



# Financial Statements



For the 6 months ended 31 December 2019

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## GENERAL INFORMATION

Heartland Group Holdings Limited (**HGH** or the **Company**) is incorporated in New Zealand and registered under the Companies Act 1993. The shares in HGH are listed on the New Zealand exchange (**NZX**) main board and the Australian Securities exchange (**ASX**) under a foreign exempt listing.

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

## DIRECTORS

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

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

Gregory R Tomlinson (Deputy Chair) – Non-Executive Director

Jeffrey K Greenslade – Executive Director and Group Chief Executive Officer

Sir Christopher R Mace – Independent Non-Executive Director

Ellen F Comerford – Independent Non-Executive Director

## AUDITOR

KPMG

KPMG Centre

18 Viaduct Harbour Avenue

Auckland

## DIRECTORS' STATEMENTS

This Consolidated Interim Financial Report for HGH and its subsidiaries (together **the Group**) is dated 17 February 2020 and has been signed by all the Directors.



G T Ricketts (Chair)



G R Tomlinson (Deputy Chair)



J K Greenslade



Sir C R Mace



E F Comerford

# CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 31 December 2019

\$000's	NOTE	Unaudited 6 months to December 2019	Unaudited 6 months to December 2018	Audited 12 months to June 2019
Interest income	3	172,536	166,260	334,330
Interest expense	3	67,353	68,238	136,747
<b>Net interest income</b>		<b>105,183</b>	<b>98,022</b>	<b>197,583</b>
Operating lease income		2,910	2,871	5,262
Operating lease expenses		1,962	1,801	3,427
<b>Net operating lease income</b>		<b>948</b>	<b>1,070</b>	<b>1,835</b>
Lending and credit fee income		6,827	1,444	3,117
Other income		3,579	1,575	3,307
<b>Net operating income</b>		<b>116,537</b>	<b>102,111</b>	<b>205,842</b>
Operating expenses	4	54,597	43,356	85,589
<b>Profit before impaired asset expense and income tax</b>		<b>61,940</b>	<b>58,755</b>	<b>120,253</b>
Fair value movement on investment property		-	-	1,936
Fair value gain on investment		2,097	-	-
Impaired asset expense	5	9,023	13,286	20,676
<b>Profit before income tax</b>		<b>55,014</b>	<b>45,469</b>	<b>101,513</b>
Income tax expense		15,149	12,355	27,896
<b>Profit for the period/year</b>		<b>39,865</b>	<b>33,114</b>	<b>73,617</b>
<b>Other comprehensive income</b>				
<b>Items that are or may be reclassified subsequently to profit or loss:</b>				
Effective portion of changes in fair value of derivative financial instruments, net of income tax		(225)	781	(4,762)
Movement in fair value reserve, net of income tax		(968)	170	2,968
Movement in foreign currency translation reserve, net of income tax		(513)	(4,003)	(5,281)
<b>Items that will not be reclassified to profit or loss:</b>				
Movement in defined benefit reserve, net of income tax		-	-	(86)
<b>Other comprehensive income for the year, net of income tax</b>		<b>(1,706)</b>	<b>(3,052)</b>	<b>(7,161)</b>
<b>Total comprehensive income for the period/year</b>		<b>38,159</b>	<b>30,062</b>	<b>66,456</b>
<b>Earnings per share</b>				
Basic earnings per share	6	7c	6c	13c
Diluted earnings per share	6	7c	6c	13c

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

The notes on pages 9 to 29 are an integral part of this consolidated interim financial statement.

# CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY

For the six months ended 31 December 2019

\$000's	NOTE	Share Capital	Employee Benefits Reserve	Foreign Currency Translation Reserve	Fair Value Reserve	Defined Benefit Reserve	Cash Flow Hedge Reserve	Retained Earnings	Total Equity
<b>Unaudited - December 2019</b>									
Balance at 1 July 2019		558,970	838	(4,021)	4,558	171	(5,843)	120,995	675,668
NZ IFRS 16 adjustment	1	-	-	-	-	-	-	(639)	(639)
<b>Restated balance at beginning of period</b>		<b>558,970</b>	<b>838</b>	<b>(4,021)</b>	<b>4,558</b>	<b>171</b>	<b>(5,843)</b>	<b>120,356</b>	<b>675,029</b>
<b>Total comprehensive income for the period</b>									
Profit for the period		-	-	-	-	-	-	39,865	39,865
Other comprehensive income/(loss) net of income tax		-	-	(513)	(968)	-	(225)	-	(1,706)
<b>Total comprehensive income for the period</b>		<b>-</b>	<b>-</b>	<b>(513)</b>	<b>(968)</b>	<b>-</b>	<b>(225)</b>	<b>39,865</b>	<b>38,159</b>
<b>Contributions by and distributions to owners</b>									
Dividends paid	9	-	-	-	-	-	-	(37,007)	(37,007)
Dividend reinvestment plan	9	11,296	-	-	-	-	-	-	11,296
Transaction costs associated with capital raising		(30)	-	-	-	-	-	-	(30)
Share based payments		-	153	-	-	-	-	-	153
Shares vested		420	(420)	-	-	-	-	-	-
<b>Total transactions with owners</b>		<b>11,686</b>	<b>(267)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(37,007)</b>	<b>(25,588)</b>
<b>Balance as at 31 December 2019</b>		<b>570,656</b>	<b>571</b>	<b>(4,534)</b>	<b>3,590</b>	<b>171</b>	<b>(6,068)</b>	<b>123,214</b>	<b>687,600</b>
<b>Unaudited - December 2018</b>									
Balance at 1 July 2018		542,315	2,559	1,260	1,590	257	(1,081)	117,260	664,160
NZ IFRS 9 adjustment (Restated)		-	-	-	-	-	-	(19,283)	(19,283)
<b>Restated balance at beginning of period</b>		<b>542,315</b>	<b>2,559</b>	<b>1,260</b>	<b>1,590</b>	<b>257</b>	<b>(1,081)</b>	<b>97,977</b>	<b>644,877</b>
<b>Total comprehensive income for the period</b>									
Profit for the period		-	-	-	-	-	-	33,114	33,114
Other comprehensive income/(loss) net of income tax		-	-	(4,003)	170	-	781	-	(3,052)
<b>Total comprehensive income for the period</b>		<b>-</b>	<b>-</b>	<b>(4,003)</b>	<b>170</b>	<b>-</b>	<b>781</b>	<b>33,114</b>	<b>30,062</b>
<b>Contributions by and distributions to owners</b>									
Dividends paid	9	-	-	-	-	-	-	(30,808)	(30,808)
Dividend reinvestment plan	9	8,584	-	-	-	-	-	-	8,584
Share based payments		-	383	-	-	-	-	-	383
<b>Total transactions with owners</b>		<b>8,584</b>	<b>383</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(30,808)</b>	<b>(21,841)</b>
<b>Balance as at 31 December 2018</b>		<b>550,899</b>	<b>2,942</b>	<b>(2,743)</b>	<b>1,760</b>	<b>257</b>	<b>(300)</b>	<b>100,283</b>	<b>653,098</b>

The notes on pages 9 to 29 are an integral part of this consolidated interim financial statement.

## CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY

For the six months ended 31 December 2019 (continued)

\$000's	NOTE	Share Capital	Employee Benefits Reserve	Foreign Currency Translation Reserve	Fair Value Reserve	Defined Benefit Reserve	Cash Flow Hedge Reserve	Retained Earnings	Total Equity
<b>Audited - 30 June 2019</b>									
Balance at 1 July 2018		542,315	2,559	1,260	1,590	257	(1,081)	117,260	664,160
NZ IFRS 9 adjustment		-	-	-	-	-	-	(19,283)	(19,283)
<b>Restated balance at beginning of year</b>		<b>542,315</b>	<b>2,559</b>	<b>1,260</b>	<b>1,590</b>	<b>257</b>	<b>(1,081)</b>	<b>97,977</b>	<b>644,877</b>
<b>Total comprehensive income for the year</b>									
Profit for the year		-	-	-	-	-	-	73,617	73,617
Other comprehensive income/(loss) net of income tax		-	-	(5,281)	2,968	(86)	(4,762)	-	(7,161)
<b>Total comprehensive income for the year</b>		<b>-</b>	<b>-</b>	<b>(5,281)</b>	<b>2,968</b>	<b>(86)</b>	<b>(4,762)</b>	<b>73,617</b>	<b>66,456</b>
<b>Contributions by and distributions to owners</b>									
Dividends paid	9	-	-	-	-	-	-	(50,599)	(50,599)
Dividend reinvestment plan	9	14,333	-	-	-	-	-	-	14,333
Transaction costs associated with capital raising		(18)	-	-	-	-	-	-	(18)
Share based payments		-	619	-	-	-	-	-	619
Shares vested		2,340	(2,340)	-	-	-	-	-	-
<b>Total transactions with owners</b>		<b>16,655</b>	<b>(1,721)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(50,599)</b>	<b>(35,665)</b>
<b>Balance as at 30 June 2019</b>		<b>558,970</b>	<b>838</b>	<b>(4,021)</b>	<b>4,558</b>	<b>171</b>	<b>(5,843)</b>	<b>120,995</b>	<b>675,668</b>

The notes on pages 9 to 29 are an integral part of this consolidated interim financial statement.

# CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION

As at 31 December 2019

\$000's	NOTE	Unaudited 6 months to December 2019	Unaudited 6 months to December 2018 (Restated)	Audited 12 months to June 2019
<b>Assets</b>				
Cash and cash equivalents		185,732	89,161	80,584
Investments		321,990	318,961	354,928
Investment properties		11,132	9,196	11,132
Derivative financial assets		11,936	1,238	12,675
Finance receivables	7(a)	3,101,366	2,934,170	3,029,231
Finance receivables - reverse mortgages	7(b)	1,419,557	1,232,353	1,318,819
Right of use assets		19,844	-	-
Operating lease vehicles		18,549	16,430	15,516
Other assets		17,492	16,128	21,309
Intangible assets		72,159	73,085	72,679
Deferred tax asset		9,912	9,650	9,531
<b>Total assets</b>		<b>5,189,669</b>	<b>4,700,372</b>	<b>4,926,404</b>
<b>Liabilities</b>				
Retail deposits	8	3,234,025	2,988,365	3,153,681
Other borrowings	8	1,209,540	1,039,420	1,056,653
Lease liabilities		21,306	-	-
Tax liabilities		5,588	1,835	7,532
Derivative financial liabilities		9,843	148	10,372
Trade and other payables		21,767	17,506	22,498
<b>Total liabilities</b>		<b>4,502,069</b>	<b>4,047,274</b>	<b>4,250,736</b>
<b>Equity</b>				
Share capital	9	570,656	550,899	558,970
Retained earnings and other reserves		116,944	102,199	116,698
<b>Total equity</b>		<b>687,600</b>	<b>653,098</b>	<b>675,668</b>
<b>Total equity and liabilities</b>		<b>5,189,669</b>	<b>4,700,372</b>	<b>4,926,404</b>

The notes on pages 9 to 29 are an integral part of this consolidated interim financial statement.

# CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS

For the six months ended 31 December 2019

\$000's	NOTE	Unaudited 6 months to December 2019	Unaudited 6 months to December 2018	Audited 12 months to June 2019
<b>Cash flows from operating activities</b>				
Interest received		173,788	149,255	304,991
Operating lease income received		2,450	2,961	4,761
Lending, credit fees and other income received		9,381	3,363	4,587
<b>Operating inflows</b>		<b>185,619</b>	<b>155,579</b>	<b>314,339</b>
Interest paid		73,520	50,799	89,607
Payments to suppliers and employees		59,797	71,393	135,404
Taxation paid		12,512	19,730	25,895
<b>Operating outflows</b>		<b>145,829</b>	<b>141,922</b>	<b>250,906</b>
<b>Net cash flows from operating activities before changes in operating assets and liabilities</b>		<b>39,790</b>	<b>13,657</b>	<b>63,433</b>
Proceeds from sale of operating lease vehicles		1,101	2,414	4,641
Purchase of operating lease vehicles		(6,614)	(2,996)	(5,495)
Net movement in finance receivables		(174,276)	(196,828)	(384,367)
Net movement in deposits		80,344	105,388	271,876
<b>Net cash flows (applied to) / from operating activities</b>		<b>(59,655)</b>	<b>(78,365)</b>	<b>(49,912)</b>
<b>Cash flows from investing activities</b>				
Net decrease in investments		45,373	21,928	-
<b>Total cash provided from investing activities</b>		<b>45,373</b>	<b>21,928</b>	<b>-</b>
Purchase of office fit-out, equipment and intangible assets		6,989	2,379	4,512
Net increase in investments		-	-	11,468
<b>Total cash applied to investing activities</b>		<b>6,989</b>	<b>2,379</b>	<b>15,980</b>
<b>Net cash flows from / (applied to) investing activities</b>		<b>38,384</b>	<b>19,549</b>	<b>(15,980)</b>
<b>Cash flows from financing activities</b>				
Net increase/(decrease) in wholesale funding		49,720	143,459	31,000
Proceeds from issue of Unsubordinated Notes		103,167	-	125,000
<b>Total cash provided from financing activities</b>		<b>152,887</b>	<b>143,459</b>	<b>156,000</b>
Dividends paid	9	25,711	22,224	36,266
Repayments of subordinated Notes		-	22,846	22,846
Principal elements of lease payments		757	-	-
<b>Total cash applied to financing activities</b>		<b>26,468</b>	<b>45,070</b>	<b>59,112</b>
<b>Net cash flows from financing activities</b>		<b>126,419</b>	<b>98,389</b>	<b>96,888</b>
<b>Net increase / (decrease) in cash held</b>		<b>105,148</b>	<b>39,573</b>	<b>30,996</b>
Opening cash and cash equivalents		80,584	49,588	49,588
<b>Closing cash and cash equivalents</b>		<b>185,732</b>	<b>89,161</b>	<b>80,584</b>

The notes on pages 9 to 29 are an integral part of this consolidated interim financial statement.



## CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS

For the six months ended 31 December 2019 (continued)

\$000's	NOTE	Unaudited 6 months to December 2019	Unaudited 6 months to December 2018	Audited 12 months to June 2019
<b>Profit for the period</b>		<b>39,865</b>	<b>33,114</b>	<b>73,617</b>
Add / (less) non-cash items:				
Depreciation and amortisation expense		4,357	2,701	5,760
Depreciation on lease vehicles		1,962	1,676	3,363
Capitalised net interest income		(24,859)	(12,040)	(29,417)
Impaired asset expense	5	9,023	13,286	20,676
Fair valuation gain on investments		(2,097)	-	(1,936)
<b>Total non-cash items</b>		<b>(11,614)</b>	<b>5,623</b>	<b>(1,554)</b>
Add / (less) movements in operating assets and liabilities:				
Finance receivables		(174,276)	(196,828)	(384,367)
Operating lease vehicles		(4,652)	(582)	(1,354)
Other assets		(4,337)	(5,377)	(8,260)
Current tax		(1,944)	(9,624)	(3,927)
Derivative financial instruments revaluation		(757)	(1,948)	(8,701)
Deferred tax		(381)	(4,630)	3,759
Deposits		80,344	105,388	271,876
Right of use asset		19,884	-	-
Other liabilities		(1,787)	(3,501)	8,999
<b>Total movements in operating assets and liabilities</b>		<b>(87,906)</b>	<b>(117,102)</b>	<b>(121,975)</b>
<b>Net cash flows applied to operating activities</b>		<b>(59,655)</b>	<b>(78,365)</b>	<b>(49,912)</b>

The notes on pages 9 to 29 are an integral part of this consolidated interim financial statement.

# NOTES TO THE INTERIM FINANCIAL STATEMENTS

For the 6 months ended 31 December 2019

## 1 Financial statements preparation

### Basis of preparation

The interim financial statements of the Group incorporated in this Interim Report have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand (**NZ GAAP**) as defined in the Financial Reporting Act 2013, the NZX Main Board Listing Rules, and the ASX Listing Rules. The financial statements comply with NZ IAS 34 Interim Financial Reporting as appropriate for publicly accountable for-profit entities and IAS 34 Interim Financial Reporting.

The interim report does not include all notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2019 and any public announcements made by the Group during the interim reporting period.

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

- 6 month period ended 31 December 2019 – Unaudited
- 6 month period ended 31 December 2018 – Unaudited
- 12 month period ended 30 June 2019 – Audited

The accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period with the exception of the adoption of new and amended standards as set out below.

### 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.

#### *Accounting treatment for leasing activities*

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

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

From 1 July 2019, leases are recognised as a right-of-use asset and a corresponding 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 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 lives 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 lessee's incremental borrowing rate as at 1 July 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 July 2019 was 2.9%.

## 1. Financial statements preparation (continued)

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.

<b>\$000's</b>	
<b>Operating lease commitments as at 30 June 2019</b>	<b>12,385</b>
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
<b>Lease liability recognised as at 1 July 2019</b>	<b>11,641</b>
Of which are:	
Current lease liabilities	1,947
Non-current lease liabilities	9,694
<b>Total lease liabilities</b>	<b>11,641</b>

The associated right-of-use assets of which are substantially in relation to 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 balance sheet on 1 July 2019:

- Right-of-use assets: increased by \$10.7 million
- Deferred tax assets: increased by \$0.3 million
- Lease liabilities: increased by \$11.6 million

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

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

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

### Accounting standards issued but not yet effective

NZ IFRS 17 Insurance Contracts was issued in July 2017 and is applicable to general and life insurance contracts. NZ IFRS 17 will replace NZ IFRS 4 Insurance Contracts. In mid-2019 an Exposure Draft on amendments to NZ IFRS 17 was issued and proposed that the effective date of NZ IFRS 17 be deferred by one year. As such it is expected that the standard will be effective for the Group for the financial year ending 30 June 2023. The Group is in the process of restructuring its insurance business and will assess the impact arising from NZ IFRS 17 in conjunction with the restructure. Further information on the restructure is included in Note 17 of the financial statements.

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

## 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

<b>Motor</b>	Motor vehicle finance.
<b>Reverse Mortgages</b>	Reverse mortgage lending.
<b>Other Personal</b>	A comprehensive range of financial services – including term, transactional and savings-based deposit accounts and personal loans to individuals.
<b>Business</b>	Term debt, plant and equipment finance, commercial mortgage lending and working capital solutions for small-to-medium businesses.
<b>Rural</b>	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.
<b>Australia</b>	Reverse mortgage lending and other financial services within Australia.

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

\$'000's	Motor	Reverse Mortgages	Other Personal	Business	Rural	Australia	Other	Total
<b>Unaudited - 6 months ended 31 December 2019</b>								
Net interest income	28,204	11,826	9,238	28,026	15,380	12,549	(40)	105,183
Net other income	1,895	2,779	646	1,317	535	1,567	2,615	11,354
<b>Net operating income</b>	<b>30,099</b>	<b>14,605</b>	<b>9,884</b>	<b>29,343</b>	<b>15,915</b>	<b>14,116</b>	<b>2,575</b>	<b>116,537</b>
Operating expenses	1,615	3,178	1,934	5,980	1,396	6,828	33,666	54,597
<b>Profit/(loss) before impaired asset expense and income tax</b>	<b>28,484</b>	<b>11,427</b>	<b>7,950</b>	<b>23,363</b>	<b>14,519</b>	<b>7,288</b>	<b>(31,091)</b>	<b>61,940</b>
Fair value gain on investment	-	-	-	-	-	-	2,097	2,097
Impaired asset expense	3,611	-	3,345	1,880	139	48	-	9,023
<b>Profit/(loss) before income tax from continuing operations</b>	<b>24,873</b>	<b>11,427</b>	<b>4,605</b>	<b>21,483</b>	<b>14,380</b>	<b>7,240</b>	<b>(28,994)</b>	<b>55,014</b>
Income tax expense	-	-	-	-	-	2,173	12,976	15,149
<b>Profit/(loss) for the period</b>	<b>24,873</b>	<b>11,427</b>	<b>4,605</b>	<b>21,483</b>	<b>14,380</b>	<b>5,067</b>	<b>(41,970)</b>	<b>39,865</b>
<b>Total assets</b>	<b>1,127,408</b>	<b>536,462</b>	<b>244,498</b>	<b>1,148,614</b>	<b>615,072</b>	<b>883,668</b>	<b>633,947</b>	<b>5,189,669</b>
<b>Total liabilities</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>824,880</b>	<b>3,677,189</b>	<b>4,502,069</b>

## 2 Segmental analysis (continued)

\$000's	Motor	Reverse Mortgages	Other Personal	Business	Rural	Australia	Other	Total
<b>Unaudited - 6 months ended 31 December 2018</b>								
Net interest income	27,716	9,937	8,304	26,904	15,426	11,555	(1,820)	98,022
Net other income	467	112	1,195	723	404	196	992	4,089
<b>Net operating income</b>	<b>28,183</b>	<b>10,049</b>	<b>9,499</b>	<b>27,627</b>	<b>15,830</b>	<b>11,751</b>	<b>(828)</b>	<b>102,111</b>
Operating expenses	1,203	1,261	2,975	4,539	1,899	2,633	28,846	43,356
<b>Profit / (loss) before impaired asset expense and income tax</b>	<b>26,980</b>	<b>8,788</b>	<b>6,524</b>	<b>23,088</b>	<b>13,931</b>	<b>9,118</b>	<b>(29,674)</b>	<b>58,755</b>
Impaired asset expense / (benefit)	4,654	-	5,036	3,812	(135)	(322)	241	13,286
<b>Profit / (loss) before income tax</b>	<b>22,326</b>	<b>8,788</b>	<b>1,488</b>	<b>19,276</b>	<b>14,066</b>	<b>9,440</b>	<b>(29,915)</b>	<b>45,469</b>
Income tax expense	-	-	-	-	-	931	11,424	12,355
<b>Profit / (loss) for the period</b>	<b>22,326</b>	<b>8,788</b>	<b>1,488</b>	<b>19,276</b>	<b>14,066</b>	<b>8,509</b>	<b>(41,339)</b>	<b>33,114</b>
<b>Total assets (restated)</b>	<b>1,021,673</b>	<b>478,037</b>	<b>200,823</b>	<b>1,083,029</b>	<b>634,486</b>	<b>754,933</b>	<b>527,391</b>	<b>4,700,372</b>
<b>Total liabilities</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>4,047,274</b>	<b>4,047,274</b>
<b>June 2019 – Audited</b>								
Net interest income	54,753	20,673	16,345	54,334	30,865	21,148	(535)	197,583
Net other income	2,313	224	2,563	1,524	816	1,582	(763)	8,259
<b>Net operating income</b>	<b>57,066</b>	<b>20,897</b>	<b>18,908</b>	<b>55,858</b>	<b>31,681</b>	<b>22,730</b>	<b>(1,298)</b>	<b>205,842</b>
Operating expenses	2,543	2,279	5,602	9,163	3,263	5,115	57,624	85,589
<b>Profit/(loss) before impaired asset expense and income tax</b>	<b>54,523</b>	<b>18,618</b>	<b>13,306</b>	<b>46,695</b>	<b>28,418</b>	<b>17,615</b>	<b>(58,922)</b>	<b>120,253</b>
Fair value movement on investment property	-	-	-	-	-	-	1,936	1,936
Impaired asset expense / (benefit)	5,009	268	8,307	7,102	(132)	-	122	20,676
<b>Profit/(loss) before income tax from continuing operations</b>	<b>49,514</b>	<b>18,350</b>	<b>4,999</b>	<b>39,593</b>	<b>28,550</b>	<b>17,615</b>	<b>(57,108)</b>	<b>101,513</b>
Income tax expense	-	-	-	-	-	5,016	22,880	27,896
<b>Profit/(loss) for the year</b>	<b>49,514</b>	<b>18,350</b>	<b>4,999</b>	<b>39,593</b>	<b>28,550</b>	<b>12,599</b>	<b>(79,988)</b>	<b>73,617</b>
<b>Total assets</b>	<b>1,074,446</b>	<b>561,211</b>	<b>215,253</b>	<b>1,096,253</b>	<b>643,278</b>	<b>758,268</b>	<b>577,695</b>	<b>4,926,404</b>
<b>Total liabilities</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>740,111</b>	<b>3,510,625</b>	<b>4,250,736</b>

### 3 Net interest income

\$000's	Unaudited 6 months to December 2019	Unaudited 6 months to December 2018	Audited 12 months to June 2019
<b>Interest income</b>			
Cash and cash equivalents	309	312	717
Investments	4,364	4,906	10,864
Finance receivables	124,658	128,687	242,556
Finance receivables - reverse mortgages	43,205	32,355	80,193
<b>Total interest income</b>	<b>172,536</b>	<b>166,260</b>	<b>334,330</b>
<b>Interest expense</b>			
Retail deposits	47,731	48,595	97,119
Other borrowings	18,223	18,233	36,382
Net interest expense on derivative financial instruments	1,399	1,410	3,246
<b>Total interest expense</b>	<b>67,353</b>	<b>68,238</b>	<b>136,747</b>
<b>Net interest income</b>	<b>105,183</b>	<b>98,022</b>	<b>197,583</b>

### 4 Operating expenses

\$000's	Unaudited 6 months to December 2019	Unaudited 6 months to December 2018	Audited 12 months to June 2019
Personnel expenses	27,108	23,285	47,427
Directors' fees	514	612	1,099
Audit and review of financial statements <sup>1</sup>	401	338	614
Other assurance services paid to auditor <sup>2</sup>	31	15	52
Depreciation - property, plant and equipment	1,112	898	1,867
Amortisation - intangible assets	2,102	1,803	3,893
Depreciation - right of use asset	1,143	-	-
Operating lease expense as a lessee	-	912	1,807
Legal and professional fees	1,787	1,843	3,130
Other operating expenses	20,399	13,650	25,700
<b>Total operating expenses</b>	<b>54,597</b>	<b>43,356</b>	<b>85,589</b>

<sup>1</sup> Audit and review of financial statements includes fees paid for both audit of financial statements and review of interim financial statements.

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

## 5 Impaired asset expense

At each reporting date, the Group applies a three stage approach to measuring expected credit loss (ECL) to finance receivables not carried at fair value. The following table details impairment charges of those finance receivables for the six months ended 31 December 2019.

\$000's	Unaudited 6 months to December 2019	Unaudited 6 months to December 2018	Audited 12 months to June 2019
<b>Non-securitised</b>			
Individually impaired expense/(benefit)	553	(425)	1,311
Collectively impaired expense	8,469	13,740	19,024
<b>Total non-securitised impaired asset expense</b>	<b>9,022</b>	<b>13,315</b>	<b>20,335</b>
<b>Securitized</b>			
Collectively impaired expense/(benefit)	1	(29)	341
<b>Total securitized impaired asset expense</b>	<b>1</b>	<b>(29)</b>	<b>341</b>
<b>Total</b>			
Individually impaired expense/(benefit)	553	(425)	1,311
Collectively impaired expense	8,470	13,711	19,365
<b>Total impaired asset expense</b>	<b>9,023</b>	<b>13,286</b>	<b>20,676</b>

## 6 Earnings per share

	December 2019			December 2018			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	Earnings per share (cents)	Net profit after tax \$000's	Weighted average no. of shares 000's
Basic earnings	7	39,865	574,277	6	33,114	561,188	13	73,617	563,364
Diluted earnings	7	39,865	574,277	6	33,114	561,188	13	73,617	563,364

## FINANCIAL POSITION

### 7 Finance Receivables

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

	Unaudited December 2019	Unaudited December 2018 (Restated)	Audited June 2019
<b>\$000's</b>			
<b>Non-securitised</b>			
Neither 90 days past due nor impaired	3,049,814	2,766,520	3,016,844
At least 90 days past due	46,780	34,854	44,466
Individually impaired	28,433	36,773	26,412
<b>Gross finance receivables</b>	<b>3,125,027</b>	<b>2,838,147</b>	<b>3,087,722</b>
Less provision for impairment	(60,381)	(57,803)	(58,491)
<b>Total non-securitised finance receivables</b>	<b>3,064,646</b>	<b>2,780,344</b>	<b>3,029,231</b>
<b>Securitised</b>			
Neither 90 days past due nor impaired	36,843	154,642	-
At least 90 days past due	-	197	-
Individually impaired	-	-	-
<b>Gross finance receivables</b>	<b>36,843</b>	<b>154,839</b>	-
Less provision for impairment	(123)	(1,013)	-
<b>Total securitised finance receivables</b>	<b>36,720</b>	<b>153,826</b>	-
<b>Total</b>			
Neither 90 days past due nor impaired	3,086,657	2,921,162	3,016,844
At least 90 days past due	46,780	35,051	44,466
Individually impaired	28,433	36,773	26,412
<b>Gross finance receivables</b>	<b>3,161,870</b>	<b>2,992,986</b>	<b>3,087,722</b>
Less provision for impairment	(60,504)	(58,816)	(58,491)
<b>Total finance receivables</b>	<b>3,101,366</b>	<b>2,934,170</b>	<b>3,029,231</b>



## 7 Finance Receivables (continued)

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

#### Movement in provision

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

\$000's	12- month ECL	Lifetime ECL Not credit impaired	Lifetime ECL Credit impaired	Specific provision	Total
<b>Unaudited - December 2019</b>					
<b>Non-securitised</b>					
<b>Impairment allowance as at 1 July 2019</b>	30,421	1,780	18,427	7,863	58,491
Changes in loss allowance					
Transfer between stages	(925)	(127)	1,046	-	(6)
New and increased provision (net of collective provision releases)	168	665	8,196	1,638	10,667
Recovery of amounts written off	-	-	(1,767)	-	(1,767)
<b>Credit impairment charge</b>	<b>(757)</b>	<b>538</b>	<b>7,475</b>	<b>1,638</b>	<b>8,894</b>
Recovery of amounts previously written off	-	-	1,767	-	1,767
Write offs	-	-	(8,671)	(100)	(8,771)
<b>Impairment allowance as at 31 December 2019</b>	<b>29,664</b>	<b>2,318</b>	<b>18,998</b>	<b>9,401</b>	<b>60,381</b>
<b>Securitised</b>					
<b>Impairment allowance as at 1 July 2019</b>	-	-	-	-	-
Changes in loss allowance					
Transfer between stages	122	-	-	-	122
New and increased provision (net of collective provision releases)	-	1	-	-	1
Recovery of amounts written off	-	-	-	-	-
<b>Credit impairment charge</b>	<b>122</b>	<b>1</b>	-	-	<b>123</b>
Recovery of amounts previously written off	-	-	-	-	-
Write offs	-	-	-	-	-
<b>Impairment allowance as at 31 December 2019</b>	<b>122</b>	<b>1</b>	-	-	<b>123</b>
<b>Total</b>					
<b>Impairment allowance as at 1 July 2019</b>	30,421	1,780	18,427	7,863	58,491
Changes in loss allowance					
Transfer between stages	(803)	(127)	1,046	-	116
New and increased provision (net of collective provision releases)	168	666	8,196	1,638	10,668
Recovery of amounts written off	-	-	(1,767)	-	(1,767)
<b>Credit impairment charge</b>	<b>(635)</b>	<b>539</b>	<b>7,475</b>	<b>1,638</b>	<b>9,017</b>
Recovery of amounts previously written off	-	-	1,767	-	1,767
Write offs	-	-	(8,671)	(100)	(8,771)
<b>Impairment allowance as at 31 December 2019</b>	<b>29,786</b>	<b>2,319</b>	<b>18,998</b>	<b>9,401</b>	<b>60,504</b>

## 7 Finance Receivables (continued)

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

\$000's	12-month ECL (Restated)	Lifetime ECL Not credit impaired (Restated)	Lifetime ECL Credit impaired (Restated)	Collective provision June 2018	Specific provision (Restated)	Total (Restated)
<b>Unaudited - December 2018</b>						
<b>Non-securitised</b>						
Impairment allowance as at 30 June 2018	-	-	-	20,301	9,066	29,367
Restated for adoption of NZ IFRS 9	31,784	1,365	14,945	(20,301)	(169)	27,624
<b>Restated impairment allowance as at 1 July 2018</b>	<b>31,784</b>	<b>1,365</b>	<b>14,945</b>	<b>-</b>	<b>8,897</b>	<b>56,991</b>
Changes in loss allowance						
Transfer between stages	(607)	(108)	637	-	-	(78)
New and increased provision (net of collective provision releases)	106	354	11,095	-	1,791	13,346
Recovery of amounts written off	-	-	(293)	-	(13)	(306)
<b>Credit impairment charge</b>	<b>(501)</b>	<b>246</b>	<b>11,439</b>	<b>-</b>	<b>1,778</b>	<b>12,962</b>
Recovery of amounts previously written off	-	-	293	-	13	306
Write offs	-	-	(7,953)	-	(4,503)	(12,456)
<b>Impairment allowance as at 31 December 2018</b>	<b>31,283</b>	<b>1,611</b>	<b>18,724</b>	<b>-</b>	<b>6,185</b>	<b>57,803</b>
<b>Securitised</b>						
Impairment allowance as at 30 June 2018	-	-	-	304	-	304
Restated for adoption of NZ IFRS 9	400	20	345	(304)	-	461
<b>Restated impairment allowance as at 1 July 2018</b>	<b>400</b>	<b>20</b>	<b>345</b>	<b>-</b>	<b>-</b>	<b>765</b>
Changes in loss allowance						
Transfer between stages	616	-	(369)	-	-	247
New and increased provision (net of collective provision releases)	-	1	-	-	-	1
Recovery of amounts written off	-	-	-	-	-	-
<b>Credit impairment charge</b>	<b>616</b>	<b>1</b>	<b>(369)</b>	<b>-</b>	<b>-</b>	<b>248</b>
Recovery of amounts previously written off	-	-	-	-	-	-
Write offs	-	-	-	-	-	-
<b>Impairment allowance as at 31 December 2018</b>	<b>1,016</b>	<b>21</b>	<b>(24)</b>	<b>-</b>	<b>-</b>	<b>1,013</b>
<b>Total</b>						
Impairment allowance as at 30 June 2018	-	-	-	20,605	9,066	29,671
Restated for adoption of NZ IFRS 9	32,184	1,385	15,290	(20,605)	(169)	28,085
<b>Restated impairment allowance as at 1 July 2018</b>	<b>32,184</b>	<b>1,385</b>	<b>15,290</b>	<b>-</b>	<b>8,897</b>	<b>57,756</b>
Changes in loss allowance						
Transfer between stages	9	(108)	268	-	-	169
New and increased provision (net of collective provision releases)	106	355	11,095	-	1,791	13,347
Recovery of amounts written off	-	-	(293)	-	(13)	(306)
<b>Credit impairment charge</b>	<b>115</b>	<b>247</b>	<b>11,070</b>	<b>-</b>	<b>1,778</b>	<b>13,210</b>
Recovery of amounts previously written off	-	-	293	-	13	306
Write offs	-	-	(7,953)	-	(4,503)	(12,456)
<b>Impairment allowance as at 31 December 2018</b>	<b>32,299</b>	<b>1,632</b>	<b>18,700</b>	<b>-</b>	<b>6,185</b>	<b>58,816</b>

## 7 Finance Receivables (continued)

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

\$000's	12-month ECL	Lifetime ECL Not credit impaired	Lifetime ECL Credit impaired	Collective provision June 2018	Specific provision	Total
<b>Audited - June 2019</b>						
<b>Non-securitised</b>						
Impairment allowance as at 30 June 2018	-	-	-	20,301	9,066	29,367
Restated for adoption of NZ IFRS 9	31,784	1,365	14,945	(20,301)	(169)	27,624
<b>Restated impairment allowance as at 1 July 2018</b>	<b>31,784</b>	<b>1,365</b>	<b>14,945</b>	<b>-</b>	<b>8,897</b>	<b>56,991</b>
Changes in loss allowance						
Transfer between stages	(1,071)	(205)	11,671	-	(43)	10,352
New and increased provision (net of collective provision releases)	(292)	620	7,531	-	4,002	11,861
Recovery of amounts written off	-	-	(829)	-	-	(829)
<b>Credit impairment charge</b>	<b>(1,363)</b>	<b>415</b>	<b>18,373</b>	<b>-</b>	<b>3,959</b>	<b>21,384</b>
Recovery of amounts written off	-	-	829	-	-	829
Write offs	-	-	(15,720)	-	(4,993)	(20,713)
<b>Impairment allowance as at 30 June 2019</b>	<b>30,421</b>	<b>1,780</b>	<b>18,427</b>	<b>-</b>	<b>7,863</b>	<b>58,491</b>
<b>Securitised</b>						
Impairment allowance as at 30 June 2018	-	-	-	304	-	304
Restated for adoption of NZ IFRS 9	400	20	345	(304)	-	461
<b>Restated impairment allowance as at 1 July 2018</b>	<b>400</b>	<b>20</b>	<b>345</b>	<b>-</b>	<b>-</b>	<b>765</b>
Changes in loss allowance						
Transfer between stages	(400)	(21)	(345)	-	-	(766)
New and increased provision (net of collective provision releases)	-	1	-	-	-	1
Recovery of amounts written off	-	-	-	-	-	-
<b>Credit impairment charge</b>	<b>(400)</b>	<b>(20)</b>	<b>(345)</b>	<b>-</b>	<b>-</b>	<b>(765)</b>
Recovery of amounts written off	-	-	-	-	-	-
Write offs	-	-	-	-	-	-
<b>Impairment allowance as at 30 June 2019</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total</b>						
Impairment allowance as at 30 June 2018	-	-	-	20,605	9,066	29,671
Restated for adoption of NZ IFRS 9	32,184	1,385	15,290	(20,605)	(169)	28,085
<b>Restated impairment allowance as at 1 July 2018</b>	<b>32,184</b>	<b>1,385</b>	<b>15,290</b>	<b>-</b>	<b>8,897</b>	<b>57,756</b>
Changes in loss allowance						
Transfer between stages	(1,471)	(226)	11,326	-	(43)	9,586
New and increased provision (net of collective provision releases)	(292)	621	7,531	-	4,002	11,862
Recovery of amounts written off	-	-	(829)	-	-	(829)
<b>Credit impairment charge</b>	<b>(1,763)</b>	<b>395</b>	<b>18,028</b>	<b>-</b>	<b>3,959</b>	<b>20,619</b>
Recovery of amounts written off	-	-	829	-	-	829
Write offs	-	-	(15,720)	-	(4,993)	(20,713)
<b>Impairment allowance as at 30 June 2019</b>	<b>30,421</b>	<b>1,780</b>	<b>18,427</b>	<b>-</b>	<b>7,863</b>	<b>58,491</b>

## 7 Finance Receivables (continued)

### (b) Finance receivables held at 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.

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 loan terms and the current market conditions the fair value as recorded is not considered to be sensitive to changes in house prices or interest rates.

\$000's	Unaudited 6 months to December 2019	Unaudited 6 months to December 2018	Audited 12 months to June 2019
Finance receivables - reverse mortgages	1,419,557	1,232,353	1,318,819

## 8 Borrowings

\$000's	Unaudited 6 months to December 2019	Unaudited 6 months to December 2018	Audited 12 months to June 2019
Deposits	3,234,025	2,988,365	3,153,681
<b>Total borrowings relating to deposits</b>	<b>3,234,025</b>	<b>2,988,365</b>	<b>3,153,681</b>
Unsubordinated notes	444,128	151,902	337,680
Bank borrowings	-	-	25,002
Certificates of deposit	69,811	144,555	34,836
Borrowings - securitised	695,601	742,963	659,135
<b>Total other borrowings</b>	<b>1,209,540</b>	<b>1,039,420</b>	<b>1,056,653</b>
<b>Total borrowings</b>	<b>4,443,565</b>	<b>4,027,785</b>	<b>4,210,334</b>

Deposits and unsubordinated notes rank equally and are unsecured.

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

Principal	Valuation	NOTE	Issue date	Maturity Date	Frequency
\$125 million	Fair value	11(a)	12 April 2019	12 April 2024	Half yearly
\$150 million	Fair value	11(a)	21 September 2017	21 September 2022	Half yearly
AUD\$50 million	Amortised cost	11(b)	8 March 2019	8 March 2021	Quarterly
AUD\$100 million	Amortised cost	11(b)	13 November 2019	13 May 2022	Quarterly

## 9 Share capital and dividends

	Unaudited December 2019	Unaudited December 2018	Audited June 2019
000's	Number of shares	Number of shares	Number of shares
<b>Issued shares</b>			
Opening balance	569,338	560,588	560,588
Dividend reinvestment plan	7,314	5,283	9,191
Shares issued during the period	816	-	-
Cancelled shares	-	(441)	(441)
<b>Closing balance</b>	<b>577,468</b>	<b>565,430</b>	<b>569,338</b>

The Company had issued 7,313,501 new shares at \$1.5445 per share on 6 September 2019 under the dividend reinvestment plan for the period (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).

### Dividends paid

	December 2019			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	-	-	-	19 February 2019	3.5	19,791
<b>Total dividends paid</b>			<b>37,007</b>			<b>50,599</b>

## 10 Related party transactions and balances

A person or entity that 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 HGH. This includes all executive staff reporting to the CEO, 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 HGH are comparable to transactions with other employees and did not involve more than the normal risk of repayment or present other unfavourable features.

\$000's	Unaudited 6 months to December 2019	Unaudited 6 months to December 2018	Audited 12 months to June 2019
<b>Transactions with key management personnel</b>			
Interest income	-	-	-
Interest expense	(55)	(31)	(76)
<b>Total transactions with key management personnel</b>	<b>(55)</b>	<b>(31)</b>	<b>(76)</b>
<b>Due from / (to) key personnel</b>			
Borrowings - deposits	(2,322)	(2,960)	(3,019)
<b>Total due (to) key management personnel</b>	<b>(2,322)</b>	<b>(2,960)</b>	<b>(3,019)</b>

### (b) Transactions with related parties

Heartland Group Holdings Limited 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.

## 11 Fair value

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

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
<b>Unaudited - December 2019</b>				
<b>Assets</b>				
Investments	282,428	16,572	16,020	315,020
Derivative financial instruments	-	11,936	-	11,936
Finance receivables - reverse mortgages	-	-	1,419,557	1,419,557
<b>Total financial assets measured at fair value</b>	<b>282,428</b>	<b>28,508</b>	<b>1,435,577</b>	<b>1,746,513</b>
<b>Liabilities</b>				
Derivative financial instruments	-	9,843	-	9,843
Unsubordinated notes	-	287,323	-	287,323
<b>Total financial liabilities measured at fair value</b>	<b>-</b>	<b>297,166</b>	<b>-</b>	<b>297,166</b>

\$000's	Level 1	Level 2	Level 3	Total
<b>Unaudited - December 2018</b>				
<b>Assets</b>				
Investments	209,048	100,219	9,694	318,961
Derivative financial instruments	-	1,238	-	1,238
Finance receivables - reverse mortgages	-	-	1,232,353	1,232,353
<b>Total financial assets measured at fair value</b>	<b>209,048</b>	<b>101,457</b>	<b>1,242,047</b>	<b>1,552,552</b>
<b>Liabilities</b>				
Derivative financial instruments	-	148	-	148
Unsubordinated notes (restated)	-	151,902	-	151,902
<b>Total financial liabilities measured at fair value</b>	<b>-</b>	<b>152,050</b>	<b>-</b>	<b>152,050</b>

### **Audited - June 2019**

<b>Assets</b>				
Investments	255,875	86,618	12,435	354,928
Derivative financial instruments	-	12,675	-	12,675
Finance receivables - reverse mortgage	-	-	1,318,819	1,318,819
<b>Total financial assets measured at fair value</b>	<b>255,875</b>	<b>99,293</b>	<b>1,331,254</b>	<b>1,686,422</b>
<b>Liabilities</b>				
Derivative financial instruments	-	10,372	-	10,372
Unsubordinated notes (restated)	-	285,435	-	285,435
<b>Total financial liabilities measured at fair value</b>	<b>-</b>	<b>295,807</b>	<b>-</b>	<b>295,807</b>

## 11 Fair value (continued)

### (b) Financial instruments measured not at fair value

The following assets and liabilities of the Group are not measured at fair value in the Consolidated Statement of Financial Position.

		Unaudited		Unaudited		Audited	
		Total Fair Value	Total Carrying Value	Total Fair Value	Total Carrying Value	Total Fair Value	Total Carrying Value
		December 2019	December 2019	December 2018 (Restated)	December 2018 (Restated)	June 2019	June 2019
<b>\$000's</b>							
<b>Assets</b>							
Cash and cash equivalents	Level 1	185,732	185,732	89,161	89,161	80,584	80,584
Investments <sup>1</sup>	Level 2	6,961	6,970	-	-	-	-
Finance receivables	Level 2	3,082,052	3,101,366	2,919,721	2,934,170	3,017,327	3,029,231
Other financial assets	Level 3	1,805	1,805	1,383	1,383	3,277	3,277
<b>Total financial assets</b>		<b>3,276,550</b>	<b>3,295,873</b>	<b>3,010,265</b>	<b>3,024,714</b>	<b>3,101,188</b>	<b>3,113,092</b>
<b>Liabilities (restated)</b>							
Retail deposits	Level 2	3,245,194	3,234,025	2,993,208	2,988,365	3,160,426	3,153,681
Borrowings - securitised	Level 2	695,601	695,601	742,963	742,963	659,135	659,135
Other borrowings	Level 2	226,616	226,616	144,555	144,555	112,083	112,083
Other financial liabilities	Level 3	11,344	11,344	7,895	7,895	11,787	11,787
<b>Total financial liabilities</b>		<b>4,178,755</b>	<b>4,167,586</b>	<b>3,888,621</b>	<b>3,883,778</b>	<b>3,943,431</b>	<b>3,936,686</b>

<sup>1</sup> Included within investments are bank deposits which are held to support its contractual cash flows. Such investments are measured at amortised cost.



## RISK MANAGEMENT

### 12 Enterprise risk management program

There have been no material changes in the Group's policies for managing risk, or material exposures to any new types of risk since the reporting date of the previous financial statement, refer to the Group's financial statements for the year ended 30 June 2019.

### 13 Credit risk exposure

#### (a) Maximum exposure to credit risk at the equivalent 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 Statement of Financial Position.

<b>\$000's</b>	<b>Unaudited December 2019</b>
Cash and cash equivalents	185,732
Investments	321,990
Finance receivables	3,101,366
Finance receivables - reverse mortgages	1,419,557
Derivative financial assets	11,936
Other financial assets	1,805
<b>Total on balance sheet credit exposures</b>	<b>5,042,386</b>

#### (b) Concentration of credit by geographical region

<b>\$000's</b>	<b>Unaudited December 2019</b>
New Zealand:	
Auckland	1,155,990
Wellington	253,439
Rest of North Island	1,286,936
Canterbury	521,223
Rest of South Island	605,396
Australia:	
Queensland	178,662
New South Wales	481,462
Victoria	208,551
Western Australia	45,336
South Australia	30,898
Rest of Australia	18,998
Rest of the world <sup>1</sup>	255,495
<b>Total on balance sheet credit exposures</b>	<b>5,042,386</b>

<sup>1</sup> The overseas assets are primarily investments in AA+ and higher rated securities issued by offshore supranational agencies ("Kauri Bonds")

### 13 Credit risk exposure (continued)

#### (c) Concentration of credit by industry sector

	<b>Unaudited December 2019</b>
Agriculture	709,731
Forestry and Fishing	90,469
Mining	14,185
Manufacturing	86,612
Finance & Insurance	18,665
Wholesale Trade	40,768
Retail Trade	138,997
Households	2,380,554
Property and Business Services	249,981
Transport and Storage	256,182
Other <sup>1</sup>	1,116,746
	<b>5,102,890</b>
Collective provision	(60,504)
<b>Total on balance sheet credit exposures</b>	<b>5,042,386</b>

<sup>1</sup> Industry sectors classified within Other include religious services, parking services, laundry and dry cleaning, other machinery and equipment repair and maintenance.

## 14 Liquidity risk

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

\$000's	Unaudited December 2019
Cash and cash equivalents	185,732
Investments	305,970
Undrawn committed bank facilities	325,451
<b>Total liquidity</b>	<b>817,153</b>

### Contractual liquidity profile of financial assets and liabilities

The following tables present the Group's financial assets and liabilities by relevant maturity groupings based upon contractual maturity date. The amounts disclosed in the 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 the actual cash flows. This occurs as a result of future actions by the Group and its counterparties, such as early repayment or refinancing of term loans and borrowings. Deposits and other public borrowings include customer savings deposits and transactional accounts, which are at call. History demonstrates that such accounts provide a stable source of long term funding for the Group.

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

\$000's	On Demand	0-6 Months	6-12 Months	1-2 Years	2-5 Years	5+ Years	Total
<b>Unaudited - 31 December 2019</b>							
<b>Financial assets</b>							
Cash and cash equivalents	185,732	-	-	-	-	-	185,732
Investments	-	98,350	18,643	62,779	130,199	5,145	315,116
Finance receivables	-	1,059,953	487,984	891,643	1,163,939	219,428	3,822,947
Finance receivables - reverse mortgage	-	17,138	17,138	32,533	96,315	4,147,037	4,310,161
Derivative financial assets	11,936	-	-	-	-	-	11,936
Other financial assets	-	1,805	-	-	-	-	1,805
<b>Total financial assets</b>	<b>197,668</b>	<b>1,177,246</b>	<b>523,765</b>	<b>986,955</b>	<b>1,390,453</b>	<b>4,371,610</b>	<b>8,647,697</b>
<b>Financial liabilities</b>							
Borrowings	991,345	1,548,685	475,476	313,245	500,461	-	3,829,212
Borrowings - securitised	-	38,877	6,342	15,129	675,187	-	735,535
Lease liabilities	-	1,167	1,397	2,838	10,874	8,139	24,415
Derivative financial liabilities	9,843	-	-	-	-	-	9,843
Other financial liabilities	-	11,344	-	-	-	-	11,344
<b>Total financial liabilities</b>	<b>1,001,188</b>	<b>1,600,073</b>	<b>483,215</b>	<b>331,212</b>	<b>1,186,522</b>	<b>8,139</b>	<b>4,610,349</b>
<b>Net financial (liabilities) / assets</b>	<b>(803,520)</b>	<b>(422,827)</b>	<b>40,550</b>	<b>655,743</b>	<b>203,931</b>	<b>4,363,471</b>	<b>4,037,348</b>
Undrawn facilities available to customers	134,743	-	-	-	-	-	134,743
Undrawn committed bank facilities	325,451	-	-	-	-	-	325,451

## 15 Interest rate risk

### Contractual repricing analysis

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

	0-3 Months	3-6 Months	6-12 Months	1-2 Years	2+ Years	Non- interest bearing	Total
<b>\$000's</b>							
<b>Unaudited - 31 December 2019</b>							
<b>Financial assets</b>							
Cash and cash equivalents	185,729	-	-	-	-	3	185,732
Investments	34,690	60,279	15,534	59,787	135,680	16,020	321,990
Finance receivables	1,543,914	215,723	355,919	563,825	417,055	4,930	3,101,366
Finance receivables - reverse mortgages	1,419,557	-	-	-	-	-	1,419,557
Derivative financial assets	-	-	-	-	-	11,936	11,936
Other financial assets	-	-	-	-	-	1,805	1,805
<b>Total financial assets</b>	<b>3,183,890</b>	<b>276,002</b>	<b>371,453</b>	<b>623,612</b>	<b>552,735</b>	<b>34,694</b>	<b>5,042,386</b>
<b>Financial liabilities</b>							
Borrowings	1,688,278	602,765	597,217	235,773	96,449	13,543	3,234,025
Other borrowings	228,470	968	-	-	284,501	-	513,939
Borrowings - securitised	695,601	-	-	-	-	-	695,601
Derivative financial liabilities	-	-	-	-	-	9,843	9,843
Lease liabilities	-	-	-	-	-	21,306	21,306
Other financial liabilities	-	-	-	-	-	11,344	11,344
<b>Total financial liabilities</b>	<b>2,612,349</b>	<b>603,733</b>	<b>597,217</b>	<b>235,773</b>	<b>380,950</b>	<b>56,036</b>	<b>4,486,058</b>
Effect of derivatives held for risk management	380,373	(437)	(94,721)	(291,712)	6,497	-	-
<b>Net financial assets / (liabilities)</b>	<b>951,914</b>	<b>(328,168)</b>	<b>(320,485)</b>	<b>96,127</b>	<b>178,282</b>	<b>(21,342)</b>	<b>556,328</b>

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

The management of interest rate risk against interest rate gap limits is supplemented by monitoring the sensitivity of the Group's financial assets and liabilities to various standard and nonstandard interest rate scenarios. Standard scenarios which are considered on a monthly basis include a 100 basis point parallel fall or rise in the yield curve. There is no material impact on profit or loss in terms of a fair value change from movement in market interest rates. Furthermore there is no material cash flow impact on the Consolidated Statement of Cash flows from a 100 basis point change in interest rates.

## Other Disclosures

### 16 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 hold 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 (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	Unaudited	Unaudited	Audited
	31 December 2019	31 December 2018	30 June 2019
Deposits	165,602	140,012	146,094

#### (b) Heartland Auto Receivables Warehouse Trust 2018-1 (Auto Warehouse)

The Group had securitised a pool of receivables comprising commercial and motor vehicle loans sold to Auto Warehouse.

The Group continues to recognise the securitised assets and associated borrowings in the 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 the Trust are set aside for the benefit of investors in Auto Warehouse and other depositors and lenders to the Group have no recourse to those assets.

\$000's	Unaudited	Unaudited	Audited
	31 December 2019	31 December 2018	30 June 2019
Cash and cash equivalents - securitised	1,338	7,821	555
Finance receivables - securitised	36,720	153,826	-
Borrowings - securitised	(30,015)	(127,944)	-

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

SW Trusts and ASF Trust (collectively the trusts) 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 Trust. The reverse mortgage loans held by the Trusts are set aside for the benefit of the funders and bank depositors have no recourse to these assets. The balances of SW Trusts and ASF Trust are represented as follows:

\$000's	Unaudited	Unaudited	Audited
	31 December 2019	31 December 2018	30 June 2019
Cash and cash equivalents - securitised	17,324	6,839	35,356
Finance receivables – reverse mortgages	833,554	674,226	759,749
Borrowings - securitised	(665,586)	(615,019)	(659,135)

## 17 Insurance business, securitisation, funds management, other fiduciary activities

### Insurance business

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

The Group's aggregate amount of insurance business comprises the total consolidated assets of MIL of \$11.6 million, which represents 0.2% of the total consolidated assets of the Group.

Since 30 June 2019, the Group has undertaken a strategic review of its insurance business in line with its core business. The Group has entered into a distribution agreement with DPL Insurance Limited (DPL) to distribute DPL's insurance products through the Group's network and has stopped writing insurance policies in December 2019.

### Securitisation, funds management and other fiduciary activities

Changes to the Group's involvement in securitisation activities are set out in note 16. There have been no material changes to the Group's involvement in funds management and other fiduciary activities, in either case since the reporting date of the previous financial statement.

## 18 Contingent liabilities and commitments

Contingent liabilities are possible obligations, whose existence will be confirmed only by uncertain future events, or present obligations where the transfer of economic benefit is uncertain or cannot be reliably measured. Contingent liabilities are not recognised, but are disclosed, unless they are remote. Where some loss is probable, provisions have been made.

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

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

\$000's	Unaudited December 2019	Unaudited December 2018	Audited June 2019
Letters of credit, guarantee commitments and performance bonds	5,990	6,417	6,757
<b>Total contingent liabilities</b>	<b>5,990</b>	<b>6,417</b>	<b>6,757</b>
Undrawn facilities available to customers	134,743	80,633	102,285
Conditional commitments to fund at a future date	97,144	73,877	89,317
<b>Total commitments</b>	<b>231,887</b>	<b>154,510</b>	<b>191,602</b>

## 19 Events after the reporting date

The Group declared a fully imputed interim dividend of 4.5 cents per share on 17 February 2020, to be paid to shareholders on 11 March 2020.

# Independent Review Report

To the shareholders of Heartland Group Holdings Limited

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

### Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the consolidated interim financial statements on pages 3 to 29 do not:

- i. present fairly in all material respects the Group's financial position as at 31 December 2019 and its financial performance and cash flows for the 6 month period ended on that date; and
- ii. comply with NZ IAS 34 Interim Financial Reporting ("NZ IAS 34").

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

- the consolidated interim statement of financial position as at 31 December 2019;
- the consolidated interim statements of comprehensive income, changes in equity and cash flows for the 6 month period then ended; and
- notes to the interim financial statements.



### Basis for conclusion

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

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

Our firm has also provided other services to the Group in relation to an assessment of Heartland Bank Limited's compliance with the quantitative requirements of BS13. Subject to certain restrictions, partners and employees of our firm may also deal with the Group on normal terms within the ordinary course of trading activities of the business of the Group. These matters have not impaired our independence as reviewer of the Group. The firm has no other relationship with, or interest in, the Group.



### Use of this Independent Review Report

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



## **Responsibilities of the Directors for the consolidated interim financial statements**

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

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



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

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

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

This description forms part of our Independent Review Report.

KPMG  
Auckland

17 February 2020