

# Interim Financial Statements

For the six months ended 31 December 2020



**HEARTLAND**

## Contents

	Page
General Information.....	3
Directors.....	3
Auditor.....	3
Directors' Statements.....	4
Consolidated Interim Statement of Comprehensive Income.....	5
Consolidated Interim Statement of Changes in Equity.....	6
Consolidated Interim Statement of Financial Position.....	8
Consolidated Interim Statement of Cash Flows.....	9
Notes to the Interim Financial Statements	
1    Interim financial statements preparation.....	11
Performance	
2    Segmental analysis.....	13
3    Net interest income.....	15
4    Operating expenses.....	15
5    Compensation of auditor.....	15
6    Impaired asset expense.....	16
7    Earnings per share.....	16
Financial Position	
8    Finance receivables.....	17
9    Borrowings.....	22
10   Share capital and dividends.....	23
11   Related party transactions and balances.....	24
12   Fair value.....	25
Risk Management	
13   Enterprise risk management program.....	29
14   Credit risk exposure.....	29
15   Liquidity risk.....	30
16   Interest rate risk.....	32
Other Disclosures	
17   Structured entities.....	34
18   Insurance business, securitisation, funds management and other fiduciary activities.....	35
19   Contingent liabilities and commitments.....	35
20   Events after reporting date.....	35
Independent Auditor's Review Report.....	36

## General Information

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

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

## Directors

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

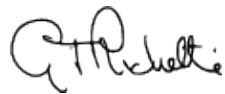
There have been no changes in the composition of the Board of Directors of HGH since 30 June 2020 to the six months ended 31 December 2020.

## Auditor

KPMG  
KPMG Centre  
18 Viaduct Harbour Avenue  
Auckland 1010

## Directors' Statements

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



G T Ricketts (Chair)



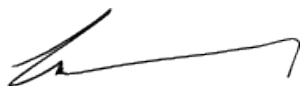
E F Comerford



J K Greenslade



C R Mace



G R Tomlinson

## Consolidated Interim Statement of Comprehensive Income

For the six months ended 31 December 2020

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

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

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

## Consolidated Interim Statement of Changes in Equity

For the six months ended 31 December 2020

\$000's	Note	Share Capital	Employee Benefits Reserve	Foreign Currency Translation Reserve	Fair Value Reserve	Defined Benefits Reserve	Cash Flow Hedge Reserve	Retained Earnings	Total Equity
<b>Unaudited - December 2020</b>									
Balance at 1 July 2020		576,257	934	(3,907)	5,324	171	(8,022)	129,223	699,980
<b>Total comprehensive income for the period</b>									
Profit for the period		-	-	-	-	-	-	44,090	44,090
Other comprehensive income/(loss), net of income tax		-	-	(121)	(1,038)	-	4,580	-	3,421
<b>Total comprehensive income/(loss) for the period</b>		-	-	(121)	(1,038)	-	4,580	44,090	47,511
<b>Contributions by and distributions to owners</b>									
Dividends paid	10	-	-	-	-	-	-	(14,524)	(14,524)
Dividend reinvestment plan	10	3,046	-	-	-	-	-	-	3,046
Share based payments		-	1,057	-	-	-	-	-	1,057
<b>Total transactions with owners</b>		3,046	1,057	-	-	-	-	(14,524)	(10,421)
<b>Balance at 31 December 2020</b>		579,303	1,991	(4,028)	4,286	171	(3,442)	158,789	737,070
<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		-	-	-	-	-	-	(751)	(751)
<b>Restated balance at beginning of period</b>		558,970	838	(4,021)	4,558	171	(5,843)	120,244	674,917
<b>Total comprehensive income for the period</b>									
Profit for the period		-	-	-	-	-	-	39,865	39,865
Other comprehensive (loss), net of income tax		-	-	(513)	(968)	-	(225)	-	(1,706)
<b>Total comprehensive income/(loss) for the period</b>		-	-	(513)	(968)	-	(225)	39,865	38,159
<b>Contributions by and distributions to owners</b>									
Dividends paid	10	-	-	-	-	-	-	(37,007)	(37,007)
Dividend reinvestment plan	10	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>		11,686	(267)	-	-	-	-	(37,007)	(25,588)
<b>Balance at 31 December 2019</b>		570,656	571	(4,534)	3,590	171	(6,068)	123,102	687,488

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

## Consolidated Interim Statement of Changes in Equity

For the six months ended 31 December 2020 (continued)

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

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

## Consolidated Interim Statement of Financial Position

As at 31 December 2020

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

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



## Consolidated Interim Statement of Cash Flows

For the six months ended 31 December 2020

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

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

## Consolidated Interim Statement of Cash Flows

For the six months ended 31 December 2020 (continued)

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

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

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

# Notes to the Interim Financial Statements

For the six months ended 31 December 2020

## 1 Interim financial statements preparation

### Basis of reporting

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

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

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

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

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

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

### Change in accounting policy

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

### Accounting standards issued not yet effective

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

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

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

## 1 Financial statements preparation (continued)

### **Estimates and judgements**

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

### **Covid-19 Pandemic - Impact on Estimates and judgements**

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

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

## Performance

### 2 Segmental analysis

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

#### Operating segments

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

<b>Motor</b>	Motor vehicle finance.
<b>Reverse Mortgages</b>	Reverse mortgage lending in New Zealand.
<b>Other Personal</b>	A range of financial services - including term, transactional 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 sized businesses.
<b>Rural</b>	Specialist financial services to the farming sector offering livestock finance, rural mortgage lending, seasonal and working capital financing, as well as leasing solutions to farmers.
<b>Australia</b>	Reverse mortgage lending and other financial services within Australia.

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

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

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

## 2 Segmental analysis (continued)

\$000's	Motor	Reverse Mortgage	Other Personal	Business	Rural	Australia	Other	Total
<b>Unaudited - 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 investments	-	-	-	-	-	-	2,097	2,097
Impaired asset expense	3,611	-	3,345	1,880	139	48	-	9,023
<b>Profit/(loss) before income tax</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	-	-	-	-	-	-	15,149	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>7,240</b>	<b>(44,143)</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>633,775</b>	<b>5,189,497</b>
<b>Total liabilities</b>								<b>4,502,009</b>
<b>Audited - June 2020</b>								
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
<b>Net operating income</b>	<b>60,579</b>	<b>23,548</b>	<b>21,420</b>	<b>61,415</b>	<b>30,702</b>	<b>34,341</b>	<b>1,244</b>	<b>233,249</b>
Operating expenses	3,248	4,804	6,776	11,283	2,648	11,680	66,355	106,794
<b>Profit/(loss) before impaired asset expense and income tax</b>	<b>57,331</b>	<b>18,744</b>	<b>14,644</b>	<b>50,132</b>	<b>28,054</b>	<b>22,661</b>	<b>(65,111)</b>	<b>126,455</b>
Fair value gain on investments	-	-	-	-	-	-	2,097	2,097
Impaired asset expense/(benefit)	10,160	-	11,119	10,110	(1,970)	-	-	29,419
<b>Profit/(loss) before income tax</b>	<b>47,171</b>	<b>18,744</b>	<b>3,525</b>	<b>40,022</b>	<b>30,024</b>	<b>22,661</b>	<b>(63,014)</b>	<b>99,133</b>
Income tax expense	-	-	-	-	-	-	27,161	27,161
<b>Profit/(loss) for the period</b>	<b>47,171</b>	<b>18,744</b>	<b>3,525</b>	<b>40,022</b>	<b>30,024</b>	<b>22,661</b>	<b>(90,175)</b>	<b>71,972</b>
<b>Total assets</b>	<b>1,125,295</b>	<b>559,934</b>	<b>214,759</b>	<b>1,126,632</b>	<b>604,938</b>	<b>979,496</b>	<b>707,082</b>	<b>5,318,136</b>
<b>Total liabilities</b>								<b>4,618,156</b>

### 3 Net interest income

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

### 4 Operating expenses

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

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

### 5 Compensation of auditor

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

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

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

## 6 Impaired asset expense

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

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

## 7 Earnings per share

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



## Financial Position

### 8 Finance receivables

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

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

## 8 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 the provision for impairment losses by class.

\$000's	12 - Month ECL	Lifetime ECL Not Credit Impaired	Lifetime ECL Credit Impaired	Specific Provision	Total
<b>Unaudited - December 2020</b>					
<b>Non-securitised</b>					
<b>Impairment allowance as at 30 June 2020</b>	<b>32,160</b>	<b>2,143</b>	<b>22,668</b>	<b>5,301</b>	<b>62,272</b>
Changes in loss allowance					
Transfer between stages	(860)	(395)	153	1,102	-
New and increased provision (net of collective provision releases)	(1,197)	102	4,605	2,312	5,822
Recovery of amounts written off	-	-	(1,309)	-	(1,309)
<b>Credit impairment charge</b>	<b>(2,057)</b>	<b>(293)</b>	<b>3,449</b>	<b>3,414</b>	<b>4,513</b>
Recovery of amounts previously written off	-	-	1,309	-	1,309
Write offs	-	-	(10,199)	(2,481)	(12,680)
Effect of changes in foreign exchange rate	(1)	1	1	-	1
<b>Impairment allowance as at 31 December 2020</b>	<b>30,102</b>	<b>1,851</b>	<b>17,228</b>	<b>6,234</b>	<b>55,415</b>
<b>Securitized</b>					
<b>Impairment allowance as at 30 June 2020</b>	<b>260</b>	<b>23</b>	<b>114</b>	<b>-</b>	<b>397</b>
Changes in loss allowance					
Transfer between stages	23	1	(24)	-	-
New and increased provision (net of collective provision releases)	(33)	(10)	68	-	25
Recovery of amounts written off	-	-	-	-	-
<b>Credit impairment charge</b>	<b>(10)</b>	<b>(9)</b>	<b>44</b>	<b>-</b>	<b>25</b>
Recovery of amounts previously written off	-	-	-	-	-
Write offs	-	-	-	-	-
Effect of changes in foreign exchange rate	-	-	-	-	-
<b>Impairment allowance as at 31 December 2020</b>	<b>250</b>	<b>14</b>	<b>158</b>	<b>-</b>	<b>422</b>
<b>Total</b>					
<b>Impairment allowance as at 30 June 2020</b>	<b>32,420</b>	<b>2,166</b>	<b>22,782</b>	<b>5,301</b>	<b>62,669</b>
Changes in loss allowance					
Transfer between stages	(837)	(394)	129	1,102	-
New and increased provision (net of collective provision releases)	(1,230)	92	4,673	2,312	5,847
Recovery of amounts written off	-	-	(1,309)	-	(1,309)
<b>Credit impairment charge</b>	<b>(2,067)</b>	<b>(302)</b>	<b>3,493</b>	<b>3,414</b>	<b>4,538</b>
Recovery of amounts previously written off	-	-	1,309	-	1,309
Write offs	-	-	(10,199)	(2,481)	(12,680)
Effect of changes in foreign exchange rate	(1)	1	1	-	1
<b>Impairment allowance as at 31 December 2020</b>	<b>30,352</b>	<b>1,865</b>	<b>17,386</b>	<b>6,234</b>	<b>55,837</b>

## 8 Finance receivables (continued)

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

#### *Movement in provision (continued)*

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

## 8 Finance receivables (continued)

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

#### Movement in provision (continued)

\$000's	12 - Month ECL	Lifetime ECL Not Credit Impaired	Lifetime ECL Credit Impaired	Specific Provision	Total
<b>Audited - June 2020</b>					
<b>Non-securitised</b>					
<b>Impairment allowance as at 30 June 2019</b>	<b>30,422</b>	<b>1,781</b>	<b>18,425</b>	<b>7,863</b>	<b>58,491</b>
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)
<b>Credit impairment charge</b>	<b>1,711</b>	<b>1,796</b>	<b>22,130</b>	<b>3,385</b>	<b>29,022</b>
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
<b>Impairment allowance as at 30 June 2020</b>	<b>32,160</b>	<b>2,143</b>	<b>22,668</b>	<b>5,301</b>	<b>62,272</b>
<b>Securitised</b>					
<b>Impairment allowance as at 30 June 2019</b>	-	-	-	-	-
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	-	-	-	-	-
<b>Credit impairment charge</b>	<b>260</b>	<b>23</b>	<b>114</b>	<b>-</b>	<b>397</b>
Recovery of amounts previously written off	-	-	-	-	-
Write offs	-	-	-	-	-
Effect of changes in foreign exchange rate	-	-	-	-	-
<b>Impairment allowance as at 30 June 2020</b>	<b>260</b>	<b>23</b>	<b>114</b>	<b>-</b>	<b>397</b>
<b>Total</b>					
<b>Impairment allowance as at 30 June 2019</b>	<b>30,422</b>	<b>1,781</b>	<b>18,425</b>	<b>7,863</b>	<b>58,491</b>
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)
<b>Credit impairment charge</b>	<b>1,971</b>	<b>1,819</b>	<b>22,244</b>	<b>3,385</b>	<b>29,419</b>
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
<b>Impairment allowance as at 30 June 2020</b>	<b>32,420</b>	<b>2,166</b>	<b>22,782</b>	<b>5,301</b>	<b>62,669</b>

## 8 Finance receivables (continued)

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

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

\$000's	12 - Month ECL	Lifetime ECL	Lifetime ECL	Specific Provision	Total
		Not Credit Impaired	Credit Impaired		
<b>Unaudited - December 2020</b>					
<b>Gross finance receivables as at 30 June 2020</b>	2,826,208	183,260	73,729	24,667	3,107,864
Transfer between stages	(50,423)	31,814	3,841	14,768	-
Additions	796,845	-	-	-	796,845
Deletions	(733,346)	(36,470)	(19,081)	(3,233)	(792,130)
Write offs	-	-	(11,619)	(2,535)	(14,154)
<b>Gross finance receivables as at 31 December 2020</b>	<b>2,839,284</b>	<b>178,604</b>	<b>46,870</b>	<b>33,667</b>	<b>3,098,425</b>
<b>Unaudited - December 2019</b>					
<b>Gross finance receivables as at 30 June 2019</b>	<b>2,799,282</b>	<b>206,882</b>	<b>57,043</b>	<b>26,412</b>	<b>3,089,619</b>
Transfer between stages	(40,404)	9,697	27,069	3,638	-
Additions	922,101	62,329	6,788	-	991,218
Deletions	(805,809)	(74,204)	(27,385)	(1,517)	(908,915)
Write offs	(1,590)	(1,960)	(6,331)	(100)	(9,981)
<b>Gross finance receivables as at 31 December 2019</b>	<b>2,873,580</b>	<b>202,744</b>	<b>57,184</b>	<b>28,433</b>	<b>3,161,941</b>
<b>Audited - June 2020</b>					
<b>Gross finance receivables as at 30 June 2019</b>	<b>2,799,282</b>	<b>206,882</b>	<b>57,043</b>	<b>26,412</b>	<b>3,089,619</b>
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)
<b>Gross finance receivables as at 30 June 2020</b>	<b>2,826,208</b>	<b>183,260</b>	<b>73,729</b>	<b>24,667</b>	<b>3,107,864</b>

### (b) Finance receivables held at fair value

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

## 9 Borrowings

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

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

Deposits and unsubordinated notes rank equally and are unsecured.

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

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

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

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

## 10 Share capital and dividends

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

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

### Dividends paid

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

## 11 Related party transactions and balances

### (a) Transactions with key management personnel

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

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

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

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

### (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:

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

### (c) Other balances with related parties

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



## 12 Fair value

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

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

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

#### Investments

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

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

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

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

#### Investment properties

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

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

#### Finance receivables - reverse mortgages

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

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

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

## 12 Fair value (continued)

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

#### Finance receivables - reverse mortgages (continued)

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

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

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

#### Derivative financial instruments

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

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

\$000's	Level 1	Level 2	Level 3	Total
<b>Unaudited - December 2020</b>				
<b>Assets</b>				
Investments	328,620	112,831	21,512	462,963
Investment properties	-	-	11,132	11,132
Derivative financial instruments	-	15,023	-	15,023
Finance receivables - reverse mortgages	-	-	1,607,352	1,607,352
<b>Total financial assets measured at fair value</b>	<b>328,620</b>	<b>127,854</b>	<b>1,639,996</b>	<b>2,096,470</b>
<b>Liabilities</b>				
Derivative financial instruments	-	12,805	-	12,805
<b>Total financial liabilities measured at fair value</b>	<b>-</b>	<b>12,805</b>	<b>-</b>	<b>12,805</b>
<b>Unaudited - December 2019</b>				
<b>Assets</b>				
Investments	282,428	16,572	16,020	315,020
Investment properties	-	-	11,132	11,132
Derivative financial instruments	-	11,936	-	11,936
Finance receivables - reverse mortgages	-	-	1,419,557	1,419,557
<b>Total financial assets measured at fair value</b>	<b>282,428</b>	<b>28,508</b>	<b>1,446,709</b>	<b>1,757,645</b>
<b>Liabilities</b>				
Derivative financial instruments	-	9,843	-	9,843
<b>Total financial liabilities measured at fair value</b>	<b>-</b>	<b>9,843</b>	<b>-</b>	<b>9,843</b>

## 12 Fair value (continued)

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

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

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

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

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

## 12 Fair value (continued)

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

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

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

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

## Risk Management

### 13 Enterprise risk management program

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

### 14 Credit risk exposure

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

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

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

#### (b) Concentration of credit risk by geographic region

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

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

## 14 Credit risk exposure (continued)

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

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

### (d) Commitments to extend credit

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

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

## 15 Liquidity risk

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

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

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

## 15 Liquidity risk (continued)

### RBNZ facilities

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

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

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

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

### Contractual liquidity profile of financial liabilities

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

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

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

## 15 Liquidity risk (continued)

### Contractual liquidity profile of financial liabilities (continued)

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

## 16 Interest rate risk

### Contractual repricing analysis

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

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



## 16 Interest rate risk (continued)

### Contractual repricing analysis (continued)

\$000's	0-3 Months	3-6 Months	6-12 Months	1-2 Years	2+ Years	Non- Interest Bearing	Total
<b>Unaudited - 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>							
Retail deposits	1,688,278	602,765	597,217	235,773	96,449	13,543	3,234,025
Other borrowings	924,071	968	-	-	284,501	-	1,209,540
Derivative financial liabilities	-	-	-	-	-	9,843	9,843
Lease liabilities	-	-	-	-	-	21,306	21,306
Other financial liabilities	-	-	-	-	-	11,344	11,344
<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>
<b>Audited - June 2020</b>							
<b>Financial assets</b>							
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
<b>Total financial assets</b>	<b>3,252,457</b>	<b>216,871</b>	<b>404,784</b>	<b>616,865</b>	<b>623,371</b>	<b>50,760</b>	<b>5,165,108</b>
<b>Financial liabilities</b>							
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
<b>Total financial liabilities</b>	<b>2,593,159</b>	<b>586,452</b>	<b>815,366</b>	<b>155,219</b>	<b>367,978</b>	<b>78,168</b>	<b>4,596,342</b>
Effect of derivatives held for risk management	557,955	(51,349)	(239,137)	(237,212)	(30,257)	-	-
<b>Net financial assets/(liabilities)</b>	<b>1,217,253</b>	<b>(420,930)</b>	<b>(649,719)</b>	<b>224,434</b>	<b>225,136</b>	<b>(27,408)</b>	<b>568,766</b>

## Other Disclosures

### 17 Structured entities

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

### Insurance business

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

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

### Securitisation, funds management and other fiduciary activities

Changes to the Group's involvement in securitisation activities are set out in note 17 - Structured entities. There have been no material changes to the Group's involvement in funds management and other fiduciary activities, in either case since the reporting date of the previous financial statements.

## 19 Contingent liabilities and commitments

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

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

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

## 20 Events after reporting date

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

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

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

# Independent Review Report

To the shareholders of Heartland Group Holdings Limited

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

### Conclusion

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

- the consolidated interim statement of financial position as at 31 December 2020;
- the consolidated interim statements of comprehensive income, changes in equity and cash flows for the 6 month period then ended; and
- notes, including a summary of significant accounting policies and other explanatory information.

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

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



### Basis for conclusion

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

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

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



### Emphasis of matter

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

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



## Use of this Independent Review Report

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



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

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

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



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

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

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



KPMG  
Auckland

19 February 2021