HEARTLAND GROUP

Interim Report 2019

Six months to 31 December 2018

Contents

PROFITABILITY CONTINUES TO INCREASE

Net profit after tax
$33.1 million, up 6.5%

6.5%

STRONG GROWTH ACROSS THE BUSINESS

Gross finance receivables
$4.2 billion, up 11.9%[1]

11.9%[1]

BUSINESS RESTRUCTURE

Corporate restructure and ASX foreign exempt listing **successfully completed**

1 Annualised growth excluding changes in foreign currency exchange rates.

Profitability once again increased, driven by growth in our core lending divisions and digital channels.

With a strong strategic focus for the future, we expect Heartland to continue to grow.

Chair and CEO's Report

We are pleased to report Heartland's result for the first six months of the 2019 financial year. Profitability once again increased. This was achieved during a period of restructure which has positioned Heartland to grow and more efficiently access funding and capital.

Heartland Group Holdings Limited (**Heartland Group**) achieved a net profit after tax of $33.1 million, an increase of 6.5 percent from the previous corresponding reporting period.

Gross finance receivables grew $240.7 million in the six months to 31 December 2018, an annualised growth rate of 11.9 percent, excluding the impact of changes in foreign currency exchange rates.[1] The key drivers of this growth were our Australian Reverse Mortgages, Open for Business (**O4B**), Business Intermediated, Harmoney and Motor divisions.

Growth in profitability was achieved notwithstanding one-off corporate restructure and ASX listing costs ($0.9 million) and one-off foreign currency costs of $1.2 million incurred in relation to the corporate restructure. Profitability was also impacted due to the adoption of IFRS9 which requires providing for impairments on an expected loss basis on the date of loan origination. Additional impairment expense due to the new IFRS9 methodology was $2.2 million in the six months ended 31 December 2018, which is greater than anticipated due to the timing and mix of our loan portfolio growth.[2]

Growth strategy

Following the corporate restructure, Heartland Group's activity comprises three areas of strategic focus: Australia Reverse Mortgages, New Zealand Banking and Digital Platform Services.

New Zealand Banking is expected to continue to grow. Alongside this, there are two areas with potential high growth opportunities – Australia Reverse Mortgages and O4B.

More resources will be dedicated to these areas to unlock these opportunities while maintaining a strong bank which continues to grow and deliver valued customer services. Across the Group, the common theme is to deliver simple, frictionless on-boarding and processing solutions for the customer. Heartland also aims to grow while utilising the flexibility of the new corporate structure to access broader funding and capital sources.

Australia Reverse Mortgages

Australia Reverse Mortgages continues to experience strong growth (gross receivables annualised growth of 24.9 percent excluding FX in the six months ending 31 December 2018) in a market with compelling fundamentals. Population demographics are accelerating favourably with the number of Australians over 65 being projected to grow from 15 percent of the population in 2018 to 23 percent by 2050.[3]

This provides Heartland with a unique opportunity as the primary originator of reverse mortgages in Australia. Heartland plans to accelerate growth through raising product awareness under dedicated marketing initiatives, including a television campaign (TVC), to reach the total estimated market of approximately A$6billion.[4] Heartland intends to leverage off the experiences and success achieved in the New Zealand market.

The combination of favourable demographics, limited active originators and raising product awareness through increased

Australia Reverse Mortgages	Digital Platform Services	New Zealand Banking
Total estimated market of approximately A$6bn	Open for Business (O4B)	Five core lending activities: Reverse Mortgages, Motor, SME, Livestock, Harmoney
Long term funding	Mobile app	Accessible deposits
Increase use of marketing campaigns including TVC	New markets	Manage down large relationship legacy Rural and Business loans

Simple, frictionless on-boarding and processing

Capital efficiency

1 This was offset by an adverse foreign currency movement on Australian dollar denominated receivables of $32.0 million to $4,226.2 million (10.3 percent annualised growth).
2 See impairments section in Financial Commentary.
3 Based on peak penetration from the Deloitte annual reverse mortgage report 2015, combined with current Australian Bureau of Statistics population and housing statistics and APRA and HSF reverse mortgage data.

"The corporate restructure provides Heartland greater flexibility to explore and take advantage of future growth opportunities and funding options in New Zealand and Australia outside of the banking group."

marketing activity, presents the opportunity for significant growth and to cement Heartland's position as the market leader in reverse mortgage origination in Australia.

To support this growth opportunity, Heartland continues to diversify its sources of funding and to fund growth with improved capital efficiency. Heartland Australia has established an A$ medium-term note programme, has engaged with a number of Australian fixed income investors and is in the process of launching an inaugural A$ bond offering. A number of other options are currently being explored, including additional warehouse facilities and long-term funding sourced offshore.

Digital Platform Services

The Digital strategy aims to deliver three main benefits:

- simple and fast customer service
- greater customer reach
- low cost on-boarding and transaction processing

The three major areas of activity have been: Deposits, where 10 percent of deposit customers use the Heartland mobile app (an increase of 20 percent over the past three months); Australia Reverse Mortgages, where 30 percent of customers are direct and 93 percent of those are generated online; and O4B.

O4B targets Small to Medium Enterprises (SMEs) with loans of less than $250,000. Automated approvals are possible within minutes for loans up to $75,000.

Since 2015, O4B has grown to $115.4 million (gross receivables), including an annualised growth of 56.2 percent in the six months to December 2018. During this period the offering has been continuously improved to ensure a frictionless end to end process.

The platform has reached a stage where increased marketing is required to develop awareness and extend reach into a target market estimated to be $5.6 billion.[5] Consideration is being given to attracting external investment from specialist investors who can help Heartland to take O4B to the next stage of growth. An update will be provided to the market in due course should any transaction eventuate.

Heartland Bank Limited

Heartland Bank's focus will remain on delivering best or only products to depositors and borrowers, through continued growth in core lending activities:

- New Zealand Reverse Mortgages (gross receivables annualised growth of 10.7 percent),
- Business lending (gross receivables annualised growth of 6.1 percent),
- Motor Finance (gross finance receivables annualised growth of 16.3 percent), and
- Harmoney and other personal lending (gross receivables annualised growth of 44.3 percent)

Like Australian Reverse Mortgages, there are significant growth opportunities for New Zealand Reverse Mortgages, and Heartland intends to continue to leverage off its success achieved to date in the New Zealand market.

Larger Business and Rural Relationship lending is being managed down as part of our strategy to reduce concentration risk in these areas resulting in Business Relationship gross receivables reducing by $65 million in the period. Options are also being considered with regard to the acceleration of this run down which would free up capital to be dedicated to core lending activities.

Regulatory Update

There has been considerable recent scrutiny of the financial services sector, with the Financial Markets Authority (**FMA**) and Reserve Bank of New Zealand (**Reserve Bank**) reporting on their findings following a review of conduct and culture in New Zealand retail banks, the Australian Securities and Investments Commission (ASIC) releasing a report following its review of reverse mortgages in Australia and the Australian Royal Commission publishing its final report on it findings on misconduct in the Australian banking, superannuation and financial services industry.

The FMA and Reserve Bank report found no evidence of widespread conduct and culture issues; however, the findings did reveal opportunities to strengthen the governance and management of conduct risks industry-wide. Heartland is required to develop a plan to address the findings, to be completed by end of March 2019, and will continue to focus on iterative improvement of conduct and culture bank-wide.

ASIC's review of reverse mortgage lending in Australia highlighted the increasing need for equity release products and that "reverse mortgage products can help many Australians achieve a better quality of life in retirement".[6] The report also identified several areas for improvement

4 Per note 3 above.

5 Based on the number of SMEs in New Zealand (Ministry of Business, Innovation and Employment Small Business Fact Sheet 2017) with a turnover, risk profile and needs consistent with O4B.

6 ASIC Deputy Chair Peter Kell, ASIC Review of reverse mortgage lending in Australia (report 586).

from lenders, and Heartland has already acted on these and is very much aligned with ASIC in being committed to ensuring customers make informed decisions. Heartland is a member of a working group which was formed to ensure that ASIC's expectations for improved lending practices for reverse mortgages are satisfied.

The final Royal Commission report makes a number of recommendations, including changes in the way that brokers are remunerated for introducing clients to financial service providers.

Heartland does not expect any of the reports, or any expected legislative response to any of them, to have any material impact on Heartland's business.

Finally, as noted in the capital requirements section below, the Reserve Bank also released a consultation paper seeking public views on a proposal to increase the minimum level of regulatory capital in the banking system. At this stage, there is some detail to be clarified and the Reserve Bank is yet to make any final decisions.

Operating efficiencies

A theme running across Heartland Group is the need to provide simple, frictionless services to our customers. This is particularly important with respect to on-boarding new customers. Investment is being made in technologies including biometrics and robotics in order to make our processes frictionless and scalable. Efficient, high quality services are vital to facilitate growth.

Corporate restructure

Heartland completed a corporate restructure on 31 October 2018. All of the shares in Heartland Bank were exchanged for shares in Heartland Group, and Heartland Bank became a wholly owned subsidiary of Heartland Group. In addition, the Australian group of companies were transferred from Heartland Bank to Heartland Group.

Following the corporate restructure, Heartland Group now consists of a parent company (Heartland Group Holdings Limited) which is listed on both the NZX Main Board and as a Foreign Exempt Listing on the ASX and owns a New Zealand registered bank (Heartland Bank Limited) and the Australian Reverse Mortgages business (Heartland Seniors Finance).

The corporate restructure provides Heartland greater flexibility to explore and take advantage of future growth opportunities and funding options in New Zealand and Australia outside of the banking group. This helps to enable Heartland to achieve the strategic objectives set out above.

Jeff Greenslade remains overall Group Chief Executive Officer (CEO). The Group CEO will continue to provide oversight of all Heartland Group activities, including banking, and will take direct responsibility for Australia and Digital as well as managing the Group's strategy, capital and corporate finance. Chris Flood (previously Deputy CEO) has been appointed as dedicated CEO for Heartland Bank Limited, subject to Reserve Bank of New Zealand non-objection.

Capital requirements

In December 2018, the Reserve Bank released a consultation paper seeking public views on a proposal to increase the minimum level of regulatory capital in the banking system. At this stage, there is some detail to be clarified and the Reserve Bank is yet to make any final decisions. If the proposal was to be implemented in its current form, Heartland would be required to lift its Tier 1 capital ratio to 15 percent over a five year transitional period. This equates to an increase in Tier 1 capital of less than 0.4 percent (or approximately $15 million) per year, based on Heartland's current financial position.

The corporate restructure provides Heartland Group with the following flexibility in relation to the Reserve Bank's capital requirements.

- The Australian business is outside of the New Zealand banking group and therefore not subject to Reserve Bank capital requirements, reducing the impact of changes in those requirements.
- The options being explored for long-term funding of Heartland Australia and Heartland Group, if implemented, may potentially result in the Heartland Group requiring less capital, or being able to redeploy capital to Heartland Bank to satisfy Reserve Bank capital requirements without necessarily raising more equity in the market.

Additionally, the run-down of Heartland Bank's non-core Business and Rural loans is expected to continue, reducing Heartland Bank's capital requirements.

All of the above taken into account, and in the absence of an unanticipated increase in growth or an acquisition, the Group has no current need to raise equity from shareholders other than thorough the Dividend Reinvestment Plan. A combination of retained earnings reinvested through the Dividend Reinvestment Plan and other sources are sufficient for funding business as usual growth.

Interim dividend

Heartland is pleased to declare a 2019 interim dividend of 3.5 cents per share. The interim dividend will be paid on Friday 29 March 2019 (**Payment Date**) to shareholders on the company's register as at 5.00pm on Friday 15 March 2019 (**Record Date**) and will be fully imputed.

In December 2018, Heartland Group established a DRP, giving eligible shareholders opportunity to reinvest some or all of their dividend payments into new ordinary shares. The DRP will apply to the interim dividend with a 2.5 percent discount.[7] Shareholders are encouraged to participate in order to support Heartland's capital needs given its strong asset growth.

It is important to note that shareholders' previous election under the Heartland Bank Limited DRP has not automatically been carried across to the Heartland Group DRP. Shareholders who previously participated in the Heartland Bank Limited DRP, and wish to continue to receive shares instead of dividend payments, must make a new election to participate in the Heartland Group DRP in one of the ways specified in the DRP offer document by 5.00pm on 18 March 2019 (being the first trading day after the Record Date).

Outlook

The underlying balance sheet growth supports a result in line with the original forecast NPAT in the range of $75 million to $77 million. However, the one-off costs incurred in relation to the corporate restructure and ASX listing, and the higher than anticipated impact of IFRS9 as a result of receivables growth, have caused some pressure on earnings. Whilst Heartland considers that it could still achieve a result at the bottom end of guidance, it would come at a cost to further investment in growth. Accordingly, an updated guidance range of $73 million to $75 million is now considered prudent. The midpoint of that range would see the delivery of approximately 10% NPAT growth for FY19 compared to FY18.

We are committed to investing in growth, and are very excited about the Group's future growth opportunities – particularly those present in Australia and O4B.

Finally, we would like to take this opportunity to thank Heartland's staff for their efforts and our shareholders for their continued support.

Geoffrey Ricketts
Chair of the Board

Jeff Greenslade
Chief Executive Officer

7 That is, the strike price under the DRP will be 97.5 percent 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.

Reta i te Heamana & Pou Whakahaere

"Nā ngā panonitanga ā-kaporeihana nei, kua māmā ake ināianei te torotoro, te taunaha hoki i ētahi āheinga mō āpōpō e whanake ake ai, nui ai hoki ngā kōwhiringa pūtea i Aotearoa me Ahitereiria, i waho atu i ngā rōpū pēke pūtea."

E koa ana mātou ki te pūrongo i ēnei whakakitenga a Heartland mō ngā marama e ono, tuatahi o te tau pūtea, 2019. I whanake anō ngā pūtea. I tutuki tēnei i tētahi wā panoni heoi, mā tēnei kua whakanoho a Heartland kia tipu, kia toro pai ake hoki ki ngā pūtea tautoko me ngā uara.

I eke a Heartland Group Holdings Ltd ki te painga more i muri a te take, ki $33.1 million, he pikinga tērā mā te 6.5 ōrau i ngā wā pūrongo pūtea kua mahia i mua.

I tipu ngā ahumoni nama mai mā te $240.7 miriona, i ngā marama e ono ki 31 Tīhema 2018, he tipunga ā-tau tērā o te 11.9 ōrau, i waho atu i ngā whakaaweawe o ngā nekehanga i te pāpātanga uetanga tāra nō tāwāhi.[1] Ko ngā kaikōkiri matua o tēnei whakawhanaketanga, i ahu tonu mai i ērā o ngā Australian Reverse Mortgages, Open for Business (O4B), Business Intermediated, Harmoney me ngā ratonga Motoka.

I eke tēnei whakawhanaketanga ā-pūtea ahakoa te utu kotahi e pā ana ki te panoni rangatōpū me te urunga ki te rārangi ASX ($0.9 miriona) me te utu kotahi e pā ana ki te uetanga tāra o te $1.2 miriona, ko te panonitanga o te rangatōpū te take. I ākina hoki ngā whiwhinga ā-pūtea e te whai wāhitanga mai a IFRS9, tērā me whakatohu te hauā i te rā taketake o te pūtea taurewa. I pā mai tētahi utu whakahauā anō nā te tukanga hou a IFRS9, arā, e $2.2 miriona i ngā marama e ono ki te rā 31 o Tīhema 2018, he nui ake taua utu i tērā o te whakapae i te mea he rerekē te whakawhenumitanga o tō mātou huinga haumitanga i te whakapae i te rā 31 Tīhema 2018.[2]

Rautaki Whakawhanake

I muri mai i ngā panonitanga ā-kaporeihana, e toru ngā wāhanga rautaki i aro nuitia rā e Te Rōpū a Heartland:

E kawatautia ana ka whanake tonu te ao Pēke o Aotearoa. Āpiti atu ki tērā, he pitomata tō ngā wāhi e rua hei tupu matomato: Australia Reverse Mortgages Mōkete tauaro k I Ahitereiria me O4B.

Kia nui kē atu ngā rauemi kia whakamahia ki ēnei wāhi e puare mai ai ētahi āheinga, otirā, e whanake haere tonu ana, e ngākau marae tonu ana ki ana kiritaki puipuiaki. I waenga i te katoa o te rangatōpū, ko te kaupapa matua kia whakatutuki i te whakaurunga māmā hoki, i ngā ratonga hātepe anō hoki ki te kiritaki. E whai tipuranga ana hoki a Heartland, otirā ka whakamahi hoki te āhua ngāwari o te panonigtanga hou o te rangatōpū kia toro atu hoki ki ngā pūtea tautok whānui ake me ngā mātāpuna uara.

Ngā Mōkete Tauaro ki Ahitereiria

E rangona ana e ngā Mōkete Tauaro o Ahitereiria ētahi whakawhanaketanga hirahira (moni mai ā mua i te utu take, whakawhanaketanga ā-tau o te 24.9 ōrau hāunga ngā FX i ngā marama e ono atu ki te 31 o Hakihea, 2018) i roto i tētahi mākete he nui ōna whakawanawana. E tipu pai ana te kāhui tāngata me te matapae ka neke atu te kāhui o ngā tāngata e 65 ngā tau neke atu, mai i te 15 ōrau o te tau 2018 ki te 23 ōrau hei te 2050.[3]

Mā tēnei ka whai wāhi atu a Heartland ki ētahi āheinga motuhake, nā te mea mā rātou, i te orokotīmatanga, ngā Mōkete Tauaro i Ahitereiria.

Mōkete Tauaro ki Ahitereiria	Ngā ratonga pae matihiko	Ngā mahi pēke ki Aotearoa
Te matapae o te katoa o te mākete e taea ai, ko te A$6piriona	Tūwhera ki te Pakihi	E rima ngā mahi pūtea taurewa matua: Mōkete Tauaro, Motoka, SME, Kararehe, Harmoney
Tahua tautoko pae tawhiti	Pūmanawa Tautono	Tomonga ki ngā Moni Kuhu
Kia piki ake ngā rautaki whakatairanga, ko te TVC tētahi o ēnei	Mākete hou	Kia heke iho ngā hononga nui o mua mō ngā pūtea taurewa Taiwhenua, Pakihi hoki

Kia ngāwari, kia taero kore te kuhunga me ngā hātepe

Kia pakari anō te uara

1 I whakatauritea tēnei e tētahi nekehanga kino a te uetanga tāra o te tāra ki Ahitereiria e pā ana ki ngā moni mai i raro taua tāra, arā, $32.0 miriona ki te $4,226.2 miriona (10.3 ōrau whakatipuranga ā-tau).

2 Tirohia te wāhanga hauā I te Financial Commentary.

3 E ai ki te tino ngoto i te pūrongo mōkete tauaro ā-tau 2015 a Deloitte, me ngā tauanga taupori, tauanga kāinga hoki a te Australian Bureau of Statistics, me te raraunga a APRA me HSF e pā ana ki te mōkete tauaro.

E tūmanako ana a Heartland ki te kimi angitutanga i roto i ngā pakihi hou mā te whakatairanga i ngā tuaritanga ki tētahi kaupapa whakatairanga whiwhita, arā, ko tētahi whakatairanga pouaka whakaata (TVC) kia torotoro atu ki te mākete, tōna A$6 piriona te nui.[4] Te manako ka whai hua a Heartland i āna wheako, i āna angitutanga hoki kua ea kē i te mākete ki Aotearoa.

Ko te hanumitanga o ētahi kāhui tāngata pai, ētahi limited active originators, me te whakatairanga ake i te mōhiotia ō ētahi tuaritanga mā roto mai i ētahi tūmahi whakatairanga ka kitea ētahi āheinga e tipu ai, e toka ai hoki te tūranga o Heartland hei rangatira i roto i ngā mōkete tauaro taketake i Ahitereiria.

E tautokona ai ēnei āheinga whakawhanake, ka kōkiri whakamua tonu a Heartland ki te whakamatarau i ōna mātāpuna pūtea, me te tāpae mataara hoki i ētahi pūtea ki tōna whakawhanaketanga. Kua whakatūria a Heartland ki Ahitereiria i tētahi hotaka $A pae wawaenga nōti, kua tūhono hoki ki ētahi whaipūtea ita kaihoko haumitanga, ā, hei tuatahitanga kei te tata oti tētahi $A hokonga ā-tūtanga pakihi tūmatawhāiti. Arā noa atu ngā huarahi e tūhuratia ana, arā, ko te whare pūkainga taonga me ētahi mātāpuna pūtea pae tawhiti mai i tāwhāhi.

Ngā Ratonga Pae Matihiko

E arotahi tonu ana te rautaki Mamati ki ētahi mea matua e toru:

- Kia māmā, kia tere hoki ngā mahinga tahitanga ki ngā kiritaki
- Kia whānui kē atu ngā torotoronga ki te kiritaki
- Kia iti iho hoki ngā utu hao tāngata, tukanga whakahaere pūtea hoki

He nui te whakamahi o ngā wāhanga e toru, arā: Moni kuhu, tērā 10 ōrau o ngā kiritaki kuhu moni e whakamahi nei i te pūmanawa tautono (he pikinga mā te 20 ōrau i ngā marama e toru); Mōkete Tauaro ki Ahitereiria, tērā he horipū te 30 ōrau o ngā kiritaki, ā, 93 ōrau o ēnei e ara mai ana i te ipurangi, me O4B.

E aro atu ai a O4B ki ngā pakihi iti ki ngā pakihi waenga, me ngā pūtea taurewa iti iho i te $250,000. Kei ngā mēneti noa iho te whakaaetanga rorohikotanga o ētahi pūtea taurewa kei raro iho i te $75,000.

Mai i te tau 2015 kua tupu a O4B ki te $115.4 miriona (moni mai ā mua i te utu tāke), me tētahi tupuranga ā-tau o te 56.2 ōrau i ngā marama e ono, atu ki te Hakihea, 2018. I tēnei wā, kua auau te pai ake o ngā hoatutanga kia taero-kore ngā tukanga, mai i te tīmatanga ki te mutunga.

Kua tae te kaupapa ki tētahi taumata me nui kē atu whakatairangatia ōna e mataara ake ai, e toro atu ai hoki ia ki tētahi mākete e kīia ana kei te takiwā o te $5.6 piriona te uarā.[5] Kei te whakaarohia te whakapoapoa mai a ngā mātanga kaiwhakarato moni o waho, kia āwhina i a O4B kia eke ki taumata kē. Kia puta tētahi whakamōhiotanga ki te mākete ā tōna wā ki te whakatutuki tētahi o ēnei whakawhitinga.

Heartland Bank Tāpoi

Ka mau tonu i a Heartland Bank i tana kaupapa o te hoatu tonu i te tino kounga, i āna ake rawa rānei ki ana Kaimonikuhu me ana kaimonihoko mā te whakatipuranga tonutanga i ngā mahi pūtea taurewa, arā:

- Ngā MōketeTauaro ki Aotearoa (he tipuranga 10.7 ōrau o te moni mai ā mua i te tāke ia tau)
- Nama Atu ā-Pakihi (he tipuranga 6.1 ōrau o te moni mai ā mua i te tāke ia tau)
- Ahumoni Motoka (he tipuranga 16.3 ōrau te ahumoni mai ā mua i te take ia tau)
- Harmoney me ērā atu momo nama atu ā-kiritaki (he tipuranga 44.3 ōrau te nama mai ā mua i te take)

Pērā i te Mōkete Tauaro ki Ahitereiria, he nui ngā āheinga piki mā te Mōkete Tauaro ki Aotearoa, ā, e whakaaro ana a Heartland kia whai tonu i te wahanga taurewa o te angitu kua pahawa tae noa ki tēnei rā i te mākete ki Aotearoa nei.

Kei te whāiti haere te whakahaerehia o ngā Hononga Pakihi nui, hononga Taiwhenua hoki, kia hāngai ai ki tā mātou rautaki e iti haere ai te warea ki aua kaupapa rā e whaihua ana, arā, i heke iho te nama utua mai a mua i te tāke a ngā Hononga Pakihi mā te $65 miriona i taua wā. Kei te wānangahia tonutia hoki ngā whakaaro kia whakaterehia te wā whakawhaiti nei, tērā kia whakawātea ētahi pūtea me ētahi rauemi mō ētahi mahi pūtea taurewa matua.

Ngā penapenatanga whakahaere

Ko tētahi kaupapa matua i waenganui i te Rōpū Heartland ko te hoatu i ētahi āwhinatanga he māmā te uru ki a mātou kiritaki. He take matua tēnei mō ngā rautaki hao tāngata e rēhita mai ai ētahi kiritaki hou. He pūtea e hoatu atu nei mātou ki ngā momo hangarau pēnei i te tautohu tangata matihiko me ngā mahi karetao ā-hangarau e māmā ake ai, e taea ai hoki e mātou ētahi mahi te ine. He mahinga nui te kimi i ētahi tukanga māmā, kounga anō hoki e pai ai ngā whakawhanaketanga.

Panonitanga a te Rangatōpū

I oti ngā mahi panoni ā-kaporeihana nei i te 31 o Whiringa-ā-nuku, 2018. Ko ngā tūtanga pakihi katoa i Heartland Bank i whakawhitihia mō ngā tūtanga pakihi i Rōpū Heartland, ā, ka noho ko Heartland Bank ki raro i te mana o Heartland Group. Me te aha, ko ngā rōpū pakihi o Ahitereiria ka whakawhiti i Heartland Bank ki Heartland Group.

Whai muri mai i ngā panonitanga, ā-kaporeihana, ināianei ko te Rōpū Heartland te kamupene matua (Heartland Group Holdings Limited) kei te rārangi ingoa o NZX Main Board me ASX, i raro iho i tētahi Foreign Exempt Listing e noho nei tētahi pēke rēhita nō Aotearoa (Heartland Bank Limited) me te pakihi Mōkete Tauaro ki Ahitereiria (Heartland Seniors Finance).

Nā ngā panonitanga ā-kaporeihana nei, kua māmā ake ināianei te torotoro, te taunaha hoki i ētahi āheinga mō āpōpō e whanake ake ai, nui ai hoki ngā kōwhiringa pūtea i Aotearoa me Ahitereiria, i waho atu i ngā rōpū pēke pūtea. Mā tēnei e taea ai e Heartland ngā whāinga o te rautaki, kua whakapuakina kētia, te whakatutuki.

4 Tirohia te tuhinga 3 o runga.

5 E ai ki te nama o pakihi iti ki pakihi waenga ki Aotearoa me he rerenga pūtea, taumata tūraru me ngā hiahia e hāngai pai ana ki ērā o O4B. (Whārangi Meka Pakihi Iti 2017 Hīkina Whakatutuki)

Ko Jeff Greenslade tonu te Toihau (CEO). Ka rite tonu te whakamāramatia o ngā kōiriiri me ngā kōnekeneke o te pēke e te Toihau, nōna e noho Toihau ana mō Heartland Group Holdings, ā, ka noho māna ngā kawenga mō Ahitereiria me ngā mahi mamati, me ngā mahi whakahaere hoki i te rautaki ā-rōpū, pūtea, me ngā whakahaerenga pūtea kaporeihana. Kua whakamanahia a Chris Flood (Toihau Tuarua o mua) hei Toihau whakawhirinaki mō Heartland Bank Limited, kei te āhua o te whakaaetanga nā Te Pūtea Matua o Aotearoa.

Ture Uara

Nō Tīhema 2018, nā te Pūtea Matua tētahi pepa kōrero hei whai i ngā whakaaro o te hunga tūmatanui e pā ana ki te whakapakaringia ngā ture taumata paeraro o te uara i te pūnaha pēke. I tēnei wā tonu, kei te whakaarohia tonutia ētahi kōiriiri, ā, kāore anō a RBNZ kia ū ki tētahi whakatau. Ki te whakatinanahia te tono i tōna hanga o naianei, kia tonoa a Heartland kia hikitia tōna ōwehenga utu paetahi ki 15 ōrau i ngā tau e rima. He pikitanga tēnei o te utu paetahi heke iho i te 0.4 ōrau (tōna $15 miriona rānei) ia tau, e ai ki tō Heartland tūranga ahumoni o naianei.

Ko te panonitanga o te rangatōpū o te Rōpū Heartland he āheinga kia ngāwari te mahi e pā ana ki ngā ture uara a Te Pūtea Matua.

- Kei te noho te pakihi a Ahitereiria i waho i ngā here o Aotearoa, nā reira kāore ōna here ki ēnei ture uara a Te Pūtea Matua, he māmā noa te whakaaweawe o ērā momo panonitanga.
- Ko ngā kōwhiringa e whāia ai hei pūtea tautoko paetawhiti ki Heartland Ahitereiria me te Rōpū Heartland, tērā pea kia heke iho te uara paearu ki te Rōpū Heartland, ki te whakawhiti rānei i ētahi uara i wāhi kē kia whakaea ērā o ngā paearu uara a Te Pūtea Matua, kāore pea he take ki te kohi uara anō i te mākete.

Āpiti atu ki tērā, ko te whakaaro ka heke iho tonu ngā mahi hauarea a Heartland Bank me ngā pūtea taurewa ahuwhenua, kia whakaiti ai ngā paearu uara.

Nā runga i te katoa o ngā mea o runga, me te korenga o tētahi whakatipuranga nui me ētahi hokonga kāore i matakite, kāore he take tō te rōpū kia whiwhi pūtea i ngā kaiwhaipānga atu i te mahere haumitanga tukurua. I te whakawhenumitanga o ngā moni whiwhi e puritia tonutia ana kia tukuruatia anō ki te mahere whiwhi moni, me ētahi atu mātāpuna, he pai noa ēnei kia tautoko i ngā whakatipuranga māori.

Moni Whiwhi Haurua Tuatahi

E harikoa ana a Hearland kia whākina atu he 3.5 heneti mō ia wehenga te moni whiwhi i tēnei haurua o te tau. Ka utua te moni whiwhi ā te Paraire 29 o Maihe 2019 (Rā Utu) ki ngā kaiwhaipānga I te rēhita o te kamupene ā te 5.00 karaka i te ahiahi pō, Paraire 15 Maihe 2019 (Rā Hopunga) ā, ka whakamāramahia katoatia.

Nō Tīhema 2018, nā Te Rōpū Heartland tētahi DRP i whakarewa, kia taea ai ngā kaiwhaipānga tika te tuku anō i ā rātou moni whiwhi ki te hoko anō i ētahi tūtanga pakihi māori hou. Ka whai wāhi te DRP ki te moni whiwhi haurua tuatahi me te whakhekenga utu o 2.5 ōrau.[6]
E akiakina ngā kaiwhaipānga kia whai wāhi i te kaupapa nei kia taunaki ai ngā matea uara a Heartland nā te whaktipuranga pai o ngā rawa.

Me aro ka tika, kāore te kōwhiringa poti ō mua a ngā kaiwhaipānga kia whakwhiti ki te Heartland Group Holdings Limited DRP i te Heartland Bank Limited DRP. Ko ērā o ngā kaiwhaipānga i whai wāhi kē i te Heartland Bank Limited DRP, ā, e hiahia ana ki te whiwhi tonu i ngā tūtanga pakihi, kāore i ngā moni whiwhi, me tuku poti hou kia whai wāhi i te Heartland Group DRP mā ngā tukanga e kitea ai i te tuhinga DRP i mua i te 5 karaka i te ahiahipō, 18 Māihe 2019 (koinā tē rā hoko tuatahi whai muri tonu mai i te Rā Hopu).

Anganga

Ka tautoko te tupu huna a te tuhinga toenga i ētahi hua e hāngai ana ki te oroko matapae NPAT i te takiwā o te $75 miriona ki te $77 miriona. Heoi anō, ko te utu huatahi mō te panonitanga ā-kaporeihana me te utu mō te ASX whakarārangi, me te whakaaweawe nui ake i te whakapae e pā ana ki a IFRS i hua mai ai i te tupu a ngā nama utua mai, kua pēhi atu ki te pūtea mai. Otira e whakapono ana tonu a Heartland ka taea te moni hua te whakatutuki i te taha raro o te matapae, heoi ko te utu, te hekenga o te haumitanga ki tōna whakatipuranga. Nā reira, kua whakahoungia te matapae tūturu hei arahi, ā, ko $73 miriona ki te $75 miriona te matapae hou, ā, e ngākau titikaha ana a Heartland ka whakatutukia te NPAT tupu I te takiwā o te 10 ōrau hei te tau FY19.E ū ana ō mātou whakaaro ki ngā kaupapa whakawhanake, ā, e hīkaka nui ana ki te kite i ngā momo whakawhanaketanga mō raurangi - pēnei tonu i ērā e toitū kē ana i Ahitereiria, me O4B.

Aua atu, kia whai wāhi atu mātou ki te mihi ki ngā kai mahi o Heartland mō ngā hekenga werawera, me ā mātou kaiwhaipānga mō te auau o te tautoko.

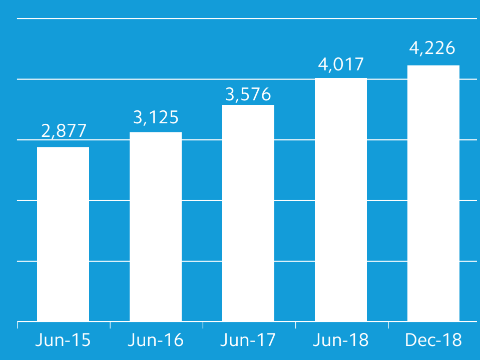
Geoffrey Ricketts
Heamana o te Poari

Jeff Greenslade
Toihau

6 Tērā, ko te utu tūturu i raro i te DRP kia 97.5 ōrau o te rahi o te utu toharite o ngā tūtanga pakihi i ngā rā e rima whai muri i te Rā Hopu. Mō ngā kōiriiri katoa o te DRP me ngā tatauranga o te Utu Tūturu, tirohia te Heartland Group Holdings Limited DRP tuhinga, 10 Tīhema 2018.

Profitability through receivables growth

Gross Receivables($m)



11.9%
annualised growth (exc FX)

Our Business

Business Finance

Gross finance receivables $1,094 million, up $32 million (6.1% annualised growth)

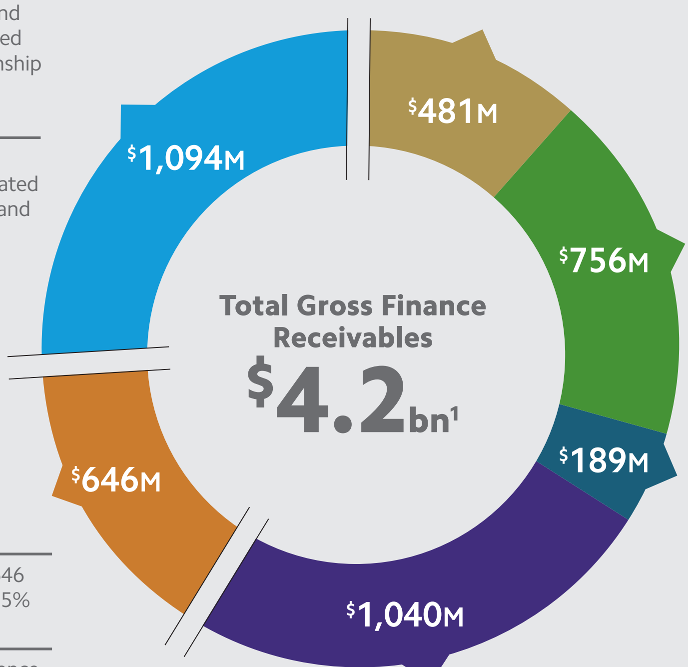
Working capital and plant and equipment finance distributed through Heartland's relationship managers, partners and intermediaries.

Exceptional strong growth through Business Intermediated (44.3% annualised growth) and Open for Business (56.2% annualised growth).

New Zealand Reverse Mortgages

Gross finance receivables $481 million, up $25 million (10.7% annualised growth)

Primarily distributed through our Heartland Seniors Finance sales team in New Zealand.



Australia

Australia Reverse Mortgages

Gross finance receivables $733 million, up $85 million (24.9% annualised growth excluding FX[2])

Distributed through brokers and our Heartland Seniors Finance sales team in Australia.

Including impact of foreign currency translation, reported annualised growth of $55 million (16.2%)

Australian Spotcap business lending

Gross finance receivables $22 million, up $4 million (45.4% annualised growth excluding FX[2])

Including impact of foreign currency translation, reported annualised growth 36.5%

Rural Finance

Gross finance receivables $646 million, down $15 million (4.5% annualised decrease)

Rural loans and livestock finance distributed through Heartland's relationship managers, alliance partners and online through our digital platform, Open for Livestock.

Motor Vehicle Finance

Gross finance receivables $1,040 million, up $79 million (16.3% annualised growth)

Lending through our motor vehicle dealer network continues to grow strongly – enabling customers to access finance at point of sale.

Harmoney and other personal lending

Gross finance receivables $189 million, up $35 million (44.3% annualised growth excluding FX)

Our partnership with Harmoney enables Heartland to lend through Harmoney's online platform for personal loans.

New Zealand Harmoney and personal lending grew 37.7% (annualised growth)

Australian Harmoney and personal lending grew 77.0% (annualised growth excluding FX[2])

1 Excluding residential mortgage lending of $21 million as at 31 December 2018.
2 Excludes impact of changes in foreign currency exchange rates.

Ka pū te ruha, ka hao te rangatahi

The next generation is coming through

According to Statistics New Zealand, by 2038, approximately 30% of the population – and therefore our future workforce – will be Māori.

We all have a role to play in supporting the development of our rangatahi as they prepare to begin their studies or enter 'the world of work'. Over the last two years, Heartland Bank has provided internship opportunities for Māori students to test the waters of working life, before they enter the workforce.

Heartland's six week paid internship programme is based on the Māori concept of 'ako', which means to learn and teach. The internship provides students with work experience over their summer holiday, and allows us to learn from them too – particularly in relation to how we can make Heartland more welcoming and inclusive to Māori people.

Following a successful programme in 2017, this year we opened our doors to 20 students from three Auckland schools.

The internship was offered to students from the InZone Education Foundation (an organisation which aims to enhance the educational outcomes of Māori youth by providing opportunities to attend Auckland Grammar and Epsom Girls Grammar schools), King's College and Ngā Puna O Waiōrea (a Māori immersion unit within Western Springs College).

Through the programme, we aim to encourage students to return to Heartland or consider a career in the banking or finance industry.

Overwhelmingly, feedback from our interns has been positive. Since the programme began in 2017, four interns have had further employment with Heartland Bank and another two have returned for holiday work. One of those past interns is communications student Payton Taplin who is currently employed in Heartland's communications and marketing team.

"The internship was such a great opportunity to see how our studies can be applied in a corporate environment," said Payton. "Since joining the Heartland team on a more permanent basis, I've been learning heaps – and now I'm confident that my decision to study communications is a good one."

Heartland is dedicated to promoting a diverse workplace where all people feel accepted for who they are – including our future Māori workforce. Overtime, we hope to become the employer of choice for emerging Māori talent. Our internship programme is just one of the ways we intend to achieve this.

"The internship was such a great opportunity to see how our studies can be applied in a corporate environment."

Payton Taplin,
communications student.

Financial Commentary

Profitability once again increased with Heartland achieving a net profit after tax of $33.1 million for the six months to 31 December 2018, an increase of 6.5% from the previous corresponding reporting period.[1]

Heartland Group Holdings Limited (**Heartland**) achieved strong growth in finance receivables in the current period, particularly in Australian Reverse Mortgages, Open for Business and Intermediated Business lending, Harmoney and other personal lending, and Motor finance. Overall, Gross Finance Receivables increased $240.7 million (11.9% annualised growth), excluding the impact of changes in foreign currency exchange rates.

Net operating income

Net Operating Income (**NOI**) was $102.1 million, up $8.2 million (8.7%) compared to the previous corresponding reporting period.

Heartland's Net Interest Margin (**NIM**) for the six months ended 31 December 2018 was 4.36% compared to 4.44% for the six months ended 31 December 2017. NIM was impacted by $1.1m of break costs incurred due to the early repayment of the Tier 2 Australian dollar subordinated bond. The Tier 2 bond was repaid using lower cost funding, which is expected to result in lower interest expense in the second half of the financial year.

Costs

Operating costs were $43.4 million, an increase of $3.1 million (7.7%) compared to the previous corresponding reporting period. Higher operating expenses are due to growth, one-off corporate restructure and ASX listing costs of $0.9 million and an adverse impact of foreign currency movements of $1.2 million due to a temporary foreign exchange exposure at the time of the corporate restructure. This exposure has subsequently been hedged, removing the potential for any further negative impact.

The cost to income ratio improved to 42.5% compared to 42.9% in the previous corresponding reporting period, although excluding one-off corporate restructure and ASX listing costs and the adverse impact of foreign currency movements, the cost to income ratio improved further to 40.4%.

Impairments

The new accounting standard relating to impairments, IFRS9, came into effect on 1 July 2018. This new standard requires impairments to be provided for on an expected loss basis at the date of loan origination. For the period ending 31 December 2018, whilst receivables have performed largely in line with expectations, there has been an increase in impairment expense due to how changes in product mix and growth are provided for under new IFRS9 methodology.

Impaired asset expense increased $2.9 million (27.6%) to $13.3 million for the six months ended 31 December 2018, but $2.2 million of that increase is a result of the new IFRS9 methodology, which is greater than anticipated due to the mix of our loan portfolio at 31 December 2018 differing from initial projections.

The impairment expense ratio increased from 0.58% to 0.64% for the six months ended 31 December 2018. Despite the increase, underlying receivables performance is stable. Excluding the $2.2 million of impairments due to the new IFRS9 methodology:

- impaired asset expense as a percentage of average gross finance receivables reduced to 0.53%;
- impairment expense in Motor was 0.84% compared to 0.95% in the previous corresponding reporting period; and
- Business lending impairment expense was 0.63% compared to 0.55% in the previous corresponding reporting period (largely due to the growth in O4B).

For Reverse Mortgages, which are valued using fair value methodology, the risk remained stable.

The initial adoption of IFRS9 also resulted in opening adjustments to provisions for impairments of $25.3 million and retained earnings of $18.2 million, after allowance for the deferred tax benefit.

Net impaired and past due loans over 90 days decreased by $2.0 million from 30 June 2018 to $71.8 million as at 31 December 2018, and as a percentage of gross receivables decreased from 1.84% as at 30 June 2018 to 1.70% as at 31 December 2018.

Business performance

New Zealand Reverse Mortgages

New Zealand Reverse Mortgages net operating income was $10.0 million, an increase of $1.2 million or 13.5% from the previous corresponding reporting period.

Motor

Motor vehicle net operating income was $28.2 million, an increase of $2.3 million or 8.9% from the previous corresponding reporting period. Motor vehicle gross receivables increased $79.0 million (16.3% annualised growth) to $1,039.9 million as at 31 December 2018 through Motor Dealer lending (car dealerships, brokers and partnerships such as Holden and Jaguar/Land Rover).

Harmoney and other personal lending

Harmoney and other personal lending net operating income was $9.5 million, an increase of $2.6 million or 38.0% from the previous corresponding reporting period. Harmoney and other personal lending achieved growth in gross receivables of $34.7 million (44.3% annualised growth), offset by small foreign currency movement of $1.3 million on Australia Harmoney receivables, to $188.6 million as at 31 December 2018.

Heartland has a 13.34% shareholding in Harmoney.

Business

Business lending net operating income was $27.6 million, an increase of $1.5 million or 5.7% from the previous corresponding reporting period.

Business gross receivables increased by $32.4 million (6.1% annualised growth) to $1,093.8 million as at 31 December 2018.

1 This announcement is based on the 31 December 2018 unaudited interim consolidated financial statements of Heartland Group Holdings Limited (HGH). Following a corporate restructure on 31 October 2018, Heartland Bank Limited (HBL) became a 100% controlled subsidiary of HGH and ownership of the Australian group of companies (comprising Heartland Australia Holdings Pty Limited) transferred from HBL to HGH. The interim consolidated financial statements of HGH comprise of results for HBL up to 31 October 2018, and HGH from 1 November 2018 to 31 December 2018. As common control has remained the same both before and after the corporate restructure, management believe that the operations of HGH from 1 November 2018 are directly comparable to those of HBL prior to 1 November 2018. All comparative results are based on 31 December 2017 unaudited interim consolidated financial statements of HBL.

Heartland's growth focus continues to be on Intermediated Business and lending through our digital platform, Open for Business. These markets continue to deliver results with Business Intermediated lending up $72.3 million (44.3% annualised growth) and Open for Business lending up $25.5 million (56.2% annualised growth) to $115.4 million as at 31 December 2018. Business Relationship lending continues to be managed down as part of our strategy to reduce concentration risk resulting in Business Relationship gross receivables reducing by $65 million in the period.

Rural

Rural lending net operating income was $15.8 million, a decrease of $0.4 million or 2.7% from the previous corresponding reporting period.

Rural gross receivables decreased in the period by $15.0 million (4.5% annualised decrease). Similarly to Business Relationship lending, we continue to manage down large Rural Relationship lending to reduce concentration risk in this area.

Australia

Net operating income from Australian operations (comprising Australian Reverse Mortgages and business lending to Spotcap) was $11.8 million, an increase of $2.2 million or 23.3% from the previous corresponding reporting period.

Australian Reverse Mortgages gross receivables grew by $85.1 million (24.9% annualised growth) in the six months to 31 December 2018. This growth was offset by an adverse movement in foreign currency translation of $29.8 million, resulting in a reported growth of $55.3 million (16.2% annualised growth) to gross receivables of $733.3 million as at 31 December 2018. Australian business lending to Spotcap increased $4.3 million (45.4% annualised growth), also offset by a small adverse movement in foreign currency translation of $0.8 million to $22.2 million as at 31 December 2018.

Other

New Zealand residential mortgages decreased by $4.4 million to $21.3 million as at 31 December 2018 as Heartland continues to run-down this portfolio.

Net assets

During the reporting period, Net Assets decreased by $10.0 million to $654.2 million as at 31 December 2018. Net Tangible Assets (NTA) decreased by $13.3 million to $571.1 million as at 31 December 2018. NTA per share was $1.01 at 31 December 2018 compared to $1.04 at 30 June 2018.

This reduction in NTA per share is primarily due to opening retained earnings being restated by $18.2 million upon the initial adoption of IFRS9, accounting for $0.03 NTA per share, with a corresponding increase in provisions for impairments.

Funding and liquidity

The corporate restructure was completed in October 2018 and provides Heartland with greater flexibility for capital and funding options going forward. The Tier 2 Notes (A$20 million) were repaid as part of this corporate restructure.

Retail Deposits grew $106.6 million (7.3% annualised growth) to $3.0 billion as at 31 December 2018. Heartland continues to be a strong market leader in term deposit and call account offerings, providing customers with competitive interest rates and unlimited on call access to their money.

Capital management

The regulatory capital ratio (Total Capital expressed as a percentage of total risk weighted exposures) for Heartland Bank Limited was 13.25% as at 31 December 2018, compared to 14.12% as at 30 June 2018.

Return on Equity (ROE) for Heartland Group reduced from 10.8% (annualised) for the six months ended 31 December 2017 to 10.3% (annualised) for the six months ended 31 December 2018. The reduced ROE is a result of higher average equity for the current period.

Earnings per share for Heartland Group Holdings Limited for the six months ended 31 December 2018 was 5.9 cents per share, compared to 6.0 cents per share for the six months ended 31 December 2017.

Interim dividend

An interim dividend of 3.5 cents per share was declared with the release of the 2019 interim results. The interim dividend will be paid on Friday 29 March 2019 (**Payment Date**) to shareholders on the company's register as at 5.00pm on Friday 15 March 2019 (**Record Date**) and will be fully imputed. The Dividend Reinvestment Plan (**DRP**) will apply to the interim dividend with a 2.5% discount.[2] Shareholders are strongly encouraged to participate in the DRP.

It is important to note that shareholders' previous election under the Heartland Bank Limited DRP has not automatically been carried across to the Heartland Group Holdings Limited DRP following the corporate restructure on 31 October 2018. Shareholders who previously participated in the Heartland Bank Limited DRP, and wish to continue to receive shares instead of dividend payments, must make a new election to participate in the Heartland Group Holdings Limited DRP in one of the ways specified in the DRP offer document by 5.00pm on 18 March 2019 (being the first trading day after the Record Date). The DRP offer document and participation form is available on our shareholder website at: https://shareholders.heartland.co.nz/shareholder-resources/dividends.

Change in profitability

Six months ended 31 December 2017 Net profit after tax	**31.1**	
Increased net interest income	7.9	Increase in net interest income of 8.8%, in line with gross finance receivables annualised growth of 10.3% offset by Tier 2 bond break costs and slightly lower net interest margin
Increased other net income	0.3	
Increased operating costs	(3.1)	Increased operating costs due to the increase in receivables combined with one-off corporate restructure and ASX listing costs and adverse impact of foreign currency movements incurred in the period
Increased impairment expense	(2.9)	Increased impairment expense due to growth in receivables and additional impairments provided for on the date of loan origination under IFRS9 of $2.2 million
Increased income tax expense	(0.2)	Increase tax expense due to improved profitability
Six months ended 31 December 2018 Net profit after tax	**33.1**	

2 That is, the strike price under the DRP will be 97.5% 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.

Consolidated Interim Financial Statements

Contents

GENERAL INFORMATION

Heartland Group Holdings Limited (HGH) is incorporated in New Zealand and registered under the Companies Act 1993. The shares in HGH are listed on the NZX Main Board and the Australian Securities Exchange under a Foreign Exempt Listing.

On 31 October 2018 HGH acquired Heartland Bank Limited (HBL) pursuant to a corporate restructure approved by the shareholders of HBL. Under this restructure all the shares of HBL were exchanged for shares in HGH. At the same time, the Australian group of companies owned by HBL were transferred to HGH. HGH was incorporated solely for the purpose of undertaking this transaction.

As common control remained after the restructure, the interim financial statements presented for the six months ended 31 December 2018 are for HGH and its subsidiaries (the Group) as if it had operated for the entire period. Comparative figures shown are for the consolidated HBL group.

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

DIRECTORS

As at the date this Interim Financial Statements was signed, the Directors of the Group are:

Geoffrey T Ricketts (Chair) – Independent Non-Executive Director

Jeffrey K Greenslade – Executive Director and Group Chief Executive Officer

Sir Christopher R Mace – Independent Non-Executive Director

Ellen F Comerford – Independent Non-Executive Director

Gregory R Tomlinson – Non-Executive Director

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 this Consolidated Interim Financial Report which would, if disclosed in this Consolidated Interim Financial Report, materially affect the decision of a person to subscribe for debt securities of which the Group is the issuer.

DIRECTORS' STATEMENT

This Consolidated Interim Financial Report is dated 19 February 2019 and has been signed by all the Directors.

G. T. Ricketts (Chair – Board of Directors)

E. F. Comerford

J. K. Greenslade

Sir C. R. Mace

G. R. Tomlinson

Consolidated Interim Statement of Comprehensive Income

For the six months ended 31 December 2018

$000	NOTE	Unaudited 6 mths to Dec 2018	Unaudited 6 mths to Dec 2017	Audited 12 mths to Jun 2018
Interest income	2	166,260	152,471	309,284
Interest expense	2	68,238	62,377	125,483
Net interest income		**98,022**	**90,094**	**183,801**
Operating lease income		2,871	3,082	5,675
Operating lease expenses		1,801	2,132	4,005
Net operating lease income		**1,070**	**950**	**1,670**
Lending and credit fee income		1,444	1,202	2,351
Other income		1,575	1,663	8,972
Net operating income		**102,111**	**93,909**	**196,794**
Operating expenses	3	43,356	40,248	80,433
Profit before impaired asset expense and income tax		**58,755**	**53,661**	**116,361**
Impaired asset expense	4	13,286	10,416	22,067
Profit before income tax		**45,469**	**43,245**	**94,294**
Income tax expense		12,355	12,159	26,781
Profit for the period		**33,114**	**31,086**	**67,513**
Other comprehensive income				
Items that are or may be reclassified subsequently to profit or loss:				
Effective portion of changes in fair value of cash flow hedges, net of income tax		781	(492)	72
Movement in debt instrument fair value reserve, net of income tax		170	1,034	981
Movement in foreign currency translation reserve, net of income tax		(4,003)	2,510	2,315
Items that will not be reclassified to profit or loss:				
Movement in defined benefit reserve, net of income tax		-	231	340
Other comprehensive (loss) / income for the period, net of income tax		**(3,052)**	**3,283**	**3,708**
Total comprehensive income for the period		**30,062**	**34,369**	**71,221**
Earnings per share from continuing operations				
Basic earnings per share	5	6c	6c	13c
Diluted earnings per share	5	6c	6c	13c

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

The notes on pages 21 to 41 are an integral part of these consolidated interim financial statements.

Consolidated Interim Statement of Changes in Equity

For the six months ended 31 December 2018

$000	NOTE	Share Capital	Treasury Shares Reserve	Employee Benefits Reserve	Foreign Currency Translation Reserve	Debt Instrument Fair Value Reserve	Defined Benefit Reserve	Hedging Reserve	Retained Earnings (restated)	Total Equity (restated)
Unaudited – Dec 2018										
Balance at 1 July 2018		**544,927**	**(2,612)**	**2,558**	**1,260**	**1,590**	**257**	**(1,080)**	**117,260**	**664,160**
Impact of NZ IFRS 9 (net of tax)		–	–	–	–	–	–	–	(18,231)	(18,231)
Balance at 1 July 2018- Restated		**544,927**	**(2,612)**	**2,558**	**1,260**	**1,590**	**257**	**(1,080)**	**99,029**	**645,929**
Total comprehensive income for the period										
Profit for the period		–	–	–	–	–	–	–	33,114	33,114
Other comprehensive (loss) / income, net of income tax		–	–	–	(4,003)	170	–	781	–	(3,052)
Total comprehensive income for the period		**–**	**–**	**–**	**(4,003)**	**170**	**–**	**781**	**33,114**	**30,062**
Contributions by and distributions to owners										
Dividends paid	8	–	–	–	–	–	–	–	(30,808)	(30,808)
Dividend reinvestment plan	8	8,585	–	–	–	–	–	–	–	8,585
Transfer of treasury shares		(2,340)	2,340	–	–	–	–	–	–	–
Shares cancelled		(272)	272	–	–	–	–	–	–	–
Share based payments		–	–	382	–	–	–	–	–	382
Total transactions with owners		**5,973**	**2,612**	**382**	**–**	**–**	**–**	**–**	**(30,808)**	**(21,841)**
Balance at 31 December 2018		**550,900**	**–**	**2,940**	**(2,743)**	**1,760**	**257**	**(299)**	**101,335**	**654,150**
Unaudited – Dec 2017										
Balance at 1 July 2017		**473,128**	**(2,612)**	**3,118**	**(1,055)**	**609**	**(83)**	**(1,152)**	**97,642**	**569,595**
Total comprehensive income for the period										
Profit for the period		–	–	–	–	–	–	–	31,086	31,086
Other comprehensive income / (loss), net of income tax		–	–	–	2,510	1,034	231	(492)	–	3,283
Total comprehensive income for the period		**–**	**–**	**–**	**2,510**	**1,034**	**231**	**(492)**	**31,086**	**34,369**
Contributions by and distributions to owners										
Dividends paid	8	–	–	–	–	–	–	–	(28,393)	(28,393)
Dividend reinvestment plan	8	7,495	–	–	–	–	–	–	–	7,495
Issue of share capital	8	59,225	–	–	–	–	–	–	–	59,225
Transaction costs associated with capital raising		(681)	–	–	–	–	–	–	–	(681)
Share based payments		–	–	216	–	–	–	–	–	216
Shares vested		709	–	(1,196)	–	–	–	–	–	(487)
Total transactions with owners		**66,748**	**–**	**(980)**	**–**	**–**	**–**	**–**	**(28,393)**	**37,375**
Balance at 31 December 2017		**539,876**	**(2,612)**	**2,138**	**1,455**	**1,643**	**148**	**(1,644)**	**100,335**	**641,339**

The notes on pages 21 to 41 are an integral part of these consolidated interim financial statements.

Consolidated Interim Statement of Changes in Equity (Continued)

For the six months ended 31 December 2018

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

The notes on pages 21 to 41 are an integral part of these consolidated interim financial statements.

Consolidated Interim Statement of Financial Position

As at 31 December 2018

$000	NOTE	Unaudited Dec 2018	Unaudited Dec 2017	Audited Jun 2018
Assets				
Cash and cash equivalents		89,161	117,316	49,588
Investments		318,961	294,197	340,546
Investment properties		9,196	1,724	9,196
Finance receivables	6	4,167,276	3,783,091	3,984,941
Operating lease vehicles		16,430	17,551	17,524
Other assets		17,366	15,522	14,411
Intangible assets		73,085	71,365	74,401
Deferred tax asset		9,949	6,718	5,319
Total assets		**4,701,424**	**4,307,484**	**4,495,926**
Liabilities				
Borrowings	7	4,027,785	3,633,423	3,796,058
Current tax liabilities		1,835	6,722	11,459
Trade and other payables		17,654	26,000	24,249
Total liabilities		**4,047,274**	**3,666,145**	**3,831,766**
Equity				
Share capital		550,900	539,876	544,927
Treasury shares		-	(2,612)	(2,612)
Retained earnings and reserves		103,250	104,075	121,845
Total equity		**654,150**	**641,339**	**664,160**
Total equity and liabilities		**4,701,424**	**4,307,484**	**4,495,926**
Total interest earning and discount bearing assets		4,557,144	4,179,777	4,361,014
Total interest and discount bearing liabilities		4,011,329	3,626,752	3,789,144

The notes on pages 21 to 41 are an integral part of these consolidated interim financial statements.

Consolidated Interim Statement of Cash Flows

For the six months ended 31 December 2018

$000	NOTE	Unaudited 6 mths to Dec 2018	Unaudited 6 mths to Dec 2017	Audited 12 mths to Jun 2018
Cash flows from operating activities				
Interest received		149,255	139,100	280,471
Operating lease income received		2,961	2,618	4,941
Lending, credit fees and other income received		3,363	3,335	10,398
Operating inflows		**155,579**	**145,053**	**295,810**
Payments to suppliers and employees		50,799	33,543	73,672
Interest paid		71,393	63,266	123,783
Taxation paid		19,730	14,559	23,818
Operating outflows		**141,922**	**111,368**	**221,273**
Net cash flows from operating activities before changes in operating assets and liabilities		**13,657**	**33,685**	**74,537**
Proceeds from sale of operating lease vehicles		2,414	2,804	5,577
Purchase of operating lease vehicles		(2,996)	(2,887)	(7,163)
Net movement in finance receivables		(196,828)	(237,056)	(431,863)
Net movement in deposits		105,388	131,864	307,733
Net cash flows applied to operating activities		**(78,365)**	**(71,590)**	**(51,179)**
Cash flows from investing activities				
Net proceeds from sale of investment properties		–	3,185	3,185
Proceeds from sale of office fit-out, equipment and intangible assets		–	16	–
Sale of equity investment		–	–	300
Net decrease in investments		21,928	23,159	–
Total cash provided from investing activities		**21,928**	**26,360**	**3,485**
Purchase of office fit-out, equipment and intangible assets		2,379	2,437	8,837
Net increase in investments		–	–	23,107
Purchase of investment property		–	–	7,472
Total cash applied to investing activities		**2,379**	**2,437**	**39,416**
Net cash flows from / (applied to) investing activities		**19,549**	**23,923**	**(35,931)**
Cash flows from financing activities				
Net increase/(decrease) in wholesale funding		143,459	(79,703)	(93,507)
Proceeds from issue of Unsubordinated Notes		–	150,000	150,000
Increase in share capital	8	–	59,225	58,315
Total cash provided from financing activities		**143,459**	**129,522**	**114,808**
Dividends paid	8	22,224	20,898	35,150
Repayment of subordinated notes	7	22,846		
Transaction costs associated with capital raising		–	681	–
Total cash applied to financing activities		**45,070**	**21,579**	**35,150**
Net cash flows from financing activities		**98,389**	**107,943**	**79,658**
Net increase / (decrease) in cash held		**39,573**	**60,276**	**(7,452)**
Opening cash and cash equivalents		49,588	57,040	57,040
Closing cash and cash equivalents		**89,161**	**117,316**	**49,588**

The notes on pages 21 to 41 are an integral part of these consolidated interim financial statements.

Consolidated Interim Statement of Cash Flows (Continued)

For the six months ended 31 December 2018

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

$000	NOTE	Unaudited 6 mths to Dec 2018	Unaudited 6 mths to Dec 2017	Audited 12 mths to Jun 2018
Profit for the period		**33,114**	**31,086**	**67,513**
Add / (less) non-cash items				
Depreciation and amortisation expense		2,701	2,311	4,638
Depreciation on lease vehicles		1,676	1,975	3,771
Capitalised net interest income		(12,040)	(10,884)	(26,373)
Impaired asset expense	4	13,286	10,416	22,067
Total non-cash items		**5,623**	**3,818**	**4,103**
Add / (less) movements in operating assets and liabilities:				
Finance receivables		(196,828)	(237,056)	(431,863)
Operating lease vehicles		(582)	(488)	(2,257)
Other assets		(5,377)	1,814	(635)
Current tax		(9,624)	(3,134)	1,603
Derivative financial instruments revaluation		(1,948)	(1,273)	(1,638)
Deferred tax		(4,630)	1,134	2,533
Deposits		105,388	131,864	307,733
Other liabilities		(3,501)	645	1,729
Total movements in operating assets and liabilities		**(117,102)**	**(106,494)**	**(122,795)**
Net cash flow applied to operating activities		**(78,365)**	**(71,590)**	**(51,179)**

The notes on pages 21 to 41 are an integral part of these consolidated interim financial statements.

Notes to the Consolidated Interim Financial Statements

For the six months ended 31 December 2018

BASIS OF REPORTING

Reporting entity

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

On 31 October 2018 HGH acquired Heartland Bank Limited (HBL) pursuant to a corporate restructure approved by the shareholders of HBL. Under this restructure all the shares of HBL were exchanged for shares in HGH. At the same time, the Australian group of companies owned by HBL were transferred to HGH. HGH was incorporated solely for the purpose of undertaking this transaction. HGH is a FMC reporting entity for the purposes of the Financial Markets Conduct Act 2013

As common control remained after the restructure, the interim financial statements presented for the six months ended 31 December 2018 are for HGH and its subsidiaries (the Group) as if it had operated for the entire period. Comparative figures shown are for the consolidated HBL Group.

Basis of preparation

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

- 6 month period ended 31 December 2018 – Unaudited
- 6 month period ended 31 December 2017 – Unaudited
- 12 month period ended 30 June 2018 – Audited

The interim financial statements of the Group have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand (NZ GAAP), NZ IAS 34 Interim Financial Reporting, IAS 34 Interim Financial Reporting and the NZX Main Board Listing Rules and ASX Listing Rules. They do not include all of the information required for full annual financial statements and should be read in conjunction with Heartland Bank Limited's Annual Report for the year ended 30 June 2018.

The interim financial statements have been prepared on a going concern basis in accordance with historical cost, unless stated otherwise. The accounting policies applied by the Group in these consolidated interim financial statements are the same as those applied by Heartland Bank Limited in its consolidated financial statements as at and for the year ended 30 June 2018, except for those listed below.

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

Change in accounting policy

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

NZ IFRS 9 Financial Instruments

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

The following changes to accounting policy due to the application of NZ IFRS 9 have been made.

Impairment of finance receivables

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

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

After initial recognition, the Group applies a 3 stage test to measure ECL's. Assets may migrate through the following stages based on their change in credit risk since initial recognition.

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

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

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

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

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

Notes to the Consolidated Interim Financial Statements

For the six months ended 31 December 2018

Changes to classification and measurement under NZ IFRS 9

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

Financial instruments	NZ IAS 39 Measurement category	NZ IFRS 9 Measurement category	NZ IAS 39 carrying value June 18	NZ IFRS 9 carrying value 1 July 18
Financial assets				
Bank bonds and floating rate notes	Available for sale (**AFS**)	Fair Value through other comprehensive income (FVOCI)	230,754	230,754
Public sector securities & Corporate bonds	AFS	FVOCI	57,818	57,818
Local authority stock	AFS	FVOCI	42,280	42,280
Equity investments	Fair value through profit or loss (**FVTPL**)	FVOCI – for equity	9,694	9,694
Finance receivables – Reverse Mortgages	Amortised cost	FVOCI	1,129,956	1,132,620
Finance receivables – Other	Amortised cost	Amortised cost	2,854,985	2,826,974
Trade receivables	Amortised cost	Amortised cost	1,613	1,613
Financial Liabilities				
Borrowings	Amortised cost	Amortised cost	3,796,058	3,796,058
Derivative financial liabilities	Amortised cost	Amortised cost	1,639	1,639
Trade payables	Amortised cost	Amortised cost	10,406	10,406

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

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

Impact of new impairment model

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

NZ IFRS 15 Revenue from Contracts with Customers

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

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

Accounting standards issued not yet effective

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

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

Notes to the Consolidated Interim Financial Statements

For the six months ended 31 December 2018

PERFORMANCE

1 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.

All income received is from external sources, except those transactions with related parties. Certain operating expenses, such as premises, IT and support centre costs are not allocated to operating segments and are included in Other.

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

Operating segments

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

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

1 Segmental analysis (continued)

$000	Motor	Reverse Mortgages	Other Personal	Business	Rural	Australia	Other	Total
Unaudited – 6 months ended 31 December 2018								
Net interest income	27,716	9,937	8,304	26,904	15,426	11,555	(1,820)	98,022
Net other income	467	112	1,195	723	404	196	992	4,089
Net operating income	**28,183**	**10,049**	**9,499**	**27,627**	**15,830**	**11,751**	**(828)**	**102,111**
Operating expenses	1,203	1,261	2,974	4,539	1,899	2,633	28,847	43,356
Profit / (loss) before impaired asset expense and income tax	**26,980**	**8,788**	**6,525**	**23,088**	**13,931**	**9,118**	**(29,675)**	**58,755**
Impaired asset expense	4,654	–	5,036	3,812	(135)	(322)	241	13,286
Profit / (loss) before income tax	**22,326**	**8,788**	**1,489**	**19,276**	**14,066**	**9,440**	**(29,916)**	**45,469**
Income tax expense	–	–	–	–	–	–	12,355	12,355
Profit / (loss) for the period	**22,326**	**8,788**	**1,489**	**19,276**	**14,066**	**9,440**	**(42,271)**	**33,114**
Total assets	**1,021,673**	**479,855**	**200,823**	**1,083,029**	**634,486**	**754,933**	**526,625**	**4,701,424**
Total liabilities	**–**	**–**	**–**	**–**	**–**	**–**	**4,047,274**	**4,047,274**

$000	Motor	Reverse Mortgages	Other Personal	Business	Rural	Australia	Other	Total
Restated and unaudited - 6 months ended 31 December 2017								
Net interest income	24,397	8,739	5,740	25,734	16,245	9,287	(48)	90,094
Net other income	1,472	116	1,142	402	25	240	418	3,815
Net operating income	**25,869**	**8,855**	**6,882**	**26,136**	**16,270**	**9,527**	**370**	**93,909**
Operating expenses	1,551	913	3,383	4,011	2,146	2,009	26,235	40,248
Profit / (loss) before impaired asset expense and income tax	**24,318**	**7,942**	**3,499**	**22,125**	**14,124**	**7,518**	**(25,865)**	**53,661**
Impaired asset expense	4,139	70	2,302	2,259	1,362	283	1	10,416
Profit / (loss) before income tax	**20,179**	**7,872**	**1,197**	**19,866**	**12,762**	**7,235**	**(25,866)**	**43,245**
Income tax expense	–	–	–	–	–	–	12,159	12,159
Profit / (loss) for the period	**20,179**	**7,872**	**1,197**	**19,866**	**12,762**	**7,235**	**(38,025)**	**31,086**
Total assets	**886,301**	**427,892**	**151,588**	**1,031,647**	**676,630**	**609,033**	**524,393**	**4,307,484**
Total liabilities	**–**	**–**	**–**	**–**	**–**	**–**	**3,666,145**	**3,666,145**

$000	Motor	Reverse Mortgages	Other Personal	Business	Rural	Australia	Other	Total
Restated – 12 months ended 30 June 2018								
Net interest income	50,328	19,086	12,421	51,189	32,122	20,011	(1,356)	183,801
Net other income	2,515	262	2,392	1,124	163	514	6,023	12,993
Net operating income	**52,843**	**19,348**	**14,813**	**52,313**	**32,285**	**20,525**	**4,667**	**196,794**
Operating expenses	2,914	1,670	6,552	8,130	4,351	4,142	52,674	80,433
Profit / (loss) before impaired asset expense and income tax	**49,929**	**17,678**	**8,261**	**44,183**	**27,934**	**16,383**	**(48,007)**	**116,361**
Impaired asset expense	7,778	(18)	5,741	6,275	2,400	234	(343)	22,067
Profit / (loss) before income tax	**42,151**	**17,696**	**2,520**	**37,908**	**25,534**	**16,149**	**(47,664)**	**94,294**
Income tax expense	–	–	–	–	–	–	26,781	26,781
Profit / (loss) for the period	**42,151**	**17,696**	**2,520**	**37,908**	**25,534**	**16,149**	**(74,445)**	**67,513**
Total assets (restated)	**955,088**	**454,016**	**178,309**	**1,048,239**	**654,935**	**695,251**	**510,088**	**4,495,926**
Total liabilities (restated)	**–**	**–**	**–**	**–**	**–**	**–**	**3,831,766**	**3,831,766**

Notes to the Consolidated Interim Financial Statements

For the six months ended 31 December 2018

2 Net interest income

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

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

$000	NOTE	Unaudited 6 mths to Dec 2018	Unaudited 6 mths to Dec 2017	Audited 12 mths to Jun 2018
Interest income				
Cash and cash equivalents		312	435	842
Investments		4,906	4,766	9,515
Finance receivables		161,042	147,270	298,927
Total interest income		**166,260**	**152,471**	**309,284**
Interest expense				
Retail deposits		48,595	44,904	90,880
Bank and securitised borrowings		13,194	13,518	25,380
Subordinated and Unsubordinated Notes	7	5,039	2,568	6,596
Net interest expense on derivative financial instruments		1,410	1,387	2,627
Total interest expense		**68,238**	**62,377**	**125,483**
Net interest income		**98,022**	**90,094**	**183,801**

3 Operating expenses

$000	Unaudited 6 mths to Dec 2018	Unaudited 6 mths to Dec 2017	Audited 12 mths to Jun 2018
Personnel expenses	22,776	22,528	45,539
Directors' fees	612	514	972
Superannuation	509	466	921
Audit and review of financial statements[1]	338	223	433
Other assurance services paid to auditor[2]	15	26	36
Other fees paid to auditor[3]	–	121	171
Depreciation - property, plant and equipment	898	701	1,386
Amortisation - intangible assets	1,803	1,610	3,252
Operating lease expense as a lessee	912	1,039	2,033
Legal and professional fees	1,843	999	2,267
Other operating expenses	13,650	12,021	23,423
Total operating expenses	**43,356**	**40,248**	**80,433**

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

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

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

4 Impaired asset expense

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

$000	Unaudited 6 mths to Dec 2018	Unaudited 6 mths to Dec 2017	Unaudited 12 mths to Jun 2018
Non-securitised			
Individually impaired expense	(425)	1,876	5,190
Collectively impaired expense	13,740	8,383	16,889
Total non-securitised impaired asset expense	**13,315**	**10,259**	**22,079**
Securitised			
Collectively impaired expense	(29)	157	(12)
Total securitised impaired asset expense	**(29)**	**157**	**(12)**
Total			
Individually impaired expense	(425)	1,876	5,190
Collectively impaired expense	13,711	8,540	16,877
Total impaired asset expense	**13,286**	**10,416**	**22,067**

5 Earnings per share

	Dec 2018			Dec 2017			Jun 2018		
	Earnings per share	Net profit after tax	Weighted average no. of shares	Earnings per share	Net profit after tax	Weighted average no. of shares	Earnings per share	Net profit after tax	Weighted average no. of shares
	cents	$000	000	cents	$000	000	cents	$000	000
Basic earnings	6	33,114	561,188	6	31,086	520,741	13	67,513	538,594
Diluted earnings	6	33,114	561,188	6	31,086	520,795	13	67,513	538,594

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

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For the six months ended 31 December 2018

FINANCIAL POSITION

6 Finance receivables

$000	NOTE	Unaudited Dec 2018	Unaudited Dec 2017	Audited Jun 2018
Non-securitised				
Neither at least 90 days past due nor impaired		3,999,686	3,617,858	3,863,764
At least 90 days past due		34,854	36,634	27,893
Individually impaired		36,773	35,944	45,186
Gross finance receivables		**4,071,313**	**3,690,436**	**3,936,843**
Less provision for impairment		(55,412)	(28,256)	(29,367)
Less fair value adjustment for present value of future losses over expected life		(2,216)	(3,325)	(2,824)
Total non-securitised finance receivables		**4,013,685**	**3,658,855**	**3,904,652**
Securitised				
Neither at least 90 days past due nor impaired		154,642	124,103	79,809
At least 90 days past due		197	440	784
Individually impaired		–	–	–
Gross finance receivables		**154,839**	**124,543**	**80,593**
Less provision for impairment		(1,248)	(307)	(304)
Total securitised finance receivables		**153,591**	**124,236**	**80,289**
Total				
Neither at least 90 days past due nor impaired		4,154,328	3,741,961	3,943,573
At least 90 days past due		35,051	37,074	28,677
Individually impaired		36,773	35,944	45,186
Gross finance receivables		**4,226,152**	**3,814,979**	**4,017,436**
Less provision for impairment		(56,660)	(28,563)	(29,671)
Less fair value adjustment for present value of future losses over expected life		(2,216)	(3,325)	(2,824)
Total finance receivables		**4,167,276**	**3,783,091**	**3,984,941**

6 Finance receivables (continued)

(a) Movement in Provision

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

	12 month ECL	Lifetime ECL Not credit impaired	Lifetime ECL Credit impaired	Collective provision Jun 18	Specific provision	Total
Non-securitised						
Impairment allowance as at 30 June 2018	–	–	–	20,301	9,066	29,367
Restated for adoption of NZ IFRS 9	29,356	1,438	14,909	(20,301)	(169)	25,233
Restated Impairment allowance as at 1 July 2018	29,356	1,438	14,909	–	8,897	54,600
Changes in loss allowance						
Transfer to 12 month	588	(560)	(28)	–	–	–
Transfer to lifetime not credit impaired	(1,127)	1,189	(62)	–	–	–
Transfer to lifetime credit impaired	(1)	(731)	732	–	–	–
Transfer to specific provision	(1,443)	(9)	(751)	–	2,203	–
Effect of changes in foreign exchange rate	(67)	(6)	(3)	–	–	(76)
Impaired asset expense	2,325	348	11,067	–	(425)	13,315
Write offs	–	–	(7,953)	–	(4,503)	(12,456)
Transfer to/from securitised	(776)	15	484	–	–	(277)
Recovery of amounts written off	–	–	293	–	13	306
Impairment allowance as at 31 December 2018	**28,855**	**1,684**	**18,688**	**–**	**6,185**	**55,412**
Securitised						
Impairment allowance as at 30 June 2018	–	–	–	304	–	304
Restated for adoption of NZ IFRS 9	546	20	434	(304)	–	696
Restated Impairment allowance as at 1 July 2018	546	20	434	–	–	1,000
Changes in loss allowance						
Transfer to 12 month	12	(11)	(1)	–	–	–
Transfer to lifetime not credit impaired	(17)	19	(2)	–	–	–
Transfer to lifetime credit impaired	–	(5)	5	–	–	–
Transfer to specific provision	–	–	–	–	–	–
Effect of changes in foreign exchange rate	–	–	–	–	–	–
Impaired asset expense	(155)	13	113	–	–	(29)
Write offs	–	–	–	–	–	–
Transfer to/from non-securitised	776	(15)	(484)	–	–	277
Recovery of amounts written off	–	–	–	–	–	–
Impairment allowance as at 31 December 2018	**1,162**	**21**	**65**	**–**	**–**	**1,248**
Total						
Impairment allowance as at 30 June 2018	–	–	–	20,605	9,066	29,671
Restated for adoption of NZ IFRS 9	29,902	1,458	15,343	(20,605)	(169)	25,929
Restated Impairment allowance as at 1 July 2018	29,902	1,458	15,343	–	8,897	55,600
Changes in loss allowance						
Transfer to 12 month	600	(571)	(29)	–	–	–
Transfer to lifetime not credit impaired	(1,144)	1,208	(64)	–	–	–
Transfer to lifetime credit impaired	(1)	(736)	737	–	–	–
Transfer to specific provision	(1,443)	(9)	(751)	–	2,203	–
Effect of changes in foreign exchange rate	(67)	(6)	(3)	–	–	(76)
Impaired asset expense	2,170	361	11,180	–	(425)	13,286
Write offs	–	–	(7,953)	–	(4,503)	(12,456)
Recovery of amounts written off	–	–	293	–	13	306
Impairment allowance as at 31 December 2018	**30,017**	**1,705**	**18,753**	**–**	**6,185**	**56,660**

Notes to the Consolidated Interim Financial Statements

For the six months ended 31 December 2018

6 Finance receivables (continued)

(b) Summary of Provision

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

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

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

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

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

Collective 12 months ECL provisions (stage 1) increased $0.1m. Growth in receivables of $104 million, primarily consumer lending with higher average ECL rates, added $2.2m to stage 1 provisions however this was offset by reductions in provisions on loans moving to stage 2 and 3 or specifically provided.

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

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

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

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

There were no credit risk adjustments in individual financial assets.

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

	Securitised Dec 2018	Non Securitised Dec 2018	Total Dec 2018
Credit risk adjustments on collective groups of financial assets			
Opening balance as at 30 June 2018	–	2,824	2,824
Effect of changes in foreign exchange rate		(26)	(26)
Restated for adoption of NZ IFRS 9	–	(582)	(582)
Closing balance as at 31 December 2018	–	2,216	2,216

7 Borrowings

$000	NOTE	Unaudited 6 mths to Dec 2018	Unaudited 6 mths to Dec 2017	Audited 12 mths to Jun 2018
Deposits		2,988,365	2,703,234	2,881,805
Subordinated Bonds		–	3,379	3,378
Subordinated Notes		–	22,277	22,172
Unsubordinated Notes		151,902	151,902	151,853
Bank borrowings		759,574	637,572	689,346
Borrowings – securitised	15(d)	127,944	115,059	47,504
Total borrowings		**4,027,785**	**3,633,423**	**3,796,058**

Deposits and Unsubordinated notes rank equally and are unsecured. The Subordinated bonds and Subordinated Notes (settled early on 31 October 2018) ranked below all other general liabilities of the banking group.

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

On 29 August 2018 the assets of ABCP were acquired by Heartland Bank Limited. On the same day Heartland Bank sold the acquired assets to Auto Warehouse. Refer Note 15.

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

The Group has an Australian bank facility provided by Commonwealth Bank of Australia (CBA bank facility) totalling AUD $650 million, with AUD $586 million drawn (December 2017: AUD $495 million; June 2018: AUD $562 million). The CBA bank facility is secured over the shares in Australian Seniors Finance Pty Limited (ASF) and the assets of the ASF Group (comprising ASF, the ASF Settlement Trust and the Seniors Warehouse Trust). The CBA bank facility has a maturity date of 30 September 2022.

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

Notes to the Consolidated Interim Financial Statements

For the six months ended 31 December 2018

8 Share capital and dividends

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

The table above shows shares in HBL up until 31 October 2018 when HGH acquired HBL, and shares in HGH from that date. At 31 October 2018 HBL had issued 565,430 shares, all of which were exchanged for shares in HGH on a one for one basis.

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

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

(a) Dividends paid by Heartland Bank Limited

	Dec 2018			Dec 2017			Jun 2018		
	Date declared	Cents per share	$000	Date declared	Cents per share	$000	Date declared	Cents per share	$000
Final dividend	15 Aug 18	5.5	30,808	14 Aug 17	5.5	28,393	14 Aug 17	5.5	28,393
Interim dividend		–	–		–	–	20 Feb 18	3.5	19,502
Total dividends paid		**5.5**	**30,808**		**5.5**	**28,393**		**9.0**	**47,895**

9 Related party transactions and balances

Transactions with key personnel

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

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

10 Fair value

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

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

- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (derived from prices).
- Level 3: Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

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

(a) Financial instruments measured at fair value

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

Investments

Investments in public sector securities and corporate bonds are classified as being Fair value through Other Comprehensive Income, 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).

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.

Notes to the Consolidated Interim Financial Statements

For the six months ended 31 December 2018

10 Fair value (continued)

Finance receivables

Reverse mortgage loans classified as finance receivables are stated at fair value with the fair value being based on present value of future cash flows discounted using observable market interest rates including an assessment of the no negative equity guarantee (Level 3 under the fair value hierarchy).

Derivative items

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

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

$000	Level 1	Level 2	Level 3	Total
Unaudited – Dec 2018				
Assets				
Investments	209,048	100,219	9,694	318,961
Finance receivables	–	–	1,234,788	1,234,788
Derivative assets held for risk management	–	1,238	–	1,238
Total assets measured at fair value	**209,048**	**101,457**	**1,244,482**	**1,554,987**
Liabilities				
Derivative liabilities held for risk management	–	148	–	148
Total liabilities measured at fair value	**–**	**148**	**–**	**148**
Unaudited – Dec 2017				
Assets				
Investments	284,856	–	9,341	294,197
Finance receivables	–	3,717	–	3,717
Total assets measured at fair value	**284,856**	**3,717**	**9,341**	**297,914**
Liabilities				
Derivative liabilities held for risk management	–	2,568	–	2,568
Total liabilities measured at fair value	**–**	**2,568**	**–**	**2,568**
Audited – Jun 2018				
Assets				
Investments	140,282	190,570	9,694	340,546
Finance receivables	–	454	–	454
Total assets measured at fair value	**140,282**	**191,024**	**9,694**	**341,000**
Liabilities				
Derivative liabilities held for risk management	–	1,639	–	1,639
Total liabilities measured at fair value	**–**	**1,639**	**–**	**1,639**

10 Fair value (continued)

(b) Financial instruments not measured at fair value

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

$000		Unaudited Total Fair Value Dec 2018	Unaudited Total Carrying Value Dec 2018	Unaudited Total Fair Value Dec 2017	Unaudited Total Carrying Value Dec 2017	Audited Total Fair Value Jun 2018	Audited Total Carrying Value Jun 2018
Assets							
Cash and cash equivalents	Level 1	89,161	89,161	117,316	117,316	49,588	49,588
Finance receivables	Level 3	2,765,569	2,778,897	3,645,531	3,655,138	3,891,458	3,904,198
Finance receivables – securitised	Level 3	154,152	153,591	124,344	124,236	80,614	80,289
Other financial assets	Level 3	1,383	1,383	5,189	5,189	1,613	1,613
Total financial assets		**3,010,265**	**3,023,032**	**3,892,380**	**3,901,879**	**4,023,273**	**4,035,688**
Liabilities							
Borrowings	Level 2	3,904,684	3,899,841	3,521,873	3,518,364	3,744,634	3,748,554
Borrowings – securitised	Level 2	127,944	127,944	115,059	115,059	47,504	47,504
Other financial liabilities	Level 3	–	–	23,352	23,352	22,610	22,610
Total financial liabilities		**4,032,628**	**4,027,785**	**3,660,284**	**3,656,775**	**3,814,748**	**3,818,668**

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

Notes to the Consolidated Interim Financial Statements

For the six months ended 31 December 2018

RISK MANAGEMENT

11 Risk management policies

There have been no material changes in the Group's policies for managing risk, or material exposures to any new types of risk since the reporting date, refer to the Heartland Bank Limited Annual Report for the year ended 30 June 2018.

12 Credit risk exposure

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

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

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

The credit risk management strategies ensure that:

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

(a) Maximum exposure to credit risk

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

$000	Unaudited Dec 2018
Cash and cash equivalents	89,161
Investments	309,267
Finance receivables	4,167,276
Derivative financial assets	1,238
Other financial assets	1,383
Total on balance sheet credit exposures	**4,568,325**

12 Credit risk exposure (continued)

(b) Concentration of credit risk by geographic region

$000	Unaudited Dec 2018
New Zealand:	
Auckland	1,134,679
Wellington	248,521
Rest of North Island	1,153,907
Canterbury	483,667
Rest of South Island	598,100
Australia:	
Queensland	162,858
New South Wales	359,905
Victoria	182,695
Western Australia	41,370
South Australia	26,926
Rest of Australia	16,913
Rest of the world[1]	211,475
Collective provision	(50,475)
Less acquisition fair value adjustment for present value of future losses	(2,216)
Total on balance sheet credit exposures	**4,568,325**

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

(c) Concentration of credit risk by industry sector

Agriculture	728,992
Forestry and Fishing	84,874
Mining	16,542
Manufacturing	68,034
Finance & Insurance	408,971
Wholesale Trade	38,531
Retail Trade	221,515
Households	2,274,781
Property and Business Services	418,792
Transport and Storage	222,026
Other	137,958
	4,621,016
Collective provision	(50,475)
Less acquisition fair value adjustment for present value of future losses	(2,216)
Total on balance sheet credit exposures	**4,568,325**

(d) Credit exposure to individual counterparties

At 31 December 2018 the Group did not have any period end or peak end-of-day credit exposures over 10% of equity to individual counterparties (not being members of groups of closely related counterparties) or groups of closely related counterparties (excluding central government of any country with a long-term credit rating of A- or A3 or above, or its equivalent, or any bank with a long-term credit rating of A- or A3 or above, or its equivalent, and connected persons) (December 2017: nil; June 2018: nil).

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

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For the six months ended 31 December 2018

13 Liquidity risk

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

$000	Unaudited Dec 2018
Cash and cash equivalents	89,161
Investments	309,267
Undrawn committed bank facilities	122,056
Total liquidity	**520,484**

Contractual liquidity profile of financial assets and liabilities

The following tables present the Group's financial assets and liabilities by relevant maturity groupings based upon contractual maturity date. The amounts disclosed in the table represents undiscounted future principal and interest cash flows. As a result, the amounts in the table below may differ to the amounts reported in the Consolidated Interim Statement of Financial Position.

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

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

$000	On Demand	0-6 Months	6-12 Months	1-2 Years	2-5 Years	5+ Years	Total
Unaudited – Dec 2018							
Financial assets							
Cash and cash equivalents	89,161	–	–	–	–	–	89,161
Investments	–	87,940	25,643	107,534	101,253	9,694	332,064
Finance receivables	–	862,100	507,227	701,643	1,357,569	4,873,244	8,301,783
Finance receivables - securitised	–	38,166	35,096	58,367	41,923	–	173,552
Derivative financial assets	–	1,238	–	–	–	–	1,238
Other financial assets	–	1,383	–	–	–	–	1,383
Total financial assets	**89,161**	**990,827**	**567,966**	**867,544**	**1,500,745**	**4,882,938**	**8,899,181**
Financial liabilities							
Borrowings	919,161	1,445,726	592,892	235,175	858,841	682	4,052,477
Borrowings - securitised	–	18,795	21,109	93,647	–	–	133,551
Derivative financial liabilities	148	–	–	–	–	–	148
Other financial liabilities	–	19,341	–	–	–	–	19,342
Total financial liabilities	**919,309**	**1,483,862**	**614,001**	**328,822**	**858,841**	**682**	**4,205,518**
Net financial (liabilities) / assets	**(830,148)**	**(493,035)**	**(46,035)**	**538,722**	**641,904**	**4,882,256**	**4,693,663**
Unrecognised loan commitments	80,633	–	–	–	–	–	80,633
Undrawn committed bank facilities	122,056	–	–	–	–	–	122,056

Undrawn committed bank facilities of $122.1 million are available to be drawn down on demand. To the extent drawn, $122.1 million is contractually repayable in 1-2 years' time upon facility expiry.

14 Interest rate risk

Contractual repricing analysis

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

$000	0-3 Months	3-6 Months	6-12 Months	1-2 Years	2+ Years	Non-interest bearing	Total
Unaudited – Dec 2018							
Financial assets							
Cash and cash equivalents	89,155	–	–	–	–	6	89,161
Investments	63,232	20,080	21,850	125,734	78,370	9,695	318,961
Finance receivables	2,811,826	160,972	286,910	435,562	308,624	9,791	4,013,685
Finance receivables - securitised	14,880	15,654	30,148	52,732	40,177	–	153,591
Derivative financial assets	1,238	–	–	–	–	–	1,238
Other financial assets	–	–	–	–	–	1,383	1,383
Total financial assets	**2,980,331**	**196,706**	**338,908**	**614,028**	**427,171**	**20,875**	**4,578,019**
Financial liabilities							
Borrowings	2,320,683	605,703	566,112	196,392	194,347	16,604	3,899,841
Borrowings – securitised	127,944	–	–	–	–	–	127,944
Derivative financial liabilities	148	–	–	–	–	–	148
Other financial liabilities	–	–	–	–	–	19,341	19,341
Total financial liabilities	**2,448,775**	**605,703**	**566,112**	**196,392**	**194,347**	**35,945**	**4,047,274**
Effect of derivatives held for risk management	427,471	(113,709)	(53,942)	(277,677)	17,857	–	–
Net financial assets / (liabilities)	**959,027**	**(522,706)**	**(281,146)**	**139,959**	**250,681**	**(15,070)**	**530,745**

Notes to the Consolidated Interim Financial Statements

For the six months ended 31 December 2018

OTHER DISCLOSURES

15 Structured entities

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

The Group controls the operations of 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	Unaudited Dec 2018	Unaudited Dec 2017	Audited Jun 2018
Deposits	140,012	97,546	115,095

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

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

$000	Unaudited Dec 2018	Unaudited Dec 2017	Audited Jun 2018
Cash and cash equivalents	6,839	8,940	12,207
Finance receivables	674,226	616,485	676,837
Borrowings	(614,967)	(537,969)	(614,510)
Derivative financial liabilities	–	(195)	–

(c) Heartland ABCP Trust 1 (ABCP Trust)

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

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

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

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

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

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

The Group continues to recognise the securitised assets and associated borrowings in the Statement of Financial Position. Although the Group recognises those interests in Auto Warehouse, the loans sold to the 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	NOTE	Unaudited Dec 2018	Unaudited Dec 2017	Audited Jun 2018
Cash and cash equivalents – securitised		7,821	–	–
Finance receivables – securitised	6	153,591	–	–
Borrowings – securitised	7	(127,944)	–	–
Derivative financial liabilities – securitised		(33)	–	–

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

Insurance business

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

The Group's aggregate amount of insurance business comprises the total consolidated assets of MIL of $13.3 million, which is 0.28% of the total consolidated assets of the Group.

The Group's objective is to minimise the insurance risk to within acceptable levels through the policies and procedures implemented by management. Should adverse conditions arise, these policies and procedures are expected to mitigate the impact of the conditions on the Group.

Marketing and distribution of insurance products

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

Securitisation, funds management and other fiduciary activities

Changes to the Group's involvement in securitisation activities are set out in note 15. There have been no material changes to the Group's involvement in funds management and other fiduciary activities, in either case since the reporting date of the previous financial statement.

17 Contingent liabilities and commitments

$000	Unaudited Dec 2018	Unaudited Dec 2017	Audited Jun 2018
Letters of credit, guarantee commitments and performance bonds	6,417	6,890	6,847
Total contingent liabilities	**6,417**	**6,890**	**6,847**
Undrawn facilities available to customers	80,633	164,153	180,940
Conditional commitments to fund at future dates	73,877	77,410	94,239
Total commitments	**154,510**	**241,563**	**275,179**

18 Events after reporting date

There have been no material events after the reporting date that would affect the interpretation of the Consolidated Interim Financial Statements or the performance of the Group.

KPMG

Independent Review Report

To the shareholders of Heartland Group Holdings Limited

Report on the interim consolidated financial statements of Heartland Group Holdings Limited (the "group")

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim consolidated financial statements on pages 15 to 41 do not:

i. present fairly in all material respects the group's financial position as at 31 December 2018 and its financial performance and cash flows for the 6 month period ended on that date; and

ii. comply with NZ IAS 34 *Interim Financial Reporting*.

We have completed a review of the accompanying interim consolidated financial statements which comprise:

— the interim consolidated statement of financial position as at 31 December 2018;

— the interim consolidated statements of comprehensive income, changes in equity and cash flows for the 6 month period then ended; and

— notes, including a summary of significant accounting policies and other explanatory information.

Basis for conclusion

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

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

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

Emphasis of Matter

We draw attention to Basis of Reporting note of the interim consolidated financial statements which explains the corporate restructure on 31 October 2018 when the group acquired Heartland Bank Limited. As common control remained after the restructure, the interim consolidated financial statements have been prepared as if the group had operated for the entire period. Comparative figures shown are for the consolidated Heartland Bank Limited. Our opinion is not qualified in respect of this matter.

Use of this Independent Review Report

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

Responsibilities of the Directors for the interim consolidated financial statements

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

- the preparation and fair presentation of the interim consolidated financial statements in accordance with NZ IAS 34 *Interim Financial Reporting*;
- implementing necessary internal control to enable the preparation of interim 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 review of the interim consolidated financial statements

Our responsibility is to express a conclusion on the interim consolidated financial statements based on our review. We conducted our review in accordance with NZ SRE 2410. NZ SRE 2410 requires us to conclude whether anything has come to our attention that causes us to believe that the interim financial statements are not prepared, in all material respects, in accordance with NZ IAS 34 *Interim Financial Reporting*.

The procedures performed in a review are substantially less than those performed in an audit conducted in accordance with International Standards on Auditing (New Zealand). Accordingly we do not express an audit opinion on these interim consolidated financial statements.

This description forms part of our Independent Review Report.

KPMG

KPMG
Auckland

19 February 2019

Corporate Directory

Board of Directors

Geoffrey Ricketts
Chair and Independent Non-Executive Director, Heartland Group Holdings Limited

Jeff Greenslade
Executive Director and Group Chief Executive Officer

Ellie Comerford
Independent Non-Executive Director and Chair, Heartland Australia Holdings Pty Limited

Sir Christopher Mace
Independent Non-Executive Director, Heartland Group Holdings Limited

Greg Tomlinson
Non-Executive Director, Heartland Group Holdings Limited

Strategic Management Group

Jeff Greenslade
Group Chief Executive Officer

Chris Flood
Chief Executive Officer, Heartland Bank

Laura Byrne
Chief People & Culture Officer

Grant Kemble
Chief Risk Officer

David Mackrell
Chief Financial Officer

Rochelle Moloney
Chief Marketing & Communications Officer

Sarah Smith
Chief Technology & Enablement Officer

Lydia Zulkifli
Chief Digital Officer

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