Disclosure Statement

For the six months ended 31 December 2020

HEARTLAND

BANK

Contents

General Information

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

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

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

Priority of Creditors' Claims

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

Guarantee Arrangements

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

Directors

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

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

Auditor

KPMG
KPMG Centre
18 Viaduct Harbour Avenue
Auckland 1010

Directors' Statements

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

1. As at the date on which this Disclosure Statement is signed:

   (a) the Disclosure Statement contains all the information that is required by the Order; and

   (b) the Disclosure Statement is not false or misleading.

2. During the six months ended 31 December 2020:

   (a) the Bank complied with all Conditions of Registration applicable during the period;

   (b) credit exposures to connected persons were not contrary to the interests of the Banking Group; and

   (c) the Bank had systems in place to monitor and control adequately material risks of the Banking Group, including credit risk, concentration of credit risk, interest rate risk, currency risk, equity risk, liquidity risk, operational risk and other business risks, and that those systems were being properly applied.

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

B R Irvine (Chair - Board of Directors)

G T Ricketts

J K Greenslade

K Mitchell

E F Comerford

S M Ruha

E J Harvey

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

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

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
Unaudited - December 2020									
Balance at 1 July 2020		**553,239**	**-**	**-**	**5,324**	**171**	**(8,022)**	**46,325**	**597,037**
Total comprehensive income for the period									
Profit for the period		-	-	-	-	-	-	33,014	33,014
Other comprehensive income/(loss), net of income tax		-	-	-	(1,038)	-	4,580	-	3,542
Total comprehensive income/(loss) for the period		**-**	**-**	**-**	**(1,038)**	**-**	**4,580**	**33,014**	**36,556**
Contributions by and distributions to owner									
Dividend to Heartland Group Holdings Limited (**HGH**)	9	-	-	-	-	-	-	-	-
Total transactions with owner		**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Balance at 31 December 2020		**553,239**	**-**	**-**	**4,286**	**171**	**(3,442)**	**79,339**	**633,593**
Unaudited - December 2019									
Balance at 1 July 2019		**553,239**	**-**	**-**	**4,558**	**171**	**(5,843)**	**51,265**	**603,390**
NZ IFRS 16 adjustment		-	-	-	-	-	-	(640)	(640)
Restated balance at beginning of period		**553,239**	**-**	**-**	**4,558**	**171**	**(5,843)**	**50,625**	**602,750**
Total comprehensive income for the period									
Profit for the period		-	-	-	-	-	-	34,896	34,896
Other comprehensive income/(loss), net of income tax		-	-	-	(968)	-	1,843	-	875
Total comprehensive income/(loss) for the period		**-**	**-**	**-**	**(968)**	**-**	**1,843**	**34,896**	**35,771**
Contributions by and distributions to owner									
Dividend to HGH	9	-	-	-	-	-	-	(65,000)	(65,000)
Total transactions with owner		**-**	**-**	**-**	**-**	**-**	**-**	**(65,000)**	**(65,000)**
Balance at 31 December 2019		**553,239**	**-**	**-**	**3,590**	**171**	**(4,000)**	**20,521**	**573,521**

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
Audited - June 2020									
Balance at 1 July 2019		**553,239**	**-**	**-**	**4,558**	**171**	**(5,843)**	**51,265**	**603,390**
NZ IFRS 16 adjustment		-	-	-	-	-	-	(640)	(640)
Restated balance at beginning of year		**553,239**	**-**	**-**	**4,558**	**171**	**(5,843)**	**50,625**	**602,750**
Total comprehensive income for the period									
Profit for the period		-	-	-	-	-	-	60,700	60,700
Other comprehensive income/(loss), net of income tax		-	-	-	766	-	(2,179)	-	(1,413)
Total comprehensive income/(loss) for the period		**-**	**-**	**-**	**766**	**-**	**(2,179)**	**60,700**	**59,287**
Contributions by and distributions to owner									
Dividend to HGH	9	-	-	-	-	-	-	(65,000)	(65,000)
Total transactions with owner		**-**	**-**	**-**	**-**	**-**	**-**	**(65,000)**	**(65,000)**
Balance at 30 June 2020		**553,239**	**-**	**-**	**5,324**	**171**	**(8,022)**	**46,325**	**597,037**

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

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
Cash flows from operating activities				
Interest received		122,874	128,838	258,797
Operating lease income received		1,480	2,361	5,934
Lending, credit fees and other income received		6,914	12,129	17,422
Operating inflows		**131,268**	**143,328**	**282,153**
Interest paid		(46,659)	(49,481)	(103,793)
Payments to suppliers and employees		(48,024)	(37,117)	(77,904)
Taxation paid		(19,759)	(9,888)	(20,281)
Operating outflows		**(114,442)**	**(96,486)**	**(201,978)**
Net cash flows from operating activities before changes in operating assets and liabilities		**16,826**	**46,842**	**80,175**
Proceeds from sale of operating lease vehicles		5,584	2,254	4,969
Purchase of operating lease vehicles		(1,594)	(6,614)	(9,938)
Net movement in finance receivables		3,840	(83,217)	(51,372)
Net movement in deposits		5,071	90,309	116,040
Net movement in related party balances		2,677	21,252	27,640
Net cash flows from operating activities		**32,404**	**70,826**	**167,514**
Cash flows from investing activities				
Sale of property, plant and equipment and intangible assets		-	-	95
Total cash provided from investing activities		**-**	**-**	**95**
Purchase of property, plant and equipment and intangible assets		(3,954)	(2,722)	(6,602)
Net (increase)/decrease in investments		(62,876)	46,003	(33,627)
Total cash applied to investing activities		**(66,830)**	**43,281**	**(40,229)**
Net cash flows (applied to)/from investing activities		**(66,830)**	**43,281**	**(40,134)**
Cash flows from financing activities				
Net increase in wholesale funding		34,219	35,237	5,745
Total cash provided from financing activities		**34,219**	**35,237**	**5,745**
Dividends paid	9	-	(65,000)	(65,000)
Payment of lease liabilities		(291)	(747)	(1,802)
Total cash applied to financing activities		**(291)**	**(65,747)**	**(66,802)**
Net cash flows from/(applied to) financing activities		**33,928**	**(30,510)**	**(61,057)**
Net (decrease)/increase in cash held		**(498)**	**83,597**	**66,323**
Opening cash and cash equivalents		105,463	39,140	39,140
Closing cash and cash equivalents		**104,965**	**122,737**	**105,463**

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

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

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

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

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

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

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

Change in accounting policy

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

Accounting standards issued not yet effective

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

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

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

1 Financial statements preparation (continued)

Estimates and judgements

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

Covid-19 pandemic - impact on estimates and judgements

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

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

Performance

2 Segmental analysis

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

Operating segments

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

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

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

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

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

2 Segmental analysis (continued)

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

3 Net interest income

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

4 Operating expenses

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

[1]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[1]	374	317	559
Other assurance services paid to auditor [2]	10	31	60
Total compensation of auditor	**384**	**348**	**619**

[1]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.

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

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

Financial Position

7 Finance receivables

(a) Finance receivables held at amortised cost

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

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

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 the provision for impairment losses by class.

$000's	12 - Month ECL	Lifetime ECL Not Credit Impaired	Lifetime ECL Credit Impaired	Specific Provision	Total
Unaudited - December 2020					
Non-securitised					
Impairment allowance as at 30 June 2020	**32,160**	**2,144**	**22,667**	**5,301**	**62,272**
Changes in loss allowance					
Transfer between stages	(860)	(395)	153	1,102	-
New and increased provision (net of collective provision releases)	(1,197)	102	4,605	2,312	5,822
Recovery of amounts written off	-	-	(1,309)	-	(1,309)
Credit impairment charge	**(2,057)**	**(293)**	**3,449**	**3,414**	**4,513**
Recovery of amounts previously written off	-	-	1,309	-	1,309
Write offs	-	-	(10,199)	(2,481)	(12,680)
Effect of changes in foreign exchange rate	(1)	1	1	-	1
Impairment allowance as at 31 December 2020	**30,102**	**1,852**	**17,227**	**6,234**	**55,415**
Securitised					
Impairment allowance as at 30 June 2020	**260**	**23**	**114**	**-**	**397**
Changes in loss allowance					
Transfer between stages	23	1	(24)	-	-
New and increased provision (net of collective provision releases)	(33)	(10)	68	-	25
Recovery of amounts written off	-	-	-	-	-
Credit impairment charge	**(10)**	**(9)**	**44**	**-**	**25**
Recovery of amounts previously written off	-	-	-	-	-
Write offs	-	-	-	-	-
Effect of changes in foreign exchange rate	-	-	-	-	-
Impairment allowance as at 31 December 2020	**250**	**14**	**158**	**-**	**422**
Total					
Impairment allowance as at 30 June 2020	**32,420**	**2,167**	**22,781**	**5,301**	**62,669**
Changes in loss allowance					
Transfer between stages	(837)	(394)	129	1,102	-
New and increased provision (net of collective provision releases)	(1,230)	92	4,673	2,312	5,847
Recovery of amounts written off	-	-	(1,309)	-	(1,309)
Credit impairment charge	**(2,067)**	**(302)**	**3,493**	**3,414**	**4,538**
Recovery of amounts previously written off	-	-	1,309	-	1,309
Write offs	-	-	(10,199)	(2,481)	(12,680)
Effect of changes in foreign exchange rate	(1)	1	1	-	1
Impairment allowance as at 31 December 2020	**30,352**	**1,866**	**17,385**	**6,234**	**55,837**

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

7 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
Audited - June 2020					
Non-securitised					
Impairment allowance as at 30 June 2019	**30,422**	**1,781**	**18,425**	**7,863**	**58,491**
Changes in loss allowance					
Transfer between stages	(1,190)	(294)	(109)	1,593	-
New and increased provision (net of collective provision releases)	2,901	2,091	24,999	1,792	31,783
Recovery of amounts written off	-	-	(2,808)	-	(2,808)
Credit impairment charge	**1,711**	**1,797**	**22,082**	**3,385**	**28,975**
Recovery of amounts previously written off	-	-	2,808	-	2,808
Write offs	-	(1,438)	(20,658)	(5,947)	(28,043)
Effect of changes in foreign exchange rate	27	4	10	-	41
Impairment allowance as at 30 June 2020	**32,160**	**2,144**	**22,667**	**5,301**	**62,272**
Securitised					
Impairment allowance as at 30 June 2019	**-**	**-**	**-**	**-**	**-**
Changes in loss allowance					
Transfer between stages	(19)	11	8	-	-
New and increased provision (net of collective provision releases)	279	12	106	-	397
Recovery of amounts written off	-	-	-	-	-
Credit impairment charge	**260**	**23**	**114**	**-**	**397**
Recovery of amounts previously written off	-	-	-	-	-
Write offs	-	-	-	-	-
Effect of changes in foreign exchange rate	-	-	-	-	-
Impairment allowance as at 30 June 2020	**260**	**23**	**114**	**-**	**397**
Total					
Impairment allowance as at 30 June 2019	**30,422**	**1,781**	**18,425**	**7,863**	**58,491**
Changes in loss allowance					
Transfer between stages	(1,209)	(283)	(101)	1,593	-
New and increased provision (net of collective provision releases)	3,180	2,103	25,105	1,792	32,180
Recovery of amounts written off	-	-	(2,808)	-	(2,808)
Credit impairment charge	**1,971**	**1,820**	**22,196**	**3,385**	**29,372**
Recovery of amounts previously written off	-	-	2,808	-	2,808
Write offs	-	(1,438)	(20,658)	(5,947)	(28,043)
Effect of changes in foreign exchange rate	27	4	10	-	41
Impairment allowance as at 30 June 2020	**32,420**	**2,167**	**22,781**	**5,301**	**62,669**

7 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 Not Credit Impaired	Lifetime ECL Credit Impaired	Specific Provision	Total
Unaudited - December 2020					
Gross finance receivables as at 30 June 2020	**2,825,973**	**183,260**	**73,729**	**24,667**	**3,107,629**
Transfer between stages	(50,423)	31,814	3,841	14,768	-
Additions	796,845	-	-	-	796,845
Deletions	(733,321)	(36,470)	(19,081)	(3,233)	(792,105)
Write offs	-	-	(11,619)	(2,535)	(14,154)
Gross finance receivables as at 31 December 2020	**2,839,074**	**178,604**	**46,870**	**33,667**	**3,098,215**
Unaudited - December 2019					
Gross finance receivables as at 30 June 2019	**2,799,220**	**206,882**	**57,043**	**26,412**	**3,089,557**
Transfer between stages	(40,404)	9,697	27,069	3,638	-
Additions	922,101	62,329	6,788	-	991,218
Deletions	(805,818)	(74,204)	(27,385)	(1,517)	(908,924)
Write offs	(1,590)	(1,960)	(6,331)	(100)	(9,981)
Gross finance receivables as at 31 December 2019	**2,873,509**	**202,744**	**57,184**	**28,433**	**3,161,870**
Audited - June 2020					
Gross finance receivables as at 30 June 2019	**2,799,220**	**206,882**	**57,043**	**26,412**	**3,089,557**
Transfer between stages	(61,191)	12,570	41,245	7,376	-
Additions	1,496,900	87,843	23,610	-	1,608,353
Deletions	(1,402,340)	(118,572)	(37,334)	(3,174)	(1,561,420)
Write offs	(6,616)	(5,463)	(10,835)	(5,947)	(28,861)
Gross finance receivables as at 30 June 2020	**2,825,973**	**183,260**	**73,729**	**24,667**	**3,107,629**

(b) Finance receivables held at fair value

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

8 Borrowings

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

[1]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 Banking 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

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

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

9 Share capital and dividends

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

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

Dividends paid

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

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

10 Related party transactions and balances

(a) Transactions with key management personnel

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

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

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

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

(b) Transactions with related parties

The Banking Group's ultimate parent company is HGH.

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

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

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

10 Related party transactions and balances (continued)

(c) Due from/to related parties

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

(d) Other balances with related parties

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

11 Fair value

(a) Financial instruments measured at fair value

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

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

Investments

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

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

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

11 Fair value (continued)

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

Investment properties

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

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

Finance receivables - reverse mortgages

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

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

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

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

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

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

Derivative financial instruments

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

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

11 Fair value (continued)

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

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

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

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

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

11 Fair value (continued)

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

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

(b) Financial instruments not measured at fair value

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

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

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

12 Enterprise risk management program

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

13 Credit risk exposure

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

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

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

(b) Concentration of credit risk by geographic region

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

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

13 Credit risk exposure (continued)

(c) Concentration of credit risk by industry sector

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

$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	636,472	477,801	556,537
Wholesale trade	38,625	40,768	39,540
Retail trade and accommodation	207,492	244,041	232,664
Households	1,687,590	1,673,069	1,674,286
Other business services	144,006	136,762	163,801
Construction	209,895	194,402	197,174
Rental, hiring and real estate services	153,942	144,937	142,467
Transport and storage	273,362	256,182	257,634
Other	109,409	134,373	118,759
	4,289,857	**4,191,233**	**4,241,700**
Provision for impairment	(55,837)	(60,504)	(62,669)
Total on balance sheet credit exposures	**4,234,020**	**4,130,729**	**4,179,031**

(d) Commitments to extend credit

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

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

13 Credit risk exposure (continued)

(e) Credit exposure to individual counterparties

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

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

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

Exposures to non-banks		
Total number of exposures to non-banks that are greater than 10% of CET1 capital	-	-
With a long-term credit rating of A- or A3 or above, or its equivalent	-	-
With a long-term credit rating of at least BBB- or Baa3, or its equivalent, and at most BBB+ or Baa1, or its equivalent	-	-

14 Asset quality

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

Corporate	Business lending including rural lending.
Residential	Lending secured by a first ranking mortgage over a residential property used primarily for residential purposes either by the mortgagor or a tenant of the mortgagor.
All Other	This relates primarily to consumer lending to individuals.

(a) Finance receivables by credit risk concentration

$000's	Corporate	Residential	All Other	Total
Unaudited - December 2020				
Neither at least 90 days past due nor impaired	1,905,439	644,296	1,090,741	3,640,476
At least 90 days past due	22,087	138	23,984	46,209
Individually impaired	31,884	9	1,774	33,667
Gross finance receivables	**1,959,410**	**644,443**	**1,116,499**	**3,720,352**
Provision for impairment	(33,395)	(5)	(22,437)	(55,837)
Total net finance receivables	**1,926,015**	**644,438**	**1,094,062**	**3,664,515**
Unaudited - December 2019				
Neither at least 90 days past due nor impaired	1,894,580	610,775	1,167,305	3,672,660
At least 90 days past due	34,281	512	11,987	46,780
Individually impaired	28,433	-	-	28,433
Gross finance receivables	**1,957,294**	**611,287**	**1,179,292**	**3,747,873**
Provision for impairment	(35,593)	(146)	(24,765)	(60,504)
Total net finance receivables	**1,921,701**	**611,141**	**1,154,527**	**3,687,369**
Audited - June 2020				
Neither at least 90 days past due nor impaired	1,889,231	632,894	1,110,903	3,633,028
At least 90 days past due	27,098	599	31,583	59,280
Individually impaired	22,774	9	1,884	24,667
Gross finance receivables	**1,939,103**	**633,502**	**1,144,370**	**3,716,975**
Provision for impairment	(34,614)	(7)	(28,048)	(62,669)
Total net finance receivables	**1,904,489**	**633,495**	**1,116,322**	**3,654,306**

(b) Past due but not impaired

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

14 Asset quality (continued)

(b) Past due but not impaired (continued)

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

(c) Individually impaired assets

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

14 Asset quality (continued)

(d) Provision for impairment

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

14 Asset quality (continued)

(d) Provision for impairment (continued)

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

14 Asset quality (continued)

(d) Provision for impairment (continued)

$000's	12 Months ECL	Lifetime Not Credit Impaired	Lifetime ECL Credit Impaired	Specific Provision	Total
Audited - June 2020					
Corporate					
Impairment allowance as at 30 June 2019	**21,404**	**670**	**4,532**	**7,863**	**34,469**
Changes in loss allowance					
Transfer between stages	(254)	61	(1,400)	1,593	-
New and increased provision (net of collective provision releases)	(2,368)	97	6,570	1,792	6,091
Recovery of amounts written off	-	-	-	-	-
Credit impairment charge	**(2,622)**	**158**	**5,170**	**3,385**	**6,091**
Recovery of amounts previously written off	-	-	-	-	-
Write offs	-	-	-	(5,947)	(5,947)
Effect of changes in foreign exchange rate	-	1	-	-	1
Impairment allowance as at 30 June 2020	**18,782**	**829**	**9,702**	**5,301**	**34,614**
Residential					
Impairment allowance as at 30 June 2019	**21**	**3**	**80**	**0**	**104**
Changes in loss allowance					
Transfer between stages	44	(1)	(43)	-	-
New and increased provision (net of collective provision releases)	(55)	(1)	(41)	-	(97)
Recovery of amounts written off	-	-	-	-	-
Credit impairment charge	**(11)**	**(2)**	**(84)**	**-**	**(97)**
Recovery of amounts previously written off	-	-	-	-	-
Write offs	-	-	-	-	-
Effect of changes in foreign exchange rate	-	-	-	-	-
Impairment allowance as at 30 June 2020	**10**	**1**	**(4)**	**-**	**7**
All Other					
Impairment allowance as at 30 June 2019	**8,997**	**1,108**	**13,813**	**-**	**23,918**
Changes in loss allowance					
Transfer between stages	(999)	(343)	1,342	-	-
New and increased provision (net of collective provision releases)	5,603	2,007	18,576	-	26,186
Recovery of amounts written off	-	-	(2,808)	-	(2,808)
Credit impairment charge	**4,604**	**1,664**	**17,110**	**-**	**23,378**
Recovery of amounts previously written off	-	-	2,808	-	2,808
Write offs	-	(1,438)	(20,658)	-	(22,096)
Effect of changes in foreign exchange rate	27	3	10	-	40
Impairment allowance as at 30 June 2020	**13,628**	**1,337**	**13,083**	**-**	**28,048**
Total					
Impairment allowance as at 30 June 2019	**30,422**	**1,781**	**18,425**	**7,863**	**58,491**
Changes in loss allowance					
Transfer between stages	(1,209)	(283)	(101)	1,593	-
New and increased provision (net of collective provision releases)	3,180	2,103	25,105	1,792	32,180
Recovery of amounts written off	-	-	(2,808)	-	(2,808)
Credit impairment charge	**1,971**	**1,820**	**22,196**	**3,385**	**29,372**
Recovery of amounts previously written off	-	-	2,808	-	2,808
Write offs	-	(1,438)	(20,658)	(5,947)	(28,043)
Effect of changes in foreign exchange rate	27	4	10	-	41
Impairment allowance as at 30 June 2020	**32,420**	**2,167**	**22,781**	**5,301**	**62,669**

14 Asset quality (continued)

(e) Other assets under administration

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

15 Liquidity risk

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

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

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

Reserve Bank of New Zealand (RBNZ) facilities

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

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

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

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

Contractual liquidity profile of financial liabilities

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

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

15 Liquidity risk (continued)

Contractual liquidity profile of financial liabilities (continued)

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

16 Interest rate risk

Contractual repricing analysis

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

$000's	0-3 Months	3-6 Months	6-12 Months	1-2 Years	2+ Years	Non-Interest Bearing	Total
Unaudited - December 2020							
Financial assets							
Cash and cash equivalents	104,950	-	-	-	-	15	104,965
Investments	55,036	23,265	38,705	75,963	255,886	2,304	451,159
Finance receivables	1,481,401	134,370	286,777	469,999	656,238	13,593	3,042,378
Finance receivables - reverse mortgages	622,137	-	-	-	-	-	622,137
Due from related parties	-	-	-	-	-	259	259
Derivative financial assets	-	-	-	-	-	15,023	15,023
Other financial assets	-	-	-	-	-	402	402
Total financial assets	**2,263,524**	**157,635**	**325,482**	**545,962**	**912,124**	**31,596**	**4,236,323**
Financial liabilities							
Retail deposits	1,740,674	611,540	546,713	266,193	86,697	19,292	3,271,109
Other borrowings	101,694	987	-	156,063	130,845	-	389,589
Derivative financial liabilities	-	-	-	-	-	12,390	12,390
Due to related parties	-	-	-	-	-	9,399	9,399
Lease liabilities	-	-	-	-	-	18,878	18,878
Other financial liabilities	-	-	-	-	-	11,749	11,749
Total financial liabilities	**1,842,368**	**612,527**	**546,713**	**422,256**	**217,542**	**71,708**	**3,713,114**
Effect of derivatives held for risk management	463,422	(63,969)	(92,103)	(130,194)	(177,156)	-	-
Net financial assets/(liabilities)	**884,578**	**(518,861)**	**(313,334)**	**(6,488)**	**517,426**	**(40,112)**	**523,209**
Unaudited - December 2019							
Financial assets							
Cash and cash equivalents	122,734	-	-	-	-	3	122,737
Investments	34,690	60,279	15,534	59,787	135,680	1,988	307,958
Finance receivables	1,543,914	215,723	355,919	563,825	417,055	4,930	3,101,366
Finance receivables - reverse mortgages	586,003	-	-	-	-	-	586,003
Due from related parties	2,063	-	-	-	-	-	2,063
Derivative financial assets	-	-	-	-	-	10,806	10,806
Other financial assets	-	-	-	-	-	1,784	1,784
Total financial assets	**2,289,404**	**276,002**	**371,453**	**623,612**	**552,735**	**19,511**	**4,132,717**
Financial liabilities							
Retail deposits	1,698,288	602,765	597,217	235,773	96,449	13,543	3,244,035
Other borrowings	101,680	968	-	-	282,515	-	385,163
Derivative financial liabilities	-	-	-	-	-	9,843	9,843
Due to related parties	2,138	-	-	-	-	-	2,138
Lease liabilities	-	-	-	-	-	20,623	20,623
Other financial liabilities	-	-	-	-	-	10,897	10,897
Total financial liabilities	**1,802,106**	**603,733**	**597,217**	**235,773**	**378,964**	**54,906**	**3,672,699**
Effect of derivatives held for risk management	380,373	(437)	(94,721)	(291,712)	6,497	-	-
Net financial assets/(liabilities)	**867,671**	**(328,168)**	**(320,485)**	**96,127**	**180,268**	**(35,395)**	**460,018**

16 Interest rate risk (continued)

Contractual repricing analysis (continued)

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

17 Concentrations of funding

(a) Regulatory liquidity ratios

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

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

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

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

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

17 Concentrations of funding (continued)

(a) Regulatory liquidity ratios (continued)

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

(b) Concentration of funding by industry

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

(c) Concentration of funding by geographical area

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

Other Disclosures

18 Structured entities

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

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

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

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

$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)

19 Capital adequacy

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

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

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

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

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

19 Capital adequacy (continued)

(a) Capital

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

(b) Capital structure

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

Ordinary shares

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

Retained earnings

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

Reserves classified as CET1 capital

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

19 Capital adequacy (continued)

(c) Credit risk

On balance sheet exposures

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

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

19 Capital adequacy (continued)

(c) Credit risk (continued)

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

Off balance sheet exposures

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

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

(d) Additional mortgage information - LVR range

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

[1]Off balance sheet exposures means unutilised limits.

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

19 Capital adequacy (continued)

(e) Reconciliation of mortgage related amounts

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

(f) Credit risk mitigation

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

(g) Operational risk

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

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

(h) Market risk

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

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

(i) Total capital requirements

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

19 Capital adequacy (continued)

(j) Capital ratios

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

(k) Solo capital adequacy

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

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

(l) Capital for other material risks

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

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

Insurance business

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

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

Securitisation, funds management and other fiduciary activities

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

Risk management

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

Provision of financial services and asset purchases

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

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

21 Contingent liabilities and commitments

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

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

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

22 Events after reporting date

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

CONDITIONS OF REGISTRATION

CONDITIONS OF REGISTRATION NON-COMPLIANCE

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

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

CHANGES TO CONDITIONS OF REGISTRATION

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

CREDIT RATINGS

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

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

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

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

OTHER MATERIAL MATTERS

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

Independent Review Report

To the shareholder of Heartland Bank Limited

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

Conclusion

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

- the consolidated interim financial statements formed of:
  - the consolidated interim statement of financial position as at 31 December 2020;
  - the consolidated interim statements of comprehensive income, changes in equity and cash flows for the 6 month period then ended; and
  - notes, including a summary of significant accounting policies and other explanatory information.
- the supplementary information prescribed in Schedules 5, 7, 9, 13, 16 and 18 of the Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order 2014 (as amended) (the "Order").

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

i. the consolidated interim financial statements do not present fairly in all material respects the Banking Group's financial position as at 31 December 2020 and its financial performance and cash flows for the 6 month period ended on that date;

ii. the consolidated interim financial statements (excluding the supplementary information disclosed in accordance with Schedules 5, 7, 9, 13, 16 and 18 of the Order), have not been prepared, in all material respects, in accordance with NZ IAS 34 *Interim Financial Reporting* ("NZ IAS 34");

iii. the supplementary information, does not fairly state, in all material respects, the matters to which it relates in accordance with Schedules 5, 7, 9, 13, 16 and 18 of the Order; and

iv. the supplementary information relating to capital adequacy and regulatory liquidity requirements, has not been prepared, in all material respects, in accordance with the Registered Banks conditions of registrations, Capital Adequacy Framework (Standardised Approach) (BS2A) and disclosed in accordance with Schedule 9 of the Order.

Basis for conclusion

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

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

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

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 Banking Group's expected credit loss.

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

Use of this Independent Review Report

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

Responsibilities of the Directors for the consolidated half year disclosure statement

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

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

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

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

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

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

KPMG

KPMG
Auckland

19 February 2021