from the industry categories detailed in Note 22 - Credit risk exposure. The operating segments are primarily categorised by sales channel, whereas Note 22 - Credit risk exposure categorises exposures based on credit risk concentrations.

$000's	Motor	Reverse Mortgages	Other Personal	Business	Rural	Australia	Other	Total
June 2020								
Net interest income	56,957	20,118	18,365	57,950	29,674	30,127	3,482	216,673
Net other income	3,622	3,430	3,055	3,465	1,028	4,214	(2,238)	16,576
Net operating income	**60,579**	**23,548**	**21,420**	**61,415**	**30,702**	**34,341**	**1,244**	**233,249**
Operating expenses	3,248	4,804	6,776	11,283	2,648	11,680	66,355	106,794
Profit / (loss) before impaired asset expense and income tax	**57,331**	**18,744**	**14,644**	**50,132**	**28,054**	**22,661**	**(65,111)**	**126,455**
Fair value gain on investment	-	-	-	-	-	-	2,097	2,097
Impaired asset expense/(benefit)	10,160	-	11,119	10,110	(1,970)	-	-	29,419
Profit / (loss) before income tax from continuing operations	**47,171**	**18,744**	**3,525**	**40,022**	**30,024**	**22,661**	**(63,014)**	**99,133**
Income tax expense	-	-	-	-	-	-	27,161	27,161
Profit / (loss) for the year	**47,171**	**18,744**	**3,525**	**40,022**	**30,024**	**22,661**	**(90,175)**	**71,972**
Total assets	1,125,295	559,934	214,759	1,126,632	604,938	979,496	707,082	**5,318,136**
Total liabilities								**4,618,156**

2 Segmental analysis (continued)

$000's	Motor	Reverse Mortgages	Other Personal	Business	Rural	Australia	Other	Total
June 2019								
Net interest income	54,695	20,674	14,564	52,857	30,393	22,265	(1,141)	194,307
Net other income	2,578	224	4,344	2,989	1,288	477	(156)	11,744
Net operating income	**57,273**	**20,898**	**18,908**	**55,846**	**31,681**	**22,742**	**(1,297)**	**206,051**
Operating expenses	2,750	2,279	5,602	9,156	3,263	5,122	57,626	85,798
Profit / (loss) before impaired asset expense and income tax	**54,523**	**18,619**	**13,306**	**46,690**	**28,418**	**17,620**	**(58,923)**	**120,253**
Fair value gain on investment	-	-	-	-	-	-	1,936	1,936
Impaired asset expense/(benefit)	5,277	-	8,429	7,102	(132)	-	-	20,676
Profit / (loss) before income tax from continuing operations	**49,246**	**18,619**	**4,877**	**39,588**	**28,550**	**17,620**	**(56,987)**	**101,513**
Income tax expense	-	-	-	-	-	-	27,896	27,896
Profit / (loss) for the year	**49,246**	**18,619**	**4,877**	**39,588**	**28,550**	**17,620**	**(84,883)**	**73,617**
Total assets	1,089,769	510,299	220,500	1,096,773	650,751	808,733	552,206	**4,929,031**
Total liabilities								**4,253,363**

3 Net interest income

Policy

Interest income and expense on financial instruments is measured using the effective interest rate method that discounts the financial instruments' future cash flows to their present value and allocates the interest income or expense over the life of the financial instrument. The effective interest rate is established on initial recognition of the financial assets or liabilities and is not subsequently revised. For financial instruments at amortised cost, the calculation of the effective interest rate includes all yield related fees and commissions paid or received that are an integral part of the underlying financial instrument.

$000's	June 2020	June 2019
Interest income		
Cash and cash equivalents	499	717
Investments	8,496	9,733
Finance receivables	250,606	239,624
Finance receivables - reverse mortgages	87,201	79,967
Total interest income	**346,802**	**330,041**
Interest expense		
Retail deposits	90,739	96,476
Other borrowings	35,888	37,415
Net interest expense on derivative financial instruments	3,502	1,843
Total interest expense	**130,129**	**135,734**
Net interest income	**216,673**	**194,307**

4 Net operating lease income

Policy

As a lessor, the Group retains substantially all the risks and rewards of ownership of an asset are classified as operating leases. Rental income and expense from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term. Profits on the sale of operating lease assets are included as part of operating lease income. Current year depreciation and losses on the sale of operating lease assets are included as part of operating lease expenses. The leased assets are depreciated over their useful lives on a basis consistent with similar assets.

$000's	**June 2020**	**June 2019**
Operating lease income		
Lease income	5,194	5,518
Gain on disposal of lease assets	752	819
Total operating lease income	**5,946**	**6,337**
Operating lease expense		
Depreciation on lease assets	3,634	3,363
Direct lease costs	429	307
Total operating lease expense	**4,063**	**3,670**
Net operating lease income	**1,883**	**2,667**

5 Other income

Policy

Rental income from investment property

Rental income from investment properties is recognised on a straight-line basis over the term of the relevant lease.

Insurance income

Insurance premium income and commission expense are recognised in profit or loss from the date of attachment of the risk over the period of the insurance contract. Claim expense is recognised in the profit or loss on an accrual basis once our liability to the policyholder has been confirmed under the terms of the contract.

$000's	**June 2020**	**June 2019**
Rental income from investment properties	1,125	731
Insurance income	1,610	2,537
Gain on sale of investments	-	173
Other income/(loss)	774	(408)
FX gain/(loss)	373	(598)
Total other income	**3,882**	**2,435**

6 Operating expenses

Policy
Operating expenses are recognised as the underlying service is rendered or over a period in which an asset is consumed or a liability is incurred.

$000's	June 2020	June 2019
Personnel expenses	54,511	47,222
Directors' fees	1,059	1,099
Superannuation	1,069	1,081
Depreciation - property, plant and equipment	2,380	1,867
Operating lease expense as a lessee	-	1,807
Legal and professional fees	3,615	3,129
Advertising and public relations	6,729	3,354
Depreciation - right of use asset	2,324	-
Technology services	6,372	5,721
Telecommunications, stationary and postage	1,886	1,883
Customer acquisition costs	7,419	1,227
Amortisation of intangible assets	4,456	3,893
Other operating expenses[1]	14,974	13,515
Total operating expenses	**106,794**	**85,798**

[1]Other operating expenses include compensation of auditor which is disclosed in Note 7.

7 Compensation of auditor

$000's	June 2020	June 2019
Audit and review of the financial statements[1]	774	614
Other assurance services paid to auditor[2]	133	52
Total compensation of auditor	**907**	**666**

[1] Audit and review of the financial statements includes fees paid for both the audit of the annual financial statements and the review of the interim financial statements.
[2] Other assurance services paid to the auditor comprise regulatory assurance services, agreed upon procedures engagements and supervisor reporting.

8 Impaired asset expense

Policy

Impairment of finance receivables

At each reporting date, the Group applies a three stage approach to measuring ECL to finance receivables not carried at fair value. The ECL model assesses whether there has been a significant increase in credit risk since initial recognition.

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 required, based on events that are possible in the next 12 months.

Assets may migrate through the following stages based on their change in credit quality:

Stage 1 - 12 months ECL (past due 30 days or less)

Where there has been no evidence of increased credit risk since initial recognition, and are not credit impaired upon origination, the portion of the lifetime ECL associated with the probability of default events occurring within the next 12 months is recognised.

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

Where there has been a significant increase in credit risk.

Stage 3 - Lifetime ECL credit impaired (90 days past due or more)

Objective evidence of impairment, so are considered to be in default or otherwise credit impaired.

In determining whether credit risk has increased all available information relevant to the assessment of economic conditions at the reporting date are taken into consideration. To do this the Group considers its historical loss experience and adjusts this for current observable data. In addition to this the Group uses reasonable and supportable forecasts of future economic conditions including experienced judgement to estimate the amount of an expected impairment loss. Future economic conditions consider macroeconomic factors such as unemployment, interest rate, gross domestic product, and inflation, and requires an evaluation of both the current and forecast direction of the economic cycle. The methodology and assumptions including any forecasts of future economic conditions are reviewed regularly as incorporating forward-looking information increases the level of judgement as to how changes in these macroeconomic factors will affect the ECL.

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

$000's	**June 2020**	**June 2019**
Non-securitised		
Individually impaired asset expense	3,385	1,311
Collectively impaired asset expense	25,637	19,024
Total non-securitised impaired asset expense	**29,022**	**20,335**
Securitised		
Collectively impaired asset expense	397	341
Total securitised impaired asset expense	**397**	**341**
Total		
Individually impaired asset expense	3,385	1,311
Collectively impaired asset expense	26,034	19,365
Total impaired asset expense	**29,419**	**20,676**

8 Impaired asset expense (continued)

The Group has followed industry and regulatory guidance when assessing individual customers, or portfolios of assets, to determine if a significant increase in credit risk (**SICR**) has occurred. The industry guidance provides that any payment deferral or similar allowance provided to customers as a result of the impact of COVID-19 would not automatically result in a SICR. Accordingly, customers who received assistance through the pandemic as a result of a payment reduction, deferral arrangement, or through the Heartland Extend product, have not been assessed as being subject to a SICR.

However, as a result (and when considered in conjunction with the measures put in place to limit the impact of the spread of COVID-19 among the community), the traditional indicators of increased credit risk may not provide an accurate measure of the credit quality of the Group's assets.

The Group's models for estimating expected credit losses for each of its portfolios are based on the historic credit experience of those portfolios. The models assume that economic conditions (such as GDP growth, unemployment rates, and house price index forecasts) remain static over time. If the Group forecasts that economic conditions will not remain static in the foreseeable future, the Group applies judgment to determine whether the modelled output should be subject to an economic overlay. This follows analysis of historic data and performance which has established no clear correlation between key economic indicators and the credit performance of the Group's unique portfolios, meaning the approach is an inherently judgmental exercise.

In the current scenario, the pandemic has caused a deterioration in economic conditions. The Group has therefore applied judgement to estimate whether the modelled output should be subject to an economic overlay. In exercising that judgement, it was assumed that the Group's "base case" economic forecast would prevail. That base case forecast scenario is for:

- A steep initial adverse movement (at close to -20%) in gross domestic product to 30 June 2020 but with a relatively quick, full recovery by June 2022;
- Unemployment to peak at 8.2% (June 2021) and then to largely recover over the following 2.5 years; but
- House prices falling 6.6% to March 2021, with a full recovery to June 2021.

That base case also assumes:

- There are no further significant periods of lockdown in or across any part of NZ as at the date of approval of the Group's financial statements for the year ended 30 June 2020.
- Heartland Extend, through providing customers with time (with economic conditions improving over time) would be successful in supporting the Group's consumer and business customers who need that assistance.
- The recently amended BFGS would be successful in supporting the Group's business customers who need that assistance.
- Second hand car prices would remain stable.
- The price for exported primary produce would not materially fall.

Using those assumptions, and taking Management's experience and deep understanding of the Group's customers (following the customer contact programmes implemented by the Group during, and after, COVID-19), the Group recognised that there is downside risk (including in the event that any of the underlying assumptions transpire to be incorrect) and, as a result, the Group's expected credit losses could be understated.

It is stressed that there is considerable uncertainty in these judgements. As noted by the New Zealand Treasury:

"The magnitude and duration of the downturn and the subsequent pace of the recovery depends on many unknown factors, including the course of the virus, how long activity restrictions are in place, how quickly the global economy will recover, how behaviours and production might change, and how successful government policies will be in supporting households and firms."

8 Impaired asset expense (continued)

To reflect that inherent risk, the Group employed three methodologies to ascertain a range of potential expected credit losses on each of its portfolios:

1. First, the Group has calculated a “Stage 2” lifetime expected loss provision as applied to the most affected parts of its portfolio.

   This methodology neutralises the concern that the Group’s assistance measures (when considered in conjunction with the measures put in place to limit the impact of the spread of COVID-19 among the community), may have masked traditional indicators of increased credit risk, by demonstrating how much provisions would increase by if all customers receiving assistance were treated as posing increased credit risk for the Group.
2. Secondly, the Group used the loss rates experienced on its Motor portfolio during the Global Financial Crisis of 2008, applied them to its current Motor portfolio, and extrapolated the proportionate increase in provisions to its other affected portfolios.
3. Lastly, the Group engaged a consultant to analyse historic correlations between certain industry default levels and macroeconomic indicators. This correlation was then applied to the Group’s base case forecast scenario economic outlook, to determine the degree to which (based on that historic correlation, and the base case forecast scenario) the Group’s customers may be likely to default in the base case forecast scenario economic overlay. That increased chance of default was then used to calculate an increase in provisions in affected portfolios.

Each of those methodologies have limitations. However, they did provide the Group with a range of “downside” potential credit losses for each portfolio. Across the three methodologies and portfolios, the range of possible outcomes was between $4.1 million and $11.8 million. Judgement was applied (taking into account the ranges provided by those methodologies, and all other relevant factors) in order to calculate an economic overlay across each affected portfolio. As a result a pre-tax overlay of $9.6 million was applied as outlined in Note 13 - Finance receivables.

9 Taxation

Policy

Income tax

Income tax expense for the year comprises current tax and movements in deferred tax balances, including any adjustment required for prior years' tax expense. Income tax expense is recognised in profit and loss except to the extent that it relates to items recognised directly in other comprehensive income, in which case it is recognised in equity or other comprehensive income.

Current tax

Current tax is the expected tax payable or receivable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to the tax payable or receivable in respect of previous years. Current tax for current and prior years is recognised as a liability (or asset) to the extent that it is unpaid (or refundable).

Deferred tax

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for accounting purposes and the amounts used for taxation purposes. As required by NZ IAS 12 Income Taxes, a deferred tax asset is recognised only to the extent that it is probable that a future taxable profit will be available to realise the asset.

Goods and services tax (GST)

Revenues, expenses and assets are recognised net of GST. As the Group is predominantly involved in providing financial services, only a proportion of GST paid on inputs is recoverable. The non-recoverable proportion of GST is treated as an expense or, if relevant, as part of the cost of acquisition of an asset.

9 Taxation (continued)

Income tax expense

$000's	June 2020	June 2019
Income tax recognised in profit or loss		
Current tax		
Current year	30,868	25,181
Adjustments for prior year	1,834	(1,989)
Tax other rates	335	277
Deferred tax		
Current year	(3,568)	3,306
Adjustments for prior year	(2,289)	1,067
Tax other rates	(19)	54
Total income tax expense recognised in profit or loss	**27,161**	**27,896**
Income tax recognised in other comprehensive income		
Current tax		
Derivatives at fair value reserve	768	(82)
Fair value movements of cash flow hedge	(1,477)	-
Deferred tax		
Defined benefit plan	-	(34)
Fair value movements of cash flow hedges	-	(238)
Total income tax expense recognised in other comprehensive income	**(709)**	**(354)**

$000's	June 2020	June 2019
Profit before income tax	**99,133**	**101,513**
Reconciliation of effective tax rate		
Tax at New Zealand income tax rate of 28%	27,757	28,424
Higher tax rate for overseas jurisdiction	316	331
Adjusted tax effect of items not taxable/deductible	(457)	63
Adjustments for prior year	(455)	(922)
Total income tax expense	**27,161**	**27,896**

9 Taxation (continued)

Deferred tax assets comprise the following temporary differences:

$000's	June 2020	June 2019
Employee expenses	1,942	1,286
Share based payment	692	-
Provision for impairment	17,739	14,574
Investment properties	-	4
Intangibles and property, plant and equipment	(4,576)	(4,182)
Deferred acquisition costs	(936)	(1,321)
Operating lease vehicles	731	(800)
Other temporary differences	1,531	(30)
Total deferred tax assets	**17,123**	**9,531**
Opening balance of deferred tax assets	**9,531**	**5,319**
Movement recognised in profit or loss	7,336	(4,537)
Movement recognised in other comprehensive income	-	(272)
Transfer on demerger	-	777
Movement recognised in retained earnings	256	8,244
Closing balance of deferred tax assets	**17,123**	**9,531**

Imputation credit account

$000's	June 2020	June 2019
Imputation credit account	5,676	9,116

10 Earnings per share

	June 2020			June 2019		
	Earnings Per Share Cents	Net Profit After Tax $000's	Weighted Average No. of Shares 000's	Earnings Per Share Cents	Net Profit After Tax $000's	Weighted Average No. of Shares 000's
Basic earnings	12	71,972	576,929	13	73,617	563,364
Diluted earnings	12	71,972	576,929	13	73,617	563,364

Financial Position

11 Investments

Policy
Investments are classified into one of the following categories:

Fair value through profit or loss
Investments under this category include equity investments and are measured at fair value plus transaction costs. Changes in fair value of these investments are recognised in profit or loss in the period in which they occur.

Fair value through other comprehensive income
Investments under this category include bank bonds, floating rate notes, local authority stock, public securities and corporate bonds. These are initially measured at fair value, including transaction costs, and subsequently carried at fair value. Changes in fair value of these investments are recognised in other comprehensive income and presented within the fair value reserve.

Amortised cost
Investments under this category include bank deposits and are measured using effective interest rate method. They are held to collect contractual cash flows that are solely payments of principal and interest on the principal amount outstanding.

$000's	June 2020	June 2019
Bank deposits, bank bonds and floating rate notes	366,289	246,724
Public sector securities and corporate bonds	30,716	82,370
Local authority stock	-	13,399
Equity investments	16,335	12,435
Total investments	**413,340**	**354,928**

Refer to Note 20 - Fair value for details of the split between investments measured at fair value through profit or loss, fair value through other comprehensive income and amortised cost.

12 Derivative financial instruments

Policy
Derivative financial instruments are contracts whose value is derived from changes in one or more underlying financial instruments or indices. They include forward contracts, swaps, options and combinations of these instruments.

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently measured at their fair value at each reporting date. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

Fair values are obtained from quoted market prices in active markets, including recent market transactions, and valuation techniques, including discounted cash flow models and options pricing models, as appropriate. Fair values include adjustment for counterparty credit risk. The method of recognising the resulting fair value gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. A hedge instrument is a designated derivative, the changes in fair values or cash flows of which are expected to offset changes in the fair value of cash flows of the designated hedged item.

A hedged item is an asset, liability, firm commitment or highly probable forecast transaction that exposes the Group to risk of changes in fair value or cash flows, and that is designated as being hedged. The Group applies fair value hedge accounting to hedge movements in the value of fixed interest rate assets and liabilities subject to interest rate risk. The Group applies cash flow hedge accounting to hedge the variability in highly probable forecast future cash flows attributable to interest rate risk on variable rate assets and liabilities.

12 Derivative financial instruments (continued)

Fair value hedge accounting

The criteria that must be met for a relationship to qualify for hedge accounting include:

- the hedging relationship must be formally designated and documented at inception of the hedge,
- effectiveness testing must be carried out on an on-going basis to ensure the hedge is effective, consistent with the originally documented risk management strategy, and
- the instruments or counterparty must be a third party external to the Group.

The Group documents, at the inception of the transaction, the relationship between hedged items and hedging instruments, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair value of hedged items.

Subsequent to initial designation, changes in the fair value of derivatives that are designated and qualify for fair value hedge accounting are recorded in the consolidated statement of comprehensive income together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. The movement in fair value of the hedged item attributable to the hedged risk is made as an adjustment to the carrying value of the hedged asset or liability.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, the adjustment to carrying amount of a hedged item is amortised to the consolidated statement of comprehensive income on an effective yield basis over the remaining period to maturity of the hedged item. Where the hedged item is derecognised from the balance sheet, the adjustment to the carrying amount of the asset or liability is immediately transferred to the consolidated statement of comprehensive income.

Cash flow hedge accounting

The criteria that must be met for a relationship to qualify for hedge accounting include:

- the hedging relationship must be formally designated and documented at inception of the hedge,
- effectiveness testing must be carried out on an on-going basis to ensure the hedge is effective, consistent with the originally documented risk management strategy, and
- the instruments or counterparty must be a third party external to the Group.

The Group documents, at the inception of the transaction, the relationship between hedged items and hedging instruments, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in cash flows of hedged items.

A fair value gain or loss associated with the effective portion of a derivative designated as a cash flow hedge is recognised initially in the hedging reserve. The ineffective portion of a fair value gain or loss is recognised immediately in the consolidated statement of comprehensive income.

When a hedging derivative expires or is sold, the hedge no longer meets the criteria for hedge accounting, or the Group elects to revoke the hedge designation, the cumulative gain or loss on the hedging derivative remains in the cash flow hedging reserve until the forecast transaction occurs and affects income, at which point it is transferred to the corresponding income or expense line. If a forecast transaction is no longer expected to occur, the cumulative gain or loss on the hedging derivative previously reported in the cash flow hedging reserve is immediately transferred to the consolidated statement of comprehensive income.

12 Derivative financial instruments (continued)

$000's	June 2020 Notional Principal	June 2020 Fair Value Assets	June 2020 Fair Value Liabilities	June 2019 Notional Principal	June 2019 Fair Value Assets	June 2019 Fair Value Liabilities
Held for risk management						
Interest rate related contracts						
Swaps	1,140,422	17,238	16,938	1,958,083	13,048	11,005
Foreign currency related contracts						
Forwards	237,900	8	74	222,769	315	142
Options	-	-	-	177,255	1,128	-
Total derivative financial instruments	**1,378,322**	**17,246**	**17,012**	**2,358,107**	**14,491**	**11,147**

13 Finance receivables

(a) Finance receivables held at amortised cost

Policy

Finance receivables are initially recognised at fair value plus incremental direct transaction costs and are subsequently measured at amortised cost using the effective interest method, less any impairment loss.

Fees and direct costs relating to loan origination, financing and loan commitments are deferred and amortised to interest income over the life of the loan using the effective interest rate method. Lending fees not directly related to the origination of a loan are recognised over the period of service.

Past due but not impaired assets are any assets which have not been operated by the counterparty within their key terms but are not considered to be impaired by the Group.

Individually impaired assets are those loans for which the Group has evidence that it will incur a loss, and will be unable to collect all principal and interest due according to the contractual terms of the loan.

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 too small to model, judgement is used to determine impairment provisions.

13 Finance receivables (continued)

$000's	June 2020	June 2019
Non-securitised		
Neither at least 90 days past due nor impaired - at amortised cost	2,945,858	3,018,741
At least 90 days past due - at amortised cost	58,876	44,466
Individually impaired - at amortised cost	24,667	26,412
Gross finance receivables	**3,029,401**	**3,089,619**
Less provision for impairment	(62,272)	(58,491)
Total non-securitised finance receivables	**2,967,129**	**3,031,128**
Securitised		
Neither at least 90 days past due nor impaired - at amortised cost	78,059	-
At least 90 days past due - at amortised cost	404	-
Individually impaired - at amortised cost	-	-
Gross finance receivables	**78,463**	**-**
Less provision for impairment	(397)	-
Total securitised finance receivables	**78,066**	**-**
Total		
Neither at least 90 days past due nor impaired - at amortised cost	3,023,917	3,018,741
At least 90 days past due - at amortised cost	59,280	44,466
Individually impaired - at amortised cost	24,667	26,412
Gross finance receivables	**3,107,864**	**3,089,619**
Less provision for impairment	(62,669)	(58,491)
Total finance receivables	**3,045,195**	**3,031,128**

The impact of COVID-19 on use of judgements and estimates is discussed in Note 8 - Impaired asset expense.

13 Finance receivables (continued)

Movement in provision

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

$000's	12 - Month ECL	Lifetime ECL Not Credit Impaired	Lifetime ECL Credit Impaired	Specific Provision	Total
June 2020					
Non-securitised					
Impairment allowance as at 30 June 2019	**30,422**	**1,781**	**18,425**	**7,863**	**58,491**
Changes in loss allowance					
Transfer between stages	(1,190)	(294)	(109)	1,593	-
New and increased provision (net of collective provision releases)	2,901	2,090	25,047	1,792	31,830
Recovery of amounts written off	-	-	(2,808)	-	(2,808)
Credit impairment charge	**1,711**	**1,796**	**22,130**	**3,385**	**29,022**
Recovery of amounts previously written off	-	-	2,808	-	2,808
Write offs	-	(1,438)	(20,705)	(5,947)	(28,090)
Effect of changes in foreign exchange rate	27	4	10	-	41
Impairment allowance as at 30 June 2020	**32,160**	**2,143**	**22,668**	**5,301**	**62,272**
Securitised					
Impairment allowance as at 30 June 2019	**-**	**-**	**-**	**-**	**-**
Changes in loss allowance					
Transfer between stages	(19)	11	8	-	-
New and increased provision (net of collective provision releases)	279	12	106	-	397
Recovery of amounts written off	-	-	-	-	-
Credit impairment charge	**260**	**23**	**114**	**-**	**397**
Recovery of amounts previously written off	-	-	-	-	-
Write offs	-	-	-	-	-
Effect of changes in foreign exchange rate	-	-	-	-	-
Impairment allowance as at 30 June 2020	**260**	**23**	**114**	**-**	**397**
Total					
Impairment allowance as at 30 June 2019	**30,422**	**1,781**	**18,425**	**7,863**	**58,491**
Changes in loss allowance					
Transfer between stages	(1,209)	(283)	(101)	1,593	-
New and increased provision (net of collective provision releases)	3,180	2,102	25,153	1,792	32,227
Recovery of amounts written off	-	-	(2,808)	-	(2,808)
Credit impairment charge	**1,971**	**1,819**	**22,244**	**3,385**	**29,419**
Recovery of amounts previously written off	-	-	2,808	-	2,808
Write offs	-	(1,438)	(20,705)	(5,947)	(28,090)
Effect of changes in foreign exchange rate	27	4	10	-	41
Impairment allowance as at 30 June 2020	**32,420**	**2,166**	**22,782**	**5,301**	**62,669**

13 Finance receivables (continued)

$000's	12 - Month ECL	Lifetime ECL Not Credit Impaired	Lifetime ECL Credit Impaired	Specific Provision	Total
June 2019					
Non-securitised					
Impairment allowance as at 30 June 2018	**31,784**	**1,365**	**14,945**	**8,897**	**56,991**
Changes in loss allowance					
Transfer between stages	(2,462)	(238)	52	2,648	-
New and increased provision (net of collective provision releases)	1,151	656	19,151	1,311	22,269
Recovery of amounts written off	-	-	(828)	-	(828)
Credit impairment charge	**(1,311)**	**418**	**18,375**	**3,959**	**21,441**
Recovery of amounts previously written off	-	-	829	-	829
Write offs	-	-	(15,722)	(4,993)	(20,715)
Effect of changes in foreign exchange rate	(51)	(2)	(2)	-	(55)
Impairment allowance as at 30 June 2019	**30,422**	**1,781**	**18,425**	**7,863**	**58,491**
Securitised					
Impairment allowance as at 30 June 2018	**400**	**20**	**345**	**-**	**765**
Changes in loss allowance					
Transfer between stages	(8)	(7)	15	-	-
New and increased provision (net of collective provision releases)	(392)	(13)	(360)	-	(765)
Recovery of amounts written off	-	-	-	-	-
Credit impairment charge	**(400)**	**(20)**	**(345)**	**-**	**(765)**
Recovery of amounts previously written off	-	-	-	-	-
Write offs	-	-	-	-	-
Effect of changes in foreign exchange rate	-	-	-	-	-
Impairment allowance as at 30 June 2019	-	-	-	-	-
Total					
Impairment allowance as at 30 June 2018	**32,184**	**1,385**	**15,290**	**8,897**	**57,756**
Changes in loss allowance					
Transfer between stages	(2,470)	(245)	67	2,648	-
New and increased provision (net of collective provision releases)	759	643	18,791	1,311	21,504
Recovery of amounts written off	-	-	(828)	-	(828)
Credit impairment charge	**(1,711)**	**398**	**18,030**	**3,959**	**20,676**
Recovery of amounts previously written off	-	-	829	-	829
Write offs	-	-	(15,722)	(4,993)	(20,715)
Effect of changes in foreign exchange rate	(51)	(2)	(2)	-	(55)
Impairment allowance as at 30 June 2019	**30,422**	**1,781**	**18,425**	**7,863**	**58,491**

13 Finance receivables (continued)

Impact of COVID-19 on allowance for ECL

The following table represents a summary of amounts included in the credit impairment charge with respect to the Group's allowance for ECL:

$000's	June 2020
Collectively impaired asset expense (excluding COVID-19 adjustments)	16,434
COVID-19 adjustments	9,600
Total collectively impaired asset expense	**26,034**
Individually impaired asset expense	3,385
Total impaired asset expense	**29,419**

Impact of changes in gross finance receivables held at amortised cost on allowance for ECL

$000's	12 - month ECL	Lifetime ECL Not Credit Impaired	Lifetime ECL Credit Impaired	Specific Provision	Total
June 2020					
Gross finance receivables as at 1 July 2019	2,799,282	206,882	57,043	26,412	3,089,619
Transfer between stages	(61,191)	12,570	41,245	7,376	-
Additions	1,497,073	87,843	23,610	-	1,608,526
Deletions	(1,402,340)	(118,572)	(37,334)	(3,174)	(1,561,420)
Write offs	(6,616)	(5,463)	(10,835)	(5,947)	(28,861)
Gross finance receivables as at 30 June 2020	**2,826,208**	**183,260**	**73,729**	**24,667**	**3,107,864**

(b) Finance receivables held at fair value

Policy
Finance receivables – reverse mortgages are initially recognised, and subsequently measured, at fair value through profit or loss.

$000's	June 2020	June 2019
Finance receivables - reverse mortgages	1,538,585	1,318,677
Total finance receivables - reverse mortgages	1,538,585	1,318,677

Note 20 (a) - Financial instruments measured at fair value discloses further information regarding the Group’s valuation policy.

Note 22 - Credit risk exposure discloses further information regarding how reverse mortgages operate.

Credit risk adjustments on financial assets designated at fair value through Profit or loss

There were no credit risk adjustments on individual financial assets.

14 Operating lease vehicles

Policy
Operating lease vehicles are stated at cost less accumulated depreciation.

Operating lease vehicles are depreciated on a straight line basis over their expected useful life after allowing for any residual values. The estimated lives of these vehicles vary up to five years. Vehicles held for sale are not depreciated but are tested for impairment.

$000's	**June 2020**	**June 2019**
Cost		
Opening balance	21,623	24,703
Additions	9,938	5,495
Disposals	(7,463)	(8,575)
Closing balance	**24,098**	**21,623**
Accumulated depreciation		
Opening balance	6,107	7,179
Depreciation charge for the year	3,634	3,363
Disposals	(3,246)	(4,435)
Closing balance	**6,495**	**6,107**
Opening net book value	15,516	17,524
Closing net book value	**17,603**	**15,516**

The future minimum lease payments receivable under operating leases not later than one year is $3.487 million (2019: $3.952 million), within one to five years is $2.053 million (2019: $3.137 million) and over five years is nil (2019: nil).

15 Borrowings

Policy
Borrowings and deposits are initially recognised at fair value including incremental direct transaction costs. They are subsequently measured at amortised cost using the effective interest method.

$000's	**June 2020**	**June 2019**
Deposits	3,264,192	3,153,681
Total borrowings related to deposits	**3,264,192**	**3,153,681**
Unsubordinated Notes	448,228	337,680
Bank borrowings	-	25,002
Certificate of deposit	-	34,836
Securitised borrowings	819,703	660,050
Total other borrowings	**1,267,931**	**1,057,568**

Deposits and unsubordinated notes rank equally and are unsecured.

15 Borrowings (continued)

The Group has the following unsubordinated notes on issue at balance sheet date:

Principal	Valuation	Note	Issue Date	Maturity Date	Frequency of Interest Repayment
$125 million	Amortised cost	20(b)	12 April 2019	12 April 2024	Half yearly
$150 million	Amortised cost	20(b)	21 September 2017	21 September 2022	Half yearly
AU $45 million	Amortised cost	20(b)	8 March 2019	8 March 2021	Quarterly
AU $100 million	Amortised cost	20(b)	13 November 2019	13 May 2022	Quarterly

At 30 June 2020 the Group had the following securitised borrowings outstanding:

- Heartland Auto Receivables Warehouse Trust 2018 - 1 securitisation facility $300 million, drawn $66 million (2019: $150 million, undrawn). Securitised borrowings held by investors are secured over the assets of the Heartland Auto Receivables Warehouse Trust 2018-1. The facility has a maturity date of 29 August 2021.
- Senior Warehouse Trust securitisation facility AU $600 million, drawn AU $544 million (2019: AU $650 million, drawn AU $631 million). The bank facility is secured over the assets of ASF Settlement Trust and Seniors Warehouse Trust. The facility has a maturity date of 30 September 2022.
- Senior Warehouse Trust No. 2 securitisation facility AU $250 million, drawn AU $160 million (2019: nil). The bank facility is secured over the assets of Seniors Warehouse Trust No. 2 and has a maturity date of 1 July 2022.

16 Share capital and dividends

Policy
Ordinary shares are classified as equity, incremental costs directly attributable to the issue of ordinary shares and share options are recognised as a deduction from equity, net of any tax effect.

000's	June 2020 Number of Shares	June 2019 Number of Shares
Issued shares		
Opening balance	569,338	560,588
Shares issued during the year	817	-
Dividend reinvestment plan	10,824	9,191
Cancelled shares	-	(441)
Closing balance	**580,979**	**569,338**

Under dividend reinvestment plans, 7,313,501 new shares were issued at $1.5444 per share on 6 September 2019 and 3,511,020 at $1.5948 on 11 March 2020 (2019: 5,282,619 new shares were issued at $1.6250 per share on 21 September 2018 and 3,907,858 at $1.4709 per share on 1 April 2019). Other shares issued during the period relate to staff share schemes.

Dividends paid

	June 2020			June 2019		
	Date Declared	Cents Per Share	$000's	Date Declared	Cents Per Share	$000's
Final dividend	15 August 2019	6.5	37,007	15 August 2018	5.5	30,808
Interim dividend	18 February 2020	4.5	25,986	19 February 2019	3.5	19,791
Total dividends paid			**62,993**			**50,599**

17 Other reserves

$000's	Employee Benefits Reserve	Foreign Currency Translation Reserve (FCTR)	Fair Value Reserve	Defined Benefit Reserve	Cash Flow Hedge Reserve	Total
June 2020						
Balance as at 1 July 2019	838	(4,021)	4,558	171	(5,843)	(4,297)
Other comprehensive income, net of income tax	-	114	766	-	(2,179)	(1,299)
Share based payments	516	-	-	-	-	516
Shares vested	(420)	-	-	-	-	(420)
Balance as at 30 June 2020	**934**	**(3,907)**	**5,324**	**171**	**(8,022)**	**(5,500)**
June 2019						-
Balance as at 1 July 2018	2,559	1,260	1,590	257	(1,081)	4,585
Other comprehensive income, net of income tax	-	(5,281)	2,968	(86)	(4,762)	(7,161)
Share based payments	619	-	-	-	-	619
Shares vested	(2,340)	-	-	-	-	(2,340)
Balance as at 30 June 2019	**838**	**(4,021)**	**4,558**	**171**	**(5,843)**	**(4,297)**

18 Other balance sheet items

Policy

Property, plant and equipment are stated at cost less accumulated depreciation and impairment (if any). Depreciation is calculated on a straight line basis to write off the net cost or revalued amount of each asset over its expected life to its estimated residual value.

$000's	June 2020	June 2019
Other assets		
Trade receivables	1,952	6,269
GST receivable	985	3,840
Prepayments	4,857	5,649
Property, plant and equipment	10,153	10,216
Other receivables	1,611	1,234
Total other assets	**19,558**	**27,208**

18 Other balance sheet items (continued)

Policy

Intangible assets

Intangible assets with finite useful lives

Software acquired or internally developed by the Group is stated at cost less accumulated amortisation and any accumulated impairment losses. Expenditure on software assets is capitalised only when it increases the future economic value of that asset. Amortisation of software is on a straight line basis, at rates which will write off the cost over the assets' estimated useful lives. The expected useful life of the software has been determined to be ten years.

Goodwill

Goodwill arising on acquisition represents the excess of the cost of the acquisition over the Group's interest in the fair value of the identifiable net assets acquired. Goodwill that has an indefinite useful life is not subject to amortisation and is tested for impairment annually. Goodwill is carried at cost less accumulated impairment losses.

$000's	**June 2020**	**June 2019**
Computer software		
Cost	42,534	37,210
Accumulated amortisation	14,864	10,429
Net carrying value of computer software	**27,670**	**26,781**
Goodwill		
Cost	45,143	45,143
Net carrying value of goodwill	**45,143**	**45,143**
Total intangible assets	**72,813**	**71,924**

Goodwill was tested for impairment on 30 June 2020. In assessing impairment, an internal valuation model was developed to indicate the value of the business i.e. the recoverable amount. This value was compared to the net assets of the Group.

The recoverable amount was determined on a value in use basis using a five-year discounted cash flow methodology based on financial budget and forecasts. Key assumptions used in the model included a discount rate of 10% and a terminal growth rate of 2% which reflect both past experience and external sources of information.

The deterioration in economic conditions as a result of the COVID-19, and the consequential impact on the Group were also considered for any indicators of impairment. These included:

- Comparing cashflows and other key financial metrics against budget;
- Material decreases in mid-term and/or long-term growth rates as compared to previous estimates;
- Any material changes in business model or strategy;
- Comparing the Group's market capitalisation against its net assets;
- Changes in market interest rates or other market rates of return;
- Fluctuations in the foreign exchange rates or commodity prices that impact the entity's cash flows; and
- Any deferral of investment projects.

There was no indication of impairment and no impairment losses have been recognised against the carrying amount of goodwill for the year ended 30 June 2020 (30 June 2019: nil).

18 Other balance sheet items (continued)

For the purposes of impairment testing, goodwill is allocated to cash generating units (**CGU**'s). A CGU is the smallest identifiable group of assets that generate independent cash inflows. The Group has assessed that goodwill should be allocated to the following smallest identifiable CGUs:

- Heartland Australia Holdings Pty Limited: $15.3 million (2019: $15.3 million).
- Heartland Bank Limited (**HBL**): $29.8 million (2019: $29.8 million).

Policy

Employee benefits

Annual leave entitlements are accrued at amounts expected to be paid. Long service leave is accrued by calculating the probable future value of the entitlements and discounting back to present value. Obligations to defined contribution superannuation schemes are recognised as an expense when the contribution is paid.

$000's	**June 2020**	**June 2019**
Trade and other payables		
Trade payables	20,657	8,815
Insurance liability	6,094	7,469
Employee benefits	8,223	5,595
Other tax payables	1,288	1,556
Total trade and other payables	**36,262**	**23,435**

Policy

Leases

The Group leases office space, car parks, equipment and cars. Rental contracts are typically made for fixed periods but may have extension options. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions.

In determining the lease term, all facts and circumstances that create an economic incentive to exercise an extension option are considered. Extension options are only included in the lease term if the lease is reasonably certain to be extended.

Lease liabilities are measured at the present value of the remaining lease payments and discounted using the Group's incremental borrowing rate (**IBR**). Lease liabilities are measured using the effective interest method. Carrying amounts are remeasured only upon reassessments and lease modifications.

Right of use assets are depreciated at the shorter of lease term or the Group's depreciation policy for that asset class.

$000's	**June 2020**	**June 2019**
Right of use assets		
Balance at 1 July 2019	10,728	-
Depreciation charge for the year, included within depreciation expense in the income statement	(2,324)	-
Additions to right of use assets	9,958	-
Total right of use assets	**18,362**	**-**
Lease liability		
Current	2,222	-
Non-current	18,234	-
Total lease liability	**20,456**	**-**
Interest expense relating to lease liability	**570**	**-**

19 Related party transactions and balances

Policy

A person or entity is a related party under the following circumstances:

a) A person or a close member of that person's family if that person:
   i) has control or joint control over HGH;
   ii) has significant influence over HGH; or
   iii) is a member of the key management personnel of HGH.

b) An entity is related to HGH if any of the following conditions applies:
   i) The entity and HGH are members of the same group;
   ii) One entity is an associate or joint venture of the other entity;
   iii) Both entities are joint ventures of the same third party;
   iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity;
   v) The entity is a post-employment benefit plan for the benefit of employees of either the reporting entity or an entity related to HGH;
   vi) The entity is controlled, or jointly controlled by a person identified in (a); and
   vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

(a) Transactions with key management personnel

Key management personnel (**KMP**), are those who, directly or indirectly, have authority and responsibility for planning, directing and controlling the activities of the Group. This includes all executive staff, Directors and their close family members.

KMP receive personal banking and financial investment services from the Group in the ordinary course of business. The terms and conditions, for example interest rates and collateral, and the risks to the Group are comparable to transactions with other employees and did not involve more than the normal risk of repayment or present other unfavourable features.

All other transactions with KMPs and their related entities are made on terms equivalent to those that prevail in arm's length transactions.

$000's	**June 2020**	**June 2019**
Transactions with key management personnel		
Interest income	18	-
Interest expense	(47)	(76)
Key management personnel compensation		
Short-term employee benefits	(8,814)	(4,839)
Share-based payment expense	(828)	(703)
Total transactions with key management personnel	**(9,671)**	**(5,618)**
Due (to) / from key management personnel		
Lending	239	-
Borrowings - deposits	(1,646)	(3,019)
Total due (to) key management personnel	**(1,407)**	**(3,019)**

19 Related party transactions and balances (continued)

(b) Transactions with related parties

HGH is the ultimate parent company of the Group.

Entities within the Group have regular transactions between each other on agreed terms. The transactions include the provision of administrative services, tax transactions, and customer operations and call centre. Banking facilities are provided by Heartland Bank Limited to other Heartland Group entities on normal commercial terms as with other customers. There is no lending from subsidiaries within the Group to HGH.

Related party transactions between the Group eliminate on consolidation. Related party transactions outside of the Group are as follows:

$000's	**June 2020**	**June 2019**
Southern Cross Building Society Staff Superannuation (SCBS)		
Interest expense	33	43
Management fees from SCBS	10	10
ASF Custodians Pty Limited		
Audit fees	7	-
Heartland Trust (HT)		
Dividend paid	712	583

Heartland Trust held 6,475,976 shares in HGH (2019: 6,475,976 shares).

The Trustees of Heartland Trust and certain employees of the Group provided their time and skills to the oversight and operation of HT at no charge.

(c) Other balances with related parties

$000's	**June 2020**	**June 2019**
Southern Cross Building Society Staff Superannuation		
Retail deposits	1,934	2,070

20 Fair value

Policy

Fair value is the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

On initial recognition, the transaction price generally represents the fair value of the financial instrument, unless there is observable information from an active market that provides a more appropriate 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 Group determines fair value using other valuation techniques.

The Group measures fair values using the following fair value hierarchy, which reflects the observability of the inputs used in measuring fair value:

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

20 Fair value (continued)

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 Group recognises transfers between levels of the fair value hierarchy as at 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 statement of financial position.

Investments

Investments in public sector securities and corporate bonds are classified as being available for sale and are stated at FVOCI, 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). Refer to Note 11 - Investments for more details.

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 mortgages

Reverse mortgage loans are classified at fair value through profit or loss. On initial recognition the Group considers the transaction price to represent the fair value of the loan.

For subsequent measurement the Group has considered if the fair value can be determined by reference to a relevant active market or observable inputs, but has concluded relevant support is not currently available. In the absence of such market evidence the Group has used valuation techniques (income approach) including actuarial assessments to consider the fair value.

When the Group enters into a reverse mortgage loan the Group has set expectations regarding the loan’s current and future risk profile and expectation of performance. This expectation references a wide range of assumptions including:

- Mortality and move to care;
- Voluntary exits;
- House price changes;
- No negative equity guarantee; and
- Interest rate margin.

20 Fair value (continued)

At balance date the Group does not consider any of the above expectations to have moved outside of the original expectation range. Therefore the Group has continued to estimate the fair value of the portfolio at transaction price. There has been no fair value movement recognised in profit or loss during the period. Given the nature of the loan terms and tenor, the fair value as recorded is regarded as not being highly sensitive to the above assumptions, particularly to house prices and interest rates, that would impact the fair value at balance date. While noting the significant uncertainty around future economic conditions, based on current judgment there is no evidence that COVID-19 will have a long-term adverse impact on market conditions, particularly regarding the key elements of house prices or interest rates, that would materially influence the fair value of the reverse mortgage portfolio at balance date.

The Group will continue to reassess the existence of a relevant active market and movements in expectations on an on-going basis.

Derivative financial instruments

Interest rate and foreign currency related contracts are recognised in the financial statements at fair value. Fair values are determined from observable market prices as at the reporting date, discounted cash flow models or option pricing models as appropriate. (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 Statement of Financial Position.

$000's	Level 1	Level 2	Level 3	Total
June 2020				
Assets				
Investments	295,300	94,354	16,335	405,989
Derivative financial instruments	-	17,246	-	17,246
Finance receivables - reverse mortgages	-	-	1,538,585	1,538,585
Total financial assets measured at fair value	**295,300**	**111,600**	**1,554,920**	**1,961,820**
Liabilities				
Derivative financial instruments	-	17,012	-	17,012
Total financial liabilities measured at fair value	**-**	**17,012**	**-**	**17,012**
June 2019				
Assets				
Investments	255,875	79,047	12,435	347,357
Derivative financial instruments	-	14,491	-	14,491
Finance receivables - reverse mortgages	-	-	1,318,677	1,318,677
Total financial assets measured at fair value	**255,875**	**93,538**	**1,331,112**	**1,680,525**
Liabilities				
Derivative financial instruments	-	11,147	-	11,147
Total financial liabilities measured at fair value	**-**	**11,147**	**-**	**11,147**

20 Fair value (continued)

The movement in Level 3 assets measured at fair value are below:

$000's	Finance Receivables - Reverse Mortgage	Investments	Total
June 2020			
As at 1 July 2019	1,318,677	12,435	1,331,112
New loans	290,488	-	290,488
Repayments	(182,653)	-	(182,653)
Capitalised Interest and fees	91,288	-	91,288
Additions	-	1,803	1,803
Other	20,785	2,097	22,882
As at 30 June 2020	**1,538,585**	**16,335**	**1,554,920**

$000's	Finance Receivables - Reverse Mortgage	Investments	Total
June 2019			
As at 1 July 2018	1,129,956	9,694	1,139,650
Adjustment for NZ IFRS 9	2,882	-	2,882
New loans	233,095	-	233,095
Repayments	(104,644)	-	(104,644)
Capitalised Interest and fees	80,999	-	80,999
Additions	-	2,741	2,741
Other	(23,611)	-	(23,611)
As at 30 June 2019	**1,318,677**	**12,435**	**1,331,112**

(b) Financial instruments not measured at fair value

The following assets and liabilities of the Group are not measured at fair value in the consolidated statement of financial position.

Cash and cash equivalents

Cash and cash equivalents are measured at amortised cost and their carrying value is considered equivalent to their fair value due to their short term nature.

Finance receivables

The fair value of the Group's finance receivables is calculated using a valuation technique which assumes the Group's current weighted average lending rates for loans of a similar nature and term.

The current weighted average lending rate used to fair value finance receivables with a fixed interest rate was 8.06% (2019: 8.88%). Finance receivables with a floating interest rate are deemed to be at current market rates. The current amount of credit provisioning has been deducted from the fair value calculation of finance receivables as a proxy for future losses.

Borrowings

The fair value of deposits, bank borrowings and other borrowings is the present value of future cash flows and is based on the current market interest rates payable by the Group for the debt of similar maturities. The average current market rate used to fair value borrowings is 2.24% (2019: 2.59%).

20 Fair value (continued)

Other financial assets and financial liabilities

Financial instruments such as short-term trade receivables and payables are considered equivalent to their carrying value due to their short term nature.

The following table sets out financial instruments not measured at fair value, compares their carrying value against their fair value and analyses them by level in the fair value hierarchy.

	June 2020			June 2019		
$000's	**Fair Value Hierarchy**	**Total Fair Value**	**Total Carrying Value**	**Fair Value Hierarchy**	**Total Fair Value**	**Total Carrying Value**
Assets						
Cash and cash equivalents	Level 1	147,179	147,179	Level 1	74,496	74,496
Investments[1]	Level 2	7,375	7,351	Level 2	7,432	7,571
Finance receivables	Level 2	3,092,150	3,045,195	Level 2	3,017,327	3,031,128
Other financial assets	Level 3	3,563	3,563	Level 3	7,503	7,503
Total financial assets		**3,250,267**	**3,203,288**		**3,106,758**	**3,120,698**
Liabilities						
Retail deposits	Level 2	3,278,483	3,264,192	Level 2	3,160,426	3,153,681
Other borrowings	Level 2	448,626	448,228	Level 2	397,643	397,643
Borrowings - securitised	Level 2	819,305	819,703	Level 2	659,925	659,925
Other financial liabilities	Level 3	26,751	26,751	Level 3	16,284	16,284
Total financial liabilities		**4,573,165**	**4,558,874**		**4,234,278**	**4,227,533**

[1]Included within investments are bank deposits which are held to support the Group's contractual cash flows. Such investments are measured at amortised cost.

(c) Classification of financial instruments

The following table summarises the categories of financial instruments and the carrying value and fair value of all financial instruments of the Group:

$000's	**FVOCI**	**FVTPL**	**Amortised Cost**	**Total Carrying Value**	**Total Fair Value**
June 2020					
Cash and cash equivalents	-	-	147,179	147,179	147,179
Investments	389,654	16,335	7,351	413,340	413,364
Finance receivables	-	-	3,045,195	3,045,195	3,092,150
Finance receivables - reverse mortgages	-	1,538,585	-	1,538,585	1,538,585
Derivative financial instruments	32	17,213	-	17,246	17,246
Other financial assets	-	-	3,563	3,563	3,563
Total financial assets	**389,686**	**1,572,133**	**3,203,288**	**5,165,108**	**5,212,087**
Retail deposits	-	-	3,264,192	3,264,192	3,278,483
Other borrowings	-	-	1,267,931	1,267,931	1,267,931
Derivative financial instruments	15,408	1,604	-	17,012	17,012
Other financial liabilities	-	-	26,751	26,751	26,751
Total financial liabilities	**15,408**	**1,604**	**4,558,874**	**4,575,886**	**4,590,177**

20 Fair value (continued)

$000's	FVOCI	FVTPL	Amortised Cost	Total Carrying Value	Total Fair Value
June 2019					
Cash and cash equivalents	-	-	74,496	74,496	74,496
Investments	334,922	12,435	7,571	354,928	354,789
Finance receivables	-	-	3,031,128	3,031,128	3,017,327
Finance receivables - reverse mortgages	-	1,318,677	-	1,318,677	1,318,677
Derivative financial instruments	2,825	11,666	-	14,491	14,491
Other financial assets	-	-	7,503	7,503	7,503
Total financial assets	**337,747**	**1,342,778**	**3,120,698**	**4,801,223**	**4,787,283**
Retail deposits	-	-	3,153,681	3,153,681	3,160,426
Other borrowings	-	-	1,057,568	1,057,568	1,057,568
Derivative financial instruments	9,893	1,254	-	11,147	11,147
Other financial liabilities	-	-	16,284	16,284	16,284
Total financial liabilities	**9,893**	**1,254**	**4,227,533**	**4,238,680**	**4,245,425**

Risk Management

21 Enterprise risk management program

The board of directors (the **Board**) sets and monitors the Group's risk appetite across the primary risk domains of credit, capital, liquidity, market (including interest rate), operational and compliance and general business risk. Management are, in turn, responsible for ensuring appropriate structures, policies, procedures and information systems are in place to actively manage these risk domains, as outlined within the Enterprise Risk Management Framework (**ERMF**). Collectively, these processes are known as the Group's Enterprise Risk Management Program (**RMP**).

Role of the Board and the Board Risk Committee

The Board, through its Board Risk Committee (**BRC**) is responsible for oversight and governance of the development of the RMP. The role of the BRC is to assist the Board to formulate its risk appetite, and to monitor the effectiveness of the RMP. The BRC has the following specific responsibilities:

- To advise the Board on the formulation of the Board's Risk Appetite Statement at least annually.
- To review any reports, policies, standards, other risk documents or matters, or minutes which have been prepared by or in respect of the HGH's Board, Risk Committee, or Executive Risk Committee as it may see fit, and to advise the Board in relation thereto.
- To advise and make recommendations to the Board as to the key parameters for ICAAP, delegated authorities, risk appetite and stress testing for its subsidiary, Heartland Bank Limited.

The BRC consists of three non-executive directors. All three members of the BRC sit on the Audit Committee. In addition, the directors who are not members of the BRC are entitled to attend meetings and to receive copies of the BRC papers.

Audit Committee

The Audit Committee focuses on financial reporting and application of accounting policies as part of the internal control and risk assessment framework. The Audit Committee monitors the identification, evaluation and management of all significant risks through the Group. This work is supported by internal audit, which provides an independent assessment of the design, adequacy and effectiveness of internal controls. The Audit Committee receives regular reports from internal audit.

Charters for both the BRC and Audit Committee ensure suitable cross representation to allow effective communication pertaining to identified issues with oversight by the Board.

Internal Audit

The Group has an Internal Audit function, the objective of which is to provide independent, objective assurance over the internal control environment. In certain circumstances, Internal Audit will provide risk and control advice to Management provided the work does not impede the independence of the Internal Audit function. The function assists the Group in accomplishing its objectives by bringing a systematic and disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

21 Enterprise risk management program (continued)

Internal Audit is allowed full, free and unfettered access to any and all of the organisation's records, personnel and physical properties deemed necessary to accomplish its activities.

A regular cycle of review has been implemented to cover all areas of the business, focused on assessment, management and control of risks identified. The audit plan takes into account cyclical review of various business units and operational areas, as well as identified areas of higher identified risk. The audit methodology is designed to meet the International Standards for the Professional Practice of Internal Auditing of The Institute of Internal Auditors.

Each audit has specific audit procedures tailored to the area of business that is being reviewed. The audit procedures are updated during each audit to reflect any process changes. Audit work papers are completed to evidence the testing performed in accordance with the audit procedures.

Audit reports are addressed to the manager of the relevant area that is being audited in addition to other relevant stakeholders within the Bank. Management comments are obtained from the process owner(s) and are included in the report.

The Head of Internal Audit has a direct reporting line to the Chairman of the Audit Committee whilst administratively reporting to the Chief Legal & Bank Risk Officer. Internal audit has accountability to the Audit Committee of the Group. A schedule of all outstanding internal control issues is maintained and presented to the Audit Committee to assist the Audit Committee to track the resolution of previously identified issues. Any issues raised that are categorised as high risk are specifically reviewed by internal audit during a follow up review once the issue is considered closed by management. The follow up review is performed with a view to formally close out the issue.

Asset and Liability Committee (ALCO)

The ALCO comprises the CEO HGH, CEO HBL, GCRO, CFO, Chief Legal & Bank Risk Officer, Treasurer, Head of Retail, Financial Controller HBL and Chief Distribution Officer. The ALCO generally meets monthly, and provides reports to the BRC. ALCO's specific responsibilities include decision making and oversight of risk matters in relation to:

- Market risk (including non-traded interest rate risk and the investment of capital)
- Liquidity risk (including funding)
- Foreign exchange rate risk
- Balance sheet structure
- Capital management

21 Enterprise risk management program (continued)

Operational and compliance risk

Operational and compliance risk is the risk arising from day to day operational activities in the execution of the Group's strategy which may result in direct or indirect losses. Operational and compliance risk losses can occur as a result of fraud, human error, missing or inadequately designed processes, failed systems, damage to physical assets, improper behaviour, or from external events. The losses range from direct financial losses, to reputational damage, unfavourable media attention, injury to or loss of staff or clients or as a breach of laws or banking regulations. Where appropriate, risks are mitigated by insurance.

To ensure appropriate responsibility is allocated for the management, reporting and escalation of operational and compliance risk, the Group operates a “three lines of defence” model which outlines principles, responsibilities and accountabilities for operational and compliance risk management:

- The first line of defence is the business line management of the identification, management and mitigation of the risks associated with the products and processes of the business. This accountability includes regular testing and attestation of the adequacy and effectiveness of controls and compliance with the Group's policies.
- The second line of defence is the Risk and Compliance function, responsible for the design and ownership of the Operational Risk Management Framework. It incorporates key processes including Risk and Control Self-Assessment (**RCSA**), incident management, independent evaluation of the adequacy and effectiveness of the internal control framework, and the attestation process.
- The third line of defence is Internal Audit which is responsible for independently assessing how effectively the Group is managing its risk according to the stated risk appetite.

Market risk

Market risk is the possibility of experiencing losses or gains due to factors affecting the overall performance of financial markets in which the Group is exposed. The primary market risk exposures for the Group are interest rate risk and foreign exchange risk. The risk being that market interest rates or foreign exchange rates will change and adversely impact on the Group’s earnings due to either adverse moves in foreign exchange market rates or in the case of interest rate risks mismatches between repricing dates of interest bearing assets and liabilities and/or differences between customer pricing and wholesale rates.

Interest rate risk

Interest rate risk refers to exposure of an entity’s earnings and / or capital because of a mismatch between the interest rate exposures of its assets and liabilities. Interest rate risk for the Group arises from the provision of non-traded retail banking products and services and from traded wholesale transactions entered into to reduce aggregate interest rate risk (known as hedges). This risk arises from four key sources:

- Mismatches between the repricing dates of interest bearing assets and liabilities (yield curve and repricing risk);
- Banking products repricing differently to changes in wholesale market rates (basis risk);
- Loan prepayment or deposit early withdrawal behaviour from customers that deviates from the expected or contractually agreed behaviour (optionality risk); and
- The effect of internal or market forces on a bank’s net interest margin where, for example, in a low rate environment any fall in rates will further decrease interest income earned on the assets whereas funding cost cannot be reduced as it is already at the minimum level (margin compression risk).

Refer Note 24 - Interest rate risk for further details regarding interest rate risk.

21 Enterprise risk management program (continued)

Foreign exchange risk

Foreign exchange risk is the risk that the Group's earnings and shareholder equity position are adversely impacted from changes in foreign exchange rates. The Group has exposure to foreign exchange translation risks through its Australian subsidiaries (which have a functional currency of AUD), in the forms of profit translation risk and balance sheet translation risk.

Profit translation risk is the risk that deviations in exchange rates have a significant impact on the reported profit. Balance sheet translation risk is the risk that whilst the foreign currency value of the net investment in a subsidiary may not have changed, when translated back to the New Zealand dollars (NZD), the NZD value has changed materially due to movements in the exchange rates. Foreign exchange revaluation gains and losses are booked to the foreign currency translation reserve. Foreign exchange rate movements in any given year may have an impact on other comprehensive income. The Group manages this risk by setting and approving the foreign exchange rate for the upcoming financial year and entering into hedging contracts to manage the foreign exchange translation risks.

Counterparty Credit Risk

The Group has on-going credit exposure associated with:

- Cash and cash equivalents;
- Finance receivables;
- Holding of investment securities; and
- Payments owed to the Group from risk management instruments.

Counterparty credit risk is managed against limits set in the Market Risk Policy including credit exposure on derivative contracts, bilateral set-off arrangements, cash and cash equivalents and investment securities.

22 Credit risk exposure

Credit risk is the risk that a borrower will default on any type of debt by failing to make payments which it is obligated to make. 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 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 commercial judgement as described below.

To manage this risk, HBL's Executive Risk Committee (**ERC**) oversees the formal credit risk management strategy. The ERC reviews the Group's credit risk exposures typically on a monthly basis. The credit risk management strategies aim to ensure that:

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

The BRC also oversees the Group's credit risk exposures to monitor overall risk metrics having regard to risk appetite set by the Board.

22 Credit risk exposure (continued)

HBL's BRC has authority for approval of all credit exposures. Lending authority has been provided to the HBL's Credit Committee, and to the business units under a detailed Delegated Lending Authority framework. Application of credit discretions in the business operation are monitored through a defined review and hindsight structure as outlined in the Credit Risk Oversight Policy. Delegated Lending Authorities are provided to individual officers with due cognisance of their experience and ability. Larger and higher risk exposures require approval of senior management, the Credit Committees and ultimately through to HBL's BRC.

The Group employs a process of hindsighting loans to ensure that credit policies and the quality of credit processes are maintained.

Impact of COVID-19 has been considered by the Group as outlined in Note 8 - Impaired asset expense.

Reverse mortgage loans and negative equity risk

Reverse mortgage loans are a form of mortgage lending designed for the needs of people over 60 years. These loans differ to conventional mortgages in that they typically are not repaid until the borrower ceases to reside in the property. Further, interest is not required to be paid, it is capitalised into the loan balance and is repayable on termination of the loan. As such, there are no incoming cash flows and therefore no default risk to manage during the term of the loan. Negative equity risk arises from the promise by the Group that the maximum repayment amount is limited to the net sale proceeds of the borrowers' property.

The Group’s exposure to negative equity risk is managed by the Credit Risk Oversight Policy in conjunction with associated lending standards specific for this product. In addition to usual criteria regarding the type, and location, of security property that the Group will accept for reverse mortgage lending, a key aspect of the Group's policy is that a borrower’s age on origination of the reverse mortgage loan will dictate the loan-to-value ratio of the reserve mortgage on origination. Both New Zealand and Australia reverse mortgage operations are similarly aligned. The policy is managed and reviewed periodically to ensure appropriate consistency across locations.

Business Finance Guarantee Scheme

HBL, along with other registered banks in New Zealand, has entered into a Deed of Indemnity with the New Zealand Government to implement the New Zealand Governments Business Finance Guarantee Scheme. The purpose of the scheme is to provide short term credit to eligible small and medium size businesses, who have been impacted by economic effects of COVID 19. The scheme allows banks to lend to a maximum of $500,000 for a maximum of three years. The New Zealand Government will guarantee 80% of any loss incurred (credit risk) with HBL holding the remaining 20%. As at 30 June 2020 the Group had a total exposure of $6.5 million to its customers under the scheme.

Maximum exposure to credit risk at the relevant reporting dates

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 statement of financial position.

$000's	**June 2020**	**June 2019**
Cash and cash equivalents	147,179	74,496
Investments	397,005	342,493
Finance receivables	3,045,195	3,031,128
Finance receivables - reverse mortgages	1,538,585	1,318,677
Derivative financial assets	17,246	14,491
Other financial assets	3,563	7,503
Total on balance sheet credit exposures	**5,148,773**	**4,788,788**

22 Credit risk exposure (continued)

Concentration of credit risk by geographic region

$000's	June 2020	June 2019
New Zealand	3,855,199	3,686,867
Australia	1,060,894	906,261
Rest of the world [1]	295,349	254,151
	5,211,442	**4,847,279**
Provision for impairment	(62,669)	(58,491)
Total on balance sheet credit exposures	**5,148,773**	**4,788,788**

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

Concentration of credit risk by industry sector

The Australian and New Zealand Standard Industrial Classification (**ANZSIC**) codes have been used as the basis for categorising customer industry sectors.

$000's	June 2020	June 2019
Agriculture	625,141	689,089
Forestry and fishing	145,045	132,545
Mining	12,993	13,695
Manufacturing	75,659	70,740
Finance and insurance	596,772	430,532
Wholesale trade	39,540	40,869
Retail trade and accommodation	232,664	237,342
Households	2,603,760	2,428,705
Other business services	163,801	170,013
Construction	197,174	186,843
Rental, hiring and real estate services	142,467	148,502
Transport and storage	257,634	237,451
Other	118,792	60,953
	5,211,442	**4,847,279**
Provision for impairment	(62,669)	(58,491)
Total on balance sheet credit exposures	**5,148,773**	**4,788,788**

Commitments to extend credit

$000's	June 2020	June 2019
Undrawn facilities available to customers	248,868	177,316
Conditional commitments to fund at future dates	58,045	14,286

As at 30 June 2020 there was no undrawn lending commitments available to counterparties for whom drawn balances were classified as individually impaired (2019: nil).

22 Credit risk exposure (continued)

Credit risk grading

The Group's finance receivables are monitored either by account behaviour (**Behavioural portfolio**) or a regular assessment of their credit risk grade based on an objective review of defined risk characteristics (**Judgemental portfolio**).

Finance receivables - reverse mortgages have no arrears characteristics and are assessed on origination against a pre-determined criteria.

The Judgemental portfolio consists mainly of business and rural lending where an on-going and detailed working relationship with the customer has been developed while the Behavioural portfolio consists of consumer, retail and smaller business receivables.

Judgemental loans are individually risk graded based on loan status, financial information, security and debt servicing ability. Exposures in the Judgemental portfolio are credit risk graded by an internal risk grading mechanism where grade 1 is the strongest risk. Grade 8 and grade 9 are the weakest risk grades where a loss is probable. Behavioural loans are managed based on their arrears status.

Upon adoption of NZ IFRS 9 all loans past due but not impaired have been categorised into three impairments stages (see Note 8) which are in most cases based on arrears status. If a Judgemental loan is risk graded 6 or above it will be classified as stage 2 as a minimum and carry a provision based on lifetime expected credit losses.

$000's	12 Months ECL	Lifetime ECL Not Credit Impaired	Lifetime ECL Credit Impaired	Specifically Provided	Fair Value	Total
June 2020						
Judgemental portfolio						
Grade 1 - Very Strong	28	-	-	-	-	28
Grade 2 - Strong	9,323	-	-	-	-	9,323
Grade 3 - Sound	65,084	-	189	-	-	65,273
Grade 4 - Adequate	509,154	5,117	4,238	-	-	518,509
Grade 5 - Acceptable	817,190	4,613	1,938	-	-	823,741
Grade 6 - Monitor	-	112,586	2,558	-	-	115,144
Grade 7 - Substandard	-	27,289	17,652	-	-	44,941
Grade 8 - Doubtful	-	-	-	16,025	-	16,025
Grade 9 - At risk of loss	-	-	-	8,642	-	8,642
Total judgemental portfolio	1,400,779	149,605	26,575	24,667	-	1,601,626
Total behavioural portfolio	1,425,429	33,655	47,154	-	1,538,585	3,044,823
Gross finance receivables	**2,826,208**	**183,260**	**73,729**	**24,667**	**1,538,585**	**4,646,449**
Provision for impairment	(32,420)	(2,166)	(22,782)	(5,301)	-	(62,669)
Total finance receivables	**2,793,788**	**181,094**	**50,947**	**19,366**	**1,538,585**	**4,583,780**

22 Credit risk exposure (continued)

$000's	12 Months ECL	Lifetime ECL Not Credit Impaired	Lifetime ECL Credit Impaired	Specifically Provided	Fair Value	Total
June 2019						
Judgemental portfolio						
Grade 1 - Very Strong	7	-	-	-	-	7
Grade 2 - Strong	8,685	-	-	-	-	8,685
Grade 3 - Sound	86,109	-	71	-	-	86,180
Grade 4 - Adequate	478,682	3,707	5,478	-	-	487,867
Grade 5 - Acceptable	851,873	4,835	4,854	-	-	861,562
Grade 6 - Monitor	-	142,122	5,031	-	-	147,153
Grade 7 - Substandard	-	22,913	3,450	-	-	26,363
Grade 8 - Doubtful	-	-	-	15,391	-	15,391
Grade 9 - At risk of loss	-	-	-	11,021	-	11,021
Total Judgemental portfolio	1,425,356	173,577	18,884	26,412	-	1,644,229
Total Behavioural portfolio	1,373,926	33,305	38,159	-	1,318,677	2,764,067
Gross finance receivables	**2,799,282**	**206,882**	**57,043**	**26,412**	**1,318,677**	**4,408,296**
Provision for impairment	(30,422)	(1,781)	(18,425)	(7,863)	-	(58,491)
Total finance receivables	**2,768,860**	**205,101**	**38,618**	**18,549**	**1,318,677**	**4,349,805**

23 Liquidity risk

Liquidity risk is the risk that the Group is unable to meet its payment obligations as they fall due. The timing mismatch of cash flows and the related liquidity risk in all banking operations and is closely monitored by the Group.

Measurement of liquidity risk is designed to ensure that the Group has the ability to generate or obtain sufficient cash in a timely manner and at a reasonable price to meet its financial commitments on a daily basis.

The Group's exposure to liquidity risk is governed by a policy approved by the Board and managed by the ALCO. This policy sets out the nature of the risk which may be taken and aggregate risk limits, and the ALCO must conform to this. The objective of the ALCO is to derive the most appropriate strategy for the Group in terms of a mix of assets and liabilities given its expectations of future cash flows, liquidity constraints and capital adequacy. The Group employs asset and liability cash flow modelling to determine appropriate liquidity and funding strategies.

RBNZ facilities

In March 2020, HBL was onboarded by the RBNZ as an approved counterparty and executed a 2011 Global Master Repo Agreement providing an additional source for intra-day liquidity for the Group if required.

On 16 March 2020, as a result of COVID-19, the RBNZ announced that it would provide term funding through a Term Auction Facility to give banks the ability to access term funding using repurchase agreements with qualifying collateral for a term of up to twelve months. From 26 May 2020, the RBNZ also made available, for a period of 6 months, a Term Lending Facility to offer loans for a fixed term of three years at the Official Cash Rate, with access to the funds linked to HBL'S lending under the BFGS. The Group had not utilised either of these facilities as at 30 June 2020.

The Group holds the following liquid assets and committed funding sources for the purpose of managing liquidity risk:

$000's	**June 2020**	**June 2019**
Cash and cash equivalents	147,179	74,496
Investments	397,005	342,493
Undrawn committed bank facilities	390,762	219,631
Total liquidity	**934,946**	**636,620**

23 Liquidity risk (continued)

Contractual liquidity profile of liabilities

The following tables present the Group's liabilities by relevant maturity groupings based upon contractual maturity date. The amounts disclosed in the tables represent undiscounted future principal and interest cash flows. As a result, the amounts in the tables below may differ to the amounts reported on the consolidated 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 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. These accounts provide a stable source of long term funding for the Group.

$000's	On Demand	0-6 Months	6-12 Months	1-2 Years	2-5 Years	5+ Years	Total
June 2020							
Financial liabilities							
Retail deposits	813,140	1,418,656	833,440	162,221	86,615	-	3,314,072
Other borrowings	-	13,517	61,038	196,835	1,039,462	-	1,310,852
Lease liabilities	-	1,400	1,415	5,730	7,634	7,085	23,264
Derivative financial liabilities	-	5,722	4,665	5,297	1,354	-	17,038
Other financial liabilities	-	26,751	-	-	-	-	26,751
Total financial liabilities	**813,140**	**1,466,046**	**900,558**	**370,083**	**1,135,065**	**7,085**	**4,691,977**
Undrawn facilities available to customers	248,868	-	-	-	-	-	248,868
Undrawn committed bank facilities	390,762	-	-	-	-	-	390,762
June 2019							
Financial liabilities							
Retail deposits	895,290	1,415,994	605,804	224,545	73,034	1,680	3,216,347
Other borrowings	-	75,198	15,032	81,915	977,044	-	1,149,189
Derivative financial liabilities	-	4,751	7,769	10,552	5,741	-	28,813
Other financial liabilities	-	16,284	-	-	-	-	16,284
Total financial liabilities	**895,290**	**1,512,227**	**628,605**	**317,012**	**1,055,819**	**1,680**	**4,410,633**
Undrawn facilities available to customers	102,285	-	-	-	-	-	102,285
Undrawn committed bank facilities	219,631	-	-	-	-	-	219,631

24 Interest rate risk

The Group's market risk is derived primarily of exposure to interest rate risk, predominantly from raising funds through the retail and wholesale deposit market, the debt capital markets and committed and uncommitted bank funding, securitisation of receivables, and offering loan finance products to the commercial and consumer market in New Zealand and Australia.

The Group's exposure to market risk is governed by a policy approved by the Board and managed by the ALCO. This policy sets out the nature of risk which may be taken and aggregate risk limits, and the ALCO must conform to this. The objective of the ALCO is to derive the most appropriate strategy for the Group in terms of the mix of assets and liabilities given its expectations of the future and the potential consequences of interest rate movements, liquidity constraints and capital adequacy.

To manage this market risk, the Group measures sensitivity to interest rate changes by assessing the change in the fair value of the position to a +/- 1 basis point shock to the curve (that is multiplied by 100), with basis point sensitivity limits set according to the Risk Appetite Statement and Market Risk Policy. The Group also manages interest rate risk by:

- Monitoring maturity profiles and seeking to match the re-pricing of assets and liabilities;
- Monitoring interest rates daily and regularly (at least monthly) reviewing interest rate exposures; and
- Entering into derivatives to hedge against movements in interest rates.

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's	0-3 Months	3-6 Months	6-12 Months	1-2 Years	2+ Years	Non-Interest Bearing	Total
June 2020							
Financial assets							
Cash and cash equivalents	147,172	-	-	-	-	7	147,179
Investments	43,863	18,425	52,708	59,296	222,713	16,335	413,340
Finance receivables	1,522,837	198,446	352,076	557,569	400,658	13,609	3,045,195
Finance receivables - reverse mortgages	1,538,585	-	-	-	-	-	1,538,585
Derivative financial assets	-	-	-	-	-	17,246	17,246
Other financial assets	-	-	-	-	-	3,563	3,563
Total financial assets	**3,252,457**	**216,871**	**404,784**	**616,865**	**623,371**	**50,760**	**5,165,108**
Financial liabilities							
Retail deposits	1,616,521	585,482	815,366	155,219	77,655	13,949	3,264,192
Other borrowings	976,638	970	-	-	290,323	-	1,267,931
Derivative financial liabilities	-	-	-	-	-	17,012	17,012
Lease liabilities	-	-	-	-	-	20,456	20,456
Other financial liabilities	-	-	-	-	-	26,751	26,751
Total financial liabilities	**2,593,159**	**586,452**	**815,366**	**155,219**	**367,978**	**78,168**	**4,596,342**
Effect of derivatives held for risk management	557,955	(51,349)	(239,137)	(237,212)	(30,257)	-	-
Net financial assets / (liabilities)	**1,217,253**	**(420,930)**	**(649,719)**	**224,434**	**225,136**	**(27,408)**	**568,766**

24 Interest rate risk (continued)

$000's	0-3 Months	3-6 Months	6-12 Months	1-2 Years	2+ Years	Non-Interest Bearing	Total
June 2019							
Financial assets							
Cash and cash equivalents	74,490	-	-	-	-	6	74,496
Investments	24,097	15,368	91,248	62,048	149,732	12,435	354,928
Finance receivables	1,553,748	206,801	337,236	537,300	386,870	9,173	3,031,128
Finance receivables - reverse mortgages	1,318,677	-	-	-	-	-	1,318,677
Derivative financial assets	-	-	-	-	-	14,491	14,491
Other financial assets	-	-	-	-	-	7,503	7,503
Total financial assets	**2,971,012**	**222,169**	**428,484**	**599,348**	**536,602**	**43,608**	**4,801,223**
Financial liabilities							
Retail deposits	1,614,124	519,676	729,734	212,575	65,887	11,685	3,153,681
Other borrowings	772,134	-	-	-	285,434	-	1,057,568
Derivative financial liabilities	-	-	-	-	-	11,147	11,147
Other financial liabilities	-	-	-	-	-	16,284	16,284
Total financial liabilities	**2,386,258**	**519,676**	**729,734**	**212,575**	**351,321**	**39,116**	**4,238,680**
Effect of derivatives held for risk management	(36,789)	162,749	38,975	(313,184)	148,249	-	-
Net financial assets / (liabilities)	**547,965**	**(134,758)**	**(262,275)**	**73,589**	**333,530**	**4,492**	**562,543**

The tables above illustrate the periods in which the cash flows from interest rate swaps are expected to occur and affect profit or loss.

Other Disclosures

25 Significant subsidiaries

Significant Subsidiaries	Country of Incorporation and Place of Business	Nature of Business	Proportion of ownership and voting power held June 2020	June 2019
Heartland Bank Limited	New Zealand	Bank	100%	100%
VPS Properties Limited	New Zealand	Investment property holding company	100%	100%
MARAC Insurance Limited	New Zealand	Insurance services	100%	100%
Heartland Australia Holdings Pty Limited	Australia	Financial services	100%	100%
Heartland Australia Group Pty Limited	Australia	Financial services	100%	100%
Australian Seniors Finance Pty Limited	Australia	Management services	100%	100%

26 Structured entities

A structured entity is one which has been designed such that voting or similar rights are not the dominant factor in deciding who controls the entity. Structured entities are created to accomplish a narrow and well-defined objective such as the securitisation or holding of particular assets, or the execution of a specific borrowing or lending transaction. Structured entities are consolidated where the substance of the relationship is that the Group controls the structured entity.

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

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

$000's	June 2020	June 2019
Deposits	166,676	146,094

(b) Seniors Warehouse Trust, Seniors Warehouse Trust No.2 (together the SW Trusts) and ASF Settlement Trust (ASF Trust)

SW Trusts and ASF Trust (collectively the Trusts) form part of ASF's reverse mortgage business and were set up by ASF as asset holding entities. The Trustee for the Trusts is ASF Custodians Pty Limited and the Trust Manager is ASF. The reverse mortgage loans held by the Trusts are set aside for the benefit of the investors in the Trusts. The balances of SW Trusts and ASF Trust are represented as follows:

$000's	June 2020	June 2019
Cash and cash equivalents	26,491	6,112
Finance receivables - reverse mortgages	929,179	756,454
Other borrowings	(783,373)	(659,925)

26 Structured entities (continued)

(c) Heartland Auto Receivables Warehouse Trust 2018-1 (Auto Warehouse)

The Auto Warehouse securitises motor loan receivables as a source of funding.

The Group continues to recognise the securitised assets and associated borrowings in the consolidated statement of financial position as the Group remains exposed to and has the ability to affect variable returns from those assets and liabilities. Although the Group recognises those interests in Auto Warehouse, the loans sold to Auto Warehouse are set aside for the benefit of investors in Auto Warehouse and other depositors and lenders to the Group have no recourse to those assets.

$000's	June 2020	June 2019
Cash and cash equivalents	5,493	555
Finance receivables	78,066	-
Other borrowings	(79,012)	(559)

27 Staff share ownership arrangements

The Group operates a number of share-based compensation plans that are equity settled. The fair value determined at the grant date is expensed on a straight line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest, with a corresponding increase in equity. At the end of each reporting period the Group revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the employee benefits reserve.

(a) Share-based compensation plan details

Heartland performance rights plan (PR plan)

The PR plan was established to enhance the alignment of participants' interests with those of the Group's shareholders. Under the PR plan participants are issued performance rights which will entitle them to receive shares in the Group. As at June 2020, there were 3 tranches being 2017, 2018 and 2022. The 2017 and 2018 tranche rules have been aligned to the PR Plan 2022, and therefore they all have the same terms and conditions applying regarding participants, awarding of PR, measurement date and vesting as outlined below:

PR Plan 2022 Tranche (PR plan 2022)

The number of performance rights offered is determined by the participant's long-term incentive (**LTI**) value over the volume weighted average price (**VWAP**) of the Group's ordinary shares on the NZX Main Board for the 20 business days immediately before (and excluding) the issue date. The issue date is 14 September 2019. Performance rights do not entitle participants to dividends or voting rights.

The performance rights are issued subject to the participants' continued employment with the Group until the measurement date and the Group achieving its financial measures, strategic objectives and culture and conduct objectives, over the period commencing 1 July 2019 and ending on 30 June 2022. The targets are dynamic and may be adjusted by the Board from time to time in order to account for unanticipated capital changes during the performance period. The measurement date is the business days following the date on which the Group announces its full year results for the financial year ended 2022.

Performance rights will vest on the measurement date to the extent these criteria have been met, but subject to caps and also to retesting on a later measurement date if the criteria are not met on the initial measurement date.

27 Staff share ownership arrangements (continued)

	PR Plan Number of Rights	SES[1] Number of Shares
1 July 2019	**3,121,340**	**-**
Granted	(816,858)	-
Issued	1,230,740	-
Forfeited	(318,295)	-
30 June 2020	**3,216,927**	**-**

1 July 2018	**3,180,298**	**1,858,676**
Granted	-	(1,858,676)
Issued	293,759	-
Forfeited	(352,717)	-
30 June 2019	**3,121,340**	**-**

[1]Senior Executive Scheme (**SES**) was established in June 2016 and terminated in June 2019.

(b) Effect of share-based payment transactions

$000's	June 2020	June 2019
Award of Shares		
SES	-	327
PR Plan	516	341
Total expense recognised	**516**	**668**

As at 30 June 2020, $1.9 million of the share scheme awards remain unvested and not expensed (2019: $0.59 million). This expense will be recognised over the vesting period of the awards.

(c) Number of rights outstanding at 30 June 2020

	June 2020		June 2019	
000's	Rights Outstanding	Remaining Years	Rights Outstanding	Remaining Years
PR plan - 2016	-	-	823	-
PR Plan - 2017	2,039	2	2,039	2
PR Plan - 2018	259	2	259	2
PR Plan - 2022	919	2	-	-
Total	**3,217**		**3,121**	

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

Insurance business

The Group conducts insurance business through its subsidiary MIL.

The Group's aggregate amount of insurance business comprises the total consolidated assets of MIL of $10.9 million (2019: $12.9 million), which represents 0.2% of the total consolidated assets of the Group.

During the current year the Group has undertaken a strategic review of its insurance business in line with its core banking business. The Group has entered into a distribution agreement with DPL to distribute DPL's insurance products through its network and has stopped writing insurance policies in February 2020. The Group will gradually exit from the insurance business as the existing written policies expire over time.

Securitisation, funds management and other fiduciary activities

Changes to the Group’s involvement in securitisation activities are set out in Note 26. There have been no material changes to the Group’s involvement in funds management and other fiduciary activities during the year.

29 Concentrations of funding

(a) Concentrations of funding by industry

The Australian and New Zealand Standard Industrial Classification (**ANZSIC**) codes have been used as the basis for categorising customer industry sectors:

$000's	June 2020	June 2019
Agriculture	109,268	68,559
Forestry and fishing	14,901	25,360
Mining	35	61
Manufacturing	6,976	11,233
Finance and insurance	1,431,320	1,149,034
Wholesale trade	10,855	11,520
Retail trade and accommodation	20,423	19,730
Households	2,263,668	2,340,764
Rental, hiring and real estate services	41,348	30,110
Construction	19,702	15,338
Other business services	63,697	57,360
Transport and storage	4,552	4,416
Other	97,150	140,084
	4,083,895	3,873,569
Unsubordinated notes	448,228	337,680
Total borrowings	**4,532,123**	**4,211,249**

(b) Concentration of funding by geographical area

$000's	June 2020	June 2019
New Zealand	3,470,744	3,404,163
Rest of the world	1,061,379	807,086
Total borrowings	**4,532,123**	**4,211,249**

30 Contingent liabilities and commitments

The Group in the ordinary course of business will be subject to claims and proceedings against it whereby the validity of the claim will only be confirmed by uncertain future events. In such circumstances the contingent liabilities are possible obligations, or present obligations if known, where the transfer of economic benefit is uncertain or cannot be reliable measured. Contingent Liabilities are not recognised, but are disclosed, unless they are remote. Where some loss is probable, provisions have been made on a case by case basis.

Contingent liabilities and credit related commitments arising in respect of the Group's operations were:

$000's	**June 2020**	**June 2019**
Letters of credit, guarantee commitments and performance bonds	6,515	6,757
Total contingent liabilities	**6,515**	**6,757**
Undrawn facilities available to customers	248,868	177,316
Conditional commitments to fund at future dates	58,045	14,286
Total commitments	**306,913**	**191,602**

31 Events after the reporting date

COVID-19 pandemic update

Following the confirmation of further community spread of COVID-19 with unknown origin, the Government announced on 12 August 2020 that New Zealand’s COVID-19 Alert Levels will change, with the Auckland region (Wellsford to Pukekohe) moving to Alert Level 3 and the rest of New Zealand moving to Alert Level 2. Following that, the Auckland region moved to Alert Level 2 from 31 August 2020. This did not have any impact on Group's estimates and judgements (refer to Note 1 - Financial statements preparation).

Dividend

The Group declared a fully imputed dividend of 2.5 cents per share on 17 September 2020, to be paid to share holders on 9 October 2020.

Funding facility

On 15 September 2020, the Group announced that a funding facility of AU$142 million had been secured for its Australian reverse mortgages portfolio.

There were no other events subsequent to the reporting period which would materially affect the consolidated financial statements.

KPMG

Independent Auditor's Report

To the shareholders of Heartland Group Holdings Limited

Report on the audit of the consolidated financial statements

Opinion

We have audited the accompanying consolidated financial statements which comprise:

- the consolidated statement of financial position as at 30 June 2020;
- the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended; and
- notes, including a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements of Heartland Group Holdings Limited and its subsidiaries (the "Group") on pages 6 to 62:

i. present fairly in all material respects the Group's financial position as at 30 June 2020 and its financial performance and cash flows for the year ended on that date; and

ii. comply with New Zealand Equivalents to International Financial Reporting Standards and International Financial Reporting Standards.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand) ("ISAs (NZ)"). We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

We are independent of the Group in accordance with Professional and Ethical Standard 1 International Code of Ethics for Assurance Practitioners (Including International Independence Standards) (New Zealand) issued by the New Zealand Auditing and Assurance Standards Board and the International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (including International Independence Standards) ("IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

Our responsibilities under ISAs (NZ) are further described in the auditor's responsibilities for the audit of the consolidated financial statements section of our report.

Our firm has also provided other services to the Group in relation to the review of the Group's consolidated interim financial statements, regulatory assurance services, agreed upon procedure engagements and supervisor reporting. Subject to certain restrictions, partners and employees of our firm may also deal with the Group on normal terms within the ordinary course of trading activities of the business of the Group. These matters have not impaired our independence as auditor of the Group. The firm has no other relationship with, or interest in, the Group.

Materiality

The scope of our audit was influenced by our application of materiality. Materiality helped us to determine the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and on the consolidated financial statements as a whole. The materiality for the consolidated financial statements as a whole was set at $5,470,000 determined with reference to a benchmark of the Group's normalised profit before tax. We chose the benchmark because, in our view, this is a key measure of the Group's performance.

We agreed with the Audit Committee that we would report to them, misstatements identified during our audit above $270,000 as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements in the current period. We summarise below those matters and our key audit procedures to address those matters in order that the shareholders as a body may better understand the process by which we arrived at our audit opinion. Our procedures were undertaken in the context of and solely for the purpose of our statutory audit opinion on the consolidated financial statements as a whole and we do not express discrete opinions on separate elements of the consolidated financial statements.

Key changes in the assessment of audit risks

Covid-19

The Covid-19 pandemic has created significant additional risks across a number of areas of the business, particularly the assessment of the provision for impairment of finance receivables. All forward looking assumptions are inherently more uncertain during these unprecedented times. While the key audit matter "Provision for impairment of finance receivables", detailed below, is unchanged from last year, the underlying audit risk has increased which impacted the extent and nature of audit evidence that we had to gather.

The key audit matter	How the matter was addressed in our audit
Provision for impairment of finance receivables Refer to notes 1 and 13 to the consolidated financial statements.	
The provision for impairment of finance receivables is a key audit matter due to the financial significance and the inherent complexity of the Group's expected credit loss ("ECL") models. Significant judgement and estimates are required to incorporate forward-looking information to reflect future economic conditions, including the potential economic impact of the Covid-19 pandemic and other assumptions such as defining a significant increase in credit risk ("SICR"). The collective provision is estimated through the ECL model which uses historical data, adjusted for forward looking information and the assigned risk grade or arrears status. Additionally, management apply judgement in the determination of provision overlays to adjust for future market conditions. The level of judgement involved in determining the provision for collectively impaired assets requires us to challenge the appropriateness of management's assumptions. The provision for individually impaired assets is based on the application of management judgement regarding expected future cashflows, which are inherently uncertain.	Together with KPMG credit risk specialists we assessed the Group's collective and individual provisions. Our procedures, amongst others, included: — Assessing the Group's governance and oversight, including the continuous reassessment of overall provisioning; — Assessing the Group's significant accounting policies and ECL modelling methodology against the requirements of the standards and underlying accounting records; — Testing key controls including the arrears calculations, customer loan ratings, annual loan reviews, credit risk reviews and data reconciliations between the ECL models and source systems; — Assessing the model output against actual losses incurred by the Group; — Challenging the key assumptions, including forward looking economic assumptions, against external information including benchmarking management's estimates to a range of different market forecasts; — Evaluating individual credit assessments for a sample of 'rural' and other 'corporate' loans on management's credit watchlist. This included inspection of the latest correspondence with the borrower, assessment of the provision estimates prepared by credit risk officers, and consideration of the resolution strategy. We challenged assumptions and assessed collateral values by comparing them to valuations performed by independent valuers; and — Assessing the disclosures in the consolidated financial statements against the requirements of NZ IFRS. From the procedures performed we consider the Group appropriately identified and considered the uncertainties in the provision estimates.

The key audit matter	How the matter was addressed in our audit
Valuation of finance receivables – reverse mortgages Refer to notes 13(b) and 20 to the consolidated financial statements.	
The Group's reverse mortgage portfolio is held at fair value. The fair value calculation is based on the application of management judgement. In assessing the fair value, the Group continuously considers evidence of a relevant active market. In the absence of such a market, in the current period, the Group considered changes since loan origination and expected future cashflows. The inherent uncertainties include estimated exits, interest rates and security property values.	Our procedures over the fair value loan portfolios, amongst others, included: — Testing key controls over the accuracy of data impacting the fair value assessment; — Assessing evidence of a relevant active market or observable inputs; and — Challenging the key assumptions used by the Group in determining the portfolio's fair value. The estimates and assumptions used to determine the valuation of finance receivables are reasonable, with no evidence of management bias or influence identified from our procedures.
Operation of IT systems and controls	
The Group is reliant on complex IT systems for the processing and recording of significant volumes of transactions and other core banking activity. For significant financial statement balances, such as finance receivables and deposits, where relevant, our audit involves an assessment of the design of the Group's internal control environment. There are some areas of the audit where we seek to test and place reliance on IT systems, automated controls and reporting. The effective operation of these controls is dependent upon the Group's general IT control environment, which incorporates controls relevant to IT system changes and development, IT operations, developer and user access.	Our audit procedures, amongst others, included: — Gaining an understanding of business processes, key controls and IT systems relevant to significant financial statement balances, including technology services provided by a third party; — Assessing the effectiveness of the IT control environment, including core banking IT systems, key automated controls and reporting; and — Evaluating general IT controls relevant to IT system changes and development, IT operations, developer and user access. Where we noted design or operating effectiveness matters relating to IT system or application controls relevant to our audit, we performed alternative audit procedures. We also identified and tested mitigating controls in order to respond to the impact on our overall audit approach. We did not identify any material issues or exceptions from those additional procedures.

Other information

The Directors, on behalf of the Group, are responsible for the other information included in the entity's Annual Report. Other information may include the Annual Review and information included in the Financial Report. Our opinion on the consolidated financial statements does not cover any other information and we do not express any form of assurance conclusion thereon.

The Annual Report is expected to be made available to us after the date of this Independent Auditor's Report. Our responsibility is to read the Annual Report when it becomes available and consider whether the other information it contains is materially inconsistent with the consolidated financial statements, or our knowledge obtained in the audit, or otherwise appear misstated. If so, we are required to report such matters to the Directors.

Use of this independent auditor's report

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

Responsibilities of the Directors for the consolidated financial statements

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

— the preparation and fair presentation of the consolidated financial statements in accordance with generally accepted accounting practice in New Zealand (being New Zealand Equivalents to International Financial Reporting Standards) and International Financial Reporting Standards;

— implementing necessary internal control to enable the preparation of consolidated financial statements that are 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 audit of the consolidated financial statements

Our objective is:

— to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error; and

— to issue an independent auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs NZ will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error. They are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

A further description of our responsibilities for the audit of these consolidated financial statements is located at the External Reporting Board (XRB) website at:

http://www.xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities/audit-report-1/

This description forms part of our independent auditor's report.

The engagement partner on the audit resulting in this independent auditor's report is Graeme Edwards.

For and on behalf of

KPMG

KPMG
Auckland

17 September 2020

HEARTLAND GROUP

Distribution Notice

Please note: all cash amounts in this form should be provided to 8 decimal places

Section 1: Issuer information				
Name of issuer	Heartland Group Holdings Limited			
Financial product name/description	Ordinary Shares			
NZX ticker code	HGH			
ISIN (If unknown, check on NZX website)	NZHGHE0007S9			
Type of distribution (Please mark with an X in the relevant box/es)	Full Year	X	Quarterly	
	Half Year		Special	
	DRP applies	X		
Record date	25/09/2020			
Ex-Date (one business day before the Record Date)	24/09/2020			
Payment date (and allotment date for DRP)	09/10/2020			
Total monies associated with the distribution[1]	$14,524,477.65			
Source of distribution (for example, retained earnings)	Retained earnings			
Currency	NZD			
Section 2: Distribution amounts per financial product				
Gross distribution[2]	$0.03472222			
Gross taxable amount [3]	$0.03472222			
Total cash distribution[4]	$0.02500000			
Excluded amount (applicable to listed PIEs)	NIL			
Supplementary distribution amount	$0.00441176			
Section 3: Imputation credits and Resident Withholding Tax[5]				
Is the distribution imputed	Fully imputed - YES			
	~~Partial imputation~~			

[1] Continuous issuers should indicate that this is based on the number of units on issue at the date of the form

[2] "Gross distribution" is the total cash distribution plus the amount of imputation credits, per financial product, before the deduction of Resident Withholding Tax (**RWT**).

[3] "Gross taxable amount" is the gross distribution minus any excluded income.

[4] "Total cash distribution" is the cash distribution excluding imputation credits, per financial product, before the deduction of RWT. This should *include* any excluded amounts, where applicable to listed PIEs.

[5] The imputation credits plus the RWT amount is 33% of the gross taxable amount for the purposes of this form. If the distribution is fully imputed the imputation credits will be 28% of the gross taxable amount with remaining 5% being RWT. This does not constitute advice as to whether or not RWT needs to be withheld.

	~~No imputation~~	
If fully or partially imputed, please state imputation rate as % applied[6]	28%	
Imputation tax credits per financial product	$0.00972222	
Resident Withholding Tax per financial product	$0.00173611	
Section 4: Distribution re-investment plan (if applicable)		
DRP % discount (if any)	2.0%	
Start date and end date for determining market price for DRP	28/09/2020	02/10/2020
Date strike price to be announced (if not available at this time)	05/10/2020	
Specify source of financial products to be issued under DRP programme (new issue or to be bought on market)	New issue	
DRP strike price per financial product	$	
Last date to submit a participation notice for this distribution in accordance with DRP participation terms	28/09/2020, 5:00pm (NZT)	
Section 5: Authority for this announcement		
Name of person authorised to make this announcement	Andrew Dixson, Chief Financial Officer	
Contact person for this announcement	Andrew Dixson, Chief Financial Officer	
Contact phone number	09 927 9274	
Contact email address	Andrew.Dixson@heartland.co.nz	
Date of release through MAP	17/09/2020	

[6] Calculated as (imputation credits/gross taxable amount) x 100. Fully imputed dividends will be 28% as a % rate applied.

Disclosure Statement

HEARTLAND BANK

FOR THE YEAR ENDED 30 JUNE 2020

CONTENTS

Financial Statements

GENERAL INFORMATION

This Disclosure Statement has been issued by Heartland Bank Limited (the **Bank**) and its subsidiaries (the **Banking Group**) for the year ended 30 June 2020 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 year ended 30 June 2020 form part of, and should be read in conjunction with, this Disclosure Statement.

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

Name and address for service

The name of the Registered Bank is Heartland Bank Limited.

The Banking Group consists of the Bank and all of its subsidiaries.

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.

Details of incorporation

The Bank was incorporated under the Companies Act 1993 on 30 September 2010.

Interests in 5% or more of voting securities of the Bank

Name	Percentage held
Heartland Group Holdings Limited	100%

Heartland Group Holdings Limited have the ability to appoint 100% of Directors, subject to RBNZ restrictions and RBNZ Director approval.

PRIORITY OF CREDITORS' CLAIMS

In the event of the Bank becoming insolvent or ceasing business, certain claims set out in legislation are paid in priority to others. These claims include secured creditors, taxes, certain payments to employees and any liquidator’s costs. After payment of those creditors, the claims of all other creditors are unsecured and would rank equally, with the exception of holders of subordinated bonds and notes which rank below all other claims.

GUARANTEE ARRANGEMENTS

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

AUDITOR

KPMG
KPMG Centre
18 Viaduct Harbour Avenue
Auckland

DIRECTORS

All Directors of the Bank reside in New Zealand with the exception of Ellen Comerford who resides in Australia. Communications to the Directors can be sent to Heartland Bank Limited, 35 Teed Street, Newmarket, Auckland.

On 01 January 2020, Vanessa Cynthia May Stoddart resigned as Director, and Shelley Maree Ruha was appointed as a Director.

The Directors of the Bank and their details at the time this Disclosure Statement was signed were:

Chairman - Board of Directors
Name: Bruce Robertson Irvine
Qualifications: BCom, LLB, FCA, CF Inst D, FNZIM
Type of Director: Independent Non-Executive Director
Occupation: Company Director
External Directorships:
Air Rarotonga Limited, Amaia Day Spa (Tonga) Limited, Amaia Luxury Spa Limited, Amyes Road Limited (in liquidation), B R Irvine Limited, Blackbyre Horticulture Limited, Bowdens Mart Limited, Bray Frampton Limited, Britten Motorcycle Company 1992 Limited, Chambers @151 Limited, Clipper Investments (2002) Limited, Cockerill and Campbell (2007) Limited, Embassy Hotels Limited, GZ Capital Limited, GZ NZ Limited, GZ RES Limited, Hansons Lane International Holdings Limited, Hawling Holdings Limited, House of Travel ESP Trustee Limited, House of Travel Holdings Limited, J.S. Ewers Limited, Kaipaki Holdings Limited, Kaipaki Properties Limited, Lake Angelus Holdings Limited, Lamanna Bananas (NZ) Limited, Lamanna Premier Group Pty Limited, Lamanna Limited, Limeloader Irrigation Limited, Market Fresh Wholesale Limited, Market Gardeners Limited, MG Group Holdings Limited, MG Marketing Limited, MG New Zealand Limited, Monarch Hotels Limited, Noblesse Oblige Limited, Original Foods N.Z. Limited; Paradise Islands Limited; Phimai Holdings Limited, Quitachi Limited, Rakon ESOP Trustee Limited, Rakon Limited, Rakon PPS Trustee Limited, Scenic Hotels (Karapiro) Limited, Scenic Hotels (Hamilton) Limited, Scenic Circle Convention Services Limited, Scenic Hotel (Haast) Limited, Scenic Circle (Napier) Limited, Scenic Hotel Group Limited, Scenic Hotels (Ashburton) Limited, Scenic Hotels (International) Limited, Scenic Circle MLC Café & Bar Limited, Skope Industries Limited, Southland Produce Markets Limited, Stark Holdings (NZ) Limited, USC Investments Limited, Wavell Resources Limited.

Name: Jeffrey Kenneth Greenslade
Qualifications: LLB
Type of Director: Non-Independent Non-Executive Director
Occupation: Chief Executive Officer of Heartland Group Holdings Limited
External Directorships:
Heartland Australia Group Pty Limited, Heartland Australia Holdings Pty Limited, Australian Seniors Finance Pty Limited, ASF Custodians Pty Limited, Heartland Group Holdings Limited, Henley Family Investments Limited.

Name: Edward John Harvey
Qualifications: BCom, CA, CFInstD
Type of Director: Independent Non-Executive Director
Occupation: Company Director
External Directorships:
Investore Property Limited, Kathmandu Holdings Limited, Napier Port Holdings Limited, Pomare Investments Limited, Port of Napier Limited, Stride Holdings Limited, Stride Investment Management Limited, Stride Property Limited.

Name: Ellen Frances Comerford
Qualifications: BEc
Type of Director: Non-Independent Non-Executive Director
Occupation: Company Director
External Directorships:
Auscred Limited, Comerford Gohl Holdings Pty Limited, Heartland Group Holdings Limited, Hollard Holdings Australia Pty Limited, The Hollard Insurance Group Pty Limited.

Name: Geoffrey Thomas Ricketts CNZM
Qualifications: LLB (Hons), LLD (*honoris causa*), CFInstD
Type of Director: Non-Independent Non-Executive Director
Occupation: Company Director
External Directorships:
Heartland Group Holdings Limited, Janmac Capital Limited, Maisemore Enterprises Limited, MCF2 Message4U Limited, MCF 2 Nexus Limited, MCF 7 Limited, MCF 8 Limited, MCF 9 Limited, MCF 10 Limited, MCF2 (Fund 1) Limited, MCF2A General Partner Limited, MCF2 GP Limited, MCF3 GP Limited, MCF3B General Partner Limited, MCF3A General Partner Limited, MCF2 FFF-GK Limited, MCF3 Cook Limited, MCF3 TEG Limited, MCF3 Squiz Limited, MC Medical Properties Limited, Mercury Capital No.1 Fund Limited, Mercury Capital No. 1 Trustee Limited, Mercury Medical Holdings Limited, New Zealand Catholic Education Office Limited, NZCEO Finance Limited, O & E Group Services Limited, Oceania and Eastern Finance Limited, Oceania and Eastern Group Funds Limited, Oceania and Eastern Holdings Limited, Oceania and Eastern Limited, Oceania and Eastern Securities Limited, Oceania North Limited, Oceania Securities Limited, Quartet Equities Limited, The Centre for Independent Studies Limited.

DIRECTORS (CONTINUED)

Name: Kathryn Mitchell
Qualifications: BA, CMInstD
Type of Director: Independent Non-Executive Director
Occupation: Company Director
External Directorships:
Chambers@151 Limited, Christchurch International Airport Limited, Farmright Limited, Firsttrax Limited, Helpings Hands Holdings Limited, Link Engine Management Limited, Morrison Horgan Limited, The New Zealand Merino Company Limited.

Name: Shelley Maree Ruha
Qualifications: BCom**,** DipBank
Type of Director: Independent Non-Executive Director
Occupation: Company Director
External Directorships:
Analey Holdings Limited, IT & Business Consulting Limited, New Zealand Rural Land Management Limited, Partners Group Holdings Limited, Partners Life Limited, 9 Spokes International Limited.

Conflicts of interest policy

All Directors are required to disclose to the Board any actual or potential conflicts of interest which may exist or is thought to exist upon appointment and are required to keep these disclosures up to date. The details of each disclosure made by a Director to the Board must be entered in the Interests Register.

Directors are required to take any necessary and reasonable measures to try to resolve the conflict and comply with the Companies Act 1993 by disclosing interests and restrictions on voting. Any Director with a material personal, professional or business interest in a matter being considered by the Board must declare their interest and, unless the Board resolves otherwise, may not be present during the boardroom discussions or vote on the relevant matter.

Interested transactions

There have been no transactions between the Bank or any member of the Banking Group and any Director or immediate relative or close business associate of any Director which either has been entered into on terms other than those which would in the ordinary course of business of the Bank or any member of the Banking Group be given to any other person of like circumstances or means, or could be reasonably likely to influence materially the exercise of the Directors' duties.

Audit committee composition

Members of the Bank's Audit Committee as at the date of this Disclosure Statement are as follows:

Edward John Harvey (Chairperson)	Independent Non-Executive Director
Bruce Robertson Irvine	Independent Non-Executive Director
Geoffrey Thomas Ricketts	Non-Independent Non-Executive Director

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 year ended 30 June 2020:

   (a) the Bank complied with all Conditions of Registration applicable during the period except as noted on page 78;

   (b) credit exposures to connected persons were not contrary to the interests of the Banking Group; and

   (c) the Bank had systems in place to monitor and control adequately material risks of the Banking Group, including credit risk, concentration of credit risk, interest rate risk, currency risk, equity risk, liquidity risk, operational risk and other business risks, and that those systems were being properly applied.

This Disclosure Statement is dated 17 September 2020 and has been signed by all the Directors.

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

G. T. Ricketts

J. K. Greenslade

K. Mitchell

E. F. Comerford

S. M. Ruha

E. J. Harvey

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 30 June 2020

$000's	Note	June 2020	June 2019
Interest income	3	297,512	284,064
Interest expense	3	108,476	111,665
Net interest income		**189,036**	**172,399**
Operating lease income	4	5,946	6,336
Operating lease expense	4	4,063	3,670
Net operating lease income		**1,883**	**2,666**
Lending and credit fee income		7,894	6,217
Other income	5	5,965	526
Net operating income		**204,778**	**181,808**
Operating expenses	6	90,782	76,298
Profit before impaired asset expense and income tax		**113,996**	**105,510**
Fair value gain on investments		-	1,936
Impaired asset expense	8	29,372	20,554
Profit before income tax		**84,624**	**86,892**
Profit before income tax from discontinued operations		-	6,169
Income tax expense	9	23,924	24,762
Profit for the year		**60,700**	**68,299**
Other comprehensive income			
Items that are or may be reclassified subsequently to profit or loss, net of income tax:			
Effective portion of change in fair value of derivative financial instruments		(2,179)	(4,762)
Movement in fair value reserve		766	2,968
Movement in foreign currency translation reserve		-	(4,229)
Items that will not be reclassified to profit or loss, net of income tax:			
Movement in defined benefit reserve		-	(86)
Other comprehensive (loss) for the year, net of income tax		**(1,413)**	**(6,109)**
Total comprehensive income for the year		**59,287**	**62,190**

Total comprehensive income for the year is attributable to the owner of the Bank.

The notes to the financial statements form an integral part of, and should be read in conjunction with, these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 30 June 2020

		June 2020				June 2019			
$000's	**Note**	**Share Capital**	**Reserves**	**Retained Earnings**	**Total Equity**	**Share Capital**	**Reserves**	**Retained Earnings**	**Total Equity**
Balance at beginning of year		**553,239**	**(1,114)**	**51,265**	**603,390**	**542,315**	**4,585**	**117,260**	**664,160**
NZ IFRS 9 adjustment		-	-	-	-	-	-	(19,283)	(19,283)
NZ IFRS 16 adjustment	1	-	-	(640)	(640)	-	-	-	-
Restated balance at beginning of year		**553,239**	**(1,114)**	**50,625**	**602,750**	**542,315**	**4,585**	**97,977**	**644,877**
Total comprehensive income for the year									
Profit for the year		-	-	60,700	60,700	-	-	68,299	68,299
Other comprehensive (loss), net of income tax	16	-	(1,413)	-	(1,413)	-	(6,109)	-	(6,109)
Total comprehensive income for the year		**-**	**(1,413)**	**60,700**	**59,287**	**-**	**(6,109)**	**68,299**	**62,190**
Contributions by and distributions to owners									
Dividends paid	15	-	-	(65,000)	(65,000)	-	-	(30,808)	(30,808)
Dividend to Heartland Group Holdings Limited	15	-	-	-	-	-	-	(81,234)	(81,234)
Transfer of ownership		-	-	-	-	-	(297)	-	(297)
Sale of business		-	-	-	-	-	2,969	(2,969)	-
Dividend reinvestment plan		-	-	-	-	8,584	-	-	8,584
Share based payments		-	-	-	-	-	78	-	78
Shares vested		-	-	-	-	2,340	(2,340)	-	-
Total transactions with owners		**-**	**-**	**(65,000)**	**(65,000)**	**10,924**	**410**	**(115,011)**	**(103,677)**
Balance at end of the year		**553,239**	**(2,527)**	**46,325**	**597,037**	**553,239**	**(1,114)**	**51,265**	**603,390**

The notes to the financial statements form an integral part of, and should be read in conjunction with, these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2020

$000's	Note	June 2020	June 2019
Assets			
Cash and cash equivalents		105,463	39,140
Investments	10	399,308	354,928
Investment properties		11,132	11,132
Derivative financial instruments	11	17,246	14,467
Due from related parties	18	1,481	24,558
Finance receivables	12	3,044,960	3,031,066
Finance receivables - reverse mortgages	12	609,346	561,131
Operating lease vehicles	13	17,603	15,516
Right of use assets	17	17,843	-
Other assets	17	17,380	25,362
Intangible assets	17	57,470	56,580
Deferred tax asset	9	15,327	9,948
Total assets		**4,314,559**	**4,143,828**
Liabilities			
Retail deposits	14	3,269,239	3,153,681
Other borrowings	14	358,732	345,273
Due to related parties	18	7,944	3,381
Lease liabilities	17	19,871	-
Tax liabilities		11,271	5,667
Derivative financial instruments	11	16,974	11,147
Trade and other payables	17	33,491	21,289
Total liabilities		**3,717,522**	**3,540,438**
Equity			
Share capital	15	553,239	553,239
Retained earnings and other reserves		43,798	50,151
Total equity		**597,037**	**603,390**
Total equity and liabilities		**4,314,559**	**4,143,828**

Total interest earning and discount bearing assets	4,143,158	3,964,651
Total interest and discount bearing liabilities	3,614,022	3,487,269

The notes to the financial statements form an integral part of, and should be read in conjunction with, these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 30 June 2020

$000's	Note	June 2020	June 2019
Cash flows from operating activities			
Interest received		258,797	246,885
Operating lease income received		5,934	5,391
Lending, credit fees and other income received		17,422	4,585
Operating inflows		**282,153**	**256,861**
Interest paid		103,793	129,270
Payments to suppliers and employees		40,277	77,795
Taxation paid		20,281	21,888
Operating outflows		**164,351**	**228,953**
Net cash flows from operating activities before changes in operating assets and liabilities		**117,802**	**27,908**
Proceeds from sale of operating lease vehicles		4,969	4,959
Purchase of operating lease vehicles		(9,938)	(5,495)
Net movement in finance receivables		(51,372)	(325,390)
Net movement in deposits		116,040	270,232
Net cash flows from/(applied to) operating activities		**177,501**	**(27,786)**
Cash flows from investing activities			
Sale of property, plant and equipment and intangible assets		95	-
Total cash provided from investing activities		**95**	**-**
Purchase of property, plant and equipment and intangible assets		6,602	4,302
Net increase in investments		43,614	11,227
Total cash applied to investing activities		**50,216**	**15,529**
Net cash flows (applied to) investing activities		**(50,121)**	**(15,529)**
Cash flows from financing activities			
Net increase in wholesale funding		5,745	49,892
Proceeds from issue of unsubordinated notes		-	125,000
Total cash provided from financing activities		**5,745**	**174,892**
Dividends paid	15	65,000	42,014
Repayments of subordinated notes		-	26,206
Payment of lease liabilities		1,802	-
Total cash applied to financing activities		**66,802**	**68,220**
Net cash flows (applied to)/from financing activities		**(61,057)**	**106,672**
Net increase in cash held		**66,323**	**63,357**
Opening cash and cash equivalents		39,140	44,548
Cash transferred on corporate restructure		-	(68,765)
Closing cash and cash equivalents		**105,463**	**39,140**

The notes to the financial statements form an integral part of, and should be read in conjunction with, these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 30 June 2020

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

$000's	Note	June 2020	June 2019
Profit for the year		**60,700**	**68,299**
Add / (less) non-cash items:			
Depreciation and amortisation expense		8,859	5,754
Depreciation on lease vehicles	13	3,634	3,363
Capitalised net interest income and fee income		(39,620)	(52,948)
Impaired asset expense	8	29,372	21,181
Investment fair value movement		-	(1,936)
Other non-cash items		6,310	1,765
Total non-cash items		**8,555**	**(22,821)**
Add / (less) movements in operating assets and liabilities:			
Finance receivables		(51,372)	(325,390)
Operating lease vehicles		(4,969)	(537)
Other assets		32,471	(5,802)
Current tax		5,604	(3,744)
Derivative financial instruments		869	(8,207)
Deferred tax		(5,379)	(5,762)
Deposits		116,040	270,232
Other liabilities		14,982	5,946
Total movements in operating assets and liabilities		**108,246**	**(73,264)**
Net cash flows applied to operating activities		**177,501**	**(27,786)**

The notes to the financial statements form an integral part of, and should be read in conjunction with, these consolidated financial statements.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2020

1 Financial statements preparation

Reporting entity

The financial statements presented are the consolidated financial statements comprising Heartland Bank Limited (the **Bank**) and its subsidiaries (the **Banking Group**). Refer Note 26 – Significant subsidiaries for further details.

As at 30 June 2020, 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 Financial Market Conduct (**FMC**) reporting entity for the purposes of the Financial Markets Conduct Act 2013.

Basis of preparation

The financial statements have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand (**NZ GAAP**) and with the requirements of the Financial Markets Conduct Act 2013. The financial statements comply with New Zealand equivalents to International Financial Reporting Standards (**NZ IFRS**) and other applicable Financial Reporting Standards as appropriate for profit-oriented entities, and the Registered Bank Disclosure Statement (New Zealand Incorporated Registered Banks) Order 2014 (as amended) (the **Order**). The financial statements also comply with International Financial Reporting Standards (**IFRS**) as issued by the International Accounting Standards Board.

The financial statements are presented in New Zealand dollars which is the Banking Group's functional and presentation currency. Unless otherwise indicated, amounts are rounded to the nearest thousand dollars.

The financial statements have been prepared on a going concern basis after considering the Banking Group's funding and liquidity position.

The accounting policies adopted have been applied consistently throughout the periods presented in these financial statements.

Certain comparative balances have been reclassified to align with the presentation used in the current financial year. These reclassifications have no impact on the overall financial performance or financial position for the comparative year.

Discontinued Operations

Comparative balances for the year ended 30 June 2019 classified as discontinued operations are a result of the corporate restructure on 31 October 2018 that led to the Australian group of companies being transferred from the Banking group to Heartland Group Holdings Limited (**HGH**).

Basis of measurement

The financial statements have been prepared on the basis of historical cost, except for certain financial instruments and investment property, which are measured at their fair values as identified in the accounting policies set out in the accompanying notes to the financial statements.

Principles of consolidation

The consolidated financial statements of the Banking Group incorporate the assets, liabilities and results of all controlled entities. Controlled entities are all entities in which the Bank is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Intercompany transactions, balances and any unrealised income and expense (except for foreign currency transaction gains or losses) between controlled entities are eliminated.

Assets and liabilities in a transactional currency that is not the New Zealand dollar, are translated at the exchange rates ruling at balance date. Revenue and expense items are translated at the spot rate at the transaction date or a rate approximating that rate. Exchange differences are taken to the consolidated statement of comprehensive income.

1 Financial statements preparation (continued)

Changes in accounting standards

Impact of adopting NZ IFRS 16 Leases

The Banking Group has adopted NZ IFRS 16 retrospectively from 1 July 2019, but has not restated comparatives for the 2019 reporting period, as permitted under the specific transitional provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on 1 July 2019.

The Banking Group leases office space, car parks, equipment and cars. Rental contracts are typically made for fixed periods but may have extension options. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions.

Until 30 June 2019, leases of property, plant and equipment were classified as either finance or operating leases. Payments made under operating leases (net of any incentives received from the lessor) were charged to profit or loss.

From 1 July 2019, leases are recognised as a right-of-use asset and a corresponding lease liability at the date at which the leased asset is available for use by the Banking Group. The right-of-use assets are initially measured at cost, comprising the amount of the initial measurement of the lease liability, any lease payments made at or before the commencement date less any lease incentives received, any initial direct costs and restoration costs. The right-of-use asset is depreciated over the shorter of the asset's estimated useful life and the lease term on a straight-line basis. The estimated useful life of right-of-use assets are determined on the same basis as those of property, plant and equipment.

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option. Extension options are only included in the lease term if the lease is reasonably certain to be extended.

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in the profit or loss. Short-term leases are leases with a lease term of 12 months or less.

On adoption of NZ IFRS 16, the Banking Group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of NZ IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the Banking Group's incremental borrowing rate as at 1 July 2019. The weighted average Banking Group's incremental borrowing rate applied to the lease liabilities on 1 July 2019 was 2.9%.

The Banking Group elected not to reassess whether a contract is, or contains, a lease at the date of initial application. Instead, for contracts entered into before the transition date, the Banking Group relied on its assessment made applying NZ IAS 17 and NZ IFRIC 4 Determining whether an Arrangement contains a Lease.

$000's	
Operating lease commitments as at 30 June 2019	**11,573**
Discounted using the Banking Group's incremental borrowing rate on initial application	(1,019)
Adjustments relating to changes in the index or rate effective variable payments	316
Lease liability recognised as at 1 July 2019	**10,870**
Of which are:	
Current lease liabilities	1,762
Non-current lease liabilities	9,108
Total lease liabilities	**10,870**

The associated right-of-use assets which are predominantly property leases were measured on a retrospective basis as if the new rules had always been applied. There were no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application.

1 Financial statements preparation (continued)

The change in accounting policy affected the following items in the consolidated statement of financial position as at 1 July 2019.

- Right-of-use assets: increased by $10.0 million
- Deferred tax assets: increased by $0.2 million
- Lease liabilities: increased by $10.8 million

The net impact on retained earnings on 1 July 2019 was a decrease of $0.6 million.

The adoption of NZ IFRS 16 has no material impact to the Banking Group's leasing business where the Banking Group acts as the lessor.

There have been no other changes to accounting policies or other new or amended standards that are issued and effective that are expected to have a material impact on the Banking Group.

Accounting standards issued but not yet effective

NZ IFRS 17 Insurance Contracts was issued in July 2017 and is applicable to general and life insurance contracts. NZ IFRS 17 will replace NZ IFRS 4 Insurance Contracts. In March 2020, the effective date of NZ IFRS 17 was deferred by one year. As such it is expected that the standard will be effective for the Banking Group's reporting for the financial year ending 30 June 2024, including 30 June 2023 comparatives.

The Banking Group conducts insurance business through its subsidiary MARAC Insurance Limited (**MIL**). MIL has entered into a distribution agreement with DPL Insurance Limited (**DPL**) to distribute DPL's insurance products through its network and therefore stopped writing insurance policies in February 2020. The Banking Group will assess the impact arising from NZ IFRS 17 in conjunction with this new arrangement.

Other amendments to existing standards that are not yet effective are not expected to have a material impact on the Banking Group.

Estimates and judgements

The preparation of the Banking Group's consolidated financial statements requires the use of estimates and judgements. This note provides an overview of the areas that involve a higher degree of judgement or complexity. Detailed information about each of these estimates and judgements is included in the relevant notes together with the basis of calculation for each affected item in the financial statements.

- Provisions for impairment - The effect of credit risk is quantified based on the Banking Group's best estimate of future cash repayments and proceeds from any security held or by reference to risk profile groupings, historical loss data and forward-looking information. Refer to Note 8 - Impaired asset expense, and Note 12 - Finance receivables for further details.
- Fair value of reverse mortgages - Fair value is quantified by the transaction price and the Banking Group's subsequent best estimate of the risk profile of the reverse mortgage portfolio. Refer to Note 19 - Fair value for further details.
- Goodwill - Determining the fair value of assets and liabilities of acquired businesses requires the Banking Group to exercise judgement. The carrying value of goodwill is tested annually for impairment, refer to Note 17 - Other balance sheet items.

Assumptions made at each reporting date (e.g. the calculation of the provision for impairment and fair value adjustments) are based on best estimates as at that date. Although the Banking Group has internal controls in place to ensure that estimates can be reliably measured, actual amounts may differ from these estimates. The estimates and judgements used in the preparation of the Banking Group's financial statements are continually evaluated. They are based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity. Revisions to accounting estimates are recognised in the reporting period in which the estimates are revised and in any future periods affected.

COVID-19 Pandemic - Impact on Estimates and Judgements

On 11 March 2020, COVID-19 was declared a pandemic by the World Health Organisation. The domestic economy has been significantly disrupted by measures put in place to limit the impact of the spread of COVID-19 among the community, and also by the downstream effects of the deterioration that COVID-19 has caused in the global economy. Countermeasures implemented by Government (including the Government's support and fiscal programmes) and the Reserve Bank of New Zealand have assisted to mitigate the impact of those measures – however, the unprecedented nature of the current environment and the number of variables which impact on that environment means that significant uncertainty around future economic conditions remains.

1 Financial statements preparation (continued)

The Banking Group has responded to the pandemic by working with its customers to understand their needs and provide them with the financial support that best meets their requirements. To date, that support has included participating in industry wide measures (such as the mortgage deferrals programme and the provision of liquidity under the Business Finance Guarantee Scheme (**BFGS**) program), and implementing other measures such as temporary payment reduction or payment deferral arrangements for both business and consumer customers. The Banking Group has also developed a product, Heartland Extend, which provides customers with flexible payment options.

The accounting judgement that is most impacted by the pandemic relates to expected credit losses (**ECL**) on finance receivables at amortised cost. The Banking Group's accounting policy for the recognition and measurement of the allowance for ECL is described in Note 8 Impaired asset expense. The Banking Group measures the allowance for ECL using an expected credit loss impairment model in compliance with NZ IFRS 9 Financial Instruments.

The impact of the pandemic has also been considered where there is significant use of forward-looking estimates and judgement, primarily when identifying impairment indicators for goodwill and intangible assets and calculating the recoverable amount.

The impact of the COVID-19 pandemic on each of these estimates and judgements is discussed further in the following notes to the consolidated financial statements:

- Note 8 - Impaired asset expense
- Note 12 - Finance receivables
- Note 17 - Other balance sheet items - Goodwill
- Note 19 - Fair value

Financial assets and liabilities

Financial Assets

Financial assets are classified based on:

- The business model within which the assets are managed; and
- Whether the contractual cash flows of the instrument represent solely payment of principal and interest (**SPPI**).

The Banking Group determines the business model at the level that reflects how groups of financial assets are managed. When assessing the business model, the Banking Group considers factors including how performance and risks are managed, evaluated and reported and the frequency and volume of, and reason for sales in previous periods.

Financial assets are classified into the following measurement categories:

Financial Assets	Measurement Category	Note
Bank bonds and floating rate notes	Fair value through other comprehensive income (**FVOCI**)	10
Public sector securities and corporate bonds	FVOCI	10
Local authority stock	FVOCI	10
Equity investments	Fair value through profit or loss (**FVTPL**)	10
Finance receivables – reverse mortgages	FVTPL	12
Finance receivables	Amortised cost	12

Financial assets measured at amortised cost

Financial assets are measured at amortised cost if they are held within a business model whose objective is achieved through holding the financial asset to collect contractual cash flows which represent SPPI on the principal balance.

Financial assets at amortised cost are initially recognised at fair value and subsequently measured at amortised cost using the effective interest rate method.

1 Financial statements preparation (continued)

Financial assets measured at FVOCI
Financial assets are measured at FVOCI if they are held within a business model whose objective is achieved both through collecting contractual cash flows which represent SPPI on the principal balance or selling the financial asset.

Financial assets at FVOCI are measured at fair value with unrealised gains and losses recognised in other comprehensive income except for interest income, impairment charges and foreign exchange gains and losses, which are recognised in profit or loss.

Financial assets measured at FVTPL
Financial assets are measured at FVTPL if:

- They are held within a business model whose objective is achieved through selling or repurchasing the financial asset in the near term, or forms part of a portfolio of financial instruments that are managed together and for which there is evidence of short-term profit taking; or
- They are designated at FVTPL upon initial recognition to eliminate or reduce an accounting mismatch.

Financial assets at FVTPL are measured at fair value with subsequent changes in fair value recognised in profit or loss.

Financial Liabilities

Financial liabilities are classified into the following measurement categories:

- Those to be measured at amortised cost;
- Those to be measured at FVTPL.

Financial liabilities measured at amortised cost
Financial liabilities are measured at amortised cost if they are not held for trading or designated at FVTPL.

Financial liabilities measured at amortised cost are accounted for using the effective interest rate method.

Financial liabilities measured at FVTPL
Financial liabilities are measured at FVTPL if:

- They are held for trading whose principal objective is achieved through selling or repurchasing the financial liability in the near term, or forms part of a portfolio of financial instruments that are managed together and for which there is evidence of short-term profit taking; or
- They are designated at FVTPL upon initial recognition to eliminate or reduce an accounting mismatch.

Financial liabilities at FVTPL are measured at fair value with subsequent changes in fair value recognised in profit or loss.

Further details of the accounting policy for each category of financial asset or financial liability mentioned above is set out in the note for the relevant item.

The Banking Group's policies for determining the fair value of financial assets and financial liabilities are set out in Note 19 - Fair value.

Recognition

The Banking Group initially recognises finance receivables and borrowings on the date that they are originated. All other financial assets and liabilities (including assets and liabilities designated at FVTPL) are initially recognised on the trade date at which the Banking Group becomes a party to the contractual provisions of the instrument.

Derecognition

The Banking Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Banking Group is recognised as a separate asset.

1 Financial statements preparation (continued)

The Banking Group enters into transactions whereby it transfers assets recognised on its consolidated statement of financial position, but retains either all risks or rewards of the transferred assets or a portion of them. If all or substantially all risks and rewards are retained, then the transferred assets are not derecognised from the consolidated statement of financial position. Transfers of assets with the retention of all or substantially all risks and rewards include, for example, securitised assets and repurchase transactions.

Financial liabilities are derecognised when the obligation is discharged, cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, the exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, with the difference in the respective carrying amounts recognised in profit or loss.

Offsetting financial instruments

The Banking Group offsets financial assets and financial liabilities and reports the net balance in the balance sheet where there is currently a legally enforceable right to set off and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

Performance

2 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.

Operating segments

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

Motor	Motor vehicle finance.
Reverse mortgages	Reverse mortgage lending in New Zealand.
Other personal	A comprehensive range of financial services - including term, transactional and personal loans to individuals.
Business	Term debt, plant and equipment finance, commercial mortgage lending and working capital solutions for small-to-medium sized businesses.
Rural	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.

Certain operating expenses, such as premises, IT and support centre costs are not allocated to operating segments and are included in Other. Liabilities are managed centrally and therefore are not allocated across the operating segments.

The Banking Group's operating segments are different from the industry categories detailed in Note 21 - Credit risk exposure. The operating segments are primarily categorised by sales channel, whereas Note 21 - Credit risk exposure categorises exposures based on credit risk concentrations.

$000's	Motor	Reverse Mortgages	Other Personal	Business	Rural	Other	Total
June 2020							
Net interest income	56,957	20,118	18,365	57,950	29,674	5,972	189,036
Net other income	3,622	3,430	3,055	3,465	1,028	1,142	15,742
Net operating income	**60,579**	**23,548**	**21,420**	**61,415**	**30,702**	**7,114**	**204,778**
Operating expenses	3,248	4,804	6,776	11,283	2,648	62,023	90,782
Profit / (loss) before impaired asset expense and income tax	**57,331**	**18,744**	**14,644**	**50,132**	**28,054**	**(54,909)**	**113,996**
Impaired asset expense/(benefit)	10,113	-	11,119	10,110	(1,970)	-	29,372
Profit before income tax from continuing operations	**47,218**	**18,744**	**3,525**	**40,022**	**30,024**	**(54,909)**	**84,624**
Income tax expense	-	-	-	-	-	23,924	23,924
Profit/(loss) for the year	**47,218**	**18,744**	**3,525**	**40,022**	**30,024**	**(78,833)**	**60,700**
Total assets	1,125,295	559,934	214,759	1,126,632	604,938	683,001	**4,314,559**
Total liabilities							**3,717,522**

2 Segmental analysis (continued)

$000's	Motor	Reverse Mortgages	Other Personal	Business	Rural	Other	Total
June 2019							
Net interest income	54,695	20,674	14,564	52,857	30,393	(784)	172,399
Net other income	2,371	224	4,344	2,989	1,288	(1,807)	9,409
Net operating income	**57,066**	**20,898**	**18,908**	**55,846**	**31,681**	**(2,591)**	**181,808**
Operating expenses	2,543	2,279	5,602	9,156	3,263	53,455	76,298
Profit / (loss) before impaired asset expense and income tax	**54,523**	**18,619**	**13,306**	**46,690**	**28,418**	**(56,046)**	**105,510**
Fair value gain on investments	-	-	-	-	-	1,936	1,936
Impaired asset expense	5,277	-	8,307	7,102	(132)	-	20,554
Profit / (loss) before income tax from continuing operations	**49,246**	**18,619**	**4,999**	**39,588**	**28,550**	**(54,110)**	**86,892**
Profit / (loss) before income tax from discontinued operations	-	-	-	-	-	6,169	6,169
Income tax expense	-	-	-	-	-	24,762	24,762
Profit / (loss) for the year	**49,246**	**18,619**	**4,999**	**39,588**	**28,550**	**(72,703)**	**68,299**
Total assets	1,089,769	510,299	220,500	1,096,773	650,751	575,736	**4,143,828**
Total liabilities							**3,540,438**

3 Net interest income

Policy

Interest income and expense on financial instruments is measured using the effective interest rate method that discounts the financial instruments' future cash flows to their present value and allocates the interest income or expense over the life of the financial instrument. The effective interest rate is established on initial recognition of the financial assets or liabilities and is not subsequently revised. For financial instruments at amortised cost, the calculation of the effective interest rate includes all yield related fees and commissions paid or received that are an integral part of the underlying financial instrument.

$000's	June 2020	June 2019
Interest income		
Cash and cash equivalents	482	717
Investments	8,496	9,733
Finance receivables	250,592	236,906
Finance receivables - reverse mortgages	37,942	36,708
Total interest income	**297,512**	**284,064**
Interest expense		
Retail deposits	90,786	96,476
Other borrowings	14,188	13,349
Net interest expense on derivative financial instruments	3,502	1,840
Total interest expense	**108,476**	**111,665**
Net interest income	**189,036**	**172,399**

4 Net operating lease income

Policy

As a lessor, the Banking Group retains substantially all the risks and rewards of ownership of an asset are classified as operating leases. Rental income and expense from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term. Profits on the sale of operating lease assets are included as part of operating lease income. Current year depreciation and losses on the sale of operating lease assets are included as part of operating lease expenses. The leased assets are depreciated over their useful lives on a basis consistent with similar assets.

$000's	June 2020	June 2019
Operating lease income		
Lease income	5,194	5,517
Gain on disposal of lease assets	752	819
Total operating lease income	**5,946**	**6,336**
Operating lease expense		
Depreciation on lease assets	3,634	3,363
Direct lease costs	429	307
Total operating lease expense	**4,063**	**3,670**
Net operating lease income	**1,883**	**2,666**

5 Other income

Policy

Rental income from investment property

Rental income from investment properties is recognised on a straight-line basis over the term of the relevant lease.

Insurance income

Insurance premium income and commission expense are recognised in profit or loss from the date of attachment of the risk over the period of the insurance contract. Claim expense is recognised in the profit or loss on an accrual basis once our liability to the policyholder has been confirmed under the terms of the contract.

$000's	June 2020	June 2019
Rental income from investment properties	1,124	731
Insurance income	1,610	2,536
Gain on sale of investments	-	173
Other income	2,810	(197)
FX gain / (loss)	421	(2,717)
Total other income	**5,965**	**526**

6 Operating expenses

Policy
Operating expenses are recognised as the underlying service is rendered or over a period in which an asset is consumed or a liability is incurred.

$000's	**June 2020**	**June 2019**
Personnel expenses	45,759	41,732
Directors' fees	650	822
Superannuation	836	827
Depreciation - property, plant and equipment	2,280	1,861
Operating lease expense as a lessee	-	1,646
Legal and professional fees	3,049	2,278
Advertising and public relations	4,577	3,019
Depreciation - right of use asset	2,122	-
Technology services	6,063	5,565
Telecommunications, stationary and postage	1,651	1,692
Customer acquisition costs	2,919	861
Amortisation of intangible assets	4,456	3,893
Other operating expenses[1]	16,420	12,102
Total operating expenses	**90,782**	**76,298**

[1]Other operating expenses include compensation of auditor which is disclosed in Note 7.

7 Compensation of auditor

$000's	**June 2020**	**June 2019**
Audit and review of the financial statements[1]	559	472
Other assurance services paid to auditor [2]	60	47
Total compensation of auditor	**619**	**519**

[1] Audit and review of the financial statements includes fees paid for both the audit of the annual financial statements and review of interim financial statements.
[2] Other assurance related services paid to the auditor comprise regulatory assurance services, trust deed reporting, registry audits and other agreed upon procedure engagements.

8 Impaired asset expense

Policy
Impairment of finance receivables
At each reporting date, the Banking Group applies a three stage approach to measuring ECL to finance receivables not carried at fair value. The ECL model assesses whether there has been a significant increase in credit risk since initial recognition.

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 required, based on events that are possible in the next 12 months.

Assets may migrate through the following stages based on their change in credit quality:

Stage 1 - 12 months ECL (past due 30 days or less)

Where there has been no evidence of increased credit risk since initial recognition, and are not credit impaired upon origination, the portion of the lifetime ECL associated with the probability of default events occurring within the next 12 months is recognised.

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

Where there has been a significant increase in credit risk.

Stage 3 - Lifetime ECL credit impaired (90 days past due or more)

Objective evidence of impairment, so are considered to be in default or otherwise credit impaired.

8 Impaired asset expense (continued)

In determining whether credit risk has increased all available information relevant to the assessment of economic conditions at the reporting date are taken into consideration. To do this the Banking Group considers its historical loss experience and adjusts this for current observable data. In addition to this the Banking Group uses reasonable and supportable forecasts of future economic conditions including experienced judgement to estimate the amount of an expected impairment loss. Future economic conditions consider macroeconomic factors such as unemployment, interest rate, gross domestic product, and inflation, and requires an evaluation of both the current and forecast direction of the economic cycle. The methodology and assumptions including any forecasts of future economic conditions are reviewed regularly as incorporating forward-looking information increases the level of judgement as to how changes in these macroeconomic factors will affect the ECL.

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

$000's	June 2020	June 2019
Non-securitised		
Individually impaired asset expense	3,385	1,311
Collectively impaired asset expense	25,590	19,529
Total non-securitised impaired asset expense	**28,975**	**20,840**
Securitised		
Collectively impaired asset expense	397	341
Total securitised impaired asset expense	**397**	**341**
Total		
Individually impaired asset expense	3,385	1,311
Collectively impaired asset expense	25,987	19,870
Total impaired asset expense	**29,372**	**21,181**
Reconciliation of impaired asset expense		
Impaired asset expense	29,372	20,554
Impaired asset expense for discontinued operations	-	627
Total impaired asset expense	**29,372**	**21,181**

The Banking Group has followed industry and regulatory guidance when assessing individual customers, or portfolios of assets, to determine if a significant increase in credit risk (**SICR**) has occurred. The industry guidance provides that any payment deferral or similar allowance provided to customers as a result of the impact of COVID-19 would not automatically result in a SICR. Accordingly, customers who received assistance through the pandemic as a result of a payment reduction, deferral arrangement, or through the Heartland Extend product, have not been assessed as being subject to a SICR.

However, as a result (and when considered in conjunction with the measures put in place to limit the impact of the spread of COVID-19 among the community), the traditional indicators of increased credit risk may not provide an accurate measure of the credit quality of the Banking Group's assets.

The Banking Group's models for estimating expected credit losses for each of its portfolios are based on the historic credit experience of those portfolios. The models assume that economic conditions (such as GDP growth, unemployment rates, and house price index forecasts) remain static over time. If the Banking Group forecasts that economic conditions will not remain static in the foreseeable future, the Banking Group applies judgment to determine whether the modelled output should be subject to an economic overlay. This follows analysis of historic data and performance which has established no clear correlation between key economic indicators and the credit performance of the Banking Group's unique portfolios, meaning the approach is an inherently judgmental exercise.

In the current scenario, the pandemic has caused a deterioration in economic conditions. The Banking Group has therefore applied judgement to estimate whether the modelled output should be subject to an economic overlay. In exercising that judgement, it was assumed that the Banking Group's "base case" economic forecast would prevail. That base case forecast scenario is for:

8 Impaired asset expense (continued)

- A steep initial adverse movement (at close to -20%) in gross domestic product to 30 June 2020 but with a relatively quick, full recovery by June 2022;
- Unemployment to peak at 8.2% (June 2021) and then to largely recover over the following 2.5 years; but
- House prices falling 6.6% to March 2021, with a full recovery to June 2021.

That base case also assumes:

- There are no further significant periods of lockdown in or across any part of NZ as at the date of approval of the Banking Group's financial statements for the year ended 30 June 2020.
- Heartland Extend, through providing customers with time (with economic conditions improving over time) would be successful in supporting the Banking Group's consumer and business customers who need that assistance.
- The recently amended BFGS would be successful in supporting the Banking Group's business customers who need that assistance.
- Second hand car prices would remain stable.
- The price for exported primary produce would not materially fall.

Using those assumptions, and taking Management's experience and deep understanding of the Banking Group's customers (following the customer contact programmes implemented by the Banking Group during, and after, COVID-19), the Banking Group recognised that there is downside risk (including in the event that any of the underlying assumptions transpire to be incorrect) and, as a result, the Banking Group's expected credit losses could be understated.

It is stressed that there is considerable uncertainty in these judgements. As noted by the New Zealand Treasury:

"The magnitude and duration of the downturn and the subsequent pace of the recovery depends on many unknown factors, including the course of the virus, how long activity restrictions are in place, how quickly the global economy will recover, how behaviours and production might change, and how successful government policies will be in supporting households and firms."

To reflect that inherent risk, the Banking Group employed three methodologies to ascertain a range of potential expected credit losses on each of its portfolios:

1. First, the Banking Group has calculated a "Stage 2" lifetime expected loss provision as applied to the most affected parts of its portfolio.

   This methodology neutralises the concern that the Banking Group's assistance measures (when considered in conjunction with the measures put in place to limit the impact of the spread of COVID-19 among the community), may have masked traditional indicators of increased credit risk, by demonstrating how much provisions would increase by if all customers receiving assistance were treated as posing increased credit risk for the Banking Group.
2. Secondly, the Banking Group used the loss rates experienced on its Motor portfolio during the Global Financial Crisis of 2008, applied them to its current Motor portfolio, and extrapolated the proportionate increase in provisions to its other affected portfolios.
3. Lastly, the Banking Group engaged a consultant to analyse historic correlations between certain industry default levels and macroeconomic indicators. This correlation was then applied to the Banking Group's base case forecast scenario economic outlook, to determine the degree to which (based on that historic correlation, and the base case forecast scenario) the Banking Group's customers may be likely to default in the base case forecast scenario economic overlay. That increased chance of default was then used to calculate an increase in provisions in affected portfolios.

Each of those methodologies have limitations. However, they did provide the Banking Group with a range of "downside" potential credit losses for each portfolio. Across the three methodologies and portfolios, the range of possible outcomes was between $4.1 million and $11.8 million. Judgement was applied (taking into account the ranges provided by those methodologies, and all other relevant factors) in order to calculate an economic overlay across each affected portfolio. As a result a pre-tax overlay of $9.6 million was applied as outlined in Note 12 - Finance receivables.

9 Taxation

Policy

Income tax

Income tax expense for the year comprises current tax and movements in deferred tax balances, including any adjustment required for prior years' tax expense. Income tax expense is recognised in profit and loss except to the extent that it relates to items recognised directly in other comprehensive income, in which case it is recognised in equity or other comprehensive income.

Current tax

Current tax is the expected tax payable or receivable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to the tax payable or receivable in respect of previous years. Current tax for current and prior years is recognised as a liability (or asset) to the extent that it is unpaid (or refundable).

Deferred tax

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for accounting purposes and the amounts used for taxation purposes. As required by NZ IAS 12 Income Taxes, a deferred tax asset is recognised only to the extent that it is probable that a future taxable profit will be available to realise the asset.

Goods and services tax (GST)

Revenues, expenses and assets are recognised net of GST. As the Banking Group is predominantly involved in providing financial services, only a proportion of GST paid on inputs is recoverable. The non-recoverable proportion of GST is treated as an expense or, if relevant, as part of the cost of acquisition of an asset.

Income tax expense

$000's	**June 2020**	**June 2019**
Income tax recognised in profit or loss		
Current tax		
Current year	26,281	22,932
Adjustments for prior year	1,536	(2,037)
Deferred tax		
Current year	(2,418)	2,830
Adjustments for prior year	(1,475)	1,037
Total income tax expense recognised in profit or loss	**23,924**	**24,762**
Income tax recognised in other comprehensive income		
Current tax		
Derivatives at fair value reserve	768	(82)
Fair value movements of cash flow hedge	(1,477)	-
Deferred tax		
Defined benefit plan	-	(34)
Fair value movements of cash flow hedges	-	(238)
Total income tax expense recognised in other comprehensive income	**(709)**	**(354)**
Profit before income tax from continuing operations	84,624	86,892
Profit before income tax from discontinued operations	-	6,169
Total profit before income tax	**84,624**	**93,061**
Reconciliation of effective tax rate		
Prima facie tax @ 28%	23,695	26,057
Higher tax rate for overseas jurisdictions	-	112
Adjusted tax effect of items not taxable/deductible	168	(407)
Adjustments for prior year	61	(1,000)
Total income tax expense	**23,924**	**24,762**

9 Taxation (continued)

Deferred tax assets comprise the following temporary differences:

$000's	June 2020	June 2019
Employee entitlements	1,468	984
Provision for impairment	17,547	14,391
Investment properties	-	4
Intangibles and property, plant and equipment	(4,576)	(4,182)
Deferred acquisition costs	(936)	(1,321)
Operating lease vehicles	731	(800)
Other temporary differences	1,093	872
Total deferred tax assets	**15,327**	**9,948**
Opening balance of deferred tax assets	**9,948**	**5,319**
Movement recognised in profit or loss	5,136	(4,281)
Movement recognised in other comprehensive income	-	(272)
Transfer on demerger	-	1,442
Movement recognised in retained earnings	243	7,740
Closing balance of deferred tax assets	**15,327**	**9,948**

Financial Position

10 Investments

Policy

Investments are classified into one of the following categories:

Fair value through profit or loss

Investments under this category include equity investments and are measured at fair value plus transaction costs. Changes in fair value of these investments are recognised in profit or loss in the period in which they occur.

Fair value through other comprehensive income

Investments under this category include bank bonds, floating rate notes, local authority stock, public securities and corporate bonds. These are initially measured at fair value, including transaction costs, and subsequently carried at fair value. Changes in fair value of these investments are recognised in other comprehensive income and presented within the fair value reserve.

Amortised cost

Investments under this category include bank deposits and are measured using effective interest rate method. They are held to collect contractual cash flows that are solely payments of principal and interest on the principal amount outstanding.

$000's	June 2020	June 2019
Bank deposits, bank bonds and floating rate notes	366,289	246,724
Public sector securities and corporate bonds	30,716	82,370
Local authority stock	-	13,399
Equity investments	2,303	12,435
Total investments	**399,308**	**354,928**

Refer to Note 19 - Fair value for details of the split between investments measured at fair value through profit or loss, fair value through other comprehensive income and amortised cost.

11 Derivative financial instruments

Policy

Derivative financial instruments are contracts whose value is derived from changes in one or more underlying financial instruments or indices. They include forward contracts, swaps, options and combinations of these instruments.

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently measured at their fair value at each reporting date. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

Fair values are obtained from quoted market prices in active markets, including recent market transactions, and valuation techniques, including discounted cash flow models and options pricing models, as appropriate. Fair values include adjustment for counterparty credit risk. The method of recognising the resulting fair value gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. A hedge instrument is a designated derivative, the changes in fair values or cash flows of which are expected to offset changes in the fair value of cash flows of the designated hedged item.

A hedged item is an asset, liability, firm commitment or highly probable forecast transaction that exposes the Banking Group to risk of changes in fair value or cash flows, and that is designated as being hedged. The Banking Group applies fair value hedge accounting to hedge movements in the value of fixed interest rate assets and liabilities subject to interest rate risk. The Banking Group applies cash flow hedge accounting to hedge the variability in highly probable forecast future cash flows attributable to interest rate risk on variable rate assets and liabilities.

11 Derivative financial instruments (continued)

Fair value hedge accounting

The criteria that must be met for a relationship to qualify for hedge accounting include:

- the hedging relationship must be formally designated and documented at inception of the hedge,
- effectiveness testing must be carried out on an on-going basis to ensure the hedge is effective, consistent with the originally documented risk management strategy, and
- the instruments or counterparty must be a third party external to the Banking Group.

The Banking Group documents, at the inception of the transaction, the relationship between hedged items and hedging instruments, as well as its risk management objective and strategy for undertaking various hedge transactions. The Banking Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair value of hedged items.

Subsequent to initial designation, changes in the fair value of derivatives that are designated and qualify for fair value hedge accounting are recorded in the consolidated statement of comprehensive income together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. The movement in fair value of the hedged item attributable to the hedged risk is made as an adjustment to the carrying value of the hedged asset or liability.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, the adjustment to carrying amount of a hedged item is amortised to the consolidated statement of comprehensive income on an effective yield basis over the remaining period to maturity of the hedged item. Where the hedged item is derecognised from the balance sheet, the adjustment to the carrying amount of the asset or liability is immediately transferred to the consolidated statement of comprehensive income.

Cash flow hedge accounting

The criteria that must be met for a relationship to qualify for hedge accounting include:

- the hedging relationship must be formally designated and documented at inception of the hedge,
- effectiveness testing must be carried out on an on-going basis to ensure the hedge is effective, consistent with the originally documented risk management strategy, and
- the instruments or counterparty must be a third party external to the Banking Group.

11 Derivative financial instruments (continued)

The Banking Group documents, at the inception of the transaction, the relationship between hedged items and hedging instruments, as well as its risk management objective and strategy for undertaking various hedge transactions. The Banking Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in cash flows of hedged items.

A fair value gain or loss associated with the effective portion of a derivative designated as a cash flow hedge is recognised initially in the hedging reserve. The ineffective portion of a fair value gain or loss is recognised immediately in the consolidated statement of comprehensive income.

When a hedging derivative expires or is sold, the hedge no longer meets the criteria for hedge accounting, or the Banking Group elects to revoke the hedge designation, the cumulative gain or loss on the hedging derivative remains in the cash flow hedging reserve until the forecast transaction occurs and affects income, at which point it is transferred to the corresponding income or expense line. If a forecast transaction is no longer expected to occur, the cumulative gain or loss on the hedging derivative previously reported in the cash flow hedging reserve is immediately transferred to the consolidated statement of comprehensive income.

	June 2020			June 2019		
$000's	**Notional Principal**	**Fair Value Assets**	**Fair Value Liabilities**	**Notional Principal**	**Fair Value Assets**	**Fair Value Liabilities**
Held for risk management						
Interest rate related contracts						
Swaps	1,140,422	17,238	16,939	1,958,084	13,049	11,005
Foreign currency related contracts						
Forwards	168,100	8	35	157,147	290	142
Options	-	-	-	177,255	1,128	-
Total derivative financial instruments	**1,308,522**	**17,246**	**16,974**	**2,292,486**	**14,467**	**11,147**

12 Finance receivables

(a) Finance receivables held at amortised cost

Policy

Finance receivables are initially recognised at fair value plus incremental direct transaction costs and are subsequently measured at amortised cost using the effective interest method, less any impairment loss.

Fees and direct costs relating to loan origination, financing and loan commitments are deferred and amortised to interest income over the life of the loan using the effective interest rate method. Lending fees not directly related to the origination of a loan are recognised over the period of service.

Past due but not impaired assets are any assets which have not been operated by the counterparty within their key terms but are not considered to be impaired by the Banking Group.

Individually impaired assets are those loans for which the Banking Group has evidence that it will incur a loss, and will be unable to collect all principal and interest due according to the contractual terms of the loan.

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 too small to model, judgement is used to determine impairment provisions.

$000's	June 2020	June 2019
Non-securitised		
Neither at least 90 days past due nor impaired - at amortised cost	2,945,623	3,018,679
At least 90 days past due - at amortised cost	58,876	44,466
Individually impaired - at amortised cost	24,667	26,412
Gross finance receivables	**3,029,166**	**3,089,557**
Less provision for impairment	(62,272)	(58,491)
Total non-securitised finance receivables	**2,966,894**	**3,031,066**
Securitised		
Neither at least 90 days past due nor impaired - at amortised cost	78,059	-
At least 90 days past due - at amortised cost	404	-
Individually impaired - at amortised cost	-	-
Gross finance receivables	**78,463**	**-**
Less provision for impairment	(397)	-
Total securitised finance receivables	**78,066**	**-**
Total		
Neither at least 90 days past due nor impaired - at amortised cost	3,023,682	3,018,679
At least 90 days past due - at amortised cost	59,280	44,466
Individually impaired - at amortised cost	24,667	26,412
Gross finance receivables	**3,107,629**	**3,089,557**
Less provision for impairment	(62,669)	(58,491)
Total finance receivables	**3,044,960**	**3,031,066**

Refer to Note 22 - Asset quality for further analysis of finance receivables by credit risk concentration.

The impact of COVID-19 on use of judgements and estimates is discussed in Note 8 - Impaired asset expense.

12 Finance receivables (continued)

Movement in provision

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

$000's	12 - Month ECL	Lifetime ECL Not Credit Impaired	Lifetime ECL Credit Impaired	Specific Provision	Total
June 2020					
Non-securitised					
Impairment allowance as at 30 June 2019	**30,422**	**1,781**	**18,425**	**7,863**	**58,491**
Changes in loss allowance					
Transfer between stages	(1,190)	(294)	(109)	1,593	-
New and increased provision (net of collective provision releases)	2,901	2,091	24,999	1,792	31,783
Recovery of amounts written off	-	-	(2,808)	-	(2,808)
Credit impairment charge	**1,711**	**1,797**	**22,082**	**3,385**	**28,975**
Recovery of amounts previously written off	-	-	2,808	-	2,808
Write offs	-	(1,438)	(20,658)	(5,947)	(28,043)
Effect of changes in foreign exchange rate	27	4	10	-	41
Impairment allowance as at 30 June 2020	**32,160**	**2,144**	**22,667**	**5,301**	**62,272**
Securitised					
Impairment allowance as at 30 June 2019	-	-	-	-	-
Changes in loss allowance					
Transfer between stages	(19)	11	8	-	-
New and increased provision (net of collective provision releases)	279	12	106	-	397
Recovery of amounts written off	-	-	-	-	-
Credit impairment charge	**260**	**23**	**114**	**-**	**397**
Recovery of amounts previously written off	-	-	-	-	-
Write offs	-	-	-	-	-
Effect of changes in foreign exchange rate	-	-	-	-	-
Impairment allowance as at 30 June 2020	**260**	**23**	**114**	**-**	**397**
Total					
Impairment allowance as at 30 June 2019	**30,422**	**1,781**	**18,425**	**7,863**	**58,491**
Changes in loss allowance					
Transfer between stages	(1,209)	(283)	(101)	1,593	-
New and increased provision (net of collective provision releases)	3,180	2,103	25,105	1,792	32,180
Recovery of amounts written off	-	-	(2,808)	-	(2,808)
Credit impairment charge	**1,971**	**1,820**	**22,196**	**3,385**	**29,372**
Recovery of amounts previously written off	-	-	2,808	-	2,808
Write offs	-	(1,438)	(20,658)	(5,947)	(28,043)
Effect of changes in foreign exchange rate	27	4	10	-	41
Impairment allowance as at 30 June 2020	**32,420**	**2,167**	**22,781**	**5,301**	**62,669**

12 Finance receivables (continued)

$000's	12 - Month ECL	Lifetime ECL Not Credit Impaired	Lifetime ECL Credit Impaired	Specific Provision	Total
June 2019					
Non-securitised					
Impairment allowance as at 30 June 2018	**31,784**	**1,365**	**14,945**	**8,897**	**56,991**
Changes in loss allowance					
Transfer between stages	(2,462)	(238)	52	2,648	-
New and increased provision (net of collective provision releases)	1,657	656	19,151	1,311	22,775
Recovery of amounts written off	-	-	(829)	-	(829)
Credit impairment charge	**(805)**	**418**	**18,374**	**3,959**	**21,946**
Recovery of amounts previously written off	-	-	829	-	829
Write offs	-	-	(15,721)	(4,993)	(20,714)
Effect of changes in foreign exchange rate	(51)	(2)	(2)	-	(55)
Sale of portfolio	(506)	-	-	-	(506)
Impairment allowance as at 30 June 2019	**30,422**	**1,781**	**18,425**	**7,863**	**58,491**
Securitised					
Impairment allowance as at 30 June 2018	**400**	**20**	**345**	**-**	**765**
Changes in loss allowance					
Transfer between stages	(8)	(7)	15	-	-
New and increased provision (net of collective provision releases)	(392)	(13)	(360)	-	(765)
Recovery of amounts written off	-	-	-	-	-
Credit impairment charge	**(400)**	**(20)**	**(345)**	**-**	**(765)**
Recovery of amounts previously written off	-	-	-	-	-
Write offs	-	-	-	-	-
Effect of changes in foreign exchange rate	-	-	-	-	-
Impairment allowance as at 30 June 2019	**-**	**-**	**-**	**-**	**-**
Total					
Impairment allowance as at 30 June 2018	**32,184**	**1,385**	**15,290**	**8,897**	**57,756**
Changes in loss allowance					
Transfer between stages	(2,470)	(245)	67	2,648	-
New and increased provision (net of collective provision releases)	1,265	643	18,791	1,311	22,010
Recovery of amounts written off	-	-	(829)	-	(829)
Credit impairment charge	**(1,205)**	**398**	**18,029**	**3,959**	**21,181**
Recovery of amounts previously written off	-	-	829	-	829
Write offs	-	-	(15,721)	(4,993)	(20,714)
Effect of changes in foreign exchange rate	(51)	(2)	(2)	-	(55)
Sale of portfolio	(506)	-	-	-	(506)
Impairment allowance as at 30 June 2019	**30,422**	**1,781**	**18,425**	**7,863**	**58,491**

12 Finance receivables (continued)

Impact of COVID-19 on allowance for ECL

The following table represents a summary of amounts included in the credit impairment charge with respect to the Banking Group's allowance for ECL:

$000's	June 2020
Collectively impaired asset expense (excluding COVID-19 adjustments)	16,387
COVID-19 adjustments	9,600
Total collectively impaired asset expense	**25,987**
Individually impaired asset expense	3,385
Total impaired asset expense	**29,372**

Impact of changes in gross finance receivables held at amortised cost on allowance for ECL

$000's	12 - Month ECL	Lifetime ECL Not Credit Impaired	Lifetime ECL Credit Impaired	Specific Provision	Total
Gross finance receivables as at 1 July 2019	2,799,220	206,882	57,043	26,412	3,089,557
Transfer between stages	(61,191)	12,570	41,245	7,376	-
Additions	1,496,900	87,843	23,610	-	1,608,353
Deletions	(1,402,340)	(118,572)	(37,334)	(3,174)	(1,561,420)
Write offs	(6,616)	(5,463)	(10,835)	(5,947)	(28,861)
Gross finance receivables as at 30 June 2020	**2,825,973**	**183,260**	**73,729**	**24,667**	**3,107,629**

(b) Finance receivables held at fair value

Policy
Finance receivables – reverse mortgages are initially recognised, and subsequently measured, at fair value through profit or loss.

$000's	June 2020	June 2019
Finance receivables - reverse mortgages	609,346	561,131
Total finance receivables - reverse mortgages	609,346	561,131

Note 19 (a) - Financial instruments measured at fair value discloses further information regarding the Banking Group's valuation policy.

Note 21 - Credit risk exposure discloses further information regarding how reverse mortgages operate.

Credit risk adjustments on financial assets designated at fair value through Profit or loss

There were no credit risk adjustments on individual financial assets.

13 Operating lease vehicles

Policy

Operating lease vehicles are stated at cost less accumulated depreciation.

Operating lease vehicles are depreciated on a straight line basis over their expected useful life after allowing for any residual values. The estimated lives of these vehicles vary up to five years. Vehicles held for sale are not depreciated but are tested for impairment.

$000's	**June 2020**	**June 2019**
Cost		
Opening balance	21,623	24,703
Additions	9,938	5,495
Disposals	(7,463)	(8,575)
Closing balance	**24,098**	**21,623**
Accumulated depreciation		
Opening balance	6,107	7,179
Depreciation charge for the year	3,634	3,363
Disposals	(3,246)	(4,435)
Closing balance	**6,495**	**6,107**
Opening net book value	15,516	17,524
Closing net book value	**17,603**	**15,516**

The future minimum lease payments receivable under operating leases not later than one year is $3.487 million (2019: $3.952 million), within one to five years is $2.053 million (2019: $3.137 million) and over five years is nil (2019: nil).

14 Borrowings

Policy

Borrowings and deposits are initially recognised at fair value including incremental direct transaction costs. They are subsequently measured at amortised cost using the effective interest method.

$000's	**June 2020**	**June 2019**
Deposits	3,269,239	3,153,681
Total borrowings related to deposits	**3,269,239**	**3,153,681**
Unsubordinated notes	293,147	285,435
Bank borrowings	-	25,002
Certificate of deposit	-	34,836
Securitised borrowings	65,585	-
Total other borrowings	**358,732**	**345,273**

Deposits and unsubordinated notes rank equally and are unsecured.

14 Borrowings (continued)

The Banking Group has the following unsubordinated notes on issue at balance sheet date:

Principal	Valuation	Note	Issue Date	Maturity Date	Frequency of Interest Repayment
$125 million	Amortised cost	19 (b)	12 April 2019	12 April 2024	Half yearly
$150 million	Amortised cost	19 (b)	21 September 2017	21 September 2022	Half yearly

At 30 June 2020 the Banking Group had the following securitised borrowings outstanding:

- Heartland Auto Receivables Warehouse Trust 2018 - 1 securitisation facility $300 million, drawn $66 million (2019: $150 million, undrawn). Securitised borrowings held by investors are secured over the assets of the Heartland Auto Receivables Warehouse Trust 2018-1. The facility has a maturity date of 29 August 2021.

15 Share capital and dividends

Policy
Ordinary shares are classified as equity, incremental costs directly attributable to the issue of ordinary shares and share options are recognised as a deduction from equity, net of any tax effect.

000's	June 2020 Number of Shares	June 2019 Number of Shares
Issued shares		
Opening balance	565,430	560,588
Shares issued during the year	-	-
Dividend reinvestment plan	-	5,283
Cancelled shares	-	(441)
Closing balance	**565,430**	**565,430**

There were no new shares issued during the period (2019: 5,282,619 new shares were issued at $1.6250 per share on 21 September 2018 under dividend reinvestment plans).

Dividends paid

	June 2020			June 2019		
	Date Declared	Cents Per Share	$000's	Date Declared	Cents Per Share	$000's
Dividend to HGH	1 August 2019	-	35,000	19 February 2019	-	19,790
Dividend to HGH	15 November 2019	-	20,000	-	-	-
Dividend to HGH	5 December 2019	-	10,000	-	-	-
In specie dividend	-	-	-	31 October 2018	-	61,444
Final dividend	-	-	-	15 August 2018	5.5	30,808
Total dividends paid			**65,000**			**112,042**

The RBNZ changed the Conditions of Registration for all locally incorporated banks to restrict the payment of dividends on ordinary shares, and the redemption on non-CET1 capital instruments as a result of the COVID-19 pandemic. The restrictions will remain in place until further notice. The purpose of the restriction is to support the stability of the financial system due to the current economic stress arising from COVID-19. The Banking Group has complied with the requirements of the RBNZ. This requirement was effective from 2 April 2020 and was made via a change in the banks Conditions of Registration (**COR**).

16 Other reserves

$000's	Employee Benefits Reserve	Foreign Currency Translation Reserve (FCTR)	Fair Value Reserve	Defined Benefit Reserve	Cash Flow Hedge Reserve	Total
June 2020						
Balance as at 1 July 2019	-	-	4,558	171	(5,843)	(1,114)
Other comprehensive income, net of income tax	-	-	766	-	(2,179)	(1,413)
Balance as at 30 June 2020	**-**	**-**	**5,324**	**171**	**(8,022)**	**(2,527)**
June 2019						
Balance as at 1 July 2018	2,559	1,260	1,590	257	(1,081)	4,585
Other comprehensive income, net of income tax	-	(4,229)	2,968	(86)	(4,762)	(6,109)
Transfer to Heartland Group Holdings	(297)	-	-	-	-	(297)
Sale of business	-	2,969	-	-	-	2,969
Share based payments	78	-	-	-	-	78
Shares vested	(2,340)	-	-	-	-	(2,340)
Balance as at 30 June 2019	**-**	**-**	**4,558**	**171**	**(5,843)**	**(1,114)**

17 Other balance sheet items

Policy

Property, plant and equipment are stated at cost less accumulated depreciation and impairment (if any). Depreciation is calculated on a straight line basis to write off the net cost or revalued amount of each asset over its expected life to its estimated residual value.

$000's	June 2020	June 2019
Other assets		
Trade receivables	1,926	6,264
GST receivables	742	3,643
Prepayments	3,269	4,380
Property, plant and equipment	9,839	9,896
Other receivables	1,604	1,179
Total other assets	**17,380**	**25,362**

Policy

Intangible assets

Intangible assets with finite useful lives

Software acquired or internally developed by the Banking Group is stated at cost less accumulated amortisation and any accumulated impairment losses. Expenditure on software assets is capitalised only when it increases the future economic value of that asset. Amortisation of software is on a straight line basis, at rates which will write off the cost over the assets' estimated useful lives. The expected useful life of the software has been determined to be ten years.

Goodwill

Goodwill arising on acquisition represents the excess of the cost of the acquisition over the Banking Group's interest in the fair value of the identifiable net assets acquired. Goodwill that has an indefinite useful life is not subject to amortisation and is tested for impairment annually. Goodwill is carried at cost less accumulated impairment losses.

17 Other balance sheet items (continued)

$000's	June 2020	June 2019
Computer software		
Cost	42,535	37,210
Accumulated depreciation	14,864	10,429
Net carrying value of computer software	**27,671**	**26,781**
Goodwill		
Cost	29,799	45,143
Transferred to Heartland Group Holdings Limited	-	(15,344)
Net carrying value of goodwill	**29,799**	**29,799**
Total intangible assets	**57,470**	**56,580**

Goodwill was tested for impairment on 30 June 2020. In assessing impairment, an internal valuation model was developed to indicate the value of the business i.e. the recoverable amount. This value was compared to the net assets of the Banking Group.

The recoverable amount was determined on a value in use basis using a five-year discounted cash flow methodology based on financial budget and forecasts. Key assumptions used in the model included a discount rate of 10% and a terminal growth rate of 2% which reflect both past experience and external sources of information.

The deterioration in economic conditions as a result of the COVID-19, and the consequential impact on the Banking Group were also considered for any indicators of impairment. These included:

- Comparing cashflows and other key financial metrics against budget;
- Material decreases in mid-term and/or long-term growth rates as compared to previous estimates;
- Any material changes in business model or strategy;
- Changes in market interest rates or other market rates of return;
- Fluctuations in the foreign exchange rates or commodity prices that impact the entity's cash flows; and
- Any deferral of investment projects.

There was no indication of impairment and no impairment losses have been recognised against the carrying amount of goodwill for the year ended 30 June 2020 (30 June 2019: nil).

For the purposes of impairment testing, goodwill is allocated to cash generating units (CGU's). A CGU is the smallest identifiable group of assets that generate independent cash inflows. The Banking Group has assessed that goodwill should be allocated to Heartland Bank Limited as the smallest identifiable CGU.

Policy

Employee benefits

Annual leave entitlements are accrued at amounts expected to be paid. Long service leave is accrued by calculating the probable future value of the entitlements and discounting back to present value. Obligations to defined contribution superannuation schemes are recognised as an expense when the contribution is paid.

$000's	June 2020	June 2019
Trade and other payables		
Trade payables	20,006	7,890
Insurance liability	6,094	7,468
Employee benefits	6,104	4,389
Other tax payables	1,287	1,542
Total trade and other payables	**33,491**	**21,289**

17 Other balance sheet items (continued)

Policy

Leases

The Banking Group leases office space, car parks, equipment and cars. Rental contracts are typically made for fixed periods but may have extension options. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions.

In determining the lease term, all facts and circumstances that create an economic incentive to exercise an extension option are considered. Extension options are only included in the lease term if the lease is reasonably certain to be extended.

Lease liabilities are measured at the present value of the remaining lease payments and discounted using the Banking Group's incremental borrowing rate (**IBR**). Lease liabilities are measured using the effective interest method. Carrying amounts are remeasured only upon reassessments and lease modifications.

Right of use assets are depreciated at the shorter of lease term or the Banking Group’s depreciation policy for that asset class.

$000's	**June 2020**	**June 2019**
Right of use assets		
Balance at 1 July 2019	10,002	-
Depreciation charge for the year, included within depreciation expense in the income statement	(2,122)	-
Additions to right of use assets	9,963	-
Total right of use assets	**17,843**	**-**
Lease liability		
Current	2,021	-
Non-current	17,850	-
Total lease liability	**19,871**	**-**
Interest expense relating to lease liability	**550**	**-**

18 Related party transactions and balances

Policy

A person or entity is a related party under the following circumstances:

a) A person or a close member of that person's family if that person:
   i) has control or joint control over the Bank;
   ii) has significant influence over the Bank; or
   iii) is a member of the key management personnel of the Bank.

b) An entity is related to the Bank if any of the following conditions applies:
   i) The entity and the Bank are members of the same group;
   ii) One entity is an associate or joint venture of the other entity;
   iii) Both entities are joint ventures of the same third party;
   iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity;
   v) The entity is a post-employment benefit plan for the benefit of employees of either the reporting entity or an entity related to the Bank;
   vi) The entity is controlled, or jointly controlled by a person identified in (a); and
   vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

18 Related party transactions and balances (continued)

(a) Transactions with key management personnel

Key management personnel (**KMP**), are those who, directly or indirectly, have authority and responsibility for planning, directing and controlling the activities of HGH and HBL. This includes all executive staff, Directors and their close family members.

KMP receive personal banking and financial investment services from the Bank in the ordinary course of business. The terms and conditions, for example interest rates and collateral, and the risks to the Bank are comparable to transactions with other employees and did not involve more than the normal risk of repayment or present other unfavourable features.

All other transactions with KMPs and their related entities are made on terms equivalent to those that prevail in arm's length transactions.

$000's	June 2020	June 2019
Transactions with key management personnel		
Interest income	18	-
Interest expense	(47)	(76)
Key management personnel compensation		
Short-term employee benefits	(3,034)	(4,839)
Short-term employee benefits - HGH parent	(6,240)	(4,502)
Share-based payment expense	(827)	(703)
Total transactions with key management personnel	**(10,130)**	**(10,120)**
Due (to) / from key management personnel		
Lending	239	-
Borrowings - deposits	(1,646)	(3,019)
Total due (to) / from key management personnel	**(1,407)**	**(3,019)**

(b) Transactions with related parties

The Banking Group's ultimate parent company is HGH.

The Bank has regular transactions with its ultimate parent company, fellow subsidiaries and subsidiaries (collectively known as the Heartland Group) on agreed terms. The transactions include the provision of administrative services, tax transactions, and customer operations and call centre. Banking facilities are provided by Heartland Bank Limited to other Heartland Group entities on normal commercial terms as with other customers. There is no lending from the Banking Group to HGH.

Related party transactions between the Banking Group eliminate on consolidation. Related party transactions outside of the Banking Group are as follows:

$000's	June 2020	June 2019
Heartland Group Holdings Limited		
Interest expense	47	-
Dividends paid	65,000	112,042
Disposal of investment in Harmoney Corp Limited	11,935	-
Management fees to HGH	4,745	-
Management fees from HGH	160	-
Heartland Australia Group Pty Limited (HAG)		
Interest income	678	1,846
Funding repaid to the Bank	27,225	-

18 Related party transactions and balances (continued)

$000's	June 2020	June 2019
Australian Seniors Finance Pty Limited (ASF)		
Management fees to ASF	9	-
Management fees from ASF	1,790	-
Southern Cross Building Society Staff Superannuation (SCBS)		
Interest expense	33	43
Management fees from SCBS	10	10

(c) Due from/to related parties

$000's	June 2020	June 2019
Due from		
Australian Seniors Finance Pty Limited	1,481	-
Heartland Australia Group Pty Limited	-	24,558
Total due from related parties	**1,481**	**24,558**
Due to		
Heartland Group Holdings Limited	5,788	3,381
ASF Settlement Trust	197	-
Heartland Australia Group Pty Ltd	1,959	-
Total due to related parties	**7,944**	**3,381**

(d) Other balances with related parties

$000's	June 2020	June 2019
Heartland Group Holdings Limited		
Retail deposits	5,047	-
Southern Cross Building Society Staff Superannuation		
Retail deposits	1,934	2,070

19 Fair value

Policy

Fair value is the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

On initial recognition, the transaction price generally represents the fair value of the financial instrument, unless there is observable information from an active market that provides a more appropriate fair value.

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

The Banking Group measures fair values using the following fair value hierarchy, which reflects the observability of the inputs used in measuring fair value:

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).

19 Fair value (continued)

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 at 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 statement of financial position.

Investments

Investments in public sector securities and corporate bonds are classified as being available for sale and are stated at FVOCI, 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). Refer to Note 10 - Investments for more details.

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 mortgages

Reverse mortgage loans are classified at fair value through profit or loss. On initial recognition the Banking Group considers the transaction price to represent the fair value of the loan.

For subsequent measurement the Banking Group has considered if the fair value can be determined by reference to a relevant active market or observable inputs, but has concluded relevant support is not currently available. In the absence of such market evidence the Banking Group has used valuation techniques (income approach) including actuarial assessments to consider the fair value.

When the Banking Group enters into a reverse mortgage loan the Banking Group has set expectations regarding the loan's current and future risk profile and expectation of performance. This expectation references a wide range of assumptions including:

- Mortality and move to care;
- Voluntary exits;
- House price changes;
- No negative equity guarantee; and
- Interest rate margin.

19 Fair value (continued)

At balance date the Banking Group does not consider any of the above expectations to have moved outside of the original expectation range. Therefore the Banking Group has continued to estimate the fair value of the portfolio at transaction price. There has been no fair value movement recognised in profit or loss during the period. Given the nature of the loan terms and tenor, the fair value as recorded is regarded as not being highly sensitive to the above assumptions, particularly to house prices and interest rates, that would impact the fair value at balance date. While noting the significant uncertainty around future economic conditions, based on current judgment there is no evidence that COVID-19 will have a long-term adverse impact on market conditions, particularly regarding the key elements of house prices or interest rates, that would materially influence the fair value of the reverse mortgage portfolio at balance date.

The Banking Group will continue to reassess the existence of a relevant active market and movements in expectations on an on-going basis.

Derivative financial instruments

Interest rate and foreign currency related contracts are recognised in the financial statements at fair value. Fair values are determined from observable market prices as at the reporting date, discounted cash flow models or option pricing models as appropriate. (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 statement of financial position.

$000's	Level1	Level2	Level3	Total
June 2020				
Assets				
Investments	295,300	94,354	2,303	391,957
Derivative financial instruments	-	17,246	-	17,246
Finance receivables - reverse mortgages	-	-	609,346	609,346
Total financial assets measured at fair value	**295,300**	**111,600**	**611,649**	**1,018,549**
Liabilities				
Derivative financial instruments	-	16,974	-	16,974
Total financial liabilities measured at fair value	**-**	**16,974**	**-**	**16,974**

$000's	Level1	Level2	Level3	Total
June 2019				
Assets				
Investments	255,875	79,047	12,435	347,357
Derivative financial instruments	-	14,467	-	14,467
Finance receivables - reverse mortgages	-	-	561,131	561,131
Total financial assets measured at fair value	**255,875**	**93,514**	**573,566**	**922,955**
Liabilities				
Derivative financial instruments	-	11,147	-	11,147
Total financial liabilities measured at fair value	**-**	**11,147**	**-**	**11,147**

19 Fair value (continued)

The movement in Level 3 assets measured at fair value are below:

$000's	Finance Receivables - Reverse Mortgage	Investments	Total
June 2020			
As at 1 July 2019	561,131	12,435	573,566
New loans	76,729	-	76,729
Repayments	(69,932)	-	(69,932)
Capitalised Interest and fees	39,620	-	39,620
Additions	-	1,803	1,803
Deletions	-	(11,935)	(11,935)
Other	1,798	-	1,798
As at 30 June 2020	**609,346**	**2,303**	**611,649**

$000's	Finance Receivables - Reverse Mortgage	Investments	Total
June 2019			
As at 1 July 2018	456,844	9,694	466,538
Purchased from ASF	54,711	-	54,711
New loans	57,477	-	57,477
Repayments	(42,715)	-	(42,715)
Capitalised Interest and fees	36,903	-	36,903
Additions	-	2,741	2,741
Other	(2,089)	-	(2,089)
As at 30 June 2019	**561,131**	**12,435**	**573,566**

(b) Financial instruments not measured at fair value

The following assets and liabilities of the Banking Group are not measured at fair value in the consolidated statement of financial position.

Cash and cash equivalents

Cash and cash equivalents are measured at amortised cost and their carrying value is considered equivalent to their fair value due to their short term nature.

Finance receivables

The fair value of the Banking Group's finance receivables is calculated using a valuation technique which assumes the Banking Group's current weighted average lending rates for loans of a similar nature and term.

The current weighted average lending rate used to fair value finance receivables with a fixed interest rate was 8.06% (2019: 8.88%). Finance receivables with a floating interest rate are deemed to be at current market rates. The current amount of credit provisioning has been deducted from the fair value calculation of finance receivables as a proxy for future losses.

Borrowings

The fair value of deposits, bank borrowings and other borrowings is the present value of future cash flows and is based on the current market interest rates payable by the Banking Group for debt of similar maturities. The average current market rate used to fair value borrowings was 2.24% (2019: 2.59%).

19 Fair value (continued)

Due to and from related parties

The fair value of amounts due to and from related parties is considered equivalent to their carrying value due to their short term nature.

Other financial assets and financial liabilities

The fair value of financial instruments such as short-term trade receivables and payables is considered equivalent to their carrying value due to their short term nature.

The following table sets out financial instruments not measured at fair value, compares their carrying value against their fair value and analyses them by level in the fair value hierarchy.

	June 2020			June 2019		
$000's	**Fair Value Hierarchy**	**Total Fair Value**	**Total Carrying Value**	**Fair Value Hierarchy**	**Total Fair Value**	**Total Carrying Value**
Assets						
Cash and cash equivalents	Level 1	105,463	105,463	Level 1	39,140	39,140
Investments[1]	Level 2	7,375	7,351	Level 2	7,432	7,571
Finance receivables	Level 2	3,092,150	3,044,960	Level 2	3,017,327	3,031,066
Due from related parties	Level 3	1,481	1,481	Level 3	24,558	24,558
Other financial assets	Level 3	3,530	3,530	Level 3	7,443	7,443
Total financial assets		**3,209,999**	**3,162,785**		**3,095,900**	**3,109,778**
Liabilities						
Retail deposits	Level 2	3,283,530	3,269,239	Level 2	3,160,426	3,153,681
Borrowings - securitised	Level 2	65,585	65,585	Level 2	-	-
Other borrowings	Level 2	293,147	293,147	Level 2	345,273	345,273
Due to related parties	Level 3	7,944	7,944	Level 3	3,381	3,381
Other financial liabilities	Level 3	26,100	26,100	Level 3	15,358	15,358
Total financial liabilities		**3,676,306**	**3,662,015**		**3,524,438**	**3,517,693**

[1]Included within investments are bank deposits which are held to support the Banking Group's contractual cash flows. Such investments are measured at amortised cost.

19 Fair value (continued)

(c) Classification of financial instruments

The following tables summarise the categories of financial instruments and the carrying value and fair value of all financial instruments of the Banking Group:

$000's	FVOCI	FVTPL	Amortised Cost	Total Carrying Value	Total Fair Value
June 2020					
Cash and cash equivalents	-	-	105,463	105,463	105,463
Investments	389,654	2,303	7,351	399,308	399,332
Finance receivables	-	-	3,044,960	3,044,960	3,092,150
Finance receivables - reverse mortgages	-	609,346	-	609,346	609,346
Derivative financial instruments	32	17,214	-	17,246	17,246
Due from related parties	-	-	1,481	1,481	1,481
Other financial assets	-	-	3,530	3,530	3,530
Total financial assets	**389,686**	**628,863**	**3,162,785**	**4,181,334**	**4,228,548**
Retail deposits	-	-	3,269,239	3,269,239	3,283,530
Other borrowings	-	-	358,732	358,732	358,732
Derivative financial instruments	15,409	1,565	-	16,974	16,974
Due to related parties	-	-	7,944	7,944	7,944
Other financial liabilities	-	-	26,100	26,100	26,100
Total financial liabilities	**15,409**	**1,565**	**3,662,015**	**3,678,989**	**3,693,280**

$000's	FVOCI	FVTPL	Amortised Cost	Total Carrying Value	Total Fair Value
June 2019					
Cash and cash equivalents	-	-	39,140	39,140	39,140
Investments	334,922	12,435	7,571	354,928	354,789
Finance receivables	-	-	3,031,066	3,031,066	3,017,327
Finance receivables - reverse mortgages	-	561,131	-	561,131	561,131
Derivative financial instruments	2,825	11,642	-	14,467	14,467
Due from related parties	-	-	24,558	24,558	24,558
Other financial assets	-	-	7,443	7,443	7,443
Total financial assets	**337,747**	**585,208**	**3,109,778**	**4,032,733**	**4,018,855**
Retail deposits	-	-	3,153,681	3,153,681	3,160,426
Other borrowings	-	-	345,273	345,273	345,273
Derivative financial instruments	9,893	1,254	-	11,147	11,147
Due to related parties	-	-	3,381	3,381	3,381
Other financial liabilities	-	-	15,358	15,358	15,358
Total financial liabilities	**9,893**	**1,254**	**3,517,693**	**3,528,840**	**3,535,585**

Risk Management

20 Enterprise risk management program

The board of directors (the **Board**) sets and monitors the Banking Group’s risk appetite across the primary risk domains of credit, capital, liquidity, market (including interest rate), operational and compliance and general business risk. Management are, in turn, responsible for ensuring appropriate structures, policies, procedures and information systems are in place to actively manage these risk domains, as outlined within the Enterprise Risk Management Framework (**ERMF**). Collectively, these processes are known as the Bank's Enterprise Risk Management Program (**RMP**).

Role of the Board and the Board Risk Committee

The Board, through its Board Risk Committee (**BRC**) is responsible for oversight and governance of the development of the RMP. The role of the BRC is to assist the Board to formulate its risk appetite, and to monitor the effectiveness of the RMP. The BRC has the following specific responsibilities:

- The Board's Risk Appetite Statement.
- Heartland’s Internal Capital Adequacy Assessment Program (**ICAAP**) including appropriate stress testing scenarios.
- The effectiveness of the ERMF and internal compliance and risk related policies, including approval or variation of policies, procedures and standards.
- Respond to changes anticipated in the economic, business and regulatory environment.
- Conduct, culture and customer outcomes, including emerging risks and any areas of concern.
- Credit exposures of the Bank, including the Delegated Lending Authority Policy and Framework.
- New products, including the process for approval of new products.

The BRC consists of four non-executive directors. Two members of the BRC sit on the Audit Committee. In addition the CEO Heartland Bank Limited (**HBL**), GCRO, CFO, Chief Legal & Bank Risk Officer, and Head of Internal Audit (or their nominee, subject to the Chair’s prior approval) attend the BRC meetings, and the directors who are not members of the BRC are entitled to attend meetings and to receive copies of the BRC papers.

Audit Committee

The Audit Committee focuses on financial reporting and application of accounting policies as part of the internal control and risk assessment framework. The Audit Committee monitors the identification, evaluation and management of all significant risks through the Banking Group. This work is supported by Internal Audit, which provides an independent assessment of the design, adequacy and effectiveness of internal controls. The Audit Committee receives regular reports from Internal Audit.

Charters for both the BRC and the Audit Committee ensure suitable cross representation to allow effective communication pertaining to identified issues with oversight by the Board. The CRO has a direct reporting line to the Chairman of the BRC. The Head of Internal Audit has a direct reporting line to the Chairman of the Audit Committee.

Internal Audit

The Banking Group has an Internal Audit function, the objective of which is to provide independent, objective assurance over the internal control environment. In certain circumstances, Internal Audit will provide risk and control advice to Management provided the work does not impede the independence of the Internal Audit function. The function assists The Banking Group in accomplishing its objectives by bringing a systematic and disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

Internal Audit is allowed full, free and unfettered access to any and all of the organisation’s records, personnel and physical properties deemed necessary to accomplish its activities.

20 Enterprise risk management program (continued)

A regular cycle of review has been implemented to cover all areas of the business, focused on assessment, management and control of risks identified. The audit plan takes into account cyclical review of various business units and operational areas, as well as identified areas of higher identified risk. The audit methodology is designed to meet the International Standards for the Professional Practice of Internal Auditing of The Institute of Internal Auditors.

Each audit has specific audit procedures tailored to the area of business that is being reviewed. The audit procedures are updated during each audit to reflect any process changes. Audit work papers are completed to evidence the testing performed in accordance with the audit procedures.

Audit reports are addressed to the manager of the relevant area that is being audited in addition to other relevant stakeholders within the Bank. Management comments are obtained from the process owner(s) and are included in the report.

The Internal Audit function has a direct reporting line, and accountability to the Audit Committee of the Bank and administratively to the Chief Legal & Bank Risk Officer. A schedule of all outstanding internal control issues is maintained and presented to the Audit Committee to assist the Audit Committee to track the resolution of previously identified issues. Any issues raised that are categorised as high risk are specifically reviewed by Internal Audit during a follow-up review once the issue is considered closed by management. The follow-up review is performed with a view to formally close out the issue.

Asset and Liability Committee (ALCO)

The ALCO comprises the CEO HGH, CEO HBL, GCRO, CFO, Chief Legal & Bank Risk Officer, Treasurer, Head of Retail, Financial Controller HBL and Chief Distribution Officer. The ALCO has responsibility for overseeing aspects of risk management of the Banking Group's financial position. The ALCO usually meet monthly, and provide reports to the BRC. ALCO's specific responsibilities include decision making and oversight of risk matters in relation to:

- Market risk (including non-traded interest rate risk and the investment of capital).
- Liquidity risk (including funding).
- Foreign exchange rate risk.
- Balance sheet structure.
- Capital management.

Executive Risk Committee (ERC)

The ERC comprises the CEO HBL, GCRO, CFO, Chief Legal & Bank Risk Office and Head of Internal Audit. The ERC has responsibility for overseeing risk aspects not considered by ALCO, including that the internal control environment is managed so that residual risk is consistent with the Banking Group's risk appetite. The ERC generally meets monthly, and provides minutes to the BRC. ERC’s specific responsibilities include decision making and oversight of operational, compliance risk, and credit risk.

Operational and compliance risk

Operational and compliance risk is the risk arising from day to day operational activities in the execution of the Banking Group's strategy which may result in direct or indirect loss. Operational and compliance risk losses can occur as a result of fraud, human error, missing or inadequately designed processes, failed systems, damage to physical assets, improper behaviour or from external events. The losses range from direct financial losses, to reputational damage, unfavourable media attention, injury to or loss of staff or clients or as a breach of laws or banking regulations. Where appropriate, risks are mitigated by insurance.

To ensure appropriate responsibility is allocated for the management, reporting and escalation of operational and compliance risk, the Banking Group operates a “three lines of defence” model which outlines principles for the roles, responsibilities and accountabilities for operational and compliance risk management:

- The first line of defence is the business line management of the identification, management and mitigation of the risks associated with the products and processes of the business. This accountability includes regular testing and attestation of the adequacy and effectiveness of controls and compliance with the Banking Group's policies.

20 Enterprise risk management program (continued)

- The second line of defence is the Risk and Compliance function, responsible for the design and ownership of the Operational Risk Management Framework. It incorporates key processes including Risk and Control Self-Assessment (**RCSA**), incident management, independent evaluation of the adequacy and effectiveness of the internal control framework and the attestation process.
- The third line of defence is Internal Audit which is responsible for independently assessing how effectively the Banking Group is managing its risk according to its stated risk appetite.

The Banking Group's exposure to operational and compliance risk is governed by a risk appetite statement approved by the Board and is used to guide management activities by the ERC. This statement sets out the nature of risk which may be taken and aggregate risk limits, including the requirement for the ERC to monitor adherence to this.

Market risk

Market risk is the possibility of experiencing losses or gains due to factors affecting the overall performance of financial markets in which the Banking Group is exposed. The primary market risk exposures for the Banking Group are interest rate risk and foreign exchange risk. The risk being that market interest rates or foreign exchange rates will change and adversely impact on the Banking Group's earnings due to either adverse moves in foreign exchange market rates or in the case of interest rate risks mismatches between repricing dates of interest bearing assets and liabilities and/or differences between customer pricing and wholesale rates.

Interest rate risk

Interest rate risk refers to exposure of an entity's earnings and / or capital because of a mismatch between the interest rate exposures of its assets and liabilities. Interest rate risk for the Banking Group arises from the provision of non-traded retail banking products and services and from traded wholesale transactions entered into to reduce aggregate interest rate risk (known as hedges). This risk arises from four key sources:

- Mismatches between the repricing dates of interest bearing assets and liabilities (yield curve and repricing risk);
- Banking products repricing differently to changes in wholesale market rates (basis risk);
- Loan prepayment or deposit early withdrawal behaviour from customers that deviates from the expected or contractually agreed behaviour (optionality risk); and
- The effect of internal or market forces on a bank's net interest margin where, for example, in a low rate environment any fall in rates will further decrease interest income earned on the assets whereas funding cost cannot be reduced as it is already at the minimum level (margin compression risk).

Refer Note 24 - Interest rate risk for further details regarding interest rate risk.

Foreign exchange risk

Foreign exchange risk is the risk that the Banking Group's earnings and shareholder equity position are adversely impacted from changes in foreign exchange rates. The Banking Group has exposure to foreign exchange translation risks through its holding of AUD assets.

Counterparty Credit Risk

The Banking Group has on-going credit exposure associated with:

- Cash and cash equivalents;
- Finance receivables;
- Holding of investment securities; and
- Payments owed to the Banking Group from risk management instruments.

Counterparty credit risk is managed against limits set in the Market Risk Policy including credit exposure on derivative contracts, bilateral set-off arrangements, cash and cash equivalents and investment securities.

21 Credit risk exposure

Credit risk is the risk that a borrower will default on any type of debt by failing to make payments which it is obligated to make. 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 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 commercial judgement as described below.

To manage this risk the ERC oversees the formal credit risk management strategy. The ERC reviews the Banking Group's credit risk exposures typically on a monthly basis. The credit risk management strategies aim to ensure that:

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

The BRC also oversees the Banking Group's credit risk exposures to monitor overall risk metrics having regard to risk appetite set by the Board.

The BRC has authority from the Board for approval of all credit exposures. Lending authority has been provided to the Banking Group's Credit Committees, and to the business units under a detailed Delegated Lending Authority framework. Application of credit discretions in the business operation are monitored through a defined review and hindsight structure as outlined in the Credit Risk Oversight Policy. Delegated Lending Authorities are provided to individual officers with due cognisance of their experience and ability. Larger and higher risk exposures require approval of senior management, the Credit Committees and ultimately through to the BRC.

The Banking Group employs a process of hindsighting loans to ensure that credit policies and the quality of credit processes are maintained.

Impact of COVID-19 has been considered by the Banking Group as outlined in Note 8 - Impaired asset expense.

Reverse mortgage loans and negative equity risk

Reverse mortgage loans are a form of mortgage lending designed for the needs of people over 60 years. These loans differ to conventional mortgages in that they typically are not repaid until the borrower ceases to reside in the property. Further, interest is not required to be paid, it is capitalised into the loan balance and is repayable on termination of the loan. As such, there are no incoming cash flows and therefore no default risk to manage during the term of the loan. Negative equity risk arises from the promise by the Banking Group that the maximum repayment amount is limited to the net sale proceeds of the borrowers' property.

The Banking Group's exposure to negative equity risk is managed by the Credit Risk Oversight Policy in conjunction with associated lending standards specific for this product. In addition to usual criteria regarding the type, and location, of security property that the Banking Group will accept for reverse mortgage lending, a key aspect of the Banking Group's policy is that a borrower's age on origination of the reverse mortgage loan will dictate the loan-to-value ratio of the reserve mortgage on origination. Both New Zealand and Australia reverse mortgage operations are similarly aligned. The policy is managed and reviewed periodically to ensure appropriate consistency across locations.

Business Finance Guarantee Scheme

The Bank, along with other registered banks in New Zealand, has entered into a Deed of Indemnity with the New Zealand Government to implement the New Zealand Governments Business Finance Guarantee Scheme. The purpose of the scheme is to provide short term credit to eligible small and medium size businesses, who have been impacted by economic effects of COVID 19. The scheme allows banks to lend to a maximum of $500,000 for a maximum of three years. The New Zealand Government will guarantee 80% of any loss incurred (credit risk) with the Bank holding the remaining 20%. As at 30 June 2020 the Bank had a total exposure of $6.5 million to its customers under the scheme.

21 Credit risk exposure (continued)

Maximum exposure to credit risk at the relevant reporting dates

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 statement of financial position.

$000's	June 2020	June 2019
Cash and cash equivalents	105,463	39,140
Investments	397,005	342,493
Finance receivables	3,044,960	3,031,066
Finance receivables - reverse mortgages	609,346	561,131
Derivative financial assets	17,246	14,467
Due from related parties	1,481	24,558
Other financial assets	3,530	7,443
Total on balance sheet credit exposures	**4,179,031**	**4,020,298**

Concentration of credit risk by geographic region

$000's	June 2020	June 2019
New Zealand	3,814,932	3,711,429
Australia	131,419	113,209
Rest of the world [1]	295,349	254,151
	4,241,700	**4,078,789**
Provision for impairment	(62,669)	(58,491)
Total on balance sheet credit exposures	**4,179,031**	**4,020,298**

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

Concentration of credit risk by industry sector

The Australian and New Zealand Standard Industrial Classification (**ANZSIC**) codes have been used as the basis for categorising customer industry sectors.

$000's	June 2020	June 2019
Agriculture	625,141	689,089
Forestry and fishing	145,045	132,545
Mining	12,993	13,695
Manufacturing	75,659	70,740
Finance and insurance	556,537	419,709
Wholesale trade	39,540	40,869
Retail trade and accommodation	232,664	237,342
Households	1,674,286	1,671,097
Other business services	163,801	170,013
Construction	197,174	186,843
Rental, hiring and real estate services	142,467	148,561
Transport and storage	257,634	237,451
Other	118,759	60,835
	4,241,700	**4,078,789**
Provision for impairment	(62,669)	(58,491)
Total on balance sheet credit exposures	**4,179,031**	**4,020,298**

21 Credit risk exposure (continued)

Commitments to extend credit

$000's	June 2020	June 2019
Undrawn facilities available to customers	166,489	110,920
Conditional commitments to fund at future dates	58,045	14,286

As at 30 June 2020 there were no undrawn lending commitments available to counterparties for whom drawn balances are classified as individually impaired (2019: nil).

Credit exposures to connected persons

The Banking Group's methodology for calculating credit exposure concentrations is on the basis of actual credit exposures and calculated on a gross basis (net of individual credit impairment allowances and excluding advances of a capital nature) in accordance with the Bank's conditions of registration and the Reserve Bank's Connected Exposures Policy (BS8). Peak end-of-day credit exposures to non-bank connected persons are calculated using the Banking Group's Tier 1 capital at the end of the reporting period.

The Banking Groups rating-contingent limit as defined in its conditions of registration is 15%, which is the same as the overall rating-contingent sub-limit which applies to the aggregate credit exposure to non-bank connected persons. There have been no rating-contingent limit changes during the accounting period.

	As at June 2020	Peak End-of-Day for Year Ended June 2020
Credit exposures to connected persons ($000's)	1.48	29.84
As a percentage of Tier 1 capital of the Banking Group at end of the year (%)	0.28%	5.78%
Credit exposures to non-bank connected persons ($000's)	1.48	29.84
As a percentage of Tier 1 capital of the Banking Group at end of the year (%)	0.28%	5.78%

As at 30 June 2020, the Banking Group had no aggregate contingent exposures to connected persons arising from risk lay-off arrangements in respect of credit exposures to counterparties (excluding counterparties that are connected persons). The aggregate amount of the Banking Group's individual credit provisions provided against credit exposure to connected persons was nil at 30 June 2020.

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 relevant six month period. The exposure is then divided by the Banking Group's Common Equity Tier 1 (**CET1)** Capital as at the reporting date.

As at 30 June 2020 the Banking Group had 1 counterparty whose period end or peak end-of-day over the relevant six month period credit exposures is 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).

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 supranational or quasi-sovereign agency with a long-term credit rating of A- or A3 or above, or its equivalent.

21 Credit risk exposure (continued)

	Number of Exposures As at June 2020	Number of Exposures Peak End-of-Day over 6 Months to June 2020
Exposures to banks		
With a long-term credit rating of A- or A3 or above, or its equivalent:		
10% to less than 15% of CET1 capital	1	1
15% to less than 20% of CET1 capital	-	-
20% to less than 25% of CET1 capital	-	-
With a long-term credit rating of at least BBB- or Baa3, or its equivalent, and at 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:	-	-
With a long-term credit rating of at least BBB- or Baa3, or its equivalent, and at most BBB+ or Baa1, or its equivalent	-	-

22 Asset quality

The disclosures in this note 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 mortgagor or a tenant of the mortgagor

All Other This relates primarily to consumer lending to individuals

(a) Finance receivables by credit risk concentration

$000's	Corporate	Residential	All Other	Total
June 2020				
Neither at least 90 days past due nor impaired	1,889,231	632,894	1,110,903	3,633,028
At least 90 days past due	27,098	599	31,583	59,280
Individually impaired	22,774	9	1,884	24,667
Gross finance receivables	**1,939,103**	**633,502**	**1,144,370**	**3,716,975**
Provision for impairment	(34,614)	(7)	(28,048)	(62,669)
Total net finance receivables	**1,904,489**	**633,495**	**1,116,322**	**3,654,306**
June 2019				
Neither at least 90 days past due nor impaired	1,735,151	592,807	1,251,852	3,579,810
At least 90 days past due	15,256	535	28,675	44,466
Individually impaired	26,412	-	-	26,412
Gross finance receivables	**1,776,819**	**593,342**	**1,280,527**	**3,650,688**
Provision for impairment	(34,469)	(104)	(23,918)	(58,491)
Total net finance receivables	**1,742,350**	**593,238**	**1,256,609**	**3,592,197**

22 Asset quality (continued)

(b) Past due but not impaired

$000's	Corporate	Residential	All Other	Total
June 2020				
Less than 30 days past due	14,301	853	20,965	36,119
At least 30 but less than 60 days past due	9,361	-	10,863	20,224
At least 60 but less than 90 days past due	8,041	47	8,280	16,368
At least 90 days past due	27,098	599	31,583	59,280
Total past due but not impaired	**58,801**	**1,499**	**71,691**	**131,991**
June 2019				
Less than 30 days past due	15,297	1,174	41,095	57,566
At least 30 but less than 60 days past due	7,509	472	13,580	21,561
At least 60 but less than 90 days past due	4,671	-	6,920	11,591
At least 90 days past due	15,256	535	28,675	44,466
Total past due but not impaired	**42,733**	**2,181**	**90,270**	**135,184**

(c) Individually impaired assets

$000's	Corporate	Residential	All Other	Total
June 2020				
Opening	26,412	-	-	26,412
Additions	5,483	9	1,884	7,376
Deletions	(3,174)	-	-	(3,174)
Write offs	(5,947)	-	-	(5,947)
Closing gross individually impaired assets	**22,774**	**9**	**1,884**	**24,667**
Less: provision for individually impaired assets	5,301	-	-	5,301
Total net individually impaired assets	**17,472**	**9**	**1,884**	**19,366**
June 2019				
Opening	41,237	612	3,337	45,186
Reclassified on adoption of NZ IFRS9	-	(612)	-	(612)
Additions	6,479	-	-	6,479
Deletions	(16,311)	-	(3,337)	(19,648)
Write offs	(4,993)	-	-	(4,993)
Closing gross individually impaired assets	**26,412**	**-**	**-**	**26,412**
Less: provision for individually impaired assets	7,863	-	-	7,863
Total net individually impaired assets	**18,549**	**-**	**-**	**18,549**

22 Asset quality (continued)

(d) Credit risk grading

The Banking Group's finance receivables are monitored either by account behaviour (**Behavioural portfolio**) or a regular assessment of their credit risk grade based on an objective review of defined risk characteristics (**Judgemental portfolio**).

Finance receivables - reverse mortgages have no arrears characteristics and are assessed on origination against a pre-determined criteria.

The Judgemental portfolio consists mainly of business and rural lending where an on-going and detailed working relationship with the customer has been developed while the Behavioural portfolio consists of consumer, retail and smaller business receivables.

Judgemental loans are individually risk graded based on loan status, financial information, security and debt servicing ability. Exposures in the Judgemental portfolio are credit risk graded by an internal risk grading mechanism where grade 1 is the strongest risk. Grade 8 and grade 9 are the weakest risk grades where a loss is probable. Behavioural loans are managed based on their arrears status.

Upon adoption of NZ IFRS 9 all loans past due but not impaired have been categorised into three impairments stages (refer Note 8) which are in most cases based on arrears status. If a Judgemental loan is risk graded 6 or above it will be classified as stage 2 as a minimum and carry a provision based on lifetime expected credit losses.

$000's	12 Months ECL	Lifetime ECL Not Credit Impaired	Lifetime ECL Credit Impaired	Specifically Provided	Fair value	Total
June 2020						
Judgemental portfolio						
Grade 1 - Very Strong	28	-	-	-	-	28
Grade 2 - Strong	9,323	-	-	-	-	9,323
Grade 3 - Sound	65,084	-	189	-	-	65,273
Grade 4 - Adequate	509,154	5,117	4,238	-	-	518,509
Grade 5 - Acceptable	817,190	4,613	1,938	-	-	823,741
Grade 6 - Monitor	-	112,586	2,558	-	-	115,144
Grade 7 - Substandard	-	27,289	17,652	-	-	44,941
Grade 8 - Doubtful	-	-	-	16,025	-	16,025
Grade 9 - At risk of loss	-	-	-	8,642	-	8,642
Total Judgemental portfolio	1,400,779	149,605	26,575	24,667	-	1,601,626
Total Behavioural portfolio	1,425,194	33,655	47,154	-	609,346	2,115,349
Gross finance receivables	**2,825,973**	**183,260**	**73,729**	**24,667**	**609,346**	**3,716,975**
Provision for impairment	(32,420)	(2,167)	(22,781)	(5,301)	-	(62,669)
Total finance receivables	**2,793,553**	**181,093**	**50,948**	**19,366**	**609,346**	**3,654,306**

22 Asset quality (continued)

$000's	12 Months ECL	Lifetime ECL Not Credit Impaired	Lifetime ECL Credit Impaired	Specifically Provided	Fair Value	Total
June 2019						
Judgemental portfolio						
Grade 1 - Very Strong	7	-	-	-	-	7
Grade 2 - Strong	8,685	-	-	-	-	8,685
Grade 3 - Sound	86,109	-	71	-	-	86,180
Grade 4 - Adequate	478,682	3,707	5,478	-	-	487,867
Grade 5 - Acceptable	851,873	4,835	4,854	-	-	861,562
Grade 6 - Monitor	-	142,122	5,031	-	-	147,153
Grade 7 - Substandard	-	22,913	3,450	-	-	26,363
Grade 8 - Doubtful	-	-	-	15,391	-	15,391
Grade 9 - At risk of loss	-	-	-	11,021	-	11,021
Total Judgemental portfolio	1,425,356	173,577	18,884	26,412	-	1,644,229
Total Behavioural portfolio	1,373,864	33,305	38,159	-	561,131	2,006,459
Gross finance receivables	**2,799,220**	**206,882**	**57,043**	**26,412**	**561,131**	**3,650,688**
Provision for impairment	(30,422)	(1,781)	(18,425)	(7,863)	-	(58,491)
Total finance receivables	**2,768,798**	**205,101**	**38,618**	**18,549**	**561,131**	**3,592,197**

22 Asset quality (continued)

(e) Provision for impairment

$000's	12 Months ECL	ECL Not Credit Impaired	Lifetime ECL Credit Impaired	Specific Provision	Total
June 2020					
Corporate					
Impairment allowance as at 30 June 2019	**21,404**	**670**	**4,532**	**7,863**	**34,469**
Changes in loss allowance					
Transfer between stages	(254)	61	(1,400)	1,593	-
New and increased provision (net of collective provision releases)	(2,368)	97	6,570	1,792	6,091
Recovery of amounts written off	-	-	-	-	-
Credit impairment charge	**(2,622)**	**158**	**5,170**	**3,385**	**6,091**
Recovery of amounts previously written off	-	-	-	-	-
Write offs	-	-	-	(5,947)	(5,947)
Effect of changes in foreign exchange rate	-	1	-	-	1
Impairment allowance as at 30 June 2020	**18,782**	**829**	**9,702**	**5,301**	**34,614**
Residential					
Impairment allowance as at 30 June 2019	**21**	**3**	**80**	**-**	**104**
Changes in loss allowance					
Transfer between stages	44	(1)	(43)	-	-
New and increased provision (net of collective provision releases)	(55)	(1)	(41)	-	(97)
Recovery of amounts written off	-	-	-	-	-
Credit impairment charge	**(11)**	**(2)**	**(84)**	**-**	**(97)**
Recovery of amounts previously written off	-	-	-	-	-
Write offs	-	-	-	-	-
Effect of changes in foreign exchange rate	-	-	-	-	-
Impairment allowance as at 30 June 2020	**10**	**1**	**(4)**	**-**	**7**
All Other					
Impairment allowance as at 30 June 2019	**8,997**	**1,108**	**13,813**	**-**	**23,918**
Changes in loss allowance					
Transfer between stages	(999)	(343)	1,342	-	-
New and increased provision (net of collective provision releases)	5,603	2,007	18,576	-	26,186
Recovery of amounts written off	-	-	(2,808)	-	(2,808)
Credit impairment charge	**4,604**	**1,664**	**17,110**	**-**	**23,378**
Recovery of amounts previously written off	-	-	2,808	-	2,808
Write offs	-	(1,438)	(20,658)	-	(22,096)
Effect of changes in foreign exchange rate	27	3	10	-	40
Impairment allowance as at 30 June 2020	**13,628**	**1,337**	**13,083**	**-**	**28,048**
Total					
Impairment allowance as at 30 June 2019	**30,422**	**1,781**	**18,425**	**7,863**	**58,491**
Changes in loss allowance					
Transfer between stages	(1,209)	(283)	(101)	1,593	-
New and increased provision (net of collective provision releases)	3,180	2,103	25,105	1,792	32,180
Recovery of amounts written off	-	-	(2,808)	-	(2,808)
Credit impairment charge	**1,971**	**1,820**	**22,196**	**3,385**	**29,372**
Recovery of amounts previously written off	-	-	2,808	-	2,808
Write offs	-	(1,438)	(20,658)	(5,947)	(28,043)
Effect of changes in foreign exchange rate	27	4	10	-	41
Impairment allowance as at 30 June 2020	**32,420**	**2,167**	**22,781**	**5,301**	**62,669**

22 Asset quality (continued)

$000's	12 Months ECL	ECL Not Credit Impaired	Lifetime ECL Credit Impaired	Specific Provision	Total
June 2019					
Corporate					
Impairment allowance as at 30 June 2019	**23,290**	**697**	**2,315**	**8,672**	**34,974**
Changes in loss allowance					
Transfer between stages	(1,649)	15	(1,014)	2,648	-
New and increased provision (net of collective provision releases)	(221)	(42)	5,696	1,536	6,969
Recovery of amounts written off	-	-	-	-	-
Credit impairment charge	**(1,870)**	**(27)**	**4,682**	**4,184**	**6,969**
Recovery of amounts previously written off	-	-	-	-	-
Write offs	-	-	(2,465)	(4,993)	(7,458)
Effect of changes in foreign exchange rate	(16)	-	-	-	(16)
Impairment allowance as at 30 June 2020	**21,404**	**670**	**4,532**	**7,863**	**34,469**
Residential					
Impairment allowance as at 30 June 2019	**44**	**4**	**-**	**24**	**72**
Changes in loss allowance					
Transfer between stages	2	58	(60)	-	-
New and increased provision (net of collective provision releases)	(25)	(59)	140	(24)	32
Recovery of amounts written off	-	-	-	-	-
Credit impairment charge	**(23)**	**(1)**	**80**	**(24)**	**32**
Recovery of amounts previously written off	-	-	-	-	-
Write offs	-	-	-	-	-
Effect of changes in foreign exchange rate	-	-	-	-	-
Impairment allowance as at 30 June 2020	**21**	**3**	**80**	**-**	**104**
All Other					
Impairment allowance as at 30 June 2019	**8,850**	**684**	**12,975**	**201**	**22,710**
Changes in loss allowance					
Transfer between stages	(823)	(318)	1,141	-	-
New and increased provision (net of collective provision releases)	1,511	744	12,955	(201)	15,009
Recovery of amounts written off	-	-	(829)	-	(829)
Credit impairment charge	**688**	**426**	**13,267**	**(201)**	**14,180**
Recovery of amounts previously written off	-	-	829	-	829
Write offs	-	-	(13,256)	-	(13,256)
Effect of changes in foreign exchange rate	(35)	(2)	(2)	-	(39)
Sale of portfolio	(506)	-	-	-	(506)
Impairment allowance as at 30 June 2020	**8,997**	**1,108**	**13,813**	**-**	**23,918**

22 Asset quality (continued)

June 2019	12 Months ECL	ECL Not Credit Impaired	Lifetime ECL Credit Impaired	Specific Provision	Total
Total					
Impairment allowance as at 30 June 2019	**32,184**	**1,385**	**15,290**	**8,897**	**57,756**
Changes in loss allowance					
Transfer between stages	(2,470)	(245)	67	2,648	-
New and increased provision (net of collective provision releases)	1,265	643	18,791	1,311	22,010
Recovery of amounts written off	-	-	(829)	-	(829)
Credit impairment charge	**(1,205)**	**398**	**18,029**	**3,959**	**21,181**
Recovery of amounts previously written off	-	-	829	-	829
Write offs	-	-	(15,721)	(4,993)	(20,714)
Effect of changes in foreign exchange rate	(51)	(2)	(2)	-	(55)
Sale of portfolio	(506)	-	-	-	(506)
Impairment allowance as at 30 June 2020	**30,422**	**1,781**	**18,425**	**7,863**	**58,491**

(f) 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 30 June 2020, the Banking Group had $5.562 million assets under administration (2019: $5.791 million).

23 Liquidity risk

Liquidity risk is the risk that the Banking Group is unable to meet its payment obligations as they fall due. The timing mismatch of cash flows and the related liquidity risk in all banking operations and is closely monitored by the Banking Group.

Measurement of liquidity risk is designed to ensure that the Banking Group has the ability to generate or obtain sufficient cash in a timely manner and at a reasonable price to meet its financial commitments on a daily basis.

The Banking Group's exposure to liquidity risk is governed by a policy approved by the Board and managed by the ALCO. This policy sets out the nature of the risk which may be taken and aggregate risk limits, and the ALCO must conform to this. The objective of the ALCO is to derive the most appropriate strategy for the Banking Group in terms of a mix of assets and liabilities given its expectations of future cash flows, liquidity constraints and capital adequacy. The Banking Group employs asset and liability cash flow modelling to determine appropriate liquidity and funding strategies.

RBNZ facilities

In March 2020, the Bank was onboarded by the RBNZ as an approved counterparty and executed a 2011 Global Master Repo Agreement providing an additional source for intra-day liquidity for the Banking Group if required.

On 16 March 2020, as a result of COVID-19, the RBNZ announced that it would provide term funding through a Term Auction Facility to give banks the ability to access term funding using repurchase agreements with qualifying collateral for a term of up to twelve months. From 26 May 2020, the RBNZ also made available, for a period of 6 months, a Term Lending Facility to offer loans for a fixed term of three years at the Official Cash Rate, with access to the funds linked to banks' lending under the Business Finance Guarantee Scheme. The Banking Group had not utilised either of these facilities as at 30 June 2020.

23 Liquidity risk (continued)

The Banking Group holds the following liquid assets and committed funding sources for the purpose of managing liquidity risk:

$000's	June 2020	June 2019
Cash and cash equivalents	105,463	39,140
Investments	397,005	342,493
Undrawn committed bank facilities	234,415	150,000
Total liquidity	**736,883**	**531,633**

Contractual liquidity profile of financial liabilities

The following tables present the Banking Group's financial liabilities by relevant maturity groupings based upon contractual maturity date. The amounts disclosed in the tables represent undiscounted future principal and interest cash flows. As a result, the amounts in the tables below may differ to the amounts reported on the consolidated 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. These accounts provide a stable source of long term funding for the Banking Group.

$000's	On Demand	0-6 Months	6-12 Months	1-2 Years	2-5 Years	5+ Years	Total
June 2020							
Financial liabilities							
Retail deposits	813,140	1,418,656	833,440	162,221	86,615	-	3,314,072
Other borrowings	-	6,228	6,126	76,964	284,462	-	373,780
Derivative financial liabilities	-	5,683	4,665	5,297	1,354	-	16,999
Due to related parties	-	7,944	-	-	-	-	7,944
Lease liabilities	-	1,284	1,304	5,335	7,634	7,085	22,642
Other financial liabilities	-	26,100	-	-	-	-	26,100
Total financial liabilities	**813,140**	**1,465,895**	**845,535**	**249,817**	**380,065**	**7,085**	**3,761,537**
Undrawn facilities available to customers	166,489	-	-	-	-	-	166,489
Undrawn committed bank facilities	234,415	-	-	-	-	-	234,415
June 2019							
Financial liabilities							
Retail deposits	895,290	1,415,994	605,804	224,545	74,714	-	3,216,347
Other borrowings	-	65,640	5,578	11,188	295,649	-	378,055
Derivative financial liabilities	-	4,751	7,769	10,552	5,741	-	28,813
Due to related parties	-	3,381	-	-	-	-	3,381
Other financial liabilities	-	15,358	-	-	-	-	15,358
Total financial liabilities	**895,290**	**1,505,124**	**619,151**	**246,285**	**376,104**	**-**	**3,641,954**
Undrawn facilities available to customers	102,285	-	-	-	-	-	102,285
Undrawn committed bank facilities	150,000	-	-	-	-	-	150,000

24 Interest rate risk

The Banking Group's market risk is derived primarily of exposure to interest rate risk, predominantly from raising funds through the retail and wholesale deposit market, the debt capital markets and committed and uncommitted bank funding, securitisation of receivables, and offering loan finance products to the commercial and consumer market in New Zealand and Australia.

The Banking Group’s exposure to market risk is governed by a policy approved by the Board and managed by the ALCO. This policy sets out the nature of risk which may be taken and aggregate risk limits, and the ALCO must conform to this. The objective of the ALCO is to derive the most appropriate strategy for the Banking Group in terms of the mix of assets and liabilities given its expectations of the future and the potential consequences of interest rate movements, liquidity constraints and capital adequacy.

To manage this market risk, the Banking Group measures sensitivity to interest rate changes by assessing the change in the fair value of the position to a +/- 1 basis point shock to the curve (that is multiplied by 100), with basis point sensitivity limits set according to the Risk Appetite Statement and Market Risk Policy. The Banking Group also manages interest rate risk by:

- Monitoring maturity profiles and seeking to match the re-pricing of assets and liabilities;
- Monitoring interest rates daily and regularly (at least monthly) reviewing interest rate exposures; and
- Entering into derivatives to hedge against movements in interest rates.

24 Interest rate risk (continued)

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's	0-3 Months	3-6 Months	6-12 Months	1-2 Years	2+ Years	Non-Interest Bearing	Total
June 2020							
Financial assets							
Cash and cash equivalents	105,456	-	-	-	-	7	105,463
Investments	43,863	18,425	52,708	59,296	222,713	2,303	399,308
Finance receivables	1,522,602	198,446	352,076	557,569	400,658	13,609	3,044,960
Finance receivables - reverse mortgages	609,346	-	-	-	-	-	609,346
Due from related parties	-	-	-	-	-	1,481	1,481
Derivative financial assets	-	-	-	-	-	17,246	17,246
Other financial assets	-	-	-	-	-	3,530	3,530
Total financial assets	**2,281,267**	**216,871**	**404,784**	**616,865**	**623,371**	**38,176**	**4,181,334**
Financial liabilities							
Retail deposits	1,621,568	585,482	815,366	155,219	77,655	13,949	3,269,239
Other borrowings	67,439	970	-	-	290,323	-	358,732
Derivative financial liabilities	-	-	-	-	-	16,974	16,974
Due to related parties	-	-	-	-	-	7,944	7,944
Lease liabilities	-	-	-	-	-	19,871	19,871
Other financial liabilities	-	-	-	-	-	26,100	26,100
Total financial liabilities	**1,689,007**	**586,452**	**815,366**	**155,219**	**367,978**	**84,838**	**3,698,860**
Effect of derivatives held for risk management	557,955	(51,349)	(239,137)	(237,213)	(30,256)	-	-
Net financial assets / (liabilities)	**1,150,215**	**(420,930)**	**(649,719)**	**224,433**	**225,137**	**(46,662)**	**482,474**
June 2019							
Financial assets							
Cash and cash equivalents	39,134	-	-	-	-	6	39,140
Investments	24,097	15,368	91,248	62,048	149,732	12,435	354,928
Due from related parties	-	-	-	-	-	24,558	24,558
Finance receivables	1,553,686	206,801	337,236	537,300	386,870	9,173	3,031,066
Finance receivables - reverse mortgages	561,131	-	-	-	-	-	561,131
Derivative financial assets	-	-	-	-	-	14,467	14,467
Other financial assets	-	-	-	-	-	7,443	7,443
Total financial assets	**2,178,048**	**222,169**	**428,484**	**599,348**	**536,602**	**68,082**	**4,032,733**
Financial liabilities							
Retail deposits	1,614,124	519,676	729,734	212,575	65,887	11,685	3,153,681
Other borrowings	59,839	-	-	-	285,434	-	345,273
Derivative financial liabilities	-	-	-	-	-	11,147	11,147
Due to related parties	-	-	-	-	-	3,381	3,381
Other financial liabilities	-	-	-	-	-	15,358	15,358
Total financial liabilities	**1,673,963**	**519,676**	**729,734**	**212,575**	**351,321**	**41,571**	**3,528,840**
Effect of derivatives held for risk management	(36,789)	162,749	38,975	(313,184)	148,249	-	-
Net financial assets / (liabilities)	**467,296**	**(134,758)**	**(262,275)**	**73,589**	**333,530**	**26,511**	**503,893**

The tables above illustrate the periods in which the cash flows from interest rate swaps are expected to occur and affect profit or loss.

25 Concentrations of funding

(a) Regulatory liquidity ratios

The table below shows the 3-month average of the respective daily ratio values in accordance with RBNZ's Liquidity Policy (BS13/BS13A) (**BS13**) and the Bank's Conditions of Registration relating to liquidity-risk management.

The one-week mismatch ratio is a measure of the Banking Group's one-week mismatch amount over its total funding, where the one-week mismatch amount represents the Banking Group's portfolio of primary liquid assets plus expected cash inflows minus expected cash outflows during a one-week period of stress. The Bank is required to maintain this ratio at not less than the minimum level of zero percent on a daily basis. The one-week mismatch ratio = 100 x (one-week mismatch dollar amount / total funding).

The one-month mismatch ratio is a measure of the Banking Group's one-month mismatch amount over its total funding, where the one-month mismatch amount represents the Banking Group's portfolio of primary and secondary liquid assets plus expected cash inflows minus expected cash outflows during a one-month period of stress. The Bank is required to maintain this ratio at not less than the minimum level of zero percent on a daily basis. The one-month mismatch ratio = 100 x (one-month mismatch dollar amount / total funding).

The one-year core funding ratio measures the extent to which loans and advances are funded by the funding that is considered stable. The one-year core funding ratio = 100 x (one-year core funding dollar amount / BS13 total loans and advances) and must currently remain at not less than 50% on a daily basis.

The RBNZ announced on 24 March that the banks COR requirement for a core funding ratio of 75% was amended, reducing the requirement to 50% to further provide support and liquidity to the financial sector. This was effective from 2 April 2020 and was made via a change in the banks Conditions of Registration.

	Average for the 3 Months Ended 30 June 2020	Average for the 3 Months Ended 31 March 2020
One-week mismatch ratio	8.53	4.59
One-month mismatch ratio	7.15	3.30
Core funding ratio	87.14	85.74

The table above has not incorporated any recalculations as detailed on page 78 of this Disclosure Statement.

25 Concentrations of funding (continued)

(b) Concentration of funding by industry

The Australian and New Zealand Standard Industrial Classification codes have been used as the basis for categorising customer industry sectors.

$000's	June 2020	June 2019
Agriculture	109,268	68,559
Forestry and fishing	14,901	25,360
Mining	35	61
Manufacturing	6,976	11,233
Finance and insurance	682,249	488,985
Wholesale trade	10,855	11,520
Retail trade and accommodation	20,423	19,730
Households	2,263,668	2,340,763
Rental, hiring and real estate services	41,348	30,110
Construction	19,702	15,338
Other business services	63,697	57,360
Transport and storage	4,552	4,416
Other	97,150	140,084
	3,334,824	**3,213,519**
Unsubordinated Notes	293,147	285,435
Total borrowings	**3,627,971**	**3,498,954**

(c) Concentration of funding by geographical area

$000's	June 2020	June 2019
New Zealand	3,475,790	3,403,248
Overseas	152,181	95,706
Total borrowings	**3,627,971**	**3,498,954**

Other Disclosures

26 Significant subsidiaries

Significant Subsidiaries	Country of Incorporation and Place of Business	Nature of Business	Proportion of ownership and voting power held June 2020	June 2019
VPS Properties Limited	New Zealand	Investment property holding company	100%	100%
MARAC Insurance Limited	New Zealand	Insurance services	100%	100%

27 Structured entities

A structured entity is one which has been designed such that voting or similar rights are not the dominant factor in deciding who controls the entity. Structured entities are created to accomplish a narrow and well-defined objective such as the securitisation or holding of particular assets, or the execution of a specific borrowing or lending transaction. Structured entities are consolidated where the substance of the relationship is that the Banking Group controls the structured entity.

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

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

$000's	June 2020	June 2019
Deposits	166,676	146,094

(b) Heartland Auto Receivable Warehouse Trust 2018-1 (Auto Warehouse)

The Auto Warehouse securitises motor loan receivables as a source of funding.

The Banking Group continues to recognise the securitised assets and associated borrowings in the consolidated statement of financial position as the Banking Group remains exposed to and has the ability to affect variable returns from those assets and liabilities. 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's	June 2020	June 2019
Cash and cash equivalents	5,493	555
Finance receivables	78,066	-
Other borrowings	(79,012)	(559)

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

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

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

28 Capital adequacy (continued)

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 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 held and to be used at the RBNZ's discretion, to assist in attaining the macro-prudential goal of protecting the Banking sector from periods of extraordinary excess aggregate credit growth.
- Strengthen the calculation of RWAs, particularly in respect of counterparty credit risk.

The Basel III requirements have not effected the Banking Group's minimum capital requirements as the Banking Group's Conditions of Registration prescribe minimum capital requirements higher than the Basel III requirements.

The capital adequacy tables set out on the following pages summarise the composition of regulatory capital and the capital adequacy ratios for the Banking Group as at 30 June 2020.

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 capital required to be held against other material risks, being strategic / business risk, reputational risk, regulatory risk and additional credit risk.

Compliance with minimum capital levels is monitored by the ALCO and reported to the Board. The ICAAP and CMP is reviewed annually by the Board.

RBNZ capital review
The RBNZ released a consultation paper in December 2018 in relation to proposed changes to the Capital Adequacy Framework for Registered Banks in New Zealand (the **Framework**). On 5 December 2019, the RBNZ released its final decision on the revised Framework.

The revised Framework requires the Bank, as a standardised registered bank, to increase its Total Capital ratio to 16% over a seven-year transitional period. The Bank's Total Capital ratio was 12.56% as at 31 December 2019. This means the revised Framework requires the Bank to increase its Total Capital ratio by 3.44% over the transitional period.

The Bank does not expect the revised Framework to result in any changes to the underlying business model or its approach to raising equity, given:

- The quantum of the capital requirement;
- That some of the capital requirement may be satisfied through hybrid capital instruments rather than common equity;
- The length of the transitional period;
- The Bank's existing capital position.

The corporate structure of HGH, the ultimate parent company provides the Banking Group with flexibility to mitigate the impact of the revised Framework. Various capital raising options available include using HGH's dividend reinvestment plan, or raise debt and use the proceeds to subscribe for new capital in the Bank.

28 Capital adequacy (continued)

The Bank will continue to assess the options available to it to meet the requirements of the revised Framework over the transitional period.

As a result of the impacts of COVID-19 and to support the availability of credit, the RBNZ announced in March 2020 that it has made the decision to delay the start date of increased capital requirements for banks by 12 months to 1 July 2021. Should conditions warrant it next year, the RBNZ will reassess whether further delays are necessary.

(a) Capital

$000's	June 2020
Tier 1 Capital	
CET1 capital	
Paid-up ordinary shares issued by the Banking Group plus related share premium	553,239
Retained earnings (net of appropriations)	46,325
Accumulated other comprehensive income and other disclosed reserves	(2,527)
Less deductions from CET1 capital	
Intangible assets	(57,469)
Deferred tax assets	(15,327)
Hedging reserve	8,022
Defined benefit superannuation fund assets	(715)
Reverse residential mortgage loan greater than value of security	(42)
Adjustment under the corresponding deduction approach	(500)
Total CET1 capital	**531,006**
AT1 capital	-
Total Tier 1 capital	**531,006**
Tier 2 capital	**-**
Total Tier 2 capital	**-**
Total capital	**531,006**

(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.

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

Fair value reserve	The debt instrument fair value reserve comprises the changes in the fair value of investments, net of tax.
Defined benefit reserve	The defined benefit 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.

28 Capital adequacy (continued)

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

(c) Credit risk

On balance sheet exposures

	Total Exposure After Credit Risk Mitigation $000's	Average Risk Weight %	Risk Weighted Exposure $000's	Minimum Pillar 1 Capital Requirement $000's
Cash	-	0%	-	-
Multilateral development banks	157,734	0%	-	-
Multilateral development banks	137,566	20%	27,513	2,201
Banks - Tier 1	138,846	20%	27,769	2,222
Banks - Tier 2	15,543	50%	7,772	622
Banks - Tier 3	23,998	100%	23,998	1,920
Banks - Short Term Tier 3	-	20%	-	-
Public sector entity (AA- and above)	16,718	20%	3,344	268
Public sector entity (A- and above)	-	50%	-	-
Public sector entity (BBB+, BBB, BBB-)	-	100%	-	-
Corporates (AA- and above)	-	20%	-	-
Corporates (A- and above)	13,998	50%	6,999	560
Corporates (BBB- and above)	-	100%	-	-
Corporates other	3,625	20%	725	58
Corporates other	1,596,593	100%	1,596,593	127,727
Welcome Home Loans - loan to value ratio (LVR) <= 80%[1]	2,333	35%	817	65
Welcome Home Loans - loan to value ratio (LVR) <= 90%[1]	899	35%	315	25
Welcome Home Loans - LVR 90% >= 100%[1]	-	50%	-	-
Welcome Home Loans - LVR > 100%[1]	-	100%	-	-
Reverse Residential mortgages <= 60% LVR	591,616	50%	295,808	23,665
Reverse Residential mortgages 60 <= 80% LVR	15,955	80%	12,764	1,021
Reverse Residential mortgages > 80% LVR	1,589	100%	1,589	127
Reverse Residential mortgages > 100% LVR	144	100%	144	12
Non Property Investment Mortgage Loan <=80% LVR	14,613	35%	5,115	409
Non Property Investment Mortgage Loan 80 <= 90% LVR	-	50%	-	-
Non Property Investment Mortgage Loan 90 <= 100% LVR	-	75%	-	-
Non Property Investment Mortgage Loan > 100% LVR	584	100%	584	47
Property Investment Mortgage Loan <= 80% LVR	5,118	40%	2,047	164
Property Investment Mortgage Loan 80 <= 90% LVR	-	70%	-	-
Property Investment Mortgage Loan 90 <= 100% LVR	-	90%	-	-
Property Investment Mortgage Loan < 100% LVR	-	100%	-	-
Past due residential mortgages	609	100%	609	49
Other past due assets - provision >= 20%	27,262	100%	27,262	2,181
Other past due assets - provision < 20%	28,522	150%	42,783	3,423
Equity holdings	-	300%	-	-
All other equity holdings	1,803	400%	7,212	577
Other assets	1,446,771	100%	1,446,771	115,742
Not risk weighted assets	74,054	0%	-	-
Total on balance sheet exposures	**4,316,493**		**3,538,533**	**283,085**

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

28 Capital adequacy (continued)

The RBNZ removed the mortgage loan-to-value (LVR) restrictions for 12 months as a result of the economic impact of COVID-19, and the RBNZ's mandate to maintain financial stability. This was effective from 1 May 2020 and was made via a change in the Bank's Conditions of Registration.

Off balance sheet exposures

	Total Exposure $000's	Credit Conversion Factor %	Credit Equivalent Amount $000's	Average Risk Weight %	Risk Weighted Exposure $000's	Minimum Pillar 1 Capital Requirement $000's
Direct credit substitute	4,269	100%	4,269	100%	4,269	342
Performance-related contingency	2,246	50%	1,123	100%	1,123	90
Other commitments where original maturity is more than one year	211,673	50%	105,837	100%	105,837	8,467
Other commitments where original maturity is more than one year	10,410	50%	5,205	50%	2,603	208
Other commitments where original maturity is less than or equal to one year	2,452	20%	490	100%	490	39
Market related contracts[1]						
Interest rate contracts	1,140,422	n/a	6,067	20%	1,213	97
FX forward contracts	179,795	n/a	1,806	20%	361	29
Credit valuation adjustment	-		-		131,200	10,496
Total off balance sheet exposures	**1,551,267**		**124,797**		**247,096**	**19,768**

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

(d) Additional mortgage information - LVR range

$000's	On Balance Sheet Exposures	Off Balance Sheet Exposures[1]	Total Exposures
Does not exceed 80%	629,628	10,410	640,038
Exceeds 80% and not 90%	2,307	-	2,307
Exceeds 90%	1,560	-	1,560
Total exposures	**633,495**	**10,410**	**643,905**

[1] Off balance sheet exposures means unutilised limits.

At 30 June 2020, there were no Welcome Home loans whose credit risk is mitigated by the Crown included in "Exceeds 90% residential mortgages". Other loans in the exceeds 90% LVR range is 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 the first mortgages over residential property is included in the LVR calculation, in accordance with BS2A. All new residential mortgages in respect of non-property investments lending have a loan-to-valuation ratio of less than or equal to 80%.

(e) Reconciliation of mortgage related amounts

$000's	Note	June 2020
Gross finance receivables - reverse mortgages	13b	609,346
Loans and advances - loans with residential mortgages		24,156
On balance sheet residential mortgage exposures subject to the standardised approach	23a	**633,502**
Less: collective provision for impairment		(7)
Off balance sheet mortgage exposures subject to the standardised approach	31d	10,410
Total residential exposures subject to the standardised approach		**643,905**

28 Capital adequacy (continued)

(f) Credit risk mitigation

As at 30 June 2020 the Banking Group had $3.23 million of Welcome Home Loans, whose credit risk was 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's	Implied Risk Weighted Exposure	Total Operational Risk Capital Requirement
Operational risk	272,306	21,784

Operational risk is calculated based on the previous 12 quarters of the Banking Group.

(h) Market risk

Market risk is the risk that market interest rates or foreign exchange rates will change and impact on the Banking Group's earnings due to either mismatches between repricing dates of interest bearing assets and liabilities and/or differences between customer pricing and wholesale rates.

$000's		Implied Risk Weighted Exposure	Aggregate Capital Charge
Market risk end-of-period capital charge	Equity rate risk only	1,803	144
Market risk peak end-of-day capital charge	Equity rate risk only	1,803	144
Market risk end-of-period capital charge	Interest rate risk only	122,045	9,764
Market risk peak end-of-day capital charge	Interest rate risk only	193,207	15,457
Market risk end-of-period capital charge	Foreign currency risk only	9,384	751
Market risk peak end-of-day capital charge	Foreign currency risk only	9,384	751

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 BS2A 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's	Total Exposure After Credit Risk Mitigation	Risk Weighted Exposure or Implied Risk Weighted Exposure	Total Capital Requirement
Total credit risk			
On balance sheet	4,316,493	3,538,533	283,085
Off balance sheet	1,551,267	247,096	19,768
Operational risk	n/a	272,306	21,784
Market risk	n/a	133,232	10,659
Total		**4,191,167**	**335,296**

28 Capital adequacy (continued)

(j) Capital ratios

%	June 2020	June 2019
Capital ratios compared to minimum ratio requirements		
Common Equity Tier 1 Capital expressed as a percentage of total risk weighted exposures	12.67%	13.49%
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	12.67%	13.49%
Minimum Tier 1 Capital as per Conditions of Registration	6.00%	6.00%
Total Capital expressed as a percentage of total risk weighted exposures	12.67%	13.49%
Minimum Total Capital as per Conditions of Registration	8.00%	8.00%
Buffer ratio		
Buffer ratio	4.67%	5.49%
Buffer ratio requirement	2.50%	2.50%

(k) Solo capital adequacy

%	June 2020	June 2019
Capital ratios compared to minimum ratio requirements		
Common Equity Tier 1 Capital expressed as a percentage of total risk weighted exposures	12.81%	13.46%
Tier 1 Capital expressed as a percentage of total risk weighted exposures	12.81%	13.46%
Total Capital expressed as a percentage of total risk weighted exposures	12.81%	13.46%

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.

(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 strategic/business risk, regulatory and additional credit risk). As at 30 June 2020, the Banking Group has made an internal capital allocation of $23.2 million to cover these risks (2019: $7.0 million).

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

Insurance business

The Banking Group conducts insurance business through its subsidiary MIL.

The Banking Group's aggregate amount of insurance business comprises the total consolidated assets of MIL of $10.9 million (2019: $12.9 million), which represents 0.25% of the total consolidated assets of the Banking Group.

During the current year the Banking Group has undertaken a strategic review of its insurance business in line with its core banking business. The Banking Group has entered into a distribution agreement with DPL to distribute DPL's insurance products through its network and has stopped writing insurance policies in February 2020. The Banking Group will gradually exit from the insurance business as the existing written policies expire over time.

29 Insurance business, securitisation, funds management, other fiduciary activities (continued)

Marketing and distribution of the insurance products

Pre February 2020's distribution agreement with DPL, the Banking Group marketed and distributed term life insurance and general insurance covering risks such as redundancy, bankruptcy or suspension of employment. The insurance products were either underwritten by MIL, a subsidiary of the Banking Group, or sold by MIL on behalf of other parties who underwrite those products themselves.

Securitisation

As at 30 June 2020, the Banking Group had $78.07 million securitised assets (2019: nil).

There have been no material changes to the Banking Group's involvement in the securitisation activities.

Funds management and other fiduciary activities

The Banking Group, through Heartland PIE Fund Limited, controls, manages and administers the Heartland Cash and Term PIE Fund and its products (Heartland Call PIE and Heartland Term Deposit PIE). Note 27 - Structured entities has further details. The Heartland Cash and Term PIE Fund deals with the Bank in the normal course of business, in the Bank's capacity as Registrar of the Fund and also invests in the Bank's deposits. The Banking Group is considered to control the Heartland Cash and Term PIE Fund, and as such the Heartland Cash and Term PIE Fund is consolidated within the financial statements of the Banking Group.

Heartland NZ Trustee Limited (**HNZT**), a subsidiary of the Bank, acts as manager for a superannuation scheme. The assets and liabilities of this scheme are not included in the financial statements of the Banking Group as the Banking Group does not control the scheme. The Bank provides services to HNZT and its fees for performance of those services are included in other income.

Risk management

The Banking Group has in place policies and procedures to ensure that the fiduciary activities identified above are conducted in an appropriate manner. It is considered that these policies and procedures will ensure that any difficulties arising from these activities will not impact adversely on the Banking Group. The policies and procedures include comprehensive and prominent disclosure of information regarding products, and formal and regular review of operations and policies by management and internal and external auditors. Further information on the Banking Group's risk management policies and practices is included in Note 20 - Enterprise risk management program.

Provision of financial services and asset purchases

Over the accounting period, financial services provided by the Banking Group to entities which were involved in the activities above (including trust, custodial, funds management and other fiduciary activities) were provided on arm's length terms and conditions and at fair value.

Any assets purchased from such entities have been purchased on arm's length terms and conditions and at fair value.

Peak aggregate funding to entities

The Banking Group did not provide any funding to entities conducting funds management and other fiduciary activities, or insurance product or marketing and distribution activities described in this note, during the year (2019: nil).

The Bank provided the following funding in relation to securitisation entities.

29 Insurance business, securitisation, funds management, other fiduciary activities (continued)

	Total Trusts	
	June 2020	June 2019
Peak end-of-day aggregate amount of funding provided ($000's)	76,846	165,189
Peak end-of-day aggregate amount of funding provided as a percentage of the Banking Group's Tier 1 Capital as at the end of the year	14.5%	31.3%

For this purpose, peak ratio information was derived by determining the maximum end-of-day aggregate amount of funding over the financial year and then dividing that amount by the amount of the entity's assets or the Banking Group's Tier 1 Capital (as the case required) as at the end of the year.

	Auto Warehouse	
	June 2020	June 2019
Peak end-of-day aggregate amount of funding provided ($000's)	76,846	165,189
Peak end-of-day aggregate amount of funding provided as a percentage of the total assets of the individual entity as at the end of the year	98.3%	16838.9%

For this purpose, peak ratio information was derived by determining the maximum end-of-day aggregate amount of funding and then dividing that amount by the amount of the entity's assets or the Banking Group's Tier 1 Capital (as the case required) as at the end of the year.

30 Contingent liabilities and commitments

The Banking Group in the ordinary course of business will be subject to claims and proceedings against it whereby the validity of the claim will only be confirmed by uncertain future events. In such circumstances the contingent liabilities are possible obligations, or present obligations if known, where the transfer of economic benefit is uncertain or cannot be reliable measured. Contingent Liabilities are not recognised, but are disclosed, unless they are remote. Where some loss is probable, provisions have been made on a case by case basis.

Contingent liabilities and credit related commitments arising in respect of the Banking Group's operations were:

$000's	June 2020	June 2019
Letters of credit, guarantee commitments and performance bonds	6,515	6,757
Total contingent liabilities	**6,515**	**6,757**
Undrawn facilities available to customers	166,489	110,920
Conditional commitments to fund at future dates	58,045	14,286
Total commitments	**224,534**	**125,206**

31 Events after the reporting date

COVID-19 pandemic update

Following the confirmation of further community spread of COVID-19 with unknown origin, the Government announced on 12 August 2020 that New Zealand’s COVID-19 Alert Levels will change, with the Auckland region (Wellsford to Pukekohe) moving to Alert Level 3 and the rest of New Zealand moving to Alert Level 2. Following that, the Auckland region moved to Alert Level 2 from 31 August 2020. This did not have any impact on Banking Group's estimates and judgements (refer to Note 1 - Financial statements preparation).

There were no other events subsequent to the reporting period which would materially affect the consolidated financial statements.

HISTORICAL SUMMARY OF FINANCIAL STATEMENTS

For the year ended 30 June 2020

$000's	Audited June 2020	Audited June 2019	Audited June 2018	Audited June 2017	Audited June 2016
Interest income	297,512	284,064	272,323	278,279	265,475
Interest expense	108,476	111,665	108,737	115,169	118,815
Net interest income	**189,036**	**172,399**	**163,586**	**163,110**	**146,660**
Other net income	15,742	9,409	12,683	8,142	10,901
Net operating income	**204,778**	**181,808**	**176,269**	**171,252**	**157,561**
Employee benefits	-	-	-	41,547	39,799
Operating expenses	90,782	76,298	76,291	30,137	30,073
Profit before impaired asset expense and income tax	**113,996**	**105,510**	**99,978**	**99,568**	**87,689**
Fair value gain on investments	-	1,936	-	-	-
Impaired asset expense	29,372	20,554	21,833	15,015	13,501
Profit before income tax	**84,624**	**86,892**	**78,145**	**84,553**	**74,188**
Profit before income tax from discontinued operations	-	6,169	16,149	-	-
Income tax expense	23,924	24,762	26,781	23,745	20,024
Profit for the year	**60,700**	**68,299**	**67,513**	**60,808**	**54,164**
Other comprehensive income					
Items that are or may be reclassified subsequently to profit or loss, net of income tax:					
Effective portion of change in fair value of derivative financial instruments	(2,179)	(4,762)	72	1,108	(708)
Movement in fair value reserve	766	2,968	981	(353)	(208)
Movement in foreign currency translation reserve	-	(4,229)	2,315	761	(4,047)
Items that will not be reclassified to profit or loss, net of income tax:					
Movement in defined benefit reserve	-	(86)	340	(84)	(93)
Other comprehensive income / (loss) for the year, net of income tax	**(1,413)**	**(6,109)**	**3,708**	**1,432**	**(5,056)**
Total comprehensive income for the year	**59,287**	**62,190**	**71,221**	**62,240**	**49,108**
Dividends paid to equity holders	65,000	112,042	47,895	41,977	37,690

As at 30 June 2020

$000's	Audited June 2020	Audited June 2019	Audited June 2018	Audited June 2017	Audited June 2016
Total assets	4,314,559	4,143,828	4,496,849	4,034,671	3,547,181
Individually impaired assets	24,667	26,412	45,186	32,084	33,764
Total liabilities	3,717,522	3,540,438	3,832,689	3,465,076	3,048,840
Total equity	597,037	603,390	664,160	569,595	498,341

AMENDMENTS TO CONDITIONS OF REGISTRATION

In response to the severe economic effects of the COVID-19 pandemic, the Bank's conditions of registration were amended as follows:

With effect from 2 April 2020:

- Addition of condition 1C to ban the distribution and to restrict the extent to which distributions on additional capital instruments are permitted; and
- The amendment of condition 11C to reduce the minimum core funding ratio from 75% to 50%.

With effect from 1 May 2020:

- Removal of conditions 19,20 and 21, abolishing the restrictions on the Banks mortgage lending at high loan to value ('LVR') ratios.

CONDITIONS OF REGISTRATION

These conditions apply on and after 1 May 2020.

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.

"Total capital" has the same meaning as in Part 2 of 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".

CONDITIONS OF REGISTRATION (CONTINUED)

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 any distributions of the bank's earnings payable to holders of Additional Tier 1 capital instruments to the percentage limit on 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, -

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;

"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.

1C. That the bank must make no distributions, whether paid out of earnings, or out of accumulated previous years' retained earnings or other reserves included within the banking group's total capital, other than discretionary payments payable to holders of Additional Tier 1 capital instruments to the extent permitted by condition 1B.

For the purposes of this condition of registration,—

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;

"total capital" has the same meaning as in Part 2 of the Reserve Bank of New Zealand document "Capital Adequacy Framework (Standardised Approach)" (BS2A) dated November 2015;

"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 Banking Group headed by the entity; and

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

In determining the total amount of the Banking Group's insurance business—

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

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

CONDITIONS OF REGISTRATION (CONTINUED)

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:

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

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)

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 50 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 plan.

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

    For the purposes of this condition,—

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

    "SPV" means a person—

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

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

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

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

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.

CONDITIONS OF REGISTRATION (CONTINUED)

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

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

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

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

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

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

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

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

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

In these conditions of registration,—

“Banking Group” means Heartland Bank Limited (as reporting entity) and all other entities included in the Banking 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.

CONDITIONS OF REGISTRATION NON-COMPLIANCE

As reported in the 31 December 2019 and 30 June 2019 Disclosure Statement, the Bank had not been calculating its regulatory capital and liquidity ratios in compliance with the requirements of Condition of Registration 1 and Condition of Registration 11. The Bank engaged an external consultant to perform an independent assessment of compliance with those Conditions of Registration, specifically compliance with the requirements of:

- Banking Standard 2A: Capital Adequacy Framework (Standardised Approach) (**BS2A**);
- Banking Standard 13: Liquidity Policy (**BS13**); and
- Liquidity Policy Annex: Liquid Assets (**BS13A**).

That review found discrepancies with the calculation for both Conditions of Registration as noted below which the Reserve Bank of New Zealand (RBNZ) are aware of. The Bank has conducted a remediation programme which is largely complete though has been disrupted by the impacts of COVID-19. The Bank has remained above all RBNZ ratio requirements at all times.

Condition of Registration 1

As previously reported the Bank engaged an external consultant to undertake a review of the Bank’s calculations of its regulatory capital ratios which identified discrepancies in the calculations for credit risk exposures. Remediation is largely complete though delays have been experienced due to COVID-19 resulting in the Bank not having been able to remediate all issues by reporting date. The impact of unadjusted errors at 30 June 2020 reporting date was a 0.28% reduction on the Bank’s capital ratio.

Condition of Registration 11

As previously reported the Bank had engaged an external consultant to undertake a review of its calculations of regulatory liquidity ratios which identified discrepancies in the calculation of the One-Week and One-Month mismatch ratios and Core Funding Ratio. Remediation is largely complete though delays have been experienced due to COVID-19 resulting in the Bank not having been able to remediate all issues by reporting date. While this remediation continues, the Bank has adopted the most conservative approach to reporting its liquidity ratios as at 30 June 2020 reporting date.

PENDING PROCEEDINGS

There are no pending legal proceedings or arbitrations concerning any member of the Banking Group at the date of 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 18 May 2020.

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 already 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.

KPMG

Independent Auditor's Report

To the shareholder of Heartland Bank Limited

Report on the audit of the consolidated financial statements

Opinion

We have audited the accompanying consolidated financial statements and supplementary information (excluding supplementary information relating to capital adequacy and regulatory liquidity requirements) which comprise:

- the consolidated statement of financial position as at 30 June 2020;
- the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended;
- notes, including a summary of significant accounting policies and other explanatory information; and
- the information that is required to be disclosed in accordance with Schedules 4, 7, 13, 14, 15 and 17 of the Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order 2014 (as amended) (the "Order").

In our opinion, the accompanying consolidated financial statements and supplementary information (excluding supplementary information relating to capital adequacy and regulatory liquidity requirements) of Heartland Bank Limited (the "Bank") and its subsidiaries (the "Banking Group") on pages 7 to 71:

i. give a true and fair view of the Banking Group's financial position as at 30 June 2020 and its financial performance and cash flows for the year ended on that date; and

ii. comply with New Zealand Generally Accepted Accounting Practice, which in this instance means New Zealand Equivalents to International Financial Reporting Standards ("NZ IFRS") and International Financial Reporting Standards.

In our opinion, the supplementary information (excluding supplementary information relating to capital adequacy and regulatory liquidity requirements) that is required to be disclosed in accordance with Schedules 4, 7, 13, 14, 15 and 17 of the Order):

i. has been prepared, in all material respects, in accordance with the guidelines issued pursuant to section 78(3) of the Reserve Bank of New Zealand Act 1989 and any conditions of registration;

ii. is in accordance with the books and records of the Banking Group in all material respects; and

iii. fairly states the matters to which it relates in accordance with those Schedules.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand) ("ISAs (NZ)"). We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

We are independent of the Banking Group in accordance with Professional and Ethical Standard 1 International Code of Ethics for Assurance Practitioners (Including International Independence Standards) (New Zealand) issued by the New Zealand Auditing and Assurance Standards Board and the International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (including International Independence Standards) ("IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

Our responsibilities under ISAs (NZ) are further described in the auditor's responsibilities for the audit of the consolidated financial statements and supplementary information (excluding supplementary information relating to capital adequacy and regulatory liquidity requirements) section of our report.

Our firm has also provided other services to the Banking Group in relation to the review of the Banking Group's half year disclosure statement, regulatory assurance services, agreed upon procedure engagements and supervisor reporting. Subject to certain restrictions, partners and employees of our firm may also deal with the Banking Group on normal terms within the ordinary course of trading activities of the business of the Banking Group. These matters have not impaired our independence as auditor of the Banking Group. The firm has no other relationship with, or interest in, the Banking Group.

KPMG

Materiality

The scope of our audit was influenced by our application of materiality. Materiality helped us to determine the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and on the consolidated financial statements as a whole. The materiality for the consolidated financial statements as a whole was set at $4,700,000 determined with reference to a benchmark of the Banking Group's normalised profit before tax. We chose the benchmark because, in our view, this is a key measure of the Banking Group's performance.

We agreed with the Audit Committee that we would report to them, misstatements identified during our audit above $230,000 as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements in the current period. We summarise below those matters and our key audit procedures to address those matters in order that the shareholder may better understand the process by which we arrived at our audit opinion. Our procedures were undertaken in the context of and solely for the purpose of our statutory audit opinion on the consolidated financial statements as a whole and we do not express discrete opinions on separate elements of the consolidated financial statements.

Key changes in the assessment of audit risks

Covid-19

The Covid-19 pandemic has created significant additional risks across a number of areas of the business, particularly the assessment of the provision for impairment of finance receivables. All forward looking assumptions are inherently more uncertain during these unprecedented times. While the key audit matter "Provision for impairment of finance receivables", detailed below, is unchanged from last year, the underlying audit risk has increased which impacted the extent and nature of audit evidence that we had to gather.

The key audit matter	How the matter was addressed in our audit
Provision for impairment of finance receivables Refer to notes 1, 12 and 22 to the consolidated financial statements.	
The provision for impairment of finance receivables is a key audit matter due to the financial significance and the inherent complexity of the Banking Group's expected credit loss ("ECL") models. Significant judgement and estimates are required to incorporate forward-looking information to reflect future economic conditions, including the potential economic impact of the Covid-19 pandemic and other assumptions such as defining a significant increase in credit risk (SICR). The collective provision is estimated through the ECL model which uses historical data, adjusted for forward looking information and the assigned risk grade or arrears status. Additionally, management apply judgement in the determination of provision overlays to adjust for future market conditions. The level of judgement involved in determining the provision for collectively impaired assets	Together with KPMG credit risk specialists we assessed the Banking Group's collective and individual provisions. Our procedures, amongst others, included: — Assessing the Banking Group's governance and oversight, including the continuous reassessment of overall provisioning; — Assessing the Banking Group's significant accounting policies and expected credit loss ("ECL") modelling methodology against the requirements of the standards and underlying accounting records; — Testing key controls including the arrears calculations, customer loan ratings, annual loan reviews, credit risk reviews and data reconciliations between the ECL models and source systems; — Assessing the model output against actual losses incurred by the Banking Group; — Challenging the key assumptions, including forward looking economic assumptions, against external information including benchmarking management's estimates to a range of different market forecasts; — Evaluating individual credit assessments for a sample of 'rural' and other 'corporate' loans on management's credit watchlist. This included inspection of the latest correspondence with the

The key audit matter	How the matter was addressed in our audit
requires us to challenge the appropriateness of management's assumptions. The provision for individually impaired assets is based on the application of management judgement regarding expected future cashflows, which are inherently uncertain.	borrower, assessment of the provision estimates prepared by credit risk officers, and consideration of the resolution strategy. We challenged assumptions and assessed collateral values by comparing them to valuations performed by independent valuers; and — Assessing the disclosures in the consolidated financial statements against the requirements of NZ IFRS. From the procedures performed we consider the Banking Group appropriately identified and considered the uncertainties in the provision estimates.
Valuation of finance receivables – reverse mortgages Refer notes 12(b) and 19 to the consolidated financial statements.	
The Banking Group's reverse mortgage portfolio is held at fair value. The fair value calculation is based on the application of management judgement. In assessing the fair value, the Banking Group continuously considers evidence of a relevant active market. In the absence of such a market, in the current period, the Banking Group considered changes since loan origination and expected future cashflows. The inherent uncertainties include estimated exits, interest rates and security property values.	Our procedures over the fair value loan portfolios, amongst others, included: — Testing key controls over the accuracy of data impacting the fair value assessment; — Assessing evidence of a relevant active market or observable inputs; and — Challenging the key assumptions used by the Banking Group in determining the portfolio's fair value. The estimates and assumptions used to determine the valuation of finance receivables are reasonable, with no evidence of management bias or influence identified from our procedures.
Operation of IT systems and controls	
The Banking Group is reliant on complex IT systems for the processing and recording of significant volumes of transactions and other core banking activity. For significant financial statement balances, such as finance receivables and deposits, where relevant, our audit involves an assessment of the design of the Banking Group's internal control environment. There are some areas of the audit where we seek to test and place reliance on IT systems, automated controls and reporting. The effective operation of these controls is dependent upon the Banking Group's general IT control environment, which incorporates controls relevant to IT system changes and development, IT operations, developer and user access.	Our audit procedures, amongst others, included: — Gaining an understanding of business processes, key controls and IT systems relevant to significant financial statement balances, including technology services provided by a third party; — Assessing the effectiveness of the IT control environment, including core banking IT systems, key automated controls and reporting; and — Evaluating general IT controls relevant to IT system changes and development, IT operations, developer and user access. Where we noted design or operating effectiveness matters relating to IT system or application controls relevant to our audit, we performed alternative audit procedures. We also identified and tested mitigating controls in order to respond to the impact on our overall audit approach. We did not identify any material issues or exceptions from those additional procedures.

Other information

The Directors, on behalf of the Banking Group, are responsible for the other information included in the Bank's disclosure statement. Other information comprises the information required to be included in the disclosure statement in accordance with schedule 2 of the Order. Our opinion on the consolidated financial statements does not cover any other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Report on other legal and regulatory requirements

In accordance with the requirements of clauses 2(1)(d) and 2(1)(e) of Schedule 1 of the Order, we report that:

- we have obtained all the information and explanations we have required; and
- in our opinion, proper accounting records have been kept by the Banking Group, as far as appears from our examination of those records.

Responsibilities of Directors for the consolidated financial statements and supplementary information (excluding supplementary information relating to capital adequacy and regulatory liquidity requirements)

The Directors, on behalf of the Banking Group, are responsible for:

- the preparation and fair presentation of the consolidated financial statements in accordance with Clause 24 of the Order, NZ IFRS and International Financial Reporting Standards;
- the preparation and fair presentation of supplementary information (excluding the supplementary information relating to capital adequacy and regulatory liquidity requirements), in accordance with Schedules 2, 4, 7, 13, 14, 15 and 17 of the Order;
- implementing necessary internal control to enable the preparation of consolidated financial statements that are 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 audit of the consolidated financial statements and supplementary information (excluding supplementary information relating to capital adequacy and regulatory liquidity requirements)

Our objective is:

- to obtain reasonable assurance about whether the disclosure statement, including the financial statements prepared in accordance with Clause 24 of the Order, and supplementary information (excluding the supplementary information relating to capital adequacy and regulatory liquidity requirements), in accordance with Schedules 4, 7, 13, 14, 15 and 17 of the Order as a whole is free from material misstatement, whether due to fraud or error; and
- to issue an independent auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (NZ) will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error. They are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

A further description of our responsibilities for the audit of these consolidated financial statements is located at the External Reporting Board (XRB) website at:

http://www.xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities/audit-report-1/

This description forms part of our independent auditor's report.

Review conclusion on the supplementary information relating to capital adequacy and regulatory liquidity requirements

We have reviewed the supplementary information relating to capital adequacy and regulatory liquidity requirements, as disclosed in note 25(a) and 28 of the consolidated financial statements for the year ended 30 June 2020. The supplementary information relating to capital adequacy and regulatory liquidity requirements comprises the information that is required to be disclosed in accordance with Schedule 9 of the Order.

Based on our review, nothing has come to our attention that causes us to believe that the supplementary information relating to capital adequacy and regulatory liquidity requirements, disclosed in note 25(a) and 28 to the consolidated financial statements, is not, in all material respects:

i. prepared in accordance with the Banking Group's conditions of registration; and
ii. disclosed in accordance with Schedule 9 of the Order.

Emphasis of matter

We draw attention to note 25(a) and the conditions of registration non-compliance on page 78 of the disclosure statement which reference the Banking Group's identification of adjustments to the capital and liquidity ratios, as required under conditions of registration 1 and 11. Our opinion is not modified in respect of this matter.

Basis for conclusion on the supplementary information relating to capital adequacy and regulatory liquidity requirements

A review of the supplementary information relating to capital adequacy and regulatory liquidity requirements 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. Our responsibilities under that standard are further described in the Auditor's responsibilities for the review of the supplementary information relating to capital adequacy and regulatory liquidity requirements section of our report.

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

Responsibilities of Directors for the supplementary information relating to capital adequacy and regulatory liquidity requirements

The directors are responsible for the preparation of supplementary information relating to capital adequacy and regulatory liquidity requirements that is required to be disclosed under Schedule 9 of the Order and prepared in accordance with the Capital Adequacy Framework (Standardised Approach) (BS2A) and described in note 25(a) and 28 to the consolidated financial statements.

Auditor's responsibilities for the review of the supplementary information relating to capital adequacy and regulatory liquidity requirements

Our responsibility is to express a conclusion on the supplementary information relating capital adequacy and regulatory liquidity requirements based on our review. We conducted our review in accordance with NZ SRE 2410. As the auditor of the Banking Group, NZ SRE 2410 requires that we plan and perform the review to obtain limited assurance about whether the supplementary information relating to capital adequacy and regulatory liquidity requirements is, in all material respects:

- prepared in accordance with the Banking Group's conditions of registration; and
- disclosed in accordance with Schedule 9 of the Order.

A review of the supplementary information relating to capital adequacy and regulatory liquidity requirements in accordance with NZ SRE 2410 is a limited assurance engagement. The auditor performs procedures, primarily consisting of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures.

The procedures performed in a review are substantially less than those performed in an audit conducted in accordance with ISAs (NZ). Accordingly, we do not express an audit opinion on the supplementary information relating to capital adequacy and regulatory liquidity requirements disclosures.

Use of this independent auditor’s report

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

The engagement partner on the audit resulting in this independent auditor's report is Graeme Edwards.

For and on behalf of

KPMG

KPMG
Auckland

17 September 2020

NZX/ASX Release

ASX Listing Rule 1.15.3 Statement

17 September 2020

Heartland Group Holdings Limited (**ASX/NZX: HGH**) (an ASX Foreign Exempt Listing) confirms, for the purposes of ASX Listing Rule 1.15.3, that it has complied with and continues to comply with the Listing Rules of NZX Limited, which is its overseas home exchange.

- Ends -

For further information, please contact the person(s) who authorised this announcement:

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