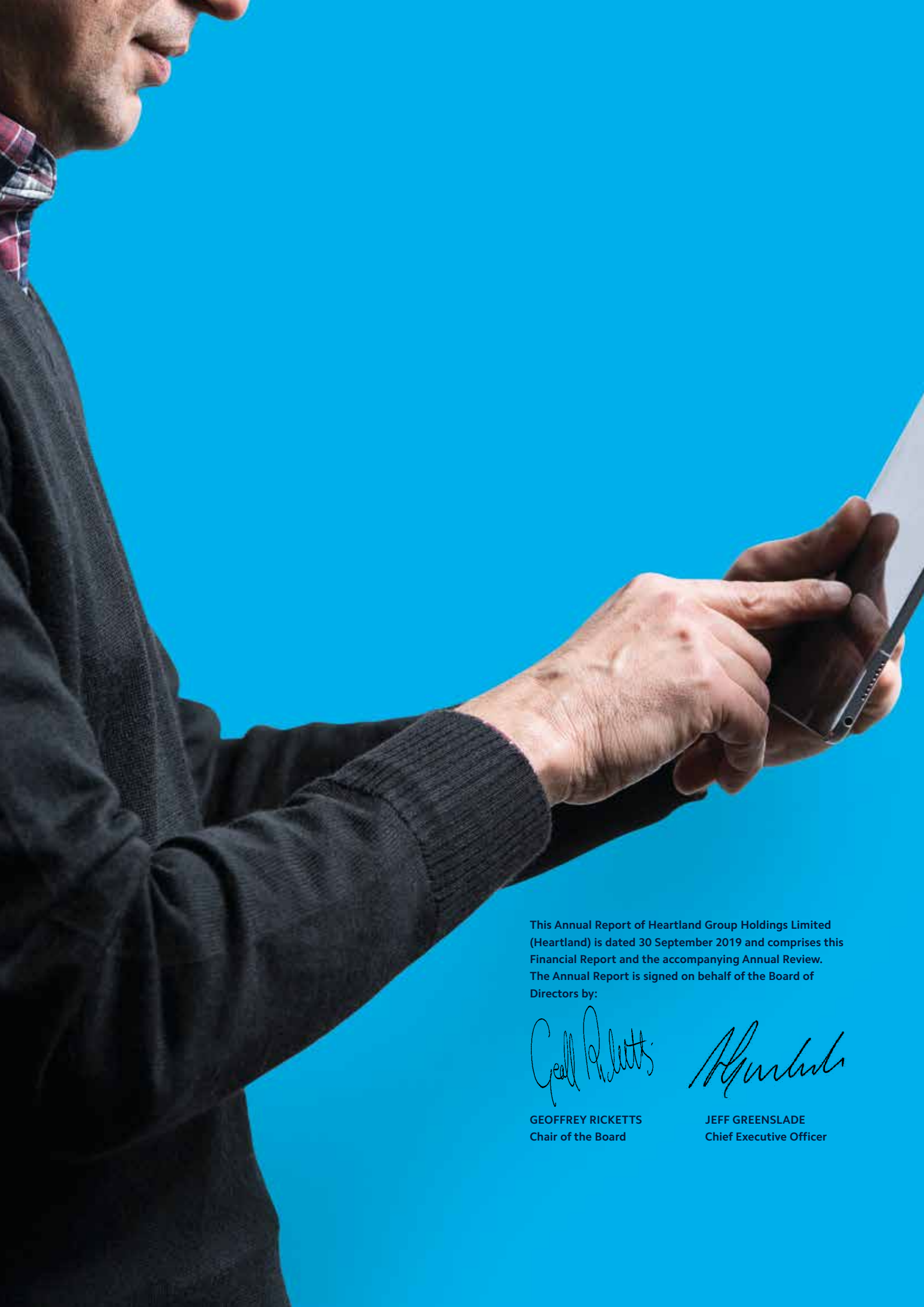


**Do the  
right thing  
Be one  
team  
Have big  
ambition  
Be always  
evolving**



This Annual Report of Heartland Group Holdings Limited (Heartland) is dated 30 September 2019 and comprises this Financial Report and the accompanying Annual Review. The Annual Report is signed on behalf of the Board of Directors by:

**GEOFFREY RICKETTS**  
Chair of the Board

**JEFF GREENSLADE**  
Chief Executive Officer



## Financial statements

General information.....	2
Directors.....	3
Auditor .....	3
Other material matters .....	3
Directors' statements .....	4
Consolidated statement of comprehensive income .....	5
Consolidated statement of changes in equity.....	6
Consolidated statement of financial position .....	7
Consolidated statement of cash flows .....	8

## Notes to the financial statements

1 Financial statements preparation .....	10
--	----

## Performance

2 Segment reporting .....	15
3 Net interest income.....	17
4 Net operating lease income.....	17
5 Other income.....	18
6 Operating expenses .....	18
7 Impaired asset expense.....	19
8 Taxation .....	20
9 Earnings per share .....	21

## Financial position

10 Investments.....	22
11 Investment properties.....	22
12 Derivative financial instruments .....	23
13 Finance receivables.....	25
14 Operating lease vehicles.....	28
15 Borrowings.....	28
16 Share capital and dividends .....	29
17 Other balance sheet items.....	30
18 Other reserves.....	31
19 Related party transactions and balances .....	31
20 Fair value.....	32

## Risk management

21 Enterprise risk management program .....	36
22 Credit risk exposure .....	39
23 Liquidity risk.....	42
24 Interest rate risk.....	44

## Other disclosures

25 Significant subsidiaries.....	46
26 Structured entities.....	46
27 Staff share ownership arrangements .....	47
28 Concentrations of funding.....	50
29 Contingent liabilities and commitments.....	50
30 Events after the reporting date .....	50
Auditor's report.....	51
Corporate governance.....	56

## Disclosures

Directors' disclosures.....	64
Executive remuneration .....	72
Diversity report .....	73
Shareholder information.....	76
Other information.....	77

Directory .....	78
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## Financial statements

### GENERAL INFORMATION

These financial statements are issued by Heartland Group Holdings Limited and its subsidiaries (the **Group**) for the year ended 30 June 2019.

Heartland Group Holdings Limited (**HGH**) is incorporated in New Zealand and registered under the Companies Act 1993. The shares in HGH are listed on the NZX Main Board and the Australian Securities Exchange under a Foreign Exempt Listing.

On 31 October 2018 HGH acquired Heartland Bank Limited (**HBL**) and subsidiaries (**HBL Group**) pursuant to a corporate restructure approved by the shareholders of HBL. Under this restructure all the shares of HBL were exchanged for shares in HGH. At the same time, the Australian group of companies owned by HBL were transferred to HGH. HGH was incorporated solely for the purpose of undertaking this transaction.

As common control remained after the restructure, the financial statements presented for the year ended 30 June 2019 are for the Group as if it had operated for the entire period. Comparative figures shown are for the consolidated HBL Group.

#### **Name and address for service**

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

#### **Details of incorporation**

HGH was incorporated under the Companies Act 1993 on 19 July 2018.

## DIRECTORS

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

### Chairman - Board of Directors

**Name:** Geoffrey Thomas Ricketts CNZM

**Qualifications:** LLB(Hons), LLD (honoris causa), CFInstD

**Type of Director:** Independent Non-Executive Director

**Occupation:** Company Director

**External Directorships:**

Asteron Life Limited, Janmac Capital Limited, Maisemore Enterprises Limited, MCF2 Message4U Limited, MCF 2 Nexus Limited, MCF 7 Limited, MCF 8 Limited, MCF 9 Limited, MCF 10 Limited, MCF2 (Fund 1) Limited, MCF2A General Partner Limited, MCF2 GP Limited, MCF3 GP Limited, MCF3B General Partner Limited, MCF3A General Partner Limited, MCF2 FFF-GK Limited, MC Medical Properties Limited, Mercury Capital No.1 Fund Limited, Mercury Capital No. 1 Trustee Limited, Mercury Pharmacy Holdings Limited, Mercury Medical Holdings Limited, New Zealand Catholic Education Office Limited, NZCEO Finance Limited, O & E Group Services Limited, Oceania and Eastern Finance Limited, Oceania and Eastern Group Funds Limited, Oceania and Eastern Holdings Limited, Oceania and Eastern Limited, Oceania and Eastern Securities Limited, Oceania North Limited, Oceania Securities Limited, Quartet Equities Limited, Suncorp Group Holdings (NZ) Ltd, Suncorp Group New Zealand Limited, Suncorp Group Services NZ Limited, The Centre for Independent Studies Limited, The Todd Corporation Limited, Todd Management Services Limited, Todd Offshore Limited, Vero Insurance New Zealand Limited, Vero Liability Insurance Limited.

**Name:** Jeffrey Kenneth Greenslade

**Qualifications:** LLB

**Type of Director:** Non-Independent Executive Director

**Occupation:** Chief Executive Officer

**External Directorships:** Nil

**Name:** Ellen Frances Comerford

**Qualifications:** BEC

**Type of Director:** Independent Non-Executive Director

**Occupation:** Chief Financial Officer of Hollard Insurance Company Pty Ltd

**External Directorships:**

Comerford Gohl Holdings Pty Limited, Hollard Holdings Australia Pty Limited, The Hollard Insurance Company Pty Limited.

**Name:** Sir Christopher Robert Mace KNZM

**Qualifications:** CMInstD

**Type of Director:** Independent Non-Executive Director

**Occupation:** Company Director

**External Directorships:**

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

**Name:** Gregory Raymond Tomlinson

**Qualifications:** AME

**Type of Director:** Independent Non-Executive Director

**Occupation:** Company Director

**External Directorships:**

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

## AUDITOR

KPMG

KPMG Centre

18 Viaduct Harbour Avenue

Auckland

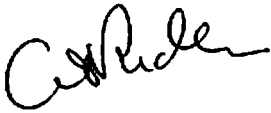
## OTHER MATERIAL MATTERS

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

## Financial statements

### DIRECTORS' STATEMENTS

The Consolidated Financial Statements are dated 15 August 2019 and have been signed by all the Directors.



G T Ricketts (Chair)



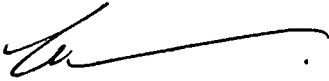
E F Comerford



J K Greenslade



Sir C R Mace



G R Tomlinson

# Consolidated statement of comprehensive income

For the year ended 30 June 2019

\$000's	NOTE	June 2019	June 2018
Interest income	3	334,330	309,284
Interest expense	3	136,747	125,483
<b>Net interest income</b>		<b>197,583</b>	<b>183,801</b>
Operating lease income	4	5,262	5,675
Operating lease expenses	4	3,427	4,005
<b>Net operating lease income</b>		<b>1,835</b>	<b>1,670</b>
Lending and credit fee income		3,117	2,351
Other income	5	3,307	8,972
<b>Net operating income</b>		<b>205,842</b>	<b>196,794</b>
Operating expenses	6	85,589	80,433
<b>Profit before impaired asset expense and income tax</b>		<b>120,253</b>	<b>116,361</b>
Fair value movement on investment property	11	1,936	-
Impaired asset expense	7	20,676	22,067
<b>Profit before income tax</b>		<b>101,513</b>	<b>94,294</b>
Income tax expense	8	27,896	26,781
<b>Profit for the year</b>		<b>73,617</b>	<b>67,513</b>
<b>Other comprehensive income</b>			
<i>Items that are or may be reclassified subsequently to profit or loss:</i>			
Effective portion of changes in fair value of derivative financial instruments, net of income tax		(4,762)	72
Movement in fair value reserve, net of income tax		2,968	981
Movement in foreign currency translation reserve		(5,281)	2,315
<b>Items that will not be reclassified to profit or loss:</b>			
Movement in defined benefit reserve, net of income tax		(86)	340
<b>Other comprehensive income for the year, net of income tax</b>		<b>(7,161)</b>	<b>3,708</b>
<b>Total comprehensive income for the year</b>		<b>66,456</b>	<b>71,221</b>
<b>Earnings per share</b>			
Basic earnings per share	9	13c	13c
Diluted earnings per share	9	13c	13c

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

The notes on pages 10 to 50 are an integral part of this consolidated financial statement.

## Financial statements

## Consolidated statement of changes in equity

For the year ended 30 June 2019

\$000's	Note	June 2019				June 2018			
		Share Capital	Reserves	Retained Earnings	Total Equity	Share Capital	Reserves	Retained Earnings	Total Equity
<b>Balance at beginning of year</b>		<b>542,315</b>	<b>4,585</b>	<b>117,260</b>	<b>664,160</b>	<b>470,516</b>	<b>1,437</b>	<b>97,642</b>	<b>569,595</b>
NZ IFRS 9 adjustment	1	-	-	(19,283)	(19,283)	-	-	-	-
<b>Restated balance at beginning of year</b>		<b>542,315</b>	<b>4,585</b>	<b>97,977</b>	<b>644,877</b>	<b>470,516</b>	<b>1,437</b>	<b>97,642</b>	<b>569,595</b>
<b>Total comprehensive income for the year</b>									
Profit for the year		-	-	73,617	73,617	-	-	67,513	67,513
Other comprehensive income/(loss) net of income tax		-	(7,161)	-	(7,161)	-	3,708	-	3,708
<b>Total comprehensive income for the year</b>		<b>-</b>	<b>(7,161)</b>	<b>73,617</b>	<b>66,456</b>	<b>-</b>	<b>3,708</b>	<b>67,513</b>	<b>71,221</b>
<b>Contributions by and distributions to owners</b>									
Dividends paid	16	-	-	(50,599)	(50,599)	-	-	(47,895)	(47,895)
Dividend reinvestment plan	16	14,333	-	-	14,333	12,745	-	-	12,745
Issue of share capital		-	-	-	-	59,225	-	-	59,225
Transaction costs associated with capital raising		(18)	-	-	(18)	(910)	-	-	(910)
Share based payments		-	619	-	619	-	666	-	666
Shares vested		2,340	(2,340)	-	-	739	(1,226)	-	(487)
<b>Total transactions with owners</b>		<b>16,655</b>	<b>(1,721)</b>	<b>(50,599)</b>	<b>(35,665)</b>	<b>71,799</b>	<b>(560)</b>	<b>(47,895)</b>	<b>23,344</b>
<b>Balance at the end of the year</b>		<b>558,970</b>	<b>(4,297)</b>	<b>120,995</b>	<b>675,668</b>	<b>542,315</b>	<b>4,585</b>	<b>117,260</b>	<b>664,160</b>

The notes on pages 10 to 50 are an integral part of this consolidated financial statement.



# Consolidated statement of financial position

As at 30 June 2019

\$000's	NOTE	June 2019	June 2018
<b>Assets</b>			
Cash and cash equivalents		80,584	49,588
Investments	10	354,928	340,546
Investment properties	11	11,132	9,196
Derivative financial instruments	12	12,675	923
Finance receivables	13	3,029,231	3,984,941
Finance receivables - reverse mortgages	13	1,318,819	-
Operating lease vehicles	14	15,516	17,524
Other assets	17	21,309	14,411
Intangible assets	17	72,679	74,401
Deferred tax asset	8	9,531	5,319
<b>Total assets</b>		<b>4,926,404</b>	<b>4,496,849</b>
<b>Liabilities</b>			
Retail deposits	15	3,153,681	2,881,805
Other borrowings	15	1,056,653	914,253
Tax liabilities		7,532	11,459
Derivative financial instruments	12	10,372	2,562
Trade and other payables	17	22,498	22,610
<b>Total liabilities</b>		<b>4,250,736</b>	<b>3,832,689</b>
<b>Equity</b>			
Share capital	16	558,970	542,315
Retained earnings and other reserves		116,698	121,845
<b>Total equity</b>		<b>675,668</b>	<b>664,160</b>
<b>Total equity and liabilities</b>		<b>4,926,404</b>	<b>4,496,849</b>
Total interest earning and discount bearing assets		4,773,180	4,361,937
Total interest and discount bearing liabilities		4,208,879	3,790,067

The notes on pages 10 to 50 are an integral part of this consolidated financial statement.

## Financial statements

## Consolidated statement of cash flows

For the year ended 30 June 2019

\$000's	Note	June 2019	June 2018
<b>Cash flows from operating activities</b>			
Interest received		304,991	280,471
Operating lease income received		4,761	4,941
Lending, credit fees and other income received		4,587	10,398
<b>Operating inflows</b>		<b>314,339</b>	<b>295,810</b>
Payments to suppliers and employees		89,607	73,672
Interest paid		135,404	123,783
Taxation paid		25,895	23,818
<b>Operating outflows</b>		<b>250,906</b>	<b>221,273</b>
<b>Net cash flows from operating activities before changes in operating assets and liabilities</b>		<b>63,433</b>	<b>74,537</b>
Proceeds from sale of operating lease vehicles		4,641	5,577
Purchase of operating lease vehicles		(5,495)	(7,163)
Net movement in finance receivables		(384,367)	(431,863)
Net movement in deposits		271,876	307,733
<b>Net cash flows applied to operating activities</b>		<b>(49,912)</b>	<b>(51,179)</b>
<b>Cash flows from investing activities</b>			
Net proceeds from sale of investment properties		-	3,185
Proceeds from equity investments		-	300
<b>Total cash provided from investing activities</b>		<b>-</b>	<b>3,485</b>
Purchase of property plant equipment and intangible assets		4,513	8,837
Net increase in investments		11,468	23,107
Purchase of investment properties		-	7,472
<b>Total cash applied to investing activities</b>		<b>15,981</b>	<b>39,416</b>
<b>Net cash flows applied to investing activities</b>		<b>(15,981)</b>	<b>(35,931)</b>
<b>Cash flows from financing activities</b>			
Net increase/(decrease) in wholesale funding		31,000	(93,507)
Proceeds from issue of Unsubordinated Notes		125,000	150,000
Increase in share capital		-	58,315
<b>Total cash provided from financing activities</b>		<b>156,000</b>	<b>114,808</b>
Dividends paid	16	36,265	35,150
Repayment of subordinated notes	15	22,846	-
<b>Total cash applied to financing activities</b>		<b>59,111</b>	<b>35,150</b>
<b>Net cash flows from financing activities</b>		<b>96,889</b>	<b>79,658</b>
<b>Net increase/(decrease) increase in cash held</b>		<b>30,996</b>	<b>(7,452)</b>
Opening cash and cash equivalents		49,588	57,040
<b>Closing cash and cash equivalents</b>		<b>80,584</b>	<b>49,588</b>

The notes on pages 10 to 50 are an integral part of this consolidated financial statement.

# Consolidated statement of cash flows

For the year ended 30 June 2019

## RECONCILIATION OF PROFIT AFTER TAX TO NET CASH FLOWS FROM OPERATING ACTIVITIES

\$000's	Note	June 2019	June 2018
<b>Profit for the year</b>		<b>73,617</b>	<b>67,513</b>
<b>Add / (less) non-cash items:</b>			
Depreciation and amortisation expense		5,760	4,638
Depreciation on lease vehicles		3,363	3,771
Capitalised net interest income		(29,417)	(26,373)
Impaired asset expense	7	20,676	22,067
Investment property fair value movement		(1,936)	-
<b>Total non-cash items</b>		<b>(1,554)</b>	<b>4,103</b>
<b>Add / (less) movements in operating assets and liabilities:</b>			
Finance receivables		(384,367)	(431,863)
Operating lease vehicles		(1,354)	(2,257)
Other assets		(8,260)	(635)
Current tax		(3,927)	1,603
Derivative financial instruments		(8,701)	(1,638)
Deferred tax		3,759	2,533
Deposits		271,876	307,733
Other liabilities		8,999	1,729
<b>Total movements in operating assets and liabilities</b>		<b>(121,975)</b>	<b>(122,795)</b>
<b>Net cash flows applied to operating activities</b>		<b>(49,912)</b>	<b>(51,179)</b>

The notes on pages 10 to 50 are an integral part of this consolidated financial statement.

## Financial statements

# Notes to the financial statements

For the year ended 30 June 2019

## 1 Financial statements preparation

### Reporting entity

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

On 31 October 2018 HGH acquired Heartland Bank Limited (**HBL**) pursuant to a corporate restructure approved by the shareholders of HBL. Under this restructure all the shares of HBL were exchanged for shares in HGH. At the same time, the Australian group of companies owned by HBL were transferred to HGH. HGH was incorporated solely for the purpose of undertaking this transaction. HGH is a Financial Markets Conduct (**FMC**) reporting entity for the purposes of the Financial Markets Conduct Act 2013.

As common control remained after the restructure, the financial statements presented for the year ended 30 June 2019 are for the Group as if it had operated for the entire period. Comparative figures shown are for the consolidated HBL Group.

As at 30 June 2019, the Group is a company incorporated in New Zealand under the Companies Act 1993.

### Basis of preparation

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

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

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

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

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

Certain comparative information has been restated to comply with the current year presentation.

### Principles of consolidation

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

Assets and liabilities with transactional currency that is not the New Zealand dollar, are translated at the exchange rates ruling at balance date. Revenue and expense items are translated at the spot rate at the transaction date or a rate approximating that rate. Exchange differences are taken to the Consolidated Statement of Comprehensive Income.

### Changes in accounting policy

The Group adopted NZ IFRS 9 - Financial instruments (**NZ IFRS 9**) and NZ IFRS 15 - Revenue from contracts with customers (**NZ IFRS 15**) from 1 July 2018. There have been no changes in previously reported financials.

#### *NZ IFRS 9 Financial instruments*

In accordance with the transition provisions of NZ IFRS 9 the classification and measurement requirements of this standard have been applied retrospectively by adjusting affected opening balances at the date of initial application with no restatement of comparative periods.

The following changes have been made to accounting policies as result of the application of NZ IFRS 9.

#### *Impairment of finance receivables*

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

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

## 1 Financial statements preparation (continued)

After initial recognition, the Group applies a three stage test to measuring ECLs. Assets may migrate through the following stages based on their change in credit quality.

- Stage 1** 12 months ECL (past due 30 days or less)  
Where there has been no evidence of increased credit risk since initial recognition, and are not credit impaired upon origination, the portion of the lifetime ECL associated with the probability of default events occurring within the next 12 months is recognised.
- Stage 2** Lifetime ECL not credit impaired (greater than 30 but less than 90 days past due)  
Where there has been a significant increase in credit risk.
- Stage 3** Lifetime ECL credit impaired (90 days past due or more)  
Objective evidence of impairment, so are considered to be in default or otherwise credit impaired.

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

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

### Impairment of investments

The requirements of NZ IFRS 9 also apply to the Group's investments. The impact of which has been assessed as not material.

The table below shows the changes to classification and measurement of the Group's financial assets due to the adoption of NZ IFRS 9. There are no changes in the classification or measurement category of the Group's financial liabilities.

Financial Instruments	NZ IAS 39 Measurement category	NZ IFRS 9 Measurement category	NZ IAS 39 Carrying value June 2018	NZ IFRS 9 Carrying value 1 July 2018
<b>Financial assets</b>				
Bank bonds and floating rate notes	Available for sale (AFS)	Fair value through other comprehensive income (FVOCI)	230,754	230,754
Public sector securities and Corporate bonds	AFS	FVOCI	57,818	57,818
Local authority stock	AFS	FVOCI	42,280	42,280
Equity investments	Fair value through profit or loss (FVTPL)	FVOCI	9,694	9,694
Finance receivables – reverse mortgages	Amortised cost	FVTPL	1,129,956	1,132,838
Finance receivables	Amortised cost	Amortised cost	2,854,985	2,824,819
Trade receivables	Amortised cost	Amortised cost	1,613	1,613

## Financial statements

# Notes to the financial statements

For the year ended 30 June 2019

### 1 Financial statements preparation (continued)

The table below is a reconciliation of the balance sheet detailing the changes from NZ IAS 39 to NZ IFRS 9.

\$000's	Audited 12 months to June 2018	Impact of NZ IFRS 9 Restatement	Restated 1 July 2018
<b>Assets</b>			
Cash and cash equivalents	49,588	–	49,588
Investments	340,546	–	340,546
Investment properties	9,196	–	9,196
Derivative financial instruments	923	–	923
Finance receivables	3,984,941	(27,284)	3,957,657
Operating lease vehicles	17,524	–	17,524
Other assets	14,411	–	14,411
Intangible assets	74,401	–	74,401
Deferred tax asset	5,319	8,001	13,320
<b>Total assets</b>	<b>4,496,849</b>	<b>(19,283)</b>	<b>4,477,566</b>
<b>Liabilities</b>			
Retail deposits	2,881,805	–	2,881,805
Other borrowings	914,253	–	914,253
Tax liabilities	11,459	–	11,459
Derivative financial instruments	2,562	–	2,562
Trade and other payables	22,610	–	22,610
<b>Total liabilities</b>	<b>3,832,689</b>	<b>–</b>	<b>3,832,689</b>
<b>Equity</b>			
Share capital	542,315	–	542,315
Retained earnings and reserves	121,845	(19,283)	102,562
<b>Total equity</b>	<b>664,160</b>	<b>(19,283)</b>	<b>644,877</b>
<b>Total equity and liabilities</b>	<b>4,496,849</b>	<b>–</b>	<b>4,477,566</b>
<b>Impact of NZ IFRS 9 adjustment on adoption</b>			
Additional provision for impairment recognised at 1 July 2018 on:			
– Finance receivables			28,085
– Finance receivables - reverse mortgages			(2,824)
Provision for impairment at 1 July 2018			25,261
Change in valuation basis - reverse mortgages			2,023
Income tax expense			(8,001)
<b>Net impact on retained earnings</b>			<b>19,283</b>

#### NZ IFRS 15 Revenue from contracts with customers

The Group adopted NZ IFRS 15 on 1 July 2018. This standard provides a principles based approach for revenue recognition and introduces the concept of recognising revenue for performance obligations as they are satisfied.

The Group has adopted this standard retrospectively with the cumulative effect of initial application recognised as an adjustment to opening balances and has applied all practical expedients applicable. There have been no changes to previously reported financials.

## 1 Financial statements preparation (continued)

### Accounting standards issued but not yet effective

Standard and description	Effective for annual years beginning on or after	Expected to be initially applied in year ending
<b>NZ IFRS 16 Leases:</b> contains guidance on identification, recognition, measurement, presentation and disclosure of leases by lessees and lessors.	1 January 2019	30 June 2020
<b>NZ IFRS 9 Financial instruments:</b> contains relaxed requirements for hedge effectiveness, and expanded disclosures.	1 January 2019	To be confirmed
<b>NZ IFRS 17 Insurance contracts:</b> establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts.	1 January 2021	30 June 2022

#### NZ IFRS 16 Leases

NZ IFRS 16 *Leases* replaces NZ IAS 17 *Leases* and will be adopted by the Group from 1 July 2019. NZ IFRS 16 requires that a right of use asset and lease liability is recognised at lease commencement date. The value of the lease liability is the present value of all future payments arising from a lease contract. The right of use asset will be depreciated over the life of the lease. This could affect the timing on expenses of leased assets. This change will primarily affect leases relating to properties and car leases. Currently the Group accounts for these as operating leases.

The Group intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption. All practical expedients available to the Group around short term leases, and low value leases will be applied. Right-of-use assets will be measured on transition as if the new rules had always been applied, using the transition discount rate. The cumulative effect of adopting NZ IFRS 16 is estimated at \$2 million and will be recognised as an adjustment to the opening balance of retained earnings at 1 July 2019, with no restatement of comparative information.

#### NZ IFRS 9 Financial instruments

NZ IFRS 9 introduces new hedge accounting requirements which more closely align accounting with risk management activities undertaken when hedging financial and non-financial risks. NZ IFRS 9 provides the Group with an accounting policy choice to continue to apply the NZ IAS 39 hedge accounting requirements until the International Accounting Standards Board's ongoing project on macro hedge accounting is completed. The Group's current expectation is that it will continue to apply the hedge accounting requirements of NZ IAS 39.

### Estimates and judgements

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

- ▲ Provisions for impairment – The effect of credit risk is quantified based on management's best estimate of future cash repayments and proceeds from any security held or by reference to risk profile groupings and historical loss data. Refer to Note 13 - Finance receivables for further details.
- ▲ Fair value of reverse mortgages – Fair value is quantified by the transaction price and management's subsequent best estimate of the risk profile of the reverse mortgage portfolio. Refer to Note 20 – Fair value for further details.
- ▲ Goodwill – Determining the fair value of assets and liabilities of acquired businesses requires the exercise of management judgement. The carrying value of goodwill is tested annually for impairment, refer to Note 17 - Other balance sheet items.

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

## Financial statements

# Notes to the financial statements

For the year ended 30 June 2019

### 1 Financial statements preparation (continued)

#### Financial assets and liabilities

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

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

The Group derecognises a financial liability when its contractual obligations are discharged, cancelled or expire.

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

#### Offsetting financial instruments

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



## PERFORMANCE

### 2 Segment reporting

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

#### *Operating segments*

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

<b>Motor</b>	Providing motor vehicle finance.
<b>Reverse Mortgages</b>	Providing reverse mortgage lending within NZ.
<b>Other Personal</b>	Providing a comprehensive range of financial services – including term, transactional and savings based deposit accounts and personal loans.
<b>Business</b>	Providing term debt, plant and equipment finance, commercial mortgage lending and working capital solutions for small-to-medium businesses.
<b>Rural</b>	Providing specialist financial services to the farming sector primarily offering livestock finance, rural mortgage lending, seasonal and working capital financing, as well as leasing solutions to farmers.
<b>Australia</b>	Providing reverse mortgage lending and other financial services within Australia.

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

Internal structures have changed during the current year. Previously reported Household segment has been disaggregated to show Motor, Reverse Mortgages and Other Personal. Prior year numbers have been restated accordingly.

## Financial statements

## Notes to the financial statements

For the year ended 30 June 2019

## 2 Segment reporting (continued)

\$000's	Motor	Reverse Mortgages	Other Personal	Business	Rural	Australia	Other	Total
<b>June 2019</b>								
Net interest income	54,753	20,673	16,345	54,334	30,865	21,148	(535)	197,583
Net other income	2,313	224	2,563	1,524	816	1,582	(763)	8,259
<b>Net operating income</b>	<b>57,066</b>	<b>20,897</b>	<b>18,908</b>	<b>55,858</b>	<b>31,681</b>	<b>22,730</b>	<b>(1,298)</b>	<b>205,842</b>
Operating expenses	2,543	2,279	5,602	9,163	3,263	5,115	57,624	85,589
<b>Profit/(loss) before impaired asset expense and income tax</b>	<b>54,523</b>	<b>18,618</b>	<b>13,306</b>	<b>46,695</b>	<b>28,418</b>	<b>17,615</b>	<b>(58,922)</b>	<b>120,253</b>
Fair value movement on investment property				1,936				1,936
Impaired asset expense	5,009	268	8,429	7,102	(132)	-	-	20,676
<b>Profit/(loss) before income tax</b>	<b>49,514</b>	<b>18,350</b>	<b>4,877</b>	<b>41,529</b>	<b>28,550</b>	<b>17,615</b>	<b>(58,922)</b>	<b>101,513</b>
Income tax expense	-	-	-	-	-	5,016	22,880	27,896
<b>Profit/(loss) for the year</b>	<b>49,514</b>	<b>18,350</b>	<b>4,877</b>	<b>41,529</b>	<b>28,550</b>	<b>12,599</b>	<b>(81,802)</b>	<b>73,617</b>
<b>Total assets</b>	<b>1,074,446</b>	<b>561,211</b>	<b>215,253</b>	<b>1,096,253</b>	<b>643,278</b>	<b>758,268</b>	<b>577,695</b>	<b>4,926,404</b>
<b>Total liabilities</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>740,111</b>	<b>3,510,625</b>	<b>4,250,736</b>
<b>June 2018 (restated)</b>								
Net interest income	50,328	18,189	12,421	51,189	32,122	20,215	(663)	183,801
Net other income	2,515	262	2,392	1,124	163	310	6,227	12,993
<b>Net operating income</b>	<b>52,843</b>	<b>18,451</b>	<b>14,813</b>	<b>52,313</b>	<b>32,285</b>	<b>20,525</b>	<b>5,564</b>	<b>196,794</b>
Operating expenses	2,914	1,670	6,552	8,130	4,351	4,142	52,674	80,433
<b>Profit/(loss) before impaired asset expense and income tax</b>	<b>49,929</b>	<b>16,781</b>	<b>8,261</b>	<b>44,183</b>	<b>27,934</b>	<b>16,383</b>	<b>(47,110)</b>	<b>116,361</b>
Impaired asset expense	7,779	(362)	5,741	6,275	2,400	234	-	22,067
<b>Profit/(loss) before income tax</b>	<b>42,150</b>	<b>17,143</b>	<b>2,520</b>	<b>37,908</b>	<b>25,534</b>	<b>16,149</b>	<b>(47,110)</b>	<b>94,294</b>
Income tax expense	-	-	-	-	-	-	26,781	26,781
<b>Profit/(loss) for the year</b>	<b>42,150</b>	<b>17,143</b>	<b>2,520</b>	<b>37,908</b>	<b>25,534</b>	<b>16,149</b>	<b>(73,891)</b>	<b>67,513</b>
<b>Total assets</b>	<b>955,088</b>	<b>453,119</b>	<b>178,309</b>	<b>1,048,239</b>	<b>654,935</b>	<b>695,251</b>	<b>511,908</b>	<b>4,496,849</b>
<b>Total liabilities</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>3,832,689</b>	<b>3,832,689</b>

NOTES

### 3 Net interest income

#### Policy

Interest income and expense is recognised in profit or loss using the effective interest method. The effective interest rate is established on initial recognition of the financial assets and liabilities and is not revised subsequently. The calculation of the effective interest rate includes all yield related fees and commissions paid or received that are an integral part of the effective interest rate.

Interest on the effective portion of a derivative designated as a cash flow hedge is initially recognised in the hedging reserve. It is released to profit or loss at the same time as the hedged item or when the hedge relationship is subsequently deemed to be ineffective, should this occur.

\$000's	June 2019	June 2018
<b>Interest income</b>		
Cash and cash equivalents	717	842
Investments	10,864	9,515
Finance receivables	242,556	231,848
Finance receivables - reverse mortgages	80,193	67,079
<b>Total interest income</b>	<b>334,330</b>	<b>309,284</b>
<b>Interest expense</b>		
Retail deposits	97,119	90,880
Other borrowings	36,382	31,976
Net interest expense on derivative financial instruments	3,246	2,627
<b>Total interest expense</b>	<b>136,747</b>	<b>125,483</b>
<b>Net interest income</b>	<b>197,583</b>	<b>183,801</b>

### 4 Net operating lease income

#### Policy

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

\$000's	June 2019	June 2018
<b>Operating lease income</b>		
Lease income	4,761	5,004
Gain on disposal of lease assets	501	671
<b>Total operating lease income</b>	<b>5,262</b>	<b>5,675</b>
<b>Operating lease expense</b>		
Depreciation on lease assets	3,363	3,771
Direct lease costs	64	234
<b>Total operating lease expenses</b>	<b>3,427</b>	<b>4,005</b>
<b>Net operating lease income</b>	<b>1,835</b>	<b>1,670</b>

## Financial statements

# Notes to the financial statements

For the year ended 30 June 2019

## 5 Other income

### Policy

#### Investment property

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

#### Other income

Other items of income are recognised at the fair value of the consideration received or receivable.

\$000's	June 2019	June 2018
Rental income from investment properties	662	739
Insurance income	2,436	2,238
Gain on sale of investments	173	156
Other income <sup>1</sup>	36	5,839
<b>Total other income</b>	<b>3,307</b>	<b>8,972</b>

1 In June 2018 Other income includes

- A \$0.6 million gain on the sale of the HBL's invoice finance business.
- A \$4.8 million gain in relation to the sale of property pertaining to a loan previously written off for which the bank had entered into a profit share arrangement with third parties.

## 6 Operating expenses

### Policy

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

\$000's	June 2019	June 2018
Personnel expenses	46,346	45,539
Directors' fees	1,099	972
Superannuation	1,081	921
Audit and review of financial statements <sup>1</sup>	614	433
Other assurance services paid to auditor <sup>2</sup>	52	36
Other fees paid to auditor <sup>3</sup>	–	171
Depreciation - property, plant and equipment	1,867	1,386
Amortisation - intangible assets	3,893	3,252
Operating lease expense as a lessee	1,807	2,033
Legal and professional fees	3,130	2,267
Other operating expenses	25,700	23,423
<b>Total operating expenses</b>	<b>85,589</b>	<b>80,433</b>

1 Audit and review of financial statement includes fees paid for both audit of financial statement and review of interim financial statement.

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

3 Other fees paid to the auditor include professional fees in connection with regulatory advisory services and health and safety framework review.

## 7 Impaired asset expense

### Policy

#### Impairment of finance receivables

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

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

After initial recognition, the Group applies a three stage test to measuring ECLs. Assets may migrate through the following stages based on their change in credit quality.

#### Stage 1 – 12 months ECL (past due 30 days or less)

Where there has been no evidence of increased credit risk since initial recognition, and are not credit impaired upon origination, the portion of the lifetime ECL associated with the probability of default events occurring within the next 12 months is recognised.

#### Stage 2 – Lifetime ECL not credit impaired (greater than 30 but less than 90 days past due)

Where there has been a significant increase in credit risk.

#### Stage 3 – Lifetime ECL credit impaired (90 days past due or more)

Objective evidence of impairment, so are considered to be in default or otherwise credit impaired.

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

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

\$000's	June 2019	June 2018
<b>Non-securitised</b>		
Individually impaired expense	1,311	5,190
Collectively impaired expense	19,024	16,889
<b>Total non-securitised impaired asset expense</b>	<b>20,335</b>	<b>22,079</b>
<b>Securitised</b>		
Collectively impaired expense	341	(12)
<b>Total securitised impaired asset expense</b>	<b>341</b>	<b>(12)</b>
<b>Total</b>		
Individually impaired expense	1,311	5,190
Collectively impaired expense	19,365	16,877
<b>Total impaired asset expense</b>	<b>20,676</b>	<b>22,067</b>

## Financial statements

# Notes to the financial statements

For the year ended 30 June 2019

## 8 Taxation

### Policy

#### Income tax

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

#### Current tax

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

#### Deferred tax

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

#### Goods and services tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST. As the Group is predominantly involved in providing financial services, only a proportion of GST paid on inputs is recoverable. The non-recoverable proportion of GST is treated as part of the cost of assets at the time of acquisition or is expensed.

### NOTES

#### Income tax expense

\$000's	June 2019	June 2018
<b>Income tax recognised in profit and loss</b>		
<b>Current tax</b>		
Current year	25,181	24,861
Adjustments for prior year	(1,989)	(332)
Tax other rates	277	-
<b>Deferred tax</b>		
Current year	3,306	1,898
Tax other rates	54	-
Adjustments for prior year	1,067	354
<b>Total income tax expense recognised</b>	<b>27,896</b>	<b>26,781</b>
<b>Income tax recognised in other comprehensive income</b>		
<b>Current tax</b>		
Derivatives at fair value reserve	(82)	(261)
<b>Deferred tax</b>		
Defined benefit plan	(34)	(132)
Fair value movements of cash flow hedges	(238)	(149)
<b>Total income tax expense recognised in other comprehensive income</b>	<b>(354)</b>	<b>(542)</b>
<b>Reconciliation of effective tax rate</b>		
Profit before income tax	101,513	94,294
Prima facie tax @ 28%	28,424	26,402
Higher tax rate for overseas jurisdiction	331	299
Plus tax effect of items not taxable/deductible	63	58
Adjustments for prior year	(922)	22
<b>Total income tax expense</b>	<b>27,896</b>	<b>26,781</b>

## 8 Taxation (continued)

Deferred tax assets comprise the following temporary differences:

\$000's	June 2019	June 2018
Employee expenses	1,286	1,240
Provision for impairment	14,574	8,427
Investment properties	4	546
Intangibles and property, plant and equipment	(4,182)	(2,100)
Deferred acquisition costs	(1,321)	(1,476)
Operating lease vehicles	(800)	(850)
Other temporary differences	(30)	(468)
<b>Total deferred tax assets</b>	<b>9,531</b>	<b>5,319</b>
Opening balance of deferred tax assets	5,319	7,852
Movement recognised in profit or loss	(4,537)	(2,252)
Movement recognised in other comprehensive income	(272)	(281)
Foreign exchange and other	777	-
Movement recognised in retained earnings	8,244	-
<b>Closing balance of deferred tax assets</b>	<b>9,531</b>	<b>5,319</b>

### Imputation credit account

\$000's	June 2019	June 2018
Imputation credit account	9,116	6,717

## 9 Earnings per share

	June 2019			June 2018		
	Earnings per share cents	Net profit after tax \$000's	Weighted average no. of shares 000's	Earnings per share cents	Net profit after tax \$000's	Weighted average no. of shares 000's
Basic earnings	13	73,617	563,364	13	67,513	538,594
Diluted earnings	13	73,617	563,364	13	67,513	538,594

## Financial statements

# Notes to the financial statements

For the year ended 30 June 2019

## FINANCIAL POSITION

### 10 Investments

#### Policy

The Group holds investments in bank deposits, bank bonds and floating rate notes, local authority stock, public securities, corporate bonds and equity investments. The fair values are derived by reference to published price quotations in an active market or modelled using observable market rates. Investments are classified as being fair value through other comprehensive income.

\$000's	June 2019	June 2018
Bank deposits, bank bonds and floating rate notes	246,724	230,754
Public sector securities and corporate bonds	82,370	57,818
Local authority stock	13,399	42,280
Equity investments	12,435	9,694
<b>Total investments</b>	<b>354,928</b>	<b>340,546</b>

### 11 Investment properties

#### Policy

Investment properties are initially recorded at fair value, with subsequent changes in fair value recognised in Profit or loss. Fair values are determined by qualified independent valuers or other similar external evidence, adjusted for changes in market conditions and the time since last valuation.

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).

\$000's	June 2019	June 2018
Opening balance	9,196	4,909
Acquisition	–	7,472
Fair value movement	1,936	–
Disposals	–	(3,185)
<b>Closing balance</b>	<b>11,132</b>	<b>9,196</b>

A \$1.9 million increase in the fair value of non-core legacy property assets has been recognised, reflecting Management's view on the current market value of this portfolio.



## 12 Derivative financial instruments

### Policy

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

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

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

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

### Fair value hedge accounting

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

- ▲ the hedging relationship must be formally designated and documented at inception of the hedge,
- ▲ effectiveness testing must be carried out to ensure the hedge is effective, consistent with the originally documented risk management strategy, and
- ▲ the instruments must involve a party external to the Group.

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

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

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

## Financial statements

# Notes to the financial statements

For the year ended 30 June 2019

## 12 Derivative financial instruments (continued)

### Cash flow hedge accounting

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

- ▲ the hedging relationship must be formally designated and documented at inception of the hedge,
- ▲ effectiveness testing must be carried out to ensure the hedge is effective, consistent with the originally documented risk management strategy, and
- ▲ the instruments must involve a party external to the Group.

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

A fair value gain or loss associated with the effective portion of a derivative designated as a cash flow hedge is recognised initially in the hedging reserve. The ineffective portion of a fair value gain or loss is recognised immediately in the Consolidated Statement of Comprehensive Income.

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

## NOTES

\$000's	June 2019			June 2018		
	Notional principal	Fair value assets	Fair value liabilities	Notional principal	Fair value assets	Fair value liabilities
<b>Held for risk management</b>						
<b>Interest rate related contracts</b>						
Swaps	1,958,083	11,232	10,230	744,822	923	2,562
<b>Foreign currency related contracts</b>						
Forwards	222,769	315	142	-	-	-
Options	177,255	1,128	-	-	-	-
<b>Total derivative financial instruments</b>	<b>2,358,107</b>	<b>12,675</b>	<b>10,372</b>	<b>744,822</b>	<b>923</b>	<b>2,562</b>

## 13 Finance receivables

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

#### Policy

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

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

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

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

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

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

\$000's	June 2019	June 2018
<b>Non-securitised</b>		
Neither at least 90 days past due nor impaired - at amortised cost	3,016,844	3,863,764
At least 90 days past due- at amortised cost	44,466	27,893
Individually impaired - at amortised cost	26,412	45,186
<b>Gross finance receivables</b>	<b>3,087,722</b>	<b>3,936,843</b>
Less provision for impairment	(58,491)	(29,367)
Less fair value adjustment for present value of future losses over expected life	-	(2,824)
<b>Total non-securitized finance receivables</b>	<b>3,029,231</b>	<b>3,904,652</b>
<b>Securitized</b>		
Neither at least 90 days past due nor impaired - at amortised cost	-	79,809
At least 90 days past due- at amortised cost	-	784
Individually impaired - at amortised cost	-	-
<b>Gross finance receivables</b>	<b>-</b>	<b>80,593</b>
Less provision for impairment	-	(304)
<b>Total securitized finance receivables</b>	<b>-</b>	<b>80,289</b>
<b>Total</b>		
Neither at least 90 days past due nor impaired - at amortised cost	3,016,844	3,943,573
At least 90 days past due - at amortised cost	44,466	28,677
Individually impaired - at amortised cost	26,412	45,186
<b>Gross finance receivables</b>	<b>3,087,722</b>	<b>4,017,436</b>
Less provision for impairment	(58,491)	(29,671)
Less fair value adjustment for present value of future losses over expected life	-	(2,824)
<b>Total finance receivables</b>	<b>3,029,231</b>	<b>3,984,941</b>

## Financial statements

## Notes to the financial statements

For the year ended 30 June 2019

## 13 Finance receivables (continued)

## (a) Finance receivables held at amortised cost

\$000's	12 month ECL	Lifetime ECL Not credit impaired	Lifetime ECL Credit impaired	Collective provision June 2018	Specific provision	Total
<b>Non-securitised</b>						
Impairment allowance as at 30 June 2018	–	–	–	20,301	9,066	29,367
Restated for adoption of NZ IFRS 9	31,784	1,365	14,945	(20,301)	(169)	27,624
<b>Restated impairment allowance as at 1 July 2018</b>	<b>31,784</b>	<b>1,365</b>	<b>14,945</b>	<b>–</b>	<b>8,897</b>	<b>56,991</b>
Changes in loss allowance						
Transfer to 12 month	1,144	(1,071)	(73)	–	–	–
Transfer to lifetime not credit impaired	(2,134)	2,268	(134)	–	–	–
Transfer to lifetime credit impaired	(29)	(1,399)	1,428	–	–	–
Transfer to specific provision	(1,443)	(36)	(1,169)	–	2,648	–
Effect of changes in foreign exchange rate	(52)	(3)	(1)	–	–	(56)
Impaired asset expense	911	607	17,505	–	1,311	20,334
Write offs	–	–	(15,720)	–	(4,993)	(20,713)
Transfer to/from securitised	240	49	817	–	–	1,106
Recovery of amounts written off	–	–	829	–	–	829
<b>Closing impairment allowance</b>	<b>30,421</b>	<b>1,780</b>	<b>18,427</b>	<b>–</b>	<b>7,863</b>	<b>58,491</b>
<b>Securitised</b>						
Impairment allowance as at 30 June 2018	–	–	–	304	–	304
Restated for adoption of NZ IFRS 9	400	20	345	(304)	–	461
<b>Restated impairment allowance as at 1 July 2018</b>	<b>400</b>	<b>20</b>	<b>345</b>	<b>–</b>	<b>–</b>	<b>765</b>
Changes in loss allowance						
Transfer to 12 month	35	(34)	(1)	–	–	–
Transfer to lifetime not credit impaired	(42)	44	(2)	–	–	–
Transfer to lifetime credit impaired	(1)	(17)	18	–	–	–
Transfer to specific provision	–	–	–	–	–	–
Effect of changes in foreign exchange rate	–	–	–	–	–	–
Impaired asset expense	(152)	36	457	–	–	341
Write offs	–	–	–	–	–	–
Transfer to/from non-securitised	(240)	(49)	(817)	–	–	(1,106)
Recovery of amounts written off	–	–	–	–	–	–
<b>Closing impairment allowance</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>
<b>Total</b>						
Impairment allowance as at 30 June 2018	–	–	–	20,605	9,066	29,671
Restated for adoption of NZ IFRS 9	32,184	1,385	15,290	(20,605)	(169)	28,085
<b>Restated impairment allowance as at 1 July 2018</b>	<b>32,184</b>	<b>1,385</b>	<b>15,290</b>	<b>–</b>	<b>8,897</b>	<b>57,756</b>
Changes in loss allowance						
Transfer to 12 month	1,179	(1,105)	(74)	–	–	–
Transfer to lifetime not credit impaired	(2,176)	2,312	(136)	–	–	–
Transfer to lifetime credit impaired	(30)	(1,416)	1,446	–	–	–
Transfer to specific provision	(1,443)	(36)	(1,169)	–	2,648	–
Effect of changes in foreign exchange rate	(52)	(3)	(1)	–	–	(56)
Impaired asset expense	759	643	17,962	–	1,311	20,675
Write offs	–	–	(15,720)	–	(4,993)	(20,713)
Transfers	–	–	–	–	–	–
Recovery of amounts written off	–	–	829	–	–	829
<b>Closing impairment allowance</b>	<b>30,421</b>	<b>1,780</b>	<b>18,427</b>	<b>–</b>	<b>7,863</b>	<b>58,491</b>

## 13 Finance receivables (continued)

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

#### Summary of impairment allowance

\$000's	Non-securitised June 2019	Total June 2019
Collective allowance measured on a 12 month ECL	30,421	30,421
Collective allowance not credit impaired	1,780	1,780
Collective allowance credit impaired	18,427	18,427
Specific allowance	7,863	7,863
<b>Total impairment allowance</b>	<b>58,491</b>	<b>58,491</b>

#### Impact of changes in gross carrying amounts of ECL

The following provides an explanation of how significant change in the gross carrying value of the finance receivables have contributed to the changes in the provision for impairment. The provision for impairment reflects ECL measured using the 3 stage approach under NZ IFRS 9 (refer Note 1 Financial statement preparation).

Overall the net increase in the total provision for impairment was \$0.7 million which was primarily driven by an increase in stage 2 and 3 collective provisions offset by a reduction in stage 1 provisions and specific provisions.

Collective 12 month ECL provisions (stage 1) decreased \$1.8 million. Net growth in receivables of \$339 million added \$3.0 million to stage 1 provisions. This was offset by a reduction in provisions of \$2.1 million as a result of changes to expected loss rates in the Motor book following changes to and investment in collection processes. Stage 1 provisions were further reduced on \$289 million loans moving from stage 2 to stage 3 or specifically provided, offset by \$134 million of loans moving from stage 2 and 3 or specifically provided.

Collective lifetime not credit impaired provisions (stage 2) increased \$0.4 million. \$282 million of receivables transferred to stage 2 due to deterioration in credit quality and \$8 million transferred from stage 3 due to improvement in asset quality. These were offset by \$209 million which was repaid or transferred to stage 1 due to improvement in credit quality and \$90m transferred to stage 3 or specifically provided due to deterioration in credit quality.

Collective lifetime credit impaired provisions (stage 3) increased \$3.1 million driven primarily by a net increase in receivables of \$17 million. This was due to a net increase transferred to stage 3 of \$57 million offset by \$40 million of loans that were repaid or written off in the period.

The reduction in specific provisions of \$1.0 million was primarily the result of provisions on \$24 million of loans transferred from collectively provided off set by the release of provisions on \$14 million of loans that were repaid or written off in the period.

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

#### Policy

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

Advances relating to reverse equity mortgages are recognised in the financial statements at fair value through profit or loss, therefore carrying amount equals fair value. Note 20 (a) Fair Value of the financial statements discloses further information regarding the Group's valuation policy.

Note 22 Credit Risk Exposure of the financial statements discloses further information regarding how reverse mortgages operate.

\$000's	June 2019	June 2018
Finance receivables - reverse mortgages	1,318,819	-
<b>Total Finance receivables - reverse mortgages at fair value</b>	<b>1,318,819</b>	<b>-</b>

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

There were no credit risk adjustments on individual financial assets.

Credit risk adjustments on financial assets designated at fair value through Profit or loss are presented in the following table.

\$000's	Non-securitised June 2019	Total June 2019
Opening balance as at 30 June 2018	2,824	2,824
Restated for adoption of NZ IFRS 9	(2,824)	(2,824)
Restated opening balance as at 1 July 2018	-	-
<b>Closing balance as at 30 June 2019</b>	<b>-</b>	<b>-</b>

## Financial statements

# Notes to the financial statements

For the year ended 30 June 2019

### 14 Operating lease vehicles

#### Policy

Operating lease vehicles are stated at cost less accumulated depreciation.

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

\$000's	June 2019	June 2018
<b>Cost</b>		
Opening balance	24,703	28,137
Acquisitions	5,495	7,163
Disposals	(8,575)	(10,597)
<b>Closing balance</b>	<b>21,623</b>	<b>24,703</b>
<b>Accumulated depreciation</b>		
Opening balance	7,179	9,099
Depreciation charge	3,363	3,771
Disposals	(4,435)	(5,691)
<b>Closing balance</b>	<b>6,107</b>	<b>7,179</b>
Opening NBV	17,524	19,038
<b>Closing NBV</b>	<b>15,516</b>	<b>17,524</b>

The future minimum lease payments receivable under non-cancellable operating leases not later than one year is \$3.952 million (2018: \$4.380 million), within one to five years is \$3.137 million (2018: \$3.897 million) and over five years is nil (2018: nil).

### 15 Borrowings

#### Policy

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

\$000's	June 2019	June 2018
Deposits	3,153,681	2,881,805
<b>Total borrowings relating to deposits</b>	<b>3,153,681</b>	<b>2,881,805</b>
Subordinated bonds	–	3,378
Subordinated notes	–	22,172
Unsubordinated notes	337,680	151,853
Bank borrowings	25,002	35,004
Certificate of deposit	34,836	39,832
Securitised borrowing	659,135	662,014
<b>Total borrowings other</b>	<b>1,056,653</b>	<b>914,253</b>

Deposits and unsubordinated notes rank equally and are unsecured.

The subordinated notes (settled early on 31 October 2018) and subordinated bonds ranked below all other general liabilities of the Group.

The Group from time to time issues unsubordinated notes. At 30 June 2019 the Group had the following unsubordinated notes outstanding.

#### ▲ Issuer HBL

- \$125 million five year unsubordinated notes issued 12 April 2019, interest payable six monthly, maturing 12 April 2024.
- \$150 million five year unsubordinated notes issued 21 September 2017, interest payable six monthly, maturing 21 September 2022.

#### ▲ Issuer Heartland Australia Group Pty Limited

- AU \$50 million two year unsubordinated notes issued 8 March 2019, interest payable quarterly, maturing 8 March 2021.

## 15 Borrowings (continued)

The Group from time to time securitises loans. At 30 June 2019 the Group had the following securitised borrowings outstanding.

- ▲ Heartland Auto Receivables Warehouse Trust 2018 - 1 securitisation facility \$150 million, undrawn. Securitised borrowings held by investors are secured over the securitised assets of the Heartland Auto Receivables Warehouse Trust 2018-1.
- ▲ Heartland ABCP Trust 1 (**ABCP Trust**) securitisation facility nil (2018: \$100 million, drawn \$47 million). Heartland ABCP Trust 1 was dissolved 29 August 2018.
- ▲ Senior Warehouse Trust securitisation facility AU \$650 million (2018: AU \$600 million). Drawn AU \$631 million (2018: AU \$562 million). The bank facility is secured over the assets of Australian Seniors Finance Pty Limited (**ASF**) group (comprising ASF, the ASF Settlement Trust and the Seniors Warehouse Trust). The bank facility has a maturity date of 30 September 2022.

HGH has a \$50 million undrawn bank facility at 30 June 2019 (2018: nil).

## 16 Share capital and dividends

### Policy

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

000's	June 2019	June 2018
<b>Issued shares</b>		
Opening balance	560,588	516,236
Shares issued during the year	–	37,224
Dividend reinvestment plan	9,191	7,128
Cancelled shares	(441)	–
<b>Closing balance</b>	<b>569,338</b>	<b>560,588</b>
Less treasury shares	–	(2,299)
<b>Net closing balance</b>	<b>569,338</b>	<b>558,289</b>

The table above shows shares in HBL up until 31 October 2018 when HGH acquired HBL, and shares in HGH from that date. At 31 October 2018 HBL had issued 565,430 shares, all of which were exchanged for shares in HGH on a one for one basis.

Under dividend reinvestment plans, 5,282,619 new shares were issued at \$1.6250 per share on 21 September 2018 and 3,907,858 at \$1.4709 per share on 1 April 2019, (June 2018: 4,163,008 new shares at \$1.8004 per share on 21 September 2017 and 2,965,048 new shares at \$1.7707 per share on 3 April 2018).

### Dividends paid

	June 2019			June 2018		
	Date declared	Cents per share	\$000's	Date declared	Cents per share	\$000's
Final dividend	15 August 2018	5.5	30,808	14 August 2017	5.5	28,393
Interim dividend	19 February 2019	3.5	19,791	20 February 2018	3.5	19,502
<b>Total dividends paid</b>			<b>50,599</b>			<b>47,895</b>

## Financial statements

# Notes to the financial statements

For the year ended 30 June 2019

### 17 Other balance sheet items

#### Policy

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

\$000's	June 2019	June 2018
<b>Other assets</b>		
Trade receivables	3,277	1,613
GST receivable	3,837	1,553
Prepayments	4,734	2,261
Property, plant and equipment	9,461	8,984
<b>Total other assets</b>	<b>21,309</b>	<b>14,411</b>

#### Policy

#### Intangible assets

##### Intangible assets with finite useful lives

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

##### Goodwill

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

\$000's	June 2019	June 2018
<b>Computer software</b>		
Cost	37,965	36,215
Accumulated depreciation	10,429	6,957
<b>Net carrying value of computer software</b>	<b>27,536</b>	<b>29,258</b>
Goodwill	45,143	45,143
<b>Total intangible assets</b>	<b>72,679</b>	<b>74,401</b>

Goodwill was tested for impairment on 31 May 2019. In assessing impairment, an internal valuation model was developed to indicate the value of the business. This value is compared to the net assets of the Group. There was no indication of impairment and no impairment losses have been recognised against the carrying amount of goodwill for the year ended 30 June 2019 (30 June 2018: nil).

For the purposes of impairment testing, goodwill is allocated to cash generation units (**CGUs**). A CGU is the smallest identifiable group of assets that generate independent cash inflows. The Group has assessed that goodwill should be allocated to HBL and ASF as the smallest identifiable CGU.

#### Policy

#### Employee benefits

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

\$000's	June 2019	June 2018
<b>Trade and other payables</b>		
Trade payables	11,787	10,406
Insurance liability	5,699	6,333
Employee benefits	5,012	5,871
<b>Total trade and other payables</b>	<b>22,498</b>	<b>22,610</b>



## 18 Other reserves

\$000's	Employee benefits reserve	Foreign currency translation reserve (FCTR)	Fair value reserve	Defined benefit reserve	Cash flow hedge reserve	Total
<b>June 2019</b>						
Balance as at 1 July 2018	2,559	1,260	1,590	257	(1,081)	4,585
Other comprehensive income net of tax		(5,281)	2,968	(86)	(4,762)	(7,161)
Share based payments	619					619
Shares vested	(2,340)					(2,340)
<b>Balance as at 30 June 2019</b>	<b>838</b>	<b>(4,021)</b>	<b>4,558</b>	<b>171</b>	<b>(5,843)</b>	<b>(4,297)</b>
<b>June 2018</b>						
Balance as at 1 July 2017	3,119	(1,055)	609	(83)	(1,153)	1,437
Other comprehensive income net of tax	-	2,315	981	340	72	3,708
Share based payments	666	-	-	-	-	666
Shares vested	(1,226)	-	-	-	-	(1,226)
<b>Balance as at 30 June 2018</b>	<b>2,559</b>	<b>1,260</b>	<b>1,590</b>	<b>257</b>	<b>(1,081)</b>	<b>4,585</b>

## 19 Related party transactions and balances

### Transactions with key management personnel

Key management personnel (**KMP**), being directors of the Group, the Chief Executive Officer (**CEO**) and those executive staff reporting directly to the CEO. Transactions with immediate family members of KMP are also disclosed below.

Loans made to KMP are made in the ordinary course of business on normal commercial terms and conditions no more favourable than those given to other employees or customers, including the term of the loan, security required and the interest rate.

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

\$000's	June 2019	June 2018
<b>Transactions with key personnel</b>		
Interest income	-	5
Interest expense	(76)	(128)
<b>Key personnel compensation</b>		
Short-term employee benefits	(4,633)	(6,194)
Share-based payment expense	(703)	(640)
<b>Total transactions with key personnel</b>	<b>(5,412)</b>	<b>(6,957)</b>
<b>Due(to)/from key personnel</b>		
Borrowings - deposits	(3,019)	(2,412)
<b>Total due(to)/from key personnel</b>	<b>(3,019)</b>	<b>(2,412)</b>

## Financial statements

# Notes to the financial statements

For the year ended 30 June 2019

## 20 Fair value

### Policy

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

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

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

The Group measures fair values using the fair value hierarchy, which reflects the significance of the inputs used in making the measurements.

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

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

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

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

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

The following assets and liabilities of the Bank are measured at fair value on a recurring basis in the Consolidated Statement of Financial Position.

#### Investments

Investments in public sector securities and corporate bonds are classified as being fair value through other comprehensive income with the fair value being based on quoted market prices (Level 1 under the fair value hierarchy) or modelled using unobservable 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 flow analysis.

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

#### Finance receivables – reverse mortgages

Reverse mortgage loans are classified at fair value through profit or loss.

On initial recognition the Group considers the transaction price to represent the fair value of the loan.

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

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

- ▲ mortality and move to care;
- ▲ voluntary exits;
- ▲ house price changes;
- ▲ no negative equity guarantee; and
- ▲ interest rate margin.

## 20 Fair value (continued)

At balance date the Group does not consider any of the above expectations to have moved outside of the original expectation range. Therefore the Group has continued to estimate the fair value of the portfolio at transaction price. There has been no fair value movement recognised in profit or loss during the period. Given the nature of the loan terms and the current market conditions the fair value as recorded is not sensitive to changes in house prices or interest rates.

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

There have been no losses on reverse mortgage loans during the current year (2018: Nil).

### Derivative financial instruments

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

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

\$000's	Level 1	Level 2	Level 3	Total
<b>June 2019</b>				
Investments	255,875	86,618	12,435	354,928
Derivative financial instruments	-	12,675	-	12,675
Finance receivables - reverse mortgage	-	-	1,318,819	1,318,819
<b>Total assets measured at fair value</b>	<b>255,875</b>	<b>99,293</b>	<b>1,331,254</b>	<b>1,686,422</b>
Derivative financial instruments	-	10,372	-	10,372
<b>Total liabilities measured at fair value</b>	<b>-</b>	<b>10,372</b>	<b>-</b>	<b>10,372</b>
<b>June 2018</b>				
Investments	140,282	190,570	9,694	340,546
Derivative financial instruments	-	923	-	923
Finance receivables - reverse mortgage	-	454	-	454
<b>Total assets measured at fair value</b>	<b>140,282</b>	<b>191,947</b>	<b>9,694</b>	<b>341,923</b>
Derivative liabilities held for risk management	-	2,562	-	2,562
<b>Total liabilities measured at fair value</b>	<b>-</b>	<b>2,562</b>	<b>-</b>	<b>2,562</b>

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

\$000's	Finance receivables - reverse mortgages	Investments	Total
<b>June 2019</b>			
As at 1 July 2018	1,129,956	9,694	1,139,650
Adjustment for NZ IFRS 9	2,882	-	2,882
New loans	284,819	-	284,819
Repayments	(104,644)	-	(104,644)
Capitalised Interest	29,417	-	29,417
Purchase of investments	-	2,741	2,741
Other	(23,611)	-	(23,611)
<b>As at 30 June 2019</b>	<b>1,318,819</b>	<b>12,435</b>	<b>1,331,254</b>

## Financial statements

# Notes to the financial statements

For the year ended 30 June 2019

## 20 Fair value (continued)

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

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

#### Cash and cash equivalents and other financial assets and liabilities

Cash and cash equivalents and other financial assets and liabilities are considered equivalent to their carrying value due to their short term nature.

#### Finance receivables

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

The current weighted average lending rate used to fair value finance receivables with a fixed interest rate was 8.88% (2018: 8.12%). Finance receivables with a floating interest rate are deemed to be at current market rates. The current amount of credit provisioning has been deducted from the fair value calculation of finance receivables as a proxy for future losses.

#### Borrowings

The fair value of deposits, bank borrowings and other borrowings is the present value of future cash flows and is based on the current market interest rates payable by the Group for the debt of similar maturities. The current market rate used to fair value borrowings is 2.59% (2018: 3.09%).

#### Other financial assets and financial liabilities

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

The following table sets financial instruments not measured at fair value and analyses them by the level in the fair value hierarchy.

\$000's	Level 1	Level 2	Level 3	Total fair value	Total carrying value
<b>June 2019</b>					
Cash and cash equivalents	80,584	–	–	80,584	80,584
Finance receivables	–	3,017,327	–	3,017,327	3,029,231
Other financial assets	–	–	3,277	3,277	3,277
<b>Total financial assets</b>	<b>80,584</b>	<b>3,017,327</b>	<b>3,277</b>	<b>3,101,188</b>	<b>3,113,092</b>
Retail deposits	–	3,160,426	–	3,160,426	3,153,681
Other borrowings	–	1,056,653	–	1,056,653	1,056,653
Other financial liabilities	–	–	22,498	22,498	22,498
<b>Total financial liabilities</b>	<b>–</b>	<b>4,217,079</b>	<b>22,498</b>	<b>4,239,577</b>	<b>4,232,832</b>
<b>June 2018</b>					
Cash and cash equivalents	49,588	–	–	49,588	49,588
Finance receivables	–	3,972,072	–	3,972,072	3,984,487
Other financial assets	–	–	1,613	1,613	1,613
<b>Total financial assets</b>	<b>49,588</b>	<b>3,972,072</b>	<b>1,613</b>	<b>4,023,273</b>	<b>4,035,688</b>
Retail deposits	–	2,877,885	–	2,877,885	2,881,805
Other borrowings	–	914,253	–	914,253	914,253
Other financial liabilities	–	–	22,610	22,610	22,610
<b>Total financial liabilities</b>	<b>–</b>	<b>3,792,138</b>	<b>22,610</b>	<b>3,814,748</b>	<b>3,818,668</b>

## 20 Fair value (continued)

### (c) Classification of financial instruments

The following table summarise the categories of financial instruments and the carrying and fair value of all financial instruments of the Group.

§000's	FVOCI	FVTPL	Amortised cost	Total carrying value	Total fair value
<b>June 2019</b>					
Cash and cash equivalents	-	-	80,584	80,584	80,584
Investments	354,928	-	-	354,928	354,928
Finance receivables	-	-	3,029,231	3,029,231	3,017,327
Finance receivables - reverse mortgages	-	1,318,819	-	1,318,819	1,318,819
Derivative financial instruments	2,758	9,917	-	12,675	12,675
Other financial assets	-	-	3,277	3,277	3,277
<b>Total financial assets</b>	<b>357,686</b>	<b>1,328,736</b>	<b>3,113,092</b>	<b>4,799,514</b>	<b>4,787,610</b>
Retail deposits	-	-	3,153,681	3,153,681	3,160,426
Other borrowings	-	-	1,056,653	1,056,653	1,056,653
Derivative financial instruments	9,159	1,213	-	10,372	10,372
Other financial liabilities	-	-	22,498	22,498	22,498
<b>Total financial liabilities</b>	<b>9,159</b>	<b>1,213</b>	<b>4,232,832</b>	<b>4,243,204</b>	<b>4,249,949</b>
<b>June 2018</b>					
Cash and cash equivalents	-	-	49,588	49,588	49,588
Investments	330,852	9,694	-	340,546	340,546
Finance receivables	-	-	3,984,487	3,984,487	3,972,072
Finance receivables - reverse mortgages	-	-	454	454	454
Derivative financial instruments	923	-	-	923	923
Other financial assets	-	-	1,613	1,613	1,613
<b>Total financial assets</b>	<b>331,775</b>	<b>9,694</b>	<b>4,036,142</b>	<b>4,377,611</b>	<b>4,365,196</b>
Retail deposits	-	-	2,881,805	2,881,805	2,877,885
Other borrowings	-	-	914,253	914,253	914,253
Derivative financial instruments	2,562	-	-	2,562	2,562
Other financial liabilities	-	-	22,610	22,610	22,610
<b>Total financial liabilities</b>	<b>2,562</b>	<b>-</b>	<b>3,818,668</b>	<b>3,821,230</b>	<b>3,817,310</b>

## Financial statements

# Notes to the financial statements

For the year ended 30 June 2019

## RISK MANAGEMENT

### 21 Enterprise risk management program

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

#### Role of the Board and the Board Risk Committee

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

- ▲ To advise the Board on the formulation of the Boards Risk Appetite Statement at least annually.
- ▲ To review reports from management concerning the RMP in the context of the Risk Appetite Statement in order to assure the Board of the programme's effectiveness.
- ▲ To review reports from management concerning changes anticipated in the economic, business and regulatory environment (including consideration of emerging trends) and other factors considered relevant to the risk appetite statement, in order to monitor them and advise the Board of any new risks or opportunities that could have significant financial, regulatory or reputational impact.
- ▲ To review reports from management concerning the Bank's internal compliance policies in order to advise the Board of their effectiveness and recommend their approval or variation (or, where the BRC has been delegated authority to itself approve or vary them).
- ▲ To review the lending standards developed by the Chief Risk Officer of HBL (**CRO**) at least annually.

The BRC consists of at least three non-executive directors. A member of the BRC sits on the Audit Committee. In addition the CEO, CRO and Chief Financial Officer of HBL (**CFO**) (or their nominee, subject to the Chair's prior approval) attend the BRC meetings, and the directors who are not members of the BRC are entitled to attend meetings and to receive copies of the BRC papers.

#### Audit Committee and Internal Audit

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

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

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

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

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

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

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

## 21 Enterprise risk management program (continued)

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

### Asset and Liability Committee (ALCO)

The ALCO comprises the CEO (Chair), CEO HBL, Chief Digital Officer HGH, CFO, CRO, Chief Sales and Distribution Officer HBL, Head of Corporate Finance HGH, Deputy CFO – Finance HBL, Deputy CFO – Treasury HBL, Treasurer HBL. The ALCO generally meets monthly, and provides reports to the BRC. ALCO's specific responsibilities include decision making and oversight of risk matters in relation to:

- ▲ market risk (including non-traded interest rate risk and the investment of capital)
- ▲ liquidity risk (including funding)
- ▲ foreign exchange rate risk
- ▲ balance sheet structure
- ▲ capital management.

### Executive Risk Committee (ERC)

The ERC comprises of the CEO (Chair), CEO of HBL, CRO, General Counsel HGH, CFO of HBL and Head of Internal Audit. The ERC has responsibility for overseeing risk aspects not considered by ALCO, including that the internal control environment is managed so that residual risk is consistent with the Group's risk appetite. The ERC generally meets monthly, and provides minutes to the BRC. ERC's specific responsibilities include decision making and oversight of operational and compliance risk, and credit risk.

The Group's exposure to operational and compliance risk is governed by a risk appetite statement approved by the Board and is used to guide management activities by the ERC. This statement sets out the nature of risk which may be taken and aggregate risk limits, and the ERC monitors adherence to this.

### Operational and compliance risk

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

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

- ▲ The first line of defence is the business line management of the identification, management and mitigation of the risks associated with the products and processes of the business. This accountability includes regular testing and attestation of the adequacy and effectiveness of controls and compliance with the Group's policies.
- ▲ The second line of defence is the Risk and Compliance function, responsible for the design and ownership of the operational risk management framework. It incorporates key processes including risk and control self-assessment, incident, issue and complaints management, independent evaluation of the adequacy and effectiveness of the internal control framework and the attestation process.
- ▲ The third line of defence is Internal Audit which is responsible for independently assessing how effectively the Group is managing its risk according to stated risk appetite.

### Market risk

Market risk is the possibility of experiencing losses or gains due to factors affecting the overall performance of financial markets in which the Group is exposed. The primary market risk exposures for the Group are interest rate risk and foreign exchange risk. The risk being that market interest rates or foreign exchange rates will change and adversely impact on the Group's earnings due to either adverse moves in foreign exchange market rates or in the case of interest rate risks mismatches between repricing dates of interest bearing assets and liabilities and/or differences between customer pricing and wholesale rates.

## Financial statements

# Notes to the financial statements

For the year ended 30 June 2019

## 21 Enterprise risk management program (continued)

### Interest rate risk

Interest rate risk is principally generated through interest rate risk in the customer loans and deposits (the bank book). This risk arises from three key sources:

- ▲ mismatches between the repricing dates of interest bearing assets and liabilities;
- ▲ banking products repricing differently to changes in wholesale market rates (basis risk); and
- ▲ the investment of capital in interest bearing assets.

Refer Note 24 - Interest rate risk for further details regarding interest rate risk.

### Foreign exchange risk

Foreign exchange risk is the risk that the Group's earnings and shareholder equity position are adversely impacted from changes in foreign exchange rates. The Group has exposure to foreign exchange translation risks through its Australian subsidiaries (which have a functional currency of AUD), in the forms of profit translation risk and balance sheet translation risk.

Profit translation risk is the risk that deviations in exchange rates have a significant impact on the reported profit. Balance sheet translation risk is the risk that whilst the foreign currency value of the net investment in a subsidiary may not have changed, when translated back to the New Zealand dollars (NZD), the NZD value has changed materially due to movements in the exchange rates. Foreign exchange revaluation gains and losses are booked to the foreign currency translation reserve. Foreign exchange rate movements in any given year may have an impact on other comprehensive income. The Group manages this risk by setting and approving the foreign exchange rate for the upcoming financial year and entering into hedging contracts to manage the foreign exchange translation risks.

### Counterparty credit risk

The Group has on-going credit exposures associated with:

- ▲ cash and cash equivalents;
- ▲ finance receivables;
- ▲ holding of investment securities; and
- ▲ payments owed to the Group from risk management instruments.

Counterparty credit risk is managed against limits set in the market risk policy, including credit exposure on the derivative contracts, bilateral set-off arrangements, cash and cash equivalents and investment securities.



## 22 Credit risk exposure

Credit risk is the risk that a borrower will default on any type of debt by failing to make payments which it is obligated to make. The risk is primarily that of the lender and includes loss of principal and interest, disruption to cash flows and increased collection costs.

Credit risk is managed to achieve sustainable risk-reward performance whilst maintaining exposures within acceptable risk "appetite" parameters. This is achieved through the combination of governance, policies, systems and controls, underpinned by commercial judgement as described below.

To manage this risk the ERC oversees the formal credit risk management strategy. The ERC reviews the Group's credit risk exposures typically on a monthly basis. The credit risk management strategies aim to ensure that:

- ▲ credit origination meets agreed levels of credit quality at point of approval
- ▲ sector concentration are monitored
- ▲ maximum total exposure to any one debtor is actively managed
- ▲ changes to credit risk are actively monitored with regular credit reviews.

The BRC also oversees the Group's credit risk exposures to monitor overall risk metrics having regard to risk appetite set by the Board.

The Group has adopted a detailed credit risk framework. The framework is supported further by lending standards that provide criteria for finance products within each business sector.

The BRC has authority from the Board for approval of all credit exposures. Lending authority has been provided to the Group's Credit Committees, and to the business units under a detailed delegated lending authority framework. Application of credit discretions in the business operation are monitored through a defined review and hindsight structure as outlined in the credit risk oversight policy. Delegated lending authorities are provided to individual officers with due cognisance of their experience and ability. Larger and higher risk exposures require approval of senior management, the credit committees and ultimately through to the BRC.

The Group employs a process of hind sighting loans to ensure that credit policies and the quality of credit processes are maintained.

### Reverse mortgage loans and negative equity risk

Reverse mortgage loans are a form of mortgage lending targeted toward the seniors market. These loans differ to conventional mortgages in that they typically are not repaid until the borrower ceases to reside in the property. Further, interest is not required to be paid, it is capitalised with the loan balance and is repayable on termination of the loan. As such, there are no incoming cash flows and therefore no default risk to manage during the term of the loan. Credit risk becomes 'negative equity' risk through the promise by the Group to customers that they can reside in their property for 'as long as they wish' and repayment of their loan is limited to the net sale proceeds of their property.

The Group's exposure to negative equity risk is managed by the Credit Risk Oversight Policy in conjunction with associated lending standards specific for this product. In addition to usual criteria regarding the type, and location, of security property that the Group will accept for reverse mortgage lending, a key aspect of the Group's policy is that a borrower's age on origination of the reverse mortgage loan will dictate the loan-to-value ratio of the reserve mortgage on origination. Both New Zealand and Australia reverse mortgage operations are similarly aligned. The policy is managed and reviewed periodically to ensure appropriate consistency across locations.

### Maximum exposure to credit risk at the equivalent reporting dates

The following table represents the maximum credit risk exposure, without taking account of any collateral held. The exposures set out below are based on net carrying amounts as reported in the Statement of Financial Position.

\$000's	June 2019	June 2018
Cash and cash equivalents	80,584	49,588
Investments	342,493	330,852
Finance receivables	3,029,231	3,984,941
Finance receivables reverse mortgages	1,318,819	-
Derivative financial instruments	12,675	923
Other financial assets	3,277	1,613
<b>Total on balance sheet credit exposures</b>	<b>4,787,079</b>	<b>4,367,917</b>

## Financial statements

# Notes to the financial statements

For the year ended 30 June 2019

## 22 Credit risk exposure (continued)

### Concentration of credit risk by geographic region

\$000's	June 2019	June 2018
<b>New Zealand</b>		
Auckland	1,130,673	1,085,421
Wellington	246,028	250,933
Rest of North Island	1,214,744	1,123,324
Canterbury	505,990	484,685
Rest of South Island	587,723	598,933
<b>Australia</b>		
Queensland	175,914	154,145
New South Wales	427,437	322,705
Victoria	206,551	162,214
Western Australia	45,557	35,672
South Australia	31,888	25,356
Rest of Australia	18,914	13,951
<b>Rest of the World<sup>1</sup></b>	254,151	143,073
	4,845,570	4,400,412
Provision for impairment	(58,491)	(29,671)
Less fair value adjustment	-	(2,824)
<b>Total on balance sheet credit exposures</b>	<b>4,787,079</b>	<b>4,367,917</b>

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

## NOTES

### Concentration of credit risk by industry sector

\$000's	June 2019	June 2018
Agriculture	741,947	741,666
Forestry and fishing	80,642	87,955
Mining	13,697	19,222
Manufacturing	69,709	71,391
Finance and insurance	440,194	338,164
Wholesale trade	40,875	33,195
Retail trade	237,427	205,380
Households	2,430,084	2,105,437
Property and business services	406,781	402,169
Transport and storage	237,553	211,005
Other	146,661	184,828
	4,845,570	4,400,412
Provision for impairment	(58,491)	(29,671)
Less fair value adjustment	-	(2,824)
<b>Total on balance sheet credit exposures</b>	<b>4,787,079</b>	<b>4,367,917</b>

### Commitments to extend credit

\$000's	June 2019	June 2018
Undrawn facilities available to customers	102,285	180,940
Conditional commitments to fund at a future date	89,317	94,239

As at 30 June 2019 there was nil of undrawn lending commitments available to counterparties for whom drawn balances was classified as individually impaired (2018: \$0.196 million).

## 22 Credit risk exposure (continued)

### Credit risk grading

The Group's Finance receivables are monitored either by account behaviour (**Behavioural portfolio**) or a regular assessment of their credit risk grade based on an objective review of defined risk characteristics (**Judgemental portfolio**).

Finance receivables reverse mortgages have no arrears characteristics and are assessed on origination against a pre-determined criteria.

The Judgemental portfolio consists mainly of business and rural lending where an on-going and detailed working relationship with the customer has been developed while the Behavioural portfolio consists of consumer, retail and smaller business receivables.

Judgemental loans are individually risk graded based on loan status, financial information, security and debt servicing ability.

Exposures in the Judgemental portfolio are credit risk graded by an internal risk grading mechanism where grade 1 is the strongest risk. Grade and grade 9 is the weakest risk grade where a loss is probable. Behavioural loans are managed based on their arrears status.

Upon adoption of NZ IFRS 9 all loans past due but not impaired have been categorised into three impairments stages (Note 1 financial statements preparation) which are in most cases based on arrears status. If a Judgemental loan is risk graded 6 or above it will be classified as stage 2 as a minimum and carry a provision based on lifetime expected credit losses.

The arrears profile is driving the behavioural portfolio categorisation for the credit risk grading.

\$000's	12 months ECL	Lifetime ECL Not credit impaired	Lifetime ECL Credit impaired	Specifically provided	Fair value	June 2019 Total	June 2018
<b>Judgemental portfolio</b>							
Grade 1 - Very strong	7	-	-	-	-	7	29
Grade 2 - Strong	8,685	-	-	-	-	8,685	10,172
Grade 3 - Sound	86,109	-	71	-	-	86,180	72,447
Grade 4 - Adequate	478,682	3,707	5,478	-	-	487,867	352,411
Grade 5 - Acceptable	851,307	4,835	4,854	-	-	860,996	687,174
Grade 6 - Monitor	-	142,122	5,031	-	-	147,153	145,706
Grade 7 - Substandard	-	22,913	3,450	-	-	26,363	22,961
Grade 8 - Doubtful	566	-	-	15,391	-	15,957	28,607
Grade 9 - At risk of loss	-	-	-	11,021	-	11,021	10,580
<b>Total judgemental portfolio</b>	<b>1,425,356</b>	<b>173,577</b>	<b>18,884</b>	<b>26,412</b>	-	<b>1,644,229</b>	<b>1,330,087</b>
Total behavioural portfolio	1,372,029	33,305	38,159	-	1,318,819	2,762,312	2,687,349
<b>Gross finance receivables</b>	<b>2,797,385</b>	<b>206,882</b>	<b>57,043</b>	<b>26,412</b>	<b>1,318,819</b>	<b>4,406,541</b>	<b>4,017,436</b>
Provision for impairment	(30,421)	(1,780)	(18,427)	(7,863)	-	(58,491)	(29,671)
FV adjustment for PV of future losses	-	-	-	-	-	-	(2,824)
<b>Total finance receivables</b>	<b>2,766,964</b>	<b>205,102</b>	<b>38,616</b>	<b>18,549</b>	<b>1,318,819</b>	<b>4,348,050</b>	<b>3,984,941</b>

## Financial statements

# Notes to the financial statements

For the year ended 30 June 2019

### 23 Liquidity risk

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

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

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

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

\$000's	June 2019	June 2018
Cash and cash equivalents	80,584	49,588
Investments	342,493	330,852
Undrawn committed bank facilities	219,631	52,500
<b>Total liquidity</b>	<b>642,708</b>	<b>432,940</b>

#### Contractual liquidity profile of financial assets and liabilities

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

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

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

## 23 Liquidity risk (continued)

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

\$'000's	On demand	0-6 months	6-12 months	1-2 years	2-5 years	5+ years	Total
<b>June 2019</b>							
<b>Financial Assets</b>							
Cash and cash equivalents	80,584	-	-	-	-	-	80,584
Investments	-	44,979	94,307	56,129	152,870	8,330	356,615
Finance receivables	-	931,670	513,162	799,266	1,168,678	327,719	3,740,495
Finance receivables - reverse mortgages	-	27,559	38,654	48,524	212,268	5,194,951	5,521,956
Derivative financial instruments	-	12,675	-	-	-	-	12,675
Other financial assets	-	3,277	-	-	-	-	3,277
<b>Total financial assets</b>	<b>80,584</b>	<b>1,020,160</b>	<b>646,123</b>	<b>903,919</b>	<b>1,533,816</b>	<b>5,531,000</b>	<b>9,715,602</b>
<b>Financial Liabilities</b>							
Retail deposits	895,290	1,415,994	605,804	224,545	73,034	1,680	3,216,348
Other borrowings	-	75,198	15,032	81,915	977,044	-	1,149,189
Derivative financial liabilities	-	10,372	-	-	-	-	10,372
Other financial liabilities	-	30,030	-	-	-	-	30,030
<b>Total financial liabilities</b>	<b>895,290</b>	<b>1,531,594</b>	<b>620,836</b>	<b>306,460</b>	<b>1,050,078</b>	<b>1,680</b>	<b>4,405,939</b>
<b>Net financial (liabilities)/assets</b>	<b>(814,706)</b>	<b>(511,434)</b>	<b>25,287</b>	<b>597,459</b>	<b>483,738</b>	<b>5,529,320</b>	<b>5,309,664</b>
Undrawn facilities available to customers	102,285	-	-	-	-	-	102,285
Undrawn committed bank facilities	219,631	-	-	-	-	-	219,631
<b>June 2018</b>							
<b>Financial Assets</b>							
Cash and cash equivalents	49,588	-	-	-	-	-	49,588
Investments	-	53,474	85,376	134,654	71,592	9,694	354,790
Finance receivables	-	554,170	384,245	1,204,534	1,356,798	5,029,371	8,529,118
Finance receivables -reverse mortgages	-	11	11	18	76	2,066	2,182
Derivative financial instruments	-	923	-	-	-	-	923
Other financial assets	-	1,613	-	-	-	-	1,613
<b>Total financial assets</b>	<b>49,588</b>	<b>610,191</b>	<b>469,632</b>	<b>1,339,206</b>	<b>1,428,466</b>	<b>5,041,131</b>	<b>8,938,214</b>
<b>Financial Liabilities</b>							
Retail deposits	924,072	1,219,540	559,208	159,765	62,361	-	2,924,946
Other borrowings	-	101,527	13,523	627,070	189,333	-	931,453
Derivative financial instruments	-	1,639	-	-	-	-	1,639
Other financial liabilities	-	22,610	-	-	-	-	22,610
<b>Total financial liabilities</b>	<b>924,072</b>	<b>1,345,316</b>	<b>572,731</b>	<b>786,835</b>	<b>251,694</b>	<b>-</b>	<b>3,880,648</b>
<b>Net financial (liabilities)/assets</b>	<b>(874,484)</b>	<b>(735,125)</b>	<b>(103,099)</b>	<b>552,371</b>	<b>1,176,772</b>	<b>5,041,131</b>	<b>5,057,566</b>
Undrawn facilities available to customers	180,940	-	-	-	-	-	180,940
Undrawn committed bank facilities	52,500	-	-	-	-	-	52,500

## Financial statements

# Notes to the financial statements

For the year ended 30 June 2019

### 24 Interest rate risk

The Group's market risk is derived primarily of exposure to interest rate risk, predominately from raising funds through the retail and wholesale deposit market, the debt capital markets and committed and uncommitted bank funding, securitisation of receivables, and offering loan finance products to the commercial and consumer market in New Zealand and Australia.

Interest rate risk is the risk that the value of assets or liabilities will change because of changes in interest rates or that market interest rates may change and thus alter the margin between interest-earning assets and interest-bearing liabilities. Interest rate risk for the Group refers to the risk of loss due to holding assets and liabilities that may mature or re-price in different periods.

The Group's exposure to market risk is governed by a policy approved by the Board and managed by the ALCO. This policy sets out the nature of risk which may be taken and aggregate risk limits, and the ALCO must conform to this. The objective of the ALCO is to derive the most appropriate strategy for the Groups in terms of the mix of assets and liabilities given its expectations of the future and the potential consequences of interest rate movements, liquidity constraints and capital adequacy.

To manage this market risk, the Group measures sensitivity to interest rate changes by frequently testing its position against various interest rate change scenarios to assess potential risk exposure. The Group also manage interest rate risk by:

- ▲ monitoring maturity profiles and seeking to match the re-pricing of assets and liabilities (physical hedging);
- ▲ monitoring interest rates daily and regularly (at least monthly) reviewing interest rate exposure; and
- ▲ entering into forward rate agreements and interest rate swaps and options to hedge against movements in interest rates.

#### Contractual repricing analysis

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

\$000's	0-3 months	3-6 months	6-12 months	1-2 years	2+ years	Non-interest bearing	Total
<b>June 2019</b>							
<b>Financial assets</b>							
Cash and cash equivalents	80,578	-	-	-	-	6	80,584
Investments	24,097	15,368	91,248	62,048	149,732	12,435	354,928
Due from related parties	-	-	-	-	-	-	-
Finance receivables	1,551,851	206,801	337,236	537,300	386,870	9,173	3,029,231
Finance receivables - reverse mortgages	1,318,819	-	-	-	-	-	1,318,819
Derivative financial instruments	11,232	-	-	-	-	-	11,232
Other financial assets	-	-	-	-	-	3,277	3,277
<b>Total financial assets</b>	<b>2,986,577</b>	<b>222,169</b>	<b>428,484</b>	<b>599,348</b>	<b>536,602</b>	<b>24,891</b>	<b>4,798,071</b>
<b>Financial liabilities</b>							
Retail deposits	1,614,124	519,676	729,734	212,575	65,887	11,685	3,153,681
Other borrowings	771,219	-	-	-	285,434	-	1,056,653
Derivative financial instruments	10,230	-	-	-	-	-	10,230
Other financial liabilities	-	-	-	-	-	30,031	30,031
<b>Total financial liabilities</b>	<b>2,395,573</b>	<b>519,676</b>	<b>729,734</b>	<b>212,575</b>	<b>351,321</b>	<b>41,716</b>	<b>4,250,595</b>
Effect of derivatives held for risk management	(36,789)	162,749	38,975	(313,184)	148,249	-	-
<b>Net financial (liabilities)/assets</b>	<b>554,215</b>	<b>(134,758)</b>	<b>(262,275)</b>	<b>73,589</b>	<b>333,530</b>	<b>(16,825)</b>	<b>547,476</b>

**24 Interest rate risk (continued)****Contractual repricing analysis (continued)**

\$000's	0-3 months	3-6 months	6-12 months	1-2 years	2+ years	Non-interest bearing	Total
<b>June 2018</b>							
<b>Financial Assets</b>							
Cash and cash equivalents	49,580	-	-	-	-	8	49,588
Investments	44,483	22,935	82,149	111,355	69,930	9,694	340,546
Finance receivables	2,687,543	165,901	284,847	418,800	423,037	4,359	3,984,487
Finance receivables - reverse mortgages	454	-	-	-	-	-	454
Derivative financial instruments	923	-	-	-	-	-	923
Other financial assets	-	-	-	-	-	1,613	1,613
<b>Total financial assets</b>	<b>2,782,983</b>	<b>188,836</b>	<b>366,996</b>	<b>530,155</b>	<b>492,967</b>	<b>15,674</b>	<b>4,377,611</b>
<b>Financial Liabilities</b>							
Retail deposits	1,663,258	482,447	543,746	150,230	33,571	8,553	2,881,805
Other borrowings	736,850	3,378	-	-	174,025	-	914,253
Derivative financial instruments	2,562	-	-	-	-	-	2,562
Other financial liabilities	-	-	-	-	-	22,610	22,610
<b>Total financial liabilities</b>	<b>2,402,670</b>	<b>485,825</b>	<b>543,746</b>	<b>150,230</b>	<b>207,596</b>	<b>31,163</b>	<b>3,821,230</b>
Effect of derivatives held for risk management	361,760	(44,735)	(75,365)	(242,090)	430	-	-
<b>Net financial (liabilities)/assets</b>	<b>742,073</b>	<b>(341,724)</b>	<b>(252,115)</b>	<b>137,835</b>	<b>285,801</b>	<b>(15,489)</b>	<b>556,381</b>

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

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

## Financial statements

# Notes to the financial statements

For the year ended 30 June 2019

## OTHER DISCLOSURES

### 25 Significant subsidiaries

Significant subsidiaries	Country of incorporation and place of business	Nature of business	Proportion of ownership and voting power held	
			June 2019	June 2018
Heartland Bank Limited	New Zealand	Bank	100%	100%
VPS Properties Limited	New Zealand	Investment property holding company	100%	100%
MARAC Insurance Limited	New Zealand	Insurance services	100%	100%
Heartland Australia Group Pty Limited	Australia	Financial services	100%	100%
Australian Seniors Finance Pty Limited	Australia	Management services	100%	100%

### 26 Structured entities

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

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

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

\$000's	June 2019	June 2018
Deposits	146,094	115,095

#### (b) Seniors Warehouse Trust (SW Trust) and ASF Settlement Trust (ASF Trust)

SW Trust and ASF Trust form part of the ASF reverse mortgage business and were both set up by ASF, as asset holding entities. The Trustee for both Trusts is ASF Custodians Pty Limited and the Trust Manager is ASF. The reverse mortgage loans held by the Trusts were set aside for the benefit of the investors in the SW Trust and ASF Trust.

\$000's	June 2019	June 2018
Cash and cash equivalents	35,356	12,207
Finance receivables - reverse mortgages	759,749	676,837
Other Borrowings	(711,471)	(614,510)

#### (c) Heartland ABCP Trust 1 (ABCP Trust)

At 30 June 2018 the Group had securitised a pool of receivables comprising commercial and motor vehicle loans to ABCP Trust.

The Group continued to recognise the securitised assets and associated borrowings in the Consolidated Statement of Financial Position. Although the Group recognised those interests in the ABCP Trust, the loans sold to the Trust were set aside for the benefit of investors in the ABCP Trust.

On 29 August 2018 the assets of the ABCP Trust were purchased by HBL and the ABCP Trust dissolved.

\$000's	June 2019	June 2018
Cash and cash equivalents	-	3,625
Finance receivables - securitised	-	80,289
Borrowings - securitised	-	(47,504)
Derivative financial liabilities - securitised	-	(496)



## 26 Structured entities (continued)

### (d) Heartland Auto Receivables Warehouse Trust (Auto Warehouse)

On 29 August 2018 the Group established the Auto Warehouse in order to securitise commercial and motor loan receivables as a source of funding.

The Group continues to recognise the securitised assets and associated borrowings in the Consolidated Statement of Financial Position. Although the Group recognises those interests in Auto Warehouse, the loans sold to the Trust are set aside for the benefit of investors in Auto Warehouse and other depositors and lenders to the Group have no recourse to those assets.

\$000's	June 2019	June 2018
Cash and cash equivalents	555	-
Other liabilities	(559)	-

## 27 Staff share ownership arrangements

The Group operates a number of share-based compensation plans that are equity settled. The fair value determined at the grant date is expensed on a straight line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest, with a corresponding increase in equity. At the end of each reporting period the Group revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the employee benefits reserve.

### (a) Share-based compensation plan details

#### Heartland LTI net share settled plan (LTI plan)

The LTI plan was allotted under three tranches (referred to as the 2013, 2014 and 2015 tranches). Under the LTI plan participants were granted an option to acquire shares in the Group. The number of shares granted upon exercise of the options is based on the difference between the market price of the shares on the exercise date and the reference price.

The options are subject to the participants' continued employment with the Group for the service period of 3 years which begins on 1 July 2014 for the 2015 plan. Participants in the 2015 tranche were able to exercise their options between September 2017 and 1 July 2019.

#### 2015 Special grant (LTI SG)

Participants of the LTI SG were able to exercise options in the period beginning on the date the market price of the Group shares was equal to \$1.50 and ending on 1 July 2017. Market price was calculated based on the VWAP of a Heartland share for the 10 business days immediately before (but excluding) the exercise date for those options.

The options were subject to the participants' continued employment with the Group for the service period of 3 years which began on 1 July 2014. Following exercise a lock up period until 1 July 2020 applies during which participants are restricted from disposing of shares.

The reference price was the amount by which the market price of the Group shares, at the time of exercise, exceeded \$1.00 (based on a volume weighted average price of Heartland shares for the prior 20 business days), plus the aggregate amount of cash dividends (cents per the Group share) paid by the Group in the period from 1 April 2015 until and including the date the options were exercised. However, for the purpose of calculating the settlement amount, the market price of the Group shares was capped at \$1.50 and any increase above this amount was disregarded.

#### Senior executive scheme (SES)

The SES was established in June 2016 as a replacement of the LTI plan and LTI SG for certain affected participants only (senior executives). Under the SES, senior executives forfeited their options under the 2014 and 2015 tranches of the LTI plan and the LTI SG and purchased the Group shares with proceeds from a settlement amount paid to them by the Group. The shares were unable to be sold or otherwise disposed of by the senior executive until 30 June 2019.

The SES has been treated as a modification of the senior executive entitlements under the 2014 and 2015 tranches of the LTI Plan and the LTI SG. The incremental fair value granted is \$0.49 million based on the value of shares acquired under the SES less the fair value of the benefits forfeited under the 2014 and 2015 tranches of the LTI Plan and the LTI SG.

#### Heartland performance rights plan (PR plan)

The PR plan was established to enhance the alignment of participants' interests with those of the Group's shareholders. Under the PR plan participants are issued performance rights which will entitle them to receive shares in the Group.

## Financial statements

# Notes to the financial statements

For the year ended 30 June 2019

### 27 Staff share ownership arrangements (continued)

#### PR Plan 2016 tranche (PR plan 2016)

The number of performance rights offered is determined by the participant's LTI value over the VWAP of the Group's ordinary shares on the NZX Main Board for the 10 business days immediately before (and including) the issue date. The issue date is 31 August 2016. Performance rights do not entitle participants to dividends or voting rights.

The performance rights are issued subject to the participants' continued employment with the Group until the measurement date and the Group achieving its total shareholder return (TSR) target. The measurement date is defined as 10 business days following the date on which the Group announces its full year results for the financial year ended 2019. The TSR target has been set at an annual rate of 11%, compounding and is determined primarily by share price movements and cash dividends. Performance rights will vest on the measurement date where these criteria have been met.

#### PR Plan 2017 tranche (PR plan 2017)

The number of performance rights offered is determined by the participant's LTI value over the VWAP of the Groups ordinary shares on the NZX Main Board for the 20 business days immediately before (and excluding) the issue date. The issue date is 12 September 2017. Performance rights do not entitle participants to dividends or voting rights.

The performance rights are issued subject to the participants' continued employment with the Group until the measurement date and the Group achieving its share price and/or market capitalisation targets. The targets are dynamic and may be adjusted by the Board from time to time in order to account for unanticipated capital changes during the performance period. The measurement date is 10 business days following the date on which the Group announces its full year results for the financial year ended 2021.

Performance rights will vest on the measurement date to the extent these criteria have been met, but subject to caps and also to retesting on a later measurement date if the criteria are not met on the initial measurement date.

#### PR Plan 2018 tranche (PR plan 2018)

The number of performance rights offered is determined by the participant's LTI value over the VWAP of the Groups ordinary shares on the NZX Main Board for the 20 business days immediately before (and excluding) the issue date. The issue date is 13 September 2018. Performance rights do not entitle participants to dividends or voting rights.

The performance rights are issued subject to the participants' continued employment with the Group until the measurement date and the Group achieving its share price and/or market capitalisation targets. The targets are dynamic and may be adjusted by the Board from time to time in order to account for unanticipated capital changes during the performance period. The measurement date is 10 business days following the date on which the Group announces its full year results for the financial year ended 2021.

Performance rights will vest on the measurement date to the extent these criteria have been met, but subject to caps and also to retesting on a later measurement date if the criteria are not met on the initial measurement date.

	PR Plan Number of rights	SES Number of shares	LTI Plan Number of options
1 July 2018	3,180,298	1,858,676	-
Granted	-	(1,858,676)	-
Issued	293,759	-	-
Forfeited	(352,717)	-	-
<b>30 June 2019</b>	<b>3,121,340</b>	<b>-</b>	<b>-</b>
1 July 2017	888,300	1,858,676	7,492,753
Granted	2,291,998	-	-
Exercises	-	-	(7,300,488)
Forfeited	-	-	(192,265)
<b>30 June 2018</b>	<b>3,180,298</b>	<b>1,858,676</b>	<b>-</b>

## 27 Staff share ownership arrangements (continued)

### PR Plan 2018 tranche (PR plan 2018) (continued)

The fair value of performance rights granted during the period is \$0.072 million (2018: \$1.06 million). This fair value was derived using the Monte Carlo model. The key inputs used in the model are:

- ▲ volatility 18% -22% (calculated based on the historical movement in the Group's shares)
- ▲ risk free rate 2.08% pa
- ▲ initial measurement date 10 September 2021
- ▲ VWAP on issue Date \$1.72
- ▲ share price at valuation \$1.67.

The weighted average share price exercised in 2018 was \$1.83.

### (b) Effect of share-based payment transactions

\$000's	June 2019	June 2018
Award of shares		
SES	327	328
LTI plan	-	(34)
PR plan	341	372
<b>Total expense recognised</b>	<b>668</b>	<b>666</b>

As at 30 June 2019 \$0.590 million of the share scheme awards remain unvested and not expensed (2018: \$1.02 million). This expense will be recognised over the vesting period of the awards.

### (c) Number of options/rights outstanding at 30 June 2019

\$000's	Rights outstanding	Remaining years
PR plan 2016	823	-
PR plan 2017	2,039	2
PR plan 2018	259	2
<b>Total</b>	<b>3,121</b>	

## Financial statements

# Notes to the financial statements

For the year ended 30 June 2019

## 28 Concentrations of funding

### (a) Concentrations of funding by industry

\$000's	June 2019	June 2018
Agriculture	68,559	69,245
Forestry and Fishing	25,360	23,403
Mining	61	38
Manufacturing	11,233	10,691
Finance and Insurance	1,148,119	979,871
Wholesale Trade	11,520	9,967
Retail Trade	18,048	14,102
Households	2,340,764	2,260,330
Property and business services	88,744	110,385
Transport and storage	4,416	4,853
Other	155,830	139,148
	3,872,654	3,622,033
Subordinated notes	–	22,172
Unsubordinated notes	337,680	151,853
<b>Total borrowings</b>	<b>4,210,334</b>	<b>3,796,058</b>

### (b) Concentrations of funding by geographical area

\$000's	June 2019	June 2018
Auckland	1,094,639	969,518
Wellington	303,595	270,096
Rest of North Island	773,960	686,208
Canterbury	969,778	885,005
Rest of South Island	261,276	245,830
Overseas <sup>1</sup>	807,086	739,401
<b>Total borrowings</b>	<b>4,210,334</b>	<b>3,796,058</b>

1 Included in overseas funding are facilities totalling (AU \$650 million) (2018: AU \$600 million). Refer to note 15 – Borrowings for more information.

## 29 Contingent liabilities and commitments

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

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

\$000's	June 2019	June 2018
Letters of credit, guarantee commitments and performance bonds	6,757	6,847
<b>Total contingent liabilities</b>	<b>6,757</b>	<b>6,847</b>
Undrawn facilities available to customers	102,285	180,940
Conditional commitments to fund at future dates	89,317	94,239
<b>Total commitments</b>	<b>191,602</b>	<b>275,179</b>

## 30 Events after the reporting date

The Group declared a fully imputed dividend of 6.5 cents per share on 15 August 2019, to be paid to shareholders on 6 September 2019.

A funding facility of AU\$250 million for Seniors Warehouse Trust No. 2 was secured on 2 July 2019 being the date of establishment of that Trust.



# Independent Auditor's Report

To the shareholders of Heartland Group Holdings Limited

## Report on the audit of the consolidated financial statements

### Opinion

In our opinion, the accompanying consolidated financial statements of Heartland Group Holdings Limited (the "Company") and its subsidiaries (the "Group") on pages 5 to 50:

- i. present fairly in all material respects the Group's financial position as at 30 June 2019 and its financial performance and cash flows for the year ended on that date; and
- ii. comply with New Zealand Equivalents to International Financial Reporting Standards and International Financial Reporting Standards.

We have audited the accompanying consolidated financial statements which comprise:

- the consolidated statement of financial position as at 30 June 2019;
- the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended; and
- notes, including a summary of significant accounting policies and other explanatory information.



### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand) ("ISAs (NZ)"). We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

We are independent of the Group in accordance with Professional and Ethical Standard 1 (Revised) Code of Ethics for Assurance Practitioners issued by the New Zealand Auditing and Assurance Standards Board and the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ("IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

Our responsibilities under ISAs (NZ) are further described in the auditor's responsibilities for the audit of the consolidated financial statements section of our report.

Our firm has also provided other services to the Company and Group in relation to review of the Group's consolidated interim financial statements, review of regulatory returns, trust deed reporting, registry audits and other agreed upon procedures engagements. Subject to certain restrictions, partners and employees of our firm may also deal with the Group on normal terms within the ordinary course of trading activities of the business of the Group. These matters have not impaired our independence as auditor of the Group. The firm has no other relationship with, or interest in, the Group.



### Emphasis of matter

We draw attention to the financial statements preparation note of the consolidated financial statements which explains the corporate restructure on 31 October 2018 when the Group acquired Heartland Bank Limited. As common control remained after the restructure, the consolidated financial statements have been prepared as if the Group had operated for the entire period. Comparative figures shown are for the consolidated Heartland Bank Limited. Our opinion is not qualified in respect of this matter.

## Financial statements



### Materiality

The scope of our audit was influenced by our application of materiality. Materiality helped us to determine the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and on the consolidated financial statements as a whole. The materiality for the consolidated financial statements as a whole was set at \$5,070,000 determined with reference to a benchmark of the Group's profit before tax. We chose the benchmark because, in our view, this is a key measure of the Group's performance.

We agreed with the Audit Committee that we would report misstatements identified during our audit, to them, above \$250,000, as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.



### Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements in the current period. We summarise below those matters and our key audit procedures to address those matters in order that the shareholders as a body may better understand the process by which we arrived at our audit opinion. Our procedures were undertaken in the context of and solely for the purpose of our statutory audit opinion on the consolidated financial statements as a whole and we do not express discrete opinions on separate elements of the consolidated financial statements.

#### The key audit matter

#### How the matter was addressed in our audit

##### Provision for impairment of finance receivables

*Refer to notes 13 and 22 to the consolidated financial statements*

The provision for impairment of finance receivables is a key audit matter owing to their financial significance and the high degree of complexity and judgement applied by management in determining the value.

NZ IFRS 9 *Financial Instruments* was adopted for the first time on 1 July 2018. This added effort to our audit due to the complexity of the accounting standard and its expected pervasive impact on the industry.

The provision for individually impaired assets is based on the application of management judgement, with the assessment of expected future cash flows being inherently uncertain. The provision for individually impaired assets for 'rural' and other 'corporate' loans is of particular audit focus, owing to its financial significance and inherent uncertainties of expected future cash flows, which may include estimated timing and proceeds from the future sale of assets securing the debt, in addition to repayments from borrowers.

Based on the assigned risk grading or arrears status, an estimate of ECL will be applied to

Together with KPMG credit risk specialists we assessed the Group's adoption of NZ IFRS 9, individual provisions and collective provisions. Our procedures included:

- Assessing the Group's governance and oversight, including the continuous reassessment of overall provisioning;
- Assessing the Group's significant accounting policies and expected credit loss ("ECL") modelling methodology against the requirements of the standards and underlying accounting records;
- Assessing the disclosures in the consolidated financial statements against the requirements of NZ IFRS;
- Testing key controls over arrears calculations, customer loan ratings, annual loan reviews, credit risk reviews and model validations;
- Evaluating credit assessments for a sample of 'rural' and other 'corporate' loans that are either individually above \$10 million or on management's credit watchlist. This included inspection of the latest correspondence with the borrower, assessment of the provision estimates prepared by credit risk officers, and consideration of the resolution strategy; including challenging assumptions based on our experience and industry knowledge, and assessing collateral values by comparing them to valuations performed by independent valuers;
- Assessing individually significant loans in arrears not specifically



### The key audit matter

determine the collective provision based on historical data, adjusted for forward looking information.

Additionally management apply judgement in the determination of provision overlays to adjust for future market conditions.

The level of judgement involved in determining the provision for collectively impaired assets requires us to challenge the appropriateness of management's assumptions.

### How the matter was addressed in our audit

provided for, to determine whether they were being appropriately monitored and incorporated into the provision for collectively impaired assets;

- Testing key inputs used in the ECL calculation for significant portfolios. This included testing data reconciliation controls between the ECL models and source systems;

- Challenging the key assumptions in the models such as probability of default, loss given default and forward-looking assumptions for a sample of models. We compared modelled estimates against actual losses incurred by the Group and forward-looking assumptions against external economic information; and

- Assessing management's judgement in the application of overlays by applying sensitivities to assumptions underlying the overlays, and evaluating current economic and climatic conditions linked to the overlays, not captured in the Group's models.

The estimates and assumptions used to determine the provision for impairment of finance receivables are reasonable, with no evidence of management bias or influence identified from our procedures.

We did not identify any material issues or exceptions from our procedures.

### Valuation of finance receivables - reverse mortgages

*Refer to notes 13 and 20 to the consolidated financial statements.*

The Group's reverse mortgage portfolio is held at fair value.

The fair value calculation is based on the application of management judgement. In assessing the fair value the Group continuously considers evidence of a relevant active market. In the absence of such a market, in the current period, the Group considered changes since the original lending and an independent actuarial assessment of future cash flows.

The inherent uncertainties include estimated future mortality and move to care rates, voluntary exits, house price changes and interest rate margin.

Together with KPMG valuation specialists, our procedures over the fair value loan portfolios included:

- Testing key controls over the accuracy of historic data impacting the fair value assessment;

- Assessing evidence of a relevant active market or observable inputs; and

- Challenging the key assumptions used by the Group in determining the portfolio's fair value.

The estimates and assumptions used to determine the valuation of finance receivables are reasonable, with no evidence of management bias or influence identified from our procedures.

We did not identify any material issues or exceptions from our procedures.

### Operation of IT systems and controls

The Group is heavily dependent on complex IT systems for the processing and recording of significant volumes of transactions and other core banking activity.

For significant financial statement balances, such as finance receivables and deposits, our

Our audit procedures, amongst others, included:

- Gaining an understanding of business processes, key controls, and IT systems relevant to significant financial statement balances, including technology services provided by a third party;

## Financial statements



The key audit matter	How the matter was addressed in our audit
<p>audit involves an assessment of the design of the Group's internal control environment relevant to the preparation of these consolidated financial statements. There are some areas of the audit where we seek to test and place reliance on IT systems, automated controls and reporting.</p> <p>The effective operation of these controls is dependent upon the Group's general IT control environment, which incorporates controls relevant to IT system changes and development, IT operations, developer and user access controls.</p>	<ul style="list-style-type: none"> <li>— Assessing the effectiveness of the IT control environment, including core banking IT systems, key automated controls and reporting; and</li> <li>— Evaluating general IT controls relevant to IT system changes and development, IT operations, developer and user access controls.</li> </ul> <p>In performing our work, we identified design and operating effectiveness control observations that impacted the level of reliance we could place on IT systems, automated controls and reports.</p> <p>In response, we performed additional compensating control tests and substantive audit procedures:</p> <ul style="list-style-type: none"> <li>— We carried out substantive testing on IT systems and controls to assess:               <ul style="list-style-type: none"> <li>(i) the accuracy of automated controls and IT system calculated transactions and balances, such as interest income and expense;</li> <li>(ii) the reliability of automated reporting, such as IT system generated arrears reporting; and</li> <li>(iii) the operation of technology dependent manual controls;</li> </ul> </li> <li>— We performed additional control testing on compensating controls, including management and governance review controls; and</li> <li>— We completed further substantive audit procedures over significant financial statement balances, where required to support our audit.</li> </ul> <p>We did not identify any material issues or exceptions from those additional procedures.</p>

### Other information

The Directors, on behalf of the Group, are responsible for the other information included in the entity's Annual Report. Other information may include the Annual Review and information included in the Financial Report. Our opinion on the consolidated financial statements does not cover any other information and we do not express any form of assurance conclusion thereon.

The Annual Report is expected to be made available to us after the date of this Independent Auditor's Report. Our responsibility is to read the Annual Report when it becomes available and consider whether the other information it contains is materially inconsistent with the consolidated financial statements, or our knowledge obtained in the audit, or otherwise appears misstated. If so, we are required to report such matters to the Directors.



### Use of this independent auditor's report

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





## Responsibilities of the Directors for the consolidated financial statements

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

- the preparation and fair presentation of the consolidated financial statements in accordance with generally accepted accounting practice in New Zealand (being New Zealand Equivalents to International Financial Reporting Standards) and International Financial Reporting Standards;
- implementing necessary internal control to enable the preparation of a consolidated set of financial statements 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 audit of the consolidated financial statements

Our objective is:

- to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error; and
- to issue an independent auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs NZ will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error. They are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

A further description of our responsibilities for the audit of these consolidated financial statements is located at the External Reporting Board (XRB) website at:

<http://www.xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities/audit-report-1/>

This description forms part of our independent auditor's report.

The engagement partner on the audit resulting in this independent auditor's report is Graeme Edwards.

For and on behalf of

KPMG  
Auckland

15 August 2019

## Corporate governance

# Corporate governance

This corporate governance statement describes Heartland Group Holdings Limited's (**Heartland**) corporate governance policies and practices as at 30 June 2019.

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

Heartland is pleased to report that, other than in respect of the matter explained in the "Principle 3 – Board Committees" section below, it was fully compliant with the corporate governance principles contained in the *NZX Corporate Governance Code* (the **NZX Code**) as at 30 June 2019.

### PRINCIPLE 1 – CODE OF ETHICAL BEHAVIOUR

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

#### Codes of Conduct

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

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

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

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

#### Insider Trading Policy

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

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

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

## PRINCIPLE 2 – BOARD COMPOSITION AND PERFORMANCE

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

### Role of the Board

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

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

### Board processes

The Board held five meetings, and the Heartland Bank Board held eight meetings, during the year ended 30 June 2019. The following table shows attendance by each director at the meetings of the Heartland and Heartland Bank Boards and Heartland Board Committees of which he or she was a member.

	Board			
	Heartland Eligible to attend	Heartland Attended	Heartland Bank Eligible to attend	Heartland Bank Attended
J K Greenslade	5	5	8	8
E F Comerford	5	5	8	8
E J Harvey	-	-	8	8
B R Irvine	-	-	8	8
G Kennedy (retired 28/3/19)	-	-	8	8
C R Mace	5	4	3	3
K Morrison (appt 29/3/19)	-	-	1	1
G T Ricketts	5	5	8	8
V C M Stoddart	-	-	8	8
G R Tomlinson	5	5	3	2

	Audit Committee				Risk Committee				Corporate Governance, People, Remuneration and Nominations Committee				Corporate Finance Committee	
	HGH Elig	HGH Att	HBL Elig	HBL Att	HGH Elig	HGH Att	HBL Elig	HBL Att	HGH Elig	HGH Att	HBL Elig	HBL Att	HGH Elig	HGH Att
J K Greenslade	-	-	-	-	-	-	-	-	-	-	-	-	0	0
E F Comerford	3	2	-	-	3	3	6	6	-	-	-	-	0	0
E J Harvey	-	-	5	5	-	-	6	6	-	-	-	-	-	-
B R Irvine	-	-	5	5	-	-	-	-	3	3	1	1	0	0
G Kennedy (retired 28/3/19)	-	-	2	2	-	-	5	5	-	-	-	-	-	-
C R Mace	3	3	-	-	3	3	-	-	-	-	-	-	-	-
K Morrison (appt 29/3/19)	-	-	-	-	-	-	1	1	-	-	-	-	-	-
G T Ricketts	3	3	5	5	-	-	-	-	3	3	1	1	0	0
V C M Stoddart	-	-	3	2	-	-	6	5	-	-	1	1	-	-
G R Tomlinson	-	-	-	-	-	-	-	-	3	3	1	1	0	0

Note: Elig = Eligible to attend; Att = Attended; HGH = Heartland; and HBL = Heartland Bank.

All of the then serving members of the Heartland Bank Board attended the Annual Meeting held on 19 September 2018.

### Director appointment

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

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

## Corporate governance

### PRINCIPLE 2 – BOARD COMPOSITION AND PERFORMANCE (CONTINUED)

#### Board membership, size and composition

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

As at 30 June 2019, the Board comprised five directors, being an independent Chairman, the Chief Executive Officer and three non-executive directors. The Board encourages rigorous discussion and analysis when making decisions.

As mentioned above, Heartland Bank has its own Board and Board Committees, and meetings are held consecutively with Heartland Board and Board Committees meetings. Members of both Boards and Committees (as applicable) attend both Heartland and Heartland Bank Board or Committee meetings (as applicable), which further encourages rigorous discussion and analysis.

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

Set out below is a table summarising the skills, knowledge and experience of the Heartland and Heartland Bank Boards as at 30 June 2019. The results of the assessment are provided as the average score across all of the directors for a particular category. Details regarding the scoring system are also provided below.

Category	Description	Average score
Risk Management	Risk management frameworks, setting risk appetite, building and adapting organisational risk culture, regulatory relationships, assessing the effectiveness of senior leadership.	4
Governance and Compliance	Implementing organisation-wide governance and compliance systems, processes and frameworks, regulatory compliance, assessing the effectiveness of senior leadership.	4.5
Capital/Financial/M&A Acumen	Implementation of financial and capital management strategies, corporate finance restructuring, capital raisings within risk appetite/ICAAP, M&A experience.	4
Corporate Strategy	Reviewing and setting organisational strategy, organic growth opportunities, merger and acquisition opportunities (including joint ventures).	4.25
Leadership	Driving engagement and enablement, evaluating employee and executive performance, strategic workforce planning, succession, leading organisation change and talent development.	4.75
Remuneration	Detailed executive remuneration matters (including scorecard target setting), incentive arrangements, staff superannuation. Understanding of the relevant legislative/contractual framework for remuneration.	3.75
Health & Safety	Implementing health, safety and wellbeing strategies, proactive identification and prevention of health and safety risks.	3.75
Government Relations/ Policy	Interaction with Government, Regulators, and Reserve Bank at all levels, influencing public policy decisions and outcomes.	3.5
Banking	Domestic and/or international experience in Banking, including the regulatory landscape for banks.	3.75
Liquidity and Funding	Broad experience in funding and liquidity strategies and management, regulatory requirements and options available to registered banks.	3.5
Issues/Event Management	For example, credit rating downgrade, social media events, regulatory breaches or changes and other reputational events.	4
Related Industries/Insurance	Broad experience across industries related to banking, funds management, reverse mortgages, consumer finance, general insurance.	3.25
Customer Data/CRM	Experience in driving strategic insights from the collection and analysis of customer data, experience in customer relationship management, cloud computing and software delivery.	3.5
Digital and Information Technology	Understanding digital distribution and latest innovations and technologies disrupting traditional distribution processes. Domestic and/or international experience in IT strategies, IT networks, cloud computing and software delivery.	3
RBNZ/Regulatory Compliance	Experience relating to RBNZ compliance regime and other applicable compliance with regulatory bodies (e.g. Australia).	3.5
Australian Experience	Experience in banking/financial and related markets. Experience with regulatory bodies, APRA, ASIC, ASX, etc.	4
Corporate Emotional Intelligence (EQ)	Personal attributes relevant to the Board environment including communication skills, the ability to constructively challenge, championing an environment that effectively deals with complex issues and continually seeking to "lift the bar".	4

## PRINCIPLE 2 – BOARD COMPOSITION AND PERFORMANCE (CONTINUED)

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

### Board training and performance assessment

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

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

### Diversity and inclusion

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

A discussion of Heartland's Diversity and Inclusion Policy and a report on the measurable objectives which were set for 2019 is included on page 73 of this Financial Report.

## PRINCIPLE 3 – BOARD COMMITTEES

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

### Board Committees

As at 30 June 2019, Heartland had four permanently constituted Board Committees, each of which is tasked with working with management in its specific area of responsibility and reporting its findings and recommendations to the Board. Management attend committee meetings as required (however, in the case of Audit Committee and Corporate Governance, People, Remuneration and Nominations Committee meetings, management attend only at the invitation of the relevant Committee).

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

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

As at 30 June 2019, Heartland Bank also had a permanently constituted Risk Committee and an Audit Committee which are tasked with working with management and reporting their findings and recommendations to the Heartland Bank Board.

### Audit Committee

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

As at 30 June 2019, the members of the Audit Committee were E F Comerford (Chair), C R Mace and G T Ricketts.

## Corporate governance

### PRINCIPLE 3 – BOARD COMMITTEES (CONTINUED)

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

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

The Audit Committee works closely with the Heartland Bank Audit Committee, which has similar responsibilities in relation to Heartland Bank, and their meetings occur consecutively. As at 30 June 2019, the Board determined that all committee members had a recognised form of financial expertise in accordance with the Audit Committee's charter.

### Risk Committee

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

As at 30 June 2019, the members of the Risk Committee were E F Comerford (Chair), C R Mace and G T Ricketts.

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

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

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

### Corporate Governance, People, Remuneration and Nominations Committee

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

As at 30 June 2019, the members of the Corporate Governance, People, Remuneration and Nominations Committee were G T Ricketts (Chair), B R Irvine and G R Tomlinson. Although B R Irvine is a director of Heartland Bank and not Heartland, the Board are of the view that a director of Heartland Bank should be a member of the Corporate Governance, People, Remuneration and Nominations Committee given that the vast majority of employees of the Group are employed by Heartland Bank. B Irvine, as Chairman of Heartland Bank, represents Heartland Bank's position in that regard. Accordingly, Heartland has not strictly complied with recommendation 3.3 of the NZX Code as the majority of the committee are not independent directors of Heartland. Instead, the committee has one independent director of Heartland and one independent director of Heartland Bank but, as described above, the Board considers this appropriate for Heartland.

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

- ▲ corporate governance matters
- ▲ people strategy, including organisation structure, performance, succession planning, development, culture, diversity and remuneration strategy and policies and any other strategic people initiatives
- ▲ remuneration of the directors, Chief Executive Officer and senior executives
- ▲ the performance of the Chief Executive Officer including setting and review of annual KPIs
- ▲ director and senior executive appointments, Board composition and succession planning.

## PRINCIPLE 3 – BOARD COMMITTEES (CONTINUED)

### Corporate Finance Committee

The Corporate Finance Committee is required to have at least three directors, the majority of whom must be independent, and one of whom will be the Chief Executive Officer.

As at 30 June 2019, the members of the Corporate Finance Committee were G T Ricketts (Chair), E F Comerford, J K Greenslade, B R Irvine and G R Tomlinson.

The role of the Corporate Finance Committee is to advise and provide assurance to the Board in order to enable the Board to discharge its responsibilities in relation to the oversight of the management of Heartland's financial resources and major financial strategies and transactions.

### Takeovers Response Manual

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

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

## PRINCIPLE 4 – REPORTING AND DISCLOSURES

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

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

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

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

### Audit Committee

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

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

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

### Non-financial reporting

Heartland is committed to delivering value for its customers, shareholders, employees, communities, partners and intermediaries. This is the second year that Heartland has reported against a Corporate Social Responsibility Framework in order to provide more detailed information on the value created for Heartland's stakeholders. Refer to page 30 of the 2019 Annual Review.

## Corporate governance

### PRINCIPLE 5 – REMUNERATION

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

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

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

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

The full Remuneration Policy is available on Heartland's shareholder website at [shareholders.heartland.co.nz](http://shareholders.heartland.co.nz).

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

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

#### Non-executive directors' remuneration

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

Heartland's policy is to pay directors' fees in cash. There is no requirement for directors to take a portion of their remuneration in shares and nor is there a requirement for directors to hold shares in Heartland. However, as at 30 June 2019, a number of the directors held shares, or a beneficial interest in shares, in Heartland (see the Directors' Disclosures section of this Financial Report for further details).

#### Senior executive remuneration

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

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

Disclosure of the CEO's remuneration is included in the Directors' Disclosures section on page 69 of this Financial Report.



## PRINCIPLE 6 – RISK MANAGEMENT

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

### Risk management

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

### Health and safety

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

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

In the year ended 30 June 2019, there have been no notifiable events to report to Worksafe New Zealand.

## PRINCIPLE 7 – AUDITOR

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

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

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

The external auditor monitors its independence and reports to the Audit Committee bi-annually to confirm that it has remained independent in the previous six months, in accordance with Heartland's External Auditor Independence Policy and the external auditor's policies and professional requirements. There have been no threats to auditor independence identified during the year ended 30 June 2019.

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

## PRINCIPLE 8 – SHAREHOLDER RIGHTS & RELATIONS

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

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

- ▲ periodic and continuous disclosure to NZX and ASX
- ▲ information provided to analysts and media during briefings
- ▲ Heartland's shareholder website ([shareholders.heartland.co.nz](http://shareholders.heartland.co.nz))
- ▲ the Annual Meeting, at which shareholders have the opportunity to ask questions
- ▲ annual and half year reports.

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

## Disclosures

# Directors' disclosures

### DIRECTORS

The following persons were directors of Heartland and its subsidiaries during the year ended 30 June 2019.

Company	Directors	
Heartland Group Holdings Limited	Geoffrey Thomas Ricketts Ellen Frances Comerford Jeffrey Kenneth Greenslade Christopher Robert Mace Gregory Raymond Tomlinson	Independent Director (Chair)* Independent Director* Executive Director (commenced 19/07/2018)* Independent Director* Non-Independent Director* *Appointed 31/10/2018 (as a result of the corporate restructure)
Heartland Bank Limited	Bruce Robertson Irvine Ellen Frances Comerford Jeffrey Kenneth Greenslade Edward John Harvey Graham Russell Kennedy Christopher Robert Mace Kathryn Morrison Geoffrey Thomas Ricketts Vanessa Cynthia May Stoddart Gregory Raymond Tomlinson	Independent Director (Chair) Independent Director (re-elected 22/11/2017) Non-Independent Director Independent Director (re-elected 19/09/2018) Independent Director (retired 28/03/2019) Independent Director (resigned 31/10/2018) Independent Director (appointed 29/03/2019) Independent Director (re-elected 22/11/2017) Independent Director (re-elected 19/09/2018) Non-Independent Director (resigned 31/10/2018)
ASF Custodians Pty Limited	Andrew John Ford Richard Glenn Udovenya	
Australian Seniors Finance Pty Limited	Andrew John Ford Richard Glenn Udovenya	
Heartland Australia Holdings Pty Ltd	Ellen Frances Comerford Christopher Patrick Francis Flood Andrew John Ford Jeffrey Kenneth Greenslade Geoffrey Thomas Ricketts Gregory Raymond Tomlinson	Christopher Flood resigned 31/10/2018 and Jeffrey Greenslade, Geoffrey Ricketts and Gregory Tomlinson were appointed.
Heartland Australia Group Pty Ltd	Ellen Frances Comerford Christopher Patrick Francis Flood Andrew John Ford Jeffrey Kenneth Greenslade Geoffrey Thomas Ricketts Gregory Raymond Tomlinson	Christopher Flood resigned 31/10/2018 and Jeffrey Greenslade, Geoffrey Ricketts and Gregory Tomlinson were appointed.
Heartland NZ Trustee Limited	Philippa Rosemary Drury Christopher Patrick Francis Flood	
Heartland PIE Fund Limited	Jeffrey Kenneth Greenslade Bruce Robertson Irvine	
MARAC Insurance Limited	Andrew James Aitken Christopher Patrick Francis Flood Christopher Robert Mace Sarah Elizabeth Ann Smith	
Seniors Finance Custodians Pty Limited	Andrew John Ford Richard Glenn Udovenya	
Seniors Finance Pty Limited	Andrew John Ford Richard Glenn Udovenya	
Sentinel Custodians Limited	Christopher Patrick Francis Flood	(amalgamated with Heartland Bank from 1 October 2018)
VPS Properties Limited	Christopher Patrick Francis Flood	

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

## INTERESTS REGISTER

The following are the entries in the Interests Register of Heartland (and its subsidiaries) made during the year ended 30 June 2019.

### Indemnification and insurance of directors

Heartland has given indemnities to, and has effected insurance for, directors of Heartland and its subsidiaries to indemnify and insure them in respect of any liability for, or costs incurred in relation to, any act or omission in their capacity as directors, to the extent permitted by the Companies Act 1993. The cost of the insurance premiums to the Group for the year ended 30 June 2019 was \$87,975.00 (including GST).

### Share dealings by directors

Details of individual directors' share dealings as entered in the Interests Register of Heartland and Heartland Bank (in respect of share dealings prior to 31 October 2018) under Section 148(2) of the Companies Act 1993 during the year ended 30 June 2019 are as follows (all dealings are in ordinary shares unless otherwise specified):

#### E J Harvey

Date of acquisition/ disposal	Nature of relevant interest	Acquisition/disposal	No. of shares	Consideration
21 September 2018	Allotment under DRP	Acquisition	3,779	\$6,140.88
29 March 2019	Allotment under DRP	Acquisition	2,740	\$4,030.27

#### J K Greenslade

Date of acquisition/ disposal	Nature of relevant interest	Acquisition/disposal	No. of shares	Consideration
22 February 2019	Purchase of shares	Acquisition	141,000	\$195,194.47
29 March 2019	Allotment under DRP	Acquisition	74,118	\$109,020.17

#### B R Irvine

Date of acquisition/ disposal	Nature of relevant interest	Acquisition/disposal	No. of shares	Consideration
29 March 2019	Allotment under DRP	Acquisition	8,892	\$13,079.24
29 March 2019	Allotment under DRP	Acquisition	2,564	\$3,771.39

#### G R Tomlinson

Date of acquisition/ disposal	Nature of relevant interest	Acquisition/disposal	No. of shares	Consideration
20 February 2019	Purchase of shares	Acquisition	500,000	\$675,000
21 February 2019	Purchase of shares	Acquisition	500,000	\$685,000
29 March 2019	Allotment under DRP	Acquisition	1,217,286	\$1,790,505.98

## Disclosures

### General notice of disclosure of interests in the interests register

Details of any changes to Heartland and Heartland Bank directors' general disclosures entered in the relevant interests register under Section 140 of the Companies Act 1993 during the year ended 30 June 2019 are as follows:<sup>1</sup>

E J Comerford	Ceased directorship of Cash Converters International Limited from 30 September 2018.
E J Harvey	Appointed director to Port of Napier Limited on 7 February 2019. Ceased directorship of New Zealand Opera Limited on 28 September 2018.
B R Irvine	Appointed director to Scenic Hotel (Haast) Limited from 29 January 2019, Gough Transport Supplies Limited from 13 May 2019, Gough Finance Limited, Gough Gough and Hamer Limited, Gough Group Limited, Gough Holdings Limited and Gough Transport NZ Limited from 5 November 2018, Kaipaki Holdings Limited and Kaipaki Properties Limited from 18 October 2018 and Kaipaki Berryfruits Limited from 17 October 2018. Ceased directorship of PGG Wrightson from 30 April 2019, Cowes Bay Holdings (NZ) Limited from 5 April 2019, Market Gardeners Orders (Christchurch) Limited and Market Gardeners Orders Wellington Limited from 17 October 2018.
C R Mace	Appointed director to Akitu Group Company No 1 Limited, Akitu Group Company No 2 Limited and Akitu Group Company No 3 Limited from 18 October 2018 and Akitu Investments No 2 Limited from 17 October 2018. Ceased directorship to The New Zealand Initiative Limited from 13 September 2018.
G T Ricketts	Appointed director to Oceania North Limited from 12 February 2019, MCF3 GP Limited, MCF3A General Partner Limited and MCF3B General Partner Limited from 31 October 2018 and MCF2 FFF – GK Limited from 23 October 2018. Ceased directorship of Highground Trust Limited from 30 January 2019, MCF 1 Limited from 5 December 2018, MCF 3 Limited from 18 October 2018 and MCF5 Limited from 13 September 2018.
V C M Stoddart	Appointed director to Nelson Forests Limited from 31 May 2019, Nelson Management Limited, OneFortyOne Plantations Holdings Pty Limited, OneFortyOne Plantations Pty Ltd, OneFortyOne Plantation Holdings No. 2 Pty Ltd, OneFortyOne Wood Products Pty Ltd and OneFortyOne NZ Holdings Limited from 7 February 2019, and Stoddart & Co Limited from 19 December 2018. Ceased directorship of Alliance Group Limited from 11 April 2019.
G R Tomlinson	Appointed director to Tomlinson Ventures Limited from 1 May 2019. Ceased directorship of Oceania Healthcare Holdings Limited from 22 May 2019.

Details of Heartland Bank directors' general disclosures entered in the relevant interest register under Section 140 of the Companies Act 1993 prior to 1 July 2018 can be found in earlier Annual Reports.

### Specific disclosures of interest in the interests register

There were no specific disclosures of interests in transactions entered into by Heartland or its subsidiaries (including Heartland Bank) during the period 1 July 2018 to 30 June 2019.

### Information used by directors

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

### HEARTLAND AND HEARTLAND BANK DIRECTORS' RELEVANT INTERESTS

Director	Number of ordinary shares – beneficial	Number of ordinary shares – non-beneficial <sup>2</sup>	Number of options
J K Greenslade	3,421,443	Nil	1,720,881
E J Harvey	126,506	6,475,976	Nil
B R Irvine	528,856	6,475,976	Nil
C R Mace	14,337,489	6,475,976	Nil
G T Ricketts	13,267,285	6,475,976	Nil
G R Tomlinson	56,192,322	Nil	Nil

1. For the purposes of this disclosure, whilst Heartland's interests register was created during the relevant financial year and as such all of the entries made in that register immediately after the corporate restructure (which occurred on 31 October 2018) were "new", only entries which related to matters which occurred during the relevant financial year have been disclosed.

2. The non-beneficial interest in the 6,475,976 shares arises from those directors being a trustee of the Heartland Trust, which held 6,475,976 shares in Heartland as at 30 June 2019.

## DIRECTORS' REMUNERATION

The current total fee pool for the non-executive directors of Heartland and its subsidiaries approved by shareholders at the Annual Shareholder Meeting of Heartland Bank Limited held on 22 November 2016 is \$1,200,000 per annum.<sup>3</sup>

The table below sets out the fees payable to the non-executive directors of Heartland for the year ended 30 June 2019 based on the position(s) held.

Board/Committee <sup>4</sup>	Position	Fees (per annum)
Board of Directors	Chair	\$150,000
	Deputy Chair <sup>5</sup>	\$110,000
	Member	\$100,000
Audit Committee	Chair	\$15,000
	Member	Nil
Risk Committee	Chair	\$15,000
	Member	Nil
Corporate Governance, People, Remuneration and Nominations Committee	Chair	\$15,000
	Member	Nil
Corporate Finance Committee	Chair	Nil
	Member	Nil

The total remuneration and value of other benefits<sup>6</sup> received by each non-executive director who held office in Heartland and/or any of its subsidiaries during the year ended 30 June 2019 is set out in the table below. Directors' fees exclude GST where appropriate.

Director	Board Fees	Audit Committee	Risk Committee	Corporate Governance, People, Remuneration and Nominations Committee	Other	Total Remuneration
<b>Heartland Group Holdings (HGH) and Heartland Bank Limited (HBL) directorships</b>						
E F Comerford	\$100,000	\$10,000 <sup>7</sup>	\$10,000 <sup>8</sup>	-	-	\$120,000
E J Harvey	\$100,000	\$10,000 <sup>9</sup>	\$5,000 <sup>10</sup>	-	-	\$115,000
B R Irvine	\$136,667 <sup>11</sup>	\$5,000 <sup>12</sup>	-	-	-	\$141,667
G R Kennedy	\$75,000 <sup>13</sup>	-	-	-	-	\$75,000
K Morrison	\$25,000 <sup>14</sup>	-	-	-	-	\$25,000
C R Mace	\$100,000	-	-	-	-	\$100,000
G T Ricketts	\$150,000 <sup>15</sup>	-	-	\$15,000	-	\$165,000
V C M Stoddart	\$100,000	-	-	-	-	\$100,000
G R Tomlinson	\$100,000	-	-	-	-	\$100,000
<b>Subsidiary directorships</b>						
A J Aitken	\$32,000 <sup>16</sup>	-	-	-	-	\$32,000
E F Comerford	A\$50,000 <sup>17</sup>	-	-	-	-	A\$50,000
P Drury	\$20,000 <sup>18</sup>	-	-	-	-	\$20,000
C R Mace	\$15,000 <sup>19</sup>	-	-	-	-	\$15,000
R G Udovenya	A\$30,000 <sup>20</sup>	-	-	-	-	A\$30,000
<b>Total</b>						<b>\$1,092,869<sup>21</sup></b>

- On 4 October 2018, NZX granted Heartland a waiver from Rule 3.5.1, to the extent that this Rule requires the Directors' Remuneration Pool to be authorised by an Ordinary Resolution of Heartland (as opposed to Heartland Bank).
- If a director sits on both the Heartland and Heartland Bank boards, they are only entitled to receive one fee.
- To 31 October 2018 as Heartland no longer remunerates Deputy Chairs after the corporate restructure.
- In addition to these amounts, Heartland meets costs incurred by directors, which are incidental to the performance of their duties. This includes providing directors with telephone concessions and paying the cost of directors' travel. As these costs are incurred by Heartland to enable directors to perform their duties, no value is attributable to them as benefits to directors for the purposes of the tables included in this report.
- Chair of Heartland Audit Committee from 1 November 2018.
- Chair of Heartland Bank Risk Committee from 1 November 2018 and Chair of Heartland Risk Committee from 1 January 2019.
- Chair of Heartland Bank Audit Committee from 1 November 2018.
- Chair of Heartland Bank Risk Committee to 31 October 2018.

- Deputy Chair of Heartland Bank Board to 31 October 2018, then Chair of Heartland Bank Board from 1 November 2018.
- Chair of Heartland Bank Audit Committee to 31 October 2018.
- Retired from Heartland Bank Board 28 March 2019.
- Commenced as Heartland Bank director from 29 March 2019.
- Chair of Heartland Bank Board to 31 October 2018, then Chair of Heartland Board from 1 November 2018.
- Fees paid to A J Aitken as a director of MARAC Insurance Limited.
- Fees paid to E F Comerford as a director of Heartland Australia Group Pty Limited and Heartland Australia Holdings Pty Limited.
- Fees paid to P Drury as a director of Heartland NZ Trustee Limited.
- Fees paid to C R Mace as Chair of MARAC Insurance Limited.
- Fees paid to R G Udovenya as a director of ASF Custodians Pty Limited, Australian Seniors Finance Pty Limited, Seniors Finance Custodians Pty Limited and Seniors Finance Pty Limited.
- For the purposes of this table, A\$ fees have been converted to NZ\$ using an exchange rate of \$1.05252.

## Disclosures

### REMUNERATION AND/OR OTHER BENEFITS FROM THE COMPANY AND ITS SUBSIDIARIES TO EXECUTIVE DIRECTORS

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

#### STI Scheme

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

#### LTI Schemes

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

##### Senior Executive Scheme

Certain previous share options schemes were all extinguished in June 2016 in consideration for participation in the Senior Executive Scheme, which resulted in the CEO acquiring Heartland shares on market at that time.

Although the shares were received in June 2016, they vested over a three year period (which has now elapsed). Accordingly, for the purposes of this disclosure, Heartland has treated the shares as vesting in three equal tranches in FY17, FY18 and FY19, with the economic value at the date of vesting being a product of the number of shares which are treated as vesting in that period and the share price on the final trading day of the relevant period.

##### Performance Rights Plan – 2017 Grant

Under the Performance Rights Plan – 2017 Grant, the CEO and other Senior Executives were issued performance rights which, subject to continued employment and achievement of the Total Shareholder Return (TSR)<sup>22</sup> target over the measurement period of between 31 August 2016 and the date falling 10 business days following the date on which Heartland announced its full year results for the financial year ended 2019, were to vest into one share in Heartland for each Performance Right held.

During FY19, the Group was restructured, resulting in one-off costs of \$4.2 million, and there were significant changes announced in respect of regulatory requirements for conduct and culture and for regulatory capital to be held by banks. The Scheme Rules provide for adjustments to be made to account for such circumstances, and so the Board resolved that the TSR performance condition was satisfied having regard to the original spirit and intent of the Scheme and the 2017 Grant vested in accordance with its terms.

##### Performance Rights Plan – 2018/2019 Grant

Under the Performance Rights Plan – 2018/2019 Grant, the CEO and other Senior Executives were issued performance rights which, subject to continuous employment and achievement of certain market capitalisation and share price targets over the period between 12 September 2017 and the date falling 20 business days following the date on which Heartland announces its full year results for the financial year ended 2021, were to vest into up to one share in Heartland. The Performance Rights Plan – 2018/2019 Grant was made to provide a long term incentive for the 2018 and 2019 financial years so no separate LTI grant was made to the CEO in respect of the 2019 financial year.

Following the recent Financial Markets Authority and Reserve Bank Conduct and Culture Review, the Board determined that the performance hurdles for the 2018/2019 Grant should be amended to reference appropriate culture and conduct measures and achievement of key strategic objectives, in addition to encompassing a broader range of financial measures. The Board also determined to adjust the performance period by extending it until the end of FY22.

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

22. TSR is calculated as the combination of share price movement and cash dividends assumed to be reinvested on the ex-dividend date, expressed as a percentage of the opening share value on the Issue Date.

## CEO remuneration disclosures

In the year ended 30 June 2019, the CEO received a fixed salary, a variable remuneration component comprising STI and LTI, and other benefits as detailed in the below tables. The tables also show a comparison between the year ended 30 June 2019 and the year ended 30 June 2018 and a summary of the CEO's total remuneration over the last five financial years.

This year, Heartland has presented the summary using both the accounting cost of all current LTI grants made to the CEO (which shows the cost of those arrangements to Heartland), and also the value of the awards which actually vested during the relevant financial year (which shows what remuneration was received by the CEO during the relevant financial year). The accounting cost of all current LTI grants differs from the value of the awards which actually vested. This is because the accounting cost of a grant is determined at the time the grant is made, reflects the uncertainty around whether the relevant performance criteria will be met, and is spread over the entire performance period of that grant.

### CEO remuneration (FY19 and FY18)

Financial year ended	Salary	Benefits	At risk pay			Total
			STI	LTI		
30 June 2019	\$989,200	\$10,800 <sup>23</sup>	\$450,000	Accounting cost of all grants	\$683,552 <sup>24</sup>	\$2,133,552
				Value of awards actually vested	\$1,379,161 <sup>25</sup>	\$2,829,161
30 June 2018	\$989,200	\$10,800 <sup>26</sup>	\$900,000	Accounting cost of all grants	\$683,552 <sup>27</sup>	\$2,583,552
				Value of awards actually vested	\$736,489 <sup>28</sup>	\$2,636,489

23. Motor Vehicle.

24. The accounting cost of the Senior Executive Scheme, the 2017 Grant and the 2018/2019 Grant was spread over a period including FY19.

25. This represents the value of the Senior Executive Scheme shares which are being treated as vesting in FY19, and the value of the 2017 Grant based (on the share price on 9 September 2019, but noting that the shares had not yet been issued on that date). For further information about the Senior Executive Scheme shares, see the Senior Executive Scheme section.

26. Motor Vehicle.

27. The accounting cost of the Senior Executive Scheme, the 2017 Grant and the 2018/2019 Grant was spread over a period including FY18.

28. This represents the value of the Senior Executive Scheme shares which were treated as vesting in FY18. For further information, see the Senior Executive Scheme section.

## Disclosures

### Five year summary of total CEO remuneration

Heartland has presented the below summary using only the value of the awards which actually vested during the relevant financial year (which shows what remuneration was received by the CEO during the relevant financial year), as the accounting treatment of historic schemes is complex and, in Heartland's view, of no real significance to current shareholders.

Financial Year ended	Total Remuneration Paid (including value of LTI awards actually vested)	Percentage STI against maximum <sup>29</sup>	Percentage LTI against maximum <sup>30</sup>	Span of LTI performance period
30 June 2019	\$2,829,161	45%	100%	FY19 <sup>31</sup>
30 June 2018	\$2,636,489	90%	100%	FY17 – FY19
30 June 2017	\$2,736,489	100%	100%	FY18 <sup>32</sup>
30 June 2016	\$1,700,000	N/A	N/A	FY17 <sup>33</sup>
30 June 2015	\$2,652,538 <sup>34</sup>	N/A	N/A	FY13 – FY15 <sup>35</sup>

### Breakdown of CEO At Risk Pay (FY19)

Description	Performance Measures	Percentage Achieved
STI Up to 100% of base salary based on the achievement of financial and non-financial performance expectations	Based on achievement of financial and non-financial performance expectations. <sup>36</sup>	45%
LTI Shares received in June 2016 under the now lapsed Senior Executive Scheme	The Senior Executive Scheme shares were held in escrow for a service period which expired on 30 June 2019.	100%
2017 Grant	Continued employment during, and achievement of TSR target over, the performance period.	100%

29. Where "N/A", there were no maximum limits for the relevant period.

30. Where "N/A", there were no maximum limits for the relevant period.

31. The service period for the Senior Executive Scheme shares which are being treated as vesting in FY19 was FY19. For further information, see the Senior Executive Scheme section.

32. The service period for the Senior Executive Scheme shares which are being treated as vesting in FY18 was FY18. For further information, see the Senior Executive Scheme section.

33. The service period for the Senior Executive Scheme shares which are being treated as vesting in FY17 was FY17. For further information, see the Senior Executive Scheme section.

34. This includes the value of the Cash Scheme (\$647,000). It also includes the value of the FY13 Options (\$667,809), which has been calculated as if those options were settled on the final date of the service period (rather than when they were actually exercised).

35. The service period for the Cash Scheme was FY13 – FY15 (though it was settled prior to the end of that service period) and for the FY13 Options was FY13 – FY15.

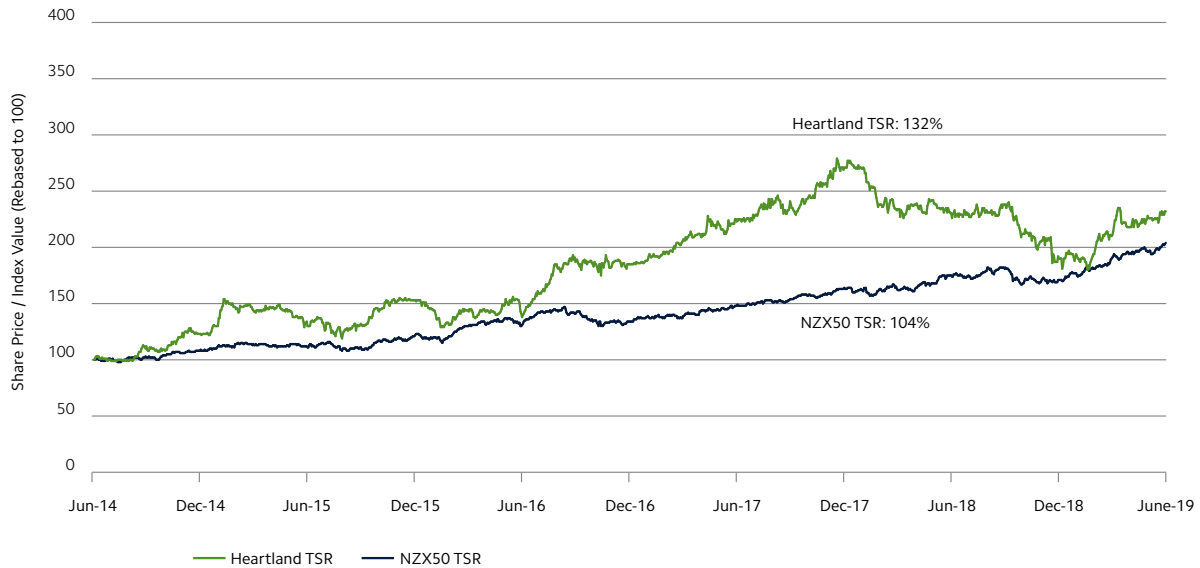
36. STI payments are entirely discretionary and entitlement is not guaranteed even if measures are achieved.



**CEO Grant under Performance Rights Scheme (FY18/FY19)**

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

**Five year summary of Heartland’s TSR performance**



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

**CEO remuneration as a multiple of staff remuneration**

The CEO’s salary as a multiple of the staff average is 10.11 times (FY18: 10.5 times), and his total remuneration as a multiple of the staff average is 19.77 times (FY18: 19 times).

## Disclosures

## Executive remuneration

The number of employees of Heartland and its subsidiaries (including former employees), other than directors, who received remuneration, including non-cash benefits, in excess of \$100,000 during the year ended 30 June 2019 is set out in the remuneration bands detailed below.

Remuneration	No. of Staff
\$100,000 - \$109,999	13
\$110,000 - \$119,999	15
\$120,000 - \$129,999	17
\$130,000 - \$139,999	8
\$140,000 - \$149,999	15
\$150,000 - \$159,999	14
\$160,000 - \$169,999	5
\$170,000 - \$179,999	2
\$180,000 - \$189,999	5
\$190,000 - \$199,999	3
\$200,000 - \$209,999	2
\$220,000 - \$229,999	2
\$230,000 - \$239,999	1
\$240,000 - \$249,999	2
\$250,000 - \$259,999	1
\$270,000 - \$279,999	2
\$280,000 - \$289,999	1
\$290,000 - \$299,999	1
\$300,000 - \$309,999	2
\$360,000 - \$369,999	1
\$380,000 - \$389,999	2
\$400,000 - \$409,999	1
\$410,000 - \$419,999	3
\$450,000 - \$459,999	1
\$490,000 - \$499,999	1
\$640,000 - \$649,999	1
\$950,000 - \$959,999	1
<b>Grand Total</b>	<b>122</b>

EXECUTIVE REMUNERATION

## Diversity report

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

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

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

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

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

In 2018, the Board set the following objectives to measure Heartland's performance against its Diversity and Inclusion Policy.

- a) To improve the inclusiveness of our workplace by increasing cultural awareness and celebrating diversity in all of its forms.
- b) To achieve a gender balance at all levels of the organisation as soon as possible.
- c) To be recognised as a preferred employer for emerging Māori talent, and thereby create a pathway to being an employer that is welcoming to all cultures and ethnicities.
- d) To create an environment where having English as a second language does not present a hurdle to being employed by, or succeeding at, Heartland.

The following section reports on the progress, which continues to be made against these objectives during the 2019 financial year.

### **TO IMPROVE THE INCLUSIVENESS OF OUR WORKPLACE BY INCREASING CULTURAL AWARENESS AND CELEBRATING DIVERSITY IN ALL OF ITS FORMS.**

Heartland has a workforce with diverse ethnicities, heritages, backgrounds, cultures, genders and ages. We are focused on continuing to develop a culture that embraces and celebrates this diversity and encouraging our people to be authentic and share their thoughts and ideas.

Heartland's Diversity Committee is a forum for our people to come together and share ideas to measure, celebrate and promote diversity and inclusion. The Committee arranges events and reports to the Board on diversity related matters, including those in relation to Heartland's progress towards achievement of the measurable objectives. Heartland's CEO is a member of Champions for Change and uses this forum to exchange ideas with peers on the appropriate ways to increase our diversity and inclusiveness.

This year the Diversity Committee coordinated a number of events to celebrate Christmas, Eid, Diwali, Chinese New Year, Samoan Language Week, and St Patrick's Day as well as an International shared lunch to celebrate the diverse cultures of our people. Māori language and culture continues as a key focus – Matariki was also celebrated, and we took the opportunity to recognise our people and hear their own stories. The Māori language has taken prominent place in our refreshed Heartland mātāpono (values) and has become used more widely in general communications, proving valuable in developing new relationships with customers and communities.

A Rainbow Committee has also been formed. The Rainbow Committee aims to make Heartland more inclusive for our Rainbow community and is working towards achieving the Rainbow Tick. International Women's Day was celebrated in March this year, where we acknowledged the importance of gender balance and recognised the women at Heartland. Pink Shirt Day, with its focus on bullying, also saw the launch of our Prevention of Bullying, Harassment and Discrimination framework. There has been a continued focus on growing the organisational awareness of diversity and inclusion through communication channels, including environmental spaces and online platforms, which have included regular news and interest stories.

Employees provide information on a voluntary basis to help us better understand the diverse backgrounds of our workforce. This includes which ethnicity individuals identify with. The data we collect conforms to the guidelines set by the Champions for Change and in 2019 we provided a snapshot of this information to the Champions for Change. We have also taken a deeper look at our age profile across the organisation, and it was revealed that our largest emerging workforce is aged 30 and under, with 37% of our total workforce in this age group.

## Disclosures

### TO ACHIEVE A GENDER BALANCE AT ALL LEVELS OF THE ORGANISATION AS SOON AS POSSIBLE.

Heartland continues to identify and address the imbalance of gender at any level where one exists. The following table shows the gender diversity of directors and employees of Heartland as at 30 June 2019 and 30 June 2018.

Positions	As at 30 June 2019					As at 30 June 2018		
	Female	Male	Gender Diverse	Not Stated	Total	Female	Male	Total
Board <sup>1</sup>	4 (33.33%)	7 (58.3%)	0	1 (8.3%)	12	2 (22.2%)	7 (78.8%)	9
Strategic Management Group	5 (62.5%)	3 (37.5%)	0	0	8	4 (50.0%)	4 (50.0%)	8
People in key leadership roles <sup>2</sup>	12 (40.00%)	18 (60.00%)	0	0	30	5 (29.4%)	12 (70.6%)	17
All staff	226 (50.45%)	212 (47.32%)	1 (0.22%)	9 (2.01%)	448	191 (51.1%)	183 (48.9%)	374

1 The Heartland Group Holdings Limited Board was established on 31 October 2018. All comparisons are of the Heartland Bank Limited Board on 30 June 2018 and the combined Heartland Bank Limited and Heartland Group Holdings Limited boards on 30 June 2019.

2 This group was labelled 'Senior Leadership Team' in 2018 report and has since had further inclusions.

This data in this table is inclusive of all employees across Australia and New Zealand (note Australian headcount was not included in 2018 report).

There is a strong pipeline of leadership talent coming through from our younger workforce, with 33% of employees occupying 'key leadership roles' aged 35 and under age. In the '30 and under' age group, there is an encouraging gender balance in our younger workforce, with 47% reporting as male, 51% reporting as female and the remaining employees opting not to state a gender.

To further our commitment in achieving gender balance, we continue our partnership with Global Women. This partnership enables Heartland to access best practice trends and opportunities and to collaborate with other organisations that are leading diversity and inclusion in New Zealand. There is a strong commitment from the Board to furthering this objective and the following table summarises the Directors' participation in diversity forums and the aims of each of these forums.

Director	Forum	Aim
Jeff Greenslade	Champions for Change	To exchange ideas with peers of appropriate ways to improve our diversity and inclusiveness.
Ellie Comerford	Chief Executive Women	To educate and influence Australian business and government on the importance of gender balance.
Vanessa Stoddart	Global Women in New Zealand (member and former Chair)	To access best practice, trends and opportunities to collaborate with other organisations who are leading diversity and inclusion in New Zealand.
Geoffrey Ricketts Bruce Irvine	IOD mentoring for diversity	To promote diversity in its wider sense including ethnicity, age, skills and experience in addition to gender.

This year, Heartland has undertaken a number of pay parity exercises to identify whether there are any like-for-like, by level or organisation wide gender pay gaps. We look to sophisticate and formalise the way that we assess pay parity with development of a framework to guide our approach. We are encouraged by the representation of women in the Strategic Management Group and continue to seek to understand how this will evolve and how we can maintain a gender balance as our workplace demographic evolves. We have invested in the individual development of female talent and have also continued with the Kia Eke programme. The Kia Eke programme is a support network and talent development programme for females at the early stages of their career to support their professional and career development. The programme aims also to build a strong pipeline of female employees to promote into senior leadership roles.

The Flexible Working Policy remains in place and managers are encouraged to take an open minded approach to requests for flexible working, reinforcing the benefits to Heartland and its customers by providing flexibility to employees who value it. Whilst we see this as one of the many ways in which we can attract and retain women in more senior roles in the organisation, the benefits of having a flexible working policy extends beyond fostering a gender balance – it is also aligned to Heartland's objective to be a more generally diverse and inclusive workplace. Giving all employees flexibility enables them to access personal pursuits such as sport, community work, religious celebrations or care for family members.

## **TO BE RECOGNISED AS A PREFERRED EMPLOYER FOR EMERGING MĀORI TALENT, AND THEREBY CREATE A PATHWAY TO BEING AN EMPLOYER THAT IS WELCOMING TO ALL CULTURES AND ETHNICITIES.**

To improve our ethnic and cultural diversity we're starting close to home with New Zealand's own people: our tangata whenua. Māori have a unique and significant role in Aotearoa, which Heartland is embracing – we aspire to be an employer of choice for Māori. It is our belief that if we can enhance our working environment so that Māori language, culture and values are embraced and Māori feel confident to join us and succeed authentically as Māori, then we will have set a good foundation for being a more welcoming place for people of all cultures and ethnicities. Initiatives undertaken to further this objective include:

- ▲ continuation of the internship programme for Māori students in partnership with Inzone Education Foundation and select secondary schools
- ▲ forming partnerships with Māori based organisations such as Te Matatini, in which we sponsored the national kapa haka competition; Māori Translators and the Māori Language Commission
- ▲ continued access for employees to free reo and tikanga Māori lessons which have seen 115 employees participate
- ▲ the creation of Manawa Whenua, an internal support network for Māori employees and allies
- ▲ te reo Māori and tikanga incorporated into formalities and events, including welcoming new employees with a whakatau (informal welcome), welcoming of guests and cultural practices as part of shared meals
- ▲ increasing the use of bilingualism throughout the organisation and translation of our key webpages into Māori.

In 2019 Heartland sponsored Aotearoa's national kapa haka competition, Te Matatini, which is central to Māori identity and culture. This is a significant event and has an estimated 20,000 people attend. Manawa Whenua, our Māori support network, has led new internal initiatives which created opportunities for our language and culture to be used. The combined increase in capability and opportunity has been a cornerstone for the visible cultural change regarding Māori in our workplace.

Māori language lessons continue to be popular and we're making it easier for more people to access these through online learning and video content. We are also working with Te Taura Whiri i te reo Māori (The Māori Language Commission) to develop a formal language plan.

Māori make up 4% of our Heartland population and with only 2.8% of people in the financial and insurance services sector identifying as Māori<sup>37</sup>, we are working to create change and make Heartland and the sector more inclusive for Māori. We continue to make progress with our younger Māori workforce, with 50% of our employees who identify as Māori being aged 30 and under. This can be attributed to the efforts invested in the Māori internship programme, which has seen seven interns from the most recent cohort progress into formal employment with Heartland. The programme helps to build a workplace where Māori can see a career pathway and establish their career with cultural integrity.

## **CREATING AN ENVIRONMENT WHERE HAVING ENGLISH AS A SECOND LANGUAGE DOES NOT PRESENT A HURDLE TO BEING EMPLOYED BY, OR SUCCEEDING AT, HEARTLAND.**

We recognise that given the number of ethnicities and cultures represented at Heartland, some of our employees are not native English speakers. Furthermore, our diverse customer and broader stakeholder base is comprised of people with a plethora of different native languages. To ensure that we understand the challenges that people who have English as a second language may face, we asked our employees to identify any real or perceived barriers to their success at Heartland as a result of them not being native English speakers. The feedback gained from this helped to inform initiatives around supporting and recognising various languages we have at Heartland. Overall, the feedback demonstrated to us that people who have English as a second language at Heartland generally feel supported by their teams and colleagues. The introduction of the Prevention of Bullying, Harassment and Discrimination framework reminded our people of the importance of respecting each other's differences and offers a support network in which employees can raise concerns if needed.

We are proud of what we have continued to achieve in 2019 in embracing and promoting the diversity of our people. We are creating a more welcoming and inclusive workplace where all people are respected and valued. We recognise that all forms of diversity bring different perspectives and expressions of ideas and opinions within the Board, the senior management team and throughout the organisation, and contribute to Heartland's productivity, profitability and connection with our communities and stakeholders.

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

37. Māori Labour Market trends – June 2019. Ministry of Business, Innovation & Employment.

## Disclosures

# Shareholder information

### SPREAD OF SHARES

Set out below are details of the spread of shareholders of Heartland as at 31 July 2019 (being a date not more than two months prior to the date of this Annual Report).

Size of holding	Number of shareholders	Total shares	% of issued shares
1 - 1,000 shares	1,165	663,021	0.12
1,001 - 5,000 shares	2,913	8,098,950	1.42
5,001 - 10,000 shares	2,318	17,144,767	3.01
10,001 - 50,000 shares	4,516	100,098,377	17.58
50,001 - 100,000 shares	795	54,438,974	9.56
100,001 shares and over	505	388,893,638	68.31
<b>TOTAL</b>	<b>12,212</b>	<b>569,337,727</b>	<b>100.00</b>

### TWENTY LARGEST SHAREHOLDERS

Set out below are details of the 20 largest shareholders of Heartland as at 31 July 2019 (being a date not more than two months prior to the date of this Annual Report).

Rank	Shareholder	Total shares	% of issued shares
1	Harrogate Trustee Limited	56,192,322	9.87
2	FNZ Custodians Limited	32,982,131	5.79
3	Citibank Nominees (NZ) Ltd	26,949,288	4.73
4	Oceania & Eastern Limited	13,267,285	2.33
5	Accident Compensation Corporation	11,818,407	2.08
6	Philip Maurice Carter	11,416,647	2.01
7	Forsyth Barr Custodians Limited	9,641,622	1.69
8	JPMORGAN Chase Bank	8,595,307	1.51
9	Investment Custodial Services Limited	7,536,738	1.32
10	Leveraged Equities Finance Limited	7,363,598	1.29
11	HSBC Nominees (New Zealand) Limited	7,178,474	1.26
12	HSBC Nominees (New Zealand) Limited	6,904,252	1.21
13	Heartland Trust	6,475,976	1.14
14	New Zealand Depository Nominee Limited	6,167,310	1.08
15	Custodial Services Limited	5,050,203	0.89
16	Jarden Custodians Limited	4,800,000	0.84
17	Custodial Services Limited	4,447,867	0.78
18	Pt Booster Investments Nominees Limited	3,685,467	0.65
19	Jeffrey Kenneth Greenslade & Sarah Ormond Greenslade	3,421,443	0.60
20	Cogent Nominees Limited	3,303,218	0.58
	<b>Total</b>	<b>237,197,555.00</b>	<b>41.65</b>

### SUBSTANTIAL PRODUCT HOLDERS

As at 30 June 2019, the following product holders are substantial product holders in Heartland.

Name	Number of shares	Class of shares	Total number of shares in class
Harrogate Trustee Limited and Gregory Raymond Tomlinson	56,192,322	Ordinary	569,337,727

## Other information

### AUDITOR'S FEES

KPMG has continued to act as auditor of Heartland and its subsidiaries. The amount payable by Heartland and its subsidiaries to KPMG as audit fees during the year ended 30 June 2019 was \$666,000. The amount of fees payable to KPMG for non-audit work during the year ended 30 June 2019 was \$52,000. These non-audit fees were primarily for review of regulatory returns, trust deed reporting, registry audits and other agreed upon procedures engagements.

### CREDIT RATING

As at the date of this Annual Report, Heartland has a Fitch Australia Pty Limited long-term credit rating of BBB (outlook stable).

### DONATIONS

The total amount of donations made by the Group during the year ended 30 June 2019 was \$241.

### EXERCISE OF NZX DISCIPLINARY POWERS

NZX Limited did not exercise any of its powers under Listing Rule 9.9.3 in relation to Heartland and its subsidiaries during the year ended 30 June 2019.

### NZX WAIVERS

Set out below is a summary of all waivers granted to the Group by NZX, or relied on by the Group, within the 12 month period preceding 30 June 2019.

#### Corporate Restructure – Offer of New Shares in Heartland Group

Heartland Bank relied on a waiver from Listing Rules 5.1.1 and 5.2.1 on 27 July 2018 and Heartland relied on a waiver from Listing Rules 5.1.1 and 5.2.1 on 16 August 2018 to the extent that those listing rules required the offer of new shares in Heartland Group as part of the corporate restructure to be made through a Primary Market Participant acting as an Organising Participant. This reasons for granting the waivers included that the offer of shares in Heartland were being made on a one for one basis to existing Heartland Bank shareholders, no subscription monies were to be received by Heartland and there was no change in the underlying listed enterprise or those involved in the management or governance of Heartland.

#### Corporate Restructure – Directors' Remuneration Pool

Heartland relied on a waiver from Listing Rule 3.5.1 on 4 October 2018 to the extent that it required the directors' remuneration pool to be authorised by an ordinary resolution of Heartland. The reasons for granting the waiver included that the directors' remuneration pool had already been approved by shareholders of Heartland Bank under Rule 3.5.1 at its 2016 Annual Meeting and that Heartland Bank shareholders had oversight of the initial directors' remuneration pool to be paid to Heartland Group directors through the scheme booklet relating to the restructure.

# Disclosures

## Directory

### DIRECTORS

#### HEARTLAND GROUP BOARD

**Geoff Ricketts**

Chair and Independent Non-Executive Director

**Jeff Greenslade**

Executive Director and CEO

**Ellie Comerford**

Independent Non-Executive Director

**Sir Chris Mace**

Independent Non-Executive Director

**Greg Tomlinson**

Non-Executive Director

#### HEARTLAND BANK BOARD

**Bruce Irvine**

Chair and Independent Non-Executive Director

**Ellie Comerford**

Independent Non-Executive Director

**Jeff Greenslade**

Executive Director

**John Harvey**

Independent Non-Executive Director

**Kate Morrison**

Independent Non-Executive Director

**Geoff Ricketts**

Independent Non-Executive Director

**Vanessa Stoddart**

Independent Non-Executive Director

### STRATEGIC MANAGEMENT GROUP

**Jeff Greenslade**

CEO, Heartland Group

**Chris Flood**

CEO, Heartland Bank

**Cherise Barrie**

Chief Financial Officer

**Laura Byrne**

Chief Culture & Communications Officer (joint)

**Grant Kemble**

Chief Risk Officer

**Rochelle Moloney**

Chief Culture & Communications Officer (joint)

**Sarah Smith**

Chief Technology Officer

**Lydia Zulkifli**

Chief Digital Officer

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