HEARTLAND

2020 ANNUAL REPORT

This Annual Report of Heartland Group Holdings Limited (**Heartland**) is dated 30 October 2020 and is signed on behalf of the Board of Directors by:

Geoffrey Ricketts Chair of the Board

Jeffrey Greenslade Chief Executive Officer

We asked our Manawa Ako interns to create a series of murals that represent Heartland.

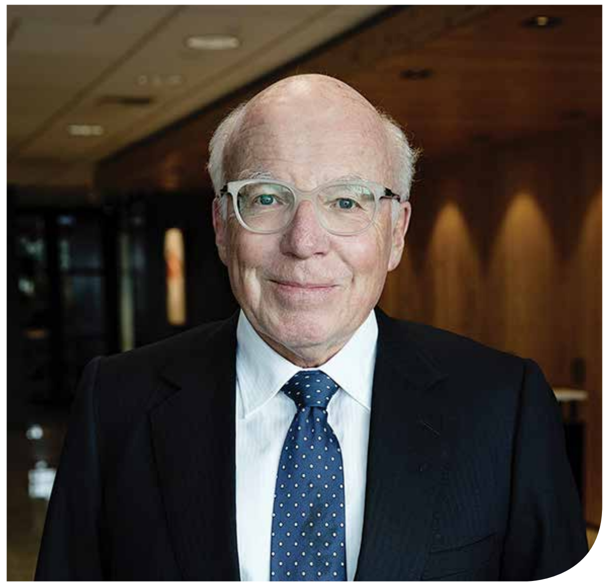
This mural (continued on the back cover) portrays scenery from Piopiotahi (Milford Sound) to Te Rerenga Wairua (Cape Reinga) representing all of our Heartland whānau across Aotearoa together with our Teed Street building acknowledging our whakapapa, or foundations.

The mural symbolises the importance of knowing where we've come from to know where we're going. The United Tribes Flag (Te Whakaminenga o Ngā Rangatiratanga o Ngā Hapū o Nu Tīreni) represents bicultural unity, the tī kouka (cabbage tree) symbolises resilience and the tui represents life fulfilment and confidence.

We recognise the importance of our history and the landscapes that have shaped it. This is consistent with the proverb 'ka mua, ka muri', to walk backwards into our future.


HEARTLAND
BANK

Chair's Report



GEOFFREY RICKETTS
Chair of the Board

The effects of the COVID-19 pandemic have resulted in an unprecedented year for all. The global economic and social impacts have been profound and are still continuing to unfold. From Heartland's perspective, our priorities are and will remain, the health and wellbeing of our employees and supporting our customers.

At the same time, Heartland's Board and senior management have been focused on responding proactively to the events as they have arisen, mitigating the impacts on the business and planning for the future.

We entered into the COVID-19 lockdown in a strong financial position and I am pleased to report that Heartland achieved a net profit after tax (**NPAT**) of $72.0 million for the financial year ended 30 June 2020 (**FY2020**). Included within this NPAT is an economic overlay of $9.6 million pre-tax which Heartland applied to its potential credit losses in response to the ongoing uncertainties relating to the COVID-19 pandemic. The adjusted NPAT (which excludes this economic overlay) is $78.9 million[1].

Heartland's Response to COVID-19

With banks being identified as an 'essential service', Heartland continued to operate during the lockdown period at alert levels 3 and 4 to support our customers. We immediately introduced alternative ways of working and equipped the majority of our people to enable them to work from home. For those remaining in the workplace, we introduced strict hygiene protocols and physical distancing requirements.

Our initial response focused on proactively contacting our Consumer, small-to-medium enterprise (**SME**) and Business customers to offer support. At the same time, we built new website functionality to enable customers to easily contact us and request support online. Support options included payment holidays of one to three months, reduced principal and interest only payments.

Consumer customers, representing $143 million of loans, took up the various offers of support, as did SME and Business customers, representing $510 million of loans. Most of Heartland's customers have returned to their pre-COVID-19 payment schedules or have taken up our new product, Heartland Extend, providing them flexibility to manage the term of their loan to suit their cashflow needs.

Heartland Extend was launched in May 2020, enabling customers to adjust their payments as needed, with no fees to make these changes. With Heartland Extend, customers have the option to reduce their regular repayment amounts immediately, or have the flexibility to adjust them in the future if their situation changes. Applications for Heartland Extend are available through a purpose-built digital platform. Across all of Heartland's customers, as at 14 September 2020, over 1,600 customers representing over $116 million of loans, had taken up Heartland Extend. This offer is now being extended to new customers.

[1] Heartland's FY2020 results present reported and adjusted financial information. These measures are considered useful for investors because they adjust for one-off impacts, which allows for better comparability with past performance.

Heartland's response to the COVID-19 pandemic has highlighted the resilience of both our employees and our organisation. The efforts of our people were exceptional and the Board and senior management are extremely grateful. They worked long hours, often far outside of their usual roles, evolving and adapting as the situation required. They displayed real compassion for our customers and worked together to support their colleagues throughout and after the lockdown period.

You can read about our response to COVID-19 in more detail on pages 16 to 19 of this Annual Report.

Conduct and Culture

The Financial Markets Authority (**FMA**) and the Reserve Bank of New Zealand (**RBNZ**) completed their review of conduct and culture in New Zealand retail banks in November 2018. The findings of the FMA and RBNZ review focused on the industry as a whole and, in addition, each bank received recommendations specific to them. The recommendations for Heartland formed the basis of our Conduct and Culture Work Plan.

During the year, significant progress was made towards completing the Conduct and Culture Work Plan. Details of the progress made are outlined on page 64 of this Annual Report. Some of the highlights included:

- Refreshing our Heartland Code of Conduct to ensure it accurately reflects the way we do things at Heartland. The revised Code of Conduct is underpinned by one of our mātāpono (values), Mahi Tika (do the right thing), and provides a framework for making good decisions by setting out the standards expected of all Heartlanders and Heartland's intermediaries.
- Refreshing our Speak Up framework to ensure Heartlanders feel safe and comfortable to speak up when they see something that may need attention. The framework outlines the importance of speaking up, while also providing the tools and resources necessary to do so comfortably. These tools include an independent and external whistle-blower hotline that allows employees to voice their concerns about suspected violations with no negative reprisals to them.
- Creating a new policy, internal training and tools to assist Heartlanders to identify and better assist vulnerable customers. The training includes understanding where there is a higher chance of specific vulnerabilities as well as how to identify vulnerable customers in an empathetic way

Regulatory Update

As a result of COVID-19, some delays to regulatory change timeframes were announced in the second half of FY2020. However, a significant volume of regulatory change remains in the pipeline. Key changes include the proposed Financial Markets (Conduct of Institutions) Amendment Bill (**Conduct Bill**) and Phase 2 of the review of the Reserve Bank of New Zealand Act 1989 (**RBNZ Act**).

If enacted, the Conduct Bill would introduce a new conduct regime for registered banks (including Heartland Bank Limited (**Heartland Bank**)), licensed insurers and non-bank deposit takers in New Zealand. This regime would impose duties on these financial institutions to treat customers fairly and to maintain a fair conduct programme. It would also enable regulations to be made which relate to incentives, with which financial institutions and their intermediaries must comply. The Conduct Bill is awaiting its second and third readings in Parliament, which will not occur until after the New Zealand general election.

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

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

Credit Rating

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

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

Supporting our Communities

This year Heartland (through the Heartland Trust[2]) continued to make a positive contribution to the communities in which it operates. During the year, the Heartland Trust made grants totalling $451,734 to support our communities including in the areas of education, sport and financial literacy.

To assist those working to help the Australian people recover from the bush fires, the Heartland Trust donated a $5,000 grant to the Victorian Country Fire Association, who manage fighting fires, road rescues and fundraising. A further $5,000 donation was made to the New South Wales Rural Fire Service, who provide community programs designed to help vulnerable and isolated people live safely and confidently in their homes, in areas where bush fires may begin.

The Heartland Trust also continued its support of the InZone Education Foundation, the Kupe Leadership Scholarship, the Auckland City Mission, the Auckland Writers Festival and 1st XV rugby during the year. You can read about the activities of the Heartland Trust in more detail on page 65 of this Annual Report.

Board Changes

During the year, we welcomed Shelley Ruha to the Heartland Bank Board as an independent director. Shelley has significant governance experience spanning fintech, large scale technology infrastructure and payments innovation, wealth management, venture capital and education-based growth for SMEs. Shelley has extensive banking experience in the New Zealand market. Her last executive role saw her leading BNZ Partners, covering all aspects of business banking and wealth management for Bank of New Zealand.

Vanessa Stoddart resigned from her directorship of Heartland Bank on 1 January 2020. Vanessa joined the Heartland Bank Board in 2016, making a significant contribution throughout that period, particularly in relation to the areas of people, culture and conduct. The Board wishes her all the best for the future.

> "Heartland was one of only two Australasian banks to have no reduction or adverse change to its rating or outlook as it entered the economic downturn.

Optimisation of Value within the Group

Heartland's strategy is threefold, being to:

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

This strategy (which is set out in more detail in the Chief Executive Officer's Report) aligns with the core strengths of Heartland's businesses, being:

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

Current bank valuation multiples are below many of those for finance companies and Fintechs and Heartland recognises that its current share price may not appropriately reflect the underlying nature of its businesses. Consequently, the Board has asked management to explore this and identify means of optimising value.

Dividend

The Board resolved to pay a fully imputed final dividend of 2.5 cents per share on Friday 9 October 2020 to all shareholders on Heartland's register at 5.00pm on Friday 25 September 2020. Together with the interim dividend of 4.5 cents per share, the total dividend for the year was 7.0 cents per share (3.0 cents per share down from FY2019).

The dividend decrease reflects restrictions imposed by the RBNZ on distributions by banks in New Zealand. However, the continued growth in Heartland's Australian operations enable it to distribute earnings derived from assets held outside of Heartland Bank. Heartland expects to return to a pay-out ratio aligning to historical levels once the RBNZ restrictions are removed.

Outlook

The Board is confident in Heartland's ability to continue achieving strong growth and profitability, while continuing to support our existing customers through any future COVID-19 related uncertainties.

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

On behalf of the Board, I would like to take this opportunity to thank our Heartland whānau for their efforts this year and their commitment to our customers, particularly through the challenging events brought about by COVID-19. I also wish to acknowledge the continued support of our shareholders throughout this year.

Geoffrey Ricketts
Chair of the Board

[2] The Heartland Trust is a registered charitable trust which is independent from, but closely supported by, Heartland Bank.

Chief Executive Officer's Report

JEFF GREENSLADE
Chief Executive Officer

Heartland achieved a strong financial result for FY2020, notwithstanding the significant health and economic challenges arising as a result of the COVID-19 pandemic. NPAT for FY2020 was $72.0 million and adjusted NPAT (which excludes the impact of the economic overlay of $9.6 million pre-tax due to COVID-19) was $78.9 million, which is a 7.2% increase on FY2019. Gross finance receivables grew strongly to $4.6 billion, up $215 million on FY2019.

Digital Evolution

Since listing on the NZX in 2011 and achieving bank registration for Heartland Bank in 2012, Heartland has progressed through a number of strategic phases. Focus on enhancing digital capabilities has seen Heartland establish itself as a digitally-led financial services group – a financial technology business with a bank licence.

This, together with a best or only approach to products and services, has successfully differentiated Heartland from mainstream banks, exemplified by a higher Net Interest Margin and Heartland being one of only two Australasian banks to have no reduction or adverse change to its rating or outlook as it entered the economic downturn. Heartland has been named the Canstar Savings Bank of the Year for three consecutive years and has received multiple awards for its reverse mortgage product. Heartland's digital platforms for deposits, small business and mortgage lending are world class in terms of financial technology.

One of Heartland's key strategic priorities is to digitalise everything it does including distribution, on-boarding and processing.

At the centre of this digital strategy is the ongoing enhancement of the Heartland Mobile App. Mobile phones are increasingly becoming the electronic channel of choice for all adults[1]. Irrespective of age, customers will increasingly turn to their smartphones for all interactions with service providers and the Heartland Mobile App will continue to be enhanced to meet this customer expectation – it will be Heartland's virtual branch on every corner.

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

[1] According to Deloitte's 2019 global mobile consumer survey.

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

Financial Performance

Since March 2020, the New Zealand economy has been disrupted by restrictions put in place to limit the impact of the spread of COVID-19. Countermeasures implemented by the New Zealand Government (including its support and fiscal programmes) and the RBNZ have assisted to mitigate the impact of those measures. In particular, the speedy introduction of a simple facility to help SMEs, the Small Business Cashflow Loan Scheme, by the New Zealand Government injected liquidity and confidence to the sector. During this time, Heartland's people have worked closely with customers to understand their needs and provide them with financial support.

Heartland does not have a material exposure to the industries most affected by COVID-19 (tourism, hospitality, retail business)[2], nor the demographic most impacted by rising unemployment (15-24 year olds)[3]. In addition, Heartland's lending book has a high degree of resilience to the economic disruption – in particular the Reverse Mortgage books in Australia and New Zealand (where borrower behaviour remains largely unchanged) and the Rural portfolio.

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

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

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

Heartland's total provision coverage ratio excluding the $9.6 million pre-tax economic overlay due to COVID-19 was 1.71%[4] as at 30 June 2020. This is a relatively strong position compared with most of Heartland's peers. The COVID-19 economic overlay further increased the total provision coverage ratio to 2.02% as at 30 June 2020.

> "Heartland's digital platforms enabled customers to access products and services despite alert level restrictions on in-person interactions.

[2] Heartland's total exposure to the Retail, Accommodation and Transport (excluding road freight transport) industries at 30 June 2020, based on borrower ANZSIC codes, was 2.84%, 2.17% and 1.15% respectively.
[3] At 10 August 2020, Heartland's exposure to customers in this age bracket is 4.2% in Motor, 0.7% in Personal lending and 0.9% in Harmoney.
[4] Calculated as total provisions over gross finance receivables excluding Reverse Mortgages.

Strategic Priorities

Heartland's three core strategic objectives are to acquire scale as a New Zealand bank, expand in Australia and digitalise all on-boarding, distribution and processing (as discussed on the previous page).

Acquire Scale in New Zealand

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

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

In March 2020, Heartland Bank entered into the retail mortgage market with an online Home Loans platform. The trial sought to test the appetite of the New Zealand market for a digital home loan product which allows Kiwis to apply and receive a conditional approval online, without the need to go into a bank or meet with a mortgage manager. The trial was successful, with $50 million of conditional home loan approvals being given in the month the trial was run. Heartland Bank relaunched the digital Home Loans product on 12 October 2020.

Expand in Australia

Growth has continued in Australian Reverse Mortgages, despite the impact of COVID-19 on the Australian market. Investment in marketing activity will continue for reverse mortgages in Australia.

Open for Business, an unsecured small business lending platform, was launched in Australia in late 2019. Due to the impact of COVID-19, lending was paused through the Australian platform in March 2020. However, Heartland intends to relaunch Open for Business in Australia this calendar year.

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

Optimisation of Value within the Group

As requested by the Board, management is considering the next phase of Heartland's strategic execution. Investment banking firm Jarden has been appointed to advise on opportunities for value creation, recognising that current bank valuation multiples are below many of those for finance companies and Fintechs.

Jarden has been asked to consider the implications on value, investment strategy and resourcing were Heartland to be viewed more distinctly as a collection of discrete business units including:

1. a New Zealand bank based on business, rural and household lending with the potential to expand via a low-cost model;
2. a leading provider of motor vehicle finance in New Zealand with potential to capture further market share;
3. the largest active provider of Reverse Mortgages in Australia; and
4. an established Fintech business in New Zealand focused on SME lending.

He Manawa Tangata – Our People

All forms of diversity bring different perspectives and expressions of ideas and opinions throughout the organisation and contribute to Heartland's productivity, profitability and connection with its communities and stakeholders.

In light of the current COVID-19 pandemic, Heartland has reaffirmed its commitment to growing and celebrating diversity and continuing to build a culture of inclusion. Having a diverse and inclusive workplace are key success factors for resilience, recovery and reimagination, all of which are essential for businesses in the current economic climate.

This year, significant progress has been made in Heartland's key areas of focus for diversity and inclusion, being to achieve and maintain an equal gender balance across the organisation and to be recognised as an employer of choice for Māori.

Whāia te iti kahurangi, Heartland's framework for providing a workplace and financial service that enables Māori to succeed as Māori, was established during the year. The purpose of *Whāia te iti kahurangi* is to support the work Heartland does with Māori, te reo Māori, and customary practices. It is used as a reference point for Heartland's people on operational issues and to support the inclusion of an indigenous perspective.

Heartland's Manawa Ako internship programme has continued to grow, providing opportunities for the next generation of Māori and Pasifika to experience working in the financial sector and a corporate environment. Manawa Ako has had a positive impact on Heartland's diversity journey, contributing to a significant increase in the use, understanding and normalisation of te reo and tikanga Māori at Heartland. It has also contributed to the development of a more accepting, open-minded and inclusive internal culture throughout the organisation.

Looking Forward

Looking to the year ahead, Heartland is committed to supporting customers through the current environment. Continued growth is expected in New Zealand across Motor, Business and Reverse Mortgages. In Australia, growth in Reverse Mortgages is expected to continue alongside expansion in SME and Consumer activities. In Digital, there will be an increased emphasis on development of the Heartland Mobile App for the New Zealand market, enabling more interaction to meet customer needs and greater distribution to new customers.

Heartland's commitment to diversity and inclusion remains an integral part of its overall strategy. Work will continue to further develop and embed Māori initiatives, including growth of the Manawa Ako internship programme and roll out of a new recruitment strategy, Iho Pūmanawa, to assist with providing a more equitable process for Māori applicants.

Heartland's Environmental, Social and Governance strategy will also continue, with a focus on reducing the environmental impact of its operations and providing products and services which support customers to make behavioural changes consistent with a circular economy.

I would like to thank our Heartland people for living our mātāpono throughout the year. I also wish to thank our shareholders for their continued support of Heartland.

Ngā mihi nui,

Jeff Greenslade
Chief Executive Officer

Nā te kaiwhakahaere matua

Kua tutuki i a Heartland he putanga ahumoni kaha i te TAm[1] 2020 nei, ahakoa ngā wero taikaha o te hauora me te ohaoha kua pupū ake i te urutā imurangi-19. I $72.0 miriona te tōpūtanga haumoni rauiti [THRi[2]], nā, kua $78.9 miriona te tōpūtanga whakariterite (hāunga te pānga o te paparua ohaoha o te $9.6 miriona i mua i te tangohanga tāke no te putanga ake o te imurangi-19), ārā he pikinga ake o te 7.2% no te TAm2019. He kaha hoki te pikinga ake o ngā whiwhinga ahumoni raunui ki te $4.6 piriona, he pikinga kia $215 miriona kē atu i tō te TAm2019.

Te Whanaketanga Mamati

No te urunga ki te Te Paehoko o Aotearoa[3] i te tau 2011 me te rēhitatanga o Heartland Bank hei pēke whai mana i te tau 2011, kua ahu whakamua a Heartland i ētahi taumata rautakitaki. Na te aro ki te whakawhanake i ngā āheinga mamati kua kitea a Heartland e tū ana hei hono ahumoni whai mamati, arā, hei kaipakihi hangarau ahumoni (**Fintech**) e mana ana hei pēke.

Nā reira, na te aronga pai rawa hoki - ina hoki te aronga tōtahi – ki ngā hua me ngā ratonga kua tū motuhake a Heartland i ngā pēke au matua. Hei tauira pai rawa ko te tiketike kē atu o te Pae Huamoni Rauiti, me te mea hoki ko Heartland tētahi o ngā pēke e rua noa iho nei o tēnei pito o te ao kāore i raruraru i te whakahekenga rānei, i te kawenga kētanga rānei o te taumata aromatawai me te aronga atu i te urunga atu ki te hekenga ohaoha. Kua waitohua a Heartland e Canstar ko te Pēke Penapena o te Tau i ngā tau e toru nei, ā, kua whiwhi ki ngā tohu huhua i te tukanga mōkete tauaro. Hei tikanga hangarau ahumoni, no te taumata ā-ao ngā pae mamati a Heartland hei kuhukuhu moni, hei tukutuku moni ki ngā kaipakihi ririki, hei whakariterite i ngā mōkete.

Ko tētahi o ngā rautaki matua a Heartland ko te whakamamati i ngā mahi katoa, he pērā me te tohatoha, me te whakaekeeke kiritaki, me te hātepetepe.

Kei te rito o taua rautaki mamati nei, ko te whakawhānakenake i te taupānga irirangi o Heartland. Kua huri rawa ngā waea atamai hei ara irirangi mō ngā pakeke katoa[4]. Hurihuri haere ai ngā kiritaki ki ā rātou waea atamai kia tutuki ai ngā taupāpātanga katoa ki ngā ratonga, ā, nā reira te whānakenake o te Taupānga Irirangi o Heartland kia tatū ai ngā hiahia a te apataki – ka huri hei peka mariko o Heartland i tēnā koko, i tēnā koko.

Nā ngā pae mamati o Heartland i āhei ai ngā kiritaki ki te whai atu i ngā hua me ngā ratonga, ahakoa te aukati i ngā tūtakitanga ā-tinana e ai ki te taumata o ngā rāhui. Ma te tautuhi mamati i ngā kanohi (ine-koiora) me te haina ā-irirangi i ngā pepa (DocuSign) e whiwhi ai ngā kiritaki ki te pūnaha e uru atu ai ki te apataki, e tatū ai ngā whāinga, pāpā kore nei i te tīmatanga ki te mutunga. I te 25 o Māehe ki te 13 o Mei, i te wā o ngā rāhui o ngā taumata tūmatohi 3, 4, āhei ai ngā kaihoko waka takawaenga o Heartland ki te whakariterite i ngā tono pūtea taurewa ma te tuku atu i ngā hononga tautuhi kanohi ki ngā kiritaki.

Ka piki te haumitanga o ngā pūnaha hangarau kia nui atu ai ngā āheinga mamati e tatū ai ngā whāinga whakatupu a Heartland me ngā hiahia o ngā kiritaki i Aotearoa me Ahitereiria – ina hoki te ao whai imurangi-19 nei, he ao e hirahira ake ai te taupāpā ā-irirangi.

[1] TAm - tau huamoni [FY].
[2] THRi - tōpūtanga hua rauiti [NPAT].
[3] NZX.
[4] E ai ki te aromātai o te apataki irirangi ā-ao a Deloitte i te tau 2019.

Whaihua Ahumoni

Kei te wāhanga Kōrero Ahumoni o te Pūrongo ā-Tau i te whārangi 74 te wetewetenga o te whaihua ahumoni o Heartland i te TAm2020. Nā reira ka aro ngā kōrero nei o te whaihua ahumoni ki ngā pānga o te taiao ohaoha onāianei.

No te Māehe o 2020, kua raruraru i ngā aukatinga i whakaritea hei ārai i ngā pānga o te horanga o te imurangi-19. Kua raruraru hoki i ngā pānga e rere mai ana i te hekenga iho o te ōhanga ā-ao i te pātukinga o te imurangi-19. Ko ngā tikanga i whakaritea e te Kāwanatanga o Aotearoa (me ngā kaupapa tautoko, ahumahi) me Te Pūtea Matua o Aotearoa[5] kua taunaki i te whakangāwaritanga o aua tikanga rā. Hei tino tauira, na te whakarewa tere a te Manatū Ahumoni i te huarahi ngāwari hei āwhina i ngā HRT[6] me te Kaupapa Kapewhiti Taurewa mā ngā Kaipakihi Ririki[7] i piki ai te māngohe me te titikaha o te tūtanga ahumoni. I aua wā, kua pātata atu a Ngāi Heartland ki ngā kiritaki kia mārama ai ki tā rātou e mate ana, kia tautoko ā-pūtea hoki.

Kāore he whakaaritanga rarahi atu o Heartland ki ngā ahumahi kua tukia kinotia e te imurangi-19 (mahi tūruhi, mahi taurima, kaipakihi utu takitahi)[8], kāore hoki ki te tūtanga tokopae kua tino tukia e te pikinga ake o te kore mahi (15-24 tau te pakeke)[9]. Me te mea hoki, he teitei te taumata manawaroa o te pukapuka tukutuku pūtea a Heartland ki ngā pōraruraru ohaoha – hei tino tauira ko ngā pukapuka Mōkete Tauaro o Aotearoa me Ahitereiria (he wāhi e pūmau ana te whanonga o ngā kaitono), ko te tauira hoki o te Kōpaki Taiwhenua.

Na te whakaaroaro i te hanga rauāhua o te kōpaki, i te pakari o te hunga whakahaere, i te mōhio ki te apataki, na te whakaae hoki ki te tika o ngā matapae o ngā hanga ohaoha a te hunga whakahaere, i whakatau ai a Heartland kāore he take kia whakaarohia te hē o ngā tikanga o te wā. Engari i te mārama tonu a Heartland kāore pea i tika te tātaitai i te pakari o te tūnga taurewa i runga i ngā whakaritenga tautoko a Heartland ake me te āwhina nui a te Kāwanatanga.

I te aroaro o aua hanga, i mau a Heartland ki te paparua o te $9.6 miriona i mua i te tangohanga tāke hei ārai atu i te warawara i pupū ake i te imurangi-19. I whakaritea ngā paparua ohaoha hei tāpiritanga ki ngā tikanga tātaitai i te matapae o te ngaromanga moni taurewa mehemea kei waho te taiao ohaoha i tērā i puta i ngā tikanga tātaitai o te wā, ā, kua whakamahia e ngā pēke hei whakaō atu ki ngā warawara i puta ake i te ahunga ake o te imurangi-19. Ko te mea nui, kāore te paparua e tohu i ngā ngaromanga moni tūturu o te wā, engari hei āraitanga atu ki ngā ngaromanga ka ahuahu ake pea i te warawara.

Kua tirihia atu te nuinga o te paparua o Heartland ki ngā kōpaki Kiritaki me tō ngā HRT. Ka mātai tonu a Heartland i taua paparua, ā, ka panoni pea i te pahurenga o te wā e mārama rawa ai te horopaki, ā, hei reira ka mōhio pai a Heartland ki te pātukinga mai.

Ko te ōwehenga o te hōkaitanga ratorato katoa o Heartland, hāunga te paparua ohaoha nō mua i te tangohanga tāke o te $9.6 miriona mo te ahunga ake o te imurangi-19, ko te 1.71%[10] i te 30 o Hune o 2020. He tūnga taikaha, whakariterite nei, i te aroaro o ngā hoa kaipakihi ōrite. I piki anō te ōwehenga o te hōkaitanga ratorato katoa o te paparua ohaoha mo te imurangi-19 ki te 2.02% i te 30 o Hune o 2020.

Whāinga Rautaki Matua

E toru ngā whāinga matua o te rautaki o Heartland, arā, ko te piki taumata hei pēke mō Aotearoa; ko te whakawhānui o ngā mahi i Ahitereiria; ko te whakamamati i te whakaekeeke kiritaki, i te tohatoha, i te hātepetepe (he pērā me ngā kōrero o runga).

Te Piki Taumata i Aotearoa

E titikaha tonu ana te ngākau o Heartland ki te ratorato i ngā hua me ngā ratonga – pai rawa atu rānei, tōtahi rānei – ki te apataki mā ngā huarahi huhua, ā, ko te nuinga he mea mamati.

[5] RBNZ.
[6] HRT - hinonga ririki, tōwaenga [SME].
[7] Small Business Cashflow Loan Scheme.
[8] Ko te whakaaritanga katoa o Heartland ki ngā ahumahi Utu Takitahi, Taurima, Hari Rawa (hāunga te hari rawa ā-rori) i te 30 o Hune o 2020, e ai ki ngā rāngai kaitono o te ANZSIC, ko te 2.84%, ko te 2.17%, ko te 1.15% hāngaingai nei.
[9] I te 10 te Akuhata o 2020, ko te whakaaritanga atu o Heartland ki ngā kiritaki o taua reanga ko te 4.2% i a Motor, ko te 0.7% i te tukutuku pūtea Personal, ko te 0.9% i a Harmoney.
[10] I tātaitia hei tapeke ratonga i runga i ngā whiwhinga ahumoni raunui, hāunga ngā Mōkete Tauaro.

Kua whakawhanake a Heartland Bank i te tauira tōtahi, utu-iti e mahi ana i Aotearoa, i runga i te whakamamati i ngā hongere matua o te tohatoha me ngā pūnaha e ngata ai ngā hiahia. Ko te whakatōpū i te ahumahi pēke he huarahi pea hei whakawhānui i taua tauira utu-iti nei, hei hiki hoki i te whakawhiwhinga atu a ērā atu hunga ahumahi ki te haupū moni. I te wā nei e mate ana aua hunga ki te emiemi i ngā haupū moni kē atu, ā, e raruraru whānui ana hoki te ahumahi i te haumitanga kē atu ki te hangarau me te whakatutuki ture. Mā reira pea, ka kitea te whakatōpū hei whiringa pai.

No te Māehe o te tau 2020, i uru atu rā a Heartland ki roto i te mākete utu takitahi me te pae irirangi mō ngā Pūtea Taurewa ā-Whare. Hei whakamātautau i te hiahia o te mākete o Aotearoa ki ngā pūtea taurewa ā-whare mamati nei e āhei ai te iwi ki te tono me te whiwhi, heipūtanga nei, ki te whakaaetanga ā-irirangi. Hei aha hoki te haerenga rānei ki te pēke, te tūtakitanga rānei i te kaiwhakarite mōkete. He mea angitu te whakamātautau, ā, e $50 miriona te ritenga o ngā whakaaetanga heipū ki ngā pūtea taurewa ā-whare i te marama i whakamātautauria ai. I whakarewa anō a Heartland i taua hua mamati nei o ngā Pūtea Taurewa ā-Whare i te rā 12 o Oketopa 2020.

Te Whakawhānui i Ahitereiria

Kua tupu tonu ngā Mōkete Tauaro o Ahitereiria, ahakoa te pānga o te imurangi-19 ki te mākete o Ahitereiria. Ka whāia tonutia te haumitanga i ngā mōkete tauaro i waenga i ngā mahi o te mākete i Ahitereiria.

I whakarewaina te pae mamati, ko *Open for Business*[11], hei tukutuku moni taurewa punga kore nei, i Ahitereiria i te marama whakamutunga o te tau 2019. Na te pātukinga mai o te imurangi-19 i hīkina ai te tukutuku i ngā moni taurewa ma te pae mamati o Ahitereiria i te Māehe o 2020. Otirā e ngana ana a Heartland ki te whakarewa anō i a *Open for Business* i Ahitereiria i te tau maramataka nei.

Kua angitu hoki a Heartland i te mākete apataki me tō ngā kaipakihi ririki i Aotearoa. Nā, ko te aronga atu kia tāruatia taua angitu ki Ahitereiria. He paku ngā whakaaritanga atu o Heartland ki aua mākete mā ngā hoa kaipakihi, he pērā i a Harmoney, ā, kei te whai atu i te tupuranga ake i aua wāhi e rua, me te hiakai hoki ki ngā huarahi e tuputupu noa ai rānei, e hokohoko atu ai rānei.

Te Whakamarohi o te Wāriu i roto o te Hono

Hei whai i te tono a te Poari, kei te tāuteute te hunga whakahaere i te whitinga hou o te whakatutuki i te rautaki o Heartland. Kua waitohua te kaipakihi pēke hāumiumi o Jarden kia tohutohu mai i ngā huarahi hei waihanga i te wāriu, me te aro atu ki te pāpaku iho o ngā pānga riterite nōnāianei o te wāriu o ngā pēke i ō te nuinga o ērā o ngā kaipakihi ahumoni me ō ngā kaipakihi e whai ana i te hangarau ahumoni.

Kua tonoa a Jarden kia tāuteute i ngā pānga ki te wāriu, ki te rautaki haumitanga, ki te whai rauemi ina kitea kētia a Heartland hei hono o ngā kaipakihi motuhake e whā, arā:

1. he pēke nō Aotearoa e pūtake ake ana i te tukutuku moni taurewa mō ngā kaipakihi, mo te taiwhenua, mō ngā whare, me te āheinga ki te whakawhānui atu ki te tauira utu-iti;
2. he ratonga ngārahu o te ahumoni waka i Aotearoa, me te āheinga ki te kapo atu i te wāhanga mākete e rahi atu ana;
3. te ratonga mātātoa nui rawa o ngā Mōkete Tauaro i Ahitereiria, ā,
4. he kaipakihi tūmau e whai ana ki te hangarau ahumoni, ā, ka aro ki te tuku taurewa i ngā moni ki ngā HRT[12]

He Manawa Tangata – Ō tātou tāngata

Tāpaepae ai ngā hanga huhua i ngā aronga rere kē me ngā whakamāramatanga rere kē o ngā whakaaro me ngā huatau, huri noa i te kamupene, hei hāpai i te whakaputanga, i te haumoni, i te hononga ki ngā hapori me te hunga whai pānga.

I te aroaro o te urutā imurangi-19 nei, kua whakapuaki anō a Heartland i te titikaha o te ngākau ki te hiki me te whakanui i ngā hanga huhua hei waihanga i te ahurea awhiawhi. Mā aua hanga huhua, ma te ringa awhiawhi hoki o te wāhi mahi e riro ai ngā take momoho rawa o te manawa nui, o te manawa ora, o te manawa pūmahara, ā, he hanga whakaharahara rawa ērā e ora ai ngā kaipakihi i te ao ohaoha onāianei.

No te tau nei, he kaha te ahunga whakamua i ō Heartland kaupeka matua o te aronga atu ki te mata māhaki me te ringa awhiawhi, he ahunga e tutuki ai, e tūmau ai te tairite ā-ira, huri noa i te kamupene, ā, he ahunga e āta whirihia ai hei kaiwhakarato mahi mā Ngāi Māori.

No te tau hoki nei ka tū ko *Whāia te iti kahurangi*, ko tā Heartland tīrewa e whai wāhi mahi ai, e whai ratonga ahumoni ai kia toa ai ngā Māori hei Māori. Ko te take o *Whāia te iti kahurangi* ko te tautoko i ngā mahi a Heartland i waenga i a Ngāi Māori, i te reo Māori, i ngā tikanga tuku iho. Hei taunga hoki hei ārahi i a Ngāi Heartland i ngā mahi kaipakihi, hei hāpai i te aronga mai o te tangata whenua.

Kua piki ake te hōtaka whakakaiaka o Heartland, arā, o te Manawa Ako, i maha atu ai ngā huarahi e whakamātautau ai te uri whakatupu – Māori mai, Ngāi Moutere mai – i ngā mahi o te tūtanga ahumoni me te ao rangatōpū. Kua pai te pānga atu o Manawa Ako ki te tāwhai mata māhaki o Heartland, he pānga i piki rawa ai te whakamahi, te mārama, te whakataunga i te reo me ngā tikanga Māori i roto o Heartland. Nā reira hoki i hāpainga ai te whanaketanga o te ahurea māhaki, tuhera, awhiawhi, huri noa i te kamupene.

Te Titiro Whakamua

Hei tirohanga atu ki te tau e heke mai nei, ka whakaū a Heartland ki te tautoko i te apataki i roto i te taiao. Kei te matapaea te tupuranga tonutanga o ngā Mōkete Waka, Kaipakihi, Tauaro i Aotearoa. Hei Ahitereiria, kei te matapaea te tupuranga tonutanga o ngā Mōkete Tauaro, waihoki te pikinga o ngā mahi HRT me ō te apataki. Hei te taha mamati, ka kaha atu te aro ki te whakawhanake i te Taupānga Irirangi Heartland i roto i te mākete o Aotearoa, kia piki ake ai te taupāpātanga hei whakatutuki i ngā hiahia a te apataki me te tohatoha atu ki ngā kiritaki hōu.

Mau tonu ai a Heartland ki ngā tikanga o te mata māhaki me te ringa awhiawhi hei tino wāhanga o te rautaki whānui. Ka whai tonu i ngā mahi hei whakawhanake, hei whakaū i ngā hinonga Māori, he pērā hoki me te whakatupu i te hōtaka whakakaiaka o te Manawa Ako, me te whakarewa i te rautaki poapoa kaimahi, i te Iho Pūmanawa hoki, hei hāpai i te pūnaha e tairite atu ai mō ngā kaitono Māori.

Ka mau tonu te rautaki ā-taiao, ā-hapori, ā-kāwana a Heartland, ā, ka aro ki te whakahekenga o te pānga ā-taiao o ngā mahi me te whakaratorato i ngā hua me ngā ratonga e tautoko ana i te apataki kia hāngai te whanonga ki ngā tikanga o te taiōhanga porotiti.

Hei mutunga ake, e hiahia ana ahau ki te mihi ki a Ngāi Heartland kua whakatinana i ō tātou mātāpono i te roanga o te tau. Kei te hiahia hoki ahau ki te whakamihi ki te hunga whai pānga me tā rātou tautoko tonu i a Heartland.

Ngā mihi nui,

Jeff Greenslade
Te Mana Hautū

[11] *Tuhera ana ki te kaipakihi.*
[12] HRT - hinonga ririki, tōwaenga [SME].

2020 Results at a Glance

GROSS FINANCE RECEIVABLES

$ 4.6 billion

FY19 $4.4b

NET PROFIT AFTER TAX[1]

$ 72.0 million

Adjusted net profit after tax[2] $78.9m
FY19 $73.6m

RETURN ON EQUITY

10.5%

Adjusted return on equity[2] 11.4%
FY19 11.1%

NET INTEREST MARGIN

4.33%

FY19 4.33%
Consistently higher than banking peers[3]

EARNINGS PER SHARE

12.5 cents per share

Adjusted earnings per share[2] 13.7 cents per share
FY19 13.0 cents per share

FINAL DIVIDEND DECLARED

2.5 cents per share

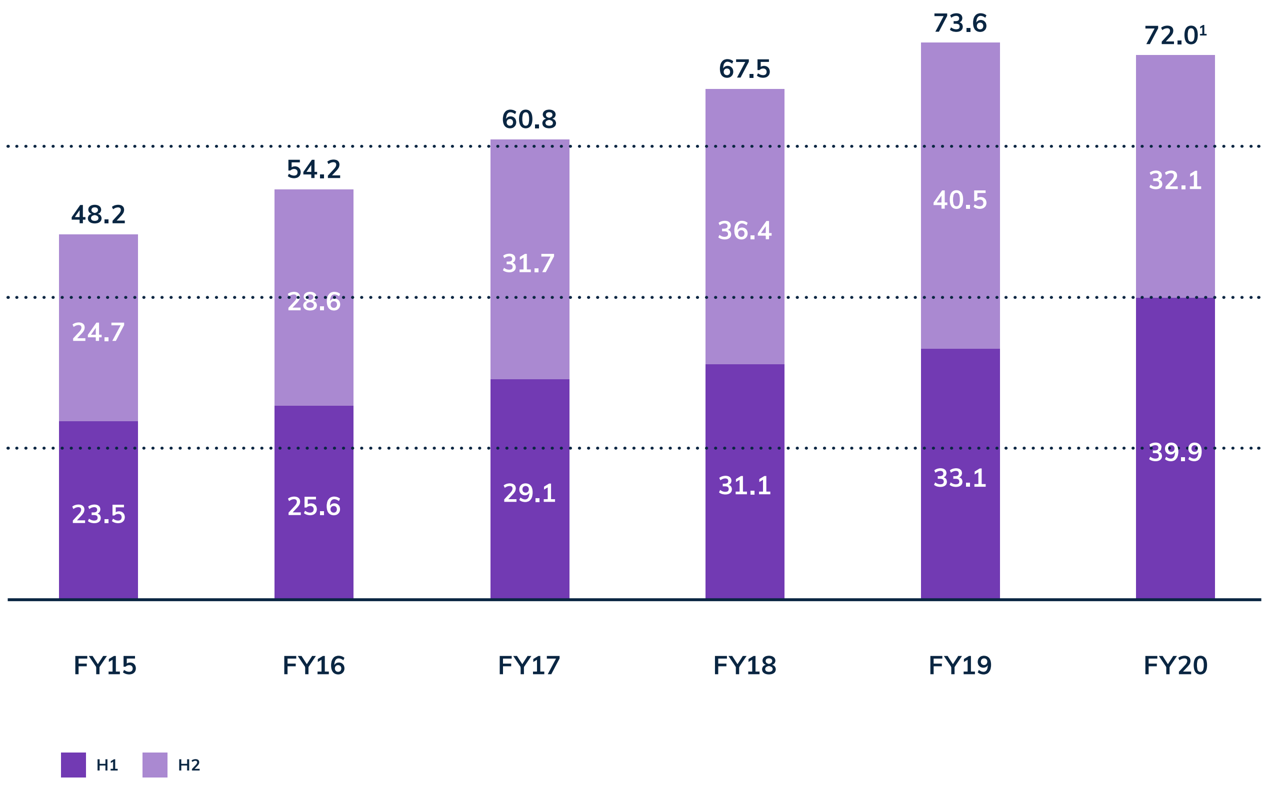
FY19 6.5 cents per share

TOTAL DIVIDEND FOR THE YEAR

7.0 cents per share

FY19 10.0 cents per share

NET PROFIT AFTER TAX



[1] Included within this NPAT is an economic overlay of $9.6 million pre-tax which Heartland applied to its potential credit losses in response to the ongoing uncertainties relating to the COVID-19 pandemic.
[2] These adjusted figures for FY20 exclude the impact of the $9.6 million pre-tax economic overlay due to COVID-19. See page 76 for further information.
[3] KPMG FIPS Report March 2020.

Our Response to COVID-19

BUILT NEW WEBSITE FUNCTIONALITY TO ENABLE CUSTOMERS TO REQUEST SUPPORT ONLINE

BECAME A PROVIDER OF THE NEW ZEALAND GOVERNMENT'S BUSINESS FINANCE GUARANTEE SCHEME

Loan variation options

OFFERED CUSTOMERS A RANGE OF LOAN VARIATION OPTIONS INCLUDING PAYMENT HOLIDAYS, REDUCED PRINCIPAL PAYMENTS AND INTEREST ONLY PAYMENTS

Heartland Extend

BUILT NEW HEARTLAND EXTEND PRODUCT, PROVIDING BUSINESS AND CONSUMER CUSTOMERS WITH CONTROL AND FLEXIBILITY OVER THEIR LOAN REPAYMENTS

APPROXIMATELY

20%

OF HEARTLAND EMPLOYEES RE-DEPLOYED TO CUSTOMER SERVICE AND SUPPORT ROLES AS PART OF COVID-19 RESPONSE STRATEGY

IMMEDIATELY IDENTIFIED HEARTLAND TEAM MEMBERS WHO WERE MORE VULNERABLE TO COVID-19 AND WORKED WITH THEM TO KEEP THEM SAFE

COMMUNICATED FREQUENTLY WITH EMPLOYEES TO ENSURE THEY WERE AWARE OF LATEST DEVELOPMENTS, HOW TO STAY CONNECTED AND HOW TO ACCESS SUPPORT IF NEEDED

PROVIDED TECHNOLOGY TO ENABLE THE MAJORITY OF EMPLOYEES TO WORK FROM HOME DURING ALERT LEVEL 4

Our Response to COVID-19

Supporting our Customers through COVID-19

Heartland is committed to supporting its customers through the financial impacts of the COVID-19 pandemic. When New Zealand began to feel the effects of COVID-19 in March this year, a number of measures were put in place to proactively contact customers, re-deploying a significant proportion of employees to ensure that we were well positioned to do so. Customers were contacted through a number of channels including outbound phone calls and email.

New website functionality was built to specifically enable customers to request support online. To support our customers, a range of loan variation options were offered including payment holidays, reduced principal payments and interest only payments.

Approximately 20% of Heartland employees were re-deployed to customer service and support roles as part of our COVID-19 response strategy. For example, a dedicated customer-facing team was established to proactively contact over 8,000 business customers who may have needed support. 50 employees were also re-deployed to create a dedicated Consumer lending COVID-19 response team of 100 people to respond to, and action, customer support requests.

To help customers leverage their savings during this time, a range of term deposit and call deposit offers were provided to existing customers and shareholders. These interest rate offers also provided an attractive option for customers who were holding government support packages before they were distributed to employees.

Support for our Business Customers

Heartland Bank has participated in the Business Finance Guarantee Scheme (**BFGS**) since its inception. The BFGS is a collaboration between the New Zealand Government and banks to provide loans to businesses that are financially impacted by COVID-19. Any loans provided by Heartland Bank under this scheme have 80% of the risk guaranteed by the Government – the remaining 20% is covered by Heartland Bank.

On 20 August 2020, the Government announced a number of changes to simplify and expand the BFGS, enabling larger and longer-term loans to be made available to more New Zealand businesses, for more purposes. Heartland supports the changes to the BFGS and believe these are positive for New Zealand businesses.

The changes will enable Heartland Bank, and other participating banks, to assist more new and existing qualifying business customers:

- to access funding for more purposes – as well as cashflow, loans can now also be used for capital assets related to responding to or recovering from, the impacts of COVID-19
- to borrow more, for longer – now $5 million (under one or more loans) for up to five years (increased from $500,000 for three years)
- to repay or refinance up to 20% of their existing debt
- who may otherwise have previously been excluded from borrowing under the BFGS.

In addition to continuing to support BFGS lending, support is being provided to existing customers by giving them more time and flexibility to meet the challenges of lockdowns. In particular, Heartland Extend was launched in May 2020, allowing customers to choose loan repayment terms suited to their needs. Applications are available via a purpose-built digital platform.

Heartland Extend provides the customer with control and flexibility over their loan repayments – allowing them to adjust their payments as needed, with no fees to make these changes. Customers have the option to reduce their regular repayment amounts immediately, or have the flexibility to adjust them in the future if their situation changes. This is done by making changes to the term of the loan. Heartland will continue to work with all Business Extend customers to determine the repayment amounts and term which suit their particular situation.

To date, Heartland has assisted over 2,700 business customers to deal with the ongoing disruption caused to their businesses by COVID-19. With the expansion of the BFGS, and the introduction of Business Extend to new customers, Heartland will be able to assist more businesses to respond to and recover from the impacts of COVID-19.

Support for our Vehicle Loan Customers

For vehicle loan customers in the Consumer division, support options offered included interest-only payments and payment deferrals where required. The feedback from these customers regarding the service provided to them following the outbreak of COVID-19 has been positive. In a survey conducted with vehicle loan customers who had requested assistance with their loan, 96% of respondents were happy with the options provided to them by Heartland and 91% of respondents rated the Heartland team as either "very helpful" or "extremely helpful".

Investment in digital capability over the last two years meant that intermediary motor vehicle dealers could continue to process finance applications for their customers using digital tools such as electronic document signing and biometric facial recognition despite alert level restrictions on in-person interactions[1].

Support for our People

The support provided to Heartland's customers in response to COVID-19 was only made possible through the resilience and adaptability of our people. In the face of challenges presented to the business, our people stepped up and truly lived and demonstrated our mātāpono. This meant doing the right thing by our customers (mahi tika), working as one team to make change happen (mahi tahi) and continuously evolving as the situation required (mahi tipu).

The health and wellbeing of our people was paramount in our response. Team members who were more vulnerable to COVID-19 were immediately identified and we worked with them to keep them safe. Throughout the lockdown and moving back down the alert levels, we communicated frequently to ensure our people were aware of latest developments, how to stay connected and how to reach out for support if needed.

For those working from home, the use of our online meeting tools was encouraged to enable productive meetings and to keep up regular contact with each other. For those essential employees who remained in the offices, appropriate protocols were immediately put in place to introduce strict hygiene standards and adhere to physical distancing requirements.

Danny Olive Team Leader - Collections

[1] For information on biometric identity verification technology, please refer to page 72 of this Annual Report.

Reverse Mortgages and COVID-19

Strong growth in Reverse Mortgages expected to continue

Once again, Reverse Mortgages performed well in the financial year, showing strong growth across both New Zealand and Australia.

Many New Zealanders and Australians are retiring without sufficient financial means to support the lifestyle they want to live and we expect this trend to continue.

It's no surprise that the latest Massey University retirement expenditure report found that most New Zealanders aspire to a better standard of living in retirement than can be supported by NZ Superannuation alone[1].

Accordingly, we expect growth in Reverse Mortgages to continue, although it is likely that the most common uses of a Reverse Mortgage may change. For example, we have seen a decline in overseas travel and higher rates of debt consolidation.

Heartland continues to be the market leader

During the course of the financial year, one competitor re-commenced the promotion of a Reverse Mortgage product in New Zealand. However, our learnings from the Australian market have shown that some competition can help to increase awareness and acceptance of the product amongst the target market.

We believe that our market-leading position in New Zealand will continue despite this competition as a result of our strong experience in the Reserve Mortgage market and our dedicated and knowledgeable team who deliver outstanding service and provide a streamlined process for our customers.

Heartland Seniors Finance in Australia also continues to be the leading originator of Reverse Mortgages in Australia, with our 12-month market share increasing from 21%[2] to 26%[3].

> "For many retirees, COVID-19 has highlighted the importance of their home as it connects them to their family, friends and community.

[1] New Zealand Retirement Expenditure Guidelines 2019 https://www.massey.ac.nz/shadomx/apps/fms/fmsdownload.cfm?file_uuid=18330758-8D36-4EF6-A79B-92C86889BFAB
[2] Based on APRA ADI Property Exposure combined with Heartland Seniors Finance data as at 31 March 2019.
[3] Based on APRA ADI Property Exposure combined with Heartland Seniors Finance data as at 31 March 2020.

The impacts of COVID-19

There is no 'one size fits all' approach to funding retirement. Each person has a different set of financial, social and family circumstances and differing lifestyle choices. A Reverse Mortgage is simply another option to enable retirees to make their chosen lifestyle a reality.

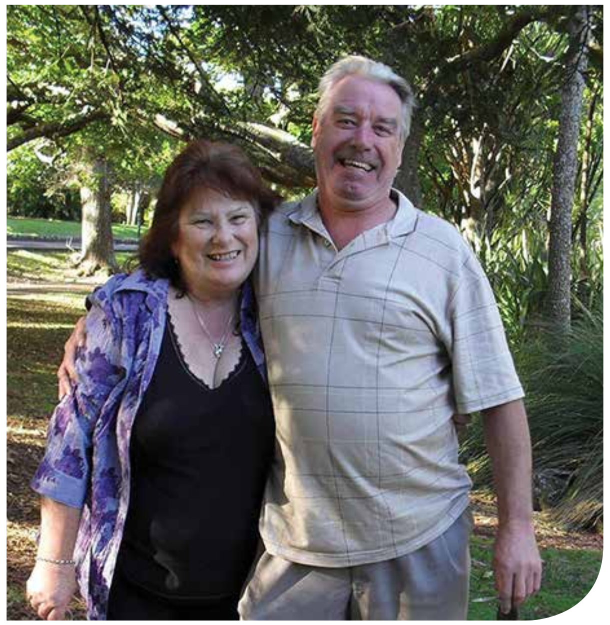
We believe that the ability to provide Reverse Mortgages to retirees will be more important than ever given the impacts of COVID-19, for example:

- Saving for retirement will inevitably become a lower priority for those facing redundancy or salary cuts. For many, the focus must shift to making ends meet on a day-to-day basis, with retirement savings taking a back seat. Those who were already under-prepared for retirement will be most significantly affected.
- The current low interest rate environment will mean less income for retirees who are heavily reliant on interest from term deposits to fund their retirement. Again, this may result in the need to seek other options to support their retirement income.

For many retirees, COVID-19 has highlighted the importance of their home as it connects them to their family, friends and community.

Many are looking at a Reverse Mortgage to release equity rather than the traditional method of downsizing.

Heartland is proud to be able to provide another alternative to help New Zealanders and Australians live a more comfortable retirement despite the current economic environment brought about by the COVID-19 pandemic.



"It's been a life-changing experience and we intend to make the most of it."

John and Margaret
Heartland Reverse Mortgage customers

Our Business

As at 30 June 2020

OUR PEOPLE

500

EMPLOYEES
475 NEW ZEALAND + 25 AUSTRALIA

12,000+

SHAREHOLDERS

120,000+

CUSTOMERS

14
LOCATIONS

52:46:2
FEMALE : MALE : NOT STATED

20+
ETHNICITIES

OUR FUNDING

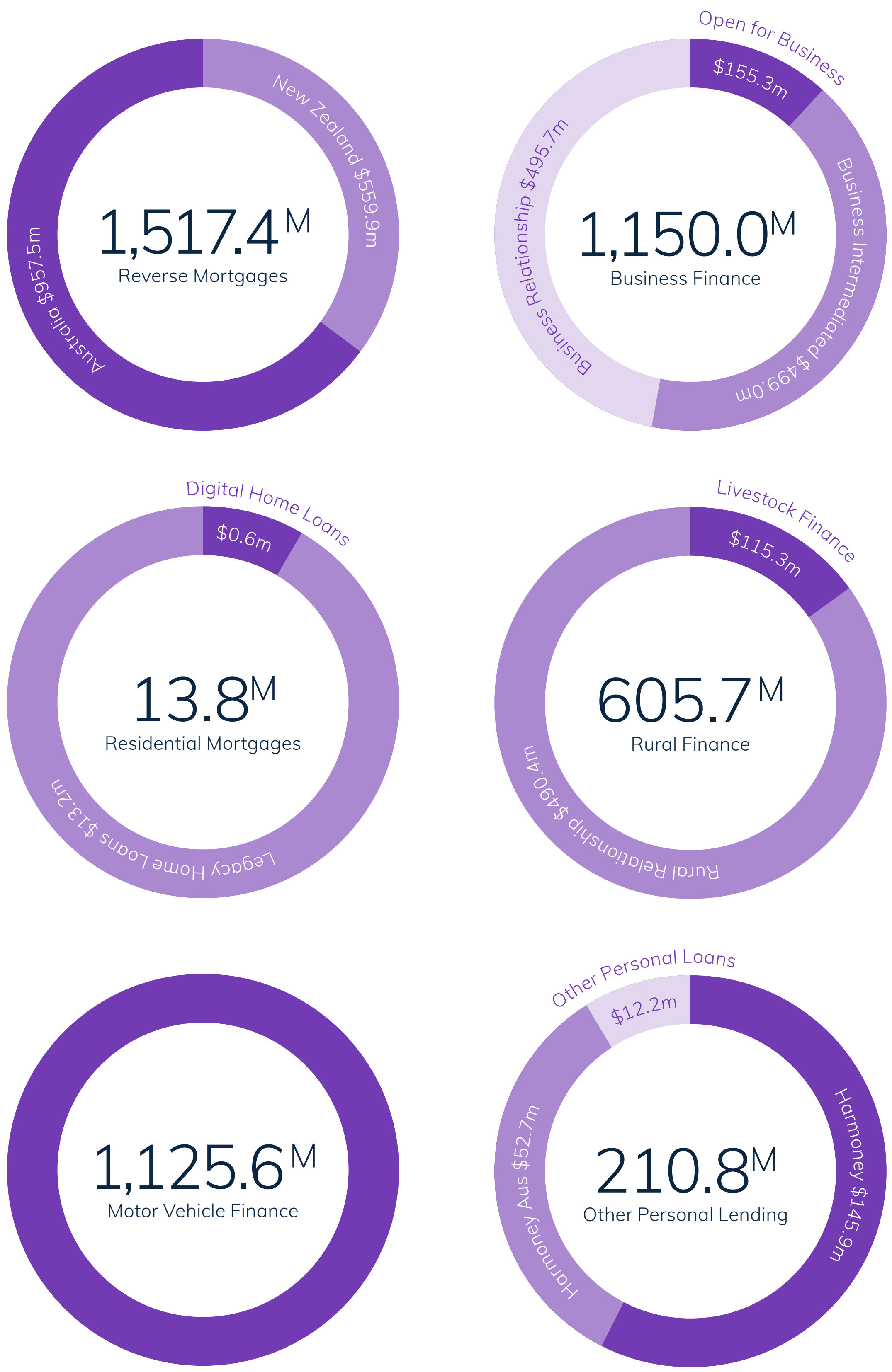
$3.3B

RETAIL DEPOSITS

$819.7M
SECURITISATION FACILITIES

$448.2M
UNSUBORDINATED BONDS

OUR LENDING



All of the above lending portfolio figures exclude FX impact.

Heartland Group Holdings Board

From left to right:

JEFFREY GREENSLADE
CEO and Executive Director
Appointed 19 July 2018
Committee memberships: N/A

GEOFFREY RICKETTS
Chair and Independent Non-Executive Director
Appointed 31 October 2018
Committee memberships: HGH Audit and Risk Committee, HGH Corporate Governance, People, Remuneration and Nominations Committee (Chair)

ELLEN COMERFORD
Independent Non-Executive Director
Appointed 31 October 2018
Committee memberships: HGH Audit and Risk Committee (Chair)

SIR CHRISTOPHER MACE
Independent Non-Executive Director
Appointed 31 October 2018
Committee memberships: HGH Audit and Risk Committee

GREGORY TOMLINSON
Deputy Chair and Non-Executive Director
Appointed 31 October 2018
Committee memberships: HGH Corporate Governance, People, Remuneration and Nominations Committee

As at the date of this Annual Report.

For full profiles, visit **shareholders.heartland.co.nz**

Heartland Bank Board

Pictured on pages 24-25:

JEFFREY GREENSLADE
Non-Independent Director
Appointed 31 December 2015
Committee memberships: N/A

GEOFFREY RICKETTS
Independent Non-Executive Director
Appointed 31 December 2015
Committee memberships:
HBL Audit Committee

ELLEN COMERFORD
Independent Non-Executive Director
Appointed 1 January 2017
Committee memberships: N/A

BRUCE IRVINE (CHAIR)
Independent Non-Executive Director
Appointed 31 December 2015
Committee memberships:
HBL Audit Committee, HGH Corporate Governance, People, Remuneration and Nominations Committee[1]

SHELLEY RUHA
Independent Non-Executive Director
Appointed 1 January 2020
Committee memberships:
HBL Risk Committee Chair

KATHRYN MORRISON
Independent Non-Executive Director
Appointed 29 March 2019
Committee memberships:
HBL Risk Committee

EDWARD JOHN HARVEY
Independent Non-Executive Director
Appointed 31 December 2015
Committee memberships:
HBL Audit Committee (Chair),
HBL Risk Committee

As at the date of this Annual Report.

For full profiles, visit
shareholders.heartland.co.nz

[1] Refer to page 45 for information on Bruce Irvine's membership of the HGH Corporate Governance, People, Remuneration and Nominations Committee.

Strategic Management Group

From left to right:

JEFF GREENSLADE
CEO, Heartland Group Holdings Limited

LYDIA ZULKIFLI
Chief Digital Officer

ANDREW DIXSON
Chief Financial Officer

GRANT KEMBLE
Group Chief Risk Officer

LAURA BYRNE
Group Chief of Staff

KEIRA BILLOT
Chief People & Culture Officer

CHRIS FLOOD
CEO, Heartland Bank Limited

MICHAEL DRUMM
Chief Legal & Bank Risk Officer

SARAH SMITH
Chief Technology Officer

For full profiles, visit
shareholders.heartland.co.nz

Diversity Report

E koekoe te tūī, e ketekete te kākā, e kūkū te kereru – Appreciate the many voices of the forest

Heartland considers diversity, in all its forms, a strength. We are committed to supporting initiatives which foster diversity at all levels of the organisation to put us in a better position to attract the widest pool of talent, understand and respond to our diverse stakeholder needs, and provide us with a broad experience base from which to identify new opportunities, solve problems and make the right decisions. By promoting a culture of inclusion and embracing diversity, we believe our people will be engaged and motivated to create the best outcomes for our customers and stakeholders.

In order to articulate our commitment to diversity, Heartland has a Diversity and Inclusion Policy. The Diversity and Inclusion Policy is available on our shareholder website: shareholders.heartland.co.nz.

Joan Scott Reverse Mortgage Consultant

Diversity is the many characteristics that make each of us different, including gender, ethnicity, heritage, sexual orientation, age, religious beliefs or other ideologies, family status, language, cultural background, and physical and mental abilities.

An **inclusive** workplace is one where all those forms of diversity are valued, respected and leveraged, creating equal opportunities for all employees.

Under the Diversity and Inclusion Policy, the Board, with the assistance of the Diversity Committee, is responsible for setting measurable objectives and reviewing progress against them.

In 2019, the Board set the following objectives to measure Heartland's performance against its Diversity and Inclusion Policy:

a) To improve the inclusiveness of our workplace by increasing cultural awareness and celebrating diversity in all of its forms.

b) To achieve a gender balance at all levels of the organisation as soon as possible.

c) To be recognised as a preferred employer for emerging Māori talent, and thereby create a pathway to being an employer that is welcoming to all cultures and ethnicities.

d) To create an environment where having English as a second language does not present a hurdle to being employed by, or succeeding at, Heartland.

The following section demonstrates the progress made against these objectives during the 2020 financial year.

To improve the inclusiveness of our workplace by increasing cultural awareness and celebrating diversity in all of its forms

Heartland has a workforce with diverse ethnicities, heritages, backgrounds, cultures, genders and ages. We are focused on continuing to develop an inclusive culture that embraces and celebrates our diversity and encourages our people to be authentic and share their thoughts and ideas. Throughout the year, we continued to grow awareness across the organisation of the value of diversity and inclusion through our internal communication channels, including regular news and interest stories.

Diversity Committee

Heartland's Diversity Committee is a forum for our people to come together and share ideas to measure, celebrate and promote diversity and inclusion. The Committee reports to the Board on diversity related matters, including those in relation to Heartland's progress towards achievement of the measurable objectives.

During the year the Diversity Committee coordinated a number of events to celebrate and recognise times of cultural significance including Christmas, Eid, Diwali, Lunar New Year, Matariki, Māori Language Week, Waitangi Day and NZ wars commemoration.

Te reo and tikanga Māori

The promotion of Māori language and culture continues as a core focus at Heartland, with our Manawa Whenua group (made up of our Māori employees and allies) leading these activities. Manawa Whenua led our Māori Language Week celebrations which were well received and involved numerous interactive opportunities. For Matariki this year, we took the opportunity to create awareness about what it means, reflect on the events of the past year, and think ahead to the months to come.

Māori language continues to be used in various contexts, with many positive comments being received from external sources recognising and commending the Māori version of our website. These types of initiatives have a positive impact on developing new relationships, and strengthening existing ones with our customers and communities.

Rainbow Community

As part of continuously evolving our frameworks, we have updated our Prevention of Harassment, Discrimination and Bullying, and Diversity and Inclusion policies to specifically include Heartland's Rainbow community.

Heartland's Rainbow Committee has introduced the option for our people to include pronouns in their email signatures as a way to easily convey the words they would like others to use when being addressed or referred to. We recognise that the ability to self-identify promotes confidence in our people to bring their true and authentic self to work.

These actions are only the beginning for our Rainbow Committee as we strengthen our focus towards increasing rainbow awareness and ally-ship, and being an organisation that understands, welcomes and embraces sexuality and gender diversity.

Living Wage Employer Accreditation

In 2020 Heartland became an accredited living wage employer, being one of a small number of NZX-listed companies to do so. This is a movement we support to ensure that New Zealanders have access to fair pay and in effect reduce inequities that impact many Kiwi workers, their whānau, and our communites.

Becoming a Hearing Accredited Workplace

We are working with the National Foundation for the Deaf and Hard of Hearing to become a Hearing Accredited Employer in 2021. Hearing loss has a significant impact on the New Zealand workforce with 11 out of every 100 people experiencing some hearing loss. Hearing loss is also becoming more prevalent in younger people according to the World Health Organisation[1].

Measuring our Diversity

Our people provide information on a voluntary basis to help us better understand the diverse backgrounds of our workforce including which ethnicity they identify with. In June 2020 we provided a snapshot of Heartland's gender information to Champions for Change to contribute to the wider pool of data they collate to help businesses work together to identify and create positive change.

We have now also developed a good understanding of Heartland's employee age profile. Our largest demographic is aged 30 and under, with 33% of our workforce in this group. In addition, 47% of our workforce is aged 35 and under. This insight was the genesis for the creation of Heartland's Rangatahi Advisory Board. The Rangatahi Advisory Board is a group of employees, aged 35 and under, with the main purpose being to diversify the perspectives of the Strategic Management Group and the wider Senior Leadership Team – and ultimately the board – by providing unique insights on our people and customers to enhance Heartland's strategic initiatives.

Ronil Mishra Lending Specialist - Small Business

[1] www.nfd.org.nz/hearing-accredited-workplaces

To achieve a gender balance at all levels of the organisation as soon as possible

Heartland continues to identify and address the imbalance of gender at any level where one exists. The following table shows the gender diversity of directors and employees of Heartland as at 30 June 2020 and 30 June 2019.

	As at 30 June 2020				As at 30 June 2019				
Positions	**Female**	**Male**	**Not Stated**	**Total**	**Female**	**Male**	**Gender Diverse**	**Not Stated**	**Total**
Board - Heartland Group Holdings	1 (20%)	3 (60%)	1 (20%)	5	1 (20%)	3 (60%)	0	1 (20%)	5
Board - Heartland Bank	3 (43%)	4 (57%)	0	7	3 (43%)	4 (57%)	0	0	7
Strategic Management Group	4 (44%)	5 (56%)	0	9	5 (63%)	3 (38%)	0	0	8
People in Key Leadership	16 (46%)	19 (54%)	0	35	12 (40%)	18 (60%)	0	0	30
All staff	261 (52%)	231 (46%)	8 (2%)	500	226 (50%)	212 (47%)	1 (0%)	9 (2%)	448

(The data in this table is inclusive of all employees across Australia and New Zealand.)

The leadership talent pipeline is coming through from our younger workforce, with 11% of employees occupying 'key leadership roles' aged 35 and under. For our employees aged 30 and under, the gender balance is encouraging, with 46% reporting as male, 53% reporting as female and the remaining employees opting not to state a gender.

External Diversity Forums

We continued our partnership with Global Women this year which enables Heartland to access best practice trends and opportunities to collaborate with other organisations that are leading diversity and inclusion in New Zealand. There is a strong commitment from the Board to furthering this objective and the following table summarises the Directors' individual participation in diversity forums and the aims of each of these forums.

Director	Forum	Aim
Jeffrey Greenslade	Champions for Change	To exchange ideas with peers on appropriate ways to improve our diversity and inclusiveness
Ellen Comerford	Chief Executive Women	To educate and influence Australian business and government on the importance of gender balance
Kathryn Morrison	Global Women	To catalyse New Zealand's social and economic success by championing diversity in leadership
Geoffrey Ricketts Bruce Irvine	IOD mentoring for diversity	To promote diversity in its wider sense including ethnicity, age, skills and experience in addition to gender

"Heartland has a very supportive and engaging environment, with numerous opportunities available for employees. Ensuring that we continue to support and develop our people is important in reflecting our Heartland mātāpono (values)."

Veronica Franklin
Rangatahi Advisory Board member

"Those who are 35 and under have potentially undergone some of the most radical changes within society, economy, and technology in their lifetime. It doesn't make us special, it just means we see things a little differently to those of older and younger generations. We can use this to provide an outlook and perspective on matters that relate to Heartland and our customers (existing and potential) that haven't been raised previously."

Ian Hedley-Wakefield
Rangatahi Advisory Board member

Gender Diversity Initiatives

This year Heartland developed a robust framework on gender reporting which enabled us to assess and gain insight on any gender pay or gender representation issues that require attention, and understand what the contributing factors may be.

We are now focused on recruiting and promoting women into more senior roles and ensuring proactive in-role development of women. We are encouraged by the representation of women in the Strategic Management Group and continue to seek to understand how we can maintain a gender balance as our workplace demographic evolves.

We have invested in the individual development of female talent, including 62% of our Rangatahi Advisory Board members being female which provides a rich development ground for future leaders. We also welcomed a new cohort to our Kia Eke programme during the year, being a support network and talent development programme for females at an earlier stage in their career, to support their professional and career development.

"Under 35s make up almost half of Heartland's workforce, and are the pipeline of customers for Heartland in the future. I think it's important for the decision makers to have access to the thoughts of people in this audience to ensure outcomes are in touch with the thinking of younger people."

Aleisha Langdale
Rangatahi Advisory Board member

Flexible Working

Heartland continues to support flexible working and has a formal policy in place. People leaders are encouraged to take an open-minded approach to requests for flexible working, reinforcing the benefits to Heartland and its customers by providing flexibility to employees who value it.

Whilst we see this as one of the many ways in which we can attract and retain women in more senior roles in the organisation, the benefits of having a flexible working policy extends beyond fostering a gender balance – it is also aligned to Heartland's objective to be a more generally diverse and inclusive workplace. Giving all employees flexibility enables them to access personal pursuits such as sport, community work, religious celebrations or care for family members.

Flexible working at Heartland was enhanced as a result of the need to support our people to work from home during the COVID-19 lockdown period this year. We successfully mobilised a completely flexible workforce in a short space of time with no interruptions to our customers. We are proud to have retained our commitment to inclusion and diversity despite the challenges presented to our business as a result of the COVID-19 pandemic and we see this as an important strategic priority and a key success factor in maintaining the resilience of our organisation.

To be recognised as a preferred employer for emerging Māori talent, and thereby create a pathway to being an employer that is welcoming to all cultures and ethnicities

To improve our ethnic and cultural diversity, we are starting close to home with New Zealand's own people: our tangata whenua. Māori have a unique and significant role in Aotearoa, which Heartland is embracing. We aspire to be a workplace that Māori want to be part of. We believe that if we can enhance our working environment so that Māori language, culture and values are embraced and Māori feel confident to join us and succeed authentically as Māori, then we will have set a good foundation for being a more welcoming place for people of all cultures and ethnicities. Heartland has made significant progress in this respect, our recent selection as a Diversity Awards NZ™ 2020 finalist being testament to this.

The growth of our Manawa Ako internship programme also shows the significant progress we have made, with 50 rangatahi participating in the programme over the past three years. We have continued our relationship with the InZone Education Foundation and a number of secondary schools to seek participants for the Manawa Ako prgoramme. This year we will also be partnering with iwi groups, bringing a new perspective for the ākonga (interns) to identify opportunities to learn about the sector and apply those learnings to their iwi. Heartland sees the value in the different perspectives the ākonga bring to the workplace because of their close connection to their identity.

We have also made progress in the way we recruit by developing a new recruitment strategy, Iho Pūmanawa, which supports more equitable recruitment and selection outcomes. Partnerships with iwi groups also enable our job opportunities to be shared with their iwi members, giving us reach to a wider pool of talent. We are taking a pro-active approach to career development for Māori within the business, including through a Cadetship programme in partnership with Te Puni Kōkiri and Indigenous Growth.

We continue to raise the status of te reo Māori where we can. We acknowledge our role as kaitiaki (guardians or caretakers) of the language and our responsibility to maintain a high standard of reo Māori by engaging recognised proficient translators. Te Taura Whiri I te reo Māori have been a valuable source of support with their translator list, online resources, and recent acknowledgement of the Māori language version of our website.

We are also proud to support Reo Whairawa Limited and the next Kura Reo Pakihi in 2021. This is a marae-based Māori language course for the financial and accounting community. Heartland has also secured eight places for our people to attend and stand shoulder to shoulder with others in the industry. We recognise that we are in a privileged position to be able to have a positive impact on regenerating our indigenous language.

Manawa Whenua, our internal network for Māori employees and allies, has played a pivotal role in driving, guiding, and celebrating Māori initiatives at Heartland. The combined increase in capability and opportunity has been a cornerstone for the visible inclusion of Māori culture in our workplace.

Māori currently make up 4% of our Heartland population. With only 2.3% of people in the financial and insurance services sector identifying as Māori[1], we are working to create change and make Heartland and the sector more inclusive for Māori. We continue to make progress with our younger Māori workforce, with 56% of our employees who identify as Māori being aged 30 and under. This can be attributed to the efforts invested in the Manawa Ako internship programme, which has seen almost 20 interns progress into further employment with Heartland. The programme helps to build a workplace where Māori can see a career pathway and establish their career with cultural integrity.

Heartland's Manawa Ako 2019 internship intake

[1] Source: New Zealand Census 2013, Statistics New Zealand.

Creating an environment where having English as a second language does not present a hurdle to being employed by, or succeeding at, Heartland

We recognise that given the number of ethnicities and cultures represented at Heartland, some of our employees are not native English speakers. Furthermore, our diverse customer and broader stakeholder base is comprised of people with a plethora of different native languages.

To ensure we understand the challenges that people who have English as a second language may face, we asked our employees to identify any real or perceived barriers to their success at Heartland as a result of them not being native English speakers. The feedback gained from this helped to inform initiatives around supporting and recognising the various native languages we have at Heartland. Overall, the feedback demonstrated to us that people who have English as a second language at Heartland generally feel supported by their teams and colleagues.

Different languages are often used in our workplaces which shows that people are comfortable to do so. We recognised specific events around languages this year including a Pasifika movie night, Samoan Language week and of course Te Wiki o te Reo Māori. With the needs of our customers in mind, we have created a language register that enables us to link customers who would prefer to communicate in a language other English with our people that are able to translate and provide a better customer experience.

We are very proud of what we have continued to achieve in 2020 in embracing and promoting the diversity of our people. We are creating a more welcoming and inclusive workplace where all people are respected and valued. We recognise that all forms of diversity bring different perspectives and expressions of ideas and opinions within the Board, the senior management team and throughout the organisation, and contribute to Heartland's productivity, profitability and connection with our communities and stakeholders.

In the year ahead, we will continue to embrace and promote diversity, leverage diversity as a competitive advantage to attract, retain and motivate the widest possible pool of talent and recognise, understand and value individual contribution and performance across the organisation.

Yi Zhang Graphic Designer

Corporate Governance

This corporate governance statement describes Heartland's corporate governance policies and practices as at 30 June 2020.

Heartland, as the parent company of the Group, is committed to ensuring that Heartland's policies and practices reflect current best practice, in the interests of Heartland's shareholders and other stakeholders. In addition to information about Heartland's corporate governance policies and practices, this section also includes information about Heartland Bank's corporate governance policies and practices. Heartland Bank has its own Board and Board Committees, and makes independent decisions (including on corporate governance matters), however Heartland and Heartland Bank Board and Committee meetings are usually held consecutively and members of both Boards or Committees (as applicable) attend both meetings. Heartland's important corporate governance policies and practices either apply to, or have been adopted by, Heartland Bank.

Heartland is pleased to report that, other than in respect of the matter explained in the "Principle 3 – Board Committees" section below, it was fully compliant with the corporate governance principles contained in the NZX Corporate Governance Code (the **NZX Code**) as at 30 June 2020.

Carla Briggs COVID-19 Remediation Project Manager

Principle 1 – Code of Ethical Behaviour

Directors should set high standards of ethical behaviour, model this behaviour and hold management accountable for these standards being followed throughout the organisation

Codes of Conduct

Heartland's Code of Conduct and Directors' Code of Conduct set out the ethical and behavioural standards expected of Heartland and its subsidiaries' (**Group**) directors, employees and intermediaries. The Codes of Conduct are available on Heartland's shareholder website, shareholders.heartland.co.nz.

The Codes of Conduct cover a wide range of areas, including:

- Heartland's responsibilities towards shareholders and the financial community, its customers, clients and service providers, and its employees;
- conflicts of interest, including the receipt of gifts and other corporate opportunities;
- confidentiality; and
- the procedure for advising Heartland of a suspected breach.

Every new director or employee is to be provided with a copy of the Code of Conduct and is required to read it. Each director and staff member has an obligation, at all times, to comply with the spirit as well as the letter of the law, to comply with the principles of the Code of Conduct, including exhibiting a high standard of ethical behaviour. The Codes of Conduct are subject to annual review.

Insider Trading Policy

In addition to the prohibition on insider trading, the Group's directors, senior employees and other restricted persons are prohibited from buying or selling the Group's quoted financial products during 'blackout periods' – which are periods that commence 30 days' prior to the end of the half-year and the full-year and end once the financial results from the half-year or the full-year have been released to the market. In addition, all of the Group's directors, senior employees and other restricted persons are required to obtain consent before buying or selling the Group's quoted financial products outside of blackout periods, and to certify that their decision to buy or sell has not been made on the basis of inside information.

The Board continually assesses, with the assistance of the Heartland Bank Board, whether any matters under consideration are likely to materially influence Heartland's share price and therefore whether additional trading restrictions should be imposed on directors, senior employees and other restricted persons.

The Insider Trading Policy is available on Heartland's shareholder website, shareholders.heartland.co.nz. Through our share registrar, Link Market Services, we actively monitor trading in Heartland shares by directors, senior employees and other restricted persons.

Principle 2 – Board Composition and Performance

To ensure an effective board, there should be a balance of independence, skills, knowledge, experience and perspectives.

Role of the Board

The Board is responsible for corporate governance and setting the Group's overall strategic direction. The Board charter regulates Board procedure and describes the Board's role and responsibilities in detail, and is available on Heartland's shareholder website, shareholders.heartland.co.nz. The Board establishes objectives, strategies and an overall policy framework within which the Group's business is conducted.

The Board schedules regular meetings at which it receives briefings on key strategic and operational issues from management.

Board Processes

The Board held 12 meetings, and the Heartland Bank Board held 12 meetings, during the year ended 30 June 2020. The table on the following page shows attendance by each director at the meetings of the Heartland and Heartland Bank Boards and Heartland Board Committees of which he or she was a member.

	Board			
	Heartland Eligible to attend	**Heartland Attended**	**Heartland Bank Eligible to attend**	**Heartland Bank Attended**
J K Greenslade	12	12	12	12
E F Comerford	12	11	12	11
E J Harvey	-	11	12	12
B R Irvine	-	12	12	12
C R Mace	12	12	-	11
K Morrison	-	11	12	12
G T Ricketts	12	12	12	12
V Stoddart (resigned 1/1/2020)	-	6	6	6
G R Tomlinson	12	10	-	9
S M Ruha (appointed 1/1/2020)	-	5	6	6

	Audit Committee				**Risk Committee**				**Corporate Governance, People, Remuneration and Nominations Committee**	
	Heartland Eligible to attend	Heartland Attended	Heartland Bank Eligible to attend	Heartland Bank Attended	Heartland Eligible to attend	Heartland Attended	Heartland Bank Eligible to attend	Heartland Bank Attended	Heartland Eligible to attend	Heartland Attended
J K Greenslade	-	5	-	3	-	1	-	-	-	5
E F Comerford	8	8	-	6	6	6	7	7	-	-
E J Harvey	-	4	6	6	-	6	7	7	-	-
B R Irvine	-	5	6	6	-	-	-	1	6	6
C R Mace	8	7	-	4	6	6	6	6	-	-
K Morrison	-	-	-	-	-	6	7	7	-	-
G T Ricketts	8	8	6	6	6	5	7	4	6	6
V C M Stoddart (resigned 1/1/2020)	-	2	3	3	-	4	4	4	-	-
G R Tomlinson	-	2	-	1	-	-	-	-	6	6
S M Ruha (appointed 1/01/2020)	-	3	3	3	-	2	3	3	-	-

All of the then serving members of the Board and Heartland Bank Board attended the Annual Meeting held on 12 November 2019.

Director Appointment

The Corporate Governance, People, Remuneration and Nominations Committee is tasked with the role of reviewing Heartland Board composition, and reviewing and making recommendations in relation to nominations, for the Board's consideration.

Each new director of Heartland is required, pursuant to the Heartland Board charter, to enter into a written agreement with Heartland in respect of his or her appointment and Heartland has a pro forma director appointment letter which is tailored for individual appointments.

Board Membership, Size and Composition

The NZX Main Board Listing Rules provide that the number of directors must not be fewer than three. Subject to this limitation, the size of the Board is determined from time to time by the Board.

As at 30 June 2020, the Board comprised five directors, being an independent Chairman, the Deputy Chair, the Chief Executive Officer and two non-executive directors. The Board encourages rigorous discussion and analysis when making decisions.

As mentioned above, Heartland Bank has its own Board and Board Committees, and meetings are held consecutively with Heartland Board and Board Committee meetings. Members of both Boards and Committees (as applicable) attend both Heartland and Heartland Bank Board or Committee meetings (as applicable), which further encourages rigorous discussion and analysis. However, during March to July 2020, in response to the effects the COVID-19 pandemic was having on New Zealand, the Boards held combined meetings for the purposes of better considering and responding to the unprecedented effects of the pandemic.

The Board recognises the need to have a range of complementary skills, knowledge and experience in order to support the Group's implementation of its strategic priorities, and for the Board to have a balance of skills and attributes in order to support diversity at board level. With this in mind, both the Heartland and the Heartland Bank Boards regularly review their composition and formally assess their collective skills, knowledge and experience using a skills matrix developed specifically for the Group. This exercise provides an opportunity to reflect on and discuss current Board composition, as well as succession planning. The current Boards comprise directors with a mix of qualifications, skills and attributes who hold diverse business, governance and industry experience.

The following table summarises the skills, knowledge and experience of the Heartland and Heartland Bank Boards as at 30 June 2020. The results of the assessment are provided as the average score across all of the directors for a particular category. Details regarding the scoring system are also provided on the following page.

Brianna Harris Sales Support Consultant

Category	Description	Average Score
Risk Management	Risk management frameworks, setting risk appetite, building and adapting organisational risk culture, regulatory relationships, assessing the effectiveness of senior leadership.	**4**
Governance and Compliance	Implementing organisation-wide governance and compliance systems, processes and frameworks, regulatory compliance, assessing the effectiveness of senior leadership.	**4.5**
Capital/Financial/M&A Acumen	Implementation of financial and capital management strategies, corporate finance restructuring, capital raisings within risk appetite/ ICAAP, M&A experience.	**4**
Corporate Strategy	Reviewing and setting organisational strategy, organic growth opportunities, merger and acquisition opportunities (including joint ventures).	**4.75**
Leadership	Driving engagement and enablement, evaluating employee and executive performance, strategic workforce planning, succession, leading organisation change and talent development.	**4.75**
Remuneration	Detailed executive remuneration matters (including scorecard target setting), incentive arrangements, staff superannuation. Understanding of the relevant legislative/contractual framework for remuneration.	**3.75**
Health & Safety	Implementing health, safety and wellbeing strategies, proactive identification and prevention of health and safety risks.	**3.75**
Government Relations/ Policy	Interaction with Government, Regulators, and RBNZ at all levels, influencing public policy decisions and outcomes.	**3.75**
Banking	Domestic and/or international experience in banking, including the regulatory landscape for banks.	**4**
Liquidity and Funding	Broad experience in funding and liquidity strategies and management, regulatory requirements and options available to registered banks.	**3.75**
Issues/Event Management	For example, credit rating downgrade, social media events, regulatory breaches or changes and other reputational events.	**4**
Customer Data/CRM	Experience in driving strategic insights from the collection and analysis of customer data, experience in customer relationship management, cloud computing and software delivery.	**3.75**
Digital and Information Technology	Understanding digital distribution and latest innovations and technologies disrupting traditional distribution processes. Domestic and/or international experience in IT strategies, IT networks, cloud computing and software delivery.	**3.5**
RBNZ/Regulatory Compliance	Experience relating to RBNZ compliance regime and other applicable compliance with regulatory bodies (e.g. Australia).	**3.5**
Australian Experience	Experience in banking/financial and related markets. Experience with regulatory bodies, APRA, ASIC, ASX, etc.	**4**
Corporate Emotional Intelligence (EQ)	Personal attributes relevant to the Board environment including communication skills, the ability to constructively challenge, championing an environment that effectively deals with complex issues and continually seeking to "lift the bar".	**4**

Level	Descriptor	Summary of Skill / Experience
0	No skills/experience	Limited-to-no skills/experience and exposure (either as a Senior Manager or Non-Executive Director (**NED**) or a combination of both).
1	Basic skills/experience	Basic level of exposure and skills/experience (either as a Senior Manager or NED or a combination of both).
2	Moderate skills/experience	Adequate exposure and skills/experience (either as a Senior Manager or NED or a combination of both).
3	Proficient skills/experience	Full capability and experience to draw upon and contribute to Board (either as a Senior Manager or NED or a combination of both).
4	Strong skills/experience	Extensive skill and experience over a significant amount of time and multiple companies (either as a Senior Manager or NED or a combination of both).
5	Expert skills/experience	Deep subject matter expertise across all facets of the relevant skill/ experience (either as a Senior Manager or NED or a combination of both).

Board Training and Performance Assessment

To ensure on-going education, directors are regularly informed of developments that affect the industry and business environment, as well as company and legal issues that impact the directors themselves. Directors have access to management and any additional information they consider necessary for informed decision making.

The Boards of Heartland and Heartland Bank undertake a formal review of their own, their committees' and individual directors' performance at least annually, and – as noted above – reviews their composition using a skills matrix. This is to ensure that they each have a range of complementary skills, knowledge and experience in order to effectively govern the Group, to monitor its performance, and to support the implementation of its strategic priorities – in the interests of its shareholders and other stakeholders.

Diversity and Inclusion

In order to articulate its commitment to diversity, Heartland has developed a Diversity & Inclusion Policy, which requires the Board, with the help of the Diversity Committee, to set measurable objectives for achieving diversity and to track progress against them. Heartland's Diversity & Inclusion Policy is available on Heartland's shareholder website, shareholders.heartland.co.nz.

A discussion of Heartland's Diversity and Inclusion Policy and a report on the measurable objectives which were set for 2020 is included on page 30 of this Annual Report.

Principle 3 – Board Committees

The board should use committees where this will enhance its effectiveness in key areas, while still retaining board responsibility.

Board Committees

As at 30 June 2020, Heartland had three permanently constituted Board Committees, each of which is tasked with working with management in its specific area of responsibility and reporting its findings and recommendations to the Board. Management attend committee meetings as required (however, in the case of Audit Committee and Corporate Governance, People, Remuneration and Nominations Committee meetings, management attend only at the invitation of the relevant Committee).

Each of these Committees has a charter which sets out the committee's objectives, membership, procedures and responsibilities. A Committee does not take action or make decisions on behalf of the Board unless it is specifically mandated to do so. The charter of each Committee is available on Heartland's shareholder website, shareholders.heartland.co.nz.

The Board is comfortable that no other standing Committees are necessary at this stage; however other ad hoc Committees are established for specific purposes from time to time.

As at 30 June 2020, Heartland Bank also had a permanently constituted Risk Committee and an Audit Committee which are tasked with working with management and reporting their findings and recommendations to the Heartland Bank Board.

Audit Committee

Membership is restricted to non-executive directors, with at least three members, the majority of whom must be independent. The Chair of the Audit Committee must be an independent director who is not the Chair of the Board.

As at 30 June 2020, the members of the Audit Committee were E F Comerford (Chair), C R Mace and G T Ricketts.

The role of the Audit Committee is to advise and provide assurance to the Board in order to enable the Board to discharge its responsibilities in relation to the oversight of:

- The integrity of financial control, financial management and external financial reporting.
- The internal audit function.
- The independent audit process.

The Audit Committee works closely with the Heartland Bank Audit Committee, which has similar responsibilities in relation to Heartland Bank, and their meetings occur consecutively. As at 30 June 2020, the Board determined that all committee members had a recognised form of financial expertise in accordance with the Audit Committee's charter.

Mahendra Tejnani Credit Manager

Risk Committee

Membership of the Risk Committee is restricted to non-executive directors, with at least three members, the majority of whom must be independent. The Chair of the Risk Committee must be an independent director who is not the Chair of the Board.

As at 30 June 2020, the members of the Risk Committee were E F Comerford (Chair), C R Mace and G T Ricketts.

The role of the Risk Committee is to advise and provide assurance to the Board in order to enable the Board to discharge its responsibilities in relation to the oversight of:

- The formulation of its risk appetite.
- To provide the Board with assurance that all risks within the key risk categories which are relevant to the Group have been appropriately identified, managed and reported to the Board.

The Risk Committee works closely with the Heartland Bank Risk Committee, which has similar responsibilities in relation to Heartland Bank, and their meetings occur consecutively.

Corporate Governance, People, Remuneration and Nominations Committee

The Corporate Governance, People, Remuneration and Nominations Committee is required to have at least three directors, the majority of whom must be independent.

As at 30 June 2020, the members of the Corporate Governance, People, Remuneration and Nominations Committee were G T Ricketts (Chair), B R Irvine and G R Tomlinson. Although B R Irvine is a director of Heartland Bank and not Heartland, the Board are of the view that a director of Heartland Bank should be a member of the Corporate Governance, People, Remuneration and Nominations Committee given that the vast majority of employees of the Group are employed by Heartland Bank. B Irvine, as Chairman of Heartland Bank, represents Heartland Bank's position in that regard. Accordingly, Heartland has not strictly complied with recommendation 3.3 of the NZX Code as the majority of the committee are not independent directors of Heartland. Instead, the committee has one independent director of Heartland and one independent director of Heartland Bank but, as described above, the Board considers this appropriate for Heartland.

The role of the Corporate Governance, People, Remuneration and Nominations Committee includes advising and making recommendations to the Board regarding:

- Corporate governance matters.
- People strategy, including organisation structure, performance, succession planning, development, culture, diversity and remuneration strategy and policies and any other strategic people initiatives.
- Remuneration of the directors, Chief Executive Officer and senior executives.
- The performance of the Chief Executive Officer including setting and review of annual key performance indicators.
- Director and senior executive appointments, Board composition and succession planning

Takeovers Response Manual

The Board has documented and adopted a Takeover Response Manual document, which is designed to give the Board and management clear direction on the steps that need to be taken following receipt of a takeover offer.

The document, amongst other things, includes an "independent director" protocol for directors who are involved in or associated with the bidder, talks to the scope of independent advisory reports to shareholders, and prompts the Board to consider the option of establishing an independent takeover committee following receipt of a takeover offer.

Principle 4 – Reporting and Disclosures

The board should demand integrity in financial and non-financial reporting, and in the timeliness and balance of corporate disclosures.

Heartland appreciates that its investors and other stakeholders value both financial and non-financial reporting, and Heartland seeks to ensure that its investors have timely access to full and accurate material information about Heartland which is factual and balanced.

Heartland's Disclosure Policy sets out procedures that are in place to make sure all material information is identified and disclosed in a timely manner, and to prevent the selective disclosure of material non-public information. Under the Policy, potentially 'material information' is required to be brought to the attention of the Disclosure Committee, which is ultimately responsible for determining whether information is material, and approving the form and content of material information that is disclosed. Heartland also monitors information in the market about itself and (with the assistance of the Disclosure Committee) will release information to the extent necessary to prevent development of a false market for the Group's quoted financial products.

All of Heartland's key governance documents, including the Disclosure Policy, are available on Heartland's shareholder website, shareholders.heartland.co.nz. Heartland also maintains copies of its stock exchange announcements, and half-year and full-year reports, investor presentations and details of annual shareholder meetings, on its shareholder website.

Audit Committee

The Audit Committee oversees the quality and timeliness of all external financial reports, including all disclosure documents issued by Heartland.

The Audit Committee oversees the preparation of Heartland's financial statements and setting policy to ensure the information presented is useful for investors and other stakeholders. Heartland makes its financial statements easy to read by using clear, plain language, and structuring them so that key information is prominent. In addition to the full-year audit, Heartland's external auditor completes a review of the interim financial statements.

The Chief Executive Officer and Chief Financial Officer are also required to certify to the Audit Committee that the financial statements of Heartland and its subsidiaries present a true and fair view of Heartland and comply with all relevant accounting standards

Non-financial Reporting

Heartland is committed to delivering value for its customers, shareholders, employees, communities, partners and intermediaries. This is the third year that Heartland has reported against a Corporate Social Responsibility Framework in order to provide more detailed information on the value created for Heartland's stakeholders. Refer to page 60 of this Annual Report.

Principle 5 – Remuneration

The remuneration of directors and executives should be transparent, fair and reasonable.

Heartland's remuneration strategy is designed to create a high performance culture which attracts and retains quality candidates by incentivising and rewarding exceptional performance.

Heartland has developed a Remuneration Policy which explains its remuneration strategy and its approach to setting remuneration in more detail. The key principles are that Heartland's remuneration policy:

- supports the attraction, retention and engagement of quality, diverse candidates;
- does not discriminate on the basis of gender, ethnicity, sexuality or any other individual factor;
- should further Heartland's aspiration to achieve pay equity across the organisation;
- rewards for high performance;
- has the flexibility to cater for Heartland's operational differences;
- recognises the link between company performance and remuneration, and the importance of creation of shareholder value; and
- is understood by employees.

The full Remuneration Policy is available on Heartland's shareholder website at shareholders.heartland.co.nz.

Heartland's Corporate Governance, People, Remuneration and Nominations Committee (the **Committee**) is kept up to date with relevant market information and best practice, obtaining advice from external advisors when necessary. Heartland has used PricewaterhouseCoopers as a consultant for advice on various remuneration activities including, but not limited to, the structure of its Long Term Incentive Schemes and the valuation of the performance rights under these schemes.

Remuneration levels are reviewed annually for market competitiveness and alignment with strategic and performance priorities. All senior executive performance is assessed by the Committee with reference to Group risk management policies and frameworks.

Non-executive Directors' Remuneration

Total remuneration available to the Group's non-executive directors is determined by Heartland's shareholders. The current aggregate approved amount by shareholders is $1,200,000 per annum.

Heartland's policy is to pay directors' fees in cash. There is no requirement for directors to take a portion of their remuneration in shares and nor is there a requirement for directors to hold shares in Heartland. However, as at 30 June 2020, a number of the directors held shares, or a beneficial interest in shares, in Heartland (see the Directors' Disclosures section of this Annual Report for further details).

Senior Executive Remuneration

The objective is to provide competitive remuneration that aligns executives' remuneration with shareholder value and rewards the executives' achievement of the Group's strategies and business plans.

All senior executives receive a base salary and are also eligible to participate in short-term and, in some cases, long-term incentive plans under which they are rewarded for achieving key performance and operating results.

Disclosure of the CEO's remuneration is included in the Directors' Disclosures section on page 57 of this Annual Report.

Principle 6 – Risk Management

Directors should have a sound understanding of the material risks faced by the issuer and how to manage them. The Board should regularly verify that the issuer has appropriate processes that identify and manage potential and material risks.

Risk Management

The Board ensures that Heartland has a Risk Management Programme in place which identifies, manages and communicates the key risks that may impact Heartland's business. Specific risk management strategies have been developed for each of the key risks identified. The Risk Committee of the Board oversees the risk management programme and strategy. Heartland also has in place insurance cover for insurable liability and general business risk.

Health and Safety

Heartland promotes a working environment where we engage with all our people, so that together we can maintain a workplace that is mentally and physically safe and healthy; and to promote a positive health and safety culture. We engage with our people to identify, assess, control and review risk, with a focus on continuous improvement of health and safety.

All Group employees are required to read and attest to our Health, Safety and Wellbeing Policy. Induction includes instruction on our Health and Safety Policy and procedures. The Health and Safety Committee, representing all employees, convenes every second month to discuss reported incidents, accidents and near misses, initiatives and tabled reports. Incidents, accidents and near misses are registered in our Risk Management System (**RMS**). A Health and Safety Report that includes RMS data, number of employee insurance claims, number of employees accessing counselling, and summaries of initiatives is provide to the Executive Risk Committee and to the Board.

In the year ended 30 June 2020, there have been no notifiable events to report to Worksafe New Zealand.

Principle 7 – Auditors

The board should ensure the quality and independence of the external audit process.

The Audit Committee is responsible for overseeing the external, independent audit of Heartland's financial statements. This encompasses processes for sustaining communication with Heartland's external auditors, ensuring that the ability of the external auditors to carry out their statutory audit role is not impaired, or could reasonably be perceived to be impaired, to address what other services may be provided by the external auditors to Heartland, and to provide for the monitoring and approval of any such services.

Heartland's External Auditor Independence Policy provides guidelines to ensure that non-audit related services do not conflict with the independent role of the external auditor, and the Audit Committee ensures that non-audit work undertaken by the auditors is in accordance with that Policy. That Policy also sets out guidelines in relation to the tenure and re-appointment of the external auditor, which the Audit Committee ensures are complied with. Refer to Heartland's shareholder website, shareholders.heartland.co.nz, for a copy of the External Auditor Independence Policy.

The external auditor monitors its independence and reports to the Audit Committee bi-annually to confirm that it has remained independent in the previous six months, in accordance with Heartland's External Auditor Independence Policy and the external auditor's policies and professional requirements. There have been no threats to auditor independence identified during the year ended 30 June 2020.

Heartland also has an internal audit function which is independent of the external auditors. The Audit Committee approves the annual internal audit programme, which is developed in consultation with management of Heartland.

Principle 8 – Shareholder Rights & Relations

The board should respect the rights of shareholders and foster constructive relationships with shareholders that encourage them to engage with the issuer.

The Board is committed to maintaining a full and open dialogue with all shareholders, as outlined in the Disclosure Policy which is available on Heartland's shareholder website, shareholders.heartland.co.nz. Heartland keeps shareholders informed through:

- Periodic and continuous disclosure to NZX and ASX.
- Information provided to analysts and media during briefings.
- Heartland's shareholder website (shareholders.heartland.co.nz).
- The Annual Meeting, at which shareholders' have the opportunity to ask questions.
- Annual and half year reports.

The Board encourages full participation of shareholders at the Annual Meeting to ensure a high level of accountability. Heartland's external auditor also attends the Annual Meeting and is available to answer questions relating to the external audit.

John Ramsay Credit Consultant

Directors' Disclosures

Directors

The following persons were directors of Heartland and its subsidiaries during the year ended 30 June 2020.

Company	Directors	Status
Heartland Group Holdings Limited	Geoffrey Thomas Ricketts	Independent Director (Chair)
	Gregory Raymond Tomlinson	Non-Independent Director (Deputy Chair)
	Ellen Frances Comerford	Independent Director
	Jeffrey Kenneth Greenslade	Executive Director
	Christopher Robert Mace	Independent Director
Heartland Bank Limited	Bruce Robertson Irvine	Independent Director (Chair)
	Ellen Frances Comerford	Independent Director
	Jeffrey Kenneth Greenslade	Non-Independent Director
	Edward John Harvey	Independent Director
	Shelley Maree Ruha	Independent Director (appointed 1/1/2020)
	Kathryn Morrison	Independent Director
	Geoffrey Thomas Ricketts	Independent Director
	Vanessa Cynthia May Stoddart	Independent Director (resigned 1/1/2020)
ASF Custodians Pty Limited	Andrew John Ford	Resigned 26/07/2019
	Richard Glenn Udovenya	
	Jeffrey Kenneth Greenslade	Appointed 26/07/2019

Company	Directors	Status
Australian Seniors Finance Pty Limited	Andrew John Ford	Resigned 26/07/2019
	Richard Glenn Udovenya	Resigned 26/07/2019
	Jeffrey Kenneth Greenslade	Appointed 26/07/2019
	Christopher David Andrew Cowell	Appointed 26/07/2019
	Andrew Peter Dixson	Appointed 26/07/2019
	Jeffrey Jalal Murray	Appointed 26/07/2019 and resigned 13/03/2020
	Cherise Leanne Barrie	Appointed 26/07/2019 and resigned 05/06/2020
	Michael Jonathan Drumm	Appointed 26/07/2019
	Sharon Susan Yardley	Appointed 9/12/2019
Heartland Australia Holdings Pty Ltd	Ellen Frances Comerford	Resigned 26/07/2019
	Andrew John Ford	Resigned 26/07/2019
	Jeffrey Kenneth Greenslade	
	Geoffrey Thomas Ricketts	Resigned 26/07/2019
	Gregory Raymond Tomlinson	Resigned 26/07/2019
	Christopher David Andrew Cowell	Appointed 26/07/2019
	Andrew Peter Dixson	Appointed 26/07/2019
	Jeffrey Jalal Murray	Appointed 26/07/2019 and resigned 13/03/2020
	Cherise Leanne Barrie	Appointed 26/07/2019 and resigned 5/6/2020
	Michael Jonathan Drumm	Appointed 26/07/2019
	Sharon Susan Yardley	Appointed 9/12/2019

Company	Directors	Status
Heartland Australia Group Pty Ltd	Ellen Frances Comerford	Resigned 26/07/2019
	Andrew John Ford	Resigned 26/07/2019
	Jeffrey Kenneth Greenslade	
	Geoffrey Thomas Ricketts	Resigned 26/07/2019
	Gregory Raymond Tomlinson	Resigned 26/07/2019
	Christopher David Andrew Cowell	Appointed 26/07/2019
	Andrew Peter Dixson	Appointed 26/07/2019
	Jeffrey Jalal Murray	Appointed 26/07/2019 and resigned 13/03/2020
	Cherise Leanne Barrie	Appointed 26/07/2019 and resigned 5/6/2020
	Michael Jonathan Drumm	Appointed 26/07/2019
	Sharon Susan Yardley	Appointed 9/12/2019
Heartland NZ Trustee Limited	Philippa Rosemary Drury	
	Christopher Patrick Francis Flood	
Heartland PIE Fund Limited	Jeffrey Kenneth Greenslade	
	Bruce Robertson Irvine	
MARAC Insurance Limited	Andrew James Aitken	
	Christopher Patrick Francis Flood	
	Christopher Robert Mace	
	Sarah Elizabeth Ann Smith	
Seniors Finance Custodians Pty Limited Company deregistered on 28/04/2020	Andrew John Ford	Resigned 26/07/2019
	Richard Glenn Udovenya	
	Jeffrey Kenneth Greenslade	Appointed 26/07/2019
Seniors Finance Pty Limited Company deregistered on 24/03/2020	Andrew John Ford	Resigned 26/07/2019
	Richard Glenn Udovenya	
	Jeffrey Kenneth Greenslade	Appointed 26/07/2019
VPS Properties Limited	Christopher Patrick Francis Flood	

When determining whether a director of Heartland is independent, the factors described in the NZX Code as possibly impacting a director's independence were considered and it was determined that none of those factors applied to the directors noted above as independent.

Interests Register

The following are the entries in the Interests Register of Heartland (and its subsidiaries) made during the year ended 30 June 2020.

Indemnification and insurance of directors

Heartland has given indemnities to, and has effected insurance for, directors of Heartland and its subsidiaries to indemnify and insure them in respect of any liability for, or costs incurred in relation to, any act or omission in their capacity as directors, to the extent permitted by the Companies Act 1993. The cost of the insurance premiums to the Group for the year ended 30 June 2020 was $174,778 (including GST).

Share dealings by directors

Details of individual directors' share dealings as entered in the Interests Register of Heartland and Heartland Bank (in respect of share dealings prior to 31 October 2018) under Section 148(2) of the Companies Act 1993 during the year ended 30 June 2020 are as follows (all dealings are in ordinary shares unless otherwise specified):

E J Harvey

Date of acquisition/ disposal	Nature of relevant interest	Acquisition/disposal	No. of shares	Consideration
6 September 2019	Allotment under DRP	Acquisition	4,954	$7,651.86
11 March 2020	Allotment under DRP	Acquisition	3,452	$5,505.44

J K Greenslade

Date of acquisition/ disposal	Nature of relevant interest	Acquisition/disposal	No. of shares	Consideration
6 September 2019	Allotment under DRP	Acquisition	66,997	$103,474.19
18 October 2019	Vesting of performance rights	Acquisition	396,711	Nil
11 March 2020	Allotment under DRP	Acquisition	51,005	$81,345.63
18 March 2020	Purchase of shares	Acquisition	50,000	$58,500.00

B R Irvine

Date of acquisition/ disposal	Nature of relevant interest	Acquisition/disposal	No. of shares	Consideration
6 September 2019	Allotment under DRP	Acquisition	4,636	$7,160.12
6 September 2019	Allotment under DRP	Acquisition	16,076	$24,828.74
11 March 2020	Allotment under DRP	Acquisition	3,230	$5,150.38
11 March 2020	Allotment under DRP	Acquisition	11,200	$17,862.39

G R Tomlinson

Date of acquisition/ disposal	Nature of relevant interest	Acquisition/disposal	No. of shares	Consideration
6 September 2019	Allotment under DRP	Acquisition	2,200,675	$3,398,854.55

General notice of disclosure of interests in the interests register

Details of any changes to Heartland and Heartland Bank directors' general disclosures entered in the relevant interests register under Section 140 of the Companies Act 1993 during the year ended 30 June 2020 are as follows:

E J Comerford	No amendments for year ended 30 June 2020.
E J Harvey	No amendments for year ended 30 June 2020.
B R Irvine	Appointed director to Original Foods N.Z. Limited from 18 June 2020 and Stark Holdings (NZ) Limited from 24 October 2019. Ceased directorship of Gough Transport Supplies Limited, Gough Finance Limited, Gough Group Limited, Gough Holdings Limited from 30 September 2019 and Kaipaki Berryfruits Limited from 1 July 2019.
C R Mace	Appointed guardian to The Aotearoa Circle from 3 December 2019.
K Morrison	Appointed director to Link Engine Management Limited from 3 December 2019 .
G T Ricketts	Appointed director to MCF3 Cook Limited from 12 June 2020, MCF3 TEG Limited from 13 February 2020 and MCF3 Squiz Limited from 12 August 2019. Ceased directorship of The Todd Corporation Limited, Todd Management Services Limited and Todd Offshore Limited from 21 May 2020, Asteron Life Limited, Suncorp Group New Zealand Limited, Suncorp Group Services NZ Limited, Vero Insurance New Zealand Limited and Vero Liability Insurance Limited from 31 December 2019, Mercury Pharmacy Holdings Limited from 11 November 2019 and Suncorp Group Holdings (NZ) Limited from 15 October 2019.
S M Ruha	Director of Analey Holdings Limited (appointed 15 Feb 2010), IT & Business Consulting Limited (appointed 1 April 2019), New Zealand Rural Land Management Limited (appointed 8 May 2020), Partners Group Holdings Limited (appointed 14 May 2020), Partners Life Limited (appointed 14 May 2020), 9 Spokes International Limited (appointed 14 October 2019). Ceased directorship of The Icehouse Limited from 29 February 2020.
G R Tomlinson	Ceased directorship of Ngakuta Trust Company Limited from 2 April 2020 and Impact Capital Management Limited from 11 November 2019.
J K Greenslade	Appointed director Henley Family Investments Limited from 1 May 2020.

Details of Heartland Bank directors' general disclosures entered in the relevant interest register under Section 140 of the Companies Act 1993 prior to 1 July 2019 can be found in earlier Annual Reports.

Specific disclosures of interest in the interests register

There were no specific disclosures of interests in transactions entered into by Heartland or its subsidiaries (including Heartland Bank) during the period 1 July 2019 to 30 June 2020.

Information used by directors

No director of Heartland or its subsidiaries (including Heartland Bank) disclosed use of information received in his or her capacity as a director that would not otherwise be available to that director.

Heartland and Heartland Bank Directors' Relevant Interests

Director	Number of ordinary shares – beneficial	Number of ordinary shares – non-beneficial[1]	Number of options
J K Greenslade	3,986,156	Nil	Nil
E J Harvey	134,912	6,475,976	Nil
B R Irvine	563,998	6,475,976	Nil
C R Mace	14,337,489	6,475,976	Nil
G T Ricketts	13,267,285	6,475,976	Nil
G R Tomlinson	58,392,997	Nil	Nil

[1] The non-beneficial interest in the 6,475,976 shares arises from those directors being a trustee of the Heartland Trust, which held 6,475,976 shares in Heartland as at 30 June 2020.

Directors' Remuneration

The current total fee pool for the non-executive directors of Heartland and its subsidiaries approved by shareholders at the Annual Shareholder Meeting of Heartland Bank held on 22 November 2016 is $1,200,000 per annum[1].

The table below sets out the fees payable to the non-executive directors of Heartland for the year ended 30 June 2020 based on the position(s) held.

Board/Committee[2]	Position	Fees (per annum)
Board of Directors	Chair Member	$150,000 $100,000
Audit Committee	Chair Member	$15,000 Nil
Risk Committee	Chair Member	$15,000 Nil
Corporate Governance, People, Remuneration and Nominations Committee	Chair Member	$15,000 Nil

The total remuneration and value of other benefits[3] received by each non-executive director who held office in Heartland and/or any of its subsidiaries during the year ended 30 June 2020 is set out in the following table. Directors' fees exclude GST where appropriate.

[1] On 4 October 2018, NZX granted Heartland a waiver from Rule 3.5.1, to the extent that this Rule requires the Directors' Remuneration Pool to be authorised by an Ordinary Resolution of Heartland (as opposed to Heartland Bank).
[2] If a director sits on both the Heartland and Heartland Bank boards, they are only entitled to receive one fee.
[3] In addition to these amounts, Heartland meets costs incurred by directors, which are incidental to the performance of their duties. This includes providing directors with telephone concessions and paying the cost of directors' travel. As these costs are incurred by Heartland to enable directors to perform their duties, no value is attributable to them as benefits to directors for the purposes of the tables included in this report.

Director	Board Fees	Audit Committee	Risk Committee	Corporate Governance, People, Remuneration and Nominations Committee	Other	Total Remuneration
Heartland and Heartland Bank directorships						
E F Comerford	$100,000	$15,000	$15,000	-	-	$130,000
E J Harvey	$100,000	$15,000	-	-	-	$115,000
B R Irvine	$150,000	-	-	-	-	$150,000
K Morrison	$100,000	-	-	-	-	$100,000
C R Mace	$100,000	-	-	-	-	$100,000
G T Ricketts	$150,000	-	-	$15,000	-	$165,000
S M Ruha	$50,000[4]	-	-	-	-	$50,000
V C M Stoddart	$50,000[5]	-	-	-	-	$50,000
G R Tomlinson	$100,000	-	-	-	-	$100,000
Subsidiary directorships						
A J Aitken	$32,000[6]	-	-	-	-	$32,000
E F Comerford	A$50,000[7]	-	-	-	-	$52,742
P Drury	$20,000[8]	-	-	-	-	$20,000
C R Mace	$15,000[9]	-	-	-	-	$15,000
R G Udovenya	A$30,000[10]					$31,645
Total						$1,111,387[11]

[4] Commenced as Heartland Bank director from 1 January 2020.
[5] Resigned with effect from 1 January 2020.
[6] Fees paid to A J Aitken as a director of MARAC Insurance Limited.
[7] Fees paid to E F Comerford by Heartland Australia Group Pty Limited and Heartland Australia Holdings Pty Limited (E F Comerford resigned as a director from 26 July 2019 but still receives fees in return for consultancy services provided to those companies).
[8] Fees paid to P Drury as a director of Heartland NZ Trustee Limited.
[9] Fees paid to C R Mace as Chair of MARAC Insurance Limited.
[10] Fees paid to R G Udovenya as a director of ASF Custodians Pty Limited and Australian Seniors Finance Pty Limited (resigned 26 July 2019).
[11] For the purposes of this table, A$ fees have been converted to NZ$ using an exchange rate of $1.05485.

Remuneration and/or Other Benefits from the Company and its Subsidiaries to Executive Directors

The remuneration for the Executive Director (being, in Heartland's case, the CEO) includes a fixed remuneration component, a variable remuneration component comprising short-term incentives (**STIs**) and long-term incentives (**LTIs**), and other benefits. LTIs are offered to selected employees (including the CEO) in order to incentivise them to enhance long term shareholder value.

STI Scheme

The CEO is entitled to receive STIs which are cash payments, determined by the Board, and paid at the end of a financial year for exceeding performance expectations in the relevant financial year. Ultimately, STI payments are entirely discretionary and entitlement is not guaranteed even if performance expectations have been met or exceeded.

LTI Schemes

Set out below is a summary of the grants made to the CEO under LTI schemes relating to the periods covered in this section.

Performance Rights Plan – 2018/2019 Grant

Under the Performance Rights Plan – 2018/2019 Grant, the CEO and other Senior Executives were issued performance rights which, subject to continuous employment and achievement of certain market capitalisation and share price targets over the period between 12 September 2017 and the date falling 20 business days following the date on which Heartland announces its full year results for the financial year ended 2021, were to vest into up to one share in Heartland.

The Board amended the performance hurdles for the 2018/2019 Grant to reference appropriate culture and conduct measures and achievement of key strategic objectives, in addition to encompassing a broader range of financial measures. The Board also extended the performance period until the end of FY22.

The Scheme Rules provide flexibility to adjust the relevant performance hurdles, including in order to account for changes during the performance period. This feature, in conjunction with the other features of the Performance Rights Plan, ensures that the 2018/2019 Grant will vest only if, and to the extent, that sustainable shareholder value is created during the performance period.

CEO Remuneration Disclosures

In the year ended 30 June 2020, the CEO received a fixed salary, a variable remuneration component comprising STI, and other benefits as detailed in the following tables. The tables also show a comparison between the year ended 30 June 2020 and the year ended 30 June 2019 and a summary of the CEO's total remuneration over the last five financial years.

This year, Heartland has presented the summary using both the accounting cost of all current LTI grants made to the CEO (which shows the cost of those arrangements to Heartland), and also the value of the awards which actually vested during the relevant financial year (which shows what remuneration was received by the CEO during the relevant financial year). The accounting cost of all current LTI grants differs from the value of the awards which actually vested. This is because the accounting cost of a grant is determined at the time the grant is made, reflects the uncertainty around whether the relevant performance criteria will be met, and is spread over the entire performance period of that grant. There are no LTI grants which vested in respect of FY20.

CEO Remuneration (FY20 and FY19)

Financial year ended	Salary	Benefits	At risk pay			Total
			STI	LTI		
30 June 2020	$989,200	$10,800[12]	$956,512	Accounting cost of all grants	$87,520[13]	$2,044,032
				Value of awards actually vested	N/A	$1,956,512
30 June 2019	$989,200	$10,800[14]	$450,000	Accounting cost of all grants	$683,552[15]	$2,133,552
				Value of awards actually vested	$1,379,161[16]	$2,829,161

Five Year Summary of Total CEO Remuneration

Heartland has presented the below summary using only the value of the awards which actually vested during the relevant financial year (which shows what remuneration was received by the CEO during the relevant financial year).

Financial Year ended	Total Remuneration Paid	Percentage STI against maximum[17]	Percentage LTI against maximum[18]	Span of LTI performance period
30 June 2020	$1,956,512	96%	N/A	N/A
30 June 2019	$2,829,161	45%	100%	FY19[19]
			100%	FY17 - FY19
30 June 2018	$2,636,489	90%	100%	FY18[20]
30 June 2017	$2,736,489	100%	100%	FY17[21]
30 June 2016	$1,700,000	N/A	N/A	N/A

Breakdown of CEO At Risk Pay (FY20)

	Description	Performance Measures	Percentage Achieved
STI	Up to 100% of base salary based on the achievement of financial and non-financial performance expectations	Based on achievement of financial and non-financial performance expectations[22]	96%
LTI	N/A	N/A	N/A

[12] Motor vehicle.
[13] This amount is net of a pre-existing reserve which had been built up pre-FY20. Including the reserve, the total accounting cost of the grants would have been $309,180 to date.
[14] Motor vehicle.
[15] The accounting cost of the Senior Executive Scheme, the 2017 Grant and the 2018/2019 Grant was spread over a period including FY19.
[16] This represents the value of the Senior Executive Scheme shares which are being treated as vesting in FY19, and the value of the 2017 Grant based on the share price on 9 September 2019 (but noting that the shares had not yet been issued on that date).
[17] Where "N/A", there were no maximum limits for the relevant period.
[18] Where "N/A", there were no maximum limits for the relevant period.
[19] The service period for the Senior Executive Scheme shares which are being treated as vesting in FY19 was FY19.
[20] The service period for the Senior Executive Scheme shares which are being treated as vesting in FY18 was FY18.
[21] The service period for the Senior Executive Scheme shares which are being treated as vesting in FY17 was FY17.
[22] STI payments are entirely discretionary and entitlement is not guaranteed even if measures are achieved.

CEO Grant under Performance Rights Scheme (FY18/FY19)

Type of scheme interest	Basis of award	Face value of award and % of award vesting at threshold	Length of vesting period	Summary of performance measures and targets
Performance rights (2018/2019 Grant)	A number of performance rights equal to 200% of 2017 base salary divided by the Heartland volume weighted average share price on the date of issue	$2,000,000 face value 100% vesting on full achievement of performance measures or partial vesting depending upon the extent to which performance measures were met	12 September 2017 to the date falling 20 business days following the date on which Heartland announces its full year results for FY22	Continued employment during, and achievement of certain financial performance, culture and conduct, and strategic objectives during the vesting period

Summary of Heartland's TSR Performance (30 June 2015 - 14 October 2020)

The above total shareholder return (**TSR**) performance graph is provided to aid comparability between Heartland's performance and the remuneration information provided in this section. TSR has been calculated as at 14 October 2020, including the benefit of imputation credits. A comparison is shown against the NZX50 Index which measures the performance of the 50 largest eligible stocks listed on the NZX Main Board by float-adjusted market capitalisation

CEO Remuneration as a Multiple of Staff Remuneration

The CEO's salary as a multiple of the staff average is 10.7 times (FY19: 10.11 times), and his total remuneration as a multiple of the staff average is 19.76 times (FY19: 19.77 times).

Our Sustainability Journey

Sustainability Framework

Our sustainability strategy is about ensuring the work we do can continue for generations to come by minimising our environmental impact, positively contributing to our communities and enhancing the lives of our people and our customers.

Our sustainability framework sets out the three key pillars of our sustainability strategy and our key focus areas under each of those pillars. We are currently in the process of identifying, assessing and measuring the risks arising under each of these pillars, including climate change credit risk for Heartland.

Social Equity

Caring for our people, customers and communities

Ensuring our conduct and culture drives fair outcomes for our customers	**Making a positive difference in our communities**	***Whāia te iti kahurangi* – providing a workplace and financial service that enables Māori to succeed as Māori**	**Creating an internal culture of inclusivity and equal opportunity that supports the wellbeing of our people**

Our goals for the year ahead

– Completion of our Conduct and Culture Work Plan

– Increase the intake of interns in the 2020/2021 Manawa Ako programme and increase the number of interns who remain at Heartland in full-time or part-time employment

– Implementation of our new recruitment strategy, Iho Pūmanawa, to support our aim to be an employer of choice for Māori

– Continuing to improve the gender and ethnic balance across all levels of the organisation

– Achievement of the Rainbow Tick

– Become a Hearing Accredited Workplace by the National Foundation for Deaf and Hard of Hearing (NFDHH)

Environmental Conservation

Acting as a kaitiaki of our natural environment

Reducing our direct impact on the environment	**Creating business practices that support good environmental outcomes**

Our goals for the year ahead

– Finalise and publish our science based reduction target in relation to our greenhouse gas (**GHG**) emissions

– Optimise our vehicle fleet and begin transition to PHEVs (plug-in hybrid electric vehicles)

– Implementation of business-wide project to reduce our paper-based customer mailouts and replace with digital alternatives

– Establish an internal 'Green Team' to champion initiatives to make progress towards our GHG emissions reduction target

– Identify opportunities to deliver products and services that support New Zealand's transition to a low carbon economy

– Explore partnership opportunities with iwi to finance sustainable business initiatives

Economic Prosperity

Creating sustainable economic outcomes for our stakeholders

Providing a positive contribution to the New Zealand and Australian economies	**Enhancing economic outcomes for our customers through digital initiatives and tools that reduce customer effort**	**Creating sustainable economic value for our shareholders**

Our goals for the year ahead

– Implementation of initiatives to enhance the economic outcomes for Māori who may be receiving poorer quality or access to financial services

– Development of a financial literacy programme targeted at school leavers that seeks to bridge financial literacy and access gaps in New Zealand to address inequality

– Development of new digital tools through the Heartland Mobile App that assist with enhancing economic outcomes for our customers

Social Equity

Caring for our people, customers and communities

Highlights for FY2020

GRANTED BY THE HEARTLAND TRUST[1] TO SUPPORT OUR COMMUNITIES

$452k

STUDENTS IN OUR 2019 MANAWA AKO (INTERNSHIP) PROGRAMME

33

FEMALE EMPLOYEES SUPPORTED THROUGH OUR KIA EKE GROUP

23

2020 DIVERSITY AWARDS NZ™ FINALIST

Diversity AWARDS NZ 2020 FINALIST

8 EMPLOYEES APPOINTED TO OUR RANGATAHI ADVISORY BOARD

From left to right:

KAREM ORTIZ
Creative Lead

VERONICA FRANKLIN
Corporate Finance Analyst

MONICA IAKOPO
Internal Auditor

IAN HEDLEY-WAKEFIELD
Operations Risk Manager

PAUL KORAUA
Project Co-ordinator

NATASHA ABEYSUNDARA
Corporate Finance Analyst

ALEISHA LANGDALE
Digital Projects Manager

WILLIAM ORR
Relationship Manager

[1] The Heartland Trust is a registered charitable trust which is independent from, but closely supported by, Heartland Bank.

Social Equity

Caring for our people, customers and communities

Ensuring our conduct and culture drives fair outcomes for our customers

Maintaining good conduct and culture is a core focus in everything we do. We believe it is essential for a sustainable successful business, and we build a strong foundation for this when we keep our customers' needs at heart.

The Financial Markets Authority (**FMA**) and the Reserve Bank of New Zealand (**RBNZ**) completed their review of conduct and culture in New Zealand retail banks in November 2018. The findings of the FMA and RBNZ review focused on the industry as a whole and in addition, each bank received recommendations specific to them. The recommendations for Heartland formed the basis of our Conduct and Culture Work Plan. During the year, we significantly progressed our Conduct and Culture Work Plan to address the feedback and recommendations we received.

Some of the key initiatives completed as part of our Conduct and Culture Work Plan included:

- development and implementation of a formal Responsible Lending Policy, bringing together our responsible lending principles for use by our credit team, sales teams and intermediaries
- enhancing our employee training to ensure integration of good conduct and culture across all content
- revision of our complaints policy and processes to support streamlined and simplified recording of complaints and customer feedback
- development and implementation of a formal Vulnerable Customers policy and rolling out employee training and resources to support our people to identify and help vulnerable customers.

During the year, we surveyed our people in relation to our Conduct Risk Culture Framework to gain a baseline understanding in relation to conduct and culture across the organisation and areas for improvement. Overall, we were very pleased with the results which showed that our people know what good customer outcomes are, how their role contributes to delivering them and improving customers' lives, as well as thinking about the impact on customers as they go about their daily tasks.

For our people in customer-facing roles, the results showed a high confidence in their understanding of our products enabling them to help our customers make informed decisions, and a high confidence in their ability to identify vulnerable customers.

> “Maintaining good conduct and culture is a core focus in everything we do. We believe it is essential for a sustainable successful business, and we build a strong foundation for this when we keep our customers' needs at heart.

Making a positive difference in our communities

Through the Heartland Trust, we support a number of organisations, clubs and schools both regionally and nationally. The Heartland Trust is a registered charitable trust which is independent from, but closely supported by, Heartland Bank.

During the year, the Heartland Trust made grants totalling $451,734 to support our communities including in the areas of education, sport and financial literacy.

The Heartland Trust continues to be a proud supporter of the InZone Education Foundation, a registered charitable trust that aims to enhance the educational outcomes of Māori and Pasifika youth. It does this by establishing and running boarding hostels that provide an opportunity for motivated students to access high-performing state schools within the school zones. A number of InZone students have participated in our Manawa Ako internship programme and are now working in permanent roles at Heartland or have continued on to tertiary education.

This year, the Heartland Trust also provided funding and support through the Kupe Leadership scholarship to Rhieve Grey, a Bachelor of Science (Honours) (Psychology) post-graduate student at the University of Auckland. The prestigious Kupe scholarship aims to develop future leaders who are committed to New Zealand and to creating a successful future for our country. Through the scholarship, Rhieve receives a generous stipend, personal mentor and participation in the leadership programme.

The Heartland Trust continues to support a number of high school sports teams, recognising that sport forms the basis of life-long skills including leadership, teamwork and compassion. This year, we continued to increase our focus on girls' rugby and are now proudly supporting Onehunga Girls' 1st XV, Rangiora Girls' 1st XV, Christchurch Girls' High School 1st XV and the University of Otago women's rugby team. Our support has assisted the teams with funding uniforms and training equipment.

Bringing together a focus on financial literacy and te reo Māori, the Heartland Trust has provided a grant to MoneyTime. MoneyTime is an online financial literacy programme designed for students aged 10 to 14 years in order to provide them with the skills and knowledge they need to become financially independent. The grant has been provided to MoneyTime to assist with the design and creation of a te reo Māori version of its programme.

The Heartland Trust is a proud supporter of the University of Otago women's rugby team who were the winners of the 2019 ORFU Speights Championship Shield.

Social Equity

Caring for our people, customers and communities

Whāia te iti kahurangi - providing a workplace and financial service that enables Māori to succeed as Māori

This year we established *Whāia te iti kahurangi*, Heartland's framework for providing a workplace and financial service that enables Māori to succeed as Māori. An inclusive workplace is one where all forms of diversity are valued. The framework contributes to improving the inclusiveness of Heartland's workplace.

The purpose of *Whāia te iti kahurangi* is to support the work we do with Māori, te reo Māori, and customary practices. We use it as a reference point for our people on operational issues, and to support the inclusion of an indigenous perspective around the work that we do.

There are four pillars of *Whāia te iti kahurangi:*

– **Whakapapa** - A sense of pride in Heartland's whakapapa, and a commitment to uphold the values of our organisation. Mahi tahi, we are one team.

– **Māori succeeding as Māori** - A commitment for our people to succeed as diverse groups represented equitably across business units and management tiers, with cultural competence. Mahi toa, have big ambition.

– **Cultural guarantee** - Best practice, keep evolving our framework documents that guide our systems and processes to ensure we're consistently delivering best practice. Keep kaupapa Māori safe within our frameworks. Mahi tipu, always evolving.

– **Social license** - A strong sense of community, connecting and giving back to our communities. Mahi tika, do the right thing.

Our Manawa Whenua group was instrumental in the creation of *Whāia te iti kahurangi*, which is a direct reflection of the work they do. Ehara tēnei i te mahi takitahi, he mahi takitini kē – this is not the work of one person alone, but of many.

Creating an internal culture of inclusivity and equal opportunity that supports the wellbeing of our people

We recognise the importance of creating a work environment that is fair, inclusive and supportive of our employees' wellbeing. This not only enables a sustainable business model, but is the right thing to do for our people and our communities.

Our key areas of focus continue to be:

– addressing imbalances in gender and ethnic representation by ensuring equitable opportunity for all

– striving to be an employer of choice for Māori

– celebrating diversity and inclusion

– providing best practice support to our people in relation to mental health and wellbeing.

2020 Diversity Awards NZ™ Finalist – Manawa Ako internship

Heartland was recognised as one of four finalists in the Cultural Celebration category for the 2020 Diversity Awards NZ™, being recognised for an authentic response to cultural and ethnic engagement within the workplace. Our Manawa Ako internship provides opportunities for the next generation of Māori and Pasifika to experience working in the financial sector and a corporate environment.

Since its inception, 50 interns have come through the Manawa Ako internship: 38 Māori and 12 Pasifika. We have received high performing students from InZone Education Foundation, Tangaroa College, King's College, Ngā Puna o Waioerea, and Auckland and Otago Universities. To date, almost 20 of these interns have continued in ongoing employment with Heartland. Those who are not already employed are encouraged to return each summer and during university holiday periods.

The Manawa Ako programme has positively impacted Heartland's diversity journey in a number of ways, including:

– a significant increase in the use, understanding and normalisation of te reo and tikanga Māori in our workplace

– the impetus to refresh our mātāpono (corporate values) to incorporate te ao Māori

– giving us the confidence to explore and exhibit Heartland's own whakapapa

– the emergence of a more accepting, open-minded and inclusive internal culture throughout the organisation.

Manawa Ako is just one of the initiatives we are undertaking to achieve our goal of becoming an employer of choice for Māori. We take a proactive approach to career development for Māori within the business, with programmes to support their growth. We offer free Maori language and tikanga lessons for our people and we have developed a new recruitment strategy, Iho Pūmanawa, to assist with providing a more equitable process for our Māori applicants.

We recognise that Māori need to be part of the solution to create equitable outcomes for our people, customers and the wider community. By getting it right for Māori, we build a foundation to improve the inclusiveness of our workplace for all people.

Kia Eke – developing our future female leaders

During the year we welcomed a new cohort of female employees to Kia Eke, a group established in 2018 to support women at Heartland to build confidence and ambition through inspiration. To date, we've held a number of internal and external events and provided members with a forum to share their experiences and seek inspiration and encouragement from their colleagues and from a group of female leaders. The programme was interrupted throughout the year due to COVID-19 but plans are in place to re-start in 2021.

We recognise the benefits of achieving gender balance across all levels of the organisation, particularly in the senior leadership team. Kia Eke is one of the steps we are taking to provide development opportunities for female employees at an earlier stage in their career, supporting them to grow into leadership roles.

Rangatahi Advisory Board

During the year, our recently established Rangatahi Advisory Board worked alongside our Strategic Management Group to provide unique Millennial and Generation Z insights on our people and our customers. The Rangatahi Advisory Board is a group of Heartland employees who are aged 35 and under and also serves as an opportunity for meaningful career development for our future leaders.

The Rangatahi Advisory Board worked on a number of strategic initiatives during the year including customer experience, brand positioning, products and target markets and developing our younger people.

"Getting insights from young Heartlanders brings diversity of thought on executive initiatives. With our authenticity and input we can create experiences to connect with younger consumers and stand out. This is a fantastic opportunity to make it happen."

Karem Ortiz
Rangatahi Advisory Board member

Environmental Conservation

Acting as a kaitiaki of our natural environment

Highlights for FY2020

COMPLETION OF HEARTLAND'S BASELINE MEASUREMENT OF GHG EMISSIONS

1,149 tCO2e

MEMBER OF THE CLIMATE LEADERS COALITION

CLIMATE LEADERS COALITION

ON A MISSION TO REDUCE EMISSIONS IN NEW ZEALAND

INTEGRATION OF BUSINESS-WIDE VIDEO CONFERENCING CAPABILITY TO ASSIST WITH REDUCTION IN AIR TRAVEL

PIECES OF PAPER SAVED BY OPTIMISING PRINTING PROCESSES FOR CUSTOMER LETTERS

540,000

Reducing our direct impact on the environment

Heartland's Carbon Footprint

As part of our sustainability journey, and our commitment as a member of the Climate Leaders Coalition, we have begun to measure our GHG emissions. Our baseline year is the period from 1 July 2018 to 30 June 2019 and will be used to measure future progress.

Our biggest emission sources are our vehicle fleet, air travel, waste to landfill and electricity used by our sites across New Zealand and in Melbourne, Australia.

Scope	GHG Emissions Sources	tCO2e - 2019
Scope 1	Mobile fuel combustion (petrol, diesel) for Heartland vehicle fleet	480
Scope 2	Purchased electricity for all Heartland sites	105
Scope 3 (mandatory)	Business travel, freight, waste to landfill	564
	TOTAL	1,149[1]

Reducing our GHG emissions

We are working towards setting a science based reduction target in relation to our operational GHG emissions. Our reduction target will be published on Heartland's website by 31 March 2021.

Our main priorities for reducing our GHG emissions over the next five years are:

– optimising our vehicle fleet and transitioning to PHEVs (plug-in hybrid electric vehicles)

– identifying and implementing initiatives to improve electricity usage and efficiency

– encouraging greater adoption of video conferencing to reduce business travel.

Other initiatives we have underway to reduce our overall impact on the environment (and in turn reduce our GHG emissions) include:

– reducing paper-based customer mailouts and replacing with digital alternatives

– identifying and implementing initiatives to reduce waste to landfill across the business

– implementing sustainable procurement policies and guidelines for our third-party suppliers.

In addition to actively reducing our GHG emissions, we are currently looking at options for offsetting our unavoidable GHG emissions.

Creating business practices that support good environmental outcomes

During the year, we also started exploring opportunities to offer preferential finance to customers who make sustainable business or consumer choices (otherwise known as 'green lending'). Development and implementation of some of these opportunities will be a key focus of our sustainability strategy for the year ahead. We have also begun to implement sustainable procurement policies and guidelines to relevant providers.

[1] Heartland's GHG emissions for FY2019 have not been independently verified. GHG emissions for FY2020 are currently being calculated and will be independently verified prior to publishing on Heartland's website.

Economic Prosperity

Creating sustainable economic outcomes for our stakeholders

Highlights for FY2020

BUSINESS LENDING AS AT 30 JUNE 2020

$1,150m

CUSTOMERS IN NEW ZEALAND AND AUSTRALIA ABLE TO LIVE A MORE COMFORTABLE RETIREMENT THROUGH A REVERSE MORTGAGE AS AT 30 JUNE 2020

7,600

ATTAINED THE LIVING WAGE EMPLOYER ACCREDITATION

RURAL LENDING AS AT 30 JUNE 2020

$605.7m

Economic Prosperity

Creating sustainable economic outcomes for our stakeholders

Providing a positive contribution to the New Zealand and Australian economies

Heartland's product suite

We are proud to offer a product suite in New Zealand that fuels the economy by providing flexibility and simplicity to small businesses and consumers. Through our Reverse Mortgage product, we also enable New Zealanders and Australians to live a more comfortable retirement and remain in their homes for as long as they choose to do so.

Our deposit products help New Zealanders to actively grow their savings and a number of our deposit products have received external recognition from Canstar as providing outstanding value. We were also recognised as Canstar's Savings Bank of the Year for the third year in a row.

Following the onset of COVID-19, we proactively worked with our customers and the New Zealand Government to provide support where we were able to do so. We launched new products for our Business and Consumer customers to assist with providing this support. You can read more about our response to COVID-19 on page 16 of this Annual Report.

Living Wage Employer accreditation

This year, we were proud to become a Living Wage Employer, being one of a small number of NZX-listed companies to do so. The Living Wage initiative emerged as a response to growing poverty and inequality that continues to hold back many Kiwi workers, their families and our economy.

The Living Wage concept refers to the hourly wage a worker needs to pay for the necessities of life and to participate as an active member of their community. It reflects the basic expenses of workers and their families such as food, transportation, housing and childcare, and is calculated independently each year by the New Zealand Family Centre Social Policy Unit.

Mahi tika (doing the right thing) is a foundation of Heartland and our tāngata (people) form the most important part of what we stand for as a business. We're incredibly proud to be a Living Wage employer and to support Aotearoa in creating positive change for our people and rangatahi to come.

Enhancing economic outcomes for our customers through digital initiatives and tools that reduce customer effort

During the year, we continued to develop digital capability and technological innovation that reduces our environmental impact and significantly improves customer experience, both of which set us up to grow sustainably in the future as well as enhancing economic outcomes for our customers.

Since the Heartland Mobile App was launched in 2018, we have been steadily iterating on the features and functions within the app to improve CX (customer experience) and allow more customer self-service.

During the year, we also launched Heartland Digital, giving our customers the features of the Heartland Mobile App on their web browser to enable flexibility to access their accounts across their digital devices

Facial recognition technology – simplified customer on-boarding

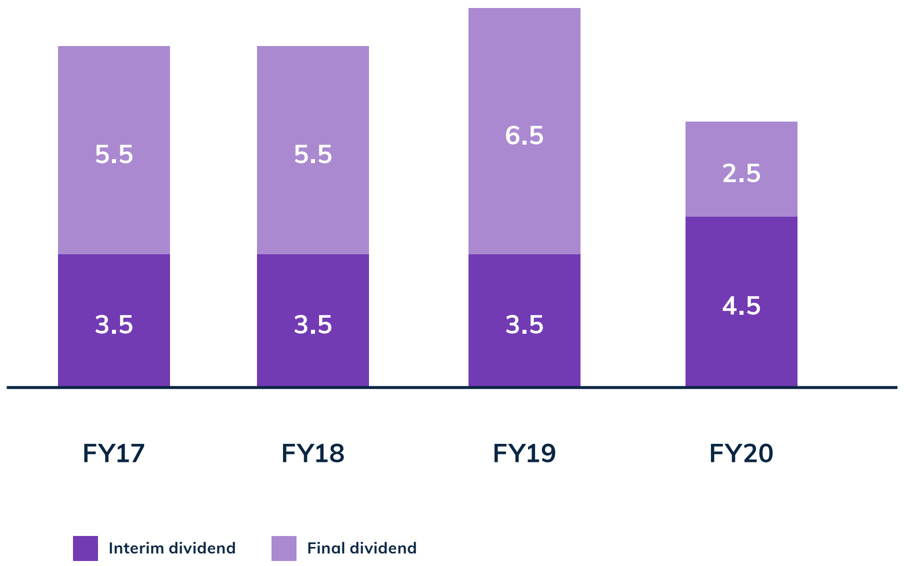
As a bank, we must comply with New Zealand's anti-money laundering laws. This means we must take steps to verify that our customers are who they say they are. To make this verification process quick and simple for our customers, we invested in new facial recognition technology (or biometrics for short). During the year, we progressed from our pilot stage to a full launch of our biometrics solution enabling our customers to complete their identity verification on their smartphone either in their own time or with a Heartland employee guiding them through the process over the phone.

Our biometrics solution has also been rolled out to our intermediary networks to enable faster on-boarding for their customers, for example, a car dealer who is setting up finance for their customer when purchasing a car.

The roll out of our biometrics solution also means that a new customer can apply and open a Heartland Direct Call Account online, provided they meet the eligibility criteria, in under 10 minutes.

Creating sustainable economic value for our shareholders

DIVIDEND PER SHARE (CENTS PER SHARE)



This year, we continued to deliver positive economic outcomes for our shareholders despite the current uncertainties in the New Zealand economy. We paid a total dividend of 7.0 cents per share to our shareholders in relation to FY20. The decrease in the final dividend for FY20 reflects restrictions imposed by the RBNZ on distributions by banks in New Zealand. However, the continued growth in Heartland's Australian operations enabled it to distribute earnings derived from assets held outside of Heartland Bank. Heartland expects to return to a pay-out ratio aligning to historical levels once the RBNZ restrictions are removed.

We have a number of measures in place to ensure that the value we create for our shareholders is sustainable. For example, our executive incentives are linked to long-term value creation. We also review our Board and Board Committee composition and skills mix annually to ensure that these are appropriate to maintain sustainable growth.

Financial Commentary

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

Financial position

Receivables increased by $215.0 million (4.9% growth)[2] mainly due to growth in Reverse Mortgages, Business Intermediated, Motor, Open for Business (**O4B**) and Harmoney, offset by decreases in non-core lending, specifically Business Relationship and Rural Relationship.

Total assets increased by $389.1 million (7.9% growth), primarily driven by the $234.0 million (5.4%) increase in net finance receivables. Liquid assets, comprising cash, cash equivalents and investments increased by $127.2 million (30.5% growth). This reflected the precaution of a strong liquidity buffer through the period of COVID-19 uncertainty.

Total funding[3] increased by $320.9 million (7.6% growth).

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

Profitability

NPAT was $72.0 million, a $1.6 million (2.2%) decrease on FY2019. Adjusted NPAT[4] was $78.9 million, a $5.3 million (7.2%) increase on FY2019.

ROE was 10.5%, down 59 basis points (**bps**) from FY2019. Adjusted ROE[4] was 11.4%, up 31 bps from FY2019.

EPS was 12.5 cps, down 0.5 cps from FY2019. Adjusted EPS[4] was 13.7 cps, up 0.7 cps from FY2019 as a result of an increase in underlying NPAT.

	FY2020	FY2019
NOI[5] ($m)	235.3	208.0
NPAT ($m)	72.0	73.6
Adjusted NPAT ($m)	78.9	73.6
NIM	4.33%	4.33%
NIM excl. liquid assets[6]	4.59%	4.46%
CTI	45.4%	41.6%
Adjusted impairment expense ratio	0.44%	0.49%
Adjusted ROE	11.4%	11.1%
Adjusted EPS	13.7 cps	13.0 cps

[1] Heartland's FY2020 results present reported and adjusted financial information. These measures are considered useful for investors because they adjust for one-off impacts, which allows for better comparability with past performance.
[2] Excluding the impact of changes in FX rates.
[3] Total funding includes retail deposits and other borrowings.
[4] Excluding the impact of $9.6 million pre-tax economic overlay due to COVID-19.
[5] NOI includes fair value gains/losses on investments.
[6] NIM is calculated based on average gross interest earning assets excluding liquid assets.

Income

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

The required accounting standard change in respect of upfront reverse mortgage fees contributed $6.4 million to the FY2020 NOI (and resulted in a corresponding contribution of $7.4 million in operating expenses). Adjusted for this, NOI increased by $21.7 million (10.5%) compared with FY2019, largely due to a $22.4 million (11.5%) increase in underlying net interest income. Underlying other operating income decreased by $0.7 million (5.2%) compared with FY2019, primarily due to a lower net operating lease, insurance and fee income result.

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

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

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

Expenses

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

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

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

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

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

Impact of Covid-19 on provisioning

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

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

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

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

Heartland does not have a material exposure to the industries most profoundly affected by COVID-19 (tourism, hospitality, retail business)[7], nor the demographic most impacted by rising unemployment (15-24 year olds)[8]. In addition, a significant proportion of Heartland's book has shown resilience to the economic disruption – in particular the Reverse Mortgage books in Australia and New Zealand (where borrower behaviour remains largely unchanged) and the Rural portfolio.

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

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

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

Heartland's total provision coverage ratio excluding the $9.6 million pre-tax economic overlay due to COVID-19 is 1.71%[9] as at 30 June 2020. This is a relatively strong position compared with most of its peers. The COVID-19 economic overlay further increased the total provision coverage ratio to 2.02% as at 30 June 2020.

[7] Heartland's total exposure to the retail, accommodation and transport (excluding road freight transport) industries at 30 June 2020, based on borrower ANZSIC codes, was 2.84%, 2.17% and 1.15% respectively.
[8] At 10 August 2020, Heartland's exposure to customers in this age bracket is 4.2% in Motor, 0.7% in personal lending and 0.9% in Harmoney.
[9] Calculated as total provisions over gross finance receivables excluding Reverse Mortgages.

The table below compares Heartland's provision coverage ratio[10] year-on-year, including the impact of the $9.6 million pre-tax economic overlay due to COVID-19.

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

Impairments

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

On an adjusted basis[11], impairment expense decreased by $0.9 million (4.1%) to $19.8 million, and impairment expense as a percentage of average receivables decreased from 0.49% in FY2019 to 0.44% in FY2020. This reflects improving quality and improved collections processes.

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

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

Business performance

New Zealand Reverse Mortgages

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

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

Motor

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

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

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

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

Harmoney and other personal lending

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

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

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

Business Intermediated

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

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

Business Relationship

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

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

O4B

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

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

Rural

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

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

Australia

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

Australian Reverse Mortgage Receivables increased by $149.1 million (18.4%)[12] to $957.5 million. Heartland remains the leading originator of reverse mortgages in Australia with 12-month market share increasing from 21%[13] to 26%[14], and a similar trend expected in the future.

Funding and liquidity

New Zealand

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

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

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

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

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

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

Australia

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

To support its growth, Heartland has secured A$142 million of long-term funding for its Australian Reverse Mortgage business. The innovative Australian reverse mortgage-backed syndicated loan securitisation transaction announced on 15 September 2020 is funded by established offshore institutional investors. The first-of-its-kind transaction achieves another milestone in executing 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[15] of 98%.

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

Other funding activity included:

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

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

[12] Excluding the impact of changes in FX rates.
[13] Based on APRA ADI Property Exposure combined with Heartland Seniors Finance data as at 31 March 2019.
[14] Based on APRA ADI Property Exposure combined with Heartland Seniors Finance data as at 31 March 2020.
[15] Being total senior debt divided by total reverse mortgages funded.

HEARTLAND

FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2020

We asked our Manawa Ako interns to create a series of murals that represent Heartland.

This mural represents relationships and connections; between people and the land, between Heartland and our people, between us and our customers, and between this generation and the next. As our people, customers and partners grow, so too do we.

Heartland’s mātāpono (values) have also been incorporated throughout the mural. Mahi Tika – do the right thing;
Mahi Tahi – be one team; Mahi Toa – have big ambition;
Mahi Tipu – be always evolving.

This piece is an all-inclusive portrayal of what it means to be part of our Heartland whānau.

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FINANCIAL STATEMENTS

General information

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

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

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

Auditor

KPMG
KPMG Centre
18 Viaduct Harbour Avenue
Auckland

Other material matters

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

Directors

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

Name: GEOFFREY THOMAS RICKETTS CNZM
Chairman - Board of Directors
Type of Director: Independent Non-Executive Director
Qualifications: LLB (Hons), LLD *(honoris causa)*, CFInstD
Occupation: Company Director

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

Name: ELLEN FRANCES COMERFORD
Type of Director: Independent Non-Executive Director
Qualifications: BEc
Occupation: Company Director

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

Name: SIR CHRISTOPHER ROBERT MACE KNZM
Type of Director: Independent Non-Executive Director
Qualifications: CMInstD
Occupation: Company Director

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

Name: GREGORY RAYMOND TOMLINSON
Type of Director: Non-Independent Non-Executive Director
Qualifications: AME
Occupation: Company Director

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

Name: JEFFREY KENNETH GREENSLADE
Type of Director: Non-Independent Executive Director
Qualifications: LLB
Occupation: Chief Executive Officer of HGH

External Directorships: Henley Family Investments Limited.

Directors' statements

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

G T Ricketts (Chair)

E F Comerford

J K Greenslade

Sir C R Mace

G R Tomlinson

Consolidated statement of comprehensive income

For the year ended 30 June 2020

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

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

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

Consolidated statement of changes in equity

For the year ended 30 June 2020

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

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

Consolidated statement of financial position

As at 30 June 2020

$000's	Note	June 2020	June 2019
Assets			
Cash and cash equivalents		147,179	74,496
Investments	11	413,340	354,928
Investment properties		11,132	11,132
Derivative financial instruments	12	17,246	14,491
Finance receivables	13	3,045,195	3,031,128
Finance receivables - reverse mortgages	13	1,538,585	1,318,677
Operating lease vehicles	14	17,603	15,516
Right of use assets	18	18,362	-
Other assets	18	19,558	27,208
Intangible assets	18	72,813	71,924
Deferred tax asset	9	17,123	9,531
Total assets		**5,318,136**	**4,929,031**
Liabilities			
Deposits	15	3,264,192	3,153,681
Other borrowings	15	1,267,931	1,057,568
Tax liabilities		12,303	7,532
Derivative financial instruments	12	17,012	11,147
Lease liabilities	18	20,456	-
Trade and other payables	18	36,262	23,435
Total liabilities		**4,618,156**	**4,253,363**
Equity			
Share capital	16	576,257	558,970
Retained earnings and reserves		123,723	116,698
Total equity		**699,980**	**675,668**
Total equity and liabilities		**5,318,136**	**4,929,031**
Total interest earning and discount bearing assets		5,114,348	4,757,615
Total interest and discount bearing liabilities		4,518,174	4,199,564

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

Consolidated statement of cash flows

For the year ended 30 June 2020

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

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

Consolidated statement of cash flows

For the year ended 30 June 2020

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

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

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

Notes to the financial statements

For the year ended 30 June 2020

1. Financial statements preparation

Reporting entity

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

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

Basis of preparation

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

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

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

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

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

Basis of measurement

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

Principles of consolidation

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

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

Changes in accounting standards

Impact of adopting NZ IFRS 16 Leases

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

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

1. Financial statements preparation (continued)

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

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

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

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

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

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

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

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

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

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

The net impact on retained earnings on 1 July 2019 was a decrease of $0.8 million.
The adoption of NZ IFRS 16 has no material impact to the Group's leasing business where the Group acts as the lessor. There have been no other changes to accounting policies or new or amended standards that are issued and effective that are expected to have a material impact on the Group.

1. Financial statements preparation (continued)

Accounting standards issued but not yet effective

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

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

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

Estimates and judgements

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

– Provisions for impairment - The effect of credit risk is quantified based on the Group's best estimate of future cash repayments and proceeds from any security held or by reference to risk profile groupings, historical loss data and forward-looking information. Refer to Note 8 - Impaired asset expense, and Note 13 - Finance receivables for further details.

– Fair value of reverse mortgages - Fair value is quantified by the transaction price and the Group's subsequent best estimate of the risk profile of the reverse mortgage portfolio. Refer to Note 20 - Fair value for further details.

– Goodwill - Determining the fair value of assets and liabilities of acquired businesses requires the Group to exercise judgement. The carrying value of goodwill is tested annually for impairment, refer to Note 18 - Other balance sheet items.

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

COVID-19 Pandemic - Impact on Estimates and Judgements

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

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

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

1. Financial statements preparation (continued)

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

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

– Note 8 - Impaired asset expense

– Note 13 - Finance receivables

– Note 18 - Other balance sheet items - Goodwill

– Note 20 - Fair value

Financial assets and liabilities

Financial Assets

Financial assets are classified based on:

– The business model within which the assets are managed; and

– Whether the contractual cash flows of the instrument represent solely payment of principal and interest (**SPPI**).

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

Financial assets are classified into the following measurement categories:

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

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

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

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

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

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

– They are held within a business model whose objective is achieved through selling or repurchasing the financial asset in the near term, or forms part of a portfolio of financial instruments that are managed together and for which there is evidence of short-term profit taking; or

– They are designated at FVTPL upon initial recognition to eliminate or reduce an accounting mismatch.

1. Financial statements preparation (continued)

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

Financial Liabilities

Financial liabilities are classified into the following measurement categories:

– Those to be measured at amortised cost;

– Those to be measured at FVTPL.

Financial liabilities measured at amortised cost

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

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

Financial liabilities measured at FVTPL

Financial liabilities are measured at FVTPL if:

– They are held for trading whose principal objective is achieved through selling or repurchasing the financial liability in the near term, or forms part of a portfolio of financial instruments that are managed together and for which there is evidence of short-term profit taking; or

– They are designated at FVTPL upon initial recognition to eliminate or reduce an accounting mismatch.

Financial liabilities at FVTPL are measured at fair value with subsequent changes in fair value recognised in profit or loss. Further details of the accounting policy for each category of financial asset or financial liability mentioned above is set out in the note for the relevant item.

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

Recognition

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

Derecognition

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

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

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

Offsetting financial instruments

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

Performance

2. Segmental analysis

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

Operating segments

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

Motor	Motor vehicle finance.
Reverse mortgages	Reverse mortgage lending within New Zealand.
Other personal	A comprehensive range of financial services - including term, transactional and personal loans to individuals.
Business	Term debt, plant and equipment finance, commercial mortgage lending and working capital solutions for small-to-medium sized businesses.
Rural	Specialist financial services to the farming sector primarily offering livestock finance, rural mortgage lending, seasonal and working capital financing, as well as leasing solutions to farmers.
Australia	Reverse mortgage lending and other financial services within Australia.

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

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

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

2. Segmental analysis (continued)

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

3. Net interest income

Policy

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

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

4. Net operating lease income

Policy

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

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

5. Other income

Policy

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

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

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

6. Operating expenses

Policy

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

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

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

7. Compensation of auditor

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

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

8. Impaired asset expense

Policy

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

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

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

Stage 1 - 12 months ECL (past due 30 days or less)
Where there has been no evidence of increased credit risk since initial recognition, and are not credit impaired upon origination, the portion of the lifetime ECL associated with the probability of default events occurring within the next 12 months is recognised.

Stage 2 - Lifetime ECL not credit impaired (greater than 30 but less than 90 days past due)
Where there has been a significant increase in credit risk.

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

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

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

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

8. Impaired asset expense (continued)

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

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

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

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

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

That base case also assumes:

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

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

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

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

8. Impaired asset expense (continued)

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

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

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

9. Taxation

Policy

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

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

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

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

9. Taxation (continued)

Income tax expense

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

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

9. Taxation (continued)

Deferred tax assets comprise the following temporary differences:

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

Imputation credit account

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

10. Earnings per share

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

Financial Position

11. Investments

Policy

Investments are classified into one of the following categories:

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

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

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

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

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

12. Derivative financial instruments

Policy

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

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

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

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

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

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

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

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

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

12. Derivative financial instruments (continued)

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

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

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

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

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

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

13. Finance receivables

(a) Finance receivables held at amortised cost

Policy

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

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

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

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

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

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

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

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

13. Finance receivables (continued)

Movement in provision

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

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

13. Finance receivables (continued)

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

13. Finance receivables (continued)

Impact of COVID-19 on allowance for ECL

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

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

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

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

(b) Finance receivables held at fair value

Policy

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

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

Note 20 (a) - Financial instruments measured at fair value discloses further information regarding the Group's valuation policy.
Note 22 - Credit risk exposure discloses further information regarding how reverse mortgages operate.

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

There were no credit risk adjustments on individual financial assets.

14. Operating lease vehicles

Policy

Operating lease vehicles are stated at cost less accumulated depreciation.

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

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

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

15. Borrowings

Policy

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

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

Deposits and unsubordinated notes rank equally and are unsecured.

15. Borrowings (continued)

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

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

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

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

16. Share capital and dividends

Policy

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

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

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

Dividends paid

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

17. Other reserves

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

18. Other balance sheet items

Policy

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

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

18. Other balance sheet items (continued)

Policy

Intangible assets

Intangible assets with finite useful lives

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

Goodwill

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

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

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

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

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

– Comparing cashflows and other key financial metrics against budget;

– Material decreases in mid-term and/or long-term growth rates as compared to previous estimates;

– Any material changes in business model or strategy;

– Comparing the Group's market capitalisation against its net assets;

– Changes in market interest rates or other market rates of return;

– Fluctuations in the foreign exchange rates or commodity prices that impact the entity's cash flows; and

– Any deferral of investment projects.

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

18. Other balance sheet items (continued)

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

– Heartland Australia Holdings Pty Limited: $15.3 million (2019: $15.3 million).

– Heartland Bank Limited (**HBL**): $29.8 million (2019: $29.8 million).

Policy

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

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

Policy

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

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

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

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

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

19. Related party transactions and balances

Policy

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

a) A person or a close member of that person's family if that person:

i) has control or joint control over HGH;
ii) has significant influence over HGH; or
iii) is a member of the key management personnel of HGH.

b) An entity is related to HGH if any of the following conditions applies:

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

(a) Transactions with key management personnel

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

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

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

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

19. Related party transactions and balances (continued)

(b) Transactions with related parties

HGH is the ultimate parent company of the Group.

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

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

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

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

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

(c) Other balances with related parties

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

20. Fair value

Policy

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

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

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

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

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

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

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

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

(a) Financial instruments measured at fair value

The following methods and assumptions were used to estimate the fair value of each class of financial asset and liability measured at fair value on a recurring basis in the consolidated statement of financial position.

Investments

Investments in public sector securities and corporate bonds are classified as being available for sale and are stated at FVOCI, with the fair value being based on quoted market prices (Level 1 under the fair value hierarchy) or modelled using observable market inputs (Level 2 under the fair value hierarchy). Refer to Note 11 - Investments for more details.

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

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

Finance receivables - reverse mortgages

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

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

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

– Mortality and move to care;

– Voluntary exits;

– House price changes;

– No negative equity guarantee; and

– Interest rate margin.

20. Fair value (continued)

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

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

Derivative financial instruments

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

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

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

20. Fair value (continued)

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

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

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

(b) Financial instruments not measured at fair value

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

Cash and cash equivalents

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

Finance receivables

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

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

Borrowings

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

20. Fair value (continued)

Other financial assets and financial liabilities

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

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

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

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

(c) Classification of financial instruments

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

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

20. Fair value (continued)

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

Risk Management

21. Enterprise risk management program

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

Role of the Board and the Board Risk Committee

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

– To advise the Board on the formulation of the Board's Risk Appetite Statement at least annually.

– To review any reports, policies, standards, other risk documents or matters, or minutes which have been prepared by or in respect of the HGH's Board, Risk Committee, or Executive Risk Committee as it may see fit, and to advise the Board in relation thereto.

– To advise and make recommendations to the Board as to the key parameters for ICAAP, delegated authorities, risk appetite and stress testing for its subsidiary, Heartland Bank Limited.

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

Audit Committee

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

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

21. Enterprise risk management program (continued)

Internal Audit

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

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

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

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

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

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

Asset and Liability Committee (ALCO)

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

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

Operational and compliance risk

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

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

- The first line of defence is the business line management of the identification, management and mitigation of the risks associated with the products and processes of the business. This accountability includes regular testing and attestation of the adequacy and effectiveness of controls and compliance with the Group's policies.

21. Enterprise risk management program (continued)

- The second line of defence is the Risk and Compliance function, responsible for the design and ownership of the Operational Risk Management Framework. It incorporates key processes including Risk and Control Self-Assessment (**RCSA**), incident management, independent evaluation of the adequacy and effectiveness of the internal control framework, and the attestation process.

- The third line of defence is Internal Audit which is responsible for independently assessing how effectively the Group is managing its risk according to the stated risk appetite.

Market risk

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

Interest rate risk

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

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

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

Foreign exchange risk

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

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

Counterparty Credit Risk

The Group has on-going credit exposure associated with:

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

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

22. Credit risk exposure

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

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

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

– Credit origination meets agreed levels of credit quality at point of approval;

– Sector concentrations are monitored;

– Maximum total exposure to any one debtor is actively managed; and

– Changes to credit risk are actively monitored with regular credit reviews.

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

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

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

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

Reverse mortgage loans and negative equity risk

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

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

Business Finance Guarantee Scheme

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

Maximum exposure to credit risk at the relevant reporting dates

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

22. Credit risk exposure (continued)

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

Concentration of credit risk by geographic region

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

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

Concentration of credit risk by industry sector

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

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

22. Credit risk exposure (continued)

Commitments to extend credit

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

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

Credit risk grading

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

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

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

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

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

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

22. Credit risk exposure (continued)

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

23. Liquidity risk

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

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

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

RBNZ facilities

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

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

23. Liquidity risk (continued)

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

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

Contractual liquidity profile of liabilities

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

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

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

24. Interest rate risk

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

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

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

– Monitoring maturity profiles and seeking to match the re-pricing of assets and liabilities;

– Monitoring interest rates daily and regularly (at least monthly) reviewing interest rate exposures; and

– Entering into derivatives to hedge against movements in interest rates.

Contractual repricing analysis

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

$000's	0-3 Months	3-6 Months	6-12 Months	1-2 Years	2+ Years	Non-Interest Bearing	Total
June 2020							
Financial assets							
Cash and cash equivalents	147,172	-	-	-	-	7	147,179
Investments	43,863	18,425	52,708	59,296	222,713	16,335	413,340
Finance receivables	1,522,837	198,446	352,076	557,569	400,658	13,609	3,045,195
Finance receivables - reverse mortgages	1,538,585	-	-	-	-	-	1,538,585
Derivative financial assets	-	-	-	-	-	17,246	17,246
Other financial assets	-	-	-	-	-	3,563	3,563
Total financial assets	**3,252,457**	**216,871**	**404,784**	**616,865**	**623,371**	**50,760**	**5,165,108**
Financial liabilities							
Retail deposits	1,616,521	585,482	815,366	155,219	77,655	13,949	3,264,192
Other borrowings	976,638	970	-	-	290,323	-	1,267,931
Derivative financial liabilities	-	-	-	-	-	17,012	17,012
Lease liabilities	-	-	-	-	-	20,456	20,456
Other financial liabilities	-	-	-	-	-	26,751	26,751
Total financial liabilities	**2,593,159**	**586,452**	**815,366**	**155,219**	**367,978**	**78,168**	**4,596,342**
Effect of derivatives held for risk management	557,955	(51,349)	(239,137)	(237,212)	(30,257)	-	-
Net financial assets / (liabilities)	**1,217,253**	**(420,930)**	**(649,719)**	**224,434**	**225,136**	**(27,408)**	**568,766**

24. Interest rate risk (continued)

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

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

Other Disclosures

25. Significant subsidiaries

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

26. Structured entities

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

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

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

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

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

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

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

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

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

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

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

27. Staff share ownership arrangements

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

(a) Share-based compensation plan details

Heartland performance rights plan (PR plan)

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

PR Plan 2022 Tranche (PR plan 2022)

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

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

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

27. Staff share ownership arrangements (continued)

	PR Plan Number of Rights	SES[1] Number of Shares
1 July 2019	**3,121,340**	**-**
Granted	(816,858)	-
Issued	1,230,740	-
Forfeited	(318,295)	-
30 June 2020	**3,216,927**	**-**
1 July 2018	**3,180,298**	**1,858,676**
Granted	-	(1,858,676)
Issued	293,759	-
Forfeited	(352,717)	-
30 June 2019	**3,121,340**	**-**

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

(b) Effect of share-based payment transactions

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

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

(c) Number of rights outstanding at 30 June 2020

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

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

Insurance business

The Group conducts insurance business through its subsidiary MIL.

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

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

Securitisation, funds management and other fiduciary activities

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

29. Concentrations of funding

(a) Concentrations of funding by industry

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

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

(b) Concentration of funding by geographical area

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

30. Contingent liabilities and commitments

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

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

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

31. Events after the reporting date

COVID-19 pandemic update

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

Dividend

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

Funding facility

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

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

KPMG

Independent Auditor's Report

To the shareholders of Heartland Group Holdings Limited

Report on the audit of the consolidated financial statements

Opinion

We have audited the accompanying consolidated financial statements which comprise:

— the consolidated statement of financial position as at 30 June 2020;

— the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended; and

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

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

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

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

Basis for opinion

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

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

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

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

Materiality

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

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

KPMG

Key audit matters

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

Key changes in the assessment of audit risks

Covid-19

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

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

KPMG

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

Other information

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

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

KPMG

Use of this independent auditor's report

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

Responsibilities of the Directors for the consolidated financial statements

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

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

— implementing necessary internal control to enable the preparation of consolidated financial statements that are fairly presented and free from material misstatement, whether due to fraud or error; and

— assessing the ability to continue as a going concern. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objective is:

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

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

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

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

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

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

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

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

For and on behalf of

KPMG

KPMG
Auckland

17 September 2020

Executive Remuneration

The number of employees of Heartland and its subsidiaries (including former employees), other than directors, who received remuneration, including non-cash benefits, in excess of $100,000 during the year ended 30 June 2020 is set out in the remuneration bands detailed below.

Remuneration	Number of employees
$100,000 - $109,999	30
$110,000 - $119,999	19
$120,000 - $129,999	22
$130,000 - $139,999	8
$140,000 - $149,999	17
$150,000 - $159,999	8
$160,000 - $169,999	6
$170,000 - $179,999	3
$180,000 - $189,999	2
$190,000 - $199,999	4
$200,000 - $209,999	2
$210,000 - $219,999	1
$220,000 - $229,999	1
$230,000 - $239,999	2
$240,000 - $249,999	1
$260,000 - $269,999	5
$270,000 - $279,999	1
$280,000 - $289,999	1
$360,000 - $369,999	2
$390,000 - $399,999	1
$420,000 - $429,999	1
$470,000 - $479,999	1
$480,000 - $489,999	1
$490,000 - $499,999	1
$530,000 - $539,999	1
$580,000 - $589,999	1
$680,000 - $689,999	2
$950,000 - $959,999	1
Grand Total	**145**

Shareholder Information

Spread of shares

Set out below are details of the spread of shareholders of Heartland as at 1 September 2020 (being a date not more than two months prior to the date of this Annual Report).

Size of holding	Number of shareholders	Total shares	% of issued shares
1 - 1,000 shares	1,367	780,560	0.13
1,001 - 5,000 shares	3,092	8,758,629	1.51
5,001 - 10,000 shares	2,314	17,299,847	2.98
10,001 - 50,000 shares	4,580	103,184,093	17.76
50,001 - 100,000 shares	822	57,024,882	9.82
100,001 shares and over	507	393,931,095	67.80
TOTAL	**12,682**	**580,979,106**	**100.00**

Twenty largest shareholders

Set out below are details of the 20 largest shareholders of Heartland as at 1 September 2020 (being a date not more than two months prior to the date of this Annual Report).

Rank	Shareholder	Total shares	% of issued shares
1	Harrogate Trustee Limited	58,392,997	10.05
2	Citibank Nominees (NZ) Limited	29,503,229	5.08
3	FNZ Custodians Limited	28,737,195	4.95
4	Accident Compensation Corporation	19,116,125	3.29
5	Oceania & Eastern Limited	13,267,285	2.28
6	Philip Maurice Carter	11,416,647	1.97
7	HSBC Nominees (New Zealand) Limited	9,932,309	1.71
8	New Zealand Depository Nominee	9,337,023	1.61
9	HSBC Nominees (New Zealand) Limited	7,225,138	1.24
10	JPMORGAN Chase Bank	6,601,938	1.14
11	Heartland Trust	6,475,976	1.11
12	Leveraged Equities Finance Limited	6,200,000	1.07
13	Investment Custodial Services Limited	6,151,632	1.06
14	Forsyth Barr Custodians Limited	5,339,816	0.92
15	Custodial Services Limited	4,983,278	0.86
16	Jarden Custodians Limited	4,794,667	0.83
17	Jeffrey Kenneth Greenslade & Sarah Ormond Greenslade	3,986,156	0.69
18	Custodial Services Limited	3,723,367	0.64
19	Cogent Nominees Limited	3,382,404	0.58
20	Pt Booster Investments Nominees Limited	3,077,467	0.53
Total		**241,644,649**	**41.61**

Substantial product holders

As at 30 June 2020, the following product holders are substantial product holders in Heartland.

Name	Number of Shares	Class of Shares	Total number of shares in class
Harrogate Trustee Limited and Gregory Raymond Tomlinson	58,392,997	Ordinary	580,979,106

Other Information

Auditor's fees

KPMG has continued to act as auditor of Heartland and its subsidiaries. The amount payable by Heartland and its subsidiaries to KPMG as audit fees during the year ended 30 June 2020 was $774,000. The amount of fees payable to KPMG for other assurance services during the year ended 30 June 2020 was $133,000. These other assurance fees were primarily for regulatory assurance services, agreed upon procedures engagements and supervisor reporting.

Credit rating

As at the date of this Annual Report, Heartland has a Fitch Australia Pty Limited long-term credit rating of BBB (outlook stable).

Donations

The total amount of donations made by Heartland during the year ended 30 June 2020 was $103,763.

Exercise of NZX disciplinary powers

NZX Limited did not exercise any of its powers under Listing Rule 9.9.3 in relation to Heartland and its subsidiaries during the year ended 30 June 2020.

NZX waivers

Set out below is a summary of all waivers granted to the Group by NZX, or relied on by the Group, within the 12-month period preceding 30 June 2020.

Announcement of full year results and release of annual report – reliance on NZX class waiver

Heartland relied on an NZX class waiver from Listing Rules 3.5.1 and 3.6.1 on 11 August 2020 to the extent that those rules required Heartland to release a results announcement within 60 days after the end of the financial year ending 30 June 2020 and release an annual report within three months after the end of the same financial year. The reason for the granting of the class waivers by the NZX was to provide issuers (including Heartland) with additional time to prepare and release their full year results announcement and annual report, in recognition that COVID-19 has impacted issuers' abilities to meet the usual reporting timeframes. Pursuant to the waiver, Heartland announced that it expected to announce its full year results for the financial year ended 30 June 2020 on 17 September 2020 and release its annual report for the same financial year on 30 October 2020.

Directory

DIRECTORS

Heartland Group Holdings Limited Board

GEOFFREY RICKETTS
Chair and Independent Non-Executive Director

GREGORY TOMLINSON
Deputy Chair and Non-Executive Director

JEFFREY GREENSLADE
Executive Director and CEO

ELLEN COMERFORD
Independent Non-Executive Director

SIR CHRISTOPHER MACE
Independent Non-Executive Director

Heartland Bank Limited Board

BRUCE IRVINE
Chair and Independent Non-Executive Director

JEFFREY GREENSLADE
Executive Director

ELLEN COMERFORD
Independent Non-Executive Director

EDWARD JOHN HARVEY
Independent Non-Executive Director

KATHRYN MORRISON
Independent Non-Executive Director

GEOFFREY RICKETTS
Independent Non-Executive Director

SHELLEY RUHA
Independent Non-Executive Director

STRATEGIC MANAGEMENT GROUP

JEFFREY GREENSLADE
CEO, Heartland Group Holdings Limited

CHRISTOPHER FLOOD
CEO, Heartland Bank Limited

KEIRA BILLOT
Chief People & Culture Officer

LAURA BYRNE
Group Chief of Staff

ANDREW DIXSON
Chief Financial Officer

MICHAEL DRUMM
Chief Legal & Bank Risk Officer

GRANT KEMBLE
Group Chief Risk Officer

SARAH SMITH
Chief Technology Officer

LYDIA ZULKIFLI
Chief Digital Officer

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Mahi tika

DO THE RIGHT THING
Kia tika, kia pono. Do what's right and true.

Mahi tahi

BE ONE TEAM
He waka eke noa. We're all in this together.

Mahi toa

HAVE BIG AMBITION
Tū whitia te hopo. Feel the fear and do it anyway.

Mahi tipu

BE ALWAYS EVOLVING
Whāia te iti kahurangi. Strive for excellence.

HEARTLAND

HEARTLAND.CO.NZ