



Heartland announces net profit after tax of \$44.1 million for the six months ended 31 December 2020

(or \$43.2 million on an underlying basis after removing the impacts of one-offs)

22 February 2021

Heartland Group Holdings Limited (**Heartland**) (**NZX/ASX: HGH**) achieved a net profit after tax (**NPAT**) of \$44.1 million for the six-month period ended 31 December 2020 (**1H2021**), an increase of \$4.2 million (10.6%) compared with the six-month period ended 31 December 2019 (**1H2020**). On an underlying basis (which excludes the impacts of one-offs¹), 1H2021 NPAT was \$43.2 million, an increase of \$5.1 million (13.4%) compared with 1H2020 underlying NPAT.

Highlights for 1H2021²

- NPAT of \$44.1 million, up 10.6% (\$4.2 million). Underlying NPAT of \$43.2 million, up 13.4% (\$5.1 million) on 1H2020 underlying NPAT.
- One-off items had a \$0.9 million net impact on NPAT, consisting of \$5.2 million of one-off gains and \$4.3 million of one-off expenses.³
- Gross finance receivables⁴ of \$4.7 billion, up 2.7%⁵ (\$62.3 million).
- Return on equity of 12.2%, up 54 basis points.
- Net interest margin⁶ of 4.28%, up 5 basis points.
- Net operating income of \$125.3 million, up 5.6%.
- Cost to income ratio of 48.8%, up 2.8 percentage points. Underlying cost to income ratio of 45.9%, up 0.8 percentage points.
- Impairment expense as a percentage of average receivables decreased from 0.40% in 1H2020 to 0.19% in 1H2021.
- FY2021 interim dividend of 4.0 cents per share, a decrease of 0.5 cents per share from 1H2020 (as a result of Reserve Bank of New Zealand restrictions on distributions by banks).
- Earnings per share of 7.6 cents per share, up 0.7 cents per share.
- In October 2020, Heartland Bank Limited was one of two Australasian banks to have no reduction or adverse change to its ratings or outlook by Fitch Ratings since January 2020.
- \$5.2 million fair value gain recognised in Harmoney, which is currently transitioning its funding model from peer-to-peer funding to wholesale securitised funding via warehouse structures.
- Reverse Mortgages awarded Consumer Trusted Accreditation for the fourth year in a row.
- Heartland Bank Limited awarded Canstar awards for savings accounts for consecutive years.
- Further digitalisation of product applications and digital platforms including digital Home Loans,
 Sheep & Beef Direct online loans, and a self-service online vehicle loan application.
- 45 participants in the 2020/2021 Manawa Ako internship programme, up from 34 in 2019/2020.
- Launch of Rocket, a mobile-led financial literacy programme for school leavers.

¹ Underlying results exclude the impacts of one-offs. Refer to Profitability section on page 3 for details.

² All financial performance comparatives are based on the 31 December 2019 unaudited interim consolidated financial statements of Heartland and its subsidiaries (the **Group**), and financial position comparatives are based on 30 June 2020 audited full year consolidated financial statements of the Group, unless otherwise noted.

³ Refer to Profitability section on page 3 for details.

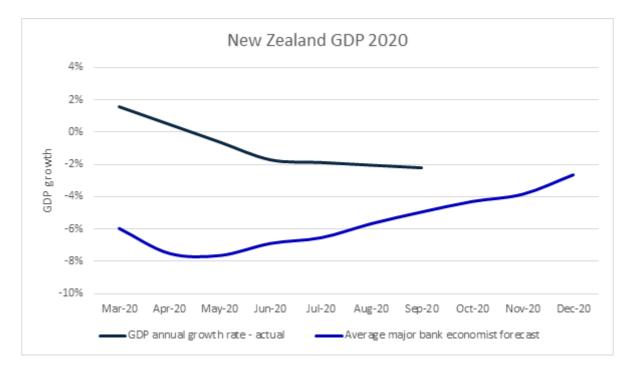
⁴ Gross finance receivables include Reverse Mortgages.

⁵ Annualised 1H2021 growth excluding the impact of changes in foreign currency exchange (**FX**) rates.

⁶ Net interest margin (**NIM**) is calculated based on average gross interest earning assets.

Operating environment

The financial impact of the COVID-19 pandemic on the New Zealand economy has been more subdued than forecast by major bank economists in the early months of 2020, as illustrated in the chart below. Forecasts continued to improve over the course of the year as the economic recovery exceeded expectations⁷, assisted by the support measures provided by the New Zealand Government.



During this time, Heartland's loan portfolios showed resilience to the effects of the pandemic as the industries and demographics most affected by COVID-19 are not materially represented in Heartland's core lending or customer base⁸. Reflecting this, in October 2020, Fitch Ratings (**Fitch**) affirmed the Long-Term Issuer Default Ratings (**IDR**) of Heartland and Heartland Bank Limited (**Heartland Bank**) at 'BBB' and the Long-Term IDR of Heartland Australia Group Pty Ltd (**Heartland Australia**) at 'BBB-'. Heartland Bank was one of just two Australasian banks to have no reduction or adverse change to its ratings or outlook despite the economic impacts of COVID-19 since January 2020.

While Heartland experienced continued growth in its core lending portfolios (Motor, Reverse Mortgages, Business Intermediated), overall balance sheet growth has been impacted by the continued reduction in non-core portfolios and higher than forecast repayments. Elevated repayments are believed to have resulted from the extensive economic stimulus provided by the New Zealand Government and Reserve Bank of New Zealand (RBNZ), and mortgage repayment holidays by other banks which allowed customers to divert funds normally used to service mortgage repayments to pay off other debt instead. With increased economic confidence emerging and the cessation of mortgage repayment holidays by the other banks, Heartland expects customer repayment behaviour to normalise.

⁷ Actual GDP is annual growth rate for last 12 months (source: Statistics New Zealand). Forecast is average of major bank Economists' point in time GDP projection for 2020 (source: major bank publications).

⁸ Heartland's total exposure to the retail, accommodation and transport (excluding road freight transport) industries at 31 December 2020, based on borrower ANZSIC codes, was 2.41%, 2.00% and 1.17% respectively. Heartland's exposure to customers aged 15-24 years (those most affected by heightened unemployment) at 31 December 2020 was 3.32% in Motor and 0.37% in personal lending.

Despite the general improvement in the economic forecasts and evidence of customer resilience to date, uncertainty remains regarding the COVID-19 pandemic's impact on future economic conditions – as discussed in more detail on page 5 (Impact of COVID-19 on provisioning).

Heartland's economic overlay of \$9.6 million taken in respect of the financial year ended 30 June 2020 (FY2020) has not been utilised, and, as a result of the continued uncertainty, remains available to be applied to any credit losses experienced as a consequence of the economic impact of the pandemic.

Financial results

Profitability

NPAT was \$44.1 million, a \$4.2 million (10.6%) increase on 1H2020. Underlying NPAT was \$43.2 million, a \$5.1 million (13.4%) increase on 1H2020.

Return on equity (**ROE**) was 12.2%, up 54 basis points (**bps**) from 1H2020. Underlying ROE was 11.9%, up 80 bps from 1H2020.

Earnings per share (**EPS**) was 7.6 cents per share (**cps**), up 0.7 cps from 1H2020. Underlying EPS was 7.4 cps, up 0.8 cps from 1H2020.

1H2021 one-offs included in the reported result9

As described below, the following one-off items are included in the 1H2021 reported result and should be considered when analysing the underlying result.

- 1. Fair value gain on equity investment in Harmoney Corp Limited (Harmoney): A \$5.2 million fair value gain was recognised. Harmoney listed on the ASX and NZX in November 2020, with approximately 72% of shares (including those owned by Heartland, other major shareholders, employees and directors) subject to escrow arrangements that restrict the ability to sell the Harmoney shares. The fair value measurement of Heartland's equity investment in Harmoney as at 31 December 2020 takes into consideration observed trading volumes, closing market prices of Harmoney's shares, and the restriction imposed by the escrow arrangements.
- 2. Voluntarily accelerated amortisation of intangible assets: A \$4.3 million expense was recognised within operating expenses, reflecting an acceleration of amortisation following a review of software assets held on the balance sheet, taking into account Heartland's current technology strategy.
- 3. Write-off and provisioning of aged suspense account items: \$1.7 million of aged legacy suspense account transactions have been conservatively written off or provisioned for within operating expenses where collectability is significantly uncertain.

⁹ As disclosed in the previous reporting period, the following one-off items are included in the 1H2020 reported result and should be considered when analysing the underlying result: \$2.8 million was recognised in other operating income and \$3.3 million recognised in operating expenses due to the required accounting standard change in respect of upfront reverse mortgage income and expenses; A \$2.1 million fair value gain was recognised on Heartland's equity investment in Harmoney.

The impact of these one-off items on the respective financial metrics is outlined in the table below.

| | Reported | | | Underlying | | |
|------------------------------------------------|----------|---------|----------|------------|---------|----------|
| | 1H2021 | 1H2020 | Movement | 1H2021 | 1H2020 | Movement |
| Net operating income (NOI) ¹⁰ (\$m) | 125.3 | 118.6 | 6.7 | 120.1 | 113.7 | 6.4 |
| NPAT (\$m) | 44.1 | 39.9 | 4.2 | 43.2 | 38.1 | 5.1 |
| NIM | 4.28% | 4.23% | 5 bps | 4.28% | 4.23% | 5 bps |
| NIM excl. liquid assets ¹¹ | 4.65% | 4.44% | 21 bps | 4.65% | 4.44% | 21 bps |
| Cost to income ratio (CTI) | 48.8% | 46.0% | 2.8 pps | 45.9% | 45.1% | 0.8 pps |
| Impairment expense ratio | 0.19% | 0.40% | (21 bps) | 0.19% | 0.40% | (21 bps) |
| ROE | 12.2% | 11.7% | 54 bps | 11.9% | 11.1% | 80 bps |
| EPS | 7.6 cps | 6.9 cps | 0.7 cps | 7.4 cps | 6.6 cps | 0.8 cps |

Income

Total NOI was \$125.3 million, an increase of \$6.7 million (5.6%) from 1H2020.

Excluding the impact of one-offs¹², underlying NOI was \$6.4 million (5.6%) higher half-on-half. This was largely due to an \$8.0 million (7.6%) increase in underlying net interest income, driven by a \$299.8 million (6.1%) higher average interest earning assets in 1H2021 than 1H2020, and a 5 bps increase in NIM compared with 1H2020 to 4.28%. Underlying other operating income decreased by \$1.6 million (19.2%) compared with 1H2020, primarily due to a lower treasury result.

Expenses

Operating expenses were \$61.1 million, an increase of \$6.5 million (12.0%) on 1H2020. Excluding the impact of one-offs (including those described above), the underlying operating expenses were \$3.8 million (7.5%) higher compared with 1H2020.

Higher underlying operating expenses were primarily due to the following increased expenses.

- 1. A \$4.5 million (16.5%) increase in staff expenses. Heartland employed 78 more people in permanent or fixed term roles compared with 1H2020 to provide additional support to customers in response to COVID-19, and to support digital and technology capability, enabling Heartland to accelerate its evolution as a digitally-led financial services group. The teams are now well resourced to deliver on Heartland's strategic objectives, and the number of staff employed in response to COVID-19 has been reduced as those fixed term and temporary employment periods come to an end.
- 2. A \$1.1 million (17.8%) increase in IT and communication expenses (as a result of software amortisation and licencing costs for additional full-time equivalent (**FTE**) employees).

The CTI increased to 48.8%, up 2.8 percentage points (**pps**) compared with 1H2020. The underlying CTI increased 0.8 pps to 45.9%.

¹⁰ NOI includes fair value gains/losses on investments.

¹¹ NIM is calculated based on average gross interest earning assets excluding liquid assets.

¹² 1H2020 one-offs include \$2.8 million due to the required accounting standard change in respect of upfront reverse mortgage fees and \$2.1 million of fair value gains on equity investments. 1H2021 one-offs include \$5.2 million of fair value gains on equity investments.

Impairment expense

Impairment expense decreased by \$4.5 million (49.7%) to \$4.5 million. Impairment expense as a percentage of average receivables decreased from 0.40% in 1H2020 to 0.19% in 1H2021 and continues to perform strongly in the year-to-date.

Remediation of accounts previously in arrears, and the release of provisions held against those borrowers, has been a significant driver of the reduction in impairment expense. That remediation has largely been due to repayments, refinancing and ordinary restructures, rather than the use of the Heartland Extend product.

As at 31 December 2020:

- of the total Heartland Extend book, approximately 77% comprises refinanced Business Intermediated and Open for Business loans, none of which were non-performing loans (NPLs) as at 30 June 2020
- only 24% of Motor loans that were non-performing as at 30 June 2020 had been refinanced with a Heartland Extend product.

However, the use of Heartland Extend can be expected to have assisted borrowers in meeting their obligations going forward, and therefore assisted in controlling impairment expense.

In terms of the performance of the Heartland Extend book, whilst it is early days and remains relatively unseasoned, it is pleasing to note that the secured Business Extend sub-portfolio (representing approximately 70% of the total Heartland Extend book) is performing very strongly when compared with the Heartland portfolio against which it is benchmarked, with early and late stage arrears all below benchmark levels. Whilst the balance of the book is showing some early stage signs of stress, Heartland continues to monitor it closely and note NPLs for those sub-portfolios are below the NPLs of the Heartland portfolios against which they are benchmarked.

Impact of COVID-19 on provisioning

During FY2020, Heartland took a COVID-19 economic overlay of \$9.6 million (pre-tax). At the time, Heartland explained that it had no reason to consider that its (then) existing provisions were not adequate – but the overlay was required to allow for the uncertainty created by COVID-19, taking into consideration that traditional indicators of increased credit risk may not have provided an accurate measure of the credit quality of Heartland's book.

The overlay did not represent any losses that Heartland had actually experienced, but was taken to provide a buffer against any future losses that the uncertainty may give rise to.

Heartland has not consumed any of the COVID-19 overlay and still has no reason to consider that its current provisions are not adequate. Heartland now has a more developed understanding of the impact of COVID-19 on the credit quality of Heartland's book. In particular:

- a. total NPLs were down year-on-year at 1.96% compared with 2.19% (as at 31 December 2019)
- b. the Heartland Extend portfolio is still relatively unseasoned, but NPLs are much lower than NPLs in the equivalent portfolios (as described above)
- c. there are currently no NPLs in the Business Finance Guarantee Scheme (BFGS) portfolio.

Moreover, the return to Alert Level 3 in Auckland for 20 days in August 2020 (and the rest of New Zealand to Alert Level 2 for 43 days) did not impact the economy as significantly as expected, resulting in a 9% drop in card-based retail spending, with only minor setbacks for businesses.

However, despite those positive indicators and a general improvement in the economic forecast, there remains uncertainty in relation to the impact of the pandemic on the overall credit quality of Heartland's book. In particular, whilst forecasts about future economic conditions have improved, all forecasts make assumptions around important matters such as when New Zealand's border will re-open, the nature and extent of any further lockdowns, when and how effective a vaccination programme may be, and how key markets (such as the used car and primary produce markets) may respond. Until such time as there is more certainty that downside scenarios may not adversely affect Heartland's portfolios, Heartland has decided to retain its COVID-19 overlay.

A further update will be provided as part of the full year financial results announcement.

Financial position

Total assets increased by \$119.9 million (2.3%) during 1H2021, driven by a \$62.3 million (2.7%)¹³ increase in gross finance receivables (**Receivables**) and a \$57.5 million (10.6%) increase in liquid assets which includes cash, cash equivalents and investments, reflecting a deliberate strategy to maintain significant excess liquidity through the period of uncertainty associated with COVID-19.

Receivables growth was experienced primarily in Motor, Australian Reverse Mortgages, Business Intermediated, New Zealand Reverse Mortgages and digital Home Loans, partly offset by decreases in Harmoney and other personal lending, Livestock, Business Relationship, Open for Business (**O4B**) and Rural Relationship.

Borrowings¹⁴ increased by \$110.4 million (2.4%). Deposits increased \$4.4 million and other funding increased \$106.0 million, primarily due to growth in Australian Reverse Mortgages.

Net assets increased by \$37.1 million to \$737.1 million. Net tangible assets (**NTA**) increased by \$40.6 million to \$650.7 million, resulting in an NTA per share of \$1.12 (30 June 2020: \$1.05).

Business performance

New Zealand Reverse Mortgages

New Zealand Reverse Mortgages NOI was \$11.2 million, a decrease of \$1.8 million (13.8%) compared with 1H2020. Excluding the impact of one-offs (described above) from 1H2020, underlying NOI was largely flat half-on-half on account of timing differences between changes to lending rates and cost of funds.

New Zealand Reverse Mortgages Receivables increased \$16.7 million (5.9%) to \$576.6 million, driven by continued enhancements in digital platforms and investment in marketing to increase brand awareness. Receivables growth has been impacted by elevated repayments in 1H2021 due to:

- comparatively lower repayments in Q4 of FY2020 with property sales restricted by COVID-19 related lockdowns
- a buoyant property market in 1H2021.

Motor

Motor NOI was \$33.0 million, an increase of \$2.9 million (9.6%) compared with 1H2O2O.

¹³ Annualised 1H2O21 growth excluding the impact of changes in FX rates.

¹⁴ Includes retail deposits and other borrowings.

Following a strong result in FY2020, Motor Receivables continued to increase during 1H2021, posting a \$78.3 million (13.8%) increase to \$1,203.9 million. The growth was mainly from the Motor dealer book via car dealerships, brokers and partnerships such as Kia Finance and Jaguar/Land Rover Financial Services.

Heartland intends to grow its distribution channels and innovate to offer new products and world-class customer experiences. Investment in digital enhancements, such as the aforementioned self-serve online application, underpins strong performance of the Motor book which resulted in a 22% increase in new business origination compared with 1H2020.

Harmoney and other personal lending

Harmoney NOI was \$6.8 million, a decrease of \$1.6 million (19.0%) compared with 1H2020.

Harmoney Receivables decreased by \$56.0 million (55.6%), with the New Zealand Harmoney portfolio contracting \$34.7 million (47.2%) to \$111.2 million, while the Australian Harmoney portfolio decreased by \$21.3 million (78.2%) to \$32.7 million. Both New Zealand and Australian portfolios continued to contract in 1H2021 as a result of high repayments, as described above.

Harmoney is currently undergoing a transition of its funding model from a peer-to-peer off-balance sheet model to wholesale securitised on-balance sheet funding via warehouse structures. Heartland supports this transition and has entered into a non-binding Heads of Agreement with Harmoney such that it expects its facilities to move to this model in the near term, therefore allowing for the resumption of portfolio growth.

Home Loans

Following a successful pilot, Heartland's digital Home Loans product was launched in October 2020 with conservative lending criteria targeting high quality applicants. Loans were slow to drawdown over the summer holiday period, however strong application rates have continued in the second half of FY2021 (2H2021) with \$303.6 million approved online and \$16.6 million drawn down year-to-date.

The challenges in converting applications to drawdowns are being driven by the time taken to process refinances from other banks and the struggle faced by approved purchasers to find and secure their desired property in a buoyant market.

Business Intermediated

Business Intermediated lending NOI was \$13.4 million, an increase of \$2.7 million (25.2%) compared with 1H2020.

Business Intermediated Receivables increased \$33.1 million (13.2%) to \$532.1 million, reflecting Heartland Bank's growth focus on this portfolio, and continued deepening and expansion of the intermediary network underpinned by a strong focus on distributor/vendor and point of sale support. The growth was further supported by strong demand from partners in the transport and logistics sector which continues to experience increasing demand and a solid performance following the COVID-19 outbreak.

Heartland Bank has been proactively approaching its business customers to understand their requirements in response to the pandemic, and provide the support where needed. In addition, Heartland Bank launched Heartland Extend for Business, providing business owners with the flexibility to manage and adjust their loan repayments in line with the cash and growth requirements of their businesses. The product has been well received and the uptake has been pleasing.

Business Relationship

Business Relationship lending NOI was \$12.2 million, an increase of \$1.0 million (8.9%) compared with 1H2020.

Business Relationship Receivables decreased \$16.6 million (6.6%) to \$479.8 million as a result of a continued focus on reducing concentration risk in low margin exposures.

O4B

O4B NOI was \$7.5 million, an increase of \$0.9 million (13.6%) compared with 1H2020.

O4B growth slowed down in 2H2020 as a result of COVID-19 disruptions and the availability of Government-backed funding for small businesses. This trend continued in 1H2021, resulting in O4B Receivables decreasing a further \$14.4 million (18.4%) to \$140.7 million. Ongoing investments in operational capacity, automation and marketing to increase product awareness, and improving economic sentiment are expected to fuel growth to pre-COVID-19 levels in future periods.

Rural

Rural lending NOI was \$15.6 million, a decrease of \$0.1 million (0.5%) compared with 1H2020.

Rural Receivables decreased by \$35.2 million (11.5%) to \$570.5 million. Rural Relationship Receivables reduced by \$12.1 million (4.9%) to \$478.3 million, while Livestock Receivables decreased by \$23.1 million (39.7%) to \$92.2 million. The continued downward trend reflects Heartland's strategy to continue to optimise non-core Rural Relationship lending to reduce low margin concentration.

Whilst in its infancy, the Sheep & Beef Direct platform has seen a pleasing volume of high-quality applications since its launch in late 2020. At 16 February 2021, eligible applications totalled \$52.3 million, with \$26.8 million approved online and \$3.0 million drawn down. Refinements will continue to be made to reach target customers and improve user experience.

Australia

Australian operations NOI was \$18.2 million, an increase of \$1.6 million (9.6%) compared with 1H2020.

Australian Reverse Mortgages Receivables increased by \$52.1 million (10.6%)¹⁵ to \$1,030.8 million.

New applications for reverse mortgages remained steady throughout the period, notwithstanding the disruption arising from COVID-19 and associated lockdowns in Australia, and are expected to increase as those disruptions ease. There has been recent interest in Heartland's reverse mortgage product from significant mortgage aggregators in Australia, which Heartland expects to come to fruition in 2H2021.

Funding and liquidity

New Zealand

Heartland Bank increased borrowings by \$32.7 million (0.9%), primarily as a result of an increase in other borrowings of \$30.9 million (8.6%) and an increase in deposits of \$1.9 million (0.1%).

¹⁵ Excluding the impact of changes in FX rates.

Within other borrowings, money market borrowings for liquidity management purposes increased by \$31.9 million and secured funding increased by \$2.3 million.

Deposits grew \$1.9 million (0.1%). Heartland Bank continues its focus on reducing risk concentrations in its deposit book while shifting its deposit mix in favour of lower rate call deposits where Heartland is relatively underweight. This resulted in the call to total deposit ratio increasing to 31% as at 31 December 2020 (31 December 2019: 27%; 30 June 2020: 25%).

Heartland's savings products have also received market recognition, being awarded Canstar's Bank of the Year – Savings award in 2020 (third consecutive year), and Canstar's 5-Star Rating for Outstanding Value Savings Account for its Direct Call (fifth consecutive year) and YouChoose accounts.

Heartland Bank increased total liquidity by \$18.8 million (2.6%) primarily due to growth in investments of \$21.8 million (5.6%).

Heartland Bank increased its committed auto warehouse facility from \$150 million to \$300 million in May 2020, and its target holding of cash and cash equivalents in response to the uncertain economic and liquidity impacts of COVID-19 in 2H2020, which it continued to maintain in 1H2021. As such, Heartland Bank holds liquidity well in excess of regulatory minimums.

Heartland Bank's capital position has progressively increased during 1H2021, reflecting its continued strong profitability and the RBNZ restrictions on distributions imposed in 2H2020. As a result, Heartland Bank's regulatory capital ratio was 13.95% as at 31 December 2020 (31 December 2019: 12.56%; 30 June 2020: 12.67%) considerably in excess of regulatory minimum.

Australia

Heartland Australia increased borrowings by A\$72.7 million (8.6%), largely as a result of an A\$142 million new long-term mortgage-backed syndicated loan for the Australian Reverse Mortgage business funded by established offshore institutional investors. The first-of-its-kind transaction achieves another milestone in executing Heartland's strategy to diversify type, source and tenor of its Australian funding and importantly, evidences market liquidity to existing warehouse funders. The financing structure provides Heartland access to deep pools of efficient long-dated funding that is typically unavailable to most Australian non-bank financial institutions. Heartland's high-quality reverse mortgage asset portfolio has enabled the structure to achieve leverage of 98%¹⁶.

During 1H2021, Heartland Australia successfully continued to execute on its strategic funding programme to cater for the strong growth that continues to be generated.

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

Digitalisation

As a financial technology business (**FinTech**), digitalisation is at the core of everything Heartland does. The COVID-19 pandemic has accelerated customer demand for digital services and products. Heartland's digital strategy has positioned it well to respond to this, with multiple digital platforms enabling contactless online applications and decisioning.

¹⁶ Being total senior debt divided by total reverse mortgages funded.

Heartland continues its journey to digitalise each customer touchpoint, including its processes and customer care services, enhancing the customer experience and reducing operational costs. Over the last six-month period, various new digital platforms were developed, including an online quoting tool for business intermediaries, online calculator for Kia Finance, integrated biometrics for Motor dealers, and a broker portal for Australian Reverse Mortgage broker partners.

In October 2020, Heartland Bank relaunched its digital Home Loans, expanding lending criteria and improving the self-serve online application following customer feedback received in the March 2020 trial. Heartland Bank continues to maintain the lowest floating, 1-, 2-, and 3-year fixed interest rates by banks in New Zealand.

The self-serve online application for Heartland Bank's Motor product allows New Zealanders to apply for a vehicle loan online at any time and receive a decision in minutes. Development of a similar solution for dealers is currently underway.

Sheep & Beef Direct is Heartland Bank's new Rural Loans product, designed to enable farmers who are looking to buy or refinance a sheep or beef farm to do so online – anytime, anywhere, with online approval available upon completion.

The relaunch of O4B in Australia followed a trial in November 2019. The platform allows small business owners to apply online for unsecured business finance up to \$150,000, with longer terms and lower interest rates available compared with similar competitor products.

Regulatory update

As a result of COVID-19, some delays to regulatory change timeframes were announced in 2020. However, a significant volume of regulatory change continues to be upcoming. Key changes include Phase 2 of the review of the Reserve Bank of New Zealand Act 1989 (RBNZ Act), the proposed Financial Markets (Conduct of Institutions) Amendment Bill (Conduct Bill), and the changes to the Consumer Credit law.

The Government has made a number of in-principle decisions in relation to its review of the RBNZ Act which will affect the New Zealand financial system, including proposing a depositor protection scheme and significant strengthening of accountability requirements for directors and executives. Submissions were due in October 2020 on the latest round of consultation and Heartland will continue to monitor progress in respect of the review.

If enacted, the Conduct Bill would introduce a new conduct regime for registered banks (including Heartland Bank), licensed insurers and non-bank deposit takers in New Zealand. In October 2021, changes to New Zealand Consumer Credit law will come into force. These changes will result in lenders being required to obtain more information for the purposes of their suitability and affordability determinations, and the liability regime for directors and senior managers will be substantially strengthened. Heartland is considering the changes currently and the potential impact of them on its business.

The RBNZ, in late 2020, also announced a further delay to the start of increases in bank capital until 1 July 2022 to allow banks continued headroom to respond to the impacts of COVID-19 and to support economic recovery. The RBNZ has launched a consultation on the details for implementing the final capital review decisions, which closes on 31 March 2021. Decisions are due to be implemented from 1 July 2021 onwards.

Sustainability update

Heartland's sustainability framework comprises three pillars, being Social Equity, Environmental Conservation and Economic Prosperity. For more detail, go to page 60 of Heartland's FY2020 Annual Report, found at shareholders.heartland.co.nz.

Heartland is currently undergoing a phase of assessing and measuring the impact of the risks arising from these pillars, including climate change risk. However, progress towards Heartland's sustainability goals is underway with key achievements noted below.

Social Equity

- The 2020/2021 Manawa Ako internship programme ended on 29 January. This year's intake increased significantly on the previous intake up 32% (11 interns) to 45 interns.
- There are currently 12 interns who have remained in full-time or part-time employment.

Environmental Conservation

- Heartland's baseline measurement of greenhouse gas (GHG) emissions has now been audited.
 The work of the auditor (which is still subject to peer review) validated the methodology taken to measure Heartland's emissions and has amended the FY2019 emissions profile slightly to 1,157 tCO2e (within 1% of that reported in Heartland's FY2020 Annual Report).
- Heartland's GHG emissions reduction target will be published on Heartland's website by 31
 March 2021.
- A 'Green Team' has been established internally to champion environmental initiatives.

Economic Prosperity

- Delivered total shareholder return (TSR) of 124% over the last five years (17 February 2016 17 February 2021), compared with the NZX50 Index TSR of 108% in the same period, and continued growth in EPS (from 10.0 cps in FY2015 to 12.5 cps in FY2020).
- Initial development was completed for Rocket, a financial literacy programme targeted at school leavers. The programme, designed to be used on a smartphone, was soft-launched at Heartland's Annual Shareholder Meeting in November 2020.

Strategic priorities

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

Currently, the Group comprises four distinct businesses: New Zealand banking, motor finance, financial technology, and Australia (primarily comprising Reverse Mortgages). As a result of management's review of how these underlying businesses are presented in the market, more emphasis is being put on discrete reporting of these business activities.

New Zealand

Heartland continues to explore opportunities to consolidate banking services to achieve scale and enhance customer offerings. Heartland also continues to look for ways to enhance its existing customer offerings – it is currently expanding the YouChoose product features to make it more accessible for customers and enable it to appeal to a wider customer segment.

Heartland is also seeking to achieve the optimal holding structure for the motor vehicle finance business to provide access to flexible and efficient capital. No conclusions have yet been reached,

however work is underway to set the foundations which would allow Heartland to separate the business to be a Group subsidiary, should it choose to do so.

Australia

Heartland has recently rebranded its Australian Seniors Finance product to Heartland Reverse Mortgages to ensure a stronger brand alignment and consistency with Heartland and its products.

Looking forward, Heartland aims to more broadly service the needs of the aged sector in Australia through a diversified product offering to a wider demographic. Opportunities exist to provide products which support customers transitioning from late stage employment to retirement, and subsequent entry into various stages of aged care. Other forms of equity release, in addition to reverse mortgages, are being explored.

This represents a significant growth opportunity for Heartland, with the Federal Government recently releasing the independent Retirement Income Review Final Report which observes that "individuals can significantly boost their retirement incomes without having to increase their superannuation contributions [by] ...accessing equity in their home"¹⁷.

In addition to this, research about financing ageing in place, released by Melbourne's RMIT University and supported by Heartland, found that almost 90% of senior Australians want to remain in their home for as long as they can, but have limited funds to do so. RMIT University supported the Federal Government's notion that reverse mortgages could be the solution for many.

Heartland remains the leading provider of reverse mortgages in Australia with 12-month market share increasing from 26%¹⁸ to 28%¹⁹. With the equity release market set to triple in the next 10 years²⁰, a similar trend is expected in the future.

Heartland began the 2021 calendar year with the completion of a senior unsecured bond placement of A\$75 million. This is the third issuance under Heartland Australia's Medium-Term Note programme and takes aggregate outstanding issuance to A\$220 million. The funding will enable scale and expansion in Australia, including through the development of new products intended to appeal to various segments of the aged sector, thereby ensuring Australian retirees can choose how best to fund their retirement lifestyle.

Digital

Recognising Heartland as a FinTech, Heartland's strategy is to digitalise everything it does. Progress towards this goal is described in the 'Digitalisation' section on page 10.

Interim dividend

Heartland is pleased to declare a 1H2021 interim dividend of 4.0 cps (0.5 cps down on 1H2020). The dividend yield of $4.8\%^{21}$ compares with $8.3\%^{22}$ in 1H2020. As was the case for the 2H2020 final dividend, the dividend decrease reflects restrictions imposed by the RBNZ on distributions by banks in New Zealand. However, the continued growth in Heartland's Australian operations enable it to

¹⁷ Source: Retirement Income Review Final Report, The Treasury, Australian Government.

¹⁸ Based on APRA ADI Property Exposure and Heartland Seniors Finance data as at 31 March 2020.

¹⁹ Based on APRA ADI Property Exposure and Heartland Seniors Finance data as at 30 September 2020.

²⁰ Source: <u>Global Equity Release Roundtable 2020 survey report</u>, EPPARG and EY.

²¹ Total fully imputed dividends for 1H2021 (interim) and 2H2020 (final) divided by the closing share price as at 9 February 2021 of \$1.88.

²² Total fully imputed dividends for 1H2020 (interim) and 2H2019 (final) divided by the closing share price as at 14 February 2020 of \$1.84.

distribute earnings derived from assets held outside of Heartland Bank. Heartland expects to return to a pay-out ratio aligning to historical levels once the RBNZ restrictions are removed.

The interim dividend will be paid on Tuesday 16 March 2021 (**Payment Date**) to shareholders on the company's register as at 5.00pm on Tuesday 2 March 2021 (**Record Date**) and will be fully imputed.

Heartland has a Dividend Reinvestment Plan (**DRP**), giving eligible shareholders the opportunity to reinvest some or all of their dividend payments into new ordinary shares. The DRP will apply to the final dividend with a 2.0% discount²³.

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

Looking forward

Heartland's 1H2021 NPAT has exceeded expectations, particularly due to a much lower than forecast impaired asset expense and pleasing origination levels in core portfolios. However, aggregate balance sheet growth has been modest (primarily due to elevated repayments) and this may moderate the uplift in net operating income ordinarily experienced in the second half of the financial year.

Heartland believes customer repayment activity will normalise, and impaired asset expense levels will be in line with budget for the remainder of the financial year. Provided this occurs and the economic conditions continue to improve, Heartland expects NPAT for FY2021 to be at the upper end of the guidance range of \$83 million to \$85 million.

- Ends -

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

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Nicola Foley Head of Communications M 027 345 6809

²³ That is, the strike price under the DRP will be 98.0% of the volume weighted average sale price of Heartland shares over the five trading days following the Record Date. For the full details of the DRP and the Strike Price calculation, refer to Heartland Group Holdings Limited DRP offer document dated 10 December 2018.

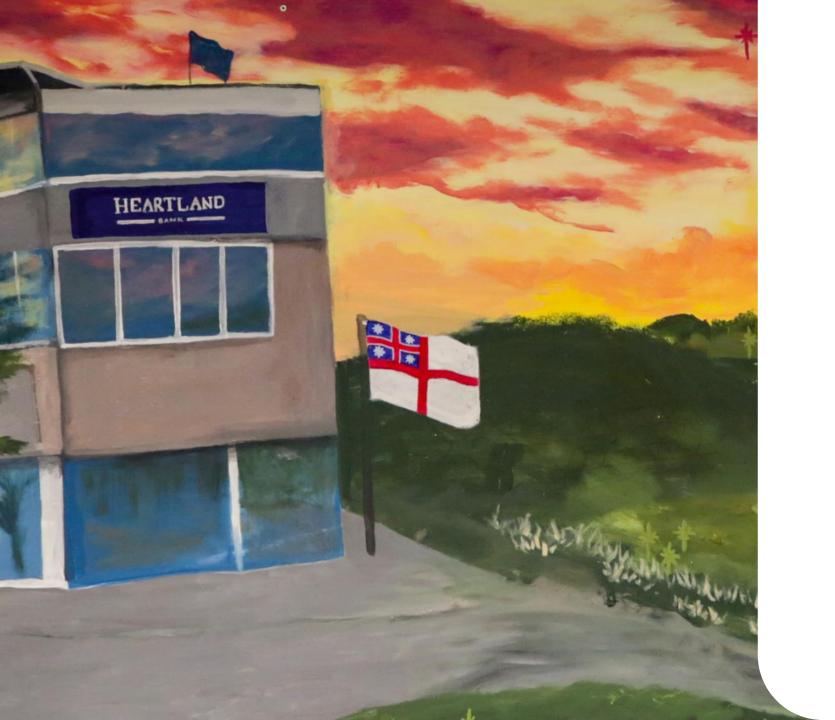
2021 Interim Results

22 February 2021

HEARTLAND

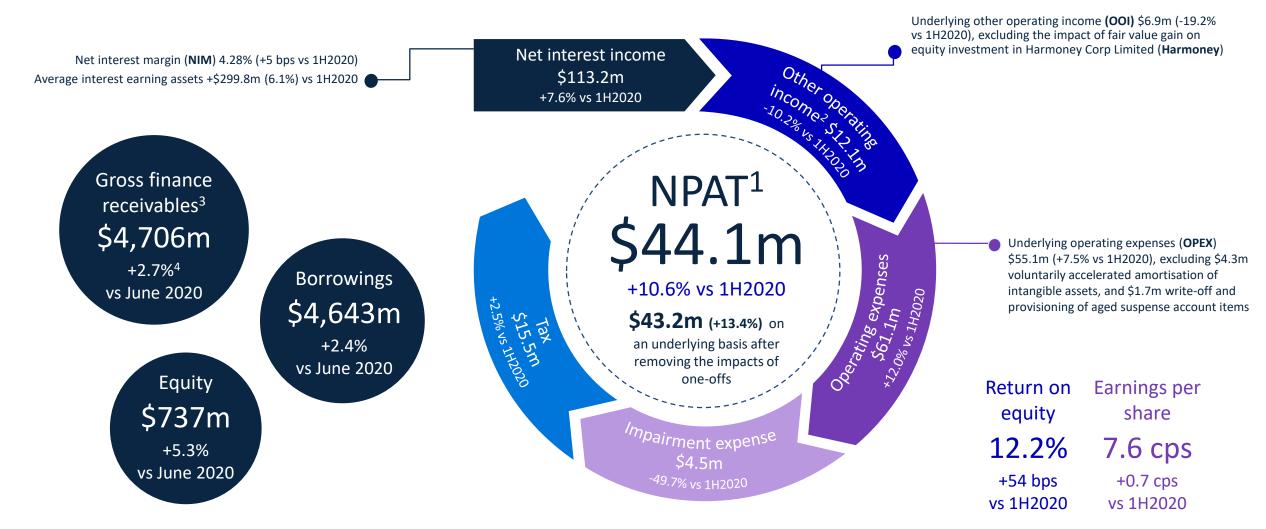
Important notice

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1H2O21 highlights

Financial performance



- 1. Refer to Appendix 3 for reconciliation between reported and underlying net profit after tax (NPAT) result
- OOI includes fair value gains/losses on investments
- 3. Gross finance receivables (Receivables) also include Reverse Mortgages
- 4. Annualised 1H2O21 growth excluding the impact of changes in foreign currency exchange (FX) rates

Financial performance highlights



Receivables growth

- Continued growth in core lending portfolios
 (Motor, Reverse Mortgages, Business Intermediated)
- Overall growth impacted by continued reduction in non-core portfolios and elevated repayments, caused by Government and RBNZ stimulus combined with mortgage holidays allowing customers to divert funds to repay other debt
- Customer repayment behaviour is expected to normalise



Costs controlled

- Underlying costs increased as a result of additional headcount, with underlying cost-to-income ratio relatively stable
- Cost base positioned to scale as portfolio growth resumes to historic levels



Stable margin

- Strong NIM maintained
- Asset yields reduced in line with low interest rate environment, impacted by portfolio mix, and continued excess liquidity position
- Funding cost matched asset yield reduction with New Zealand deposit rates and Australian wholesale benchmark rates at historic lows



Improved impairment

- An improved arrears position due to repayments, refinancing and ordinary restructures
- Portfolio growth weighted toward secured portfolios, with unsecured portfolios contracting

Interim highlights



Relaunch of Heartland Home Loans with NZ's lowest interest rates among banks



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



Further digitalisation of product applications and digital platforms in NZ and Australia



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



45 participants in the 2020/2021 Manawa Ako internship – up from 34 in 2019/2020



Launch of Rocket, a mobile financial literacy programme for school leavers



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



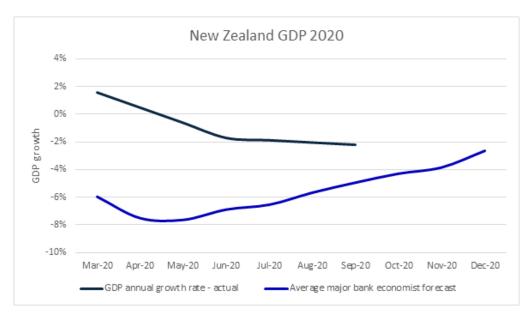
One of two Australasian banks to have no reduction or adverse change to its ratings or outlook by Fitch Ratings since January 2020

Impairment expense

- Impairment expense decreased by \$4.5m, decreasing the impairment expense ratio¹ from 0.40% in 1H2020 to 0.19% in 1H2021
 Driven by:
 - remediation of accounts previously in arrears, and the release of provisions held against those borrowers largely due to repayments, refinancing and ordinary restructures
 - growth in portfolios that attract lower rates of provisioning (Motor, Business Intermediated) or are subject to fair value
 (Reverse Mortgages), and contraction in portfolios that attract higher rates of provisioning (Open for Business, Harmoney).
- Importantly, the impairment performance has not been assisted by the use of the Heartland Extend product:
 - 77% of the Heartland Extend book comprises refinanced Business Intermediated and Open for Business loans, none of which were non-performing at 30 June 2020
 - 23% comprises refinanced Motor loans, with only 24% (\$1.4m) being non-performing at 30 June 2020.
- While Heartland Extend is a "business as usual" product, it may assist borrowers in meeting their obligations going forward, and can therefore be expected to assist in controlling impairment expense.

Impact of COVID-19

- The financial impact of the COVID-19 pandemic on the New Zealand economy has been more subdued than forecast by bank economists¹.
- Returns to higher Alert Levels have not impacted the economy as significantly as expected, with only a small drop in retail spending, and minor setbacks experienced for SMEs.



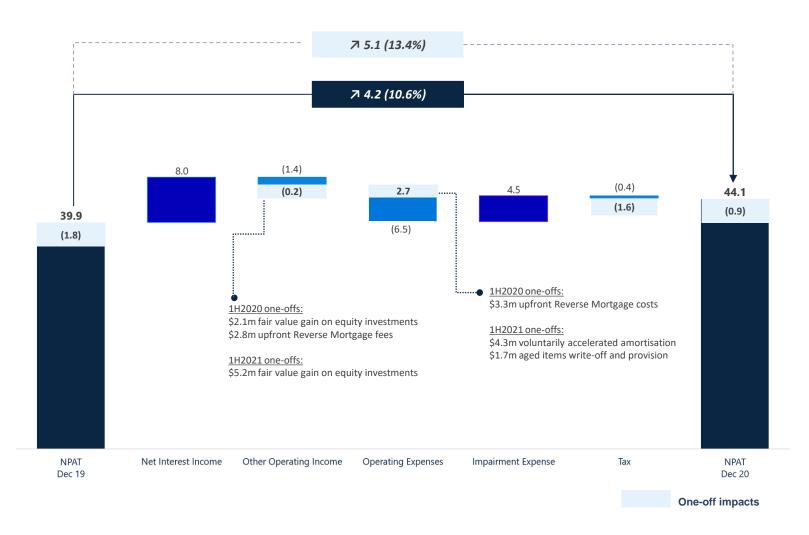
- An economic overlay of \$9.6m (pre-tax) was taken at 30
 June 2020 to:
 - allow for the uncertainty created by COVID-19, not due to any inadequacy of existing provisions
 - provide a buffer against any future losses that the uncertainty may give rise to, not due to any actual loss experienced.
- The overlay remains unutilised at 31 December 2020:
 - current provisions remain adequate
 - a more developed understanding of the impact of COVID-19 on credit quality of Heartland's book, with total NPLs down year-on-year, Heartland Extend NPLs lower than comparative portfolios, and no BFGS NPLs.
- Despite positive indicators and general improvement in economic forecasts, Heartland has retained its COVID-19 overlay as uncertainty around the impact of COVID-19 on overall credit quality of Heartland's book remains.

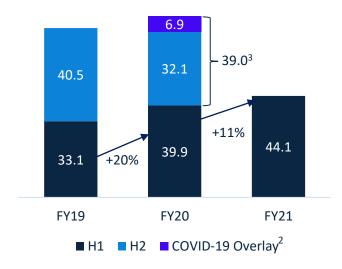
^{1.} Actual GDP is annual growth rate for last 12 months (source: Statistics New Zealand). Forecast is average of major bank Economist's point in time GDP projection for 2020 (source: major bank publications).



Financial results

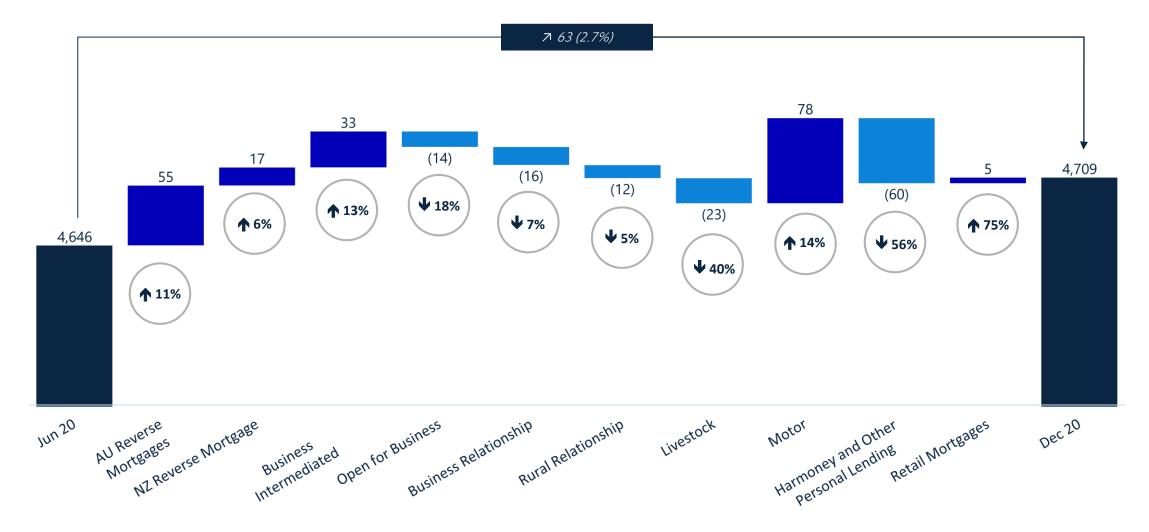
Growth in profitability





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

Growth in receivables

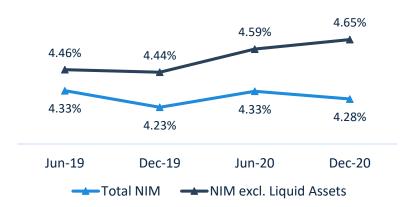


- 1. The graph shows 1H2021 growth in receivables by portfolio excluding the impact of changes in FX rates. Relative growth is annualised.
- 2. All figures in NZ\$m.

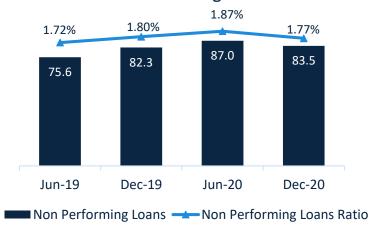
HEARTLAND 11

Key performance measures



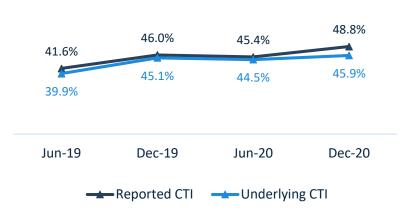


Non Performing Loans

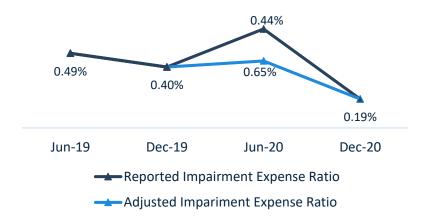


- 1. NIM is calculated as net interest income/average gross interest earning assets.
- 2. Underlying CTI excludes one-off impacts. Refer to Appendix 3 for reconciliation between reported and underlying result.
- 3. Impairment expense ratio is calculated as impairment expense/average gross finance receivables.
- Adjusted impairment expense ratio excludes the impact of \$9.6m pre-tax economic overlay due to COVID-19.

CTI



Impairment Expense Ratio

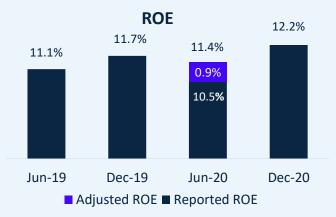


Shareholder return

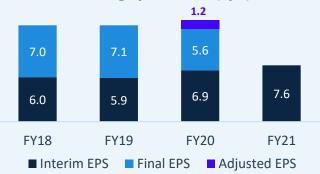
- Underlying return on equity (ROE) of 11.9% (up 80 bps vs 1H2020)¹
- Earnings per share (EPS)² of 7.6 cps, up 0.7 cps compared to 1H2020
- Interim dividend of 4.0 cps, down 0.5 cps on 1H2020 (pay-out ratio expected to return to historical levels once RBNZ restrictions are removed)
- Dividend yield of 4.8%³
- Five year total shareholder return (TSR) of 124%, compared with the NZX50 Index TSR of 108% in the same period⁴

^{3.} Total fully imputed dividends for 1H2021 (interim) and 2H2020 (final) divided by the closing share price as at 9 February 2021 of \$1.88.

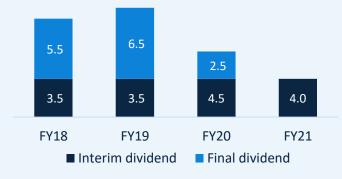




Earnings per share (cps)



Dividend per share (cps)



^{1.} Refer to Appendix 3 for reconciliation between reported and underlying result. June 2020 ROE of 10.5% includes the impact of \$9.6m pre-tax economic overlay due to COVID-19.

^{2.} Jun 20 EPS of 12.5 cps includes the impact of \$9.6m pre-tax economic overlay due to COVID-19.



Divisional summary

Australian Reverse Mortgages

- Net operating income increased 15.2% compared with 1H2020 to \$18.2m.
- Receivables increased **10.6**%¹ in 1H2021 to **\$1,030.8m**.
- Receivables growth in 1H2021 impacted by elevated repayments (+28% vs 2H2020).
- Australian Seniors Finance product recently rebranded to Heartland Reverse Mortgages to ensure a stronger brand alignment and consistency with Heartland and its products.
- Recent interest in the reverse mortgage product from significant mortgage aggregators in Australia, which Heartland expects to come to fruition in 2H2021.
- Heartland remains the leading provider of reverse mortgages in Australia with 12-month market share increasing from 26%² to 28%³. A similar trend is expected in the future as the equity market is set to triple in the next 10 years.



As at 31 December 2020

\$1,031m

+10.6%

annualised growth since June 2020¹

Excluding the impact of changes in FX rates.

Based on APRA ADI Property Exposure and Heartland Seniors Finance data as at 31 March 2020.

Based on APRA ADI Property Exposure and Heartland Seniors Finance data as at 30 September 2020.

NZ Reverse Mortgages

- Net operating income decreased -13.8% compared with 1H2020 to \$11.2m. Excluding the impact of one-offs¹ from 1H2020, underlying net operating income was largely flat half-on-half.
- Receivables increased **5.9%** in 1H2021 to **\$576.6m**.
- Receivables growth in 1H2021 impacted by elevated repayments (+40% vs 2H2020).
- Growth in NZ Reverse Mortgages was driven by continued enhancements in digital platforms and investment in marketing to increase brand awareness.



As at 31 December 2020

\$577m

+5.9%

annualised growth since June 2020

Reverse mortgages portfolio analytics

NZ Reverse Mortgages \$577m

+\$16m (5.9%) vs June 2020

AU Reverse Mortgages A\$966m

> +A\$51m (11.1%) vs June 2020

Average loan size: \$108,797

Weighted average borrowers' age: 79

Average origination LVR: 10.5%

Weighted average LVR: 23.7%

Proportion of the book over 75% LVR: 0.1%

Origination: \$45m (+\$7m vs 2H2020) ◆------

Total repayments in 1H2021: \$44m (+\$13m vs 2H2020)

1H2021 average repayment rate: 16% (vs 12% in 2H2020)

Repayments from vintage loans (+11 years): 35% (vs 33% in 2H2O2O)

Elevated repayments in 1H2021 due to:

- comparatively lower repayments in Q4 of FY2020 with property sales restricted by COVID-19 related lockdowns
- a buoyant property market in 1H2021

A\$131,362 : Average loan size

77 : Weighted average borrowers' age

11.4% : Average origination LVR

24.2% : Weighted average LVR

0.5% : Proportion of the book over 75% LVR

A\$96m (flat vs 2H2020) :Origination

A\$70m(+A\$15m vs 2H2020) :Total repayments in 1H2021

15% (vs 13% in 2H2020) :**1H2021** average repayment rate

30% (vs 24% in 2H2020) :Repayments from vintage loans (+11 years)

Open for Business (O4B)

- Net operating income increased **13.6%** compared with 1H2020 to **\$7.5m**.
- Receivables decreased **-18.4%** in 1H2021 to **\$140.7m**.
- Growth slowed down in 2H2020 as a result of COVID-19 disruptions and the availability of Government-backed funding for small businesses. This trend continued in 1H2021.
- Ongoing investments in operational capacity, automation and marketing to increase product awareness, and improving economic sentiment are expected to fuel growth to pre-COVID-19 levels in future periods.



As at 31 December 2020

\$141m

-18.4%

annualised decrease since June 2020

Business Intermediated

- Net operating income increased **25.2%** compared with 1H2020 to **\$13.4m**.
- Receivables increased 13.2% in 1H2021 to \$532.1m.
- Continued deepening and expansion of the intermediary network underpinned by a strong focus on distributor/vendor and point of sale support. The growth was further supported by strong demand from partners in the transport and logistics sector which continues to experience increasing demand and a solid performance following the COVID-19 outbreak.
- Launch of Heartland Extend for Business product, providing business owners with the flexibility to manage and adjust their loan repayments.



As at 31 December 2020

\$532m

+13.2%

annualised growth since June 2020

Business Relationship

- Net operating income increased **8.9%** compared with 1H2O2O to **\$12.2m**.
- Receivables decreased -6.6% in 1H2021 to \$479.8m.
- The continued downward trend reflects Heartland's strategy to continue to optimise non-core Relationship lending to reduce low margin concentration.



As at 31 December 2020

-6.6%

annualised decrease since June 2020

Excluding the impact of changes in FX rates.

Motor Finance

- Net operating income increased 9.6% compared with 1H2020 to \$33.0m.
- Receivables increased 13.8% in 1H2021 to \$1,203.9m.
- Growth was mainly from the Motor dealer book via car dealerships, brokers and partnerships such as Kia Finance and Jaguar/Land Rover Financial Services.
- New business origination is 22% higher compared with 1H2020 due to Heartland's strategic focus on innovation and continued investments in digital enhancements.
- Guaranteed Future Value product continues to grow as consumers become more familiar with the product and its various options.
- Average loan size increased from \$26k to \$29k due to an increased weighting of new and near-new vehicles financed (44% in 1H2021 v 40% in 1H2020)



As at 31 December 2020

\$1,204m

+13.8%

annualised growth since
June 2020

Harmoney and other personal lending

- Net operating income decreased **-19.0%** compared with 1H2020 to **\$6.8m**.
- Harmoney Receivables decreased **-55.6%**¹ in 1H2021 to **\$143.9m**.
- Both New Zealand and Australian Harmoney portfolios continued to contract in 1H2021 as a result of high repayments, and continued high impairment rate due to the additional provisions taken up to cover potential future losses under the COVID-19 environment.
- Harmoney is currently undergoing a transition of its funding model from the peer-to-peer off-balance sheet model to wholesale securitised on-balance sheet funding via warehouse structures. Heartland supports this transition and expects its facilities to move to this model in the near term, resulting in the resumption of portfolio growth assisted by an expected abatement in the current elevated repayment levels.



As at 31 December 2020

\$144m

-55.6%

annualised decrease since June 2020¹

Home Loans

- Home Loans¹ Receivables increased +7.0m in 1H2021 to \$7.6m.
- Following a successful pilot, Heartland's digital Home Loans product was launched in October 2020 with conservative lending criteria targeting high quality applicants.
- Loans were slow to draw down over the summer holiday period, however strong application rates have continued with \$303.6m approved online and \$16.6m drawn down year to date.
- Challenges in converting applications to drawdowns are driven by time taken to process refinances from other banks and approved purchasers taking time to find and secure their desired property.



Rural

- Net operating income decreased 0.5% compared with 1H2020 to **\$15.6m**. Rural Relationship net operating income increased by 5.0% to \$12.7m and Livestock net operating income decreased by -15.3% to \$2.9m.
- Receivables decreased -11.5% in 1H2021 to \$570.5m. Rural Relationship receivables reduced by -4.9% to \$478.3m and Livestock receivables reduced by -39.7% to \$92.2m.
- The continued downward trend reflects Heartland's strategy to continue to optimise non-core Relationship lending to reduce low margin concentration.
- The Sheep & Beef Direct platform was launched in late 2020. At 16 February 2021, eligible applications totaled \$52.3m, with \$26.8m approved online and \$3.0m drawn down. Refinements will continue to be made to reach target customers and improve user experience.



As at 31 December 2020

\$571m

-11.5%

annualised decrease since June 2020

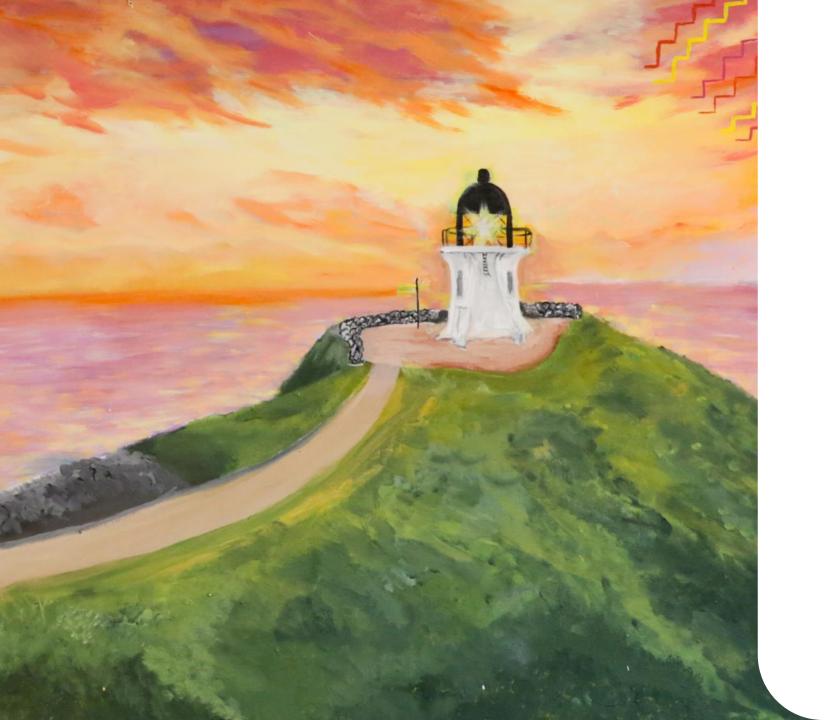
Funding and liquidity

New Zealand

- Heartland Bank increased borrowings by \$32.7m (0.9%) in 1H2021
- Deposits grew \$1.9m (0.1%)
- Heartland Bank increased total liquidity by \$18.8m (2.6%)
- Heartland Bank holds liquidity well in excess of regulatory minimums
- Continued focus on reducing risk concentrations in the deposit book and shifting mix in favour of call deposits

Australia

- Heartland Australia increased borrowings by A\$72.7m (8.6%) in 1H2021 and has access to committed Australian reverse mortgage loan funding of A\$1b in aggregate
- Heartland completed an A\$142m long-term reverse mortgage-backed syndicated loan funded by established offshore institutional investors. The first-of-its-kind transaction complements continued efforts to diversify type, source and tenor of funding and evidence market liquidity to existing warehouse funders
- Heartland recently completed a third senior unsecured bond placement, taking aggregate outstanding issuance to A\$220m
- Further expansion of existing warehouse funding through increased senior limits and the introduction of mezzanine funding is planned, together with continued optimisation of long-term duration matched funding



Strategic update

Strategic objectives

New Zealand

Acquire scale

- By consolidating banking services in New Zealand
- By increasing market share using new and enhanced 'best or only' products to appeal to a wider customer base
- Supported by a low cost operating model

Australia

Expand in Australia

- Service the needs of a broader demographic of the aged sector
- Support customers transition from late stage employment to retirement, and subsequent entry into various stages of aged care
- Explore opportunities for organic and inorganic reverse mortgage growth
- Continue to focus on long-term funding to enable growth and expansion

Digital

Digitalise everything we do

- New/enhanced platforms launched
 - Home Loans
 - Sheep & Beef Direct
 - Motor Direct
 - O4B Australia
- Digital tools now live
 - Online quoting tools
 - Integrated biometrics for motor dealers
 - Broker portals
- Digitalising the fulfilment process and customer service touchpoints.

Looking forward

- 1H2021 NPAT exceeded expectations, contributing factors being:
 - lower than forecast impaired asset expense
 - strong origination levels in core portfolios
 - NIM stable.
- Overall modest balance sheet (primarily due to elevated repayments) may moderate the uplift in NOI historically experienced in the second half of the financial year.
- Customer repayment activity expected to normalise and impaired asset expenses expected to be in line with budget for remainder of the financial year.



NPAT for FY2021

Provided repayment activity and impairment asset expense forecasts are met and economic conditions continue to improve, Heartland expects NPAT for FY2021 to be at the upper end of the guidance range of \$83m to \$85m.



Appendices

Appendix 1 – Financial position

| \$m | 31 December 2020 | 30 June 2020 | Movement (\$m) | Movement (%) |
|----------------------------|---------------------|-----------------|-------------------|-----------------|
| Liquid Assets | 602 | 544 | 57 | 10.6% |
| Net Finance Receivables | 4,650 | 4,584 | 66 | 1.4% |
| Other Assets | 186 | 190 | (4) | (2.0%) |
| TOTAL ASSETS | 5,438 | 5,318 | 120 | 2.3% |
| Retail Deposits | 3,269 | 3,264 | 4 | 0.1% |
| Other Borrowings | 1,374 | 1,268 | 106 | 8.4% |
| Other Liabilities | 58 | 86 | (28) | (32.1%) |
| Equity | 737 | 700 | 37 | 5.3% |
| TOTAL EQUITY & LIABILITIES | 5,438 | 5,318 | 120 | 2.3% |

Appendix 2 – Financial performance

| \$m | 1H2021 | 1H2021 1H2020 Change (\$) | | Change (%) |
|-----------------------------------|---------|---------------------------|---------|------------|
| Net Operating Income ¹ | 125.3 | 118.6 | 6.7 | 5.6% |
| Operating Expenses | (61.1) | (54.6) | (6.5) | (12.0%) |
| Impairment Expense | (4.5) | (9.0) | (4.5) | (49.7%) |
| Profit Before Tax | 59.6 | 55.0 | 4.6 | 8.4% |
| Tax Expense | (15.5) | (15.1) | (0.4) | (2.5%) |
| Net Profit After Tax | 44.1 | 39.9 | 4.2 | 10.6% |
| | | | | |
| Net Interest Margin | 4.28% | 4.23% | 5 bps | |
| Cost to Income Ratio | 48.8% | 46.0% | 2.8 pp | |
| Return on Equity | 12.2% | 11.7% | 54 bps | |
| Earnings per Share | 7.6 cps | 6.9 cps | 0.7 cps | |

1. Includes fair value movements.

Appendix 3 - Reconciliation of reported with underlying results

| 1H2021 | 1H2020 | Movement (\$) | Movement (%) |
|--------|-----------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 125.3 | 118.6 | 6.7 | 5.6% |
| | | | |
| | -2.8 | 2.8 | |
| -5.2 | -2.1 | -3.1 | |
| 120.1 | 113.7 | 6.4 | 5.6% |
| 61.1 | 54.6 | 6.5 | 12.0% |
| | | | |
| | -3.3 | 3.3 | |
| -4.3 | | -4.3 | |
| -1.7 | | -1.7 | |
| 55.1 | 51.3 | 3.8 | 7.5% |
| 44.1 | 39.9 | 4.2 | 10.6% |
| | | | |
| -0.9 | -1.8 | 0.9 | |
| 43.2 | 38.1 | 5.1 | 13.4% |
| 718.5 | 681.6 | 36.9 | 5.4% |
| 718.1 | 680.7 | 37.4 | 5.5% |
| 48.8% | 46.0% | 2.80% | |
| 45.9% | 45.1% | 0.80% | |
| 12.2% | 11.7% | 0.54% | |
| 11.9% | 11.1% | 0.80% | |
| | -5.2 120.1 61.1 -4.3 -1.7 55.1 44.1 -0.9 43.2 718.5 718.1 48.8% 45.9% 12.2% | -2.8 -5.2 -2.1 120.1 113.7 61.1 54.6 -3.3 -4.3 -1.7 55.1 51.3 44.1 39.9 -0.9 -1.8 43.2 38.1 718.5 681.6 718.1 680.7 48.8% 46.0% 45.9% 45.1% 12.2% 11.7% | 125.3 118.6 6.7 -2.8 2.8 -5.2 -2.1 -3.1 120.1 113.7 6.4 61.1 54.6 6.5 -3.3 3.3 -4.3 -4.3 -1.7 -1.7 55.1 51.3 3.8 44.1 39.9 4.2 -0.9 -1.8 0.9 43.2 38.1 5.1 718.5 681.6 36.9 718.1 680.7 37.4 48.8% 46.0% 2.80% 45.9% 45.1% 0.80% 12.2% 11.7% 0.54% |

Thank you

For Heartland's 1H2021 Interim Results announcement, please see shareholders.heartland.co.nz

HEARTLAND



Results announcement

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

Updated as at 17 October 2019

| Results for announcement to | o the market | | | | | |
|-----------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------|--------------------------------|--|--|--|--|
| Name of issuer | Heartland Group Holdings Limit | ed | | | | |
| Reporting Period | 6 months to 31 December 2020 | | | | | |
| Previous Reporting Period | 6 months to 31 December 2019 | | | | | |
| Currency | NZD | | | | | |
| | Amount (000s) | Percentage change | | | | |
| Revenue from continuing operations | \$125,292 | 5.6% | | | | |
| Total Revenue | \$125,292 | 5.6% | | | | |
| Net profit/(loss) from continuing operations | \$44,090 | 10.6% | | | | |
| Total net profit/(loss) | \$44,090 10.6% | | | | | |
| Interim/Final Dividend | | | | | | |
| Amount per Quoted Equity Security | \$0.04000000 | | | | | |
| Imputed amount per Quoted Equity Security | \$0.0155556 | | | | | |
| Record Date | 02/03/2021 | | | | | |
| Dividend Payment Date | 16/03/2021 | | | | | |
| | Current period | Prior comparable period | | | | |
| Net tangible assets per Quoted Equity Security | \$1.12 | \$1.05 | | | | |
| A brief explanation of any of the figures above necessary to enable the figures to be understood | Please refer to the 31 December consolidated financial statement Limited that accompany this and explanation of these figures. | ts of Heartland Group Holdings | | | | |
| Authority for this announcer | ment | | | | | |
| Name of person authorised to make this announcement | Andrew Dixson, Chief Financial Officer | | | | | |
| Contact person for this announcement | Andrew Dixson, Chief Financial Officer | | | | | |
| Contact phone number | 09 927 9274 | | | | | |
| Contact email address | Andrew.Dixson@heartland.co.n | z | | | | |
| | | 22/02/2021 | | | | |

Unaudited financial statements accompany this announcement.



Distribution Notice

Updated as at 18 December 2019

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

| Section 1: Issuer information | | | | | |
|------------------------------------------------------------|---------------------|-------------------------|---------|--|--|
| Name of issuer | Heartland Gro | oup Holdings Li | mited | | |
| Financial product name/description | Ordinary shar | es | | | |
| NZX ticker code | HGH | | | | |
| ISIN (If unknown, check on NZX website) | NZHGHE0007S9 | | | | |
| Type of distribution | Full Year Quarterly | | | | |
| (Please mark with an X in the | Half Year | X | Special | | |
| relevant box/es) | DRP applies | X | | | |
| Record date | 02/03/2021 | | | | |
| Ex-Date (one business day before the Record Date) | 01/03/2021 | | | | |
| Payment date (and allotment date for DRP) | 16/03/2021 | | | | |
| Total monies associated with the distribution ¹ | \$23,336,857.76 | | | | |
| Source of distribution (for example, retained earnings) | Retained earn | ings | | | |
| Currency | NZD | | | | |
| Section 2: Distribution amounts per | financial prod | uct | | | |
| Gross distribution ² | \$0.0555556 | | | | |
| Gross taxable amount ³ | \$0.0555556 | | | | |
| Total cash distribution ⁴ | \$0.04000000 | | | | |
| Excluded amount (applicable to listed PIEs) | NIL | | | | |
| Supplementary distribution amount | \$0.00705882 | | | | |
| Section 3: Imputation credits and Re | esident Withho | olding Tax ⁵ | | | |
| Is the distribution imputed | Fully imputed | - YES | | | |
| | Partial imputa | tion | | | |

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

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

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

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

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

| | 1 | | | | |
|-------------------------------------------------------------------------------------------------------------|----------------------------------------|--------------|--|--|--|
| | No imputation | | | | |
| If fully or partially imputed, please state imputation rate as % applied ⁶ | 28% | | | | |
| Imputation tax credits per financial product | \$0.01555556 | | | | |
| Resident Withholding Tax per financial product | \$0.00277777 | | | | |
| Section 4: Distribution re-investment | t plan (if applicable) | | | | |
| DRP % discount (if any) | 2.0% | | | | |
| Start date and end date for determining market price for DRP | 03/03/2021 | 09/03/2021 | | | |
| Date strike price to be announced (if not available at this time) | 10/03/2021 | | | | |
| Specify source of financial products to be issued under DRP programme (new issue or to be bought on market) | New issue | | | | |
| DRP strike price per financial product | \$ | | | | |
| Last date to submit a participation notice for this distribution in accordance with DRP participation terms | 03/03/2021, 5:00pm (NZT) | | | | |
| Section 5: Authority for this announ | cement | | | | |
| Name of person authorised to make this announcement | Andrew Dixson, Chief Financ | cial Officer | | | |
| Contact person for this announcement | Andrew Dixson, Chief Financial Officer | | | | |
| Contact phone number | 09 927 9274 | | | | |
| Contact email address | Andrew.Dixson@heartland.co.nz | | | | |
| Date of release through MAP | 22/02/2021 | | | | |
| | | | | | |

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

Interim Financial Statements

For the six months ended 31 December 2020



HEARTLAND

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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 New Zealand's Exchange (**NZX**) main board and the Australian Securities Exchange (**ASX**) under a foreign exempt listing.

HGH's address for service is Level 3, Heartland House, 35 Teed Street, Newmarket, Auckland 1023.

Directors

All Directors of HGH reside in New Zealand with the exception of Ellen Comerford who resides in Australia. Communications to the Directors can be sent to Heartland Group Holdings Limited, Level 3, Heartland House, 35 Teed Street, Newmarket, Auckland 1023.

There have been no changes in the composition of the Board of Directors of HGH since 30 June 2020 to the six months ended 31 December 2020.

Auditor

KPMG
KPMG Centre
18 Viaduct Harbour Avenue
Auckland 1010

Directors' Statements

The consolidated interim financial statements for HGH and its subsidiaries (together the **Group**) are dated 19 February 2021 and have been signed by all the Directors.

G T Ricketts (Chair)

E F Comerford

J K Greenslade

G R Tomlinson

C R Mace

Consolidated Interim Statement of Comprehensive Income

For the six months ended 31 December 2020

| - | | Unaudited | Unaudited | Audited |
|-------------------------------------------------------------------------------|------|---------------|---------------|--------------|
| | | 6 Months to | 6 Months to | 12 Months to |
| \$000's | Note | December 2020 | December 2019 | June 2020 |
| | | | | |
| Interest income | 3 | 166,387 | 172,536 | 346,802 |
| Interest expense | 3 | 53,174 | 67,353 | 130,129 |
| Net interest income | | 113,213 | 105,183 | 216,673 |
| Operating lease income | | 2,579 | 2,910 | 5,946 |
| Operating lease expense | | 1,598 | 1,962 | 4,063 |
| Net operating lease income | | 981 | 948 | 1,883 |
| Lending and credit fee income | | 4,041 | 6,827 | 10,811 |
| Other income | | 1,880 | 3,579 | 3,882 |
| Net operating income | | 120,115 | 116,537 | 233,249 |
| Operating expenses | 4 | 61,130 | 54,597 | 106,794 |
| Profit before impaired asset expense and income tax | | 58,985 | 61,940 | 126,455 |
| Fair value gain on investments | 12 | 5,177 | 2,097 | 2,097 |
| Impaired asset expense | 6 | 4,538 | 9,023 | 29,419 |
| Profit before income tax | - | 59,624 | 55,014 | 99,133 |
| Income tax expense | | 15,534 | 15,149 | 27,161 |
| Profit for the period | | 44,090 | 39,865 | 71,972 |
| Other comprehensive income | | | | |
| Items that are or may be reclassified subsequently to profit or | | | | |
| loss, net of income tax: | | | | |
| Effective portion of change in fair value of derivative financial instruments | | 4,580 | (225) | (2,179) |
| Movement in fair value reserve | | (1,038) | (968) | 766 |
| Movement in foreign currency translation reserve | | (121) | (513) | 114 |
| Other comprehensive income/(loss) for the period, | | | | |
| net of income tax | | 3,421 | (1,706) | (1,299) |
| Total comprehensive income for the period | | 47,511 | 38,159 | 70,673 |
| Earnings per share | | | | |
| Basic earnings per share | 7 | 8c | 7c | 12c |
| Diluted earnings per share | 7 | 8c | 7c | 12c |

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

Consolidated Interim Statement of Changes in Equity

For the six months ended 31 December 2020

| | | | | Foreign | | | | | |
|-----------------------------------------------------------------------|------|----------------------|----------|-------------|---------|----------|-----------|------------|----------|
| | | | Employee | Currency | Fair | Defined | Cash Flow | | |
| | | Share | | Translation | Value | Benefits | | Retained | Total |
| \$000's | Note | Capital | Reserve | Reserve | Reserve | Reserve | Reserve | Earnings | Equity |
| Unaudited - December 2020 | | | | | | | | . 0- | 17 |
| | | | | | | | | | |
| Balance at 1 July 2020 | | 576,257 | 934 | (3,907) | 5,324 | 171 | (8,022) | 129,223 | 699,980 |
| | | | | | | | | | |
| Total comprehensive income for the period | | | | | | | | | |
| Profit for the period | | - | - | - | - | - | - | 44,090 | 44,090 |
| Other comprehensive income/(loss), | | _ | _ | (121) | (1,038) | _ | 4,580 | _ | 3,421 |
| net of income tax | | | | (121) | (1,030) | | 7,500 | | 3,421 |
| Total comprehensive income/(loss) for the | | _ | _ | (121) | (1,038) | _ | 4,580 | 44,090 | 47,511 |
| period | | | | (121) | (1,030) | | 4,300 | 44,030 | 47,511 |
| Contributions by and distributions to owners | | | | | | | | | |
| Dividends paid | 10 | | _ | _ | _ | _ | | (14,524) | (14,524) |
| Dividend reinvestment plan | 10 | 3,046 | | | | | | (14,324) | 3,046 |
| Share based payments | 10 | 3,040 | 1,057 | | | | | | 1,057 |
| Total transactions with owners | | 3,046 | 1,057 | | | | | (14,524) | (10,421) |
| Balance at 31 December 2020 | | 579,303 | 1,991 | (4,028) | 4,286 | 171 | (3,442) | 158,789 | 737,070 |
| Balance at 1 July 2019 | | 558,970 | 838 | (4,021) | 4,558 | 171 | (5,843) | - | 675,668 |
| NZ IFRS 16 adjustment | | - | | - (4.004) | 4.550 | - | /E 040\ | (751) | (751) |
| Restated balance at beginning of period | | 558,970 | 838 | (4,021) | 4,558 | 171 | (5,843) | 120,244 | 674,917 |
| Total comprehensive income for the period | | | | | | | | | |
| Profit for the period | | - | - | - | - | - | - | 39,865 | 39,865 |
| Other comprehensive (loss), | | | | (= 10) | (0.00) | | (225) | | (4 =0.0) |
| net of income tax | | - | - | (513) | (968) | - | (225) | - | (1,706) |
| Total comprehensive income/(loss) for the | | | | (512) | (000) | | (225) | 20.005 | 20.150 |
| period | | - | - | (513) | (968) | - | (225) | 39,865 | 38,159 |
| Contributions by and distributions to aumore | | | | | | | | | |
| Contributions by and distributions to owners | 10 | | | | | | | (27.007) | (27.007) |
| Dividends paid | | - | - | - | - | - | - | (37,007) | (37,007) |
| Dividend reinvestment plan Transaction sects associated with capital | 10 | 11,296 | - | - | - | - | - | - | 11,296 |
| Transaction costs associated with capital | | (30) | - | - | - | - | - | - | (30) |
| raising Share based nayments | | | 453 | | | | | | 453 |
| Share based payments | | 420 | 153 | - | - | - | - | - | 153 |
| Shares vested | | 420 11,686 | (420) | - | - | | - | - (27.007) | /2F F00\ |
| Total transactions with owners Balance at 31 December 2019 | | | (267) | | | | | (37,007) | (25,588) |
| paratice at 31 December 2019 | | 570,656 | 571 | (4,534) | 3,590 | 171 | (6,068) | 123,102 | 687,488 |

Consolidated Interim Statement of Changes in Equity

For the six months ended 31 December 2020 (continued)

| | | | | Foreign | | | | | |
|---------------------------------------------------|------|---------|-----------------|-------------|---------|----------|------------------|----------|----------|
| | | | Employee | Currency | Fair | Defined | Cash Flow | | |
| | | Share | Benefits | Translation | Value | Benefits | Hedge | Retained | Total |
| \$000's | Note | Capital | Reserve | Reserve | Reserve | Reserve | Reserve | Earnings | Equity |
| Audited - June 2020 | | | | | | | | | |
| Balance at 1 July 2019 | | 558,970 | 838 | (4,021) | 4,558 | 171 | (5,843) | 120,995 | 675,668 |
| NZ IFRS 16 adjustment | | - | - | - | - | - | - | (751) | (751) |
| Restated balance at beginning of year | | 558,970 | 838 | (4,021) | 4,558 | 171 | (5,843) | 120,244 | 674,917 |
| Total comprehensive income for the period | | | | | | | | | |
| Profit for the period | | - | - | - | - | - | - | 71,972 | 71,972 |
| Other comprehensive income/(loss), | | | | 114 | 766 | | (2.170) | | (1.200) |
| net of income tax | | - | - | 114 | 700 | - | (2,179) | - | (1,299) |
| Total comprehensive income/(loss) for the | | | | 114 | 766 | _ | (2,179) | 71,972 | 70,673 |
| period | | - | - | 114 | 700 | - | (2,179) | 71,972 | 70,673 |
| Contributions by and distributions to owners | | | | | | | | | |
| Dividends paid | 10 | - | - | - | - | - | - | (62,993) | (62,993) |
| Dividend reinvestment plan | 10 | 16,895 | - | - | - | - | - | - | 16,895 |
| Transaction costs associated with capital raising | | (28) | - | - | - | - | - | - | (28) |
| Share based payments | | - | 516 | _ | _ | _ | _ | _ | 516 |
| Shares vested | | 420 | (420) | - | - | - | - | - | - |
| Total transactions with owners | | 17,287 | 96 | - | - | - | - | (62,993) | (45,610) |
| Balance at 30 June 2020 | | 576,257 | 934 | (3,907) | 5,324 | 171 | (8,022) | 129,223 | 699,980 |

Consolidated Interim Statement of Financial Position

As at 31 December 2020

| | | Unaudited | Unaudited | Audited |
|-----------------------------------------|------|---------------|---------------|-----------|
| \$000's | Note | December 2020 | December 2019 | June 2020 |
| Assets | | | | |
| Cash and cash equivalents | | 152,818 | 185,732 | 147,179 |
| Investments | | 470,368 | 321,990 | 413,340 |
| Investment properties | | 11,132 | 11,132 | 11,132 |
| Derivative financial instruments | | 15,023 | 11,936 | 17,246 |
| Finance receivables | 8(a) | 3,042,588 | 3,101,437 | 3,045,195 |
| Finance receivables - reverse mortgages | 8(b) | 1,607,352 | 1,419,486 | 1,538,585 |
| Operating lease vehicles | | 12,712 | 18,549 | 17,603 |
| Right of use assets | | 17,202 | 19,844 | 18,362 |
| Other assets | | 22,397 | 17,401 | 19,558 |
| Intangible assets | | 68,874 | 72,159 | 72,813 |
| Deferred tax asset | | 17,521 | 9,831 | 17,123 |
| Total assets | | 5,437,987 | 5,189,497 | 5,318,136 |
| Liabilities | | | | |
| Deposits | 9 | 3,268,554 | 3,234,025 | 3,264,192 |
| Other borrowings | 9 | 1,373,962 | 1,209,540 | 1,267,931 |
| Lease liabilities | | 19,363 | 21,306 | 20,456 |
| Tax liabilities | | 4,238 | 5,588 | 12,303 |
| Derivative financial instruments | | 12,805 | 9,843 | 17,012 |
| Trade and other payables | | 21,995 | 21,707 | 36,262 |
| Total liabilities | | 4,700,917 | 4,502,009 | 4,618,156 |
| Equity | | | | |
| Share capital | 10 | 579,303 | 570,656 | 576,257 |
| Retained earnings and reserves | | 157,767 | 116,832 | 123,723 |
| Total equity | | 737,070 | 687,488 | 699,980 |
| Total equity and liabilities | | 5,437,987 | 5,189,497 | 5,318,136 |

Consolidated Interim Statement of Cash Flows

For the six months ended 31 December 2020

| \$000's Note | 6 Months to | 6 Months to | |
|-----------------------------------------------------------------|---------------|---------------|--------------|
| | | 6 ivionths to | 12 Months to |
| Cook flows from an artistic | December 2020 | December 2019 | June 2020 |
| Cash flows from operating activities | | | |
| Interest received | 122,922 | 128,530 | 258,665 |
| Operating lease income received | 1,480 | 2,361 | 5,934 |
| Lending, credit fees and other income received | 4,719 | 14,035 | 16,037 |
| Operating inflows | 129,121 | 144,926 | 280,636 |
| Interest paid | (42,973) | (61,225) | (117,313) |
| Payments to suppliers and employees | (53,258) | (48,205) | (92,861) |
| Taxation paid | (25,061) | (12,512) | (24,619) |
| Operating outflows | (121,292) | (121,942) | (234,793) |
| Net cash flows from operating activities before | 7 020 | 22.004 | 45.043 |
| changes in operating assets and liabilities | 7,829 | 22,984 | 45,843 |
| Proceeds from sale of operating lease vehicles | 5,584 | 2,254 | 4,969 |
| Purchase of operating lease vehicles | (1,594) | (6,614) | (9,938) |
| Net movement in finance receivables | (24,714) | (133,854) | (171,617) |
| Net movement in deposits | 7,563 | 80,299 | 110,993 |
| <u> </u> | · · | | |
| Net cash flows (applied to) operating activities | (5,332) | (34,931) | (19,750) |
| Cash flows from investing activities | | | |
| Sale of property, plant and equipment and intangible assets | - | 23 | 118 |
| Total cash provided from investing activities | - | 23 | 118 |
| Purchase of property, plant and equipment and intangible assets | (4,322) | (2,866) | (6,739) |
| Net (increase)/decrease in investments | (62,877) | 34,070 | (45,562) |
| Total cash (applied to)/from investing activities | (67,199) | 31,204 | (52,301) |
| Net cash flows (applied to)/from investing activities | (67,199) | 31,227 | (52,183) |
| | | · | • |
| Cash flows from financing activities | | | |
| Net increase in wholesale funding | 91,038 | 34,569 | 85,795 |
| Proceeds from issue of Unsubordinated Notes | - | 106,952 | 106,952 |
| Total cash provided from financing activities | 91,038 | 141,521 | 192,747 |
| Dividends paid 10 | (11,478) | (25,711) | (46,098) |
| Payment of lease liabilities | (1,390) | (840) | (2,005) |
| Transaction costs associated with capital raising | - | (30) | (28) |
| Total cash (applied to) financing activities | (12,868) | (26,581) | (48,131) |
| Net cash flows from financing activities | 78,170 | 114,940 | 144,616 |
| Net increase in cash held | 5,639 | 111,236 | 72,683 |
| Opening cash and cash equivalents | 147,179 | 74,496 | 74,496 |
| Closing cash and cash equivalents | 152,818 | 185,732 | 147,179 |

Consolidated Interim Statement of Cash Flows

For the six months ended 31 December 2020 (continued)

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

| | | Unaudited | Unaudited | Audited |
|-----------------------------------------------------------|------|---------------|---------------|--------------|
| | | 6 Months to | 6 Months to | 12 Months to |
| \$000's | Note | December 2020 | December 2019 | June 2020 |
| Profit for the period | | 44,090 | 39,865 | 71,972 |
| Add/(less) non-cash items: | | | | |
| Depreciation and amortisation expense | | 9,463 | 4,357 | 9,161 |
| Depreciation on lease vehicles | | 1,436 | 1,722 | 3,634 |
| Capitalised net interest income and fee income | | (32,640) | (40,117) | (77,429) |
| Impaired asset expense | 6 | 4,538 | 9,023 | 29,419 |
| Investments fair value movement | | (5,177) | (2,097) | (2,097) |
| Other non-cash items | | (7,335) | 3,445 | 2,488 |
| Total non-cash items | | (29,715) | (23,667) | (34,824) |
| Add/(less) movements in operating assets and liabilities: | | | | |
| Finance receivables | | (24,714) | (133,854) | (171,617) |
| Operating lease vehicles | | 3,990 | (4,360) | (4,969) |
| Other assets | | 1,875 | 9,732 | 9,528 |
| Current tax | | (8,065) | (1,944) | 4,771 |
| Derivative financial instruments | | 2,596 | 1,026 | 931 |
| Deferred tax | | (398) | (300) | (7,592) |
| Deposits | | 7,563 | 80,299 | 110,993 |
| Other liabilities | | (2,554) | (1,728) | 1,057 |
| Total movements in operating assets and liabilities | | (19,707) | (51,129) | (56,898) |
| Net cash flows applied to operating activities | | (5,332) | (34,931) | (19,750) |

Notes to the Interim Financial Statements

For the six months ended 31 December 2020

1 Interim financial statements preparation

Basis of reporting

The interim financial statements presented are the consolidated interim financial statements comprising Heartland Group Holdings Limited (HGH) and its subsidiaries (the Group). They have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand (NZ GAAP) as defined in the Financial Reporting Act 2013, the NZX Main Board Listing Rules and the ASX Listing Rules. The consolidated interim financial statements comply with NZ IAS 34 Interim Financial Reporting as appropriate for publicly accountable for-profit entities and IAS 34 Interim Financial Reporting.

The consolidated interim financial statements do not include all notes of the type normally included in an annual financial report. Accordingly this report is to be read in conjunction with the consolidated financial statements for the year ended 30 June 2020 and any public announcements made by the Group during the interim reporting period.

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

- 6 month period ended 31 December 2020 Unaudited
- 6 month period ended 31 December 2019 Unaudited
- 12 month period ended 30 June 2020 Audited

The consolidated interim financial statements have been prepared on a going concern and historical cost basis, unless stated otherwise. The accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period.

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

Change in accounting policy

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

Accounting standards issued not yet effective

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

MARAC Insurance Limited (MIL), a subsidiary of Heartland Bank Limited (HBL), no longer conducts insurance business as HBL entered into a distribution agreement with DPL Insurance Limited (DPL) to distribute DPL's insurance products through its network and therefore MIL stopped writing insurance policies. MIL's existing policies are expected to expire by the end of June 2024.

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

1 Financial statements preparation (continued)

Estimates and judgements

There have been no material changes to the use of estimates and judgements for the preparation of the interim financial statements since the reporting date of the previous financial statements. Refer to the Group's financial statements for the year ended 30 June 2020 for the estimates and judgements used.

Covid-19 Pandemic - Impact on Estimates and judgements

An economic overlay of \$9.6 million was applied as at 30 June 2020 in response to the deterioration in economic conditions caused by the COVID-19 pandemic. The overlay was formulated through applying judgement utilising the Group's experience and deep understanding of its customers, assuming that a "base case" economic forecast (as to gross domestic product, unemployment and house price inflation) and other assumptions (as to lockdowns, customer support packages, second hand and export primary produce prices) prevailed. This downside risk was quantified under three methodologies to ascertain a range of potential expected credit losses on each of its portfolios.

While actual performance relative to the "base case" has been favourable, residual market uncertainty regarding the magnitude of the economic impact of the pandemic remains. The Group also reapplied the three methodologies to the portfolios as at 31 December 2020 to again confirm a range of potential expected credit losses on each of its portfolios. As a result, it was determined that maintaining the overlay as at 31 December 2020 is appropriate.

Performance

2 Segmental analysis

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

Operating segments

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

Motor Motor vehicle finance.

Reverse Mortgages Reverse mortgage lending in New Zealand.

Other Personal A range of financial services - including term, transactional and personal loans to individuals.

Business Term debt, plant and equipment finance, commercial mortgage lending and working capital solutions

for small-to-medium sized businesses.

Rural Specialist financial services to the farming sector offering livestock finance, rural mortgage lending,

seasonal and working capital financing, as well as leasing solutions to farmers.

Australia Reverse mortgage lending and other financial services within Australia.

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

The Group's operating segments are different from the industry categories detailed in Note 14 - Credit risk exposure. The operating segments are primarily categorised by sales channel, whereas Note 14 - Credit risk exposure categorises exposures based on credit risk concentrations.

| | | Reverse | Other | | | | | |
|----------------------------------|-----------|----------|----------|-----------|---------|-----------|----------|-----------|
| \$000's | Motor | Mortgage | Personal | Business | Rural | Australia | Other | Total |
| Unaudited - December 2020 | | | | | | | | |
| Net interest income | 31,255 | 10,175 | 7,633 | 31,659 | 15,071 | 17,669 | (249) | 113,213 |
| Net other income | 1,717 | 1,018 | 1,137 | 1,343 | 460 | 524 | 703 | 6,902 |
| Net operating income | 32,972 | 11,193 | 8,770 | 33,002 | 15,531 | 18,193 | 454 | 120,115 |
| Operating expenses | 1,843 | 1,986 | 3,151 | 5,896 | 1,172 | 6,838 | 40,244 | 61,130 |
| Profit/(loss) before impaired | 24 420 | 0.207 | F C10 | 27.400 | 14.350 | 44.255 | (20.700) | E0.00E |
| asset expense and income tax | 31,129 | 9,207 | 5,619 | 27,106 | 14,359 | 11,355 | (39,790) | 58,985 |
| Fair value gain on investments | _ | - | - | - | - | - | 5,177 | 5,177 |
| Impaired asset expense/(benefit) | 2,266 | - | (793) | 2,674 | 391 | - | - | 4,538 |
| Profit/(loss) before income tax | 28,863 | 9,207 | 6,412 | 24,432 | 13,968 | 11,355 | (34,613) | 59,624 |
| Income tax expense | - | - | - | - | - | - | 15,534 | 15,534 |
| Profit/(loss) for the period | 28,863 | 9,207 | 6,412 | 24,432 | 13,968 | 11,355 | (50,147) | 44,090 |
| | | | | | | | | |
| Total assets | 1,200,349 | 576,579 | 163,519 | 1,133,767 | 569,676 | 1,030,983 | 763,114 | 5,437,987 |
| Total liabilities | | | | | | | | 4,700,917 |

2 Segmental analysis (continued)

| | | Reverse | Other | | | | | |
|------------------------------------------------------------|-----------|----------|----------|-----------|---------|-----------|----------|-----------|
| \$000's | Motor | Mortgage | Personal | Business | Rural | Australia | Other | Tota |
| Unaudited - December 2019 | | | | | | | | |
| Net interest income | 28,204 | 11,826 | 9,238 | 28,026 | 15,380 | 12,549 | (40) | 105,183 |
| Net other income | 1,895 | 2,779 | 646 | 1,317 | 535 | 1,567 | 2,615 | 11,354 |
| Net operating income | 30,099 | 14,605 | 9,884 | 29,343 | 15,915 | 14,116 | 2,575 | 116,537 |
| Operating expenses | 1,615 | 3,178 | 1,934 | 5,980 | 1,396 | 6,828 | 33,666 | 54,597 |
| Profit/(loss) before impaired | 20.404 | 44 427 | 7.050 | 22.262 | 44.540 | 7 200 | (24.004) | 64.040 |
| asset expense and income tax | 28,484 | 11,427 | 7,950 | 23,363 | 14,519 | 7,288 | (31,091) | 61,940 |
| Fair value gain on investments | _ | _ | _ | _ | - | _ | 2,097 | 2,097 |
| Impaired asset expense | 3,611 | - | 3,345 | 1,880 | 139 | 48 | - | 9,023 |
| Profit/(loss) before income tax | 24,873 | 11,427 | 4,605 | 21,483 | 14,380 | 7,240 | (28,994) | 55,014 |
| Income tax expense | - | - | - | - | - | - | 15,149 | 15,149 |
| Profit/(loss) for the period | 24,873 | 11,427 | 4,605 | 21,483 | 14,380 | 7,240 | (44,143) | 39,865 |
| | | | | | | | | |
| Total assets | 1,127,408 | 536,462 | 244,498 | 1,148,614 | 615,072 | 883,668 | 633,775 | 5,189,497 |
| Total liabilities | | | | | | | | 4,502,009 |
| Audited - June 2020 | | | | | | | | |
| Net interest income | 56,957 | 20,118 | 18,365 | 57,950 | 29,674 | 30,127 | 3,482 | 216,673 |
| Net other income | 3,622 | 3,430 | 3,055 | 3,465 | 1,028 | 4,214 | (2,238) | 16,576 |
| Net operating income | 60,579 | 23,548 | 21,420 | 61,415 | 30,702 | 34,341 | 1,244 | 233,249 |
| Operating expenses | 3,248 | 4,804 | 6,776 | 11,283 | 2,648 | 11,680 | 66,355 | 106,794 |
| Profit/(loss) before impaired asset expense and income tax | 57,331 | 18,744 | 14,644 | 50,132 | 28,054 | 22,661 | (65,111) | 126,455 |
| Fair value gain on investments | _ | _ | _ | _ | - | _ | 2,097 | 2,097 |
| Impaired asset expense/(benefit) | 10,160 | - | 11,119 | 10,110 | (1,970) | - | - | 29,419 |
| Profit/(loss) before income tax | 47,171 | 18,744 | 3,525 | 40,022 | 30,024 | 22,661 | (63,014) | 99,133 |
| Income tax expense | - | _ | _ | - | - | - | 27,161 | 27,161 |
| Profit/(loss) for the period | 47,171 | 18,744 | 3,525 | 40,022 | 30,024 | 22,661 | (90,175) | 71,972 |
| Total assets | 1,125,295 | 559,934 | 214,759 | 1,126,632 | 604,938 | 979,496 | 707,082 | 5,318,136 |
| | | | | | | | | |

3 Net interest income

| | Unaudited | Unaudited | Audited |
|----------------------------------------------------------|---------------|---------------|--------------|
| | 6 Months to | 6 Months to | 12 Months to |
| \$000's | December 2020 | December 2019 | June 2020 |
| Interest income | | | |
| Cash and cash equivalents | 47 | 309 | 499 |
| Investments | 3,635 | 4,364 | 8,496 |
| Finance receivables | 118,751 | 124,658 | 250,606 |
| Finance receivables - reverse mortgages | 43,954 | 43,205 | 87,201 |
| Total interest income | 166,387 | 172,536 | 346,802 |
| Interest expense | | | |
| Retail deposits | 33,487 | 47,731 | 90,739 |
| Other borrowings | 17,064 | 18,223 | 35,888 |
| Net interest expense on derivative financial instruments | 2,623 | 1,399 | 3,502 |
| Total interest expense | 53,174 | 67,353 | 130,129 |
| Net interest income | 113,213 | 105,183 | 216,673 |

4 Operating expenses

| | Unaudited | Unaudited | Audited |
|----------------------------------------------|---------------|---------------|--------------|
| | 6 Months to | 6 Months to | 12 Months to |
| \$000's | December 2020 | December 2019 | June 2020 |
| Personnel expenses | 30,852 | 26,602 | 54,511 |
| Directors' fees | 549 | 514 | 1,059 |
| Superannuation | 718 | 506 | 1,069 |
| Depreciation - property, plant and equipment | 1,473 | 1,112 | 2,380 |
| Legal and professional fees | 1,346 | 1,787 | 3,615 |
| Advertising and public relations | 2,181 | 3,916 | 6,729 |
| Depreciation - right of use asset | 1,159 | 1,143 | 2,324 |
| Technology services | 3,407 | 3,181 | 6,372 |
| Telecommunications, stationary and postage | 900 | 952 | 1,886 |
| Customer acquisition costs | 4,372 | 5,110 | 7,419 |
| Amortisation of intangible assets | 6,831 | 2,102 | 4,456 |
| Other operating expenses ¹ | 7,342 | 7,672 | 14,974 |
| Total operating expenses | 61,130 | 54,597 | 106,794 |

¹Other operating expenses include compensation of auditor which is further disclosed in Note 5.

5 Compensation of auditor

| | Unaudited 6 Months to | Unaudited 6 Months to | Audited 12 Months to |
|-----------------------------------------------------------|--------------------------|--------------------------|-------------------------|
| \$000's | December 2020 | December 2019 | June 2020 |
| Audit and review of the financial statements ¹ | 465 | 401 | 774 |
| Other assurance services paid to auditor ² | 51 | 31 | 133 |
| Total compensation of auditor | 516 | 432 | 907 |

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

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

6 Impaired asset expense

At each reporting date, the Group applies a three stage approach to measuring expected credit loss (ECL) to finance receivables not carried at fair value. The following table details impairment charges of those finance receivables for the six months ended 31 December 2020.

| | Unaudited | Unaudited | Audited |
|----------------------------------------------|---------------|---------------|--------------|
| | 6 Months to | 6 Months to | 12 Months to |
| \$000's | December 2020 | December 2019 | June 2020 |
| Non-securitised | | | |
| Individually impaired asset expense | 3,414 | 1,638 | 3,385 |
| Collectively impaired asset expense | 1,099 | 7,262 | 25,637 |
| Total non-securitised impaired asset expense | 4,513 | 8,900 | 29,022 |
| Securitised | | | |
| Collectively impaired asset expense | 25 | 123 | 397 |
| Total securitised impaired asset expense | 25 | 123 | 397 |
| Total | | | |
| Individually impaired asset expense | 3,414 | 1,638 | 3,385 |
| Collectively impaired asset expense | 1,124 | 7,385 | 26,034 |
| Total impaired asset expense | 4,538 | 9,023 | 29,419 |

7 Earnings per share

| | | | Weighted |
|---------------------------|-----------|-------------------|-------------|
| | Earnings | Net Profit | Average No. |
| | Per Share | After Tax | of Shares |
| | Cents | \$000's | 000's |
| Unaudited - December 2020 | | | |
| Basic earnings | 8 | 44,090 | 582,081 |
| Diluted earnings | 8 | 44,090 | 582,081 |
| Unaudited - December 2019 | | | |
| Basic earnings | 7 | 39,865 | 574,277 |
| Diluted earnings | 7 | 39,865 | 574,277 |
| Audited - June 2020 | | | |
| Basic earnings | 12 | 71,972 | 576,929 |
| Diluted earnings | 12 | 71,972 | 576,929 |

Financial Position

8 Finance receivables

(a) Finance receivables held at amortised cost

| | Unaudited | Unaudited | Audited |
|------------------------------------------------|---------------|---------------|-----------|
| \$000's | December 2020 | December 2019 | June 2020 |
| Non-securitised | | | |
| Neither at least 90 days past due nor impaired | 2,938,904 | 3,049,885 | 2,945,858 |
| At least 90 days past due | 45,761 | 46,780 | 58,876 |
| Individually impaired | 33,667 | 28,433 | 24,667 |
| Gross finance receivables | 3,018,332 | 3,125,098 | 3,029,401 |
| Less provision for impairment | (55,415) | (60,381) | (62,272) |
| Total non-securitised finance receivables | 2,962,917 | 3,064,717 | 2,967,129 |
| Securitised | | | |
| Neither at least 90 days past due nor impaired | 79,645 | 36,843 | 78,059 |
| At least 90 days past due | 448 | - | 404 |
| Individually impaired | - | - | - |
| Gross finance receivables | 80,093 | 36,843 | 78,463 |
| Less provision for impairment | (422) | (123) | (397) |
| Total securitised finance receivables | 79,671 | 36,720 | 78,066 |
| Total | | | |
| Neither at least 90 days past due nor impaired | 3,018,549 | 3,086,728 | 3,023,917 |
| At least 90 days past due | 46,209 | 46,780 | 59,280 |
| Individually impaired | 33,667 | 28,433 | 24,667 |
| Gross finance receivables | 3,098,425 | 3,161,941 | 3,107,864 |
| Less provision for impairment | (55,837) | (60,504) | (62,669) |
| Total finance receivables | 3,042,588 | 3,101,437 | 3,045,195 |

(a) Finance receivables held at amortised cost (continued)

Movement in provision

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

| | | Lifetime | Lifetime | | |
|--------------------------------------------------------------------|------------|----------|----------|-----------|----------|
| | | ECL | ECL | | |
| | 12 - Month | | Credit | Specific | |
| \$000's | ECL | Impaired | Impaired | Provision | Total |
| Unaudited - December 2020 | | | | | |
| Non-securitised | | | | | |
| Impairment allowance as at 30 June 2020 | 32,160 | 2,143 | 22,668 | 5,301 | 62,272 |
| Changes in loss allowance | | | | | |
| Transfer between stages | (860) | (395) | 153 | 1,102 | - |
| New and increased provision (net of collective provision releases) | (1,197) | 102 | 4,605 | 2,312 | 5,822 |
| Recovery of amounts written off | - | - | (1,309) | - | (1,309) |
| Credit impairment charge | (2,057) | (293) | 3,449 | 3,414 | 4,513 |
| Recovery of amounts previously written off | - | - | 1,309 | - | 1,309 |
| Write offs | - | - | (10,199) | (2,481) | (12,680) |
| Effect of changes in foreign exchange rate | (1) | 1 | 1 | - | 1 |
| Impairment allowance as at 31 December 2020 | 30,102 | 1,851 | 17,228 | 6,234 | 55,415 |
| Securitised | | | | | |
| Impairment allowance as at 30 June 2020 | 260 | 23 | 114 | - | 397 |
| Changes in loss allowance | | | | | |
| Transfer between stages | 23 | 1 | (24) | - | - |
| New and increased provision (net of collective provision releases) | (33) | (10) | 68 | - | 25 |
| Recovery of amounts written off | - | - | - | - | - |
| Credit impairment charge | (10) | (9) | 44 | - | 25 |
| Recovery of amounts previously written off | - | - | - | - | _ |
| Write offs | - | - | - | - | - |
| Effect of changes in foreign exchange rate | - | - | - | - | - |
| Impairment allowance as at 31 December 2020 | 250 | 14 | 158 | - | 422 |
| Total | | | | | |
| Impairment allowance as at 30 June 2020 | 32,420 | 2,166 | 22,782 | 5,301 | 62,669 |
| Changes in loss allowance | 32,420 | 2,100 | 22,702 | 3,301 | 02,003 |
| Transfer between stages | (837) | (394) | 129 | 1,102 | |
| New and increased provision (net of collective provision releases) | | 92 | 4,673 | 2,312 | 5,847 |
| Recovery of amounts written off | (1,230) | 92 | (1,309) | 2,312 | (1,309) |
| Credit impairment charge | (2,067) | (302) | 3,493 | 3,414 | 4,538 |
| Recovery of amounts previously written off | (2,007) | (302) | 1,309 | J,717 | 1,309 |
| Write offs | | _ | (10,199) | (2,481) | (12,680) |
| Effect of changes in foreign exchange rate | (1) | 1 | (10,199) | (2,401) | (12,080) |
| Impairment allowance as at 31 December 2020 | 30,352 | 1,865 | 17,386 | 6,234 | 55,837 |
| pa | 33,332 | 2,000 | 27,300 | U)2U-1 | 55,057 |

(a) Finance receivables held at amortised cost (continued)

Movement in provision (continued)

| | | Lifetime | Lifetime | | |
|--------------------------------------------------------------------|-------------------|------------------------|--------------------|-----------------------|---------|
| | | ECL | ECL | | |
| \$000's | 12 - Month ECL | Not Credit Impaired | Credit Impaired | Specific Provision | Total |
| Unaudited - December 2019 | | <u> </u> | | | |
| Non-securitised | | | | | |
| Impairment allowance as at 30 June 2019 | 30,422 | 1,781 | 18,425 | 7,863 | 58,491 |
| Changes in loss allowance | | | | | |
| Transfer between stages | (1,664) | (127) | 706 | 1,085 | - |
| New and increased provision (net of collective provision releases) | 1,070 | 665 | 6,612 | 553 | 8,900 |
| Recovery of amounts written off | - | - | - | - | - |
| Credit impairment charge | (594) | 538 | 7,318 | 1,638 | 8,900 |
| Recovery of amounts previously written off | - | - | - | - | - |
| Write offs | - | - | (6,905) | (100) | (7,005) |
| Effect of changes in foreign exchange rate | (3) | - | (2) | - | (5) |
| Impairment allowance as at 31 December 2019 | 29,825 | 2,319 | 18,836 | 9,401 | 60,381 |
| Securitised | | | | | |
| Impairment allowance as at 30 June 2019 | - | - | - | - | - |
| Changes in loss allowance | | | | | |
| Transfer between stages | - | - | - | - | - |
| New and increased provision (net of collective provision releases) | 122 | 1 | - | - | 123 |
| Recovery of amounts written off | - | - | - | - | - |
| Credit impairment charge | 122 | 1 | - | - | 123 |
| Recovery of amounts previously written off | - | - | - | - | - |
| Write offs | - | - | - | - | - |
| Effect of changes in foreign exchange rate | - | - | - | - | - |
| Impairment allowance as at 31 December 2019 | 122 | 1 | - | - | 123 |
| Total | | | | | |
| Impairment allowance as at 30 June 2019 | 30,422 | 1,781 | 18,425 | 7,863 | 58,491 |
| Changes in loss allowance | | | | | |
| Transfer between stages | (1,664) | (127) | 706 | 1,085 | - |
| New and increased provision (net of collective provision releases) | 1,192 | 666 | 6,612 | 553 | 9,023 |
| Recovery of amounts written off | | - | - | - | - |
| Credit impairment charge | (472) | 539 | 7,318 | 1,638 | 9,023 |
| Recovery of amounts previously written off | - | - | - | - | - |
| Write offs | - | - | (6,905) | (100) | (7,005) |
| Effect of changes in foreign exchange rate | (3) | - | (2) | - | (5) |
| Impairment allowance as at 31 December 2019 | 29,947 | 2,320 | 18,836 | 9,401 | 60,504 |

(a) Finance receivables held at amortised cost (continued)

Movement in provision (continued)

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

(a) Finance receivables held at amortised cost (continued)

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

| | | Lifetime | Lifetime | | |
|-------------------------------------------------------------------------|----------------------|------------------------|---------------------|-----------------------|-----------------------------|
| | | ECL | ECL | | |
| \$000's | 12 - Month ECL | Not Credit Impaired | Credit Impaired | Specific Provision | Total |
| Unaudited - December 2020 | | <u> </u> | · · | | |
| Gross finance receivables as at 30 June 2020 | 2,826,208 | 183,260 | 73,729 | 24,667 | 3,107,864 |
| Transfer between stages | (50,423) | 31,814 | 3,841 | 14,768 | - |
| Additions | 796,845 | - | - | - | 796,845 |
| Deletions | (733,346) | (36,470) | (19,081) | (3,233) | (792,130) |
| Write offs | - | - | (11,619) | (2,535) | (14,154) |
| Gross finance receivables as at 31 December 2020 | 2,839,284 | 178,604 | 46,870 | 33,667 | 3,098,425 |
| Unaudited - December 2019 Gross finance receivables as at 30 June 2019 | 2,799,282 | 206,882 | 57,043 | 26,412 | 3,089,619 |
| | | • | • | • | 3,089,619 |
| Transfer between stages | (40,404) | 9,697 | 27,069 | 3,638 | - |
| Additions | 922,101 | 62,329 | 6,788 | - (4 547) | 991,218 |
| Deletions Write offs | (805,809) (1,590) | (74,204) (1,960) | (27,385) (6,331) | (1,517) (100) | (908,915) |
| Gross finance receivables as at 31 December 2019 | 2,873,580 | 202,744 | 57,184 | 28,433 | (9,981) 3,161,941 |
| Audited - June 2020 | | | | | |
| Gross finance receivables as at 30 June 2019 | 2,799,282 | 206,882 | 57,043 | 26,412 | 3,089,619 |
| Transfer between stages | (61,191) | 12,570 | 41,245 | 7,376 | - |
| Additions | 1,497,073 | 87,843 | 23,610 | - | 1,608,526 |
| Deletions | (1,402,340) | (118,572) | (37,334) | (3,174) | (1,561,420) |
| Write offs | (6,616) | (5,463) | (10,835) | (5,947) | (28,861) |
| Gross finance receivables as at 30 June 2020 | 2,826,208 | 183,260 | 73,729 | 24,667 | 3,107,864 |

(b) Finance receivables held at fair value

| | Unaudited | Unaudited | Audited |
|-----------------------------------------------|---------------|---------------|-----------|
| \$000's | December 2020 | December 2019 | June 2020 |
| Finance receivables - reverse mortgages | 1,607,352 | 1,419,486 | 1,538,585 |
| Total finance receivables - reverse mortgages | 1,607,352 | 1,419,486 | 1,538,585 |

9 Borrowings

| | Unaudited | Unaudited | Audited | |
|-----------------------------------|---------------|---------------|-----------|--|
| \$000's | December 2020 | December 2019 | June 2020 | |
| Deposits | 3,268,554 | 3,234,025 | 3,264,192 | |
| Total deposits | 3,268,554 | 3,234,025 | 3,264,192 | |
| Unsubordinated notes | 444,845 | 444,128 | 448,228 | |
| Certificate of deposit | - | 69,811 | - | |
| Securitised borrowings | 897,228 | 695,601 | 819,703 | |
| Repurchase agreement ¹ | 31,889 | - | - | |
| Total other borrowings | 1,373,962 | 1,209,540 | 1,267,931 | |

¹The amounts disclosed as securities sold under arrangements to repurchase include \$30.0 million (face value) of high quality liquid assets. The cash consideration received (recognised as a liability) was \$31.9 million.

Deposits and unsubordinated notes rank equally and are unsecured.

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

| | | | | Frequency of |
|------------------|----------------|-------------------|-------------------|--------------------|
| Principal | Valuation | Issue date | Maturity | Interest Repayment |
| \$125 million | Amortised cost | 12 April 2019 | 12 April 2024 | Semi annually |
| \$150 million | Amortised cost | 21 September 2017 | 21 September 2022 | Semi annually |
| AU \$45 million | Amortised cost | 8 March 2019 | 8 March 2021 | Quarterly |
| AU \$100 million | Amortised cost | 13 November 2019 | 13 May 2022 | Quarterly |

At 31 December 2020 the Group had the following securitised borrowings outstanding:

- Heartland Auto Receivables Warehouse Trust 2018-1 securitisation facility \$300 million, drawn \$68 million (December 2019: \$150 million, drawn \$30 million; June 2020: \$300 million, drawn \$66 million). Notes issued to investors are secured over the assets of the Heartland Auto Receivables Warehouse Trust 2018-1. The facility has a maturity date of 29 August 2022.
- Senior Warehouse Trust securitisation facility AU \$600 million, drawn AU \$481 million (December 2019: AU \$600 million, drawn AU \$538 million; June 2020: AU \$600 million, drawn AU \$544 million). Notes issued to investors are secured over the assets of Seniors Warehouse Trust. The facility has a maturity date of 30 September 2022.
- Senior Warehouse Trust No.2 securitisation facility AU \$250 million, drawn AU \$156 million (December 2019: AU \$250 million, drawn AU \$100 million; June 2020: AU \$250 million, drawn AU \$160 million). Notes issued to investors are secured over the assets of Seniors Warehouse Trust No.2. The facility has a maturity date of 1 July 2022.
- Atlas 2020-1 Trust securitisation facility AU \$139 million, drawn AU\$139 million (December 2019: nil; June 2020: nil). Loans issued to investors are secured over the assets of Atlas 2020-1 Trust and has a maturity date of 24 September 2050.

10 Share capital and dividends

| 000's | Unaudited December 2020 Number of Shares | Unaudited December 2019 Number of Shares | Audited June 2020 Number of Shares |
|--------------------------------------------|------------------------------------------------|------------------------------------------------|------------------------------------------|
| Issued shares | | | |
| Opening balance | 580,979 | 569,338 | 569,338 |
| Shares issued - performance rights plan | - | 817 | 817 |
| Shares issued - dividend reinvestment plan | 2,442 | 7,313 | 10,824 |
| Closing balance | 583,421 | 577,468 | 580,979 |

HGH had issued 2,442,338 new shares at \$1.2470 per share on 9 October 2020 under the dividend reinvestment plan for the period (for the period of 12 months to June 2020: 7,313,501 new shares were issued at \$1.5444 per share on 6 September 2019 and 3,511,020 new shares were issued at \$1.5948 per share on 11 March 2020).

Dividends paid

| | 6 Months to 31 December 2020 | | | 12 Months to 30 June 2020 | | | |
|----------------------|------------------------------|-----------|---------|---------------------------|-----------|---------|--|
| | Cents | | | | Cents | | |
| | Date Declared | Per Share | \$000's | Date Declared | Per Share | \$000's | |
| Final dividend | 17 September 2020 | 2.5 | 14,524 | 15 August 2019 | 6.5 | 37,007 | |
| Interim dividend | - | - | - | 18 February 2020 | 4.5 | 25,986 | |
| Total dividends paid | | | 14,524 | | | 62,993 | |

11 Related party transactions and balances

(a) Transactions with key management personnel

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

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

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

| | Unaudited | Unaudited | Audited |
|--------------------------------------------------|---------------|---------------|--------------|
| | 6 Months to | 6 Months to | 12 Months to |
| \$000's | December 2020 | December 2019 | June 2020 |
| Transactions with key management personnel | | | |
| Interest income | 26 | - | 18 |
| Interest expense | (8) | (55) | (47) |
| Total transactions with key management personnel | 18 | (55) | (29) |
| Due (to)/from key management personnel | | | |
| Lending | 574 | - | 239 |
| Borrowings - deposits | (1,778) | (2,322) | (1,646) |
| Total due (to) key management personnel | (1,204) | (2,322) | (1,407) |

(b) Transactions with related parties

HGH is the ultimate parent company of the Group.

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

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

| | Unaudited | Unaudited | Audited |
|------------------------------------------------------|---------------|---------------|--------------|
| | 6 Months to | 6 Months to | 12 Months to |
| \$000's | December 2020 | December 2019 | June 2020 |
| Southern Cross Building Society Staff Superannuation | | | |
| (SCBS) | | | |
| Interest expense | 8 | 18 | 33 |
| Management fees from SCBS | 5 | 5 | 10 |
| ASF Custodians Pty Limited | | | |
| Audit fees | - | = | 7 |
| Heartland Trust (HT) | | | |
| Dividend paid | 162 | 421 | 712 |

(c) Other balances with related parties

| | Unaudited | Unaudited | Audited |
|------------------------------------------------------|---------------|---------------|-----------|
| \$000's | December 2020 | December 2019 | June 2020 |
| Southern Cross Building Society Staff Superannuation | | | |
| Retail deposits | 1,871 | 2,008 | 1,934 |

12 Fair value

(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.

The Group has an established framework in performing valuations required for financial reporting purposes including level 3 fair values. The Group regularly reviews and calibrates significant unobservable inputs and valuation adjustments in accordance with market participants' views. If external valuation specialists are engaged to measure fair values, the Group assesses the evidence obtained from these specialists to support the conclusion of these valuations. All significant valuations are reported to the Group's Board Audit and Risk Committee for approval prior to its adoption in the financial statements.

Investments

Investments in public sector securities and corporate bonds are measured at fair value through other comprehensive income (**FVOCI**), with the fair value being based on quoted market prices (Level 1 under the fair value hierarchy) or modelled using observable market inputs (Level 2 under the fair value hierarchy).

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 equity securities are classified as fair value through profit or loss unless an irrevocable election is made by the Group to measure at FVOCI. Investment in listed securities traded in liquid, active markets where prices are readily observable are measured under Level 1 of the fair value hierarchy with no modelling or assumptions used in the valuation. Investments in unlisted equity securities are measured under Level 3 of the fair value hierarchy with the fair value being based on unobservable inputs using market accepted valuation techniques. Where appropriate, the Group may apply adjustments to the abovementioned techniques to determine fair value of an equity security to reflect the underlying characteristics. These adjustments are reflective of market participant considerations in valuing the said security.

Following the Initial Public Offering of Harmoney Corp Limited (Harmoney) on the ASX and NZX in November 2020, Harmoney's shares are now traded publicly on the respective stock exchanges. As part of the listing, HGH, alongside other major shareholders, employees and directors, have entered into escrow arrangements that restrict the ability to sell its Harmoney shares, with approximately 72% of the shares being in escrow. As at reporting date, the fair value of HGH's investment in Harmoney, has taken into consideration observed trading volumes, closing market prices of Harmoney's shares and the restriction imposed by the escrow arrangements. Consequently the investment is measured under Level 3 of the fair value hierarchy.

Investment properties

Investment properties are initially recorded at their fair value, with subsequent changes in fair value recognised in profit or loss. Fair value are determined by qualified independent valuers or other similar external evidence, adjusted for changes in market conditions.

Investment properties have been acquired through the enforcement of security over finance receivables and are held to earn rental income or for capital appreciation (or both).

Finance receivables - reverse mortgages

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

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

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

12 Fair value (continued)

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

Finance receivables - reverse mortgages (continued)

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

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

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

Derivative financial instruments

Interest rate and foreign currency related contracts are recognised in the financial statements at fair value. Fair values are determined from observable market prices as at the reporting date, discounted cash flow models or option pricing models as appropriate. (Level 2 under the fair value hierarchy).

The following table analyses financial instruments measured at fair value at the reporting date by the level in the fair value hierarchy into which each fair value measurement is categorised. The amounts are based on the values recognised in the consolidated interim statement of financial position.

| ćonal. | 1 | 1 12 | 1 12 | T-1-1 |
|----------------------------------------------------|---------|---------|-----------|-----------|
| \$000's Unaudited - December 2020 | Level 1 | Level 2 | Level 3 | Total |
| Ondudited - December 2020 | | | | |
| Assets | | | | |
| Investments | 328,620 | 112,831 | 21,512 | 462,963 |
| Investment properties | - | - | 11,132 | 11,132 |
| Derivative financial instruments | - | 15,023 | - | 15,023 |
| Finance receivables - reverse mortgages | - | - | 1,607,352 | 1,607,352 |
| Total financial assets measured at fair value | 328,620 | 127,854 | 1,639,996 | 2,096,470 |
| Liabilities | | | | |
| Derivative financial instruments | - | 12,805 | - | 12,805 |
| Total financial liabilities measured at fair value | - | 12,805 | - | 12,805 |
| | | | | |
| Unaudited - December 2019 | | | | |
| Assets | | | | |
| Investments | 282,428 | 16,572 | 16,020 | 315,020 |
| Investment properties | - | - | 11,132 | 11,132 |
| Derivative financial instruments | - | 11,936 | - | 11,936 |
| Finance receivables - reverse mortgages | - | - | 1,419,557 | 1,419,557 |
| Total financial assets measured at fair value | 282,428 | 28,508 | 1,446,709 | 1,757,645 |
| Liabilities | | | | |
| Derivative financial instruments | - | 9,843 | - | 9,843 |
| Total financial liabilities measured at fair value | - | 9,843 | - | 9,843 |

12 Fair value (continued)

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

| \$000's | Level 1 | Level 2 | Level 3 | Total |
|----------------------------------------------------|---------|---------|-----------|-----------|
| Audited - June 2020 | 2000.12 | 2070.2 | 2010.0 | 10141 |
| Assets | | | | |
| Investments | 295,300 | 94,354 | 16,335 | 405,989 |
| Investment properties | - | - | 11,132 | 11,132 |
| Derivative financial instruments | - | 17,246 | - | 17,246 |
| Finance receivables - reverse mortgages | - | - | 1,538,585 | 1,538,585 |
| Total financial assets measured at fair value | 295,300 | 111,600 | 1,566,052 | 1,972,952 |
| Liabilities | | | | |
| Derivative financial instruments | - | 17,012 | - | 17,012 |
| Total financial liabilities measured at fair value | - | 17,012 | - | 17,012 |

There were no transfers between any fair value hierarchy levels in the six months ended 31 December 2020 (December 2019: nil; June 2020: nil).

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

| | Finance Receivables | | Investment | |
|-------------------------------|---------------------|-------------|------------|-----------|
| \$000's | - Reverse Mortgage | Investments | properties | Total |
| Unaudited - December 2020 | | | | |
| As at 30 June 2020 | 1,538,585 | 16,335 | 11,132 | 1,566,052 |
| New loans | 145,674 | - | - | 145,674 |
| Repayments | (119,653) | - | - | (119,653) |
| Capitalised Interest and fees | 45,878 | - | - | 45,878 |
| Additions | - | - | - | - |
| Other | (3,132) | 5,177 | - | 2,045 |
| As at 31 December 2020 | 1,607,352 | 21,512 | 11,132 | 1,639,996 |
| Unaudited - December 2019 | | | | |
| As at 30 June 2019 | 1,318,677 | 12,435 | 11,132 | 1,342,244 |
| New loans | 152,412 | - | - | 152,412 |
| Repayments | (93,209) | - | - | (93,209) |
| Capitalised Interest and fees | 45,560 | - | - | 45,560 |
| Additions | - | 1,488 | - | 1,488 |
| Other | (3,954) | 2,097 | - | (1,857) |
| As at 31 December 2019 | 1,419,486 | 16,020 | 11,132 | 1,446,638 |
| Unaudited - June 2020 | | | | |
| As at 30 June 2019 | 1,318,677 | 12,435 | 11,132 | 1,342,244 |
| New loans | 290,488 | - | - | 290,488 |
| Repayments | (182,653) | - | - | (182,653) |
| Capitalised Interest and fees | 91,288 | - | - | 91,288 |
| Additions | - | 1,803 | - | 1,803 |
| Other | 20,785 | 2,097 | - | 22,882 |
| As at 30 June 2020 | 1,538,585 | 16,335 | 11,132 | 1,566,052 |

12 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.

| | | Unau | ıdited | Unau | ıdited | Aud | lited |
|-----------------------------|------------|-------------------|-----------|------------|-----------|-------------------|-----------|
| | | Decemb | ber 2020 | Decemb | er 2019 | June | 2020 |
| | | | Total | | Total | | Total |
| | Fair Value | Total Fair | Carrying | Total Fair | Carrying | Total Fair | Carrying |
| \$000's | Hierarchy | Value | Value | Value | Value | Value | Value |
| Assets | | | | | | | |
| Cash and cash equivalents | Level 1 | 152,818 | 152,818 | 185,732 | 185,732 | 147,179 | 147,179 |
| Investments ¹ | Level 2 | 7,413 | 7,405 | 6,961 | 6,970 | 7,375 | 7,351 |
| Finance receivables | Level 2 | 3,062,211 | 3,042,588 | 3,082,052 | 3,101,366 | 3,092,150 | 3,045,195 |
| Other financial assets | Level 3 | 1,085 | 1,085 | 1,805 | 1,805 | 3,563 | 3,563 |
| Total financial assets | | 3,223,527 | 3,203,896 | 3,276,550 | 3,295,873 | 3,250,267 | 3,203,288 |
| Liabilities | | | | | | | |
| Retail deposits | Level 2 | 3,287,485 | 3,268,554 | 3,245,194 | 3,234,025 | 3,278,483 | 3,264,192 |
| Borrowings - securitised | Level 2 | 897,228 | 897,228 | 695,601 | 695,601 | 819,305 | 819,703 |
| Other borrowings | Level 2 | 476,734 | 476,734 | 513,939 | 513,939 | 448,626 | 448,228 |
| Other financial liabilities | Level 3 | 13,247 | 13,247 | 11,344 | 11,344 | 26,751 | 26,751 |
| Total financial liabilities | | 4,674,694 | 4,655,763 | 4,466,078 | 4,454,909 | 4,573,165 | 4,558,874 |

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

Risk Management

13 Enterprise risk management program

During the period the Group's governance structure for managing risk changed. The Board Risk Committee (BRC) and the Audit Committee (AC) were combined to form the Board Audit and Risk Committee (BARC). The focus and responsibility of the BARC is consistent with the previously separate BRC and AC, as set out in the Heartland Group Holdings Limited Annual Report for the year ended 30 June 2020. There have been no material exposures to any new types of risk since the reporting date.

14 Credit risk exposure

(a) Maximum exposure to credit risk at the relevant reporting dates

The following table represents the maximum credit risk exposure, without taking account of any collateral held. The exposures set out below are based on net carrying amounts as reported in the consolidated interim statement of financial position.

| | Unaudited | Unaudited | Audited |
|-----------------------------------------|---------------|---------------|-----------|
| \$000's | December 2020 | December 2019 | June 2020 |
| Cash and cash equivalents | 152,818 | 185,732 | 147,179 |
| Investments | 448,856 | 305,970 | 397,005 |
| Finance receivables | 3,042,588 | 3,101,437 | 3,045,195 |
| Finance receivables - reverse mortgages | 1,607,352 | 1,419,486 | 1,538,585 |
| Derivative financial assets | 15,023 | 11,936 | 17,246 |
| Other financial assets | 1,085 | 1,805 | 3,563 |
| Total on balance sheet credit exposures | 5,267,722 | 5,026,366 | 5,148,773 |

(b) Concentration of credit risk by geographic region

| | Unaudited | Unaudited | Audited |
|-----------------------------------------|---------------|---------------|-----------|
| \$000's | December 2020 | December 2019 | June 2020 |
| New Zealand | 3,891,433 | 3,866,922 | 3,855,199 |
| Australia | 1,092,465 | 968,095 | 1,060,894 |
| Rest of the world ¹ | 339,661 | 251,853 | 295,349 |
| | 5,323,559 | 5,086,870 | 5,211,442 |
| Provision for impairment | (55,837) | (60,504) | (62,669) |
| Total on balance sheet credit exposures | 5,267,722 | 5,026,366 | 5,148,773 |

¹Primarily NZD-denominated investments in AA+ and higher rated securities issued by offshore supranational agencies ("Kauri Bonds").

14 Credit risk exposure (continued)

(c) Concentration of credit risk by industry sector

| | Unaudited | Unaudited | Audited |
|-----------------------------------------|---------------|---------------|-----------|
| \$000's | December 2020 | December 2019 | June 2020 |
| Agriculture | 595,601 | 648,894 | 625,141 |
| Forestry and fishing | 147,824 | 152,344 | 145,045 |
| Mining | 11,965 | 14,185 | 12,993 |
| Manufacturing | 73,674 | 73,475 | 75,659 |
| Finance and insurance | 684,066 | 539,863 | 596,772 |
| Wholesale trade | 38,625 | 40,768 | 39,540 |
| Retail trade and accommodation | 207,492 | 244,041 | 232,664 |
| Households | 2,673,015 | 2,506,623 | 2,603,760 |
| Other business services | 144,006 | 136,762 | 163,801 |
| Construction | 209,895 | 194,402 | 197,174 |
| Rental, hiring and real estate services | 153,942 | 144,937 | 142,467 |
| Transport and storage | 273,362 | 256,182 | 257,634 |
| Other | 110,092 | 134,394 | 118,792 |
| | 5,323,559 | 5,086,870 | 5,211,442 |
| Provision for impairment | (55,837) | (60,504) | (62,669) |
| Total on balance sheet credit exposures | 5,267,722 | 5,026,366 | 5,148,773 |

(d) Commitments to extend credit

| | Unaudited | Unaudited | Audited |
|-------------------------------------------------|---------------|---------------|-----------|
| \$000's | December 2020 | December 2019 | June 2020 |
| Undrawn facilities available to customers | 280,750 | 218,726 | 260,098 |
| Conditional commitments to fund at future dates | 24,570 | 13,161 | 58,045 |
| Total commitments | 305,320 | 231,887 | 318,143 |

As at 31 December 2020 there were no undrawn lending commitments available to counterparties for whom drawn balances are classified as individually impaired (December 2019: nil, June 2020: nil).

15 Liquidity risk

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

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

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

15 Liquidity risk (continued)

RBNZ facilities

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

On 16 March 2020, as a result of COVID-19, the RBNZ announced that it would provide term funding through a Term Auction Facility to give banks the ability to access term funding using repurchase agreements with qualifying collateral for a term of up to twelve months. From 26 May 2020, the RBNZ also made available, for a period of 6 months, a Term Lending Facility (TLF) to offer loans for a fixed term of three years at the Official Cash Rate, with access to the funds linked to banks' lending under the Business Finance Guarantee Scheme. On 20 August 2020, the RBNZ announced it would extend the availability of the TLF to 1 February 2021 with terms of five years. Additional stimulus provided through a funding for lending programme also commenced in December 2020 designed to enable banks to provide low-cost lending. The Group had not utilised any of these facilities as at 31 December 2020.

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

| | Unaudited | Unaudited | Audited |
|-----------------------------------|---------------|---------------|-----------|
| \$000's | December 2020 | December 2019 | June 2020 |
| Cash and cash equivalents | 152,818 | 185,732 | 147,179 |
| Investments | 448,856 | 305,970 | 397,005 |
| Undrawn committed bank facilities | 459,631 | 325,451 | 390,762 |
| Total liquidity | 1,061,305 | 817,153 | 934,946 |

Contractual liquidity profile of financial liabilities

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

| | On | 0-6 | 6-12 | 1-2 | 2-5 | 5+ | |
|-------------------------------------------|-----------|-----------|---------|-----------|-----------|---------|-----------|
| \$000's | Demand | Months | Months | Years | Years | Years | Total |
| Unaudited - December 2020 | | | | | | | |
| Financial liabilities | | | | | | | |
| Retail deposits | 994,767 | 1,382,593 | 554,159 | 275,364 | 94,526 | - | 3,301,409 |
| Other borrowings | - | 97,070 | 13,460 | 1,027,935 | 156,311 | 157,875 | 1,452,651 |
| Derivative financial liabilities | - | 5,864 | 2,994 | 3,201 | 430 | - | 12,489 |
| Lease liabilities | - | 1,412 | 1,429 | 2,895 | 7,985 | 8,139 | 21,860 |
| Other financial liabilities | - | 13,247 | - | - | - | - | 13,247 |
| Total financial liabilities | 994,767 | 1,500,186 | 572,042 | 1,309,395 | 259,252 | 166,014 | 4,801,656 |
| Undrawn facilities available to customers | 280,750 | - | - | - | - | - | 280,750 |
| Undrawn committed bank facilities | 459,631 | - | - | - | - | - | 459,631 |
| Unaudited - December 2019 | | | | | | | |
| Financial liabilities | | | | | | | |
| Retail deposits | 991,345 | 1,539,292 | 468,729 | 246,518 | 105,137 | - | 3,351,021 |
| Other borrowings | - | 48,270 | 13,089 | 81,855 | 1,070,512 | - | 1,213,726 |
| Derivative financial liabilities | 9,843 | - | - | - | - | - | 9,843 |
| Lease liabilities | - | 1,167 | 1,397 | 2,838 | 10,874 | 8,139 | 24,415 |
| Other financial liabilities | - | 11,344 | - | - | - | - | 11,344 |
| Total financial liabilities | 1,001,188 | 1,600,073 | 483,215 | 331,211 | 1,186,523 | 8,139 | 4,610,349 |
| Undrawn facilities available to customers | 218,726 | - | - | - | - | - | 218,726 |
| Undrawn committed bank facilities | 325,451 | - | _ | - | - | - | 325,451 |

15 Liquidity risk (continued)

Contractual liquidity profile of financial liabilities (continued)

| | On | 0-6 | 6-12 | 1-2 | 2-5 | 5+ | |
|-------------------------------------------|---------|-----------|---------|---------|-----------|-------|-----------|
| \$000's | Demand | Months | Months | Years | Years | Years | Total |
| Audited - June 2020 | | | | | | | |
| Financial liabilities | | | | | | | |
| Retail deposits | 813,140 | 1,418,656 | 833,440 | 162,221 | 86,615 | - | 3,314,072 |
| Other borrowings | - | 13,517 | 61,038 | 196,835 | 1,039,462 | - | 1,310,852 |
| Derivative financial liabilities | - | 5,722 | 4,665 | 5,297 | 1,354 | - | 17,038 |
| Lease liabilities | - | 1,400 | 1,415 | 5,730 | 7,634 | 7,085 | 23,264 |
| Other financial liabilities | - | 26,751 | - | - | - | - | 26,751 |
| Total financial liabilities | 813,140 | 1,466,046 | 900,558 | 370,083 | 1,135,065 | 7,085 | 4,691,977 |
| Undrawn facilities available to customers | 260,098 | - | - | - | - | - | 260,098 |
| Undrawn committed bank facilities | 390,762 | - | - | - | - | - | 390,762 |

16 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.

| | | | | | | Non- | |
|------------------------------------------------|-----------|-----------|-----------|-----------|-----------|----------|-----------|
| | 0-3 | 3-6 | 6-12 | 1-2 | 2+ | Interest | |
| \$000's | Months | Months | Months | Years | Years | Bearing | Total |
| Unaudited - December 2020 | | | | | | | |
| Financial assets | | | | | | | |
| Cash and cash equivalents | 152,803 | - | - | - | - | 15 | 152,818 |
| Investments | 55,036 | 23,265 | 38,705 | 75,963 | 255,886 | 21,513 | 470,368 |
| Finance receivables | 1,481,611 | 134,370 | 286,777 | 469,999 | 656,238 | 13,593 | 3,042,588 |
| Finance receivables - reverse mortgages | 1,607,352 | - | - | - | - | - | 1,607,352 |
| Derivative financial assets | - | - | - | - | - | 15,023 | 15,023 |
| Other financial assets | - | - | - | - | - | 1,085 | 1,085 |
| Total financial assets | 3,296,802 | 157,635 | 325,482 | 545,962 | 912,124 | 51,229 | 5,289,234 |
| Financial liabilities | | | | | | | |
| Retail deposits | 1,738,119 | 611,540 | 546,713 | 266,193 | 86,697 | 19,292 | 3,268,554 |
| Other borrowings | 1,086,068 | 987 | - | 156,063 | 130,844 | - | 1,373,962 |
| Derivative financial liabilities | - | - | - | - | - | 12,805 | 12,805 |
| Lease liabilities | - | - | - | - | - | 19,363 | 19,363 |
| Other financial liabilities | - | - | - | - | - | 13,247 | 13,247 |
| Total financial liabilities | 2,824,187 | 612,527 | 546,713 | 422,256 | 217,541 | 64,707 | 4,687,931 |
| Effect of derivatives held for risk management | 463,422 | (63,969) | (92,103) | (130,193) | (177,157) | - | - |
| Net financial assets/(liabilities) | 936,037 | (518,861) | (313,334) | (6,487) | 517,426 | (13,478) | 601,303 |

16 Interest rate risk (continued)

Contractual repricing analysis (continued)

| | | | | | | Non- | |
|------------------------------------------------------------------------------------------------------------|----------------------------------------------------|-------------------------------------------|------------------------|-----------------------------|---------------------------------------------|----------------------------|-------------------------------------------------------------|
| | 0-3 | 3-6 | 6-12 | 1-2 | 2+ | Interest | |
| \$000's | Months | Months | Months | Years | Years | Bearing | Tota |
| Unaudited - December 2019 | | | | | | | |
| Financial assets | | | | | | | |
| Cash and cash equivalents | 185,729 | - | - | - | - | 3 | 185,732 |
| Investments | 34,690 | 60,279 | 15,534 | 59,787 | 135,680 | 16,020 | 321,990 |
| Finance receivables | 1,543,914 | 215,723 | 355,919 | 563,825 | 417,055 | 4,930 | 3,101,366 |
| Finance receivables - reverse mortgages | 1,419,557 | - | - | - | - | - | 1,419,557 |
| Derivative financial assets | - | - | - | - | - | 11,936 | 11,936 |
| Other financial assets | - | - | - | - | - | 1,805 | 1,805 |
| Total financial assets | 3,183,890 | 276,002 | 371,453 | 623,612 | 552,735 | 34,694 | 5,042,386 |
| Financial liabilities | | | | | | | |
| Retail deposits | 1,688,278 | 602,765 | 597,217 | 235,773 | 96,449 | 13,543 | 3,234,025 |
| Other borrowings | 924,071 | 968 | - | - | 284,501 | - | 1,209,540 |
| Derivative financial liabilities | - | - | - | - | - | 9,843 | 9,843 |
| Lease liabilities | - | - | - | - | - | 21,306 | 21,306 |
| Other financial liabilities | - | - | - | - | - | 11,344 | 11,344 |
| Total financial liabilities | 2,612,349 | 603,733 | 597,217 | 235,773 | 380,950 | 56,036 | 4,486,058 |
| Effect of derivatives held for risk | | (10=) | (0.1 = 0.1) | (224 742) | | | |
| management | 380,373 | (437) | (94,721) | (291,712) | 6,497 | - | - |
| Net financial assets/(liabilities) | 951,914 | (328,168) | (320,485) | 96,127 | 178,282 | (21,342) | 556,328 |
| | | | | | | | |
| Audited - June 2020 | | | | | | | |
| Financial assets | | | | | | | |
| Cash and cash equivalents | 147,172 | - | - | - | - | 7 | 147,179 |
| Investments | 43,863 | 18,425 | 52,708 | 59,296 | 222,713 | 16,335 | 413,340 |
| Finance receivables | 1,522,837 | 198,446 | 352,076 | 557,569 | 400,658 | 13,609 | 3,045,195 |
| Finance receivables - reverse mortgages | 1,538,585 | - | - | - | - | - | 1,538,585 |
| Derivative financial assets | - | - | - | - | - | 17,246 | 17,246 |
| Other financial assets | - | - | - | - | - | 3,563 | 3,563 |
| Total financial assets | 3,252,457 | 216,871 | 404,784 | 616,865 | 623,371 | 50,760 | 5,165,108 |
| Financial liabilities | | | | | | | |
| Retail deposits | 1,616,521 | 585,482 | 815,366 | 155,219 | 77,655 | 13,949 | 3,264,192 |
| | | , | | | | | |
| Other borrowings | 976,638 | 970 | - | - | 290,323 | - | 1,267,931 |
| Other borrowings Derivative financial liabilities | , , | • | - | - | 290,323 | - 17,012 | |
| <u> </u> | , , | • | - - - | - - - | 290,323 - - | | 17,012 |
| Derivative financial liabilities | , , | • | - - - | - - - | 290,323 - - - | 17,012 | 17,012 20,456 |
| Derivative financial liabilities Lease liabilities Other financial liabilities | , , | • | - | - - - - 155,219 | 290,323 - - - - - 367,978 | 17,012 20,456 | 17,012 20,456 26,751 |
| Derivative financial liabilities Lease liabilities | 976,638 - - - - - - 2,593,159 | 970 - - - - 586,452 | - - - 815,366 | - - - 155,219 | - - - 367,978 | 17,012 20,456 26,751 | 1,267,931 17,012 20,456 26,751 4,596,342 |
| Derivative financial liabilities Lease liabilities Other financial liabilities Total financial liabilities | 976,638 - - - | 970 - - - | - - - | - - - | - - - | 17,012 20,456 26,751 | 17,012 20,456 26,751 |

Other Disclosures

17 Structured entities

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

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

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

| | Unaudited | Unaudited | Audited |
|----------|---------------|---------------|-----------|
| \$000's | December 2020 | December 2019 | June 2020 |
| Deposits | 167,147 | 165,602 | 166,676 |

(b) Heartland Auto Receivable Warehouse Trust 2018-1 (Auto Warehouse)

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

The Group continues to recognise the securitised assets and associated borrowings in the consolidated interim statement of financial position as the Group remains exposed to and has the ability to affect variable returns from those assets and liabilities. Although the Group recognises those interests in Auto Warehouse, the loans sold to the Trust 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.

| | Unaudited | Unaudited | Audited |
|---------------------------|---------------|---------------|-----------|
| \$000's | December 2020 | December 2019 | June 2020 |
| Cash and cash equivalents | 5,876 | 1,338 | 5,493 |
| Finance receivables | 79,672 | 36,720 | 78,066 |
| Other borrowings | (81,541) | (36,519) | (79,012) |

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

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

| | Unaudited | Unaudited | Audited |
|-----------------------------------------|---------------|---------------|-----------|
| \$000's | December 2020 | December 2019 | June 2020 |
| Cash and cash equivalents | 21,048 | 17,324 | 26,491 |
| Finance receivables - reverse mortgages | 839,219 | 833,554 | 929,179 |
| Other borrowings | (710,034) | (665,586) | (783,373) |

(d) Atlas 2020-1 Trust (Atlas Trust)

Atlas Trust was set up on 11 September 2020 as part of ASF's reverse mortgage business similar to the existing SW Trusts and ASF Trust. The Trustee for the Trust is BNY Trust Company of Australia Limited and the Trust Manager is ASF. The balances of Atlas Trust are represented as follows:

| | Unaudited |
|-----------------------------------------|---------------|
| \$000's | December 2020 |
| Cash and cash equivalents | 9,629 |
| Finance receivables - reverse mortgages | 145,935 |
| Other borrowings | (148,855) |

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

Insurance business

Marac Insurance Limited, a subsidiary of HBL, no longer conducts Insurance business as HBL entered into a distribution agreement with DPL Insurance Limited to distribute DPL's insurance products through its network and therefore MIL stopped writing insurance policies. MIL's existing policies are expected to expire by the end of June 2024.

The Group's aggregate amount of insurance business comprises the total consolidated assets of MIL of \$10.8 million (December 2019: \$11.6 million, June 2020: \$10.9 million), which represents 0.20% of the total consolidated assets of the Group.

Securitisation, funds management and other fiduciary activities

Changes to the Group's involvement in securitisation activities are set out in note 17 - Structured entities. 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 statements.

19 Contingent liabilities and commitments

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

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

| | Unaudited | Unaudited | Audited |
|-------------------------------------------------|---------------|---------------|-----------|
| \$000's | December 2020 | December 2019 | June 2020 |
| Letters of credit, guarantee commitments and | C 14F | F 000 | C F1F |
| performance bonds | 6,145 | 5,990 | 6,515 |
| Total contingent liabilities | 6,145 | 5,990 | 6,515 |
| Undrawn facilities available to customers | 280,750 | 218,726 | 260,098 |
| Conditional commitments to fund at future dates | 24,570 | 13,161 | 58,045 |
| Total commitments | 305,320 | 231,887 | 318,143 |

20 Events after reporting date

HGH subsidiary Heartland Australia Group Pty Limited completed a senior unsecured bond placement on 22 January 2021 of AU \$75 million.

The Group declared a fully imputed interim dividend of 4 cents per share on 19 February 2021.

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



Independent Review Report

To the shareholders of Heartland Group Holdings Limited

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

Conclusion

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

- the consolidated interim statement of financial position as at 31 December 2020;
- the consolidated interim 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.

Based on our review, nothing has come to our attention that causes us to believe that the consolidated interim financial statements on pages 5 to 35 do not:

- present, in all material respects the Group's financial position as at 31 December 2020 and its financial performance and cash flows for the 6 month period ended on that date; and
- comply with NZ IAS 34 Interim Financial Reporting.



Basis for conclusion

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

$oldsymbol{i}$ Emphasis of matter

We draw attention to Note 1 of the consolidated interim financial statements, which describes the residual market uncertainty resulting from the potential economic impact of the COVID-19 pandemic, specifically relating to the estimation of the Group's expected credit loss.

In our view, this issue is fundamental to the users' understanding of the consolidated interim financial statements and the financial position and performance of the Group. Our conclusion is not modified 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 consolidated interim financial statements

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

- the preparation and fair presentation of the consolidated interim financial statements in accordance with NZ IAS 34 *Interim Financial Reporting*;
- implementing necessary internal control to enable the preparation of consolidated interim financial statements that are free from material misstatement, whether due to fraud or error; and
- assessing the ability to continue as a going concern. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate or to cease operations, or have no realistic alternative but to do so.



Auditor's Responsibilities for the review of the consolidated interim financial statements

Our responsibility is to express a conclusion on the consolidated interim 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 consolidated 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 consolidated interim financial statements.

KAMG

KPMG Auckland

19 February 2021

Disclosure Statement

For the six months ended 31 December 2020





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General Information

This Disclosure Statement has been issued by Heartland Bank Limited (the **Bank** or **HBL**) and its subsidiaries (collectively the **Banking Group**) for the six months ended 31 December 2020 in accordance with the Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order 2014 (as amended) (the **Order**). The interim financial statements of the Banking Group for the six months ended 31 December 2020 form part of, and should be read in conjunction with, this Disclosure Statement.

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

The Bank's address for service is Level 3, Heartland House, 35 Teed Street, Newmarket, Auckland 1023.

Priority of Creditors' Claims

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

Guarantee Arrangements

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

Directors

All Directors of the Bank reside in New Zealand with the exception of Ellen Comerford who resides in Australia. Communications to the Directors can be sent to Heartland Bank Limited, Level 3, Heartland House, 35 Teed Street, Newmarket, Auckland 1023.

There have been no changes in the composition of the Board of Directors of the Bank since 30 June 2020 to the six months ended 31 December 2020.

Auditor

KPMG
KPMG Centre
18 Viaduct Harbour Avenue
Auckland 1010

Directors' Statements

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

- 1. As at the date on which this Disclosure Statement is signed:
 - (a) the Disclosure Statement contains all the information that is required by the Order; and
 - (b) the Disclosure Statement is not false or misleading.
- 2. During the six months ended 31 December 2020:
 - (a) the Bank complied with all Conditions of Registration applicable during the period;
 - (b) credit exposures to connected persons were not contrary to the interests of the Banking Group; and
 - (c) the Bank had systems in place to monitor and control adequately material risks of the Banking Group, including credit risk, concentration of credit risk, interest rate risk, currency risk, equity risk, liquidity risk, operational risk and other business risks, and that those systems were being properly applied.

This Disclosure Statement is dated 19 February 2021 and has been signed by all the Directors.

B R Irvine (Chair - Board of Directors)

J K Greenslade

E F Comerford

E J Harvey

G T Ricketts

K Mitchell

S M Ruha

Consolidated Interim Statement of Comprehensive Income

For the six months ended 31 December 2020

| | | Unaudited | Unaudited | Audited | |
|---------------------------------------------------------------------|------|---------------|---------------|--------------|--|
| | | 6 Months to | 6 Months to | 12 Months to | |
| \$000's | Note | December 2020 | December 2019 | June 2020 | |
| Interest income | 3 | 139,875 | 148,680 | 297,512 | |
| Interest expense | 3 | 43,642 | 55,708 | 108,476 | |
| Net interest income | 3 | 96,233 | 92,972 | 189,036 | |
| Operating lease income | | 2,579 | 2,910 | 5,946 | |
| Operating lease expense | | 1,598 | 1,962 | 4,063 | |
| Net operating lease income | | 981 | 948 | 1,883 | |
| Lending and credit fee income | | 3,224 | 5,079 | 7,894 | |
| Other income | | 3,309 | 2,324 | 5,965 | |
| Net operating income | | 103,747 | 101,323 | 204,778 | |
| Operating expenses | 4 | 53,256 | 44,498 | 90,782 | |
| Profit before impaired asset expense and income tax | | 50,491 | 56,825 | 113,996 | |
| Impaired asset expense | 6 | 4,538 | 8,975 | 29,372 | |
| Profit before income tax | | 45,953 | 47,850 | 84,624 | |
| Income tax expense | | 12,939 | 12,954 | 23,924 | |
| Profit for the period | | 33,014 | 34,896 | 60,700 | |
| Other comprehensive income | | | | | |
| Items that are or may be reclassified subsequently to profit | | | | | |
| or loss, net of income tax: | | | | | |
| Effective portion of change in fair value of derivative financial | | 4.500 | 4.042 | (2.470 | |
| instruments | | 4,580 | 1,843 | (2,179 | |
| Movement in fair value reserve | | (1,038) | (968) | 766 | |
| Other comprehensive income/(loss) for the period, net of income tax | | 3,542 | 875 | (1,413 | |
| Total comprehensive income for the period | | 36,556 | 35,771 | 59,287 | |

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

Consolidated Interim Statement of Changes in Equity

For the six months ended 31 December 2020

| | | | | Foreign | | | | | |
|---------------------------------------------|------|---------|----------|-------------|---------|----------|-----------|----------|----------|
| | | | Employee | Currency | Fair | Defined | Cash Flow | | |
| | | Share | | Translation | Value | Benefits | Hedge | Retained | Total |
| \$000's | Note | Capital | Reserve | Reserve | Reserve | Reserve | Reserve | Earnings | Equity |
| Unaudited - December 2020 | | | | | | | | | |
| Balance at 1 July 2020 | | 553,239 | - | - | 5,324 | 171 | (8,022) | 46,325 | 597,037 |
| Total comprehensive income for the period | | | | | | | | | |
| Profit for the period | | - | - | - | - | - | - | 33,014 | 33,014 |
| Other comprehensive income/(loss), | | | | | (4.020) | | 4.500 | | 2.542 |
| net of income tax | | - | - | - | (1,038) | - | 4,580 | - | 3,542 |
| Total comprehensive income/(loss) for the | | | | | (1,038) | | 4,580 | 33,014 | 36,556 |
| period | | - | - | - | (1,038) | - | 4,580 | 33,014 | 30,550 |
| Contributions by and distributions to owner | | | | | | | | | |
| Dividend to Heartland Group Holdings | 9 | | | | | | | | |
| Limited (HGH) | 9 | - | _ | - | _ | - | | _ | _ |
| Total transactions with owner | | - | - | - | - | - | - | - | - |
| Balance at 31 December 2020 | | 553,239 | - | - | 4,286 | 171 | (3,442) | 79,339 | 633,593 |
| Unaudited - December 2019 | | | | | | | | | |
| Balance at 1 July 2019 | | 553,239 | _ | _ | 4,558 | 171 | (5,843) | 51,265 | 603,390 |
| NZ IFRS 16 adjustment | | - | - | - | · - | _ | - | (640) | (640) |
| Restated balance at beginning of period | | 553,239 | - | - | 4,558 | 171 | (5,843) | 50,625 | 602,750 |
| Total comprehensive income for the period | | | | | | | | | |
| Profit for the period | | - | - | - | - | - | - | 34,896 | 34,896 |
| Other comprehensive income/(loss), | | | | _ | (000) | _ | 1 0 4 2 | | 075 |
| net of income tax | | - | | - | (968) | - | 1,843 | - | 875 |
| Total comprehensive income/(loss) for the | | | | | (968) | | 1,843 | 34,896 | 35,771 |
| period | | - | - | - | (306) | - | 1,043 | 34,030 | 33,771 |
| Contributions by and distributions to owner | | | | | | | | | |
| Dividend to HGH | 9 | - | - | - | - | _ | - | (65,000) | (65,000) |
| Total transactions with owner | | - | - | - | - | - | - | (65,000) | (65,000) |
| Balance at 31 December 2019 | | 553,239 | - | - | 3,590 | 171 | (4,000) | 20,521 | 573,521 |

Consolidated Interim Statement of Changes in Equity

For the six months ended 31 December 2020 (continued)

| | | | | Foreign | | | | | |
|---------------------------------------------|------|---------|----------|-------------|---------|----------|-----------|----------|----------|
| | | | Employee | Currency | Fair | Defined | Cash Flow | | |
| | | Share | | Translation | Value | Benefits | Hedge | Retained | Total |
| \$000's | Note | Capital | Reserve | Reserve | Reserve | Reserve | Reserve | Earnings | Equity |
| Audited - June 2020 | | | | | | | | | |
| Balance at 1 July 2019 | | 553,239 | - | _ | 4,558 | 171 | (5,843) | 51,265 | 603,390 |
| NZ IFRS 16 adjustment | | - | - | - | - | - | - | (640) | (640) |
| Restated balance at beginning of year | | 553,239 | - | - | 4,558 | 171 | (5,843) | 50,625 | 602,750 |
| Total comprehensive income for the period | | | | | | | | | |
| Profit for the period | | - | - | - | - | - | - | 60,700 | 60,700 |
| Other comprehensive income/(loss), | | | | | 766 | | (0.470) | | (4.440) |
| net of income tax | | - | - | - | 766 | - | (2,179) | - | (1,413) |
| Total comprehensive income/(loss) for the | | | | | 700 | | (2.470) | CO 700 | FO 207 |
| period | | - | - | - | 766 | - | (2,179) | 60,700 | 59,287 |
| Contributions by and distributions to owner | | | | | | | | | |
| Dividend to HGH | 9 | - | - | - | - | - | - | (65,000) | (65,000) |
| Total transactions with owner | | - | - | - | - | - | - | (65,000) | (65,000) |
| Balance at 30 June 2020 | | 553,239 | - | - | 5,324 | 171 | (8,022) | 46,325 | 597,037 |

Consolidated Interim Statement of Financial Position

As at 31 December 2020

| \$000's | | Unaudited | Unaudited | Audited |
|----------------------------------------------------|-------|---------------|---------------|-----------|
| , <u> </u> | Note | December 2020 | December 2019 | June 2020 |
| Assets | | | | |
| Cash and cash equivalents | | 104,965 | 122,737 | 105,463 |
| Investments | | 451,159 | 307,958 | 399,308 |
| Investment properties | | 11,132 | 11,132 | 11,132 |
| Derivative financial instruments | | 15,023 | 10,806 | 17,246 |
| Due from related parties | 10(c) | 259 | 2,063 | 1,481 |
| Finance receivables | 7(a) | 3,042,378 | 3,101,366 | 3,044,960 |
| Finance receivables - reverse mortgages | 7(b) | 622,137 | 586,003 | 609,346 |
| Operating lease vehicles | | 12,712 | 18,549 | 17,603 |
| Right of use assets | | 16,779 | 19,225 | 17,843 |
| Other assets | | 14,257 | 14,968 | 17,380 |
| Intangible assets | | 52,181 | 56,781 | 57,470 |
| Deferred tax asset | | 14,890 | 10,019 | 15,327 |
| Total assets | | 4,357,872 | 4,261,607 | 4,314,559 |
| Liabilities | | | | |
| Retail deposits | 8 | 3,271,109 | 3,244,035 | 3,269,239 |
| Other borrowings | 8 | 389,589 | 385,163 | 358,732 |
| Due to related parties | 10(c) | 9,399 | 2,138 | 7,944 |
| Lease liabilities | | 18,878 | 20,623 | 19,871 |
| Tax liabilities | | 5,341 | 6,133 | 11,271 |
| Derivative financial instruments | | 12,390 | 9,843 | 16,974 |
| Trade and other payables | | 17,573 | 20,151 | 33,491 |
| Total liabilities | | 3,724,279 | 3,688,086 | 3,717,522 |
| Equity | | | | |
| Share capital | 9 | 553,239 | 553,239 | 553,239 |
| Retained earnings and reserves | | 80,354 | 20,282 | 43,798 |
| Total equity | | 633,593 | 573,521 | 597,037 |
| Total equity and liabilities | | 4,357,872 | 4,261,607 | 4,314,559 |
| Total interest earning and discount bearing assets | _ | 4,204,727 | 4,113,206 | 4,143,158 |
| Total interest and discount bearing liabilities | | 3,641,406 | 3,617,793 | 3,614,022 |

Consolidated Interim Statement of Cash Flows

For the six months ended 31 December 2020

| | Unaudited | Unaudited | Audited |
|-----------------------------------------------------------------|---------------|---------------|--------------|
| | 6 Months to | 6 Months to | 12 Months to |
| \$000's Note | December 2020 | December 2019 | June 2020 |
| Cash flows from operating activities | | | |
| Interest received | 122,874 | 128,838 | 258,797 |
| Operating lease income received | 1,480 | 2,361 | 5,934 |
| Lending, credit fees and other income received | 6,914 | 12,129 | 17,422 |
| Operating inflows | 131,268 | 143,328 | 282,153 |
| Interest paid | (46,659) | (49,481) | (103,793) |
| Payments to suppliers and employees | (48,024) | (37,117) | (77,904) |
| Taxation paid | (19,759) | (9,888) | (20,281) |
| Operating outflows | (114,442) | (96,486) | (201,978) |
| Net cash flows from operating activities before | 16,826 | 46,842 | 80,175 |
| changes in operating assets and liabilities | 10,820 | 40,042 | 80,173 |
| Proceeds from sale of operating lease vehicles | 5,584 | 2,254 | 4,969 |
| Purchase of operating lease vehicles | (1,594) | (6,614) | (9,938) |
| Net movement in finance receivables | 3,840 | (83,217) | (51,372) |
| Net movement in deposits | 5,071 | 90,309 | 116,040 |
| Net movement in related party balances | 2,677 | 21,252 | 27,640 |
| Net cash flows from operating activities | 32,404 | 70,826 | 167,514 |
| | | -, | , |
| Cash flows from investing activities | | | |
| Sale of property, plant and equipment and intangible assets | - | - | 95 |
| Total cash provided from investing activities | - | - | 95 |
| Purchase of property, plant and equipment and intangible assets | (3,954) | (2,722) | (6,602) |
| Net (increase)/decrease in investments | (62,876) | 46,003 | (33,627) |
| Total cash applied to investing activities | (66,830) | 43,281 | (40,229) |
| Net cash flows (applied to)/from investing activities | (66,830) | 43,281 | (40,134) |
| Cash flows from financing activities | | | |
| Net increase in wholesale funding | 34,219 | 35,237 | 5,745 |
| Total cash provided from financing activities | 34,219 | 35,237 | 5,745 |
| Dividends paid 9 | _ | (65,000) | (65,000) |
| Payment of lease liabilities | (291) | (747) | (1,802) |
| Total cash applied to financing activities | (291) | (65,747) | (66,802) |
| Net cash flows from/(applied to) financing activities | 33,928 | (30,510) | (61,057) |
| Net (decrease)/increase in cash held | (498) | 83,597 | 66,323 |
| Opening cash and cash equivalents | 105,463 | 39,140 | 39,140 |
| Closing cash and cash equivalents | 105,463 | 122,737 | 105,463 |

Consolidated Interim Statement of Cash Flows

For the six months ended 31 December 2020 (continued)

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

| | | Unaudited | Unaudited | Audited |
|-----------------------------------------------------------|------|-------------------------|-------------------------|---------------------|
| \$000's | Nata | 6 Months to | 6 Months to | 12 Months to |
| Profit for the period | Note | December 2020 33,014 | December 2019 34,896 | June 2020 60,700 |
| Add/(less) non-cash items: | | | | |
| Depreciation and amortisation expense | | 9,311 | 4,206 | 8,859 |
| Depreciation on lease vehicles | | 1,436 | 1,722 | 3,634 |
| Capitalised net interest income and fee income | | (18,481) | (20,203) | (39,620) |
| Impaired asset expense | 6 | 4,538 | 8,975 | 29,372 |
| Other non-cash items | | (7,205) | 3,577 | 6,310 |
| Total non-cash items | | (10,401) | (1,723) | 8,555 |
| Add/(less) movements in operating assets and liabilities: | | | | |
| Finance receivables | | 3,840 | (83,217) | (51,372) |
| Operating lease vehicles | | 3,990 | (4,360) | (4,969) |
| Other assets | | 2,914 | 32,707 | 32,471 |
| Current tax | | (5,930) | 466 | 5,604 |
| Derivative financial instruments | | 2,219 | 4,200 | 869 |
| Deferred tax | | 437 | (71) | (5,379) |
| Deposits | | 5,071 | 90,309 | 116,040 |
| Other liabilities | | (2,750) | (2,381) | 4,995 |
| Total movements in operating assets and liabilities | | 9,791 | 37,653 | 98,259 |
| Net cash flows from operating activities | | 32,404 | 70,826 | 167,514 |

Notes to the Interim Financial Statements

For the six months ended 31 December 2020

1 Interim financial statements preparation

Basis of reporting

The interim financial statements presented are the consolidated interim financial statements comprising Heartland Bank Limited (the **Bank** or **HBL**) and its subsidiaries (the **Banking Group**). They have been prepared in accordance with the Order, Generally Accepted Accounting Practice in New Zealand (**NZ GAAP**) as defined in the Financial Reporting Act 2013, NZ IAS 34 Interim Financial Reporting as appropriate for publicly accountable for-profit entities and IAS 34 Interim Financial Reporting.

The Disclosure Statement does not include all notes of the type normally included in an annual financial report. Accordingly this report is to be read in conjunction with the Disclosure Statement for the year ended 30 June 2020 and any public announcements made by the Bank during the interim reporting period.

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

- 6 month period ended 31 December 2020 Unaudited
- 6 month period ended 31 December 2019 Unaudited
- 12 month period ended 30 June 2020 Audited

The consolidated interim financial statements have been prepared on a going concern and historical cost basis, unless stated otherwise. The accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period.

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

Change in accounting policy

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

Accounting standards issued not yet effective

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

MARAC Insurance Limited (MIL), a subsidiary of HBL, no longer conducts insurance business as HBL entered into a distribution agreement with DPL Insurance Limited (DPL) to distribute DPL's insurance products through its network and therefore MIL stopped writing insurance policies. MIL's existing policies are expected to expire by the end of June 2024.

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

1 Financial statements preparation (continued)

Estimates and judgements

There have been no material changes to the use of estimates and judgements for the preparation of the interim financial statements since the reporting date of the previous financial statements. Refer to the Banking Group's Disclosure Statement for the year ended 30 June 2020 for the estimates and judgements used.

Covid-19 pandemic - impact on estimates and judgements

An economic overlay of \$9.6 million was applied as at 30 June 2020 in response to the deterioration in economic conditions caused by the COVID-19 pandemic. The overlay was formulated through applying judgement utilising the Banking Group's experience and deep understanding of its customers, assuming that a "base case" economic forecast (as to gross domestic product, unemployment and house price inflation) and other assumptions (as to lockdowns, customer support packages, second hand and export primary produce prices) prevailed. This downside risk was quantified under three methodologies to ascertain a range of potential expected credit losses on each of its portfolios.

While actual performance relative to the "base case" has been favourable, residual market uncertainty regarding the magnitude of the economic impact of the pandemic remains. The Banking Group also reapplied the three methodologies to the portfolios as at 31 December 2020 to again confirm a range of potential expected credit losses on each of its portfolios. As a result, it was determined that maintaining the overlay as at 31 December 2020 is appropriate.

Performance

2 Segmental analysis

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

Operating segments

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

Motor whicle finance.

Reverse Mortgages Reverse mortgage lending in New Zealand.

Other Personal A range of financial services - including term, transactional and personal loans to individuals.

Business Term debt, plant and equipment finance, commercial mortgage lending and working capital solutions

for small-to-medium sized businesses.

Rural Specialist financial services to the farming sector offering livestock finance, rural mortgage lending,

seasonal and working capital financing, as well as leasing solutions to farmers.

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

The Banking Group's operating segments are different from the industry categories detailed in Note 13 - Credit risk exposure. The operating segments are primarily categorised by sales channel, whereas Note 13 - Credit risk exposure categorises exposures based on credit risk concentrations.

| | | Reverse | Other | | | | |
|---------------------------------------------|-----------|-----------|----------|-----------|---------|----------|-----------|
| \$000's | Motor | Mortgages | Personal | Business | Rural | Other | Total |
| Unaudited - December 2020 | | | | | | | |
| | | | | | | | |
| Net interest income | 31,255 | 10,175 | 7,625 | 31,659 | 15,071 | 448 | 96,233 |
| Net other income | 1,717 | 1,018 | 1,137 | 1,343 | 460 | 1,839 | 7,514 |
| Net operating income | 32,972 | 11,193 | 8,762 | 33,002 | 15,531 | 2,287 | 103,747 |
| | | | | | | | |
| Operating expenses | 1,843 | 1,986 | 3,151 | 5,896 | 1,172 | 39,208 | 53,256 |
| Profit/(loss) before impaired asset expense | 24 420 | 0.207 | F C11 | 27.100 | 14 250 | (20.024) | FO 404 |
| and income tax | 31,129 | 9,207 | 5,611 | 27,106 | 14,359 | (36,921) | 50,491 |
| | | | | | | | |
| Impaired asset expense/(benefit) | 2,266 | - | (793) | 2,674 | 391 | - | 4,538 |
| Profit/(loss) before income tax | 28,863 | 9,207 | 6,404 | 24,432 | 13,968 | (36,921) | 45,953 |
| | | | | | | | |
| Income tax expense | - | - | - | - | - | 12,939 | 12,939 |
| Profit/(loss) for the period | 28,863 | 9,207 | 6,404 | 24,432 | 13,968 | (49,860) | 33,014 |
| | | | | | | | |
| Total assets | 1,200,349 | 576,579 | 163,519 | 1,133,767 | 569,676 | 713,982 | 4,357,872 |
| Total liabilities | | | | | | | 3,724,279 |

2 Segmental analysis (continued)

| | | Reverse | Other | | | | |
|------------------------------------------------------------|-----------|-----------|----------|-----------|---------|----------|-----------|
| \$000's | Motor | Mortgages | Personal | Business | Rural | Other | Total |
| Unaudited - December 2019 | | | | | | | |
| Net interest income | 28,204 | 12,176 | 9,238 | 28,026 | 15,380 | (52) | 92,972 |
| Net other income | 1,895 | 2,824 | 646 | 1,317 | 535 | 1,134 | 8,351 |
| Net operating income | 30,099 | 15,000 | 9,884 | 29,343 | 15,915 | 1,082 | 101,323 |
| Operating expenses | 1,615 | 3,331 | 1,934 | 5,980 | 1,396 | 30,242 | 44,498 |
| Profit/(loss) before impaired asset expense and income tax | 28,484 | 11,669 | 7,950 | 23,363 | 14,519 | (29,160) | 56,825 |
| Impaired asset expense | 3,611 | - | 3,345 | 1,880 | 139 | - | 8,975 |
| Profit/(loss) before income tax | 24,873 | 11,669 | 4,605 | 21,483 | 14,380 | (29,160) | 47,850 |
| Income tax expense | - | - | _ | _ | - | 12,954 | 12,954 |
| Profit/(loss) for the period | 24,873 | 11,669 | 4,605 | 21,483 | 14,380 | (42,114) | 34,896 |
| Total assets | 1,127,408 | 586,003 | 244,498 | 1,148,614 | 615,072 | 540,012 | 4,261,607 |
| Total liabilities | | | | | | | 3,688,086 |
| Audited - June 2020 | | | | | | | |
| Net interest income | 56,957 | 20,118 | 18,365 | 57,950 | 29,674 | 5,972 | 189,036 |
| Net other income | 3,622 | 3,430 | 3,055 | 3,465 | 1,028 | 1,142 | 15,742 |
| Net operating income | 60,579 | 23,548 | 21,420 | 61,415 | 30,702 | 7,114 | 204,778 |
| Operating expenses | 3,248 | 4,804 | 6,776 | 11,283 | 2,648 | 62,023 | 90,782 |
| Profit/(loss) before impaired asset expense and income tax | 57,331 | 18,744 | 14,644 | 50,132 | 28,054 | (54,909) | 113,996 |
| Impaired asset expense/(benefit) | 10,113 | - | 11,119 | 10,110 | (1,970) | - | 29,372 |
| Profit/(loss) before income tax | 47,218 | 18,744 | 3,525 | 40,022 | 30,024 | (54,909) | 84,624 |
| Income tax expense | | | | | | 23,924 | 23,924 |
| Profit/(loss) for the period | 47,218 | 18,744 | 3,525 | 40,022 | 30,024 | (78,833) | 60,700 |
| Total assets | 1,125,295 | 559,934 | 214,759 | 1,126,632 | 604,938 | 683,001 | 4,314,559 |
| Total liabilities | | | | | | | 3,717,522 |

3 Net interest income

| | Unaudited | Unaudited | Audited |
|----------------------------------------------------------|---------------|---------------|--------------|
| | 6 Months to | 6 Months to | 12 Months to |
| \$000's | December 2020 | December 2019 | June 2020 |
| Interest income | | | |
| Cash and cash equivalents | 45 | 301 | 482 |
| Investments | 3,635 | 4,448 | 8,496 |
| Finance receivables | 118,737 | 124,658 | 250,592 |
| Finance receivables - reverse mortgages | 17,458 | 19,273 | 37,942 |
| Total interest income | 139,875 | 148,680 | 297,512 |
| Interest expense | | | |
| Retail deposits | 33,495 | 47,741 | 90,786 |
| Other borrowings | 7,524 | 6,568 | 14,188 |
| Net interest expense on derivative financial instruments | 2,623 | 1,399 | 3,502 |
| Total interest expense | 43,642 | 55,708 | 108,476 |
| Net interest income | 96,233 | 92,972 | 189,036 |

4 Operating expenses

| | Unaudited | Unaudited | Audited |
|----------------------------------------------|---------------|---------------|--------------|
| | 6 Months to | 6 Months to | 12 Months to |
| \$000's | December 2020 | December 2019 | June 2020 |
| Personnel expenses | 28,454 | 23,038 | 45,759 |
| Directors' fees | 338 | 310 | 650 |
| Superannuation | 467 | 419 | 836 |
| Depreciation - property, plant and equipment | 1,417 | 1,061 | 2,280 |
| Legal and professional fees | 941 | 1,657 | 3,049 |
| Advertising and public relations | 1,714 | 2,482 | 4,577 |
| Depreciation - right of use asset | 1,064 | 1,041 | 2,122 |
| Technology services | 3,256 | 3,050 | 6,063 |
| Telecommunications, stationary and postage | 799 | 857 | 1,651 |
| Customer acquisition costs | 961 | 2,104 | 2,919 |
| Amortisation of intangible assets | 6,830 | 2,102 | 4,456 |
| Other operating expenses ¹ | 7,015 | 6,377 | 16,420 |
| Total operating expenses | 53,256 | 44,498 | 90,782 |

¹Other operating expenses include compensation of auditor which is further disclosed in Note 5.

5 Compensation of auditor

| \$000's | Unaudited 6 Months to December 2020 | Unaudited 6 Months to December 2019 | Audited 12 Months to |
|-----------------------------------------------------------|-------------------------------------------|-------------------------------------------|-------------------------|
| Audit and review of the financial statements ¹ | 374 | 317 | June 2020 559 |
| Other assurance services paid to auditor ² | 10 | 31 | 60 |
| Total compensation of auditor | 384 | 348 | 619 |

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

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

6 Impaired asset expense

At each reporting date, the Banking Group applies a three stage approach to measuring expected credit loss (ECL) to finance receivables not carried at fair value. The following table details impairment charges of those finance receivables for the six months ended 31 December 2020.

| | Unaudited | Unaudited | Audited |
|----------------------------------------------|---------------|---------------|--------------|
| | 6 Months to | 6 Months to | 12 Months to |
| \$000's | December 2020 | December 2019 | June 2020 |
| Non-securitised | | | |
| Individually impaired asset expense | 3,414 | 1,638 | 3,385 |
| Collectively impaired asset expense | 1,099 | 7,214 | 25,590 |
| Total non-securitised impaired asset expense | 4,513 | 8,852 | 28,975 |
| Securitised | | | |
| Collectively impaired asset expense | 25 | 123 | 397 |
| Total securitised impaired asset expense | 25 | 123 | 397 |
| Total | | | |
| Individually impaired asset expense | 3,414 | 1,638 | 3,385 |
| Collectively impaired asset expense | 1,124 | 7,337 | 25,987 |
| Total impaired asset expense | 4,538 | 8,975 | 29,372 |

Financial Position

7 Finance receivables

(a) Finance receivables held at amortised cost

| | Unaudited | Unaudited | Audited |
|------------------------------------------------|---------------|---------------|-----------|
| \$000's | December 2020 | December 2019 | June 2020 |
| Non-securitised | | | |
| Neither at least 90 days past due nor impaired | 2,938,694 | 3,049,814 | 2,945,623 |
| At least 90 days past due | 45,761 | 46,780 | 58,876 |
| Individually impaired | 33,667 | 28,433 | 24,667 |
| Gross finance receivables | 3,018,122 | 3,125,027 | 3,029,166 |
| Less provision for impairment | (55,415) | (60,381) | (62,272) |
| Total non-securitised finance receivables | 2,962,707 | 3,064,646 | 2,966,894 |
| | | | |
| Securitised | | | |
| Neither at least 90 days past due nor impaired | 79,645 | 36,843 | 78,059 |
| At least 90 days past due | 448 | - | 404 |
| Individually impaired | - | = | - |
| Gross finance receivables | 80,093 | 36,843 | 78,463 |
| Less provision for impairment | (422) | (123) | (397) |
| Total securitised finance receivables | 79,671 | 36,720 | 78,066 |
| Total | | | |
| Neither at least 90 days past due nor impaired | 3,018,339 | 3,086,657 | 3,023,682 |
| At least 90 days past due | 46,209 | 46,780 | 59,280 |
| Individually impaired | 33,667 | 28,433 | 24,667 |
| Gross finance receivables | 3,098,215 | 3,161,870 | 3,107,629 |
| Less provision for impairment | (55,837) | (60,504) | (62,669) |
| Total finance receivables | 3,042,378 | 3,101,366 | 3,044,960 |

 $Refer\ to\ Note\ 14-Asset\ quality\ for\ further\ analysis\ of\ finance\ receivables\ by\ credit\ risk\ concentration.$

(a) Finance receivables held at amortised cost (continued)

Movement in provision

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

| | | Lifetime | Lifetime | | |
|--------------------------------------------------------------------|------------|----------|----------|-----------|----------|
| | | ECL | ECL | | |
| | 12 - Month | | Credit | Specific | |
| \$000's | ECL | Impaired | Impaired | Provision | Total |
| Unaudited - December 2020 | | | | | |
| Non-securitised | | | | | |
| Impairment allowance as at 30 June 2020 | 32,160 | 2,144 | 22,667 | 5,301 | 62,272 |
| Changes in loss allowance | | | | | |
| Transfer between stages | (860) | (395) | 153 | 1,102 | - |
| New and increased provision (net of collective provision releases) | (1,197) | 102 | 4,605 | 2,312 | 5,822 |
| Recovery of amounts written off | - | - | (1,309) | - | (1,309) |
| Credit impairment charge | (2,057) | (293) | 3,449 | 3,414 | 4,513 |
| Recovery of amounts previously written off | - | - | 1,309 | - | 1,309 |
| Write offs | - | - | (10,199) | (2,481) | (12,680) |
| Effect of changes in foreign exchange rate | (1) | 1 | 1 | - | 1 |
| Impairment allowance as at 31 December 2020 | 30,102 | 1,852 | 17,227 | 6,234 | 55,415 |
| Securitised | | | | | |
| Impairment allowance as at 30 June 2020 | 260 | 23 | 114 | _ | 397 |
| Changes in loss allowance | | | | | • |
| Transfer between stages | 23 | 1 | (24) | _ | _ |
| New and increased provision (net of collective provision releases) | (33) | (10) | 68 | _ | 25 |
| Recovery of amounts written off | - | - | - | _ | - |
| Credit impairment charge | (10) | (9) | 44 | - | 25 |
| Recovery of amounts previously written off | ` - | - | _ | _ | _ |
| Write offs | - | - | - | - | _ |
| Effect of changes in foreign exchange rate | _ | - | - | - | - |
| Impairment allowance as at 31 December 2020 | 250 | 14 | 158 | - | 422 |
| Total | | | | | |
| Impairment allowance as at 30 June 2020 | 32,420 | 2,167 | 22,781 | 5,301 | 62,669 |
| Changes in loss allowance | 32,420 | 2,107 | 22,701 | 3,301 | 02,003 |
| Transfer between stages | (837) | (394) | 129 | 1,102 | _ |
| New and increased provision (net of collective provision releases) | (1,230) | 92 | 4,673 | 2,312 | 5,847 |
| Recovery of amounts written off | (1,230) | - | (1,309) | -,512 | (1,309) |
| Credit impairment charge | (2,067) | (302) | 3,493 | 3,414 | 4,538 |
| Recovery of amounts previously written off | (2,007) | (302) | 1,309 | - | 1,309 |
| Write offs | _ | _ | (10,199) | (2,481) | (12,680) |
| Effect of changes in foreign exchange rate | (1) | 1 | 1 | -, 101 | 1 |
| Impairment allowance as at 31 December 2020 | 30,352 | 1,866 | 17,385 | 6,234 | 55,837 |
| pa | 30,332 | -,000 | 27,303 | U)2U-1 | 55,057 |

(a) Finance receivables held at amortised cost (continued)

Movement in provision (continued)

| | | Lifetime | Lifetime | | |
|--------------------------------------------------------------------|------------|----------|----------|-----------|---------|
| | | ECL | ECL | | |
| | 12 - Month | | Credit | Specific | |
| \$000's | ECL | Impaired | Impaired | Provision | Total |
| Unaudited - December 2019 | | | | | |
| Non-securitised | | | | | |
| Impairment allowance as at 30 June 2019 | 30,422 | 1,781 | 18,425 | 7,863 | 58,491 |
| Changes in loss allowance | | | | | |
| Transfer between stages | (1,664) | (127) | 706 | 1,085 | - |
| New and increased provision (net of collective provision releases) | 1,070 | 665 | 8,331 | 553 | 10,619 |
| Recovery of amounts written off | | - | (1,767) | - | (1,767) |
| Credit impairment charge | (594) | 538 | 7,270 | 1,638 | 8,852 |
| Recovery of amounts previously written off | - | - | 1,767 | - | 1,767 |
| Write offs | - | - | (8,624) | (100) | (8,724) |
| Effect of changes in foreign exchange rate | (3) | - | (2) | - | (5) |
| Impairment allowance as at 31 December 2019 | 29,825 | 2,319 | 18,836 | 9,401 | 60,381 |
| Securitised | | | | | |
| Impairment allowance as at 30 June 2019 | - | - | - | - | - |
| Changes in loss allowance | | | | | |
| Transfer between stages | - | - | - | - | - |
| New and increased provision (net of collective provision releases) | 122 | 1 | - | - | 123 |
| Recovery of amounts written off | | - | - | - | - |
| Credit impairment charge | 122 | 1 | - | - | 123 |
| Recovery of amounts previously written off | - | - | - | - | - |
| Write offs | - | - | - | - | - |
| Effect of changes in foreign exchange rate | - | - | - | - | - |
| Impairment allowance as at 31 December 2019 | 122 | 1 | - | - | 123 |
| Total | | | | | |
| Impairment allowance as at 30 June 2019 | 30,422 | 1,781 | 18,425 | 7,863 | 58,491 |
| Changes in loss allowance | | | | | |
| Transfer between stages | (1,664) | (127) | 706 | 1,085 | - |
| New and increased provision (net of collective provision releases) | 1,192 | 666 | 8,331 | 553 | 10,742 |
| Recovery of amounts written off | - | - | (1,767) | - | (1,767) |
| Credit impairment charge | (472) | 539 | 7,270 | 1,638 | 8,975 |
| Recovery of amounts previously written off | - | - | 1,767 | - | 1,767 |
| Write offs | - | - | (8,624) | (100) | (8,724) |
| Effect of changes in foreign exchange rate | (3) | | (2) | _ | (5) |
| Impairment allowance as at 31 December 2019 | 29,947 | 2,320 | 18,836 | 9,401 | 60,504 |

(a) Finance receivables held at amortised cost (continued)

Movement in provision (continued)

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

(a) Finance receivables held at amortised cost (continued)

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

| | | Lifetime | Lifetime | | |
|--------------------------------------------------|-------------------|-----------|----------|-----------------------|------------|
| | | ECL | ECL | | |
| Ć000la | 12 - Month ECL | | Credit | Specific Provision | Tota |
| \$000's | ECL | Impaired | Impaired | Provision | TOLA |
| Unaudited - December 2020 | | | | | |
| Gross finance receivables as at 30 June 2020 | 2,825,973 | 183,260 | 73,729 | 24,667 | 3,107,62 |
| Transfer between stages | (50,423) | 31,814 | 3,841 | 14,768 | - |
| Additions | 796,845 | - | - | - | 796,845 |
| Deletions | (733,321) | (36,470) | (19,081) | (3,233) | (792,105 |
| Write offs | - | - | (11,619) | (2,535) | (14,154 |
| Gross finance receivables as at 31 December 2020 | 2,839,074 | 178,604 | 46,870 | 33,667 | 3,098,215 |
| Gross finance receivables as at 30 June 2019 | 2,799,220 | 206,882 | 57,043 | 26,412 | 3,089,55 |
| | 2,799,220 | • | | • | 3,089,55 |
| Transfer between stages | (40,404) | 9,697 | 27,069 | 3,638 | - |
| Additions | 922,101 | 62,329 | 6,788 | - | 991,218 |
| Deletions | (805,818) | (74,204) | (27,385) | (1,517) | (908,924 |
| Write offs | (1,590) | (1,960) | (6,331) | (100) | (9,981 |
| Gross finance receivables as at 31 December 2019 | 2,873,509 | 202,744 | 57,184 | 28,433 | 3,161,870 |
| Audited - June 2020 | | | | | |
| Gross finance receivables as at 30 June 2019 | 2,799,220 | 206,882 | 57,043 | 26,412 | 3,089,557 |
| Transfer between stages | (61,191) | 12,570 | 41,245 | 7,376 | - |
| Additions | 1,496,900 | 87,843 | 23,610 | - | 1,608,353 |
| Deletions | (1,402,340) | (118,572) | (37,334) | (3,174) | (1,561,420 |
| Write offs | (6,616) | (5,463) | (10,835) | (5,947) | (28,861 |
| Gross finance receivables as at 30 June 2020 | 2,825,973 | 183,260 | 73,729 | 24,667 | 3,107,629 |

(b) Finance receivables held at fair value

| | Unaudited | Unaudited | Audited |
|-----------------------------------------------|---------------|---------------|-----------|
| \$000's | December 2020 | December 2019 | June 2020 |
| Finance receivables - reverse mortgages | 622,137 | 586,003 | 609,346 |
| Total finance receivables - reverse mortgages | 622,137 | 586,003 | 609,346 |

8 Borrowings

| | Unaudited | Unaudited | Audited |
|-----------------------------------|---------------|---------------|-----------|
| \$000's | December 2020 | December 2019 | June 2020 |
| Deposits | 3,271,109 | 3,244,035 | 3,269,239 |
| Total deposits | 3,271,109 | 3,244,035 | 3,269,239 |
| | | | |
| Unsubordinated notes | 289,786 | 285,337 | 293,147 |
| Certificate of deposit | - | 69,811 | - |
| Repurchase agreement ¹ | 31,889 | - | - |
| Securitised borrowings | 67,914 | 30,015 | 65,585 |
| Total other borrowings | 389,589 | 385,163 | 358,732 |

¹The amounts disclosed as securities sold under arrangements to repurchase include \$30.0 million (face value) of high quality liquid assets. The cash consideration received (recognised as a liability) was \$31.9 million.

Deposits and unsubordinated notes rank equally and are unsecured.

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

| | | | | Frequency of |
|---------------|----------------|-------------------|-------------------|--------------------|
| Principal | Valuation | Issue date | Maturity | Interest Repayment |
| \$125 million | Amortised cost | 12 April 2019 | 12 April 2024 | Semi annually |
| \$150 million | Amortised cost | 21 September 2017 | 21 September 2022 | Semi annually |

At 31 December 2020 the Banking Group had the following securitised borrowings outstanding:

• Heartland Auto Receivables Warehouse Trust 2018-1 securitisation facility \$300 million, drawn \$68 million (December 2019: \$150 million, drawn \$30 million; June 2020: \$300 million, drawn \$66 million). Notes issued to investors are secured over the assets of the Heartland Auto Receivables Warehouse Trust 2018-1. The facility has a maturity date of 29 August 2022.

9 Share capital and dividends

| | Unaudited | Unaudited | Audited |
|-----------------|------------------|-------------------------|-------------------------|
| | December 2020 | December 2019 | June 2020 |
| 000's | Number of Shares | Number of Shares | Number of Shares |
| Issued shares | | | |
| Opening balance | 565,430 | 565,430 | 565,430 |
| Closing balance | 565,430 | 565,430 | 565,430 |

There were no new shares issued during the period (December 2019: nil; June 2020: nil).

Dividends paid

| | 6 Months to | 6 Months to December 2020 | | | 12 Months to June 2020 | | | |
|----------------------|---------------|---------------------------|---------|------------------|------------------------|---------|--|--|
| | | Cents | | | Cents | | | |
| | Date Declared | Per Share | \$000's | Date Declared | Per Share | \$000's | | |
| Dividend to HGH | - | - | - | 1 August 2019 | - | 35,000 | | |
| Dividend to HGH | - | - | - | 15 November 2019 | - | 20,000 | | |
| Dividend to HGH | - | - | - | 5 December 2019 | - | 10,000 | | |
| Total dividends paid | | | - | | | 65,000 | | |

The change in Conditions of Registration (**COR**) effective from 2 April 2020 restricts the payment of dividends on ordinary shares, and the redemption on non-CET1 capital instruments as a result of the COVID-19 pandemic. The restrictions remain in place at 31 December 2020.

10 Related party transactions and balances

(a) Transactions with key management personnel

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

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

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

| | Unaudited | Unaudited | Audited |
|--------------------------------------------------|---------------|---------------|--------------|
| | 6 Months to | 6 Months to | 12 Months to |
| \$000's | December 2020 | December 2019 | June 2020 |
| Transactions with key management personnel | | | _ |
| Interest income | 26 | - | 18 |
| Interest expense | (8) | (55) | (47) |
| Total Transactions with key management personnel | 18 | (55) | (29) |
| Due (to)/from key management personnel | | | |
| Lending | 574 | - | 239 |
| Borrowings - deposits | (1,778) | (2,322) | (1,646) |
| Total due (to) key management personnel | (1,204) | (2,322) | (1,407) |

(b) Transactions with related parties

The Banking Group's ultimate parent company is HGH.

The Bank has regular transactions with its ultimate parent company, fellow subsidiaries and subsidiaries (collectively known as the Heartland Group) on agreed terms. The transactions include the provision of administrative services, tax transactions, and customer operations and call centre. Banking facilities are provided by Heartland Bank Limited to other Heartland Group entities on normal commercial terms as with other customers. There is no lending from the Banking Group to HGH.

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

| | Unaudited | Unaudited | Audited |
|------------------------------------------------------|---------------|---------------|--------------|
| | 6 Months to | 6 Months to | 12 Months to |
| \$000's | December 2020 | December 2019 | June 2020 |
| Heartland Group Holdings Limited | | | |
| Interest expense | 8 | 10 | 47 |
| Deposits/(withdrawals) | (2,500) | 10,010 | - |
| Dividends paid | - | 65,000 | 65,000 |
| Disposal of investment in Harmoney Corp Limited | - | 11,935 | 11,935 |
| Management fees to HGH | 8,817 | 116 | 4,745 |
| Management fees from HGH | 601 | 103 | 160 |
| Heartland Australia Group Pty Limited (HAG) | | | |
| Interest income | - | 678 | 678 |
| Funding repaid to the Bank | = | 27,225 | 27,225 |
| Australian Seniors Finance Pty Limited (ASF) | | | |
| Management fees to ASF | 3 | - | 9 |
| Management fees from ASF | 680 | - | 1,790 |
| Southern Cross Building Society Staff Superannuation | | | |
| (SCBS) | | | |
| Interest expense | 8 | 18 | 33 |
| Management fees from SCBS | 5 | 5 | 10 |

10 Related party transactions and balances (continued)

(c) Due from/to related parties

| | Unaudited | Unaudited | Audited |
|----------------------------------------|---------------|---------------|-----------|
| \$000's | December 2020 | December 2019 | June 2020 |
| Due from | | | |
| Heartland Group Holdings Limited | - | 2,063 | - |
| Australian Seniors Finance Pty Limited | 254 | - | 1,481 |
| ASF Settlement Trust | 5 | - | - |
| Total due from related parties | 259 | 2,063 | 1,481 |
| Due to | | | |
| Heartland Group Holdings Limited | 7,487 | - | 5,788 |
| ASF Settlement Trust | - | 340 | 197 |
| Heartland Australia Group Pty Ltd | 1,912 | 1,798 | 1,959 |
| Total due to related parties | 9,399 | 2,138 | 7,944 |

(d) Other balances with related parties

| | Unaudited | Unaudited | Audited |
|------------------------------------------------------|---------------|---------------|-----------|
| \$000's | December 2020 | December 2019 | June 2020 |
| Heartland Group Holdings Limited | | | |
| Retail deposits | 2,555 | 10,010 | 5,047 |
| Southern Cross Building Society Staff Superannuation | | | |
| Retail deposits | 1,871 | 2,008 | 1,934 |

11 Fair value

(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.

The Banking Group has an established framework in performing valuations required for financial reporting purposes including level 3 fair values. The Banking Group regularly reviews and calibrates significant unobservable inputs and valuation adjustments in accordance with market participants' views. If external valuation specialists are engaged to measure fair values, the Banking Group assesses the evidence obtained from these specialists to support the conclusion of these valuations. All significant valuations are reported to the Banking Group's Board Audit and Risk Committee for approval prior to its adoption in the financial statements.

Investments

Investments in public sector securities and corporate bonds are measured at fair value through other comprehensive income (FVOCI), with the fair value being based on quoted market prices (Level 1 under the fair value hierarchy) or modelled using observable market inputs (Level 2 under the fair value hierarchy).

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 equity securities are classified as fair value through profit or loss unless an irrevocable election is made by the Banking Group to measure at FVOCI. Investments in unlisted equity securities are measured under Level 3 of the fair value hierarchy with the fair value being based on unobservable inputs using market accepted valuation techniques. Where appropriate, the Banking Group may apply adjustments to the abovementioned techniques to determine fair value of an equity security to reflect the underlying characteristics. These adjustments are reflective of market participant considerations in valuing the said security.

11 Fair value (continued)

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

Investment properties

Investment properties are initially recorded at their fair value, with subsequent changes in fair value recognised in profit or loss. Fair value are determined by qualified independent valuers or other similar external evidence, adjusted for changes in market conditions.

Investment properties have been acquired through the enforcement of security over finance receivables and are held to earn rental income or for capital appreciation (or both).

Finance receivables - reverse mortgages

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

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

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

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

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

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

Derivative financial instruments

Interest rate and foreign currency related contracts are recognised in the financial statements at fair value. Fair values are determined from observable market prices as at the reporting date, discounted cash flow models or option pricing models as appropriate (Level 2 under the fair value hierarchy).

The following table analyses financial instruments measured at fair value at the reporting date by the level in the fair value hierarchy into which each fair value measurement is categorised. The amounts are based on the values recognised in the consolidated interim statement of financial position.

11 Fair value (continued)

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

| \$000's | Level 1 | Level 2 | Level 3 | Tota |
|----------------------------------------------------|---------|---------|---------|-----------|
| Unaudited - December 2020 | | | | |
| Assets | | | | |
| Investments | 328,620 | 112,831 | 2,303 | 443,754 |
| Investment properties | - | - | 11,132 | 11,132 |
| Derivative financial instruments | - | 15,023 | - | 15,023 |
| Finance receivables - reverse mortgages | - | - | 622,137 | 622,137 |
| Total financial assets measured at fair value | 328,620 | 127,854 | 635,572 | 1,092,046 |
| Liabilities | | | | |
| Derivative financial instruments | - | 12,390 | - | 12,390 |
| Total financial liabilities measured at fair value | - | 12,390 | - | 12,390 |
| Unaudited - December 2019 | | | | |
| Assets | | | | |
| Investments | 282,428 | 16,572 | 1,988 | 300,988 |
| Investment properties | - | - | 11,132 | 11,132 |
| Derivative financial instruments | - | 10,806 | - | 10,806 |
| Finance receivables - reverse mortgages | - | - | 586,003 | 586,003 |
| Total financial assets measured at fair value | 282,428 | 27,378 | 599,123 | 908,929 |
| Liabilities | | | | |
| Derivative financial instruments | - | 9,843 | - | 9,843 |
| Total financial liabilities measured at fair value | - | 9,843 | - | 9,843 |
| Audited - June 2020 | | | | |
| Assets | | | | |
| Investments | 295,300 | 94,354 | 2,303 | 391,957 |
| Investment properties | - | - | 11,132 | 11,132 |
| Derivative financial instruments | - | 17,246 | - | 17,246 |
| Finance receivables - reverse mortgages | - | - | 609,346 | 609,346 |
| Total financial assets measured at fair value | 295,300 | 111,600 | 622,781 | 1,029,681 |
| Liabilities | | | | |
| Derivative financial instruments | - | 16,974 | - | 16,974 |
| Total financial liabilities measured at fair value | - | 16,974 | - | 16,974 |

There were no transfers between any fair value hierarchy levels in the six months ended 31 December 2020 (December 2019: nil; June 2020: nil).

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

| | Finance Receivables | | Investment | |
|-------------------------------|---------------------|-------------|------------|----------|
| \$000's | - Reverse Mortgage | Investments | Properties | Total |
| Unaudited - December 2020 | | | | |
| As at 30 June 2020 | 609,346 | 2,303 | 11,132 | 622,781 |
| New loans | 43,840 | - | - | 43,840 |
| Repayments | (49,461) | - | - | (49,461) |
| Capitalised Interest and fees | 18,481 | - | - | 18,481 |
| Additions | - | - | - | - |
| Other | (69) | - | - | (69) |
| As at 31 December 2020 | 622,137 | 2,303 | 11,132 | 635,572 |

11 Fair value (continued)

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

| | Finance Receivables | | Investment | |
|-------------------------------|---------------------|-------------|------------|----------|
| \$000's | - Reverse Mortgage | Investments | Properties | Total |
| Unaudited - December 2019 | | | | |
| As at 30 June 2019 | 561,131 | 12,435 | 11,132 | 584,698 |
| New loans | 39,278 | - | - | 39,278 |
| Repayments | (35,129) | - | - | (35,129) |
| Capitalised Interest and fees | 20,203 | - | - | 20,203 |
| Additions | - | 1,488 | - | 1,488 |
| Deletions | - | (11,935) | - | (11,935) |
| Other | 520 | - | - | 520 |
| As at 31 December 2019 | 586,003 | 1,988 | 11,132 | 599,123 |
| Audited - June 2020 | | | | |
| As at 30 June 2019 | 561,131 | 12,435 | 11,132 | 584,698 |
| New loans | 76,729 | , | , | 76,729 |
| Repayments | (69,932) | - | - | (69,932) |
| Capitalised Interest and fees | 39,620 | - | - | 39,620 |
| Additions | · - | 1,803 | - | 1,803 |
| Deletions | - | (11,935) | - | (11,935) |
| Other | 1,798 | - · · · - | - | 1,798 |
| As at 30 June 2020 | 609,346 | 2,303 | 11,132 | 622,781 |

(b) Financial instruments not measured at fair value

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

| | | Unaudited | | Unau | dited | Aud | ited |
|-----------------------------|------------|-------------------|-----------|------------|-----------|-------------------|-----------|
| | | Decemb | er 2020 | Decemb | er 2019 | June | 2020 |
| | | | Total | | Total | | Total |
| | Fair Value | Total Fair | Carrying | Total Fair | Carrying | Total Fair | Carrying |
| \$000's | Hierarchy | Value | Value | Value | Value | Value | Value |
| Assets | | | | | | | |
| Cash and cash equivalents | Level 1 | 104,965 | 104,965 | 122,737 | 122,737 | 105,463 | 105,463 |
| Investments ¹ | Level 2 | 7,413 | 7,405 | 6,961 | 6,970 | 7,375 | 7,351 |
| Finance receivables | Level 2 | 3,062,211 | 3,042,378 | 3,082,052 | 3,101,366 | 3,092,150 | 3,044,960 |
| Due from related parties | Level 3 | 259 | 259 | 2,063 | 2,063 | 1,481 | 1,481 |
| Other financial assets | Level 3 | 402 | 402 | 1,784 | 1,784 | 3,530 | 3,530 |
| Total financial assets | | 3,175,250 | 3,155,409 | 3,215,597 | 3,234,920 | 3,209,999 | 3,162,785 |
| Liabilities | | | | | | | |
| Retail deposits | Level 2 | 3,290,041 | 3,271,109 | 3,255,204 | 3,244,035 | 3,283,530 | 3,269,239 |
| Borrowings - securitised | Level 2 | 67,914 | 67,914 | 30,015 | 30,015 | 65,585 | 65,585 |
| Other borrowings | Level 2 | 321,675 | 321,675 | 355,148 | 355,148 | 293,147 | 293,147 |
| Due to related parties | Level 3 | 9,399 | 9,399 | 2,138 | 2,138 | 7,944 | 7,944 |
| Other financial liabilities | Level 3 | 11,749 | 11,749 | 10,897 | 10,897 | 26,100 | 26,100 |
| Total financial liabilities | | 3,700,778 | 3,681,846 | 3,653,402 | 3,642,233 | 3,676,306 | 3,662,015 |

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

Risk Management

12 Enterprise risk management program

There have been no material changes in the Banking group's policies for managing risk, or material exposures to any new types of risk since the reporting date of the previous Disclosure Statement, refer to the Bank's Disclosure Statement for the year ended 30 June 2020.

13 Credit risk exposure

(a) Maximum exposure to credit risk at the relevant reporting dates

The following table represents the maximum credit risk exposure, without taking account of any collateral held. The exposures set out below are based on net carrying amounts as reported in the consolidated interim statement of financial position.

| | Unaudited | Unaudited | Audited |
|-----------------------------------------|---------------|---------------|-----------|
| \$000's | December 2020 | December 2019 | June 2020 |
| Cash and cash equivalents | 104,965 | 122,737 | 105,463 |
| Investments | 448,856 | 305,970 | 397,005 |
| Finance receivables | 3,042,378 | 3,101,366 | 3,044,960 |
| Finance receivables - reverse mortgages | 622,137 | 586,003 | 609,346 |
| Derivative financial assets | 15,023 | 10,806 | 17,246 |
| Due from related parties | 259 | 2,063 | 1,481 |
| Other financial assets | 402 | 1,784 | 3,530 |
| Total on balance sheet credit exposures | 4,234,020 | 4,130,729 | 4,179,031 |

(b) Concentration of credit risk by geographic region

| | Unaudited | Unaudited | Audited |
|-----------------------------------------|---------------|---------------|-----------|
| \$000's | December 2020 | December 2019 | June 2020 |
| New Zealand | 3,843,156 | 3,804,839 | 3,814,932 |
| Australia | 107,040 | 134,541 | 131,419 |
| Rest of the world ¹ | 339,661 | 251,853 | 295,349 |
| | 4,289,857 | 4,191,233 | 4,241,700 |
| Provision for impairment | (55,837) | (60,504) | (62,669) |
| Total on balance sheet credit exposures | 4,234,020 | 4,130,729 | 4,179,031 |

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

13 Credit risk exposure (continued)

(c) Concentration of credit risk by industry sector

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

| | Unaudited | Unaudited | Audited |
|-----------------------------------------|---------------|---------------|-----------|
| \$000's | December 2020 | December 2019 | June 2020 |
| Agriculture | 595,601 | 648,894 | 625,141 |
| Forestry and fishing | 147,824 | 152,344 | 145,045 |
| Mining | 11,965 | 14,185 | 12,993 |
| Manufacturing | 73,674 | 73,475 | 75,659 |
| Finance and insurance | 636,472 | 477,801 | 556,537 |
| Wholesale trade | 38,625 | 40,768 | 39,540 |
| Retail trade and accommodation | 207,492 | 244,041 | 232,664 |
| Households | 1,687,590 | 1,673,069 | 1,674,286 |
| Other business services | 144,006 | 136,762 | 163,801 |
| Construction | 209,895 | 194,402 | 197,174 |
| Rental, hiring and real estate services | 153,942 | 144,937 | 142,467 |
| Transport and storage | 273,362 | 256,182 | 257,634 |
| Other | 109,409 | 134,373 | 118,759 |
| | 4,289,857 | 4,191,233 | 4,241,700 |
| Provision for impairment | (55,837) | (60,504) | (62,669) |
| Total on balance sheet credit exposures | 4,234,020 | 4,130,729 | 4,179,031 |

(d) Commitments to extend credit

| | Unaudited | Unaudited | Audited |
|-------------------------------------------------|---------------|---------------|-----------|
| \$000's | December 2020 | December 2019 | June 2020 |
| Undrawn facilities available to customers | 186,602 | 142,308 | 177,719 |
| Conditional commitments to fund at future dates | 24,570 | 13,161 | 58,045 |
| Total commitments | 211,172 | 155,469 | 235,764 |

As at 31 December 2020 there were no undrawn lending commitments available to counterparties for whom drawn balances are classified as individually impaired (December 2019: nil, June 2020: nil).

13 Credit risk exposure (continued)

(e) Credit exposure to individual counterparties

The Banking Group's aggregate concentration of credit exposure to individual counterparties is calculated based on the actual credit exposure. Credit exposures to connected persons, the central government or central bank of any country with a long term credit rating of A- or A3 or above, or its equivalent, and any supranational or quasi-sovereign agency with a long-term credit rating of A- or A3 or above, or its equivalent are excluded.

The peak end-of-day aggregate concentration of credit exposure to individual counterparties has been calculated by determining the maximum end-of-day aggregate amount of credit exposure over the relevant six month-month period and then dividing the amount by the Banking Group's common equity tier one capital as at 31 December 2020.

| | Number of Exposures As at December 2020 | Number of Exposures Peak End-of-Day over 6 Months to December 2020 |
|-------------------------------------------------------------------------|-----------------------------------------|--------------------------------------------------------------------------|
| Exposures to banks | | |
| With a long-term credit rating of A- or A3 or above, or its equivalent: | | |
| 10% to less than 15% of CET1 capital | 1 | 1 |
| 15% to less than 20% of CET1 capital | - | - |
| 20% to less than 25% of CET1 capital | - | - |
| With a long-term credit rating of at least BBB- or Baa3, or its | | |
| equivalent, and at most BBB+ or Baa1, or its equivalent | | - |
| Exposures to non-banks | | |
| Total number of exposures to non-banks that are greater than 10% of | | |
| CET1 capital | - | - |
| With a long-term credit rating of A- or A3 or above, or its equivalent | - | - |
| With a long-term credit rating of at least BBB- or Baa3, or its | | |
| equivalent, and at most BBB+ or Baa1, or its equivalent | - | - |

14 Asset quality

The disclosures in this note are categorised by the following credit risk concentrations:

Corporate Business lending including rural lending.

Residential Lending secured by a first ranking mortgage over a residential property used primarily for residential

purposes either by the mortgagor or a tenant of the mortgagor.

All Other This relates primarily to consumer lending to individuals.

(a) Finance receivables by credit risk concentration

| \$000's | Corporato | Residential | All Other | Total |
|------------------------------------------------|-----------|-------------|-----------|-----------|
| Unaudited - December 2020 | Corporate | Residential | All Other | TOLAI |
| Ondudited - Determber 2020 | | | | |
| Neither at least 90 days past due nor impaired | 1,905,439 | 644,296 | 1,090,741 | 3,640,476 |
| At least 90 days past due | 22,087 | 138 | 23,984 | 46,209 |
| Individually impaired | 31,884 | 9 | 1,774 | 33,667 |
| Gross finance receivables | 1,959,410 | 644,443 | 1,116,499 | 3,720,352 |
| Provision for impairment | (33,395) | (5) | (22,437) | (55,837) |
| Total net finance receivables | 1,926,015 | 644,438 | 1,094,062 | 3,664,515 |
| | | | | |
| Unaudited - December 2019 | | | | |
| Neither at least 90 days past due nor impaired | 1,894,580 | 610,775 | 1,167,305 | 3,672,660 |
| At least 90 days past due | 34,281 | 512 | 11,987 | 46,780 |
| Individually impaired | 28,433 | - | - | 28,433 |
| Gross finance receivables | 1,957,294 | 611,287 | 1,179,292 | 3,747,873 |
| Provision for impairment | (35,593) | (146) | (24,765) | (60,504) |
| Total net finance receivables | 1,921,701 | 611,141 | 1,154,527 | 3,687,369 |
| Audited - June 2020 | | | | |
| Neither at least 90 days past due nor impaired | 1,889,231 | 632,894 | 1,110,903 | 3,633,028 |
| At least 90 days past due | 27,098 | 599 | 31,583 | 59,280 |
| Individually impaired | 22,774 | 9 | 1,884 | 24,667 |
| Gross finance receivables | 1,939,103 | 633,502 | 1,144,370 | 3,716,975 |
| Provision for impairment | (34,614) | • | (28,048) | (62,669) |
| Total net finance receivables | 1,904,489 | 633,495 | 1,116,322 | 3,654,306 |

(b) Past due but not impaired

| \$000's | Corporate Re | esidential | All Other | Total |
|--------------------------------------------|--------------|------------|-----------|---------|
| Unaudited - December 2020 | | | | |
| Less than 30 days past due | 9,130 | 459 | 13,621 | 23,210 |
| At least 30 but less than 60 days past due | 12,102 | 380 | 9,805 | 22,287 |
| At least 60 but less than 90 days past due | 9,379 | - | 3,132 | 12,511 |
| At least 90 days past due | 22,087 | 138 | 23,984 | 46,209 |
| Total past due but not impaired | 52,698 | 977 | 50,542 | 104,217 |

(b) Past due but not impaired (continued)

| \$000's | Corporate R | esidential | All Other | Total |
|--------------------------------------------|-------------|------------|-----------|---------|
| Unaudited - December 2019 | | | | |
| Less than 30 days past due | 32,847 | 996 | 39,835 | 73,678 |
| At least 30 but less than 60 days past due | 9,796 | 141 | 14,125 | 24,062 |
| At least 60 but less than 90 days past due | 3,335 | 461 | 21,552 | 25,348 |
| At least 90 days past due | 34,281 | 512 | 11,987 | 46,780 |
| Total past due but not impaired | 80,259 | 2,110 | 87,499 | 169,868 |
| Audited - June 2020 | | | | |
| Less than 30 days past due | 14,301 | 853 | 20,965 | 36,119 |
| At least 30 but less than 60 days past due | 9,361 | - | 10,863 | 20,224 |
| At least 60 but less than 90 days past due | 8,041 | 47 | 8,280 | 16,368 |
| At least 90 days past due | 27,098 | 599 | 31,583 | 59,280 |
| Total past due but not impaired | 58,801 | 1,499 | 71,691 | 131,991 |

(c) Individually impaired assets

| \$000's | Corporate R | Residential | All Other | Total |
|--------------------------------------------------|-------------|-------------|-----------|---------|
| Unaudited - December 2020 | | | | |
| Opening | 22,774 | 9 | 1,884 | 24,667 |
| Additions | 14,768 | - | - | 14,768 |
| Deletions | (3,123) | - | (110) | (3,233) |
| Write offs | (2,535) | - | - | (2,535) |
| Closing gross individually impaired assets | 31,884 | 9 | 1,774 | 33,667 |
| Less: provision for individually impaired assets | (6,234) | - | - | (6,234) |
| Total net individually impaired assets | 25,650 | 9 | 1,774 | 27,433 |
| Unaudited - December 2019 | | | | |
| Opening | 26,412 | _ | _ | 26,412 |
| Additions | 3,638 | - | - | 3,638 |
| Deletions | (1,517) | - | - | (1,517) |
| Write offs | (100) | - | - | (100) |
| Closing gross individually impaired assets | 28,433 | - | - | 28,433 |
| Less: provision for individually impaired assets | (9,401) | - | - | (9,401) |
| Total net individually impaired assets | 19,032 | - | - | 19,032 |
| Audited - June 2020 | | | | |
| Opening | 26,412 | - | - | 26,412 |
| Additions | 5,483 | 9 | 1,884 | 7,376 |
| Deletions | (3,174) | - | - | (3,174) |
| Write offs | (5,947) | - | - | (5,947) |
| Closing gross individually impaired assets | 22,774 | 9 | 1,884 | 24,667 |
| Less: provision for individually impaired assets | (5,301) | - | - | (5,301) |
| Total net individually impaired assets | 17,473 | 9 | 1,884 | 19,366 |

(d) Provision for impairment

| | 12 Months | Lifetime Not Credit | Lifetime ECL Credit | Specific | |
|--------------------------------------------------------------------|-----------|------------------------|------------------------|-----------|----------|
| \$000's | ECL | Impaired | Impaired | Provision | Total |
| Unaudited - December 2020 | | | | | |
| Corporate | | | | | |
| Impairment allowance as at 30 June 2020 | 18,782 | 829 | 9,702 | 5,301 | 34,614 |
| Changes in loss allowance | | | | | |
| Transfer between stages | (671) | (232) | (199) | 1,102 | - |
| New and increased provision (net of collective provision releases) | 963 | 923 | 208 | 2,312 | 4,406 |
| Recovery of amounts written off | - | - | - | - | - |
| Credit impairment charge | 292 | 691 | 9 | 3,414 | 4,406 |
| Recovery of amounts previously written off | - | - | - | - | - |
| Write offs | - | - | (3,145) | (2,481) | (5,626) |
| Effect of changes in foreign exchange rate | | 1 | - | - | 1 |
| Impairment allowance as at 31 December 2020 | 19,074 | 1,521 | 6,566 | 6,234 | 33,395 |
| Residential | | | | | |
| Impairment allowance as at 30 June 2020 | 10 | 1 | (4) | - | 7 |
| Changes in loss allowance | | | | | |
| Transfer between stages | 1 | - | (1) | - | - |
| New and increased provision (net of collective provision releases) | (3) | 1 | - | - | (2) |
| Recovery of amounts written off | - | - | - | - | - |
| Credit impairment charge | (2) | 1 | (1) | - | (2) |
| Recovery of amounts previously written off | - | - | - | - | - |
| Write offs | - | - | - | - | - |
| Effect of changes in foreign exchange rate | - | - | - | - | - |
| Impairment allowance as at 31 December 2020 | 8 | 2 | (5) | - | 5 |
| All Other | | | | | |
| Impairment allowance as at 30 June 2020 | 13,628 | 1,337 | 13,083 | - | 28,048 |
| Changes in loss allowance | | | | | |
| Transfer between stages | (167) | (162) | 329 | - | - |
| New and increased provision (net of collective provision releases) | (2,190) | (832) | 4,465 | - | 1,443 |
| Recovery of amounts written off | | <u> </u> | (1,309) | - | (1,309) |
| Credit impairment charge | (2,357) | (994) | 3,485 | - | 134 |
| Recovery of amounts previously written off | - | - | 1,309 | - | 1,309 |
| Write offs | - (4) | - | (7,054) | - | (7,054) |
| Effect of changes in foreign exchange rate | (1) | - 242 | 10.024 | - | |
| Impairment allowance as at 31 December 2020 | 11,270 | 343 | 10,824 | - | 22,437 |
| Total | | | | | |
| Impairment allowance as at 30 June 2020 | 32,420 | 2,167 | 22,781 | 5,301 | 62,669 |
| Changes in loss allowance | | | | | |
| Transfer between stages | (837) | (394) | 129 | 1,102 | - |
| New and increased provision (net of collective provision releases) | (1,230) | 92 | 4,673 | 2,312 | 5,847 |
| Recovery of amounts written off | - | - | (1,309) | - | (1,309) |
| Credit impairment charge | (2,067) | (302) | 3,493 | 3,414 | 4,538 |
| Recovery of amounts previously written off | - | - | 1,309 | - | 1,309 |
| Write offs | - (4) | - | (10,199) | (2,481) | (12,680) |
| Effect of changes in foreign exchange rate | (1) | 1 255 | 1 | - | 1 |
| Impairment allowance as at 31 December 2020 | 30,352 | 1,866 | 17,385 | 6,234 | 55,837 |

(d) Provision for impairment (continued)

| | | Lifetime | Lifetime | | |
|--------------------------------------------------------------------|------------------|------------------------|------------------------|-----------------------|---------|
| \$000's | 12 Months ECL | Not Credit Impaired | ECL Credit Impaired | Specific Provision | Tatal |
| Unaudited - December 2019 | ECL | ппрапец | iiiipaiieu | PTOVISION | Tota |
| | | | | | |
| Corporate Impairment allowance as at 30 June 2019 | 21,404 | 670 | 4,532 | 7,863 | 34,469 |
| Changes in loss allowance | | 070 | 7,332 | 7,003 | 34,403 |
| Transfer between stages | (843) | 41 | (283) | 1,085 | _ |
| New and increased provision (net of collective provision releases) | 624 | 540 | (493) | 553 | 1,224 |
| Recovery of amounts written off | - | - | (133) | - | -, |
| Credit impairment charge | (219) | 581 | (776) | 1,638 | 1,224 |
| Recovery of amounts previously written off | - | - | - | -, | -, |
| Write offs | _ | _ | _ | (100) | (100) |
| Effect of changes in foreign exchange rate | _ | _ | - | - | - |
| Impairment allowance as at 31 December 2019 | 21,185 | 1,251 | 3,756 | 9,401 | 35,593 |
| Residential | | | | | |
| Impairment allowance as at 30 June 2019 | 21 | 3 | 80 | _ | 104 |
| Changes in loss allowance | | | | | 104 |
| Transfer between stages | _ | (2) | 2 | _ | _ |
| New and increased provision (net of collective provision releases) | (4) | - | 46 | _ | 42 |
| Recovery of amounts written off | - | _ | _ | _ | _ |
| Credit impairment charge | (4) | (2) | 48 | - | 42 |
| Recovery of amounts previously written off | - | - | - | - | _ |
| Write offs | _ | _ | - | - | _ |
| Effect of changes in foreign exchange rate | - | - | - | _ | - |
| Impairment allowance as at 31 December 2019 | 17 | 1 | 128 | - | 146 |
| All Other | | | | | |
| Impairment allowance as at 30 June 2019 | 8,997 | 1,108 | 13,813 | - | 23,918 |
| Changes in loss allowance | | | | | |
| Transfer between stages | (821) | (166) | 987 | - | - |
| New and increased provision (net of collective provision releases) | 572 | 126 | 8,778 | - | 9,476 |
| Recovery of amounts written off | | - | (1,767) | - | (1,767) |
| Credit impairment charge | (249) | (40) | 7,998 | - | 7,709 |
| Recovery of amounts previously written off | - | - | 1,767 | - | 1,767 |
| Write offs | - | - | (8,624) | - | (8,624) |
| Effect of changes in foreign exchange rate | (3) | - | (2) | - | (5) |
| Impairment allowance as at 31 December 2019 | 8,745 | 1,068 | 14,952 | - | 24,765 |
| Total | | | | | |
| Impairment allowance as at 30 June 2019 | 30,422 | 1,781 | 18,425 | 7,863 | 58,491 |
| Changes in loss allowance | | | | | |
| Transfer between stages | (1,664) | (127) | 706 | 1,085 | - |
| New and increased provision (net of collective provision releases) | 1,192 | 666 | 8,330 | 553 | 10,741 |
| Recovery of amounts written off | | - | (1,767) | - | (1,767) |
| Credit impairment charge | (472) | 539 | 7,269 | 1,638 | 8,974 |
| Recovery of amounts previously written off | - | - | 1,767 | - | 1,767 |
| Write offs | = | - | (8,623) | (100) | (8,723) |
| Effect of changes in foreign exchange rate | (3) | - | (2) | - | (5) |
| Impairment allowance as at 31 December 2019 | 29,947 | 2,320 | 18,836 | 9,401 | 60,504 |

(d) Provision for impairment (continued)

| \$000's | 12 Months ECL | Lifetime Not Credit Impaired | Lifetime ECL Credit Impaired | Specific Provision | Total |
|---------------------------------------------------------------------|------------------|------------------------------------|------------------------------------|-----------------------|-------------------|
| Audited - June 2020 | _ | | | | 10141 |
| Corporate | | | | | |
| Impairment allowance as at 30 June 2019 | 21,404 | 670 | 4,532 | 7,863 | 34,469 |
| Changes in loss allowance | | | | | |
| Transfer between stages | (254) | 61 | (1,400) | 1,593 | - |
| New and increased provision (net of collective provision releases) | (2,368) | 97 | 6,570 | 1,792 | 6,091 |
| Recovery of amounts written off | | - | - | - | - |
| Credit impairment charge | (2,622) | 158 | 5,170 | 3,385 | 6,091 |
| Recovery of amounts previously written off | - | - | - | - | - |
| Write offs | - | - | - | (5,947) | (5,947) |
| Effect of changes in foreign exchange rate | | 1 | - | - | 1 |
| Impairment allowance as at 30 June 2020 | 18,782 | 829 | 9,702 | 5,301 | 34,614 |
| Residential | | | | | |
| Impairment allowance as at 30 June 2019 | 21 | 3 | 80 | 0 | 104 |
| Changes in loss allowance | | | | | |
| Transfer between stages | 44 | (1) | (43) | - | - |
| New and increased provision (net of collective provision releases) | (55) | (1) | (41) | - | (97) |
| Recovery of amounts written off | | - | | | |
| Credit impairment charge | (11) | (2) | (84) | - | (97) |
| Recovery of amounts previously written off | - | - | - | - | - |
| Write offs | - | - | - | - | - |
| Effect of changes in foreign exchange rate | | - | - (4) | - | |
| Impairment allowance as at 30 June 2020 | 10 | 1 | (4) | - | 7 |
| All Other | | | | | |
| Impairment allowance as at 30 June 2019 | 8,997 | 1,108 | 13,813 | - | 23,918 |
| Changes in loss allowance | (000) | (0.10) | | | |
| Transfer between stages | (999) | (343) | 1,342 | - | 20.400 |
| New and increased provision (net of collective provision releases) | 5,603 | 2,007 | 18,576 | - | 26,186 |
| Recovery of amounts written off | 4.604 | 1.004 | (2,808) | | (2,808) |
| Credit impairment charge Recovery of amounts previously written off | 4,604 | 1,664 | 17,110 | - | 23,378 |
| Write offs | - | (1,438) | 2,808 (20,658) | - | 2,808 (22,096) |
| Effect of changes in foreign exchange rate | 27 | (1,438) | 10 | _ | (22,090) |
| Impairment allowance as at 30 June 2020 | 13,628 | 1,337 | 13,083 | - | 28,048 |
| Total | | • | • | | • |
| Impairment allowance as at 30 June 2019 | 30,422 | 1,781 | 18,425 | 7,863 | 58,491 |
| Changes in loss allowance | 30,422 | 1,701 | 10,423 | 7,003 | 30,431 |
| Transfer between stages | (1,209) | (283) | (101) | 1,593 | _ |
| New and increased provision (net of collective provision releases) | 3,180 | 2,103 | 25,105 | 1,792 | 32,180 |
| Recovery of amounts written off | -, | -, | (2,808) | - | (2,808) |
| Credit impairment charge | 1,971 | 1,820 | 22,196 | 3,385 | 29,372 |
| Recovery of amounts previously written off | - | - | 2,808 | - | 2,808 |
| Write offs | _ | (1,438) | (20,658) | (5,947) | (28,043) |
| Effect of changes in foreign exchange rate | 27 | 4 | 10 | - | 41 |
| | | 2,167 | 22,781 | 5,301 | 62,669 |

(e) Other assets under administration

Other assets under administration are any loans, not being individually impaired or 90 days or more past due, where the customer is in any form of voluntary or involuntary administration, including receivership, liquidation, bankruptcy or statutory management. As at 31 December 2020, the Banking Group had \$0.2 million other assets under administration (December 2019: \$0.6 million; June 2020: \$0.8 million).

15 Liquidity risk

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

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

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

Reserve Bank of New Zealand (RBNZ) facilities

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

On 16 March 2020, as a result of COVID-19, the RBNZ announced that it would provide term funding through a Term Auction Facility to give banks the ability to access term funding using repurchase agreements with qualifying collateral for a term of up to twelve months. From 26 May 2020, the RBNZ also made available, for a period of 6 months, a Term Lending Facility (TLF) to offer loans for a fixed term of three years at the Official Cash Rate, with access to the funds linked to banks' lending under the Business Finance Guarantee Scheme. On 20 August 2020, the RBNZ announced it would extend the availability of the TLF to 1 February 2021 with terms of five years. Additional stimulus provided through a funding for lending programme also commenced in December 2020 designed to enable banks to provide low-cost lending. The Banking Group had not utilised any of these facilities as at 31 December 2020.

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

| | Unaudited | Unaudited | Audited |
|-----------------------------------|---------------|---------------|-----------|
| \$000's | December 2020 | December 2019 | June 2020 |
| Cash and cash equivalents | 104,965 | 122,737 | 105,463 |
| Investments | 448,856 | 305,970 | 397,005 |
| Undrawn committed bank facilities | 232,086 | 119,985 | 234,415 |
| Total liquidity | 785,907 | 548,692 | 736,883 |

Contractual liquidity profile of financial liabilities

The following tables present the Banking Group's financial liabilities by relevant maturity groupings based upon contractual maturity date. The amounts disclosed in the tables represent undiscounted future principal and interest cash flows. As a result, the amounts in the tables below may differ to the amounts reported on the consolidated interim statement of financial position.

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

15 Liquidity risk (continued)

Contractual liquidity profile of financial liabilities (continued)

| | On | 0-6 | 6-12 | 1-2 | 2-5 | 5+ | |
|-------------------------------------------|-----------|------------|---------|------------|---------|-------|-----------|
| \$000's | Demand | Months | Months | Years | Years | Years | Tota |
| Unaudited - December 2020 | | | | | | | |
| Financial liabilities | | | | | | | |
| Retail deposits | 997,322 | 1,382,593 | 554,159 | 275,364 | 94,526 | _ | 3,303,964 |
| Other borrowings | · - | 39,124 | 5,223 | 228,074 | 130,690 | _ | 403,111 |
| Derivative financial liabilities | - | 5,449 | 2,994 | 3,201 | 430 | _ | 12,074 |
| Due to related parties | - | 9,399 | _ | - | _ | - | 9,399 |
| Lease liabilities | _ | 1,304 | 1,319 | 2,668 | 7,928 | 8,139 | 21,358 |
| Other financial liabilities | - | 11,749 | - · | - - | - | - | 11,749 |
| Total financial liabilities | 997,322 | 1,449,618 | 563,695 | 509,307 | 233,574 | 8,139 | 3,761,655 |
| Undrawn facilities available to customers | 186,602 | - | - | - | - | - | 186,602 |
| Undrawn committed bank facilities | 232,086 | - | - | - | - | - | 232,086 |
| | | | | | | | |
| Unaudited - December 2019 | | | | | | | |
| Financial liabilities | | | | | | | |
| Retail deposits | 1,001,355 | 1,539,292 | 468,729 | 246,518 | 103,151 | - | 3,359,045 |
| Other borrowings | - | 36,577 | 4,690 | 11,188 | 290,009 | - | 342,464 |
| Derivative financial liabilities | 9,843 | - | - | - | - | - | 9,843 |
| Due to related parties | - | 2,138 | - | - | - | - | 2,138 |
| Lease liabilities | - | 1,056 | 1,284 | 2,622 | 10,597 | 8,139 | 23,698 |
| Other financial liabilities | - | 10,897 | - | - | - | - | 10,897 |
| Total financial liabilities | 1,011,198 | 1,589,960 | 474,703 | 260,328 | 403,757 | 8,139 | 3,748,085 |
| Undrawn facilities available to customers | 142,308 | - | - | - | - | - | 142,308 |
| Undrawn committed bank facilities | 119,985 | - | - | - | - | - | 119,985 |
| Audited - June 2020 | | | | | | | |
| Financial liabilities | | | | | | | |
| Retail deposits | 813,140 | 1,418,656 | 833,440 | 162,221 | 86,615 | _ | 3,314,072 |
| Other borrowings | 013,140 | 6,228 | 6,126 | 76,964 | 284,462 | _ | 373,780 |
| Derivative financial liabilities | _ | 5,683 | 4,665 | 5,297 | 1,354 | _ | 16,999 |
| Due to related parties | _ | 7,944 | 4,005 | 3,237 | 1,334 | - | 7,944 |
| Lease liabilities | _ | 1,284 | 1,304 | 5,335 | 7,634 | 7,085 | 22,642 |
| Other financial liabilities | _ | 26,100 | - | J,335 - | 7,034 | 7,005 | 26,100 |
| Total financial liabilities | 813,140 | 1,465,895 | 845,535 | 249,817 | 380,065 | 7,085 | 3,761,537 |
| Undrawn facilities available to customers | 177,719 | _, .00,000 | - | - | - | | 177,719 |
| Undrawn committed bank facilities | 234,415 | _ | _ | _ | _ | _ | 234,415 |

16 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.

| | | | | | | Non- | |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------|-------------------------------|----------------------------------|----------------------------------|----------------------------------|---------------------------------------------------------|------------------------------------------------------------|
| | 0-3 | 3-6 | 6-12 | 1-2 | 2+ | Interest | |
| \$000's | Months | Months | Months | Years | Years | Bearing | Total |
| Unaudited - December 2020 | | | | | | | |
| Financial assets | | | | | | | |
| Cash and cash equivalents | 104,950 | - | - | - | - | 15 | 104,965 |
| Investments | 55,036 | 23,265 | 38,705 | 75,963 | 255,886 | 2,304 | 451,159 |
| Finance receivables | 1,481,401 | 134,370 | 286,777 | 469,999 | 656,238 | 13,593 | 3,042,378 |
| Finance receivables - reverse mortgages | 622,137 | - | - | - | - | - | 622,137 |
| Due from related parties | - | - | - | - | - | 259 | 259 |
| Derivative financial assets | - | - | - | - | - | 15,023 | 15,023 |
| Other financial assets | - | - | - | - | - | 402 | 402 |
| Total financial assets | 2,263,524 | 157,635 | 325,482 | 545,962 | 912,124 | 31,596 | 4,236,323 |
| Financial liabilities | | | | | | | |
| Retail deposits | 1,740,674 | 611,540 | 546,713 | 266,193 | 86,697 | 19,292 | 3,271,109 |
| Other borrowings | 101,694 | 987 | - | 156,063 | 130,845 | - | 389,589 |
| Derivative financial liabilities | - | - | - | - | - | 12,390 | 12,390 |
| Due to related parties | - | - | - | - | - | 9,399 | 9,399 |
| Lease liabilities | - | - | - | - | - | 18,878 | 18,878 |
| Other financial liabilities | - | - | - | - | - | 11,749 | 11,749 |
| Total financial liabilities | 1,842,368 | 612,527 | 546,713 | 422,256 | 217,542 | 71,708 | 3,713,114 |
| Effect of derivatives held for risk | | (50.050) | (00.100) | (400 404) | (4== 4=6) | | |
| management | 463,422 | (63,969) | (92,103) | (130,194) | (177,156) | - | - |
| Net financial assets/(liabilities) | 884,578 | (518,861) | (313,334) | (6,488) | 517,426 | (40,112) | 523,209 |
| Unaudited - December 2019 | | | | | | | |
| Financial assets | 122 724 | | | | | 2 | 422 727 |
| Cash and cash equivalents | 122,734 | - | 45 524 | - | - | 3 | 122,737 |
| Investments | 34,690 | 60,279 | 15,534 | 59,787 | 135,680 | 1,988 | 307,958 |
| Finance receivables Finance receivables - reverse mortgages | 1,543,914 586,003 | 215,723 | 355,919 | 563,825 | 417,055 | 4,930 - | 3,101,366 586,003 |
| Due from related parties | 2,063 | - | - | - | - | - | 2,063 |
| Derivative financial assets | 2,065 | - | - | - | - | 10,806 | 10,806 |
| Other financial assets | _ | | _ | _ | | 10,800 | 10,800 |
| Other infallelar assets | | | | _ | _ | 1 72/ | 1 78/ |
| Total financial assets | 2.289.404 | 276.002 | 371.453 | 623.612 | 552.735 | 1,784 19.511 | 1,784 4.132.717 |
| | 2,289,404 | 276,002 | 371,453 | 623,612 | 552,735 | 1,784 19,511 | 1,784 4,132,717 |
| Financial liabilities | • | | • | • | 552,735 | 19,511 | 4,132,717 |
| Financial liabilities Retail deposits | 1,698,288 | 602,765 | 371,453 597,217 | 235,773 | 552,735 96,449 | | 4,132,717 3,244,035 |
| Financial liabilities Retail deposits Other borrowings | • | | • | • | 552,735 | 19,511 13,543 | 4,132,717 3,244,035 385,163 |
| Financial liabilities Retail deposits Other borrowings Derivative financial liabilities | 1,698,288 101,680 | 602,765 | • | 235,773 | 552,735 96,449 | 19,511 | 4,132,717 3,244,035 385,163 9,843 |
| Financial liabilities Retail deposits Other borrowings Derivative financial liabilities Due to related parties | 1,698,288 | 602,765 | • | 235,773 | 96,449 282,515 - | 19,511 13,543 - 9,843 | 3,244,035 385,163 9,843 2,138 |
| Financial liabilities Retail deposits Other borrowings Derivative financial liabilities Due to related parties Lease liabilities | 1,698,288 101,680 | 602,765 | • | 235,773 | 552,735 96,449 | 19,511 13,543 - 9,843 - 20,623 | 3,244,035 385,163 9,843 2,138 20,623 |
| Financial liabilities Retail deposits Other borrowings Derivative financial liabilities Due to related parties | 1,698,288 101,680 | 602,765 | • | 235,773 - - - - - | 96,449 282,515 - - - | 19,511 13,543 - 9,843 - 20,623 10,897 | 3,244,035 385,163 9,843 2,138 20,623 10,897 |
| Financial liabilities Retail deposits Other borrowings Derivative financial liabilities Due to related parties Lease liabilities Other financial liabilities Total financial liabilities | 1,698,288 101,680 - 2,138 - | 602,765 968 - - - | 597,217 - - - - - | 235,773 | 96,449 282,515 - | 19,511 13,543 - 9,843 - 20,623 | 3,244,035 385,163 9,843 2,138 20,623 |
| Financial liabilities Retail deposits Other borrowings Derivative financial liabilities Due to related parties Lease liabilities Other financial liabilities | 1,698,288 101,680 - 2,138 - | 602,765 968 - - - | 597,217 - - - - - | 235,773 - - - - - | 96,449 282,515 - - - | 19,511 13,543 - 9,843 - 20,623 10,897 | 3,244,035 385,163 9,843 2,138 20,623 10,897 |

16 Interest rate risk (continued)

Contractual repricing analysis (continued)

| \$000's | 0-3 Months | 3-6 Months | 6-12 Months | 1-2 Years | 2+ Years | Non- Interest Bearing | Total |
|------------------------------------------------|---------------|---------------|----------------|--------------|-------------|-----------------------------|-----------|
| Audited - June 2020 | | | | | | 2008 | |
| Financial assets | | | | | | | |
| Cash and cash equivalents | 105,456 | - | - | - | - | 7 | 105,463 |
| Investments | 43,863 | 18,425 | 52,708 | 59,296 | 222,713 | 2,303 | 399,308 |
| Finance receivables | 1,522,602 | 198,446 | 352,076 | 557,569 | 400,658 | 13,609 | 3,044,960 |
| Finance receivables - reverse mortgages | 609,346 | - | - | - | - | - | 609,346 |
| Due from related parties | - | - | - | - | - | 1,481 | 1,481 |
| Derivative financial assets | _ | - | - | - | - | 17,246 | 17,246 |
| Other financial assets | - | - | - | - | - | 3,530 | 3,530 |
| Total financial assets | 2,281,267 | 216,871 | 404,784 | 616,865 | 623,371 | 38,176 | 4,181,334 |
| Financial liabilities | | | | | | | |
| Retail deposits | 1,621,568 | 585,482 | 815,366 | 155,219 | 77,655 | 13,949 | 3,269,239 |
| Other borrowings | 67,439 | 970 | - | - | 290,323 | - | 358,732 |
| Derivative financial liabilities | - | - | - | - | - | 16,974 | 16,974 |
| Due to related parties | - | - | - | - | - | 7,944 | 7,944 |
| Lease liabilities | - | - | - | - | - | 19,871 | 19,871 |
| Other financial liabilities | - | - | - | - | - | 26,100 | 26,100 |
| Total financial liabilities | 1,689,007 | 586,452 | 815,366 | 155,219 | 367,978 | 84,838 | 3,698,860 |
| Effect of derivatives held for risk management | 557,955 | (51,349) | (239,137) | (237,213) | (30,256) | - | - |
| Net financial assets/(liabilities) | 1,150,215 | (420,930) | (649,719) | 224,433 | 225,137 | (46,662) | 482,474 |

17 Concentrations of funding

(a) Regulatory liquidity ratios

The table below shows the 3-month average of the respective daily ratio values in accordance with RBNZ's Liquidity Policy (BS13/BS13A) (BS13) and the Bank's Conditions of Registration relating to liquidity-risk management.

The one-week mismatch ratio is a measure of the Banking Group's one-week mismatch amount over its total funding, where the one-week mismatch amount represents the Banking Group's portfolio of primary liquid assets plus expected cash inflows minus expected cash outflows during a one-week period of stress. The Bank is required to maintain this ratio at not less than the minimum level of zero percent on a daily basis. The one-week mismatch ratio = $100 \times (0)$ (one-week mismatch dollar amount/total funding).

The one-month mismatch ratio is a measure of the Banking Group's one-month mismatch amount over its total funding, where the one-month mismatch amount represents the Banking Group's portfolio of primary and secondary liquid assets plus expected cash inflows minus expected cash outflows during a one-month period of stress. The Bank is required to maintain this ratio at not less than the minimum level of zero percent on a daily basis. The one-month mismatch ratio = $100 \times (0)$ (one-month mismatch dollar amount/total funding).

The one-year core funding ratio measures the extent to which loans and advances are funded by the funding that is considered stable. The one-year core funding ratio = 100 x (one-year core funding dollar amount/BS13 total loans and advances) and must currently remain at not less than 50% on a daily basis.

The RBNZ announced on 24 March 2020 that the banks COR requirement for a core funding ratio of 75% was amended, reducing the requirement to 50% to further provide support and liquidity to the financial sector. This was effective from 2 April 2020 and was made via a change in the Bank's Conditions of Registration.

17 Concentrations of funding (continued)

(a) Regulatory liquidity ratios (continued)

| | Average for the 3 Months | Average for the 3 Months |
|--------------------------|--------------------------|--------------------------|
| | Ended 31 December 2020 | Ended 30 September 2020 |
| One-week mismatch ratio | 7.92 | 9.28 |
| One-month mismatch ratio | 9.24 | 9.25 |
| Core funding ratio | 92.30 | 90.31 |

(b) Concentration of funding by industry

| | Unaudited | Unaudited | Audited |
|-----------------------------------------|---------------|---------------|-----------|
| \$000's | December 2020 | December 2019 | June 2020 |
| Agriculture | 100,885 | 105,481 | 109,268 |
| Forestry and fishing | 17,104 | 16,918 | 14,901 |
| Mining | 196 | 165 | 35 |
| Manufacturing | 9,046 | 6,974 | 6,976 |
| Finance and insurance | 631,235 | 764,016 | 682,249 |
| Wholesale trade | 18,463 | 13,527 | 10,855 |
| Retail trade and accommodation | 26,073 | 21,298 | 20,423 |
| Households | 2,362,870 | 2,164,703 | 2,263,668 |
| Rental, hiring and real estate services | 37,666 | 32,651 | 41,348 |
| Construction | 22,666 | 30,520 | 19,702 |
| Other business services | 64,029 | 67,070 | 63,697 |
| Transport and storage | 4,792 | 4,925 | 4,552 |
| Other | 75,887 | 115,613 | 97,150 |
| | 3,370,912 | 3,343,861 | 3,334,824 |
| Unsubordinated Notes | 289,786 | 285,337 | 293,147 |
| Total borrowings | 3,660,698 | 3,629,198 | 3,627,971 |

(c) Concentration of funding by geographical area

| | Unaudited | Unaudited | Audited |
|------------------|---------------|---------------|-----------|
| \$000's | December 2020 | December 2019 | June 2020 |
| New Zealand | 3,591,675 | 3,497,174 | 3,475,790 |
| Overseas | 69,023 | 132,024 | 152,181 |
| Total borrowings | 3,660,698 | 3,629,198 | 3,627,971 |

Other Disclosures

18 Structured entities

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

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

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

| | Unaudited | Unaudited | Audited |
|----------|---------------|---------------|-----------|
| \$000's | December 2020 | December 2019 | June 2020 |
| Deposits | 167,147 | 165,602 | 166,676 |

(b) Heartland Auto Receivable Warehouse Trust 2018-1 (Auto Warehouse)

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

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

| | Unaudited | Unaudited | Audited |
|---------------------------|---------------|---------------|-----------|
| \$000's | December 2020 | December 2019 | June 2020 |
| Cash and cash equivalents | 5,876 | 1,338 | 5,493 |
| Finance receivables | 79,672 | 36,720 | 78,066 |
| Other borrowings | (81,541) | (36,519) | (79,012) |

19 Capital adequacy

The capital adequacy tables set out on the following pages summarise the composition of regulatory capital and the capital adequacy ratios for the Banking Group as at 31 December 2020.

Internal Capital Adequacy Assessment Process (ICAAP)

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

The Board has overall responsibility for ensuring the Banking Group has adequate capital in relation to its risk profile and establishes minimum internal capital levels and limits above the regulatory minimum. The Banking Group has established a Capital Management Policy (CMP) to determine minimum capital levels for Tier 1 and Total capital under Basel III and in accordance with its Conditions of Registration. The documented process ensures that the Banking Group has sufficient available capital to meet minimum capital requirements, even in stressed events. It describes the risk profile of the Banking Group and the risk appetite and tolerances under which it operates, and assesses the level of capital held against the material risks of the Banking Group (both Pillar 1 and Pillar 2).

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

Compliance with minimum capital levels is monitored by the ALCO and reported to the Board. The ICAAP and CMP is reviewed annually by the Board.

(a) Capital

| | Unaudited |
|--------------------------------------------------------------------------------|---------------|
| \$000's | December 2020 |
| Tier 1 Capital | |
| CET1 capital | |
| Paid-up ordinary shares issued by the Banking Group plus related share premium | 553,239 |
| Retained earnings (net of appropriations) | 79,339 |
| Accumulated other comprehensive income and other disclosed reserves | 1,015 |
| Less deductions from CET1 capital | |
| Intangible assets | (52,181) |
| Deferred tax assets | (14,890) |
| Hedging reserve | 3,442 |
| Credit enhancements | - |
| Defined benefit superannuation fund assets | (715) |
| Reverse mortgage loan greater than value of security | (49) |
| Adjustment under the corresponding deduction approach | (500) |
| Total CET1 capital | 568,700 |
| AT1 capital | - |
| Total Tier 1 capital | - |
| Tier 2 capital | _ |
| Total Tier 2 capital | - |
| Total capital | 568,700 |

(b) Capital structure

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

Ordinary shares

In accordance with BS2A, ordinary share capital is classified as CET1 capital. The ordinary shares have no par value. Each ordinary share of the Bank carries the right to vote on a poll at meetings of shareholders, the right to an equal share in dividends authorised by the Board and the right to an equal share in the distribution of the surplus assets of the Bank in the event of liquidation.

Retained earnings

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

Reserves classified as CET1 capital

| Fair value reserve | The debt instrument fair value reserve comprises the changes in the fair value of investments, net of tax. |
|-------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Defined benefit reserve | The defined benefit reserve represents the excess of the fair value of the assets of the defined benefit superannuation plan over the net present value of the defined benefit obligations. |
| Cash flow hedge reserve | The hedging reserve comprises the fair value gains and losses associated with the effective portion of designated cash flow hedging instruments. |

(c) Credit risk

On balance sheet exposures

| | Total | | | | |
|--------------------------------------------------------------------|------------|---------|-----------|----------|--|
| | Exposure | | | Minimum | |
| | After | Average | Risk | Pillar 1 | |
| | Risk | Risk | Weighted | | |
| | Mitigation | Weight | _ | | |
| | \$000's | % | \$000's | \$000's | |
| Unaudited - December 2020 | | | · | | |
| Cash | - | 0% | - | - | |
| Sovereigns and central banks | 272 | 0% | _ | - | |
| Multilateral development banks | 224,106 | 0% | _ | _ | |
| Multilateral development banks | 104,514 | 20% | 20,903 | 1,672 | |
| Banks - Tier 1 | - | 20% | , - | , - | |
| Banks - Tier 2 | 180,315 | 50% | 90,158 | 7,213 | |
| Banks - Tier 3 | 37,689 | 100% | 37,689 | 3,015 | |
| Public sector entity (AA- and above) | 9,067 | 20% | 1,813 | 145 | |
| Public sector entity (A- and above) | - | 50% | _,0_0 | | |
| Public sector entity (BBB+, BBB, BBB-) | _ | 100% | _ | _ | |
| Corporates (AA- and above) | | 20% | _ | _ | |
| Corporates (A- and above) | | 50% | _ | _ | |
| Corporates (BBB- and above) | | 100% | _ | _ | |
| Corporates other | 24,614 | 20% | 4 022 | 394 | |
| • | | | 4,923 | | |
| Corporates other | 1,569,611 | | 1,569,611 | 125,569 | |
| Welcome Home Loans - loan to value ratio (LVR) <= 80% 1 | 1,900 | 35% | 665 | 53 | |
| Welcome Home Loans - loan to value ratio (LVR) <= 90% ¹ | - | 35% | - | - | |
| Welcome Home Loans - LVR 90% >= 100% ¹ | - | 50% | - | - | |
| Welcome Home Loans - LVR > 100% ¹ | - | 100% | - | - | |
| Reverse Residential mortgages <= 60% LVR | 610,763 | 50% | 305,381 | 24,430 | |
| Reverse Residential mortgages 60 <= 80% LVR | 9,561 | 80% | 7,649 | 612 | |
| Reverse Residential mortgages > 80% LVR | 1,621 | 100% | 1,621 | 130 | |
| Reverse Residential mortgages > 100% LVR | 144 | 100% | 144 | 12 | |
| Non Property Investment Mortgage Loan <=80% LVR | 15,181 | 35% | 5,313 | 425 | |
| Non Property Investment Mortgage Loan 80 <= 90% LVR | - | 50% | - | - | |
| Non Property Investment Mortgage Loan 90 <= 100% LVR | - | 75% | - | - | |
| Non Property Investment Mortgage Loan > 100% LVR | 559 | 100% | 559 | 45 | |
| Property Investment Mortgage Loan <= 80% LVR | 4,519 | 40% | 1,808 | 145 | |
| Property Investment Mortgage Loan 80 <= 90% LVR | - | 70% | - | - | |
| Property Investment Mortgage Loan 90 <= 100% LVR | - | 90% | - | - | |
| Property Investment Mortgage Loan < 100% LVR | - | 100% | - | - | |
| Past due residential mortgages | 148 | 100% | 148 | 12 | |
| Other past due assets - provision >= 20% | 21,067 | 100% | 21,067 | 1,685 | |
| Other past due assets - provision < 20% | 36,932 | 150% | 55,397 | 4,432 | |
| Equity holdings | - | 300% | - | - | |
| All other equity holdings | 1,803 | 400% | 7,212 | 577 | |
| Other assets | 1,422,900 | | 1,422,900 | 113,832 | |
| Not risk weighted assets | 68,334 | 0% | -, -, | , | |
| Total on balance sheet exposures | 4,345,620 | 2.0 | 3,554,961 | 284,398 | |

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

(c) Credit risk (continued)

The RBNZ removed the mortgage loan-to-value (LVR) restrictions for 12 months as a result of the economic impact of COVID-19, and the RBNZ's mandate to maintain financial stability. This was effective from 1 May 2020 and was made via a change in the Bank's Conditions of Registration. There have been no further change to the Bank's COR.

Off balance sheet exposures

| | Total Exposure \$000's | Credit Conversion Factor % | Credit Equivalent Amount \$000's | Average Risk Weight % | Risk Weighted Exposure \$000's | Capital Requirement |
|-----------------------------------------------------------------------------|------------------------------|-------------------------------------|-------------------------------------------|--------------------------------|-----------------------------------------|------------------------|
| Unaudited - December 2020 | | | | | | |
| Direct credit substitute | 152 | 100% | 152 | 100% | 152 | 12 |
| Performance-related contingency | 5,993 | 50% | 2,997 | 100% | 2,997 | 240 |
| Other commitments where original maturity is more than one year | 186,467 | 50% | 93,234 | 100% | 93,234 | 7,459 |
| Other commitments where original maturity is more than one year | 13,608 | 50% | 6,804 | 50% | 3,402 | 272 |
| Other commitments where original maturity is less than or equal to one year | 11,098 | 20% | 2,220 | 100% | 2,220 | 178 |
| Market related contracts ¹ | | | | | | |
| Interest rate contracts | 1,238,950 | n/a | 8,710 | 45% | 3,963 | 317 |
| FX forward contracts | 145,846 | n/a | 581 | 20% | 116 | 9 |
| Total off balance sheet exposures | 1,602,114 | | 114,698 | | 106,084 | 8,487 |
| Credit valuation adjustment | | | | | 1,422 | 114 |
| Total off balance sheet exposures | | | | | 3,662,467 | 292,999 |

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

(d) Additional mortgage information - LVR range

| On Balance Off Balance | | | | |
|---------------------------|-----------|------------------------|-----------|--|
| | Sheet | Sheet | Total | |
| \$000's | Exposures | Exposures ¹ | Exposures | |
| Unaudited - December 2020 | | | | |
| Does not exceed 80% | 640,398 | 13,608 | 654,006 | |
| Exceeds 80% but not 90% | 682 | - | 682 | |
| Exceeds 90% | 3,358 | - | 3,358 | |
| Total exposures | 644,438 | 13,608 | 658,046 | |

¹Off balance sheet exposures means unutilised limits.

At 31 December 2020, there were nil Welcome Home loans whose credit risk is mitigated by the Crown included in "Exceeds 90% residential mortgages". Other loans in the exceeds 90% LVR range is primarily business and rural lending where residential mortgage security is only a part of the total security. For capital adequacy calculations only the value of the first mortgages over residential property is included in the LVR calculation, in accordance with BS2A. All new residential mortgages in respect of non-property investments lending have a loan-to-valuation ratio of less than or equal to 80%.

(e) Reconciliation of mortgage related amounts

| | | Unaudited |
|--------------------------------------------------------------------------------------|-------|---------------|
| \$000's | Note | December 2020 |
| Gross finance receivables - reverse mortgages | 7(b) | 622,137 |
| Loans and advances - loans with residential mortgages | | 22,306 |
| On balance sheet residential mortgage exposures subject to the standardised approach | 14(a) | 644,443 |
| Less: collective provision for impairment | | (5) |
| Off balance sheet mortgage exposures subject to the standardised approach | | 13,608 |
| Total residential exposures subject to the standardised approach | | 658,046 |

(f) Credit risk mitigation

As at 31 December 2020 the Banking Group had \$1.9 million of Welcome Home Loans, whose credit risk was mitigated by the Crown. Other than this the Banking Group does not have any exposures covered by eligible collateral, guarantees and credit derivatives.

(g) Operational risk

| | Implied Risk | Total Operational Risk |
|---------------------------|-------------------|-------------------------------|
| \$000's | Weighted Exposure | Capital Requirement |
| Unaudited - December 2020 | | |
| Operational risk | 273,362 | 21,869 |

Operational risk is calculated based on the previous 12 quarters of the Banking Group.

(h) Market risk

| \$000's | | Implied Risk Weighted Exposure | Aggregate Capital Charge |
|--------------------------------------------|----------------------------|-----------------------------------|-----------------------------|
| Unaudited - December 2020 | | Ŭ , | · |
| Market risk end-of-period capital charge | Equity rate risk only | 1,803 | 144 |
| Market risk peak end-of-day capital charge | Equity rate risk only | 1,803 | 144 |
| Market risk end-of-period capital charge | Interest rate risk only | 132,210 | 10,577 |
| Market risk peak end-of-day capital charge | Interest rate risk only | 132,210 | 10,577 |
| Market risk end-of-period capital charge | Foreign currency risk only | 6,375 | 510 |
| Market risk peak end-of-day capital charge | Foreign currency risk only | 16,212 | 1,297 |

The Banking Group's aggregate market exposure is derived in accordance with BS2A. Peak end-of-day capital charge disclosure is derived by taking the highest month end market exposure over the six months ended 31 December 2020. Interest rate risk, foreign exchange risk and equity risk are calculated monthly using the month end position. While the Banking Group views this methodology as being materially correct, it is currently investigating the impact a daily aggregate market risk exposure would have for future reporting periods.

(i) Total capital requirements

| | Risk Weighted | | |
|---------------------------|------------------------|-------------------|---------------|
| 40001 | Total Exposure After | or Implied Risk | Total Capital |
| \$000's | Credit Risk Mitigation | Weighted Exposure | Requirement |
| Unaudited - December 2020 | | | |
| Total credit risk | 5,947,734 | 3,662,467 | 292,999 |
| Operational risk | n/a | 273,362 | 21,869 |
| Market risk | n/a | 140,388 | 11,231 |
| Total | 5,947,734 | 4,076,217 | 326,099 |

(j) Capital ratios

| | Unaudited | Unaudited |
|-----------------------------------------------------------------------------------------|---------------|---------------|
| % | December 2020 | December 2019 |
| Capital ratios compared to minimum ratio requirements | | |
| Common Equity Tier 1 Capital expressed as a percentage of total risk weighted exposures | 13.95% | 12.56% |
| Minimum Common Equity Tier 1 Capital as per Conditions of Registration | 4.50% | 4.50% |
| Tier 1 Capital expressed as a percentage of total risk weighted exposures | 13.95% | 12.56% |
| Minimum Tier 1 Capital as per Conditions of Registration | 6.00% | 6.00% |
| Total Capital expressed as a percentage of total risk weighted exposures | 13.95% | 12.56% |
| Minimum Total Capital as per Conditions of Registration | 8.00% | 8.00% |
| Buffer ratio | | |
| Buffer ratio | 5.95% | 4.56% |
| Buffer ratio requirement | 2.50% | 2.50% |

(k) Solo capital adequacy

| | Unaudited | Unaudited |
|-----------------------------------------------------------------------------------------|---------------|---------------|
| % | December 2020 | December 2019 |
| Capital ratios compared to minimum ratio requirements | | |
| Common Equity Tier 1 Capital expressed as a percentage of total risk weighted exposures | 14.15% | 12.62% |
| Tier 1 Capital expressed as a percentage of total risk weighted exposures | 14.15% | 12.62% |
| Total Capital expressed as a percentage of total risk weighted exposures | 14.15% | 12.62% |

For the purposes of calculating capital adequacy on a solo basis, subsidiaries which are both wholly owned and wholly funded by the Bank are to be consolidated with the Bank.

(I) Capital for other material risks

In addition to the material risks included in the calculation of the capital ratios, the Banking Group has identified other material risks to be included in the capital allocation (being strategic risk, securitisation risk, liquidity and funding risk, and additional credit, market and operational risk). As at 31 December 2020, the Banking Group has made an internal capital allocation of \$8.9 million to cover these risks (December 2019: \$7.0 million; June 2020: \$23.2 million).

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

Insurance business

Marac Insurance Limited, a subsidiary of HBL, no longer conducts Insurance business as HBL entered into a distribution agreement with DPL Insurance Limited to distribute DPL's insurance products through its network and therefore MIL stopped writing insurance policies. MIL's existing policies are expected to expire by the end of June 2024.

The Banking Group's aggregate amount of insurance business comprises the total consolidated assets of MIL of \$10.8 million (December 2019: \$11.6 million; June 2020: \$10.9 million), which represents 0.25% of the total consolidated assets of the Banking Group.

Securitisation, funds management and other fiduciary activities

There have been no material changes to the Banking Group's involvement in securitisation activities. There have been no material changes to the Banking Group's involvement in funds management and other fiduciary activities, in either case since the reporting date of the previous Disclosure Statement.

Risk management

The Banking Group has in place policies and procedures to ensure that the fiduciary activities identified above are conducted in an appropriate manner. It is considered that these policies and procedures will ensure that any difficulties arising from these activities will not impact adversely on the Banking Group. There has been no material changes to those policies and procedures since the reporting date of the previous Disclosure Statement.

Provision of financial services and asset purchases

Over the accounting period, financial services provided by the Banking Group to entities which were involved in the activities above (including trust, custodial, funds management and other fiduciary activities) were provided on arm's length terms and conditions and at fair value.

Any assets purchased from such entities have been purchased on arm's length terms and conditions and at fair value.

21 Contingent liabilities and commitments

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

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

| \$000's | Unaudited December 2020 | Unaudited December 2019 | Audited June 2020 |
|-------------------------------------------------------------------------------------------|-------------------------|----------------------------|----------------------|
| Letters of credit, guarantee commitments and performance bonds | 6,145 | 5,990 | 6,515 |
| Total contingent liabilities | 6,145 | 5,990 | 6,515 |
| Undrawn facilities available to customers Conditional commitments to fund at future dates | 186,602 24,570 | 142,308 13,161 | 177,719 58,045 |
| Total commitments | 211,172 | 155,469 | 235,764 |

22 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 Banking Group.

CONDITIONS OF REGISTRATION

CONDITIONS OF REGISTRATION NON-COMPLIANCE

As disclosed in prior reporting periods, the Bank had not been calculating its regulatory capital and liquidity ratios in compliance with the requirements of its Condition of Registration 1 (**COR 1**), and Condition of Registration 11 (**COR 1**).

The Bank has completed its remediation programme during the reporting period. The ratios have been above the requirements of the Bank's conditions of registration at all times.

CHANGES TO CONDITIONS OF REGISTRATION

There are no changes to conditions of registration since the reporting date for the previous Disclosure Statement.

CREDIT RATINGS

As at the date of signing this Disclosure Statement, the Bank's credit rating issued by Fitch Australia Pty Ltd (Fitch Ratings) was BBB stable. This BBB credit rating was issued on 14 October 2015 and is applicable to long term unsecured obligations payable in New Zealand, in New Zealand dollars. This BBB stable credit rating was affirmed by Fitch Ratings on 19 October 2020.

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

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

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

OTHER MATERIAL MATTERS

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



Independent Review Report

To the shareholder of Heartland Bank Limited

Report on the consolidated half year disclosure statement of Heartland Bank Limited (the "Bank") and its controlled entities (the "Banking Group")

Conclusion

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

- the consolidated interim financial statements formed of:
 - the consolidated interim statement of financial position as at 31 December 2020;
 - the consolidated interim 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.
- the supplementary information prescribed in Schedules 5, 7, 9, 13, 16 and 18 of the Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order 2014 (as amended) (the "Order").

Based on our review of the consolidated interim financial statements and supplementary information of the Bank and the Banking Group on pages 5 to 47, nothing has come to our attention that causes us to believe that:

- the consolidated interim financial statements do not present fairly in all material respects the Banking Group's financial position as at 31 December 2020 and its financial performance and cash flows for the 6 month period ended on that date;
- ii. the consolidated interim financial statements (excluding the supplementary information disclosed in accordance with Schedules 5, 7, 9, 13, 16 and 18 of the Order), have not been prepared, in all material respects, in accordance with NZ IAS 34 Interim Financial Reporting ("NZ IAS 34"):
- iii. the supplementary information, does not fairly state, in all material respects, the matters to which it relates in accordance with Schedules 5, 7, 9, 13, 16 and 18 of the Order; and
- iv. the supplementary information relating to capital adequacy and regulatory liquidity requirements, has not been prepared, in all material respects, in accordance with the Registered Banks conditions of registrations, Capital Adequacy Framework (Standardised Approach) (BS2A) and disclosed in accordance with Schedule 9 of the Order.





Basis for conclusion

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

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

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



We draw attention to Note 1 of the consolidated interim financial statements, which describes the residual market uncertainty resulting from the potential economic impact of the COVID-19 pandemic, specifically relating to the estimation of the Banking Group's expected credit loss.

In our view, this issue is fundamental to the users' understanding of the consolidated interim financial statements and the financial position and performance of the Banking Group. Our conclusion is not modified in respect of this matter.



Use of this Independent Review Report

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



Responsibilities of the Directors for the consolidated half year disclosure statement

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

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





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

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

- the consolidated interim financial statements do not present fairly in all material respects the Banking Group's financial position as at 31 December 2020 and its financial performance and cash flows for the 6 month period ended on that date;
- the consolidated interim financial statements do not, in all material respects, comply with NZ IAS 34;
- the supplementary information does not fairly state, in all material respects, the matters to which it relates in accordance with Schedules 5, 7, 13, 16 and 18 of the Order; and
- the supplementary information relating to capital adequacy and regulatory liquidity requirements is not prepared, in all material respects, in accordance with the Registered Banks conditions of registration, Capital Adequacy Framework (Standardised Approach) (BS2A) and disclosed in accordance with Schedule 9 of the Order

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

Kpmg

KPMG Auckland

19 February 2021