HEARTLAND

NZX/ASX release
22 February 2022

Heartland announces net profit after tax of $47.5 million for the six months ended 31 December 2021

Heartland Group Holdings Limited (**Heartland**) (**NZX/ASX: HGH**) achieved a net profit after tax (**NPAT**) of $47.5 million for the six-month period ended 31 December 2021 (**1H2022**), an increase of $3.4 million (7.8%) compared with the six-month period ended 31 December 2020 (**1H2021**). On an underlying basis (which excludes the impacts of one-offs[1]), 1H2022 NPAT was $47.1 million, an increase of $3.8 million (8.8%) compared with 1H2021 underlying NPAT.

The first half performance included a pleasing annualised rate of growth in lending (13.9%[2]). It also demonstrated the benefits of ongoing digitalisation, with a reduction in the cost-to-income (**CTI**) ratio.

Impairments were up on 1H2021 (19 basis points (**bps**)) due to COVID-19 related extensions[3] that occurred in 1H2021. This was largely successful as reflected in the 'business as usual' reported rate of 33 bps for 1H2022, which is below the six months to 30 June 2021 (**2H2021**) (43 bps contributing to the full year outcome of 31 bps) and the financial year ended 30 June 2020 (**FY2020**) (65 bps).

The introduction of changes to the New Zealand Credit Contracts and Consumer Finance Act 2003 and the Credit Contracts and Consumer Finance Regulations 2004 (**CCCFA**) slowed growth in Motor and online Home Loans in January and February 2022. This has the potential to impact on the growth rate for the remainder of the six-month period ending 30 June 2022 (**2H2022**). This is being partially offset by growth in other areas, especially Reverse Mortgages in Australia and New Zealand, and no material reduction in anticipated full year growth is expected.

Highlights for 1H2022

- NPAT of $47.5 million, up 7.8% ($3.4 million). Underlying NPAT of $47.1 million, up 8.8% ($3.8 million) on 1H2021 underlying NPAT.
- One-off items had a $0.5 million net impact on NPAT, consisting of $1.1 million of one-off net gains and $0.9 million of one-off expenses[4].
- Gross finance receivables[5] of $5.4 billion, up 13.9%[2] ($339.4 million).
- Return on equity of 12.2%, up 7 bps.
- Net interest margin[6] of 4.30%, up 3 bps.
- Net operating income of $130.7 million, up 4.3%.
- CTI ratio of 43.8%, down 5.0 percentage points (**pps**). Underlying cost to income ratio of 43.1%, down 2.7 pps.
- Impairment expense as a percentage of average receivables increased from 0.19% in 1H2021 to 0.33% in 1H2022.
- 1H2022 interim dividend of 5.5 cents per share (**cps**), an increase of 1.5 cps from 1H2021.

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[1] Underlying results exclude the impacts of one-offs. Refer to 'Profitability' on pages 3 and 4 for details.
[2] Annualised 1H2022 growth excluding the impact of changes in foreign currency exchange (**FX**) rates.
[3] These extensions included those provided under the Heartland Extend product and the New Zealand Government's Business Finance Guarantee Scheme (**BFGS**).
[4] Refer to 'Profitability' on pages 3 and 4 for details.
[5] Gross finance receivables (**Receivables**) include Reverse Mortgages.
[6] NIM is calculated based on average gross interest earning assets.

- Earnings per share of 8.1 cps, up 0.5 cps.
- Progress in digitalisation and continuous integration of product applications and platforms has provided faster processes and the ability to offer market-leading rates across New Zealand and Australia.
- Heartland Bank Limited (**Heartland Bank**) was awarded Canstar Savings Bank of the Year 2021 (for the fourth consecutive year), and 5-Star Ratings for Outstanding Value for its Direct Call and YouChoose accounts.
- Australian Reverse Mortgages received two Excellence Awards at the Australia Mortgage Awards 2021 (Non-Bank of the Year and Most Effective Digital Strategy – Lender), and won a 5-Star Lender Award in Your Mortgage's Mortgage of the Year Awards 2021.
- New Zealand Reverse Mortgages awarded Consumer Trusted Accreditation (for the fifth consecutive year).

Strategic vision

Heartland's strategic vision is to create sustainable growth and differentiation by providing best or only products delivered through scalable digital platforms. There are four strategic elements underpinning Heartland's strategic positioning:

1. Business as Usual growth (reported on within 'Business performance' from page 5)
2. Frictionless Service at the Lowest Cost
3. Expansion in Australia
4. Acquisitions which fit with and add value to the above.

Frictionless Service at the Lowest Cost

Heartland's ongoing focus on digital distribution is providing improved reach and customer experience across integrated platforms, with online access available for almost all of Heartland's products in New Zealand and Australia.

The Home Loans platform, launched in October 2020, reached $218.5 million of lending across 422 customers as at 31 January 2022. This online offering has enabled Heartland to consistently provide customers with market-leading or highly competitive rates. The ambition is for the Home Loans book to reach $1 billion of lending by the end of the 2023 financial year.

At the same time, the aim is to enhance customer experience by removing friction and creating scale without costly processes. This will be achieved through automation, self-service digital platforms and mobile apps. Development is ongoing, and a mobile app will soon be available to support Reverse Mortgage customers in Australia.

Expansion in Australia

Growth in Australia continues to be a strategic priority, and Heartland is exploring potential acquisitions as part of this.

Market share in Reverse Mortgages Australia continues to grow, increasing from 28% to 31% over the past 12 months[7]. In addition, Heartland has expanded its appeal through the launch of Express Reverse Mortgages in January 2022. This streamlined loan, with a market-leading variable interest rate, targets homeowners aged 60 to 70.

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[7] Based on APRA ADI Property Exposure and Heartland Reverse Mortgages data at 30 September 2020 and 30 September 2021.

COVID-19

Heartland is following government guidance and taking a cautious approach to ensure the safety of its people, customers and strength of its business. Heartland's ongoing digitalisation of customer and product platforms is supportive of this cautious approach, ensuring customers can continue to engage with Heartland remotely.

Additional economic pressures are also being faced, including the steepening interest rate environment, higher cost of labour, and inflation increasing globally, with New Zealand recently experiencing its largest movement in the consumer price index since 1990.

Despite this, the higher levels of growth experienced by Heartland in 2H2021 has continued through 1H2022. As in previous periods, the impact of the pandemic has not disrupted business as usual activity, noting that the demographics most affected by COVID-19 are under-represented in Heartland's customer base.[8]

Heartland's COVID-19 economic overlay of $9.6 million, taken in FY2020, remains unutilised as the impact of COVID-19 on Heartland's portfolios has been more benign than initially forecast. The overlay does not represent any actual losses, but was taken to provide a buffer against any future losses that the uncertainty of COVID-19 may give rise to.

In the current operating environment, a release of the COVID-19 economic overlay is not yet appropriate and the overlay has been retained in full. Heartland's COVID-19 economic overlay remains in place and available to be applied to any losses stemming from the pandemic.

Financial results

Profitability

NPAT was $47.5 million, a $3.4 million (7.8%) increase on 1H2021. Underlying NPAT was $47.1 million, a $3.8 million (8.8%) increase on 1H2021.

Return on equity (**ROE**) was 12.2%, up 7 bps from 1H2021. Underlying ROE was 12.1%, up 21 bps from 1H2021.

Earnings per share (**EPS**) was 8.1 cents per share (**cps**), up 0.5 cps from 1H2021. Underlying EPS was 8.0 cps, up 0.6 cps from 1H2021.

1H2022 reported results include one-off items which should be considered when analysing the underlying result. The impact of these one-off items on the respective financial metrics is outlined in the table below.

[8] Heartland's total exposure to the retail, accommodation and transport (excluding road freight transport) industries at 31 December 2021, based on borrower ANZSIC codes, was 1.84%, 1.50% and 1.22% respectively. Heartland's exposure to customers aged 15-24 years (those most affected by increases in unemployment) at 31 December 2021 was 3.91% in Motor and 6.10% in Personal Lending.

	Reported			Underlying		
	1H2022	1H2021	Movement	1H2022	1H2021	Movement
Net operating income (**NOI**)[9] ($m)	130.7	125.3	5.4	130.8	120.1	10.7
Operating expenses ($m)	57.3	61.1	(3.8)	56.4	55.1	1.4
NPAT ($m)	47.5	44.1	3.4	47.1	43.3	3.8
Net interest margin (**NIM**)	4.30%	4.28%	3 bps	4.30%	4.28%	3 bps
NIM excl. liquid assets[10]	4.63%	4.65%	(2 bps)	4.63%	4.65%	(2 bps)
CTI	43.8%	48.8%	(5.0 pps)	43.1%	45.8%	(2.7 pps)
Impairment expense ratio	0.33%	0.19%	13 bps	0.33%	0.19%	13 bps
ROE	12.2%	12.2%	7 bps	12.1%	11.9%	21 bps
EPS	8.1 cps	7.6 cps	0.5 cps	8.0 cps	7.4 cps	0.6 cps

Income

Total NOI was $130.7 million, an increase of $5.4 million (4.3%) from 1H2021.

Excluding the impact of one-offs[11], underlying NOI was $10.7 million (8.9%) higher half-on-half. This was due to a $10.7 million (9.4%) increase in net interest income, driven by a $460.3 million (8.8%) higher average interest earning assets in 1H2022 than in 1H2021, and a 3 bps increase in NIM compared with 1H2021. Underlying other operating income remained stable half-on-half.

Expenses

Operating expenses were $57.3 million, a decrease of $3.8 million (6.3%) on 1H2021. Excluding the impact of one-offs, the underlying operating expenses were $1.4 million (2.5%) higher compared with 1H2021.

Higher underlying operating expenses were primarily due to a $1.9 million (26.9%) increase in IT and communication expenses driven by software amortisation and licencing costs as a result of continued investments in technology and digital capabilities.

The CTI ratio decreased to 43.8%, down 5.0 pps compared with 1H2021. The underlying CTI ratio decreased 2.7 pps to 43.1%. It is expected to continue trending downwards.

Impairment expense

Impairment expense increased by $4.0 million (88.1%) to $8.5 million, reflecting the benefit of post-COVID-19 remediation activity which occurred in 1H2021, together with a return to more normal levels of asset growth and associated provisioning in 2H2021, continuing into 1H2022.

Lower impairments in 1H2021 of 19 bps were due to COVID-19 related extensions (including under the Heartland Extend product or the New Zealand Government's BFGS). These were largely successful in

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[9] NOI includes fair value gains/losses on investments.
[10] NIM is calculated based on average gross interest earning assets excluding liquid assets.
[11] 1H2021 one-offs include $5.2 million of fair value gains on investments. 1H2022 one-offs include $0.1 million of net fair value loss on investments.

allowing time for borrowers to remediate, as reflected in the 'business as usual' reported rate of 33 bps for 1H2022, which is below 2H2021 (43 bps contributing to the full year outcome of 31 bps) and FY2020 (65 bps).

Financial position

Total assets increased during 1H2022 by $315.8 million (5.6%), driven by a $339.4 million (13.9%)[12] increase in Receivables, offset by a $36.0 million (6.7%) decrease in liquid assets.

Receivables growth was experienced primarily in Home Loans, Australian Reverse Mortgages, Motor, New Zealand Reverse Mortgages, Business Relationship and Asset Finance, partly offset by decreases in the Harmoney Corp Limited (**Harmoney**) originated personal loan portfolio, Open for Business (**O4B**) and Rural Relationship. With the continued tilt of the Receivables portfolio mix towards higher quality and lower risk assets, maintaining the current levels of NIM will pose a challenge in the coming periods. This, however, is expected to be mitigated by a lower cost origination model and impairment expense benefitting from an improved book quality.

Borrowings[13] increased by $290.8 million (6.0%). Deposits increased $149.0 million, and other funding increased $141.8 million, primarily due to growth in Australian Reverse Mortgages.

Net assets increased by $16.5 million to $778.2 million. Net tangible assets (**NTA**) increased by $8.9 million to $687.4 million, resulting in an NTA per share of $1.17 (30 June 2021: $1.16).

Business performance

Asset Finance

Asset Finance lending NOI was $15.8 million, an increase of $2.4 million (17.9%) compared with 1H2021.

Asset Finance Receivables increased $35.7 million (12.4%)[12] to $606.6 million. The underlying demand from transport, logistics and other productive sectors has remained consistent.

Wholesale Lending[14]

Wholesale Lending NOI was $15.7 million, an increase of $3.5 million (28.8%) compared with 1H2021.

Wholesale Lending Receivables increased $38.4 million (13.7%)[122] to $593.4 million. Contributing to this growth was a funding facility provided to Go Car Finance in 2H2021 for its New Zealand loan book, along with the expansion of wholesale motor vehicle dealer groups. This aligns with Heartland's strategy to diversify distribution in motor vehicle finance.

O4B

O4B NOI was $7.2 million, a decrease of $0.3 million (4.2%) compared with 1H2021. This reflects still subdued confidence resulting from COVID-19 related lockdowns and travel restrictions.

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[12] Annualised 1H2022 growth excluding the impact of changes in FX rates.
[13] Includes retail deposits and other borrowings.
[14] Wholesale Lending includes what was formally known as Business Relationship, reflecting Heartland's strategy in this sector.

O4B Receivables decreased $6.8 million (9.3%)[12] to $137.7 million. The availability of the New Zealand Government's COVID-19 support packages for small businesses slowed growth in this segment from the six-month period to 30 June 2020 (**2H2020**) and continues to feature.

Motor

Motor NOI was $36.4 million, an increase of $3.4 million (10.4%) compared with 1H2021.

Motor Receivables increased $57.1 million (8.8%)[12] to $1,350.8 million. Increases were driven by organic growth from Heartland's existing dealer network, increase in intermediaries, and key partnerships through Heartland's 'white label' strategy. Franchises contributed 48.2% of origination as new car sales recovered in 2021 after record lows in 2020.

Personal Lending

Total portfolio NOI was $5.4 million, a decrease of $3.4 million (38.8%) compared with 1H2021. Harmoney NOI was $3.9 million, a decrease of $3.0 million (43.3%) compared with 1H2021.

Total portfolio Receivables decreased by $45.7 million (68.5%)[12], with the New Zealand Harmoney portfolio contracting $38.0 million (98.1%)[12] to $38.8 million, while the Australian Harmoney portfolio decreased by $18.1 million (73.7%)[12] to $30.7 million. Both the New Zealand and Australian portfolios continued to contract in 1H2022 as a result of high repayments combined with limited growth.

Home Loans

Heartland's digital Home Loans channel experienced strong growth in 1H2022, with Receivables increasing $163.2 million (649.2%)[12] to $213.1 million in 1H2022.

Lending growth continued to be supported by Heartland's low interest rates, currently market-leading for 2- and 3-year fixed rates, as well as for its standard floating rate. Positive momentum is expected to resume following the usual slowdown over the summer holiday period. This will be assisted by a new intermediary partnership currently being piloted with NZ Financial Services Group (**NZFSG**) under the 'Engage Home Loans' white label brand. NZFSG is the largest mortgage broker aggregator in the country, with a network of around 900 residential mortgage advisors.

Rising interest rates motivated many home loan borrowers to review their mortgage providers, driving an increase in the volume of home loan applications received by Heartland. More than 7,840 applications were received during 1H2022, an increase of 29.2% on the 6,067 applications received during 2H2021.

Rural

Rural lending NOI was $15.5 million, which remained stable compared with 1H2021.

Receivables decreased by $2.5 million (0.9%)[12] to $584.1 million. This is made up of a decrease in Livestock Receivables of $12.9 million (23.5%)[12] to $96.4 million, partly offset by a $10.4 million (4.3%)[12] increase in Rural Receivables to $487.7 million.

While the balance date position for Livestock reflects seasonal lows and low utilisation rates (impacted by climatic conditions), the average receivables position through the period was up 7.1% on 31 December 2020. Total approved limits have also increased by $15.6 million (8.0%) to $211.3 million since 30 June 2021 ($195.7 million).

Growth in approved limits and receivables has continued through January and February (limits are up a further $8.5 million and the book balance is up $5.3 million as at 18 February 2022), supporting Heartland's positive outlook for Livestock through to 30 June 2022.

Results from the Sheep & Beef Direct platform introduced in 1H2021 have been positive, with $54.8 million of growth in 1H2022. Plans are underway to pilot Dairy Direct, a digital platform responding to the growing need for dairy farmers to have access to online finance, similar to Heartland's Sheep & Beef Direct.

New Zealand Reverse Mortgages

New Zealand Reverse Mortgages NOI was $15.3 million, an increase of $4.1 million (36.6%) compared with 1H2021 due to record asset growth and improved margins.

Receivables increased $47.4 million (15.6%)[12] to $648.9 million, exceeding growth in the entire financial year ended 30 June 2021 (**FY2021**), due to:

- strong new business which was 69% higher than 1H2021
- increased awareness and acceptance of reverse mortgages as a solution to help older home owners to live a more comfortable retirement
- continued enhancement of the product and application process
- favourable market conditions with higher house prices and low interest rates
- positive forward indicators, with enquiry levels up 65% in the 2021 calendar year, and the customer pipeline at 31 December 2021 more than triple that at 31 December 2020.

Australian Reverse Mortgages

NOI was $19.0 million, an increase of $0.9 million (4.7%) compared with 1H2021.

Receivables increased by $65.4 million (12.1%)[12] to $1.14 billion. New business was strong, driving higher than expected new lending, due to a buoyant property market and repayments below long-term averages in December. The direct channel experienced 18% growth in new business compared with 1H2021, while the intermediary channel experienced 8% growth in new business during the same period (intermediaries now contribute 51% to new loan origination).

Australian Reverse Mortgages continued an engaged relationship with the broker channel, including ongoing relationships with mortgage aggregators in Australia, partnerships with Australian Finance Group, Choice Aggregation and PLAN Australia, and being added to FAST Aggregation's lender panel in July 2021.

Impact of CCCFA changes

The introduction of new CCCFA responsible lending regulations in December 2021 has had an industry-wide impact on decline rates, resulting in reduced lending volumes. The interrogation of activity in bank statements needed to satisfy the new standards has been well publicised and, amongst other things, has slowed down loan processing.

Heartland is engaged with the Ministry of Business, Innovation & Employment and the Commerce Commission in explaining the impact of the changes on Heartland and its prospective customers, and awaits the output of the ministerial review currently underway.

Funding and liquidity

Heartland increased borrowings by $290.8 million (6.0%), contributed to by increases in both New Zealand and Australia.

New Zealand

Heartland Bank increased borrowings by $236.4 million (6.4%).

Deposits grew $117.0 million (3.6%), primarily driven by a $299.6 million increase in Heartland Bank's 32-Day Notice Saver product which was launched in July 2021 at a market-leading rate.

Call deposits decreased by $114.5 million (12.1%), which decreased the call to total deposit ratio to 26% as at 31 December 2021 (30 June 2021: 30%), providing a significant opportunity to attract lower cost deposits during the second half of the financial year.

Term deposits decreased $66.0 million (3.0%), while retention remained strong at over 87%.

Other borrowings increased $119.5 million (23.8%) primarily due to a $126.6 million increase in securitisation funding. This was as a result of higher utilisation following an increase in Heartland Bank's committed auto warehouse facility from $300 million to $400 million in September 2021.

Heartland Bank decreased total liquidity by $36.3 million (7.7%), reflecting a return to more normalised levels with regulatory liquidity ratios well in excess of regulatory minimums.

Heartland Bank's capital position progressively increased during 1H2022, reflecting its continued strong profitability and the Reserve Bank of New Zealand (**RBNZ**) restrictions on distributions imposed in 2H2020. As a result, Heartland Bank's regulatory capital ratio was 13.98% as at 31 December 2021 (30 June 2021: 13.88%), well in excess of regulatory minimums of 10.50%, providing a strong platform for growth and for Heartland Bank to meet the RBNZ's future higher capital requirements. These requirements are for a core capital ratio of 11.50% and a total capital ratio of 16.00% by 1 July 2028.

Australia

The Heartland Australia group (comprising Heartland Australia Holdings Pty Ltd and its subsidiaries) increased borrowings by A$32.9 million (3.0%), largely as a result of new issuance of an A$45 million Medium Term Note (**MTN**) issued in July 2021 to support growth in the portfolio.

Both of Heartland Australia's reverse mortgage funding warehouses are in the process of being expanded, including the introduction of a new mezzanine funder, and extended from their current maturity dates.

Regulatory update

A significant volume of regulatory change continues. Changes to the CCCFA came into force on 1 December 2021 (with the effective date slightly delayed due to COVID-19). Heartland has implemented new processes, including employing new technologies such as bank statement retrieval, to enable it to comply with the changes, and continues to refine these.

New legislation (to be known as the Deposit Takers Act) is being developed to strengthen the regulatory framework for all institutions that take deposits (including Heartland Bank), and introduce a new deposit insurance scheme, overseen by the RBNZ. An exposure draft of the Deposit Takers Bill has been received. Heartland is involved in submissions on the exposure draft through the New Zealand Bankers Association.

Sustainability update

Heartland's sustainability goals for the financial year ended 30 June 2022 (**FY2022**) can be found on page 66 of Heartland's FY2021 Annual Report, and also found at shareholders.heartland.co.nz. Heartland's sustainability strategy is built on three key pillars: environmental conservation, social equity and economic prosperity. The below outlines Heartland's progress towards its sustainability goals in 1H2022.

Environmental conservation

- FY2021 emissions will be formally reported in the FY2022 Annual Report. Further Greenhouse Gas (**GHG**) emissions reductions are expected through FY2021 and 1H2022, due in part to deliberate emissions reduction activity and the impact of COVID-19 on increased remote working.
- Hybrid vehicles placed on order to replace all internal petrol/diesel 4WD vehicles (equating to 23% of Heartland's total fleet), with deliveries expected to be completed by June 2022. Heartland intends to start the process of replacing the remainder of its petrol engine fleet during the 2022 calendar year.
- Continued to provide finance for electric and hybrid vehicles through 'white label' partners who have committed to increasing the number of electric and hybrid vehicle options available in the market.

Social equity

- Rainbow Tick accreditation achieved in November 2021, creating an environment where people feel comfortable bringing their whole selves to work.
- Three new members joined the Rangatahi Advisory Board, a shadow board for employees aged 35 and under, focused on progressing key business initiatives, co-chaired by two of Heartland's emerging leaders.
- Now in its fifth year, the Manawa Ako internship programme continued virtually in January and February 2022, welcoming 26 Māori and Pasifika interns to Heartland Bank.

Economic prosperity

- Total shareholder return (**TSR**) was 128.9% over the last five years (17 February 2017 – 17 February 2022) compared with the NZX50 Index TSR of 80.7% in the same period.
- Maximum loan-to-value ratios (**LVR**) were increased on Heartland's New Zealand and Australian Reverse Mortgage products – the first time LVR limits have increased since 2004, providing customers with increased opportunity to live a more comfortable retirement.

Interim dividend

Heartland is pleased to declare a 1H2022 interim dividend of 5.5 cps (1.5 cps up on 1H2021) despite the partial dividend restrictions imposed by the RBNZ on distributions by banks remaining in force until 1 July 2022. Heartland's interim dividend yield of 7.4%[15] compares with 4.8%[16] in 1H2021.

The interim dividend will be paid on Wednesday 16 March 2022 (**Payment Date**) to shareholders on the company's register as at 5.00pm on Wednesday 2 March 2022 (**Record Date**) and will be fully imputed.

[15] Total fully imputed dividends for 1H2022 (interim) and 2H2021 (final) divided by the closing share price as at 14 February 2022 of $2.35.

[16] Total fully imputed dividends for 1H2021 (interim) and 2H2020 (final) divided by the closing share price as at 9 February 2021 of $1.88.

Heartland has a Dividend Reinvestment Plan (**DRP**), giving eligible shareholders the opportunity to reinvest some or all of their dividend payments into new ordinary shares. The DRP will apply to the final dividend with a 2.0% discount[17].

The DRP offer document and participation form is available on Heartland's shareholder website at shareholders.heartland.co.nz/shareholder-resources/dividends.

Looking forward

Following the momentum experienced in 2H2021, Heartland's 1H2022 NPAT exceeded expectations, despite a challenging backdrop of continued COVID-19 impacts and legislative disruption.

Strong asset growth has been achieved in 1H2022, though growth in 2H2022 is expected to slow in Motor and online Home Loans as a result of the CCCFA legislation impacts. The continued shift in portfolio mix toward higher quality and lower risk assets is also expected to impact NIM in 2H2022, however it is anticipated this will be mitigated as operational efficiency and asset quality continue to improve.

Increased digitalisation and automation have continued to increase Heartland's ability to pass cost-savings to customers in the form of market-leading or competitive rates, thereby leading to the CTI ratio trending downwards. It is anticipated that this will continue through 2H2022.

Heartland expects NPAT for FY2022 to be within the guidance range of $93 million to $96 million.

– ENDS –

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[17] That is, the strike price under the DRP will be 98.0% of the volume weighted average sale price of Heartland shares over the five trading days following the Record Date. For the full details of the DRP and the Strike Price calculation, refer to Heartland Group Holdings Limited DRP offer document dated 10 December 2018.

2022 Half year results

22 February 2022

HEARTLAND

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This presentation has been prepared by Heartland Group Holdings Limited **(NZX/ASX: HGH)** (the **Company** or **Heartland**) for the purpose of briefings in relation to its financial statements.

The presentation and the briefing (together the **Presentation**) contain summary information only, which should not be relied on in isolation from the full detail in the financial statements.

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Non-GAAP measures

This presentation contains references to non-GAAP measures including underlying profit or loss, underlying ROE, underlying CTI ratios and underlying EPS. A reconciliation between reported and the non-GAAP measure of underlying financial information is included on page 32.

Because Heartland complies with accounting standards, investors know that comparisons can be made with confidence between reported profits and those of other companies, and there is integrity in Heartland's reporting approach. These non-GAAP figures are provided as a supplementary measure for readers to assess Heartland's performance alongside NZ GAAP reported measures, where one-offs, both positive and negative, can make it difficult to compare profits between years. However, these do not have standardised meanings and should not be viewed in isolation nor considered a substitute for measures reported in accordance with NZ GAAP.

Non-GAAP financial information has been subject to review by KPMG.

1H2022 highlights

Financial highlights

FINANCIAL POSITION

$5,358m

GROSS FINANCE RECEIVABLES[3]

+13.9%[4] vs June 2021

$5,155m

BORROWINGS

+6.0% vs June 2021

$778m

EQUITY

+2.2% vs June 2021

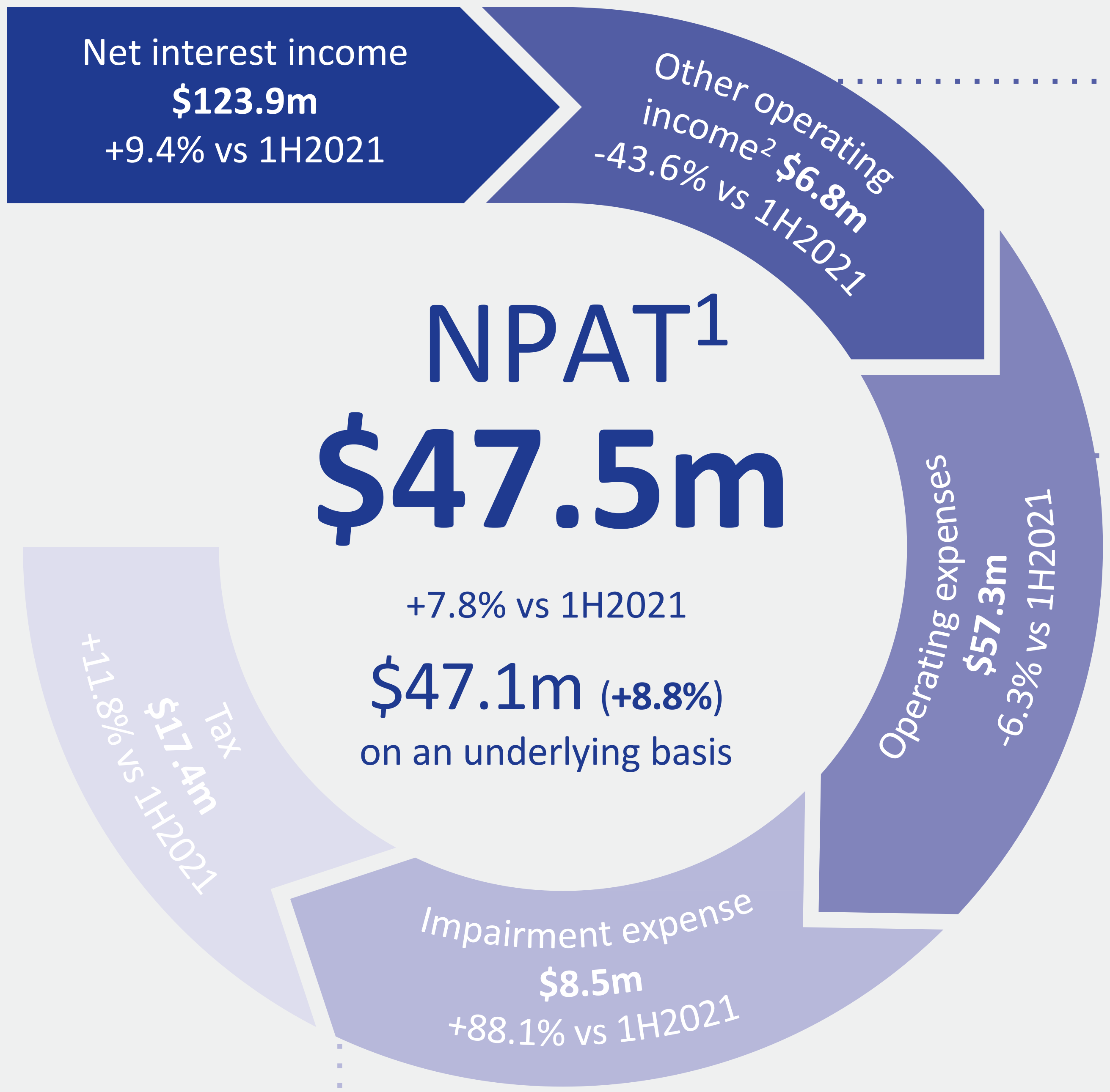
13.0%

EQUITY/TOTAL ASSETS

- 43 bps vs June 2021

Net interest margin (**NIM**) 4.30% (+ 3 basis points (**bps**) vs 1H2021).

Average interest earning assets +$335.2m (+6.2% vs June 2021).



Underlying other operating income (**OOI**) $6.9m (flat vs 1H2021).

Cost to income (**CTI**) ratio 43.8% (-5.0 percentage points (**pps**) vs 1H2021) .

Underlying operating expenses (**OPEX**) $56.4m (+2.5% vs 1H2021).

Underlying CTI ratio 43.1% (-2.7 pps vs 1H2021).

Impairments up on 1H2021 due to COVID-19 related extensions that occurred in 1H2021.

FINANCIAL PERFORMANCE

4.30%

NET INTEREST MARGIN

+ 3 bps vs 1H2021

43.8%

COST TO INCOME RATIO

-5 pps vs 1H2021

0.33%

IMPAIRMENT EXPENSE RATIO[5]

+ 13 bps vs 1H2021

FINANCIAL RETURN

12.2%

RETURN ON EQUITY

+7 bps vs 1H2021

8.1 cps

EARNINGS PER SHARE

+0.5 cents per share (**cps**) vs 1H2021

[1] Refer to Appendix 3 for reconciliation between reported and underlying net profit after tax (**NPAT**) result.

[2] OOI includes fair value gains/losses on investments.

[3] Gross finance receivables (**Receivables**) also include Reverse Mortgages.

[4] Annualised 1H2022 growth excluding the impact of changes in foreign currency exchange (**FX**) rates.

[5] Impaired asset expense as a percentage of average receivables.

Strategic highlights

Significant progress towards **digitalisation goals** with continuous integration of product applications and platforms.

Continued **emissions reductions activity**, including replacing 23% of total fleet with hybrid vehicles.

Rainbow Tick achieved in November 2021.

Manawa Ako internship programme (in its fifth year) continued virtually in January 2022.

Australian Reverse Mortgages awarded Excellence Awards at **Australia Mortgage Awards 2021**, and won a 5-Star Lender Award in Your Mortgage's **Mortgage of the Year Awards 2021**.

NZ Reverse Mortgages remains **Consumer Trusted** for the fifth year in a row.

Heartland Bank awarded **Canstar's 2021 Savings Bank of the Year** (fourth year), and awards for Direct Call and YouChoose accounts.

Impairments and provisioning

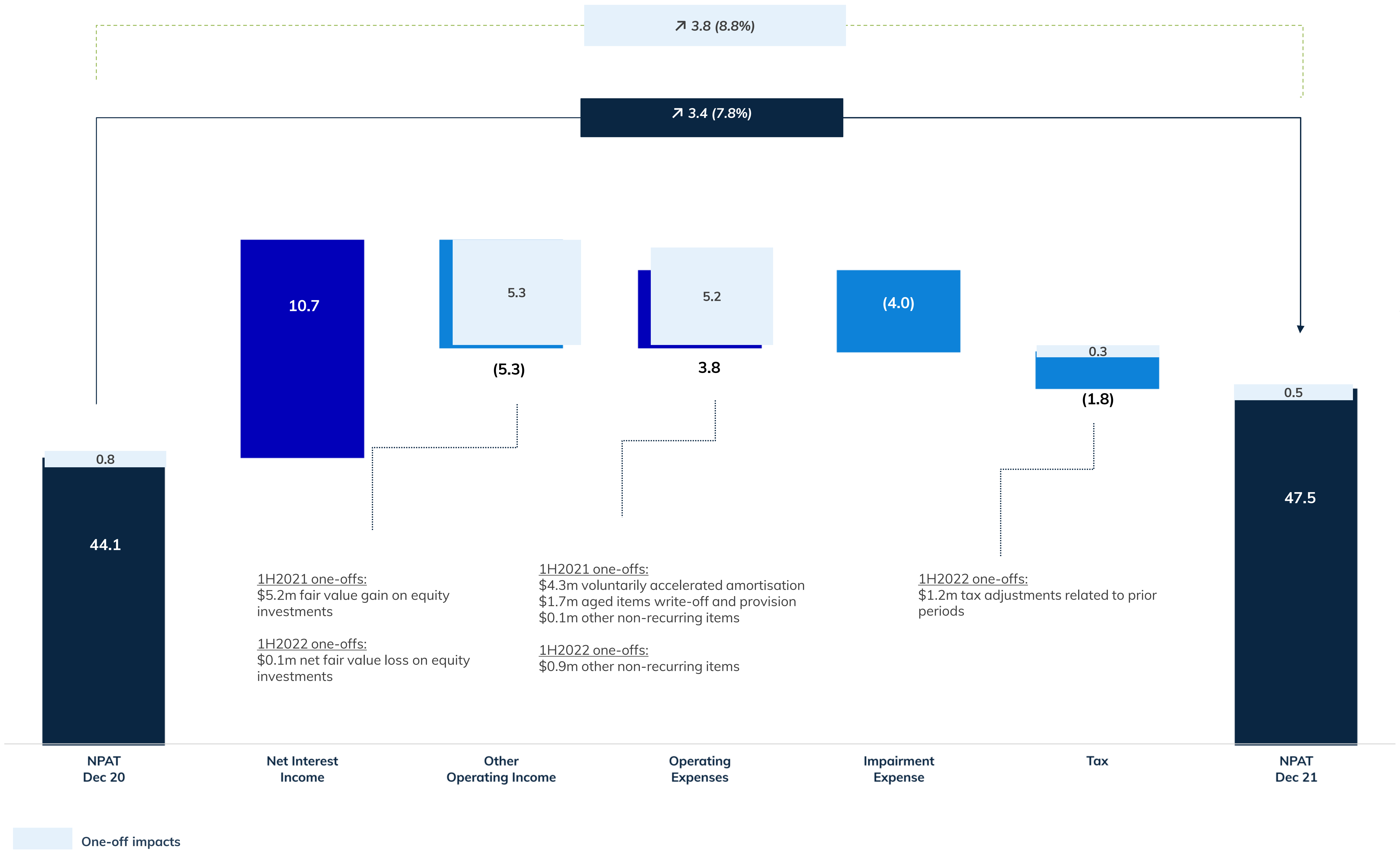
- Impairment expense increased by $4.0 million (88.1%) to $8.5 million.
- Impairment expense as a percentage of average receivables increased from 0.19% in 1H2021 to 0.33% in 1H2022.
- Lower impairments in 1H2021 of 19 bps were due to COVID-19 related extensions that occurred in 1H2021.
- Extensions were largely successful in allowing time for borrowers to remediate, as reflected in 'business as usual' reported rate of 33 bps for 1H2022 which is below 2H2021 (43 bps contributing to the full year outcome of 31 bps) and FY2020 (65 bps).

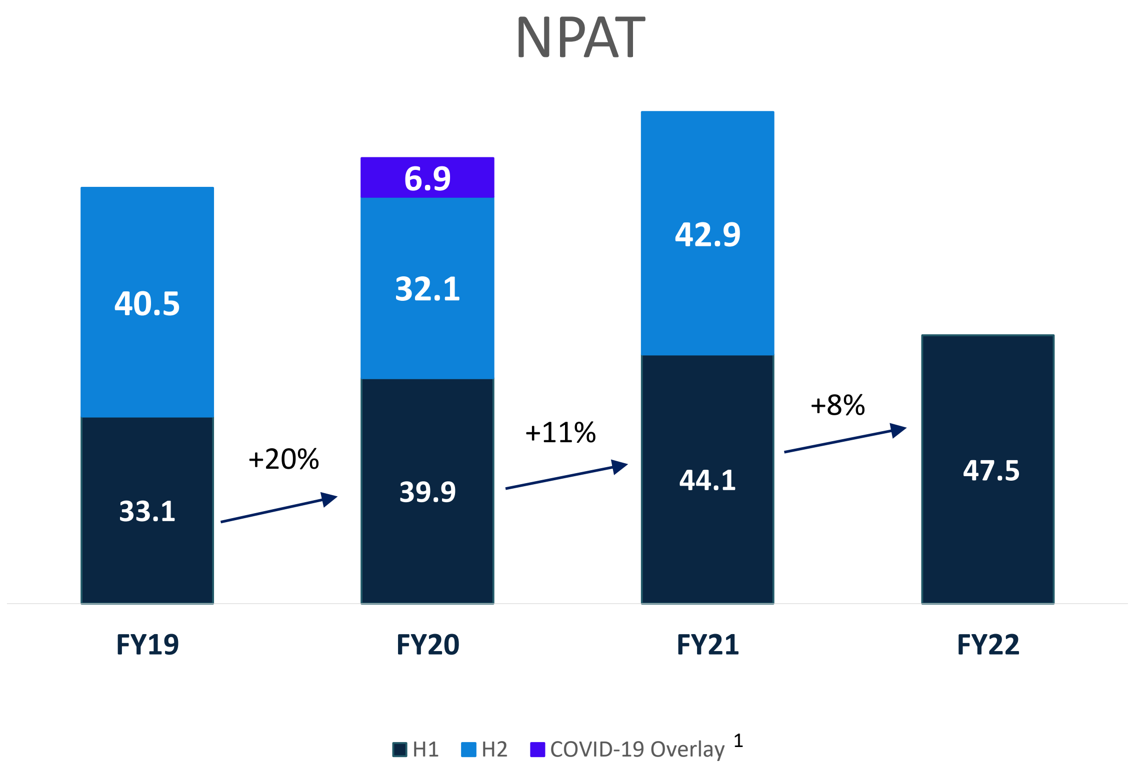
COVID-19

- The impact of COVID-19 has not disrupted business as usual activity.
- Heartland is following government guidance and taking a cautious approach to ensure the safety of its people, customers and strength of its business.
- A degree of caution exercised due to the ongoing economic impacts of COVID-19 and additional economic pressures being faced – including steepening interest rate environment, higher cost of labour and inflation increasing globally.
- In the circumstances, a release of the COVID-19 economic overlay is not yet appropriate and the overlay has been retained in full.

Financial results

Growth in profitability

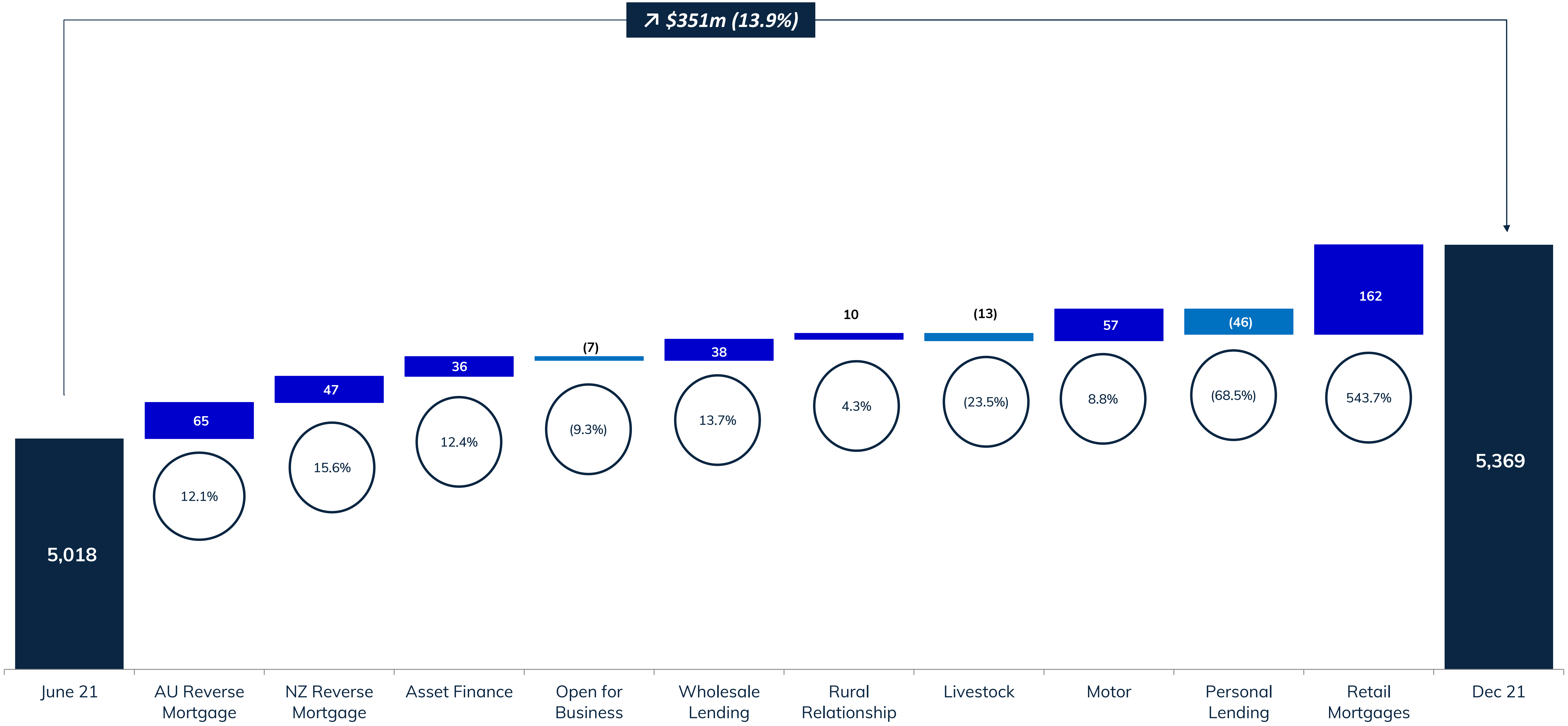




Note: The graph shows 1H2022 growth in receivables by portfolio excluding the impact of changes in FX rates. Relative growth is annualised. All figures in NZ$m.

1. Post-tax impact of $9.6m economic overlay due to COVID-19.

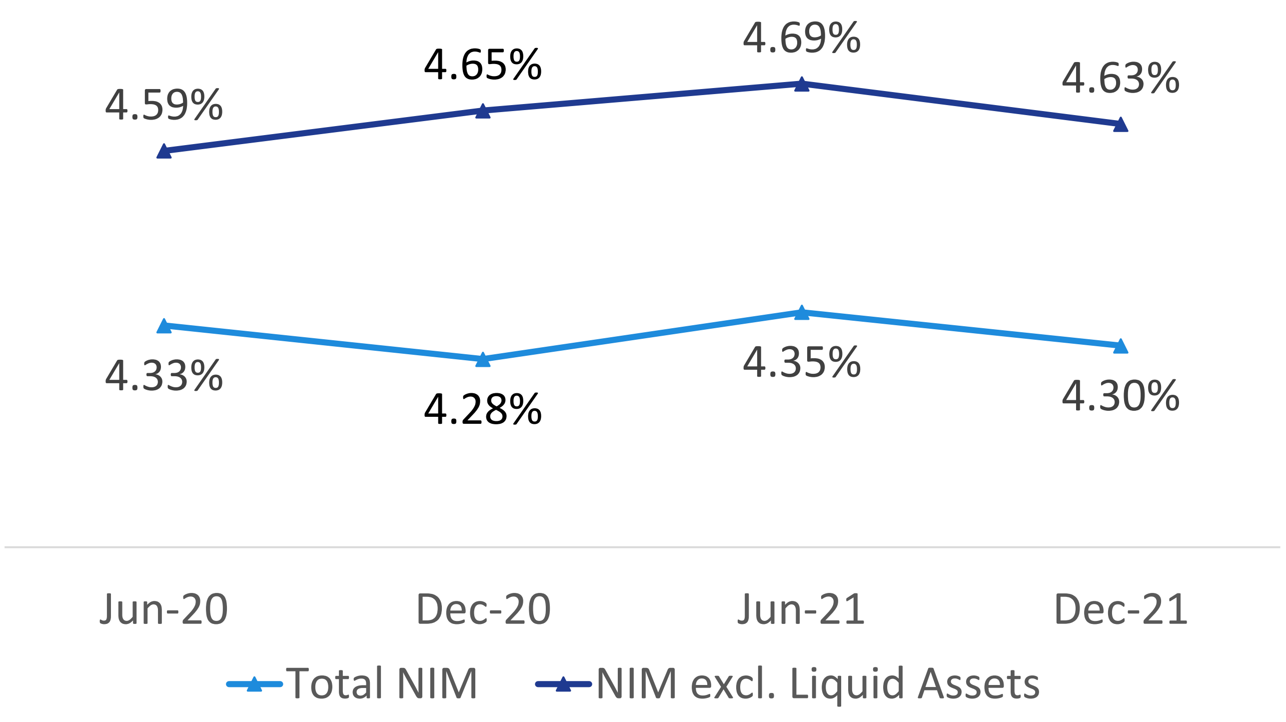
Growth in receivables



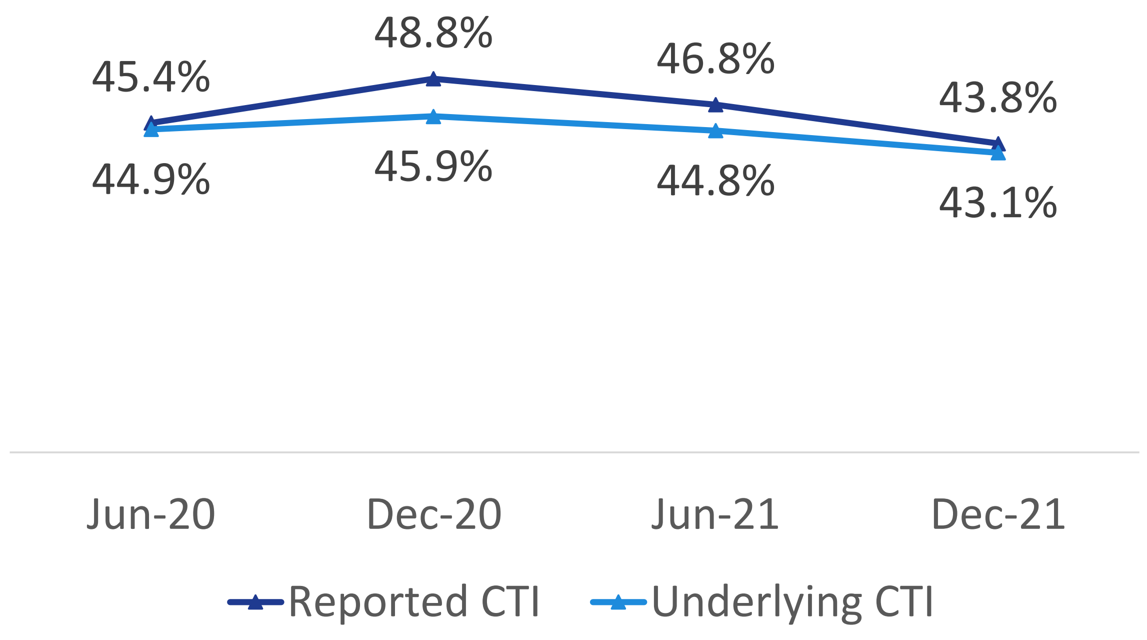
Note: The graph shows 1H2022 growth in receivables by portfolio excluding the impact of changes in FX rates. Relative growth is annualised. All figures in NZ$m.

Key performance measures

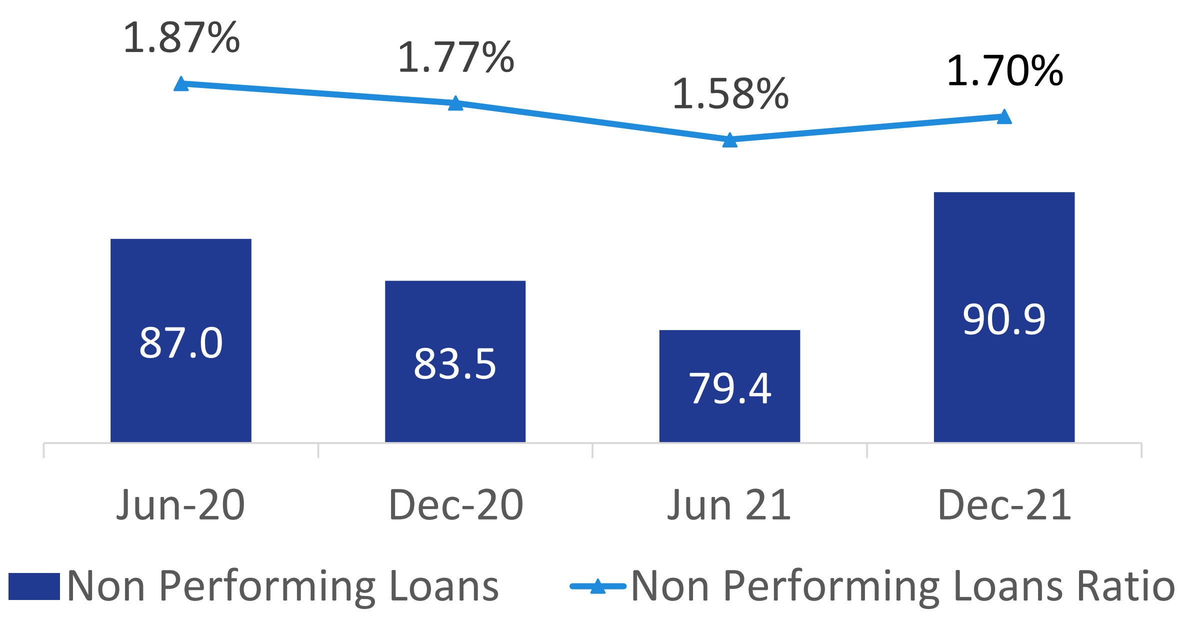
NIM



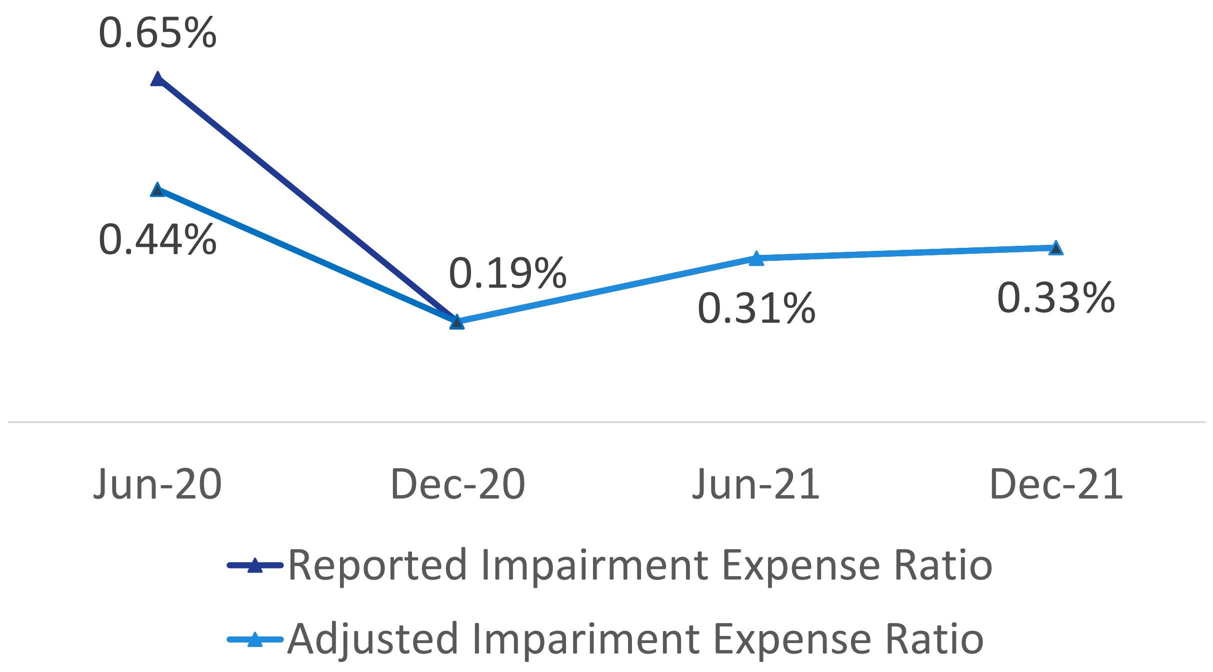
CTI



Non Performing Loans



Impairment Expense Ratio

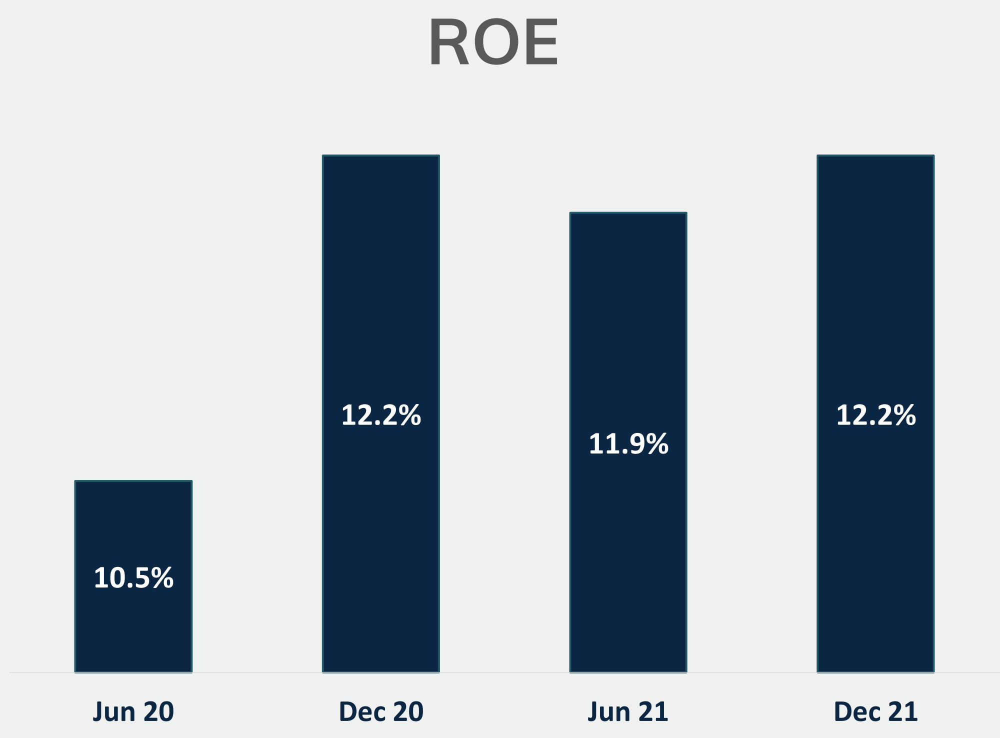


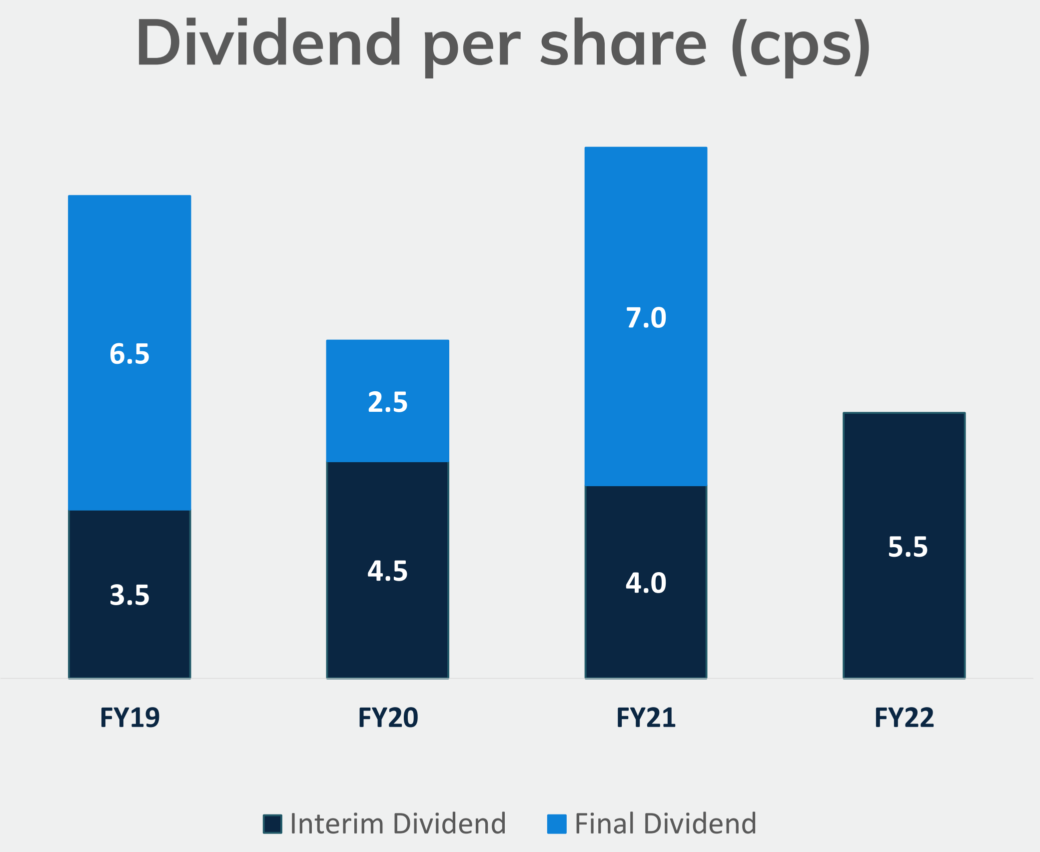
Note:

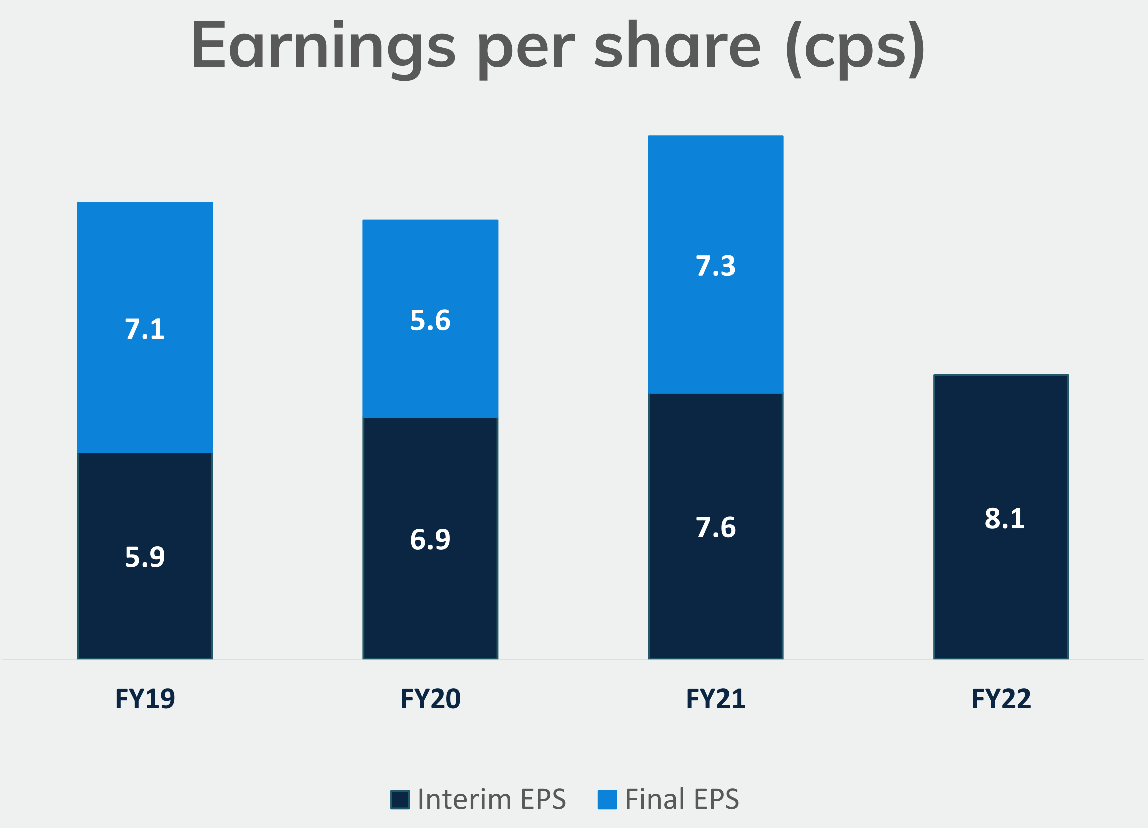
- NIM is calculated as net interest income/average gross interest earning assets.
- Underlying CTI excludes one-off impacts. Refer to Appendix 3 for reconciliation between reported and underlying result.
- Impairment expense ratio is calculated as impairment expense/average gross finance receivables.
- Adjusted impairment expense ratio excludes the impact of the $9.6 million pre- tax economic overlay due to COVID-19.

Shareholder return

- Return on equity (**ROE**) of 12.2% (up 7 bps vs 1H2021).
- Earnings per share (**EPS**) of 8.1 cps, up 0.5 cps compared to 1H2021.
- 1H2022 interim dividend of 5.5 cps (1.5 cps up on 1H2021).
- Dividend yield of 7.4%[1] compares with 4.8%[2] in 1H2021.
- Five year total shareholder return (**TSR**) of 128.9%, (17 February 2017 – 17 February 2022) compared with the NZX50 Index TSR of 80.7% in the same period.







[1] Total fully imputed dividends for 1H2022 (interim) and 2H2021 (final) divided by the closing share price as at 14 February 2022 of $2.35.
[2] Total fully imputed dividends for 1H2021 (interim) and 2H2020 (final) divided by the closing share price as at 9 February 2021 of $1.88.

Divisional summary

Reverse Mortgages portfolio analytics

NEW ZEALAND[1]

Average loan size	$111,842
Weighted average borrowers' age	78
Average origination LVR	10.0%
Weighted average LVR	19.3%
Proportion of the loan book over 75% LVR	0.0%
Number of loans in the book over 75% LVR	1
1H2022 origination	$76m (+$31m vs 1H2021)
Total repayments in 1H2022	$46m (+$2m vs 1H2021)
1H2022 annualised repayment rate	15.2% (vs 15.8% in 1H2021)
Compounded annual growth rate[2]	11.0%
Repayments from vintage loans (+11 years)	36.0% (vs 34.6% in 1H2021)

$649M
NZ Reverse Mortgages
+$47m (15.6%)[3]
vs June 2021

A$1,064M
AU Reverse Mortgages
+A$62m (12.3%)[2]
vs June 2021

AUSTRALIA[1]

A$141,357	Average loan size
77	Weighted average borrowers' age
11.4%	Average origination LVR
21.2%	Weighted average LVR
0.3%	Proportion of the loan book over 75% LVR
8	Number of loans in the book over 75% LVR
A$111m (+A$15m vs 1H2021)	1H2022 origination
A$76m (+A$6m vs 1H2021)	Total repayments in 1H2022
15.1% (vs 15.2% in 1H2021)	1H2022 annualised repayment rate
18.6%	Compounded annual growth rate[1]
18.5% (vs 30.5% in 1H2021)	Repayments from vintage loans (+11 years)

[1] Balances are as at 31 December 2021. All other metrics are for 1H2022.
[2] Compounded annual growth rate for the period 1 January 2017 – 31 December 2021.
[3] Annualised growth.

AU Reverse Mortgages

- Receivables increased by $65.4 million (12.1%)[1] to $1.14 billion.
- New business was strong, driving higher than expected new lending, due to a buoyant property market, and repayments below long-term averages in December.
- Direct new business increased by 18% compared with 1H2021. The intermediary channel experienced 8% growth in new business during the same period.
- Intermediaries contribute 51% to new origination.
- Express Reverse Mortgages pilot launched in January 2022, offering a streamlined loan with a market-leading variable rate, for over 60 year olds.

$19.0m — NET OPERATING INCOME
As at 31 December 2021

+4.7% — increase since 1H2021

$1.14b — RECEIVABLES
As at 31 December 2021

+12.1%[1] — annualised growth since June 2021

[1] Excluding the impact of changes in FX rates.

NZ Reverse Mortgages

- New Zealand Reverse Mortgages NOI was up 36.6% from 1H2021 due to record asset growth and improved margins.
- Receivables increased $47.4 million (15.6%) to $648.9 million due to strong new business performance.
- Enquiry levels up 65% in the 2021 calendar year.
- Performance driven by increased awareness and acceptance of reverse mortgages, supported by favourable market conditions with higher house prices and low interest rates.

$15.3m

NET OPERATING INCOME

As at 31 December 2021

+36.6%

increase since 1H2021

$648.9m

RECEIVABLES

As at 31 December 2021

+15.6%

annualised growth since June 2021

Open for Business

- 1H2022 saw a decrease of $0.3 million (4.2%) in NOI as a result of subdued confidence resulting from COVID-19-related lockdowns and travel restrictions.
- Receivables decreased $6.8 million (9.3%)[1] to $137.7 million.
- The availability of NZ Government COVID-19 support packages for small businesses slowed growth in this segment from 2H2020 and continues to feature.

$7.2m

NET OPERATING INCOME

As at 31 December 2021

-4.2%

decrease since 1H2021

$137.7m

RECEIVABLES

As at 31 December 2021

-9.3%[1]

annualised decrease since June 2021

[1] Excluding the impact of changes in FX rates.

Asset Finance[1]

- Asset Finance NOI was up 17.9% from 1H2021.
- Receivables increased $35.7 million (12.4%) to $606.6 million.
- The underlying demand from transport, logistics and other productive sectors has remained consistent.

$15.8m — NET OPERATING INCOME

+17.9% — increase since 1H2021

As at 31 December 2021

$606.6m — RECEIVABLES

+12.4% — annualised growth since June 2021

As at 31 December 2021

[1] Previously referred to as Business Intermediated.

Wholesale Lending[1]

- Receivables increased $38.4 million (13.7%)[2] to $593.4 million.
- Go Car Finance contributed to growth with continued funding for its New Zealand loan book.
- Expansion of wholesale motor vehicle dealer groups, allowing wholesale dealers to manage finance via a digital interface, aligned with Heartland's strategy to diversify distribution in motor vehicle finance.

$15.7m — NET OPERATING INCOME

As at 31 December 2021

+28.8% — increase since 1H2021

$593.4m — RECEIVABLES

As at 31 December 2021

+13.7%[1] — annualised growth since June 2021

[1] Wholesale Lending includes what was formally known as Business Relationship, reflecting Heartland's strategy in this space.
[2] Excluding the impact of changes in FX rates.

Motor Finance

- Organic growth from Heartland's existing dealer network, increase in intermediaries and key partnerships through Heartland's 'white label' strategy.
- Franchises contributed 48% of business as new car sales recovered in 2021 after record lows in 2020.
- CCCFA changes slowed growth in Motor in January and February 2022 and are expected to impact on growth rate.
- Continued to provide finance for electric and hybrid vehicles through 'white label' partners who have committed to increasing the number of electric and hybrid vehicle options available.

$36.4m

NET OPERATING INCOME

As at 31 December 2021

+10.4%

increase since 1H2021

$1.35b

RECEIVABLES

As at 31 December 2021

+8.8%

annualised growth since June 2021

Personal Lending

- The **New Zealand Harmoney** portfolio contracted $38.0 million (98.1%) to $38.8 million.
- The **Australian Harmoney** portfolio decreased by $18.1 million (73.7%)[1] to $30.7 million.
- Both New Zealand and Australian portfolios continued to contract in 1H2022 as a result of high repayments combined with limited growth.

$5.4m

NET OPERATING INCOME

As at 31 December 2021

-38.8%

decrease since 1H2021

$86.5m

RECEIVABLES

As at 31 December 2021

-68.5%[1]

annualised decrease since June 2021

[1] Excluding the impact of changes in FX rates.

Rural

- A decrease in **Livestock** Receivables of $12.9 million (23.5%) to $96.4 million, partly offset by a $10.4 million (4.3%) increase in **Rural** Receivables to $487.7 million.
- Average Livestock receivables position up 7.1% year on year.
- Growth in approved limits and receivables continued through January and February, supporting Heartland's positive outlook for Livestock.
- Results from Sheep & Beef Direct have been positive, with $54.8 million of growth in 1H2022.
- Plans underway for Dairy Direct, a similar digital platform, responding to growing need for dairy farmers to have access to online finance.

$15.5m

NET OPERATING INCOME

As at 31 December 2021

flat

increase since 1H2021

$584.1m

RECEIVABLES

As at 31 December 2021

-0.9%

annualised decrease since June 2021

Home Loans[1]

- Home Loans[1] Receivables increased $163.2 million in 1H2022 to $213.1 million.
- Lending growth supported by Heartland's low interest rates, currently market-leading for 2- and 3-year fixed rates, and standard floating rate.
- CCCFA changes have added to the traditional summer slowdown. However, with the ministerial review underway, changes made to the application process, and a renewed marketing campaign, positive momentum is expected to resume.
- More than 7,840 applications received during 1H2022, an increase of 29.2% on 6,067 applications received during 2H2021.
- New intermediary partnership being piloted with NZ Financial Services Group under 'Engage Home Loans' white label brand.

$0.6m

NET OPERATING INCOME

As at 31 December 2021

$213.1m

RECEIVABLES

As at 31 December 2021

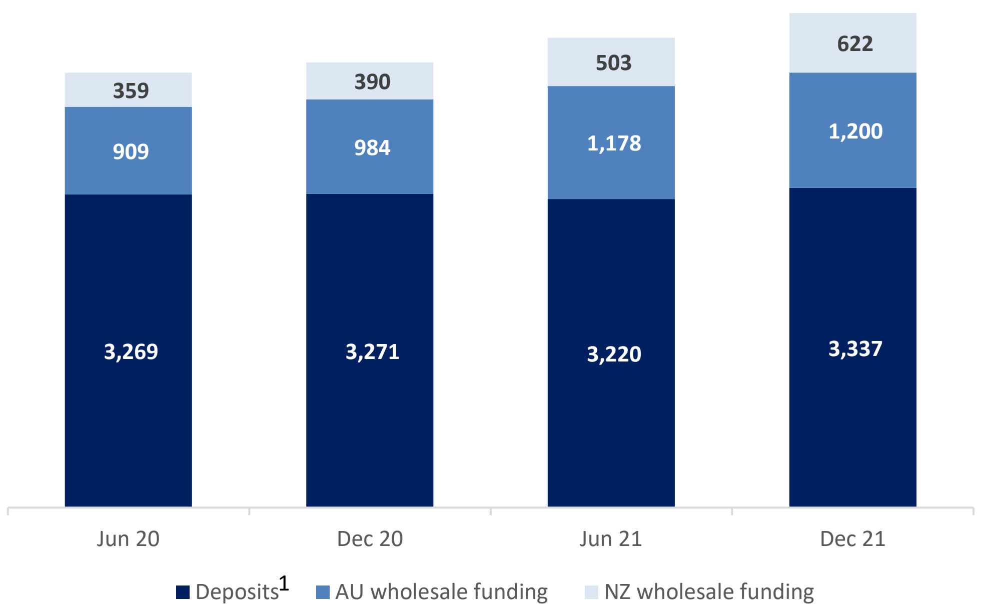
649.2%

annualised increase since June 2021

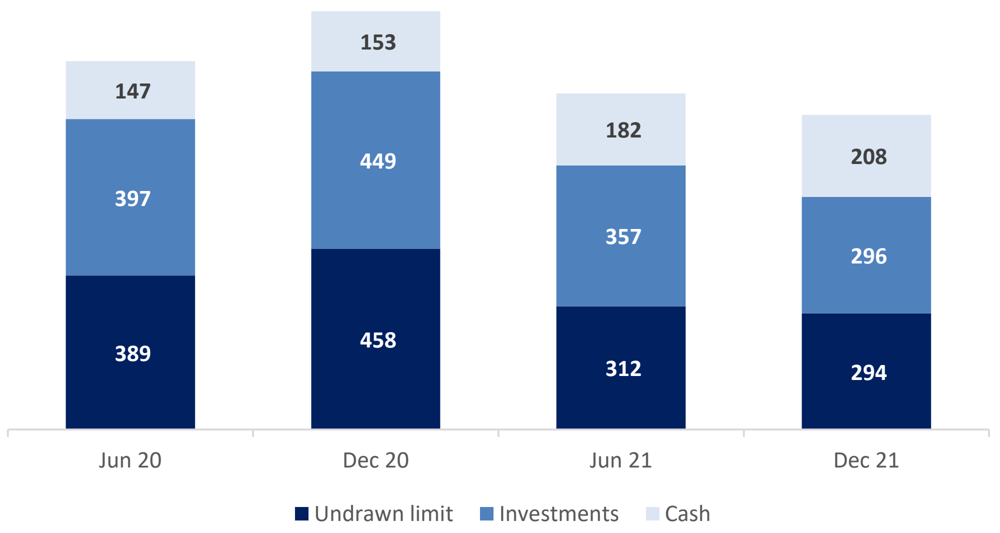
[1] Excludes legacy Retail Mortgages.

Funding and liquidity

Funding Composition $m



Liquidity Composition $m



Heartland increased borrowings by $290.8 million (6.0%), contributed to by increases in both New Zealand and Australia.

New Zealand

- Heartland Bank increased borrowings by $236.4 million (6.4%).
- Deposits grew $117.0 million (3.6%).
- Launched 32-Day Notice Saver product at market-leading rate.
- Decreased total liquidity by $36.3 million (7.7%) reflecting a return to more normalised levels.
- Heartland Bank holds liquidity well in excess of regulatory minimums.
- Increased committed auto warehouse facility from $300 million to $400 million in September 2021, with the amount drawn down increasing by $126.6 million.

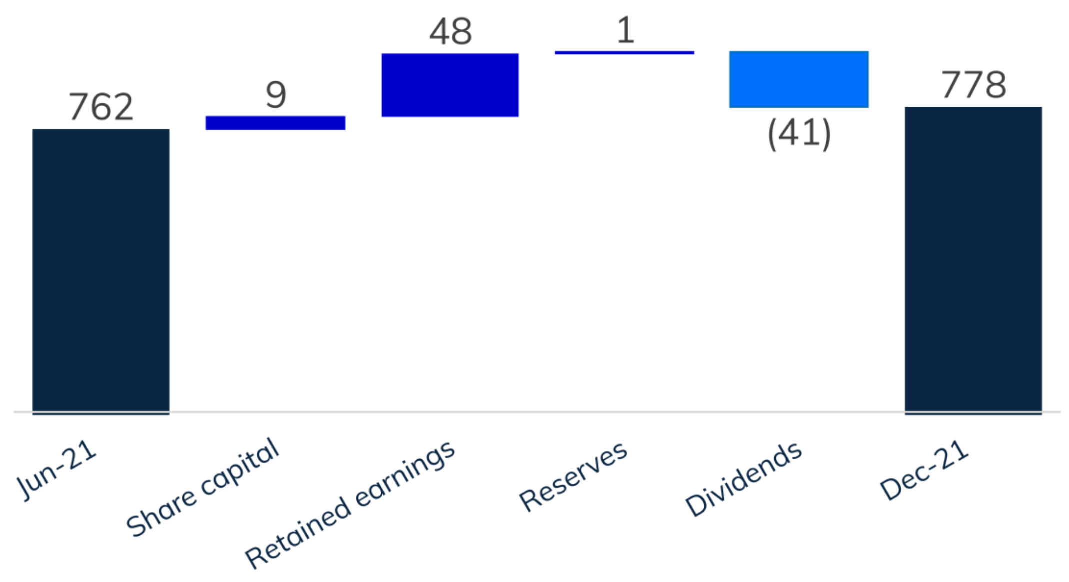
Australia

- Heartland Australia increased borrowings by A$32.9 million (3.0%) in 1H2022 and has access to committed Australian reverse mortgage loan funding of A$1.25 billion in aggregate.
- The Heartland Australia group continues to successfully progress expansion and extension of its funding facilities to cater for strong growth in its portfolios. An additional A$45 million MTN was issued in July 2021.

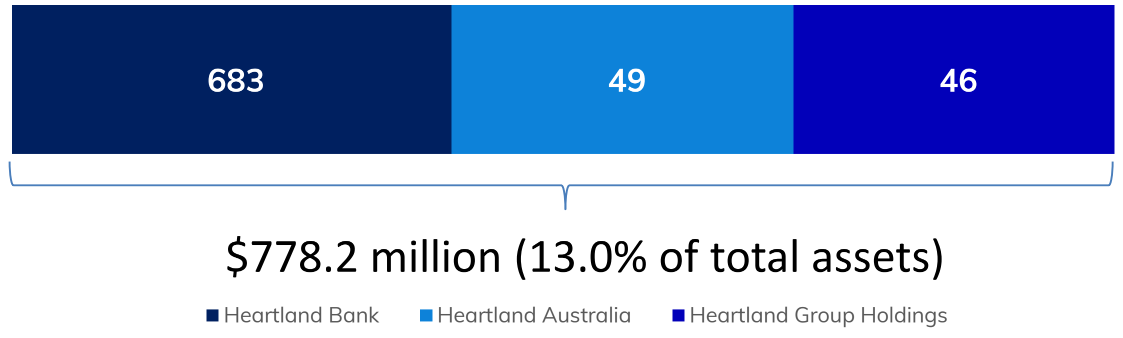
[1] Includes intercompany deposits.

Capital

Heartland Capital Movement $m



Heartland Capital Allocation $m



Heartland Bank Capital Ratio

- Partial restriction on bank dividends remains in place (currently until 1 July 2022).
- Heartland Bank's capital ratio as at 31 December 2021 is 13.98% (up from 13.88% in 30 June 2021).
- As part of the RBNZ capital implementation review requiring an increase in capital, increases in capital will be phased in over a seven-year period, starting from 1 July 2022, requiring minimum total capital ratio to gradually be increased from the current 10.5% to 16.0%.
- Heartland Bank's current capital position and organic growth in capital is expected to be sufficient to meet future minimum requirements.

Strategic update

1

Regulatory update

Heartland continues to monitor the significant volume of regulatory change.

- **Changes to the CCCFA** came into force on 1 December. Heartland has implemented new processes and technologies to enable it to comply with the changes and continues to refine these.

- **Deposit Takers Act** is being developed to strengthen the regulatory framework for all institutions that take deposits and introduce a new deposit insurance scheme.

Strategic objectives

Heartland's strategic vision to provide **best or only products via scalable digital platforms** will be achieved through:

1. **Business as usual growth**

   Broadening product offerings and achieving growth across business as usual activity, including through product and platform developments.

2. **Frictionless service at the lowest cost**

   Frictionless service at each stage of a customer's journey to provide improved reach and customer experience across integrated platforms.

   Online access eases inconvenience and removes costly operational processes – enhancing customer experience and allowing savings to be passed onto customers.

   As described by the virtuous circle to the right.

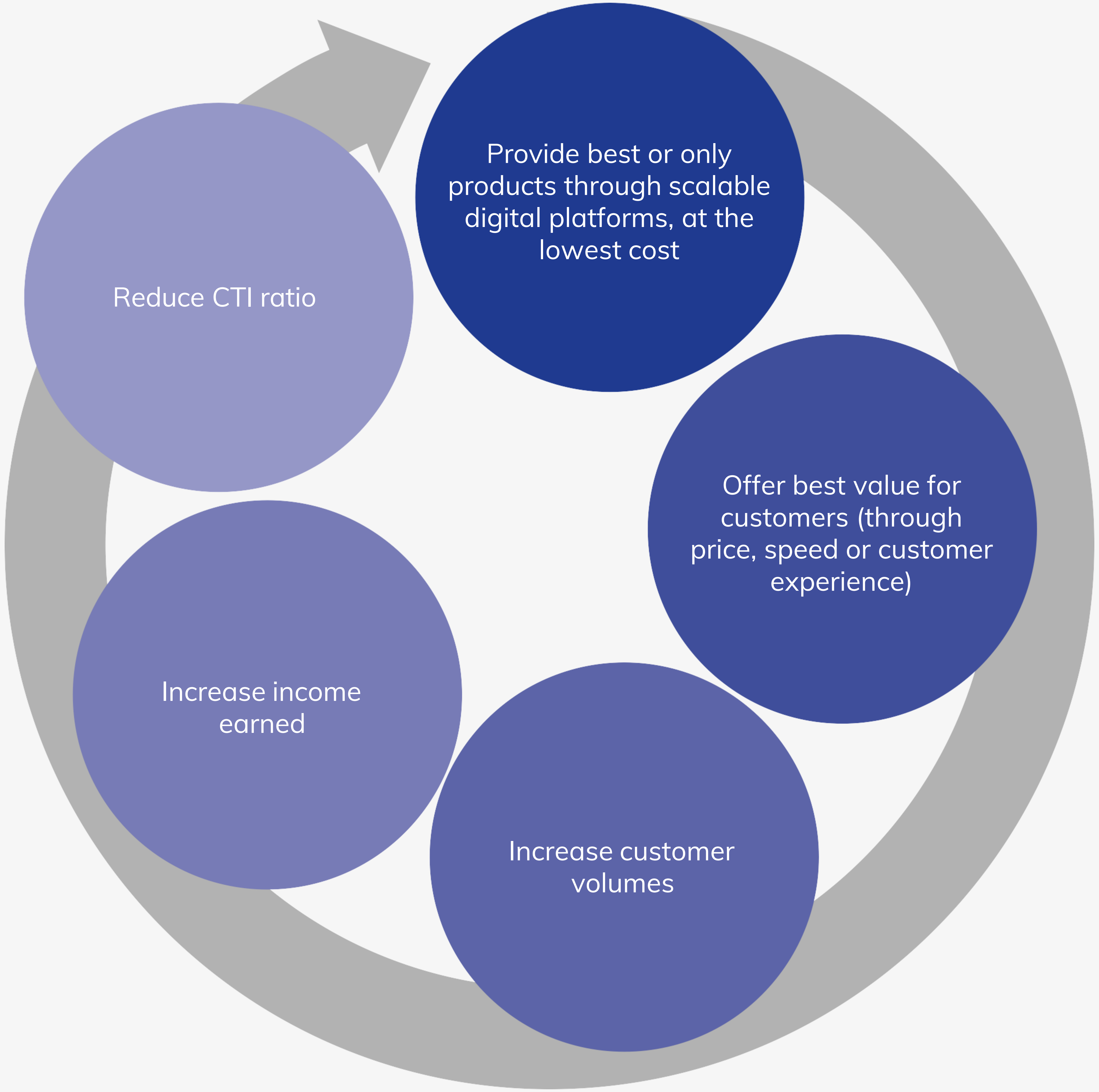
3. **Expansion in Australia**

   Expanding product offerings to meet the wider needs of the demographic entering, as well as in, retirement.

   Exploring expansion into other asset classes through digital platforms and existing relationships with intermediaries that lend to businesses and consumers.

4. **Acquisitions**

   Where there is a fit with the above and the opportunity to add value, acquisitions will be explored.



Looking forward

- **1H2022 NPAT exceeded expectations,** despite a challenging backdrop of continued COVID-19 impacts and legislative disruption.

- **Strong asset growth** has been achieved, though 2H2022 growth is expected to slow in Motor and online Home Loans as a result of CCCFA impact.

- **Continued shift in portfolio mix** toward higher quality and lower risk assets is expected to impact NIM in 2H2022, however will be mitigated as **operational efficiency and asset quality continue to improve**.

- **Increased digitalisation and automation** have continued to increase Heartland's ability to pass cost-savings to customers, leading to the CTI ratio trending downwards.

NPAT FOR FY2022

- Heartland expects NPAT for FY2022 to be in the range of $93 million to $96 million.

Appendices

Appendix 1

Financial position

$m	31 December 2021	30 June 2021	Movement ($m)	Movement (%)
Liquid Assets	503	539	(36)	(6.7%)
Gross Finance Receivables	5,358	5,018	339	6.8%
Provisions	(53)	(54)	0	0.8%
Other Assets	191	179	12	6.7%
TOTAL ASSETS	**5,999**	**5,683**	**316**	**5.6%**
Retail Deposits	*3,332*	*3,183*	*149*	*4.7%*
Other Borrowings	*1,822*	*1,681*	*142*	*8.4%*
Total Funding	5,155	4,864	291	6.0%
Other Liabilities	66	57	9	14.9%
Equity	778	762	16	2.2%
TOTAL EQUITY & LIABILITIES	**5,999**	**5,683**	**316**	**5.6%**

Appendix 2

Financial performance

$m	1H2022	1H2021	Change ($)	Change (%)
Net Operating Income[1]	130.7	125.3	5.4	4.3%
Operating Expenses	57.3	61.1	(3.8)	(6.3%)
Impairment Expense	8.5	4.5	4.0	88.1%
Profit Before Tax	**64.9**	**59.6**	**5.3**	**8.8%**
Tax Expense	17.4	15.5	1.8	11.8%
Net Profit After Tax	**47.5**	**44.1**	**3.4**	**7.8%**

Net Interest Margin	4.30%	4.28%	3 bps
Cost to Income ratio	43.8%	48.8%	(5.0 pps)
Return on Equity	12.2%	12.2%	7 bps
Earnings per Share	8.1 cps	7.6 cps	0.5 cps

1 Includes fair value movements.

Appendix 3

Reconciliation of reported with underlying results

1H2022 one-offs included in the reported result:

- *Fair value gain on equity investment in Harmoney Corp Limited (Harmoney):* a $0.2 million gain was recognised from the fair value uplift on the shares acquired during the period.
- *Fair value loss on other investments*: a $0.3 million fair value loss was recognised on Heartland Bank's rights over a profit-sharing arrangement with a customer.
- *Prior period tax adjustments*: a $1.2 million release of tax provisions relating to prior periods.
- *Other non-recurring expenses*: $0.9 million.

1H2021 one-offs included in the reported result:

- *Fair value gain on investment*: $5.2 million fair value gain was recognised on Heartland's equity investment in Harmoney
- *Voluntarily accelerated amortisation of intangible assets:* $4.3 million expense was recognised, reflecting an acceleration of amortisation of software assets held on the balance sheet.
- *Aged items provision and write-off:* $1.7 million of aged legacy suspense account transactions were written off or provisioned where collectability is uncertain.
- *Other non-recurring expenses:* $0.1 million.

$m	1H2022	1H2021	Movement ($m)	Movement (%)
Reported NOI	130.7	125.3	5.4	4.3%
Less:				
Net fair value gain on investments	(0.1)	5.2	(5.3)	
Underlying NOI	**130.8**	**120.1**	**10.7**	**8.9%**
Reported OPEX	57.3	61.1	(3.8)	(6.3%)
Less:				
Voluntarily accelerated amortisation	-	4.3	(4.3)	
Aged items provision and write-off	-	1.7	(1.7)	
Other non-recurring items	0.9	0.1	0.8	
Underlying OPEX	**56.4**	**55.1**	**1.4**	**2.5%**
Reported impairment expense	**8.5**	**4.5**	**4.0**	**88.1%**
Reported NPAT	47.5	44.1	3.4	7.8%
Less:				
Post-tax impact of one-offs	(0.7)	0.8	(1.6)	
Tax adjustments relating to prior periods	1.2		1.2	
Underlying NPAT	**47.1**	**43.3**	**3.8**	**8.8%**
Reported Average Equity	769.9	718.5	51.4	
Underlying Average Equity	**770.1**	**720.6**	**49.6**	**6.9%**
Reported CTI	43.8%	48.8%	(5.0%)	
Underlying CTI	**43.1%**	**45.8%**	**(2.7%)**	
Reported ROE	12.2%	12.2%	0.07%	
Underlying ROE	**12.1%**	**11.9%**	**0.21%**	

Thank you

For Heartland's 1H2022 half year results announcement, please see shareholders.heartland.co.nz

HEARTLAND

HEARTLAND

Results announcement

(for Equity Security issuer/Equity and Debt Security issuer)

Results for announcement to the market		
Name of issuer	Heartland Group Holdings Limited	
Reporting Period	6 months to 31 December 2021	
Previous Reporting Period	6 months to 31 December 2020	
Currency	NZD	
	Amount (000s)	**Percentage change**
Revenue from continuing operations	$130,712	4.3%
Total Revenue	$130,712	4.3%
Net profit/(loss) from continuing operations	$47,516	7.8%
Total net profit/(loss)	$47,516	7.8%
Interim/Final Dividend		
Amount per Quoted Equity Security	$0.05500000	
Imputed amount per Quoted Equity Security	$0.02138889	
Record Date	02/03/2022	
Dividend Payment Date	16/03/2022	
	Current period	**Prior comparable period**
Net tangible assets per Quoted Equity Security	$1.17	$1.12
A brief explanation of any of the figures above necessary to enable the figures to be understood		
Authority for this announcement		
Name of person authorised to make this announcement	Andrew Dixson, Chief Financial Officer	
Contact person for this announcement	Andrew Dixson, Chief Financial Officer	
Contact phone number	09 927 9274	
Contact email address	Andrew.Dixson@heartland.co.nz	
Date of release through MAP	22/02/2022	

Unaudited financial statements accompany this announcement.

HEARTLAND

Distribution Notice

Please note: all cash amounts in this form should be provided to 8 decimal places

Section 1: Issuer information				
Name of issuer	Heartland Group Holdings Limited			
Financial product name/description	Ordinary shares			
NZX ticker code	HGH			
ISIN (If unknown, check on NZX website)	NZHGHE0007S9			
Type of distribution (Please mark with an X in the relevant box/es)	Full Year		Quarterly	
	Half Year	X	Special	
	DRP applies	X		
Record date	2 March 2022			
Ex-Date (one business day before the Record Date)	1 March 2022			
Payment date (and allotment date for DRP)	16 March 2022			
Total monies associated with the distribution[1]	$32,440,896.11			
Source of distribution (for example, retained earnings)	Retained earnings			
Currency	NZD			
Section 2: Distribution amounts per financial product				
Gross distribution[2]	$0.07638889			
Gross taxable amount [3]	$0.07638889			
Total cash distribution[4]	$0.05500000			
Excluded amount (applicable to listed PIEs)	NIL			
Supplementary distribution amount	$0.00970588			
Section 3: Imputation credits and Resident Withholding Tax[5]				
Is the distribution imputed	Fully imputed - YES			
	~~Partial imputation~~			
	~~No imputation~~			

[1] Continuous issuers should indicate that this is based on the number of units on issue at the date of the form

[2] "Gross distribution" is the total cash distribution plus the amount of imputation credits, per financial product, before the deduction of Resident Withholding Tax (**RWT**).

[3] "Gross taxable amount" is the gross distribution minus any excluded income.

[4] "Total cash distribution" is the cash distribution excluding imputation credits, per financial product, before the deduction of RWT. This should *include* any excluded amounts, where applicable to listed PIEs.

[5] The imputation credits plus the RWT amount is 33% of the gross taxable amount for the purposes of this form. If the distribution is fully imputed the imputation credits will be 28% of the gross taxable amount with remaining 5% being RWT. This does not constitute advice as to whether or not RWT needs to be withheld.

If fully or partially imputed, please state imputation rate as % applied[6]	28%	
Imputation tax credits per financial product	$0.02138889	
Resident Withholding Tax per financial product	$0.00381941	
Section 4: Distribution re-investment plan (if applicable)		
DRP % discount (if any)	2.0%	
Start date and end date for determining market price for DRP	03/03/2022	09/03/2022
Date strike price to be announced (if not available at this time)	Before 10am on 10/03/2022	
Specify source of financial products to be issued under DRP programme (new issue or to be bought on market)	New issue	
DRP strike price per financial product	$	
Last date to submit a participation notice for this distribution in accordance with DRP participation terms	03/03/2022, 5:00pm (NZT)	
Section 5: Authority for this announcement		
Name of person authorised to make this announcement	Andrew Dixson, Chief Financial Officer	
Contact person for this announcement	Andrew Dixson, Chief Financial Officer	
Contact phone number	09 927 9274	
Contact email address	Andrew.Dixson@heartland.co.nz	
Date of release through MAP	22/02/2022	

[6] Calculated as (imputation credits/gross taxable amount) x 100. Fully imputed dividends will be 28% as a % rate applied.

Interim Financial Statements

For the six months
ended 31 December 2021

HEARTLAND

Contents

General Information

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

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

Directors

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

On 1 October 2021, Kathryn Mitchell and Geoffrey Edward Summerhayes were appointed as Directors and have been re-elected on 28 October 2021. Christopher Robert Mace retired as a Director on 28 October 2021.

There have been no other changes in the composition of the Board of Directors of HGH since 30 June 2021 to the six months ended 31 December 2021.

Auditor

KPMG
KPMG Centre
18 Viaduct Harbour Avenue
Auckland 1010

Directors' Statements

The consolidated interim financial statements for HGH and its subsidiaries (together the **Group**) are dated 21 February 2021 and have been signed by all the Directors.

G T Ricketts (Chair)

E F Comerford

J K Greenslade

K Mitchell

G E Summerhayes

G R Tomlinson

Consolidated Interim Statement of Comprehensive Income

For the six months ended 31 December 2021

$000's	Note	Unaudited 6 Months to December 2021	Unaudited 6 Months to December 2020	Audited 12 Months to June 2021
Interest income	3	163,586	166,387	327,935
Interest expense	3	39,683	53,174	94,418
Net interest income		**123,903**	**113,213**	**233,517**
Operating lease income		2,588	2,579	5,004
Operating lease expense		1,545	1,598	3,149
Net operating lease income		**1,043**	**981**	**1,855**
Lending and credit fee income		4,565	4,041	8,090
Other income		1,295	1,880	3,634
Net operating income		**130,806**	**120,115**	**247,096**
Operating expenses	4	57,292	61,130	117,658
Profit before impaired asset expense and income tax		**73,514**	**58,985**	**129,438**
Fair value (loss)/gain on investments		(93)	5,177	4,092
Impaired asset expense	6	8,535	4,538	14,974
Profit before income tax		**64,886**	**59,624**	**118,556**
Income tax expense		17,370	15,534	31,530
Profit for the period		**47,516**	**44,090**	**87,026**
Other comprehensive income				
Items that are or may be reclassified subsequently to profit or loss, net of income tax:				
Effective portion of change in fair value of derivative financial instruments		6,739	4,580	8,940
Movement in fair value reserve		(6,356)	(1,038)	(5,646)
Movement in foreign currency translation reserve		(25)	(121)	(68)
Other comprehensive income for the period, net of income tax		**358**	**3,421**	**3,226**
Total comprehensive income for the period		**47,874**	**47,511**	**90,252**
Earnings per share				
Basic earnings per share	7	8.08c	7.57c	14.92c
Diluted earnings per share	7	8.08c	7.57c	14.92c

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

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

Consolidated Interim Statement of Changes in Equity

For the six months ended 31 December 2021

$000's	Note	Share Capital	Employee Benefit Reserve	Foreign Currency Translation Reserve	Fair Value Reserve	Defined Benefit Reserve	Cash Flow Hedge Reserve	Retained Earnings	Total Equity
Unaudited - December 2021									
Balance as at 1 July 2021		**583,781**	**2,731**	**(3,975)**	**(322)**	**171**	**918**	**178,388**	**761,692**
Total comprehensive income for the period									
Profit for the period		-	-	-	-	-	-	47,516	47,516
Other comprehensive (loss)/gain, net of income tax		-	-	(25)	(6,356)	-	6,739	-	358
Total comprehensive (loss)/ income for the period		**-**	**-**	**(25)**	**(6,356)**	**-**	**6,739**	**47,516**	**47,874**
Contributions by and distributions to owners									
Dividends paid	10	-	-	-	-	-	-	(41,013)	(41,013)
Dividend reinvestment plan		8,926	-	-	-	-	-	-	8,926
Share based payments		-	698	-	-	-	-	-	698
Total transactions with owners		**8,926**	**698**	**-**	**-**	**-**	**-**	**(41,013)**	**(31,389)**
Balance as at 31 December 2021		**592,707**	**3,429**	**(4,000)**	**(6,678)**	**171**	**7,657**	**184,891**	**778,177**
Unaudited - December 2020									
Balance as at 1 July 2020		**576,257**	**934**	**(3,907)**	**5,324**	**171**	**(8,022)**	**129,223**	**699,980**
Total comprehensive income for the period									
Profit for the period		-	-	-	-	-	-	44,090	44,090
Other comprehensive (loss)/gain, net of income tax		-	-	(121)	(1,038)	-	4,580	-	3,421
Total comprehensive (loss)/ income for the period		**-**	**-**	**(121)**	**(1,038)**	**-**	**4,580**	**44,090**	**47,511**
Contributions by and distributions to owners									
Dividends paid	10	-	-	-	-	-	-	(14,524)	(14,524)
Dividend reinvestment plan	10	3,046	-	-	-	-	-	-	3,046
Share based payments		-	1,057	-	-	-	-	-	1,057
Total transactions with owners		**3,046**	**1,057**	**-**	**-**	**-**	**-**	**(14,524)**	**(10,421)**
Balance as at 31 December 2020		**579,303**	**1,991**	**(4,028)**	**4,286**	**171**	**(3,442)**	**158,789**	**737,070**

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

Consolidated Interim Statement of Changes in Equity (Continued)

For the six months ended 31 December 2021

$000's	Note	Share Capital	Employee Benefit Reserve	Foreign Currency Translation Reserve	Fair Value Reserve	Defined Benefit Reserve	Cash Flow Hedge Reserve	Retained Earnings	Total Equity
Audited - June 2021									
Balance as at 1 July 2020		**576,257**	**934**	**(3,907)**	**5,324**	**171**	**(8,022)**	**129,223**	**699,980**
Total comprehensive income for the year									
Profit for the year		-	-	-	-	-	-	87,026	87,026
Other comprehensive (loss)/gain, net of income tax		-	-	(68)	(5,646)	-	8,940	-	3,226
Total comprehensive (loss)/ income for the year		**-**	**-**	**(68)**	**(5,646)**	**-**	**8,940**	**87,026**	**90,252**
Contributions by and distributions to owners									
Dividends paid	10	-	-	-	-	-	-	(37,861)	(37,861)
Dividend reinvestment plan	10	7,524	-	-	-	-	-	-	7,524
Share based payments		-	1,797	-	-	-	-	-	1,797
Total transactions with owners		**7,524**	**1,797**	**-**	**-**	**-**	**-**	**(37,861)**	**(28,540)**
Balance as at 30 June 2021		**583,781**	**2,731**	**(3,975)**	**(322)**	**171**	**918**	**178,388**	**761,692**

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

Consolidated Interim Statement of Financial Position

As at 31 December 2021

$000's	Note	Unaudited December 2021	Unaudited December 2020	Audited June 2021
Assets				
Cash and cash equivalents		207,666	152,818	182,333
Investments		318,273	470,368	377,823
Investment properties		11,832	11,132	11,832
Derivative financial instruments		21,714	15,023	14,139
Finance receivables	8	3,526,234	3,042,588	3,288,466
Finance receivables - reverse mortgages	8	1,778,066	1,607,352	1,676,073
Operating lease vehicles		13,009	12,712	10,865
Right of use assets		14,843	17,202	15,985
Other assets		16,444	22,397	16,815
Intangible assets		74,531	68,874	69,165
Deferred tax asset		16,288	17,521	14,117
Total assets		**5,998,900**	**5,437,987**	**5,677,613**
Liabilities				
Retail deposits	9	3,332,409	3,268,554	3,183,454
Other borrowings	9	1,822,465	1,373,962	1,675,133
Lease liabilities		16,980	19,363	18,166
Tax liabilities		5,619	4,238	7,440
Derivative financial instruments		3,548	12,805	4,802
Trade and other payables		39,702	21,995	26,926
Total liabilities		**5,220,723**	**4,700,917**	**4,915,921**
Equity				
Share capital	10	592,707	579,303	583,781
Retained earnings and other reserves		185,470	157,767	177,911
Total equity		**778,177**	**737,070**	**761,692**
Total equity and liabilities		**5,998,900**	**5,437,987**	**5,677,613**

Total interest earning and discount bearing assets		5,735,324	5,238,005	5,432,181
Total interest and discount bearing liabilities		5,138,333	4,623,224	4,840,310

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

Consolidated Interim Statement of Cash Flows

For the six months ended 31 December 2021

$000's	Note	Unaudited 6 Months to December 2021	Unaudited 6 Months to December 2020	Audited 12 Months to June 2021
Cash flows from operating activities				
Interest received		116,664	122,922	233,447
Operating lease income received		1,807	1,480	5,046
Lending, credit fees and other income received		2,920	4,719	4,625
Operating inflows		**121,391**	**129,121**	**243,118**
Interest paid		(51,000)	(42,973)	(85,058)
Payments to suppliers and employees		(38,641)	(53,258)	(97,205)
Taxation paid		(20,988)	(25,061)	(34,004)
Operating outflows		**(110,629)**	**(121,292)**	**(216,267)**
Net cash flows from operating activities before changes in operating assets and liabilities		**10,762**	**7,829**	**26,851**
Proceeds from sale of operating lease vehicles		3,023	5,584	6,821
Purchase of operating lease vehicles		(6,016)	(1,594)	(1,788)
Net movement in finance receivables		(299,163)	(24,714)	(296,754)
Net movement in deposits		149,107	7,563	(74,608)
Net cash flows (applied to) operating activities[1]		**(142,287)**	**(5,332)**	**(339,478)**
Cash flows from investing activities				
Purchase of property, plant and equipment and intangible assets		(8,578)	(4,322)	(7,562)
Net decrease/(increase) in investments		53,101	(62,877)	23,276
Total cash from/(applied to) investing activities		**44,523**	**(67,199)**	**15,714**
Net cash flows from/(applied to) investing activities		**44,523**	**(67,199)**	**15,714**
Cash flows from financing activities				
Net increase in wholesale funding		111,117	91,038	309,680
Proceeds from issue of unsubordinated notes		45,265	-	81,801
Total cash provided from financing activities		**156,382**	**91,038**	**391,481**
Dividends paid	10	(32,087)	(11,478)	(30,337)
Payment of lease liabilities		(1,198)	(1,390)	(2,226)
Total cash applied to financing activities		**(33,285)**	**(12,868)**	**(32,563)**
Net cash flows from financing activities		**123,097**	**78,170**	**358,918**
Net increase in cash held		**25,333**	**5,639**	**35,154**
Opening cash and cash equivalents		182,333	147,179	147,179
Closing cash and cash equivalents		**207,666**	**152,818**	**182,333**

[1]Cash flows from operating activities do not include cash flows from wholesale funding which are included as part of financing activities.

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

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Consolidated Interim Statement of Cash Flows (Continued)

For the six months ended 31 December 2021

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

$000's	Note	Unaudited 6 Months to December 2021	Unaudited 6 Months to December 2020	Audited 12 Months to June 2021
Profit for the period		**47,516**	**44,090**	**87,026**
Add/(less) non-cash items:				
Depreciation and amortisation expense		5,624	9,463	14,615
Depreciation on lease vehicles		1,429	1,436	2,801
Capitalised net interest income and fee income		(53,178)	(32,640)	(68,755)
Impaired asset expense	6	8,535	4,538	14,974
Investment fair value movement		93	(5,177)	(4,092)
Other non-cash items		(6,662)	(7,335)	(24,538)
Total non-cash items		**(44,159)**	**(29,715)**	**(64,995)**
Add/(less) movements in operating assets and liabilities:				
Finance receivables		(299,163)	(24,714)	(296,754)
Operating lease vehicles		(2,993)	3,990	5,033
Other assets		(191)	1,875	3,448
Current tax		(1,821)	(8,065)	(4,863)
Derivative financial instruments		(2,090)	2,596	(163)
Deferred tax		(2,171)	(398)	3,006
Deposits		149,107	7,563	(74,608)
Other liabilities		13,678	(2,554)	3,392
Total movements in operating assets and liabilities		**(145,644)**	**(19,707)**	**(361,509)**
Net cash flows applied to operating activities[1]		**(142,287)**	**(5,332)**	**(339,478)**

[1]Cash flows from operating activities do not include cash flows from wholesale funding which are included as part of financing activities.

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

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Notes to the Interim Financial Statements

For the six months ended 31 December 2021

1 Interim financial statements preparation

Basis of preparation

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

The consolidated interim financial statements do not include all notes of the type normally included in an annual financial report. Accordingly this report is to be read in conjunction with the consolidated financial statements for the year ended 30 June 2021 and any public announcements made by the Group during the interim reporting period.

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

- 6 month period ended 31 December 2021 – Unaudited
- 6 month period ended 31 December 2020 – Unaudited
- 12 month period ended 30 June 2021 – Audited

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

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

Change in accounting policy

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

Accounting standards issued not yet effective

The final version of NZ IFRS 17 Insurance Contracts was issued in August 2017 and is applicable to general and life insurance contracts. The standard will be effective for the Group's reporting for the financial year ending 30 June 2024, including 30 June 2023 comparatives.

MARAC Insurance Limited (**MIL**), a subsidiary of Heartland Bank Limited (**HBL**), ceased writing insurance policies in 2020 with the periodic policies expected to expire in 2025.

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

1 Interim financial statements preparation (continued)

Estimates and judgements

There have been no material changes to the use of estimates and judgements for the preparation of the interim financial statements since the reporting date of the previous financial statements. The Group's financial statements for the year ended 30 June 2021 contain detail on the estimates and judgements used.

Covid-19 pandemic - impact on estimates and judgements

The COVID-19 pandemic resulted in the Group adopting an economic overlay for expected credit losses (**ECL**) to its portfolios as at 30 June 2020 of pre-tax $9.6 million in response to the uncertain but potential economic impact of COVID-19 on HGH's borrowers (**COVID Overlay**). The COVID Overlay was sized based on a range of techniques including stress testing, benchmarking, scenario analysis and expert judgement.

To date, the impact of COVID-19 on HGH's borrowers has been more benign than was initially forecast, and the COVID Overlay has not been utilised. However, the continued prevalence of COVID-19 in other countries (including the emergence of new variants), together with vaccination rates and border closures provide an ongoing risk of further economic disruption in New Zealand. This may impact borrowers with the potential for further inflationary pressures, increased interest rates and expected higher employment costs resulting from a restricted supply of labour.

With the uncertainties associated to the ongoing economic impacts of COVID-19, the COVID Overlay has been retained in full at this stage.

The accounting judgement that is most impacted by the COVID Overlay is the ECL on finance receivables at amortised cost. The Group measures the allowance for ECL using an impairment model in compliance with NZ IFRS 9 Financial Instruments.

Performance

2 Segmental analysis

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

Operating segments

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

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

Certain operating expenses, such as premises, IT, support centre costs and tax expense are not allocated to operating segments and are included in Other. Finance receivables are allocated across the operating segments as assets and liabilities are managed centrally and therefore are not allocated across the operating segments.

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

$000's	Motor	Reverse Mortgages	Personal Lending	Business	Rural	Australia	Other	Total
Unaudited - December 2021								
Net interest income	34,687	14,000	4,529	35,888	15,138	19,881	(221)	123,903
Net other income	1,703	1,289	726	1,408	365	1,143	270	6,903
Net operating income	**36,390**	**15,289**	**5,255**	**37,296**	**15,503**	**21,024**	**49**	**130,806**
Operating expenses	1,975	2,354	3,268	4,756	1,531	5,507	37,899	57,292
Profit/(loss) before impaired asset expense and income tax	**34,415**	**12,935**	**1,987**	**32,540**	**13,972**	**15,517**	**(37,850)**	**73,514**
Fair value (loss) on investment	-	-	-	-	-	-	(93)	(93)
Impaired asset expense/(benefit)	2,518	-	902	4,210	909	(5)	1	8,535
Profit/(loss) before income tax	**31,897**	**12,935**	**1,085**	**28,330**	**13,063**	**15,522**	**(37,944)**	**64,886**
Income tax expense	-	-	-	-	-	-	17,370	17,370
Profit/(loss) for the period	**31,897**	**12,935**	**1,085**	**28,330**	**13,063**	**15,522**	**(55,314)**	**47,516**
Total assets	**1,344,866**	**648,865**	**272,803**	**1,294,601**	**583,026**	**1,185,598**	**669,142**	**5,998,900**
Total liabilities								**5,220,723**

2 Segmental analysis (continued)

$000's	Motor	Reverse Mortgages	Personal Lending	Business	Rural	Australia	Other	Total
Unaudited - December 2020								
Net interest income	31,255	10,175	7,633	31,659	15,071	17,669	(249)	113,213
Net other income	1,717	1,018	1,137	1,343	460	524	703	6,902
Net operating income	**32,972**	**11,193**	**8,770**	**33,002**	**15,531**	**18,193**	**454**	**120,115**
Operating expenses	1,843	1,986	3,151	5,896	1,172	6,838	40,244	61,130
Profit/(loss) before impaired asset expense and income tax	**31,129**	**9,207**	**5,619**	**27,106**	**14,359**	**11,355**	**(39,790)**	**58,985**
Fair value gain on investments	-	-	-	-	-	-	5,177	5,177
Impaired asset expense/(benefit)	2,266	-	(793)	2,674	391	-	-	4,538
Profit/(loss) before income tax	**28,863**	**9,207**	**6,412**	**24,432**	**13,968**	**11,355**	**(34,613)**	**59,624**
Income tax expense	-	-	-	-	-	-	15,534	15,534
Profit/(loss) for the period	**28,863**	**9,207**	**6,412**	**24,432**	**13,968**	**11,355**	**(50,147)**	**44,090**
Total assets	**1,200,349**	**576,579**	**163,519**	**1,133,767**	**569,676**	**1,030,983**	**763,114**	**5,437,987**
Total liabilities								**4,700,917**
Audited - June 2021								
Net interest income	65,829	22,257	12,073	63,898	30,579	39,348	(467)	233,517
Net other income	3,343	2,143	1,946	2,723	881	2,684	(141)	13,579
Net operating income	**69,172**	**24,400**	**14,019**	**66,621**	**31,460**	**42,032**	**(608)**	**247,096**
Operating expenses	3,787	4,284	6,833	11,340	2,124	12,390	76,900	117,658
Profit/(loss) before impaired asset expense and income tax	**65,385**	**20,116**	**7,186**	**55,281**	**29,336**	**29,642**	**(77,508)**	**129,438**
Fair value gain on investments	-	-	-	-	700	-	3,392	4,092
Impaired asset expense	5,298	-	2,081	5,649	1,649	297	-	14,974
Profit/(loss) before income tax	**60,087**	**20,116**	**5,105**	**49,632**	**28,387**	**29,345**	**(74,116)**	**118,556**
Income tax expense	-	-	-	-	-	-	31,530	31,530
Profit/(loss) for the period	**60,087**	**20,116**	**5,105**	**49,632**	**28,387**	**29,345**	**(105,646)**	**87,026**
Total assets	**1,287,978**	**601,505**	**137,910**	**1,225,710**	**586,318**	**1,149,610**	**688,582**	**5,677,613**
Total liabilities								**4,915,921**

3 Net interest income

$000's	Unaudited 6 Months to December 2021	Unaudited 6 Months to December 2020	Audited 12 Months to June 2021
Interest income			
Cash and cash equivalents	149	47	119
Investments	2,782	3,635	6,979
Finance receivables	113,863	118,751	232,845
Finance receivables - reverse mortgages	46,792	43,954	87,992
Total interest income	**163,586**	**166,387**	**327,935**
Interest expense			
Retail deposits	18,708	33,487	55,273
Other borrowings	20,524	17,064	35,609
Net interest expense on derivative financial instruments	451	2,623	3,536
Total interest expense	**39,683**	**53,174**	**94,418**
Net interest income	**123,903**	**113,213**	**233,517**

4 Operating expenses

$000's	Unaudited 6 Months to December 2021	Unaudited 6 Months to December 2020	Audited 12 Months to June 2021
Personnel expenses	30,884	30,852	61,476
Directors' fees	563	549	1,129
Superannuation	768	718	1,535
Depreciation - property, plant and equipment	1,388	1,473	2,995
Legal and professional fees	903	1,346	2,876
Advertising and public relations	2,185	2,181	5,138
Depreciation - right of use asset	1,154	1,159	2,312
Technology services	4,785	3,407	7,262
Telecommunications, stationery and postage	842	900	1,843
Customer acquisition costs	2,888	4,372	6,982
Amortisation of intangible assets	3,082	6,831	9,308
Other operating expenses[1]	7,850	7,342	14,802
Total operating expenses	**57,292**	**61,130**	**117,658**

[1]Other operating expenses include compensation of auditor which is disclosed in Note 5 - Compensation of auditor.

5 Compensation of auditor

$000's	Unaudited 6 Months to December 2021	Unaudited 6 Months to December 2020	Audited 12 Months to June 2021
Audit and review of the financial statements[1]	386	465	790
Other assurance services paid to auditor [2]	51	51	103
Total compensation of auditor	**437**	**516**	**893**

[1] Audit and review of the financial statements includes fees paid for both the audit of the annual financial statements and review of interim financial statements.

[2] Other assurance related services paid to the auditor comprise regulatory assurance services, agreed upon procedure engagements and supervisor reporting.

6 Impaired asset expense

At each reporting date, the Group applies a three stage approach to measuring expected credit loss to finance receivables not carried at fair value. The following table details impairment charges of those finance receivables for the six months ended 31 December 2021.

$000's	Unaudited 6 Months to December 2021	Unaudited 6 Months to December 2020	Audited 12 Months to June 2021
Non-securitised			
Individually impaired asset expense	6,266	3,414	9,131
Collectively impaired asset expense	1,877	1,099	6,001
Total non-securitised impaired asset expense	**8,143**	**4,513**	**15,132**
Securitised			
Collectively impaired asset expense	392	25	(158)
Total securitised impaired asset expense	**392**	**25**	**(158)**
Total			
Individually impaired asset expense	6,266	3,414	9,131
Collectively impaired asset expense	2,269	1,124	5,843
Total impaired asset expense	**8,535**	**4,538**	**14,974**

7 Earnings per share

	Earnings Per Share Cents	Net Profit After Tax $000's	Weighted Average No. of Shares 000's
Unaudited - December 2021			
Basic earnings	8.08	47,516	588,190
Diluted earnings	8.08	47,516	588,190
Unaudited - December 2020			
Basic earnings	7.57	44,090	582,081
Diluted earnings	7.57	44,090	582,081
Audited - June 2021			
Basic earnings	14.92	87,026	583,467
Diluted earnings	14.92	87,026	583,467

Financial Position

8 Finance receivables

(a) Finance receivables held at amortised cost

$000's	Unaudited December 2021	Unaudited December 2020	Audited June 2021
Non-securitised			
Neither at least 90 days past due nor impaired - at amortised cost	3,203,046	2,938,904	3,140,490
At least 90 days past due - at amortised cost	38,593	45,761	36,882
Individually impaired - at amortised cost	63,965	33,667	38,143
Gross finance receivables	**3,305,604**	**3,018,332**	**3,215,515**
Less provision for impairment	(52,651)	(55,415)	(53,448)
Total non-securitised finance receivables	**3,252,953**	**2,962,917**	**3,162,067**
Securitised			
Neither at least 90 days past due nor impaired - at amortised cost	273,650	79,645	126,638
At least 90 days past due - at amortised cost	263	448	-
Gross finance receivables	**273,913**	**80,093**	**126,638**
Less provision for impairment	(632)	(422)	(239)
Total securitised finance receivables	**273,281**	**79,671**	**126,399**
Total			
Neither at least 90 days past due nor impaired - at amortised cost	3,476,696	3,018,549	3,267,128
At least 90 days past due - at amortised cost	38,856	46,209	36,882
Individually impaired - at amortised cost	63,965	33,667	38,143
Gross finance receivables	**3,579,517**	**3,098,425**	**3,342,153**
Less provision for impairment	(53,283)	(55,837)	(53,687)
Total finance receivables	**3,526,234**	**3,042,588**	**3,288,466**

8 Finance receivables (continued)

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

Movement in provision

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

$000's	12 - Month ECL	Lifetime ECL Not Credit Impaired	Lifetime ECL Credit Impaired	Specific Provision	Total
Unaudited - December 2021					
Non-securitised					
Impairment allowance as at 30 June 2021	**26,591**	**2,405**	**16,823**	**7,629**	**53,448**
Changes in loss allowance					
Transfer between stages	(2,323)	(1,102)	714	2,711	-
New and increased provision (net of collective provision releases)	(1,149)	391	6,769	3,555	9,566
Recovery of amounts written off	-	-	(1,423)	-	(1,423)
Credit impairment charge	**(3,472)**	**(711)**	**6,060**	**6,266**	**8,143**
Recovery of amounts previously written off	-	-	1,423	-	1,423
Write offs	-	-	(9,109)	(1,219)	(10,328)
Effect of changes in foreign exchange rate	(35)	-	-	-	(35)
Acquisition of portfolio	-	-	-	-	-
Impairment allowance as at 31 December 2021	**23,084**	**1,694**	**15,197**	**12,676**	**52,651**
Securitised					
Impairment allowance as at 30 June 2021	**216**	**22**	**1**	**-**	**239**
Changes in loss allowance					
Transfer between stages	(2)	(27)	29	-	-
New and increased provision (net of collective provision releases)	231	77	84	-	392
Recovery of amounts written off	-	-	-	-	-
Credit impairment charge	**229**	**50**	**113**	**-**	**392**
Recovery of amounts previously written off	-	-	-	-	-
Write offs	-	-	-	-	-
Effect of changes in foreign exchange rate	-	1	-	-	1
Acquisition of portfolio	-	-	-	-	-
Impairment allowance as at 31 December 2021	**445**	**73**	**114**	**-**	**632**
Total					
Impairment allowance as at 30 June 2021	**26,807**	**2,427**	**16,824**	**7,629**	**53,687**
Changes in loss allowance					
Transfer between stages	(2,325)	(1,129)	743	2,711	-
New and increased provision (net of collective provision releases)	(918)	468	6,853	3,555	9,958
Recovery of amounts written off	-	-	(1,423)	-	(1,423)
Credit impairment charge	**(3,243)**	**(661)**	**6,173**	**6,266**	**8,535**
Recovery of amounts previously written off	-	-	1,423	-	1,423
Write offs	-	-	(9,109)	(1,219)	(10,328)
Effect of changes in foreign exchange rate	(35)	1	-	-	(34)
Acquisition of portfolio	-	-	-	-	-
Impairment allowance as at 31 December 2021	**23,529**	**1,767**	**15,311**	**12,676**	**53,283**

8 Finance receivables (continued)

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

Movement in provision (continued)

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

8 Finance receivables (continued)

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

Movement in provision (continued)

$000's	12 - Month ECL	Lifetime ECL Not Credit Impaired	Lifetime ECL Credit Impaired	Specific Provision	Total
Audited - 30 June 2021					
Non-securitised					
Impairment allowance as at 30 June 2020	**32,160**	**2,143**	**22,668**	**5,301**	**62,272**
Changes in loss allowance					
Transfer between stages	(2,485)	(1,090)	(22)	3,597	-
New and increased provision (net of collective provision releases)	(3,207)	1,329	13,715	6,034	17,871
Recovery of amounts written off	-	-	(2,739)	-	(2,739)
Credit impairment charge	**(5,692)**	**239**	**10,954**	**9,631**	**15,132**
Recovery of amounts previously written off	-	-	2,739	-	2,739
Write offs	-	-	(19,729)	(7,303)	(27,032)
Effect of changes in foreign exchange rate	(10)	1	3	-	(6)
Acquisition of portfolio	133	22	188	-	343
Impairment allowance as at 30 June 2021	**26,591**	**2,405**	**16,823**	**7,629**	**53,448**
Securitised					
Impairment allowance as at 30 June 2020	**260**	**23**	**114**	**-**	**397**
Changes in loss allowance					
Transfer between stages	(4)	(3)	7	-	-
New and increased provision (net of collective provision releases)	(40)	2	(120)	-	(158)
Credit impairment charge	**(44)**	**(1)**	**(113)**	**-**	**(158)**
Recovery of amounts previously written off	-	-	-	-	-
Write offs	-	-	-	-	-
Effect of changes in foreign exchange rate	-	-	-	-	-
Acquisition of portfolio	-	-	-	-	-
Impairment allowance as at 30 June 2021	**216**	**22**	**1**	**-**	**239**
Total					
Impairment allowance as at 30 June 2020	**32,420**	**2,166**	**22,782**	**5,301**	**62,669**
Changes in loss allowance					
Transfer between stages	(2,489)	(1,093)	(15)	3,597	-
New and increased provision (net of collective provision releases)	(3,247)	1,331	13,595	6,034	17,713
Recovery of amounts written off	-	-	(2,739)	-	(2,739)
Credit impairment charge	**(5,736)**	**238**	**10,841**	**9,631**	**14,974**
Recovery of amounts previously written off	-	-	2,739	-	2,739
Write offs	-	-	(19,729)	(7,303)	(27,032)
Effect of changes in foreign exchange rate	(10)	1	3	-	(6)
Acquisition of portfolio	133	22	188	-	343
Impairment allowance as at 30 June 2021	**26,807**	**2,427**	**16,824**	**7,629**	**53,687**

8 Finance receivables (continued)

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

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

$000's	12 - Month ECL	Lifetime ECL Not Credit Impaired	Lifetime ECL Credit Impaired	Specific Provision	Total
Unaudited - December 2021					
Gross finance receivables as at 30 June 2021	**3,092,653**	**165,793**	**45,564**	**38,143**	**3,342,153**
Transfer between stages	(48,097)	(11,584)	20,313	39,368	-
Additions	897,124	-	-	906	898,030
Deletions	(594,443)	(34,662)	(8,077)	(13,091)	(650,273)
Write offs	-	-	(9,032)	(1,361)	(10,393)
Gross finance receivables as at 31 December 2021	**3,347,237**	**119,547**	**48,768**	**63,965**	**3,579,517**
Unaudited - December 2020					
Gross finance receivables as at 30 June 2020	**2,826,208**	**183,260**	**73,729**	**24,667**	**3,107,864**
Transfer between stages	(50,423)	31,814	3,841	14,768	-
Additions	796,845	-	-	-	796,845
Deletions	(733,346)	(36,470)	(19,081)	(3,233)	(792,130)
Write offs	-	-	(11,619)	(2,535)	(14,154)
Gross finance receivables as at 31 December 2020	**2,839,284**	**178,604**	**46,870**	**33,667**	**3,098,425**
Audited - June 2021					
Gross finance receivables as at 30 June 2020	**2,826,208**	**183,260**	**73,729**	**24,667**	**3,107,864**
Transfer between stages	(103,233)	67,419	13,314	22,499	-
Additions	1,435,408	-	-	955	1,436,363
Deletions	(1,065,730)	(84,886)	(20,337)	(466)	(1,171,419)
Write offs	-	-	(21,142)	(9,512)	(30,655)
Gross finance receivables as at 30 June 2021	**3,092,653**	**165,793**	**45,564**	**38,143**	**3,342,153**

(b) Finance receivables held at fair value

$000's	Unaudited December 2021	Unaudited December 2020	Audited June 2021
Finance receivables - reverse mortgages	1,778,066	1,607,352	1,676,073
Total finance receivables - reverse mortgages	1,778,066	1,607,352	1,676,073

9 Borrowings

$000's	Unaudited December 2021	Unaudited December 2020	Audited June 2021
Deposits	3,332,409	3,268,554	3,183,454
Total borrowings related to deposits	**3,332,409**	**3,268,554**	**3,183,454**
Unsubordinated notes	560,307	444,845	521,399
Securitised borrowings	1,152,521	897,228	1,043,516
Certificate of deposit	109,637	-	69,853
Repurchase agreement	-	31,889	40,365
Total other borrowings	**1,822,465**	**1,373,962**	**1,675,133**

9 Borrowings (Continued)

Deposits and unsubordinated notes rank equally and are unsecured.

The Group has the following unsubordinated notes on issue at balance sheet date. Australian (**AU**) borrowings are stated in their functional currency AU dollars.

Principal	Valuation	Issue Date	Maturity Date	Frequency of Interest Repayment
$150 million	Amortised cost	21 September 2017	21 September 2022	Semi-annually
$125 million	Amortised cost	12 April 2019	12 April 2024	Semi-annually
AU $100 million	Amortised cost	13 November 2019	13 May 2022	Quarterly
AU $75 million	Amortised cost	15 January 2021	21 April 2023	Quarterly
AU $45 million	Amortised cost	8 March 2021	21 April 2023	Quarterly
AU $45 million	Amortised cost	9 July 2021	9 July 2024	Quarterly

At 31 December 2021 the Group had the following securitised borrowings outstanding:

- Heartland Auto Receivables Warehouse Trust 2018 - 1 securitisation facility $400 million, drawn $235 million (December 2020: limit $300 million, drawn $68 million; June 2021: limit $300 million, drawn $108 million). Securitised borrowings held by investors are secured over the assets of the Heartland Auto Receivables Warehouse Trust 2018-1 (predominantly motor loans). The facility has a maturity date of 29 August 2023.

- Senior Warehouse Trust securitisation facility AU $600 million, drawn AU $552 million (December 2020: AU $600 million, drawn AU $481 million; June 2021: AU $600 million, drawn AU $556 million). Notes issued to investors are secured over the assets of Seniors Warehouse Trust (predominantly reverse mortgage loans). The facility has a maturity date of 30 September 2022.

- Senior Warehouse Trust No.2 securitisation facility AU $250 million, drawn AU $180 million (December 2020: AU $250 million, drawn AU $156 million; June 2021: AU $250 million, drawn AU $182 million). Notes issued to investors are secured over the assets of Seniors Warehouse Trust No.2 (predominantly reverse mortgage loans). The facility has a maturity date of 1 July 2022.

- Atlas 2020-1 Trust securitisation facility AU $136 million, drawn AU $136 million (December 2020: AU $139 million, AU $139 million drawn; June 2021: AU $137 million, AU $137 million drawn). Loans issued to investors are secured over the assets of Atlas 2020-1 Trust (predominantly reverse mortgage loans) and has a maturity date of 24 September 2050.

10 Share capital and dividends

000's	Unaudited December 2021 Number of Shares	Unaudited December 2020 Number of Shares	Audited June 2021 Number of Shares
Issued shares			
Opening balance	585,904	580,979	580,979
Dividend reinvestment plan	3,930	2,442	4,925
Closing balance	**589,834**	**583,421**	**585,904**

HGH had issued 3,930,116 new shares at $2.2713 per share on 15 September 2021 under the dividend reinvestment plan for the period (2021: 2,482,921 new shares issued at $1.8035 per share on 16 March 2021 and 2,442,338 new shares were issued at $1.2470 per share on 9 October 2020 under dividend reinvestment plan).

Dividends paid

	6 Months to December 2021			12 Months to June 2021		
	Date Declared	Cents Per Share	$000's	Date Declared	Cents Per Share	$000's
Final dividend	24 August 2021	7.0	41,013	17 September 2020	2.5	14,524
Interim Dividend	-	-	-	22 February 2021	4.0	23,337
Total dividends paid			**41,013**			**37,861**

11 Related party transactions and balances

(a) Transactions with key management personnel

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

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

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

$000's	Unaudited 6 Months to December 2021	Unaudited 6 Months to December 2020	Audited 12 Months to June 2021
Transactions with key management personnel			
Interest income	15	26	39
Interest expense	(24)	(8)	(22)
Net transactions with key management personnel	**(9)**	**18**	**17**
Due from/(to) key management personnel			
Lending	296	574	415
Borrowings - deposits	(1,425)	(1,778)	(23,409)
Net due (to) key management personnel	**(1,129)**	**(1,204)**	**(22,994)**

11 Related party transactions and balances (continued)

(b) Transactions with related parties

HGH is the ultimate parent company of the Group.

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

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

$000's	Unaudited 6 Months to December 2021	Unaudited 6 Months to December 2020	Audited 12 Months to June 2021
Southern Cross Building Society Staff Superannuation (SCBS)			
Interest expense payable to SCBS	4	8	12
Management fees receivable from SCBS	5	5	10
ASF Custodians Pty Limited			
Audit fees	4	-	7
Heartland Trust (HT)			
Dividend paid to HT	453	162	421

(c) Other balances with related parties

$000's	Unaudited December 2021	Unaudited December 2020	Audited June 2021
Southern Cross Building Society Staff Superannuation			
Retail deposits owing to SCBS	1,704	1,871	1,760

12 Fair value

(a) Financial instruments measured at fair value

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

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

Investments

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

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

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

Equity Investment in Harmoney Corp Limited

Harmoney Corp Limited (**Harmoney**) listed on the ASX with a foreign exempt listing on the NZX on 19 November 2020, raising AU $92.5 million as part of its Initial Public Offering (**IPO**). As part of the IPO, HGH, alongside other major shareholders, employees and directors, entered into escrow arrangements that restrict the ability to sell its Harmoney shares, with approximately 72% of total shares were subject to escrow arrangements (**Escrow Restrictions**) from the time that Harmoney completed its IPO. There are two categories of escrowed shares: being unaffiliated escrow shareholders and affiliated escrow shareholders. The timing of release of escrowed shareholdings is dependent on these categories. The escrowed shareholdings for unaffiliated escrow shareholders have a two staged release with the first 50% of those escrowed shares released in September 2021 and the remaining 50% expected to be released at the time or after the release of Harmoney half year financial report for financial year 2022 (**FY22**). HGH is considered an unaffiliated escrow shareholder for its shareholding recorded at the time of the IPO. The escrowed shareholdings for affiliated escrow shareholders have a three stage release with the first 25% released in September 2021, a second 25% expected to be released at the time of or after the release of the Harmoney FY22 half year financial report and the remaining 50% of the affiliated escrow shares (representing 17.7% of the total Harmoney shares on issue) expected to be released at the time or after the release of the FY22 annual audited financial report.

The Escrow Restrictions have significantly reduced the available trading pool of shares, resulting in an illiquid market for the instrument, wide bid-ask spreads and volume that is insufficient to meet the definition of an active market under NZ IFRS 13 Fair Value Measurement for purposes of Harmoney shares traded. As such the quoted price of Harmoney as at 31 December 2021 is not considered a reliable evidence of fair value and accordingly HGH's equity investment in Harmoney has not been measured under Level 1 of the fair value hierarchy.

Consistent with prior reporting periods, the fair value of HGH's investment in Harmoney has been measured under Level 3 of the fair value hierarchy using unobservable inputs under a market approach valuation technique. Factors considered relevant to market participants such as observed trading volumes, bid-ask spreads, market prices of Harmoney's shares, revenue multiples, analyst valuations, the impact of Escrow Restrictions, as well as publicly available financial information for Harmoney have all been taken into account when measuring fair value at reporting date.

12 Fair value (continued)

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

Investments (continued)

The investment is primarily measured using the volume weighted average price (**VWAP**) of Harmoney shares traded on the ASX across a period required to capture sufficient volume and moderate share price volatility attributable to the aforementioned factors. The VWAP period considered to be the most appropriate, reflecting the characteristics of the underlying share trading that has occurred, is 6 months to reporting date. This VWAP has been further evaluated through a composite valuation weighting the closing price of Harmoney shares, revenue multiples of comparable public companies, IPO price and analyst valuations. Both the VWAP and composite valuation approaches derive reasonably consistent outcomes.

The fair value measurement of HGH's equity investment in Harmoney was AU $1.90 per share as at reporting date. This was a 6% premium to the market closing price of AU $1.80 as at 31 December 2021, which if used as the basis for measuring fair value would result in a $1.1 million lower fair value than that reported. The fair value of the Investment was previously measured at AU $1.90 per share at 30 June 2021.

Investment properties

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

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

Finance receivables - reverse mortgages

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

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

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

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

At balance date the Group does not consider any of the above expectations to have moved outside of the original expectation range. Therefore the Group has continued to estimate the fair value of the portfolio at transaction price. There has been no fair value movement recognised in profit or loss during the period. Fair value is not highly sensitive to the above assumptions due to the nature of reverse mortgage loans. In particular, given conservative origination loan-to-value ratio criteria, a material deterioration in house prices combined with a material increase in interest rates over a sustained period of time would likely need to occur before any potential impact to fair value. While noting the significant uncertainty around future economic conditions, based on current judgment there is no evidence that COVID-19 has impacted or will have a long-term adverse impact on market conditions, particularly regarding the key elements of house prices or interest rates, that would materially influence the fair value of the reverse mortgage portfolio at balance date.

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

12 Fair value (continued)

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

Derivative financial instruments

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

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

$000's	Level 1	Level 2	Level 3	Total
Unaudited - December 2021				
Assets				
Investments	229,453	61,745	22,459	313,657
Investment properties	-	-	11,832	11,832
Derivative financial instruments	-	21,714	-	21,714
Finance receivables - reverse mortgages	-	-	1,778,066	1,778,066
Total financial assets measured at fair value	**229,453**	**83,459**	**1,812,357**	**2,125,269**
Liabilities				
Derivative financial instruments	-	3,548	-	3,548
Total financial liabilities measured at fair value	**-**	**3,548**	**-**	**3,548**
Unaudited - December 2020				
Assets				
Investments	328,620	112,831	21,512	462,963
Investment properties	-	-	11,132	11,132
Derivative financial instruments	-	15,023	-	15,023
Finance receivables - reverse mortgages	-	-	1,607,352	1,607,352
Total financial assets measured at fair value	**328,620**	**127,854**	**1,639,996**	**2,096,470**
Liabilities				
Derivative financial instruments	-	12,805	-	12,805
Total financial liabilities measured at fair value	**-**	**12,805**	**-**	**12,805**
Audited - June 2021				
Assets				
Investments	259,041	92,476	20,667	372,184
Investment properties	-	-	11,832	11,832
Derivative financial instruments	-	14,139	-	14,139
Finance receivables - reverse mortgages	-	-	1,676,073	1,676,073
Total financial assets measured at fair value	**259,041**	**106,615**	**1,708,572**	**2,074,228**
Liabilities				
Derivative financial instruments	-	4,802	-	4,802
Total financial liabilities measured at fair value	**-**	**4,802**	**-**	**4,802**

There were no transfers between any fair value hierarchy levels in the six months ended 31 December 2021 (December 2020: nil; June 2021: nil).

12 Fair value (continued)

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

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

$000's	Finance Receivables - Reverse Mortgage	Investments	Investment Properties	Total
Unaudited - December 2021				
As at 30 June 2021	1,676,073	20,667	11,832	1,708,572
New loans	190,734	-	-	190,734
Repayments	(127,057)	-	-	(127,057)
Capitalised Interest and fees	49,718	-	-	49,718
Purchase of investments	-	1,885	-	1,885
Fair value (loss) on investment	-	(93)	-	(93)
Other	(11,402)	-	-	(11,402)
As at 31 December 2021	**1,778,066**	**22,459**	**11,832**	**1,812,357**
Unaudited - December 2020				
As at 30 June 2020	1,538,585	16,335	11,132	1,566,052
New loans	145,674	-	-	145,674
Repayments	(119,653)	-	-	(119,653)
Capitalised Interest and fees	45,878	-	-	45,878
Purchase of investments	-	-	-	-
Fair value gain on investment	-	5,177	-	5,177
Other	(3,132)	-	-	(3,132)
As at 31 December 2020	**1,607,352**	**21,512**	**11,132**	**1,639,996**
Audited - June 2021				
As at 30 June 2020	1,538,585	16,335	11,132	1,566,052
New loans	300,689	-	-	300,689
Repayments	(257,999)	-	-	(257,999)
Capitalised Interest and fees	91,812	-	-	91,812
Purchase of investments	-	940	-	940
Fair value gain on investment	-	3,392	700	4,092
Other	2,986	-	-	2,986
As at 30 June 2021	**1,676,073**	**20,667**	**11,832**	**1,708,572**

12 Fair value (continued)

(b) Financial instruments not measured at fair value

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

		Unaudited December 2021		Unaudited December 2020		Audited June 2021	
$000's	**Fair Value Hierarchy**	**Total Fair Value**	**Total Carrying Value**	**Total Fair Value**	**Total Carrying Value**	**Total Fair Value**	**Total Carrying Value**
Assets							
Cash and cash equivalents	Level 1	207,666	207,666	152,818	152,818	182,333	182,333
Investments[1]	Level 2	4,615	4,616	7,413	7,405	5,640	5,639
Finance receivables	Level 3	3,563,778	3,526,234	3,062,211	3,042,588	3,362,536	3,288,466
Other financial assets	Level 3	2,322	2,322	1,085	1,085	2,292	2,292
Total financial assets		**3,778,381**	**3,740,838**	**3,223,527**	**3,203,896**	**3,552,801**	**3,478,730**
Liabilities							
Retail deposits	Level 2	3,334,667	3,332,409	3,287,485	3,268,554	3,192,708	3,183,454
Borrowings - securitised	Level 2	1,152,521	1,152,521	897,228	897,228	1,043,516	1,043,516
Other borrowings	Level 2	669,944	669,944	476,734	476,734	631,617	631,617
Other financial liabilities	Level 3	30,690	30,690	13,247	13,247	18,687	18,687
Total financial liabilities		**5,187,822**	**5,185,564**	**4,674,694**	**4,655,763**	**4,886,528**	**4,877,274**

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

Risk Management

13 Enterprise risk management program

There have been no material changes in the Group's policies for managing risk, or material exposures to any new types of risk since the reporting date of the previous statement. Refer to the Group's Financial Statements for the year ended 30 June 2021 for the detailed policies.

14 Credit risk exposure

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

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

$000's	Unaudited December 2021	Unaudited December 2020	Audited June 2021
On balance sheet:			
Cash and cash equivalents	207,666	152,818	182,333
Investments	295,814	448,856	357,156
Finance receivables	3,526,234	3,042,588	3,288,466
Finance receivables - reverse mortgages	1,778,066	1,607,352	1,676,073
Derivative financial assets	21,714	15,023	14,139
Other financial assets	2,322	1,085	2,292
Total on balance sheet credit exposures	**5,831,816**	**5,267,722**	**5,520,459**
Off balance sheet:			
Letters of credit, guarantee commitments and performance bonds	7,217	6,145	13,484
Undrawn facilities available to customers	365,623	280,750	299,544
Conditional commitments to fund at future dates	21,646	24,570	19,083
Total off balance sheet credit exposures	**394,486**	**311,465**	**332,111**
Total credit exposures	**6,226,302**	**5,579,187**	**5,852,570**

As at 31 December 2021 there were no undrawn lending commitments available to counterparties for whom drawn balances are classified as individually impaired (December 2020:nil; June 2021: $0.216 million).

(b) Concentration of credit risk by geographic region

$000's	Unaudited December 2021	Unaudited December 2020	Audited June 2021
New Zealand	4,749,474	4,098,553	4,402,656
Australia	1,299,626	1,196,808	1,243,522
Rest of the world [1]	230,485	339,663	260,079
	6,279,585	**5,635,024**	**5,906,257**
Provision for impairment	(53,283)	(55,837)	(53,687)
Total credit exposures	**6,226,302**	**5,579,187**	**5,852,570**

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

14 Credit risk exposure (continued)

(c) Concentration of credit risk by industry sector

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

$000's	Unaudited December 2021	Unaudited December 2020	Audited June 2021
Agriculture	667,835	663,982	670,428
Forestry and fishing	149,561	149,126	153,160
Mining	14,217	12,076	12,684
Manufacturing	85,737	77,108	76,951
Finance and insurance	701,269	698,607	674,854
Wholesale trade	35,543	45,734	56,522
Retail trade and accommodation	338,163	265,798	279,388
Households	3,233,026	2,804,711	2,994,980
Other business services	172,647	146,811	148,011
Construction	304,593	213,273	241,668
Rental, hiring and real estate services	180,689	169,253	185,320
Transport and storage	311,068	277,926	297,920
Other	85,237	110,619	114,371
	6,279,585	**5,635,024**	**5,906,257**
Provision for impairment	(53,283)	(55,837)	(53,687)
Total credit exposures	**6,226,302**	**5,579,187**	**5,852,570**

15 Liquidity risk

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

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

The Group’s exposure to liquidity risk is governed by a policy approved by the Board and managed by the Asset and Liability Committee (**ALCO**). This policy sets out the nature of the risk which may be taken and aggregate risk limits, which ALCO must observe. Within 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 ALCO employs asset and liability cash flow modelling to determine appropriate liquidity and funding strategies.

Reserve Bank of New Zealand (RBNZ) facilities

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

From 26 May 2020, the RBNZ made available a Term Lending Facility (**TLF**) to offer loans for a fixed term of three years at the Official Cash Rate, with access to the funds linked to banks’ lending under the Business Finance Guarantee Scheme. On 25 May 2021, RBNZ announced to close TLF applications on 28 July 2021.

Additional stimulus provided through a Funding for Lending Programme also commenced in December 2020 designed to enable banks to provide low-cost lending to the customer.

The Group had not utilised any of these facilities as at 31 December 2021.

The Group holds the following liquid assets and committed funding sources for the purpose of managing liquidity risk:

$000's	**Unaudited December 2021**	**Unaudited December 2020**	**Audited June 2021**
Cash and cash equivalents	207,666	152,818	182,333
Investments	295,814	448,856	357,156
Undrawn committed bank facilities	290,774	459,631	311,993
Total liquidity	**794,254**	**1,061,305**	**851,482**

Contractual liquidity profile of financial liabilities

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

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

15 Liquidity risk (continued)

Contractual liquidity profile of financial liabilities (continued)

$000's	On Demand	0-6 Months	6-12 Months	1-2 Years	2-5 Years	5+ Years	Total
Unaudited - December 2021							
Non - derivative financial liabilities							
Retail deposits	847,180	1,776,648	568,895	105,741	54,417	-	3,352,881
Other borrowings	-	231,215	938,328	384,597	158,088	172,881	1,885,109
Lease liabilities	-	1,432	1,441	2,742	7,320	5,990	18,925
Other financial liabilities	-	30,690	-	-	-	-	30,690
Total non - derivative financial liabilities	**847,180**	**2,039,985**	**1,508,664**	**493,080**	**219,825**	**178,871**	**5,287,605**
Derivative financial liabilities							
Inflows from derivatives	-	13,951	4,065	6,936	5,303	-	30,255
Outflows from derivatives	-	16,113	4,222	7,396	5,107	-	32,838
Total derivative financial liabilities	**-**	**2,162**	**157**	**460**	**(196)**	**-**	**2,583**
Undrawn facilities available to customers	365,623	-	-	-	-	-	365,623
Undrawn committed bank facilities	290,774	-	-	-	-	-	290,774
Unaudited - December 2020							
Non - derivative financial liabilities							
Retail deposits	994,767	1,382,593	554,159	275,364	94,526	-	3,301,409
Other borrowings	-	97,070	13,460	1,027,935	156,311	157,875	1,452,651
Lease liabilities	-	1,412	1,429	2,895	7,985	8,139	21,860
Other financial liabilities	-	13,247	-	-	-	-	13,247
Total non - derivative financial liabilities	**994,767**	**1,494,322**	**569,048**	**1,306,194**	**258,822**	**166,014**	**4,789,167**
Derivative financial liabilities							
Inflows from derivatives	-	136,042	14,178	678	337	-	151,235
Outflows from derivatives	-	141,906	17,172	3,879	767	-	163,724
Total derivative financial liabilities	**-**	**5,864**	**2,994**	**3,201**	**430**	**-**	**12,489**
Undrawn facilities available to customers	280,750	-	-	-	-	-	280,750
Undrawn committed bank facilities	459,631	-	-	-	-	-	459,631
Audited - June 2021							
Non - derivative financial liabilities							
Retail deposits	971,924	1,291,863	560,232	292,091	91,107	-	3,207,217
Other borrowings	-	124,431	120,855	1,205,547	157,855	181,244	1,789,932
Lease liabilities	-	1,419	1,433	2,836	7,605	7,085	20,378
Other financial liabilities	-	18,687	-	-	-	-	18,687
Total non - derivative financial liabilities	**971,924**	**1,436,400**	**682,520**	**1,500,474**	**256,567**	**188,329**	**5,036,214**
Derivative financial liabilities							
Inflows from derivatives	-	14,251	610	800	12	-	15,673
Outflows from derivatives	-	16,750	2,174	1,316	16	-	20,256
Total derivative financial liabilities	**-**	**2,499**	**1,564**	**516**	**4**	**-**	**4,583**
Undrawn facilities available to customers	299,544	-	-	-	-	-	299,544
Undrawn committed bank facilities	311,993	-	-	-	-	-	311,993

16 Interest rate risk

Contractual repricing analysis

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

$000's	0-3 Months	3-6 Months	6-12 Months	1-2 Years	2+ Years	Non-Interest Bearing	Total
Unaudited - December 2021							
Financial assets							
Cash and cash equivalents	207,665	-	-	-	-	1	207,666
Investments	22,884	1,101	-	120,826	151,003	22,459	318,273
Finance receivables	1,623,877	166,312	312,265	503,151	848,174	72,455	3,526,234
Finance receivables - reverse mortgages	1,778,066	-	-	-	-	-	1,778,066
Derivative financial assets	-	-	-	-	-	21,714	21,714
Other financial assets	-	-	-	-	-	2,322	2,322
Total financial assets	**3,632,492**	**167,413**	**312,265**	**623,977**	**999,177**	**118,951**	**5,854,275**
Financial liabilities							
Retail deposits	1,870,753	730,076	561,848	102,537	50,654	16,541	3,332,409
Other borrowings	1,486,681	60,714	151,260	-	123,810	-	1,822,465
Derivative financial liabilities	-	-	-	-	-	3,548	3,548
Lease liabilities	-	-	-	-	-	16,980	16,980
Other financial liabilities	-	-	-	-	-	30,690	30,690
Total financial liabilities	**3,357,434**	**790,790**	**713,108**	**102,537**	**174,464**	**67,759**	**5,206,092**
Effect of derivatives held for risk management	669,798	(67,794)	(8,974)	(295,757)	(297,273)	-	-
Net financial assets/(liabilities)	**944,856**	**(691,171)**	**(409,817)**	**225,683**	**527,440**	**51,192**	**648,183**
Unaudited - December 2020							
Financial assets							
Cash and cash equivalents	152,803	-	-	-	-	15	152,818
Investments	55,036	23,265	38,705	75,963	255,886	21,513	470,368
Finance receivables	1,481,611	134,370	286,777	469,999	656,238	13,593	3,042,588
Finance receivables - reverse mortgages	1,607,352	-	-	-	-	-	1,607,352
Derivative financial assets	-	-	-	-	-	15,023	15,023
Other financial assets	-	-	-	-	-	1,085	1,085
Total financial assets	**3,296,802**	**157,635**	**325,482**	**545,962**	**912,124**	**51,229**	**5,289,234**
Financial liabilities							
Retail deposits	1,738,119	611,540	546,713	266,193	86,697	19,292	3,268,554
Other borrowings	1,086,068	987	-	156,063	130,844	-	1,373,962
Derivative financial liabilities	-	-	-	-	-	12,805	12,805
Lease liabilities	-	-	-	-	-	19,363	19,363
Other financial liabilities	-	-	-	-	-	13,247	13,247
Total financial liabilities	**2,824,187**	**612,527**	**546,713**	**422,256**	**217,541**	**64,707**	**4,687,931**
Effect of derivatives held for risk management	463,422	(63,969)	(92,103)	(130,193)	(177,157)	-	-
Net financial assets/(liabilities)	**936,037**	**(518,861)**	**(313,334)**	**(6,487)**	**517,426**	**(13,478)**	**601,303**

16 Interest rate risk (continued)

Contractual repricing analysis (continued)

$000's	0-3 Months	3-6 Months	6-12 Months	1-2 Years	2+ Years	Non-Interest Bearing	Total
Audited - June 2021							
Financial assets							
Cash and cash equivalents	182,323	-	-	-	-	10	182,333
Investments	31,896	8,034	19,669	53,505	244,052	20,667	377,823
Finance receivables	1,587,718	151,674	299,305	462,900	715,032	71,837	3,288,466
Finance receivables - reverse mortgages	1,676,073	-	-	-	-	-	1,676,073
Derivative financial assets	-	-	-	-	-	14,139	14,139
Other financial assets	-	-	-	-	-	2,292	2,292
Total financial assets	**3,478,010**	**159,708**	**318,974**	**516,405**	**959,084**	**108,945**	**5,541,126**
Financial liabilities							
Retail deposits	1,670,667	570,068	554,340	285,025	85,077	18,277	3,183,454
Other borrowings	1,342,612	50,837	-	153,751	127,933	-	1,675,133
Derivative financial liabilities	-	-	-	-	-	4,802	4,802
Lease liabilities	-	-	-	-	-	18,166	18,166
Other financial liabilities	-	-	-	-	-	18,687	18,687
Total financial liabilities	**3,013,279**	**620,905**	**554,340**	**438,776**	**213,010**	**59,932**	**4,900,242**
Effect of derivatives held for risk management	474,010	(9,023)	(146,067)	(85,669)	(233,251)	-	-
Net financial assets/(liabilities)	**938,741**	**(470,220)**	**(381,433)**	**(8,040)**	**512,823**	**49,013**	**640,884**

Other Disclosures

17 Structured entities

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

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

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

$000's	Unaudited December 2021	Unaudited December 2020	Audited June 2021
Deposits	151,830	167,147	153,244

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

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

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

$000's	Unaudited December 2021	Unaudited December 2020	Audited June 2021
Cash and cash equivalents	19,840	5,876	9,047
Finance receivables - motor	273,289	79,672	126,399
Other borrowings	(275,787)	(81,541)	(128,125)

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

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

$000's	Unaudited December 2021	Unaudited December 2020	Audited June 2021
Cash and cash equivalents	29,509	21,048	29,170
Finance receivables - reverse mortgages	992,664	839,219	934,523
Other borrowings	(798,735)	(710,034)	(822,122)

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

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

$000's	Unaudited December 2021	Unaudited December 2020	Audited June 2021
Cash and cash equivalents	18,118	9,629	17,592
Finance receivables - reverse mortgages	136,537	145,935	140,044
Other borrowings	(148,453)	(148,855)	(145,943)

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

Insurance business

MIL, a subsidiary of HBL, ceased writing insurance policies in 2020 with the periodic policies expected to expire in 2025.

The Group's aggregate amount of insurance business comprises the total consolidated assets of MIL of $8.3 million (December 2020: $10.8 million; June 2021: $8.5 million), which represents 0.14% of the total consolidated assets of the Group (December 2020: 0.20%; June 2021: 0.15%).

Securitisation, funds management and other fiduciary activities

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

Risk management

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

Provision of financial services and asset purchases

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

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

19 Contingent liabilities and commitments

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

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

$000's	**Unaudited December 2021**	**Unaudited December 2020**	**Audited June 2021**
Letters of credit, guarantee commitments and performance bonds	7,217	6,145	13,484
Total contingent liabilities	**7,217**	**6,145**	**13,484**
Undrawn facilities available to customers	365,623	280,750	299,544
Conditional commitments to fund at future dates	21,646	24,570	19,083
Total commitments	**387,269**	**305,320**	**318,627**

20 Events after reporting date

The Group declared a fully imputed interim dividend of 5.5 cents per share on 21 February 2022.

There were no other events subsequent to the reporting period which would materially affect the consolidated interim financial statements.

Independent Review Report

To the shareholders of Heartland Group Holdings Limited

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

Conclusion

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

- the consolidated interim statement of financial position as at 31 December 2021;
- the consolidated interim statements of comprehensive income, changes in equity and cash flows for the 6 month period then ended; and
- notes, including a summary of significant accounting policies and other explanatory information.

Based on our review, nothing has come to our attention that causes us to believe that the consolidated interim financial statements on pages 5 to 38 do not:

i. present, in all material respects the Group's financial position as at 31 December 2021 and its financial performance and cash flows for the 6 month period ended on that date; and

ii. comply with NZ IAS 34 *Interim Financial Reporting.*

Basis for conclusion

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

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

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

Use of this Independent Review Report

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

Responsibilities of the Directors for the consolidated interim financial statements

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

— the preparation and fair presentation of the consolidated interim financial statements in accordance with NZ IAS 34 *Interim Financial Reporting*;

— implementing necessary internal control to enable the preparation of consolidated interim financial statements that is fairly presented and free from material misstatement, whether due to fraud or error; and

— assessing the ability to continue as a going concern. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate or to cease operations, or have no realistic alternative but to do so.

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

Our responsibility is to express a conclusion on the interim financial statements based on our review. We conducted our review in accordance with NZ SRE 2410. NZ SRE 2410 requires us to conclude whether anything has come to our attention that causes us to believe that the interim financial statements are not prepared, in all The procedures performed in a review are substantially less than those performed in an audit conducted in accordance with International Standards on Auditing (New Zealand). Accordingly, we do not express an audit opinion on these consolidated interim financial statements.

KPMG

KPMG
Auckland

21 February 2022

Disclosure Statement

For the six months
ended 31 December 2021

HEARTLAND BANK

Contents

General Information

This Disclosure Statement has been issued by Heartland Bank Limited (the **Bank** or **HBL**) and its subsidiaries (the **Banking Group**) for the year ended 31 December 2021 in accordance with the Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order 2014 (as amended) (the **Order**). The financial statements of the Bank for the six months ended 31 December 2021 form part of, and should be read in conjunction with, this Disclosure Statement.

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

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

Priority of Creditors' Claims

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

Guarantee Arrangements

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

Auditor

KPMG
KPMG Centre
18 Viaduct Harbour Avenue
Auckland

Directors

All Directors of the Bank reside in New Zealand. Communications to the Directors can be sent to Heartland Bank Limited, Level 3, 35 Teed Street, Newmarket, Auckland 1023.

There have been no changes in the composition of the Board of Directors of the Bank since 30 June 2021 to the six months ended 31 December 2021.

Directors' Statements

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

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

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

   b) the Disclosure Statement is not false or misleading.

2. During the six months ended 31 December 2021:

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

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

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

This Disclosure Statement is dated 21 February 2022 and has been signed by all the Directors.

B R Irvine (Chair)

G T Ricketts

J K Greenslade

K Mitchell

E J Harvey

S M Ruha

Consolidated Interim Statement of Comprehensive Income

For the six months ended 31 December 2021

$000's	Note	Unaudited 6 Months to December 2021	Unaudited 6 Months to December 2020	Audited 12 Months to June 2021
Interest income	3	132,072	139,875	272,562
Interest expense	3	28,057	43,642	73,753
Net interest income		**104,015**	**96,233**	**198,809**
Operating lease income		2,588	2,579	5,004
Operating lease expense		1,545	1,598	3,149
Net operating lease income		**1,043**	**981**	**1,855**
Lending and credit fee income		3,416	3,224	6,455
Other income		3,967	3,309	6,696
Net operating income		**112,441**	**103,747**	**213,815**
Operating expenses	4	48,154	53,256	100,852
Profit before impaired asset expense and income tax		**64,287**	**50,491**	**112,963**
Fair value (loss)/gain on investments		(315)	-	215
Impaired asset expense	6	8,540	4,538	14,579
Profit before income tax		**55,432**	**45,953**	**98,599**
Income tax expense		14,449	12,939	27,090
Profit for the period		**40,983**	**33,014**	**71,509**
Other comprehensive income				
Items that are or may be reclassified subsequently to profit or loss, net of income tax:				
Effective portion of change in fair value of derivative financial instruments		6,619	4,580	8,928
Movement in fair value reserve		(6,356)	(1,038)	(5,646)
Other comprehensive income for the period, net of income tax		**263**	**3,542**	**3,282**
Total comprehensive income for the period		**41,246**	**36,556**	**74,791**

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

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

KPMG

Consolidated Interim Statement of Changes in Equity

For the six months ended 31 December 2021

$000's	Note	Share Capital	Fair Value Reserve	Defined Benefit Reserve	Cash Flow Hedge Reserve	Retained Earnings	Total Equity
Unaudited - December 2021							
Balance as at 1 July 2021		**553,239**	**(322)**	**171**	**906**	**87,834**	**641,828**
Total comprehensive income for the period							
Profit for the period		-	-	-	-	40,983	40,983
Other comprehensive (loss)/ income, net of income tax		-	(6,356)	-	6,619	-	263
Total comprehensive (loss)/ income for the period		**-**	**(6,356)**	**-**	**6,619**	**40,983**	**41,246**
Contributions by and distributions to owner							
Dividend to Heartland Group Holdings Limited	9	-	-	-	-	-	-
Total transactions with owner		**-**	**-**	**-**	**-**	**-**	**-**
Balance as at 31 December 2021		**553,239**	**(6,678)**	**171**	**7,525**	**128,817**	**683,074**
Unaudited - December 2020							
Balance as at 1 July 2020		**553,239**	**5,324**	**171**	**(8,022)**	**46,325**	**597,037**
Total comprehensive income for the period							
Profit for the period		-	-	-	-	33,014	33,014
Other comprehensive (loss)/ income, net of income tax		-	(1,038)	-	4,580	-	3,542
Total comprehensive (loss)/ income for the period		**-**	**(1,038)**	**-**	**4,580**	**33,014**	**36,556**
Contributions by and distributions to owner							
Dividend to Heartland Group Holdings Limited	9	-	-	-	-	-	-
Total transactions with owner		**-**	**-**	**-**	**-**	**-**	**-**
Balance as at 31 December 2020		**553,239**	**4,286**	**171**	**(3,442)**	**79,339**	**633,593**

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

Consolidated Interim Statement of Changes in Equity (Continued)

For the six months ended 31 December 2021

$000's	Note	Share Capital	Fair Value Reserve	Defined Benefit Reserve	Cash Flow Hedge Reserve	Retained Earnings	Total Equity
Audited - June 2021							
Balance as at 1 July 2020		**553,239**	**5,324**	**171**	**(8,022)**	**46,325**	**597,037**
Total comprehensive income for the year							
Profit for the year		-	-	-	-	71,509	71,509
Other comprehensive (loss)/ income, net of income tax		-	(5,646)	-	8,928	-	3,282
Total comprehensive (loss)/ income for the year		**-**	**(5,646)**	**-**	**8,928**	**71,509**	**74,791**
Contributions by and distributions to owner							
Dividend to Heartland Group Holdings Limited	9	-	-	-	-	(30,000)	(30,000)
Total transactions with owner		**-**	**-**	**-**	**-**	**(30,000)**	**(30,000)**
Balance as at 30 June 2021		**553,239**	**(322)**	**171**	**906**	**87,834**	**641,828**

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

Consolidated Interim Statement of Financial Position

As at 31 December 2021

$000's	Note	Unaudited December 2021	Unaudited December 2020	Audited June 2021
Assets				
Cash and cash equivalents		137,937	104,965	112,903
Investments		297,316	451,159	358,975
Investment properties		11,832	11,132	11,832
Derivative financial instruments		21,540	15,023	14,111
Due from related parties	10	1,345	259	146
Finance receivables	7	3,470,003	3,042,378	3,213,593
Finance receivables - reverse mortgages	7	648,865	622,137	601,505
Operating lease vehicles		13,009	12,712	10,865
Right of use assets		14,609	16,779	15,654
Other assets		14,536	14,257	14,822
Intangible assets		57,353	52,181	52,831
Deferred tax asset		14,595	14,890	12,251
Total assets		**4,702,940**	**4,357,872**	**4,419,488**
Liabilities				
Retail deposits	8	3,336,509	3,271,109	3,219,522
Other borrowings	8	622,336	389,589	502,885
Due to related parties	10	688	9,399	3,210
Lease liabilities		16,703	18,878	17,780
Tax liabilities		6,211	5,341	7,556
Derivative financial instruments		3,400	12,390	4,789
Trade and other payables		34,019	17,573	21,918
Total liabilities		**4,019,866**	**3,724,279**	**3,777,660**
Equity				
Share capital	9	553,239	553,239	553,239
Retained earnings and other reserves		129,835	80,354	88,589
Total equity		**683,074**	**633,593**	**641,828**
Total equity and liabilities		**4,702,940**	**4,357,872**	**4,419,488**

Total interest earning and discount bearing assets		4,481,311	4,204,727	4,215,116
Total interest and discount bearing liabilities		3,942,304	3,641,406	3,704,130

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

Consolidated Interim Statement of Cash Flows

For the six months ended 31 December 2021

$000's	Note	Unaudited 6 Months to December 2021	Unaudited 6 Months to December 2020	Audited 12 Months to June 2021
Cash flows from operating activities				
Interest received		113,807	122,874	236,081
Operating lease income received		1,807	1,480	5,046
Lending, credit fees and other income received		4,881	6,914	8,431
Operating inflows		**120,495**	**131,268**	**249,558**
Interest paid		(36,697)	(46,659)	(88,635)
Payments to suppliers and employees		(30,021)	(48,024)	(86,261)
Taxation paid		(18,283)	(19,759)	(27,518)
Operating outflows		**(85,001)**	**(114,442)**	**(202,414)**
Net cash flows from operating activities before changes in operating assets and liabilities		**35,494**	**16,826**	**47,144**
Proceeds from sale of operating lease vehicles		3,023	5,584	6,821
Purchase of operating lease vehicles		(6,016)	(1,594)	(1,788)
Net movement in finance receivables		(292,843)	3,840	(136,202)
Net movement in deposits		117,139	5,071	(43,587)
Net movement in related party balances		(3,721)	2,677	(3,399)
Net cash flows (applied to)/from operating activities[1]		**(146,924)**	**32,404**	**(131,011)**
Cash flows from investing activities				
Purchase of property, plant and equipment and intangible assets		(7,676)	(3,954)	(6,520)
Net decrease/(increase) in investments		54,988	(62,876)	24,215
Total cash from/(applied to) investing activities		**47,312**	**(66,830)**	**17,695**
Net cash flows from/(applied to) investing activities		**47,312**	**(66,830)**	**17,695**
Cash flows from financing activities				
Net increase in wholesale funding		125,740	34,219	152,783
Total cash provided from financing activities		**125,740**	**34,219**	**152,783**
Dividends paid	9	-	-	(30,000)
Payment of lease liabilities		(1,094)	(291)	(2,027)
Total cash (applied to) financing activities		**(1,094)**	**(291)**	**(32,027)**
Net cash flows from financing activities		**124,646**	**33,928**	**120,756**
Net increase in cash held		**25,034**	**(498)**	**7,440**
Opening cash and cash equivalents		112,903	105,463	105,463
Closing cash and cash equivalents		**137,937**	**104,965**	**112,903**

[1]Cash flows from operating activities do not include cash flows from wholesale funding which are included as part of financing activities.

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

Consolidated Interim Statement of Cash Flows (Continued)

For the six months ended 31 December 2021

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

$000's	Note	Unaudited 6 Months to December 2021	Unaudited 6 Months to December 2020	Audited 12 Months to June 2021
Profit for the period		**40,983**	**33,014**	**71,509**
Add / (less) non-cash items:				
Depreciation and amortisation expense		5,429	9,311	14,293
Depreciation on lease vehicles		1,429	1,436	2,801
Capitalised net interest income and fee income		(19,149)	(18,481)	(34,555)
Impaired asset expense	6	8,540	4,538	14,579
Investment fair value movement		315	-	(215)
Other non-cash items		(8,242)	(7,205)	(23,210)
Total non-cash items		**(11,678)**	**(10,401)**	**(26,307)**
Add / (less) movements in operating assets and liabilities:				
Finance receivables		(292,843)	3,840	(136,202)
Operating lease vehicles		(2,993)	3,990	5,033
Other assets		(2,126)	2,914	2,884
Current tax		(1,345)	(5,930)	(3,715)
Derivative financial instruments		(2,199)	2,219	(122)
Deferred tax		(2,344)	437	3,076
Deposits		117,139	5,071	(43,587)
Other liabilities		10,482	(2,750)	(3,580)
Total movements in operating assets and liabilities		**(176,229)**	**9,791**	**(176,213)**
Net cash flows applied to operating activities[1]		**(146,924)**	**32,404**	**(131,011)**

[1]Cash flows from operating activities do not include cash flows from wholesale funding which are included as part of financing activities.

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

Notes to the Interim Financial Statements

For the six months ended 31 December 2021

1 Interim financial statements preparation

Basis of preparation

The interim financial statements presented are the consolidated interim financial statements comprising Heartland Bank Limited (the **Bank** or **HBL**) and its subsidiaries (the **Banking Group).** They have been prepared in accordance with Generally Accepted Accounting Practices in New Zealand (**NZ GAAP**) as defined in the Financial Reporting Act 2013. These consolidated interim financial statements comply with NZ IAS 34 Interim Financial Reporting as appropriate for publicly accountable for-profit entities and NZ IAS 34 Interim Financial Reporting.

The Disclosure Statement does not include all notes of the type normally included in an annual financial report. Accordingly this report is to be read in conjunction with the Disclosure Statement for the year ended 30 June 2021 and any public announcements made by the Bank during the interim reporting period.

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

- 6 month period ended 31 December 2021 – Unaudited
- 6 month period ended 31 December 2020 – Unaudited
- 12 month period ended 30 June 2021 – Audited

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

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

Change in accounting policy

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

Accounting standards issued not yet effective

The final version of NZ IFRS 17 Insurance Contracts was issued in August 2017 and is applicable to general and life insurance contracts. The standard will be effective for the Banking Group's reporting for the financial year ending 30 June 2024, including 30 June 2023 comparatives.

MARAC Insurance Limited (**MIL**), a subsidiary of HBL, ceased writing insurance policies in 2020 with the periodic policies expected to expire in 2025.

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

1 Interim financial statements preparation (continued)

Estimates and judgements

There have been no material changes to the use of estimates and judgements for the preparation of the interim financial statements since the reporting date of the previous financial statements. The Banking Group's Disclosure Statement for the year ended 30 June 2021 contain detail on the estimates and judgements used.

Covid-19 pandemic - impact on estimates and judgements

The COVID-19 pandemic resulted in the Banking Group adopting an economic overlay for expected credit losses (**ECL**) to its portfolios as at 30 June 2020 of pre-tax $9.6 million in response to the uncertain but potential economic impact of COVID-19 on HBL's borrowers (COVID Overlay). The COVID Overlay was sized based on a range of techniques including stress testing, benchmarking, scenario analysis and expert judgement.

To date, the impact of COVID-19 on HBL's borrowers has been more benign than was initially forecast, and the COVID Overlay has not been utilised. However, the continued prevalence of COVID-19 and other countries (including the emergence of new variants), together with vaccination rates and border closures provides an ongoing risk of further economic disruption in New Zealand. This may impact borrowers with the potential for further inflationary pressures, increased interest rates and expected higher employment costs resulting from a restricted supply of labour.

With the uncertainties associated to the ongoing economic impacts of COVID-19, the COVID Overlay has been retained in full at this stage.

The accounting judgement that is most impacted by the COVID Overlay is the ECL on finance receivables at amortised cost. The Banking Group measures the allowance for ECL using an impairment model in compliance with NZ IFRS 9 Financial Instruments.

Performance

2 Segmental analysis

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

Operating segments

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

Motor	Motor vehicle finance.
Reverse mortgages	Reverse mortgage lending in New Zealand.
Personal Lending	Transactional, home loans and personal loans to individuals.
Business	Term debt, plant and equipment finance, commercial mortgage lending and working capital solutions for small-to-medium sized businesses.
Rural	Specialist financial services to the farming sector primarily offering livestock finance, rural mortgage lending, seasonal and working capital financing, as well as leasing solutions to farmers.

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

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

$000's	Motor	Reverse Mortgages	Personal Lending	Business	Rural	Other	Total
Unaudited - December 2021							
Net interest income	34,687	14,000	4,496	35,888	15,138	(195)	104,015
Net other income	1,703	1,289	726	1,408	365	2,936	8,426
Net operating income	**36,390**	**15,289**	**5,222**	**37,296**	**15,503**	**2,741**	**112,441**
Operating expenses	1,975	2,354	3,268	4,756	1,531	34,270	48,154
Profit/(loss) before impaired asset expense and income tax	**34,415**	**12,935**	**1,954**	**32,540**	**13,972**	**(31,529)**	**64,287**
Fair value (loss) on investment	-	-	-	-	-	(315)	(315)
Impaired asset expense	2,518	-	902	4,210	909	1	8,540
Profit/(loss) before income tax	**31,897**	**12,935**	**1,052**	**28,330**	**13,063**	**(31,845)**	**55,432**
Income tax expense	-	-	-	-	-	14,449	14,449
Profit/(loss) for the period	**31,897**	**12,935**	**1,052**	**28,330**	**13,063**	**(46,294)**	**40,983**
Total assets	**1,344,865**	**648,865**	**272,803**	**1,294,601**	**583,026**	**558,780**	**4,702,940**
Total liabilities							**4,019,866**

2 Segmental analysis (continued)

$000's	Motor	Reverse Mortgages	Personal Lending	Business	Rural	Other	Total
Unaudited - December 2020							
Net interest income	31,255	10,175	7,625	31,659	15,071	448	96,233
Net other income	1,717	1,018	1,137	1,343	460	1,839	7,514
Net operating income	**32,972**	**11,193**	**8,762**	**33,002**	**15,531**	**2,287**	**103,747**
Operating expenses	1,843	1,986	3,151	5,896	1,172	39,208	53,256
Profit/(loss) before impaired asset expense and income tax	**31,129**	**9,207**	**5,611**	**27,106**	**14,359**	**(36,921)**	**50,491**
Fair value gain on investments	-	-	-	-	-	-	-
Impaired asset expense/(benefit)	2,266	-	(793)	2,674	391	-	4,538
Profit/(loss) before income tax	**28,863**	**9,207**	**6,404**	**24,432**	**13,968**	**(36,921)**	**45,953**
Income tax expense	-	-	-	-	-	12,939	12,939
Profit/(loss) for the period	**28,863**	**9,207**	**6,404**	**24,432**	**13,968**	**(49,860)**	**33,014**
Total assets	**1,200,349**	**576,579**	**163,519**	**1,133,767**	**569,676**	**713,982**	**4,357,872**
Total liabilities							**3,724,279**
Audited - June 2021							
Net interest income	65,829	23,098	13,648	66,112	30,579	(457)	198,809
Net other income	3,343	2,369	2,767	2,963	1,581	1,983	15,006
Net operating income	**69,172**	**25,467**	**16,415**	**69,075**	**32,160**	**1,526**	**213,815**
Operating expenses	3,787	4,397	6,241	11,340	2,124	72,963	100,852
Profit/(loss) before impaired asset expense and income tax	**65,385**	**21,070**	**10,174**	**57,735**	**30,036**	**(71,437)**	**112,963**
Fair value gain on investments	-	-	-	-	-	215	215
Impaired asset expense	5,298	-	1,977	5,655	1,649	-	14,579
Profit/(loss) before income tax	**60,087**	**21,070**	**8,197**	**52,080**	**28,387**	**(71,222)**	**98,599**
Income tax expense	-	-	-	-	-	27,090	27,090
Profit/(loss) for the year	**60,087**	**21,070**	**8,197**	**52,080**	**28,387**	**(98,312)**	**71,509**
Total assets	**1,287,978**	**601,505**	**137,910**	**1,225,710**	**586,318**	**580,067**	**4,419,488**
Total liabilities							**3,777,660**

3 Net interest income

$000's	Unaudited 6 Months to December 2021	Unaudited 6 Months to December 2020	Audited 12 Months to June 2021
Interest income			
Cash and cash equivalents	149	45	117
Investments	2,782	3,635	6,979
Finance receivables	111,277	118,737	231,659
Finance receivables - reverse mortgages	17,864	17,458	33,807
Total interest income	**132,072**	**139,875**	**272,562**
Interest expense			
Retail deposits	18,741	33,495	55,295
Other borrowings	8,890	7,524	14,935
Net interest expense on derivative financial instruments	426	2,623	3,523
Total interest expense	**28,057**	**43,642**	**73,753**
Net interest income	**104,015**	**96,233**	**198,809**

4 Operating expenses

$000's	Unaudited 6 Months to December 2021	Unaudited 6 Months to December 2020	Audited 12 Months to June 2021
Personnel expenses	27,375	28,454	57,036
Directors' fees	288	338	676
Superannuation	517	467	979
Depreciation - property, plant and equipment	1,331	1,417	2,883
Legal and professional fees	709	941	2,110
Advertising and public relations	1,596	1,714	3,972
Depreciation - right of use asset	1,062	1,064	2,123
Technology services	4,597	3,256	6,908
Telecommunications, stationery and postage	722	799	1,610
Customer acquisition costs	1,212	961	2,123
Amortisation of intangible assets	3,036	6,830	9,285
Other operating expenses[1]	5,709	7,015	11,147
Total operating expenses	**48,154**	**53,256**	**100,852**

[1]Other operating expenses include compensation of auditor which is disclosed in Note 5 - Compensation of auditor.

5 Compensation of auditor

$000's	Unaudited 6 Months to December 2021	Unaudited 6 Months to December 2020	Audited 12 Months to June 2021
Audit and review of the financial statements[1]	295	374	599
Other assurance services paid to auditor [2]	10	10	20
Total compensation of auditor	**305**	**384**	**619**

[1] Audit and review of the financial statements includes fees paid for both the audit of the annual financial statements and review of interim financial statements.

[2] Other assurance related services paid to the auditor comprise regulatory assurance services, supervisor reporting, registry audits and other agreed upon procedure engagements.

6 Impaired asset expense

At each reporting date, the Banking Group applies a three stage approach to measuring expected credit loss (**ECL**) to finance receivables not carried at fair value. The following table details impairment charges of those finance receivables for the six months ended 31 December 2021.

$000's	Unaudited 6 Months to December 2021	Unaudited 6 Months to December 2020	Audited 12 Months to June 2021
Non-securitised			
Individually impaired asset expense	6,266	3,414	9,131
Collectively impaired asset expense	1,882	1,099	5,606
Total non-securitised impaired asset expense	**8,148**	**4,513**	**14,737**
Securitised			
Collectively impaired asset expense	392	25	(158)
Total securitised impaired asset expense	**392**	**25**	**(158)**
Total			
Individually impaired asset expense	6,266	3,414	9,131
Collectively impaired asset expense	2,274	1,124	5,448
Total impaired asset expense	**8,540**	**4,538**	**14,579**

Financial Position

7 Finance receivables

(a) Finance receivables held at amortised cost

$000's	Unaudited December 2021	Unaudited December 2020	Audited June 2021
Non-securitised			
Neither at least 90 days past due nor impaired - at amortised cost	3,145,180	2,938,694	3,063,258
At least 90 days past due - at amortised cost	38,158	45,761	36,602
Individually impaired - at amortised cost	63,965	33,667	38,143
Gross finance receivables	**3,247,303**	**3,018,122**	**3,138,003**
Less provision for impairment	(50,582)	(55,415)	(50,809)
Total non-securitised finance receivables	**3,196,721**	**2,962,707**	**3,087,194**
Securitised			
Neither at least 90 days past due nor impaired - at amortised cost	273,650	79,645	126,638
At least 90 days past due - at amortised cost	263	448	-
Gross finance receivables	**273,913**	**80,093**	**126,638**
Less provision for impairment	(631)	(422)	(239)
Total securitised finance receivables	**273,282**	**79,671**	**126,399**
Total			
Neither at least 90 days past due nor impaired - at amortised cost	3,418,830	3,018,339	3,189,896
At least 90 days past due - at amortised cost	38,421	46,209	36,602
Individually impaired - at amortised cost	63,965	33,667	38,143
Gross finance receivables	**3,521,216**	**3,098,215**	**3,264,641**
Less provision for impairment	(51,213)	(55,837)	(51,048)
Total finance receivables	**3,470,003**	**3,042,378**	**3,213,593**

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

Movement in provision

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

7 Finance receivables (continued)

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

Movement in provision (continued)

$000's	12 - Month ECL	Lifetime ECL Not Credit Impaired	Lifetime ECL Credit Impaired	Specific Provision	Total
Unaudited - December 2021					
Non-securitised					
Impairment allowance as at 30 June 2021	**24,216**	**2,334**	**16,630**	**7,629**	**50,809**
Changes in loss allowance					
Transfer between stages	(2,278)	(1,086)	653	2,711	-
New and increased provision (net of collective provision releases)	(623)	360	6,121	3,555	9,413
Recovery of amounts written off	-	-	(1,265)	-	(1,265)
Credit impairment charge	**(2,901)**	**(726)**	**5,509**	**6,266**	**8,148**
Recovery of amounts previously written off	-	-	1,265	-	1,265
Write offs	-	-	(8,421)	(1,219)	(9,640)
Effect of changes in foreign exchange rate	-	-	-	-	-
Acquisition of portfolio	-	-	-	-	-
Sale of portfolio	-	-	-	-	-
Impairment allowance as at 31 December 2021	**21,315**	**1,608**	**14,983**	**12,676**	**50,582**
Securitised					
Impairment allowance as at 30 June 2021	**216**	**22**	**1**	**-**	**239**
Changes in loss allowance					
Transfer between stages	(2)	(27)	29	-	-
New and increased provision (net of collective provision releases)	231	77	84	-	392
Recovery of amounts written off	-	-	-	-	-
Credit impairment charge	**229**	**50**	**113**	**-**	**392**
Recovery of amounts previously written off	-	-	-	-	-
Write offs	-	-	-	-	-
Effect of changes in foreign exchange rate	-	-	-	-	-
Acquisition of portfolio	-	-	-	-	-
Sale of portfolio	-	-	-	-	-
Impairment allowance as at 31 December 2021	**445**	**72**	**114**	**-**	**631**
Total					
Impairment allowance as at 30 June 2021	**24,432**	**2,356**	**16,631**	**7,629**	**51,048**
Changes in loss allowance					
Transfer between stages	(2,280)	(1,113)	682	2,711	-
New and increased provision (net of collective provision releases)	(392)	437	6,205	3,555	9,805
Recovery of amounts written off	-	-	(1,265)	-	(1,265)
Credit impairment charge	**(2,672)**	**(676)**	**5,622**	**6,266**	**8,540**
Recovery of amounts previously written off	-	-	1,265	-	1,265
Write offs	-	-	(8,421)	(1,219)	(9,640)
Effect of changes in foreign exchange rate	-	-	-	-	-
Acquisition of portfolio	-	-	-	-	-
Sale of portfolio	-	-	-	-	-
Impairment allowance as at 31 December 2021	**21,760**	**1,680**	**15,097**	**12,676**	**51,213**

7 Finance receivables (continued)

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

Movement in provision (continued)

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

7 Finance receivables (continued)

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

Movement in provision (continued)

$000's	12 - Month ECL	Lifetime ECL Not Credit Impaired	Lifetime ECL Credit Impaired	Specific Provision	Total
Audited - 30 June 2021					
Non-securitised					
Impairment allowance as at 30 June 2020	**32,160**	**2,144**	**22,667**	**5,301**	**62,272**
Changes in loss allowance					
Transfer between stages	(2,466)	(1,081)	(50)	3,597	-
New and increased provision (net of collective provision releases)	(3,495)	1,309	13,295	6,034	17,143
Recovery of amounts written off	-	-	(2,406)	-	(2,406)
Credit impairment charge	**(5,961)**	**228**	**10,839**	**9,631**	**14,737**
Recovery of amounts previously written off	-	-	2,406	-	2,406
Write offs	-	-	(19,291)	(7,303)	(26,594)
Effect of changes in foreign exchange rate	(33)	2	6	-	(25)
Acquisition of portfolio	133	22	188	-	343
Sale of portfolio	(2,083)	(62)	(185)	-	(2,330)
Impairment allowance as at 30 June 2021	**24,216**	**2,334**	**16,630**	**7,629**	**50,809**
Securitised					
Impairment allowance as at 30 June 2020	**260**	**23**	**114**	**-**	**397**
Changes in loss allowance					
Transfer between stages	(4)	(3)	7	-	-
New and increased provision (net of collective provision releases)	(40)	2	(120)	-	(158)
Recovery of amounts written off	-	-	-	-	-
Credit impairment charge	**(44)**	**(1)**	**(113)**	**-**	**(158)**
Recovery of amounts previously written off	-	-	-	-	-
Write offs	-	-	-	-	-
Effect of changes in foreign exchange rate	-	-	-	-	-
Acquisition of portfolio	-	-	-	-	-
Sale of portfolio	-	-	-	-	-
Impairment allowance as at 30 June 2021	**216**	**22**	**1**	**-**	**239**
Total					
Impairment allowance as at 30 June 2020	**32,420**	**2,167**	**22,781**	**5,301**	**62,669**
Changes in loss allowance					
Transfer between stages	(2,470)	(1,084)	(43)	3,597	-
New and increased provision (net of collective provision releases)	(3,535)	1,311	13,175	6,034	16,985
Recovery of amounts written off	-	-	(2,406)	-	(2,406)
Credit impairment charge	**(6,005)**	**227**	**10,726**	**9,631**	**14,579**
Recovery of amounts previously written off	-	-	2,406	-	2,406
Write offs	-	-	(19,291)	(7,303)	(26,594)
Effect of changes in foreign exchange rate	(33)	2	6	-	(25)
Acquisition of portfolio	133	22	188	-	343
Sale of portfolio	(2,083)	(62)	(185)	-	(2,330)
Impairment allowance as at 30 June 2021	**24,432**	**2,356**	**16,631**	**7,629**	**51,048**

7 Finance receivables (continued)

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

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

$000's	12 - Month ECL	Lifetime ECL Not Credit Impaired	Lifetime ECL Credit Impaired	Specific Provision	Total
Unaudited - December 2021					
Gross finance receivables as at 30 June 2021	**3,016,571**	**164,728**	**45,199**	**38,143**	**3,264,641**
Transfer between stages	(46,346)	(12,348)	19,326	39,368	-
Additions	896,211	-	-	906	897,117
Deletions	(575,509)	(34,581)	(8,083)	(13,091)	(631,264)
Write offs	-	-	(7,917)	(1,361)	(9,278)
Gross finance receivables as at 31 December 2021	**3,290,927**	**117,799**	**48,525**	**63,965**	**3,521,216**
Unaudited - December 2020					
Gross finance receivables as at 30 June 2020	**2,825,973**	**183,260**	**73,729**	**24,667**	**3,107,629**
Transfer between stages	(50,423)	31,814	3,841	14,768	-
Additions	796,845	-	-	-	796,845
Deletions	(733,321)	(36,470)	(19,081)	(3,233)	(792,105)
Write offs	-	-	(11,619)	(2,535)	(14,154)
Gross finance receivables as at 31 December 2020	**2,839,074**	**178,604**	**46,870**	**33,667**	**3,098,215**
Audited - June 2021					
Gross finance receivables as at 30 June 2020	**2,825,973**	**183,260**	**73,729**	**24,667**	**3,107,629**
Transfer between stages	(102,624)	67,219	12,906	22,499	-
Additions	1,421,835	-	-	955	1,422,790
Deletions	(1,128,613)	(85,751)	(20,815)	(466)	(1,235,645)
Write offs	-	-	(20,621)	(9,512)	(30,133)
Gross finance receivables as at 30 June 2021	**3,016,571**	**164,728**	**45,199**	**38,143**	**3,264,641**

(b) Finance receivables held at fair value

$000's	Unaudited December 2021	Unaudited December 2020	Audited June 2021
Finance receivables - reverse mortgages	648,865	622,137	601,505
Total finance receivables - reverse mortgages	648,865	622,137	601,505

8 Borrowings

$000's	Unaudited December 2021	Unaudited December 2020	Audited June 2021
Deposits	3,336,509	3,271,109	3,219,522
Total borrowings related to deposits	**3,336,509**	**3,271,109**	**3,219,522**
Unsubordinated notes	277,959	289,786	284,517
Securitised borrowings	234,739	31,889	108,150
Certificate of deposit	109,638	-	69,853
Repurchase agreement	-	67,914	40,365
Total other borrowings	**622,336**	**389,589**	**502,885**

8 Borrowings (continued)

Deposits and unsubordinated notes rank equally and are unsecured.

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

Principal	Valuation	Issue Date	Maturity Date	Frequency of Interest Repayment
$125 million	Amortised cost	12 April 2019	12 April 2024	Half yearly
$150 million	Amortised cost	21 September 2017	21 September 2022	Half yearly

At 31 December 2021 the Banking Group had the following securitised borrowings outstanding:

- Heartland Auto Receivables Warehouse Trust 2018 - 1 securitisation facility $400 million, drawn $235 million (December 2020: limit $300 million, drawn $68 million; June 2021: limit $300 million, drawn $108 million). Securitised borrowings held by investors are secured over the motor loan assets of the Heartland Auto Receivables Warehouse Trust 2018-1. The facility has a maturity date of 29 August 2023.

9 Share capital and dividends

000's	Unaudited December 2021 Number of Shares	Unaudited December 2020 Number of Shares	Audited June 2021 Number of Shares
Issued shares			
Opening balance	565,430	565,430	565,430
Closing balance	**565,430**	**565,430**	**565,430**

There were no new shares issued during the period (December 2020: nil; June 2021: nil).

Dividends paid

	6 Months to December 2021			12 Months to June 2021		
	Date Declared	Cents Per Share	$000's	Date Declared	Cents Per Share	$000's
Dividend to Heartland Group Holdings Limited (**HGH**)	-	-	-	18 June 2021	-	30,000
Total dividends paid			**-**			**30,000**

10 Related party transactions and balances

(a) Transactions with key management personnel

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

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

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

$000's	Unaudited 6 Months to December 2021	Unaudited 6 Months to December 2020	Audited 12 Months to June 2021
Transactions with key management personnel			
Interest income	15	26	39
Interest expense	(24)	(8)	(22)
Net transactions with key management personnel	**(9)**	**18**	**17**
Due from/(to) key management personnel			
Lending	296	574	415
Borrowings - deposits	(1,425)	(1,778)	(23,409)
Net due (to) key management personnel	**(1,129)**	**(1,204)**	**(22,994)**

(b) Transactions with related parties

The Banking Group's ultimate parent company is HGH.

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

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

$000's	Unaudited 6 Months to December 2021	Unaudited 6 Months to December 2020	Audited 12 Months to June 2021
Heartland Group Holdings Limited			
Interest expense	32	8	21
Deposits/(withdrawals)	(32,000)	(2,500)	31,000
Dividends paid to HGH	-	-	30,000
Management fees to HGH	4,298	8,817	15,785
Management fees from HGH	1,153	601	1,149
Heartland Australia Group Pty Limited (HAG)			
Sale of Spotcap facility	-	-	28,049
Sale of Harmoney Australia Fund	-	-	40,996

10 Related party transactions and balances (continued)

(b) Transactions with related parties (continued)

$000's	Unaudited 6 Months to December 2021	Unaudited 6 Months to December 2020	Audited 12 Months to June 2021
Australian Seniors Finance Pty Limited (ASF)			
Management fees to ASF	-	3	4
Management fees from ASF	1,614	680	1,707
ASF Settlement Trust			
Sale of Australian dollar reverse mortgage loan book	-	-	45,971
Southern Cross Building Society Staff Superannuation (SCBS)			
Interest expense	4	8	12
Management fees from SCBS	5	5	10

(c) Due from/to related parties

$000's	Unaudited December 2021	Unaudited December 2020	Audited June 2021
Due from			
Australian Seniors Finance Pty Limited	1,334	254	146
ASF Settlement Trust	-	5	-
Heartland Australia Group Pty Limited	11	-	-
Total due from related parties	**1,345**	**259**	**146**
Due to			
Heartland Group Holdings Limited	688	7,487	3,210
ASF Settlement Trust	-	-	197
Heartland Australia Group Pty Ltd	-	1,912	1,959
Total due to related parties	**688**	**9,399**	**3,210**

(d) Other balances with related parties

$000's	Unaudited December 2021	Unaudited December 2020	Audited June 2021
Heartland Group Holdings Limited			
Retail deposits owing to HGH	4,100	2,555	36,068
Southern Cross Building Society Staff Superannuation			
Retail deposits owing to SCBS	1,704	1,871	1,760

11 Fair value

(a) Financial instruments measured at fair value

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

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

Investments

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

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

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

Finance receivables - reverse mortgages

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

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

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

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

11 Fair value (continued)

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

Finance receivables - reverse mortgages (continued)

At balance date the Banking Group does not consider any of the above expectations to have moved outside of the original expectation range. Therefore, the Banking Group has continued to estimate the fair value of the portfolio at transaction price. There has been no fair value movement recognised in profit or loss during the period. Fair value is not highly sensitive to the above assumptions due to the nature of reverse mortgage loans. In particular, given conservative origination loan-to-value ratio criteria, a material deterioration in house prices combined with a material increase in interest rates over a sustained period of time would likely need to occur before any potential impact to fair value. While noting the significant uncertainty around future economic conditions, based on current judgment there is no evidence that COVID-19 has impacted or will have a long-term adverse impact on market conditions, particularly regarding the key elements of house prices or interest rates, that would materially influence the fair value of the reverse mortgage portfolio at balance date.

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

Derivative financial instruments

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

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

11 Fair value (continued)

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

$000's	Level 1	Level 2	Level 3	Total
Unaudited - December 2021				
Assets				
Investments	229,452	61,745	1,503	292,700
Investment properties	-	-	11,832	11,832
Derivative financial instruments	-	21,540	-	21,540
Finance receivables - reverse mortgages	-	-	648,865	648,865
Total financial assets measured at fair value	**229,452**	**83,285**	**662,200**	**974,937**
Liabilities				
Derivative financial instruments	-	3,400	-	3,400
Total financial liabilities measured at fair value	**-**	**3,400**	**-**	**3,400**
Unaudited - December 2020				
Assets				
Investments	328,620	112,831	2,303	443,754
Investment properties	-	-	11,132	11,132
Derivative financial instruments	-	15,023	-	15,023
Finance receivables - reverse mortgages	-	-	622,137	622,137
Total financial assets measured at fair value	**328,620**	**127,854**	**635,572**	**1,092,046**
Liabilities				
Derivative financial instruments	-	12,390	-	12,390
Total financial liabilities measured at fair value	**-**	**12,390**	**-**	**12,390**
Audited - June 2021				
Assets				
Investments	259,041	92,476	1,818	353,335
Investment properties	-	-	11,832	11,832
Derivative financial instruments	-	14,111	-	14,111
Finance receivables - reverse mortgages	-	-	601,505	601,505
Total financial assets measured at fair value	**259,041**	**106,587**	**615,155**	**980,783**
Liabilities				
Derivative financial instruments	-	4,789	-	4,789
Total financial liabilities measured at fair value	**-**	**4,789**	**-**	**4,789**

There were no transfers between any fair value hierarchy levels in the six months ended 31 December 2021 (December 2020: nil; June 2021: nil).

11 Fair value (continued)

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

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

$000's	Finance Receivables - Reverse Mortgage	Investments	Investment Properties	Total
Unaudited - December 2021				
As at 30 June 2021	601,505	1,818	11,832	615,155
New loans	74,530	-	-	74,530
Repayments	(46,330)	-	-	(46,330)
Capitalised interest and fees	19,149	-	-	19,149
Fair value (loss) on investments	-	(315)	-	(315)
Other	11	-	-	11
As at 31 December 2021	**648,865**	**1,503**	**11,832**	**662,200**
Unaudited - December 2020				
As at 30 June 2020	609,346	2,303	11,132	622,781
New loans	43,840	-	-	43,840
Repayments	(49,461)	-	-	(49,461)
Capitalised interest and fees	18,481	-	-	18,481
Fair value (loss) on investments	-	-	-	-
Other	(69)	-	-	(69)
As at 31 December 2020	**622,137**	**2,303**	**11,132**	**635,572**
Audited - June 2021				
As at 30 June 2020	609,346	2,303	11,132	622,781
New loans	99,510	-	-	99,510
Repayments	(97,577)	-	-	(97,577)
Capitalised interest and fees	35,775	-	-	35,775
Fair value (loss)/gain on investments	-	(485)	700	215
Disposal	(45,650)	-	-	(45,650)
Other	101	-	-	101
As at 30 June 2021	**601,505**	**1,818**	**11,832**	**615,155**

11 Fair value (continued)

(b) Financial instruments not measured at fair value

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

		Unaudited December 2021		Unaudited December 2020		Audited June 2021	
$000's	**Fair Value Hierarchy**	**Total Fair Value**	**Total Carrying Value**	**Total Fair Value**	**Total Carrying Value**	**Total Fair Value**	**Total Carrying Value**
Assets							
Cash and cash equivalents	Level 1	137,937	137,937	104,965	104,965	112,903	112,903
Investments[1]	Level 2	4,615	4,616	7,413	7,405	5,640	5,639
Finance receivables	Level 3	3,506,207	3,470,003	3,062,211	3,042,378	3,283,159	3,213,593
Due from related parties	Level 3	1,345	1,345	259	259	146	146
Other financial assets	Level 3	2,282	2,282	402	402	1,684	1,684
Total financial assets		**3,652,386**	**3,616,183**	**3,175,250**	**3,155,409**	**3,403,532**	**3,333,965**
Liabilities							
Retail deposits	Level 2	3,338,767	3,336,509	3,290,041	3,271,109	3,228,791	3,219,522
Borrowings - securitised	Level 2	234,739	234,739	67,914	67,914	108,150	108,150
Other borrowings	Level 2	387,597	387,597	321,675	321,675	394,735	394,735
Due to related parties	Level 3	688	688	9,399	9,399	3,210	3,210
Other financial liabilities	Level 3	27,670	27,670	11,749	11,749	16,663	16,663
Total financial liabilities		**3,989,461**	**3,987,203**	**3,700,778**	**3,681,846**	**3,751,549**	**3,742,280**

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

Risk Management

12 Enterprise risk management program

There have been no material changes in the Banking Group's policies for managing risk, or material exposures to any new types of risk since the reporting date of the previous Disclosure Statement. Refer to the Bank's Disclosure Statement for the year ended 30 June 2021 for the detailed policies.

13 Credit risk exposure

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

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

$000's	Unaudited December 2021	Unaudited December 2020	Audited June 2021
On balance sheet:			
Cash and cash equivalents	137,937	104,965	112,903
Investments	295,813	448,856	357,157
Finance receivables	3,470,003	3,042,378	3,213,593
Finance receivables - reverse mortgages	648,865	622,137	601,505
Derivative financial assets	21,540	15,023	14,111
Due from related parties	1,345	259	146
Other financial assets	2,282	402	1,684
Total on balance sheet credit exposures	**4,577,785**	**4,234,020**	**4,301,099**
Off balance sheet:			
Letters of credit, guarantee commitments and performance bonds	7,217	6,145	13,484
Undrawn facilities available to customers	254,174	186,602	208,855
Conditional commitments to fund at future dates	21,646	24,570	19,083
Total off balance sheet credit exposures	**283,037**	**217,317**	**241,422**
Total credit exposures	**4,860,822**	**4,451,337**	**4,542,521**

As at 31 December 2021 there were no undrawn lending commitments available to counterparties for whom drawn balances are classified as individually impaired (December 2020: nil; June 2021: $0.216 million).

(b) Concentration of credit risk by geographic region

$000's	Unaudited December 2021	Unaudited December 2020	Audited June 2021
New Zealand	4,680,875	4,050,276	4,332,737
Australia	675	117,235	753
Rest of the world [1]	230,485	339,663	260,079
	4,912,035	**4,507,174**	**4,593,569**
Provision for impairment	(51,213)	(55,837)	(51,048)
Total credit exposures	**4,860,822**	**4,451,337**	**4,542,521**

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

13 Credit risk exposure (continued)

(c) Concentration of credit risk by industry sector

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

$000's	Unaudited December 2021	Unaudited December 2020	Audited June 2021
Agriculture	667,835	663,982	670,428
Forestry and fishing	149,561	149,126	153,160
Mining	14,217	12,076	12,684
Manufacturing	85,737	77,108	76,951
Finance and insurance	594,370	651,013	577,486
Wholesale trade	35,543	45,734	56,522
Retail trade and accommodation	338,163	265,798	279,388
Households	1,972,869	1,725,138	1,780,799
Other business services	172,647	146,811	148,011
Construction	304,593	213,273	241,668
Rental, hiring and real estate services	180,689	169,253	185,320
Transport and storage	311,068	277,926	297,920
Other	84,743	109,936	113,232
	4,912,035	**4,507,174**	**4,593,569**
Provision for impairment	(51,213)	(55,837)	(51,048)
Total credit exposures	**4,860,822**	**4,451,337**	**4,542,521**

(d) Credit exposure to individual counterparties

As at 31 December 2021 the Banking Group had one counterparty whose period end or peak end-of-day over the relevant six month period credit exposures is over 10% of equity to individual counterparties (not being members of groups of closely related counterparties) or groups of closely related counterparties (excluding central government of any country with a long-term credit rating of A- or A3 or above, or its equivalent, or any bank with a long-term credit rating of A- or A3 or above, or its equivalent, and connected persons).

The exposure information in the table below excludes exposures to connected persons, the central government or central bank of any country with a long term credit rating of A- or A3 or above, or its equivalent and any supranational or quasi-sovereign agency with a long-term credit rating of A- or A3 or above, or its equivalent.

	Number of Exposures As at December 2021	Number of Exposures Peak End-of-Day over 6 Months to December 2021
Exposures to banks		
With a long-term credit rating of A- or A3 or above, or its equivalent:		
10% to less than 15% of CET1 capital	-	-
15% to less than 20% of CET1 capital	-	-
20% to less than 25% of CET1 capital	1	1
With a long-term credit rating of at least BBB- or Baa3, or its equivalent, and at most BBB+ or Baa1, or its equivalent	-	-
Exposures to non-banks		
Total number of exposures to non-banks that are greater than 10% of CET1 capital	1	1
With a long-term credit rating of A- or A3 or above, or its equivalent:	-	-
With a long-term credit rating of at least BBB- or Baa3, or its equivalent, and at most BBB+ or Baa1, or its equivalent	-	-

14 Asset quality

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

Corporate Business lending including rural lending.

Residential Lending secured by a first ranking mortgage over a residential property used primarily for residential purposes either by the mortgagor or a tenant of the mortgagor.

All Other This relates primarily to consumer lending to individuals.

(a) Finance receivables by credit risk concentration

$000's	**Corporate**	**Residential**	**All Other**	**Total**
Unaudited - December 2021				
Neither at least 90 days past due nor impaired	2,115,876	874,682	1,077,137	4,067,695
At least 90 days past due	15,321	135	22,965	38,421
Individually impaired	63,757	9	199	63,965
Gross finance receivables	**2,194,954**	**874,826**	**1,100,301**	**4,170,081**
Provision for impairment	(32,511)	(88)	(18,614)	(51,213)
Total net finance receivables	**2,162,443**	**874,738**	**1,081,687**	**4,118,868**
Unaudited - December 2020				
Neither at least 90 days past due nor impaired	1,905,439	644,296	1,090,741	3,640,476
At least 90 days past due	22,087	138	23,984	46,209
Individually impaired	31,884	9	1,774	33,667
Gross finance receivables	**1,959,410**	**644,443**	**1,116,499**	**3,720,352**
Provision for impairment	(33,395)	(5)	(22,437)	(55,837)
Total net finance receivables	**1,926,015**	**644,438**	**1,094,062**	**3,664,515**
Audited - June 2021				
Neither at least 90 days past due nor impaired	2,054,020	663,891	1,073,490	3,791,401
At least 90 days past due	13,854	139	22,609	36,602
Individually impaired	37,561	9	573	38,143
Gross finance receivables	**2,105,435**	**664,039**	**1,096,672**	**3,866,146**
Provision for impairment	(30,277)	(88)	(20,683)	(51,048)
Total net finance receivables	**2,075,158**	**663,951**	**1,075,989**	**3,815,098**

14 Asset quality (continued)

(b) Past due but not impaired

$000's	Corporate	Residential	All Other	Total
Unaudited - December 2021				
Less than 30 days past due	6,120	356	5,365	11,841
At least 30 but less than 60 days past due	7,077	207	9,022	16,306
At least 60 but less than 90 days past due	2,999	-	4,455	7,454
At least 90 days past due	15,321	135	22,965	38,421
Total past due but not impaired	**31,517**	**698**	**41,807**	**74,022**
Unaudited - December 2020				
Less than 30 days past due	9,130	459	13,621	23,210
At least 30 but less than 60 days past due	12,102	380	9,805	22,287
At least 60 but less than 90 days past due	9,379	-	3,132	12,511
At least 90 days past due	22,087	138	23,984	46,209
Total past due but not impaired	**52,698**	**977**	**50,542**	**104,217**
Audited - June 2021				
Less than 30 days past due	6,882	357	8,330	15,569
At least 30 but less than 60 days past due	11,950	-	7,829	19,779
At least 60 but less than 90 days past due	4,429	-	3,798	8,227
At least 90 days past due	13,854	139	22,609	36,602
Total past due but not impaired	**37,115**	**496**	**42,566**	**80,177**

(c) Individually impaired assets

$000's	Corporate	Residential	All Other	Total
Unaudited - December 2021				
Opening	37,561	9	573	38,143
Additions	40,274	-	-	40,274
Deletions	(12,717)	-	(374)	(13,091)
Write offs	(1,361)	-	-	(1,361)
Closing gross individually impaired assets	**63,757**	**9**	**199**	**63,965**
Less: provision for individually impaired assets	12,675	-	1	12,676
Total net individually impaired assets	**51,082**	**9**	**198**	**51,289**
Unaudited - December 2020				
Opening	22,774	9	1,884	24,667
Additions	14,768	-	-	14,768
Deletions	(3,123)	-	(110)	(3,233)
Write offs	(2,535)	-	-	(2,535)
Closing gross individually impaired assets	**31,884**	**9**	**1,774**	**33,667**
Less: provision for individually impaired assets	6,234	-	-	6,234
Total net individually impaired assets	**25,650**	**9**	**1,774**	**39,901**
Audited - June 2021				
Opening	22,774	9	1,884	24,667
Additions	23,454	-	-	23,454
Deletions	-	-	(466)	(466)
Write offs	(8,667)	-	(845)	(9,512)
Closing gross individually impaired assets	**37,561**	**9**	**573**	**38,143**
Less: provision for individually impaired assets	7,629	-	-	7,629
Total net individually impaired assets	**29,932**	**9**	**573**	**30,514**

14 Asset quality (continued)

(d) Provision for impairment

$000's	12 Months ECL	Lifetime ECL Not Credit Impaired	Lifetime ECL Credit Impaired	Specific Provision	Total
Unaudited - December 2021					
Corporate					
Impairment allowance as at 30 June 2021	**16,586**	**1,214**	**4,848**	**7,629**	**30,277**
Changes in loss allowance					
Transfer between stages	(2,196)	(454)	(60)	2,710	-
New and increased provision (net of collective provision releases)	(137)	90	2,021	3,555	5,529
Recovery of amounts written off	-	-	(194)	-	(194)
Credit impairment charge	**(2,333)**	**(364)**	**1,767**	**6,265**	**5,335**
Recovery of amounts previously written off	-	-	194	-	194
Write offs	-	-	(2,076)	(1,219)	(3,295)
Impairment allowance as at 31 December 2021	**14,253**	**850**	**4,733**	**12,675**	**32,511**
Residential					
Impairment allowance as at 30 June 2021	**88**	**4**	**(4)**	**-**	**88**
Changes in loss allowance					
Transfer between stages	-	-	-	-	-
New and increased provision (net of collective provision releases)	1	(1)	-	-	-
Recovery of amounts written off	-	-	-	-	-
Credit impairment charge	**1**	**(1)**	**-**	**-**	**-**
Recovery of amounts previously written off	-	-	-	-	-
Write offs	-	-	-	-	-
Impairment allowance as at 31 December 2021	**89**	**3**	**(4)**	**-**	**88**
All Other					
Impairment allowance as at 30 June 2021	**7,758**	**1,138**	**11,787**	**-**	**20,683**
Changes in loss allowance					
Transfer between stages	(84)	(659)	742	1	-
New and increased provision (net of collective provision releases)	(256)	348	4,184	-	4,276
Recovery of amounts written off	-	-	(1,071)	-	(1,071)
Credit impairment charge	**(340)**	**(311)**	**3,855**	**1**	**3,205**
Recovery of amounts previously written off	-	-	1,071	-	1,071
Write offs	-	-	(6,345)	-	(6,345)
Impairment allowance as at 31 December 2021	**7,418**	**827**	**10,368**	**1**	**18,614**

14 Asset quality (continued)

(d) Provision for impairment (continued)

$000's	12 Months ECL	Lifetime ECL Not Credit Impaired	Lifetime ECL Credit Impaired	Specific Provision	Total
Unaudited - December 2021					
Total					
Impairment allowance as at 30 June 2021	**24,432**	**2,356**	**16,631**	**7,629**	**51,048**
Changes in loss allowance					
Transfer between stages	(2,280)	(1,113)	682	2,711	-
New and increased provision (net of collective provision releases)	(392)	437	6,205	3,555	9,805
Recovery of amounts written off	-	-	(1,265)	-	(1,265)
Credit impairment charge	**(2,672)**	**(676)**	**5,622**	**6,266**	**8,540**
Recovery of amounts previously written off	-	-	1,265	-	1,265
Write offs	-	-	(8,421)	(1,219)	(9,640)
Impairment allowance as at 31 December 2021	**21,760**	**1,680**	**15,097**	**12,676**	**51,213**

$000's	12 Months ECL	Lifetime ECL Not Credit Impaired	Lifetime ECL Credit Impaired	Specific Provision	Total
Unaudited - December 2020					
Corporate					
Impairment allowance as at 30 June 2020	**18,782**	**829**	**9,702**	**5,301**	**34,614**
Changes in loss allowance					
Transfer between stages	(671)	(232)	(199)	1,102	-
New and increased provision (net of collective provision releases)	963	923	208	2,312	4,406
Recovery of amounts written off	-	-	-	-	-
Credit impairment charge	**292**	**691**	**9**	**3,414**	**4,406**
Recovery of amounts previously written off	-	-	-	-	-
Write offs	-	-	(3,145)	(2,481)	(5,626)
Effect of changes in foreign exchange rate	-	1	-	-	1
Impairment allowance as at 31 December 2020	**19,074**	**1,521**	**6,566**	**6,234**	**33,395**
Residential					
Impairment allowance as at 30 June 2020	**10**	**1**	**(4)**	**-**	**7**
Changes in loss allowance					
Transfer between stages	1	-	(1)	-	-
New and increased provision (net of collective provision releases)	(3)	1	-	-	(2)
Recovery of amounts written off	-	-	-	-	-
Credit impairment charge	**(2)**	**1**	**(1)**	**-**	**(2)**
Recovery of amounts previously written off	-	-	-	-	-
Write offs	-	-	-	-	-
Effect of changes in foreign exchange rate	-	-	-	-	-
Impairment allowance as at 31 December 2020	**8**	**2**	**(5)**	**-**	**5**

14 Asset quality (continued)

(d) Provision for impairment (continued)

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

$000's	12 Months ECL	Lifetime ECL Not Credit Impaired	Lifetime ECL Credit Impaired	Specific Provision	Total
Audited - June 2021					
Corporate					
Impairment allowance as at 30 June 2020	**18,782**	**829**	**9,702**	**5,301**	**34,614**
Changes in loss allowance					
Transfer between stages	(2,239)	(422)	(936)	3,597	-
New and increased provision (net of collective provision releases)	93	807	1,364	6,034	8,298
Recovery of amounts written off	-	-	(380)	-	(380)
Credit impairment charge	**(2,146)**	**385**	**48**	**9,631**	**7,918**
Recovery of amounts previously written off	-	-	380	-	380
Write offs	-	-	(5,282)	(7,303)	(12,585)
Effect of changes in foreign exchange rate	-	-	-	-	-
Acquisition of portfolio	-	-	-	-	-
Sale of portfolio	(50)	-	-	-	(50)
Impairment allowance as at 30 June 2021	**16,586**	**1,214**	**4,848**	**7,629**	**30,277**

14 Asset quality (continued)

(d) Provision for impairment (continued)

$000's	12 Months ECL	Lifetime ECL Not Credit Impaired	Lifetime ECL Credit Impaired	Specific Provision	Total
Audited - June 2021					
Residential					
Impairment allowance as at 30 June 2020	**10**	**1**	**(4)**	**-**	**7**
Changes in loss allowance					
Transfer between stages	(1)	1	-	-	-
New and increased provision (net of collective provision releases)	79	2	-	-	81
Recovery of amounts written off	-	-	-	-	-
Credit impairment charge	**78**	**3**	**-**	**-**	**81**
Recovery of amounts previously written off	-	-	-	-	-
Write offs	-	-	-	-	-
Effect of changes in foreign exchange rate	-	-	-	-	-
Acquisition of portfolio	-	-	-	-	-
Sale of portfolio	-	-	-	-	-
Impairment allowance as at 30 June 2021	**88**	**4**	**(4)**	-	**88**
All Other					
Impairment allowance as at 30 June 2020	**13,628**	**1,337**	**13,083**	**-**	**28,048**
Changes in loss allowance					
Transfer between stages	(230)	(663)	893	-	-
New and increased provision (net of collective provision releases)	(3,707)	502	11,811	-	8,606
Recovery of amounts written off	-	-	(2,026)	-	(2,026)
Credit impairment charge	**(3,937)**	**(161)**	**10,678**	**-**	**6,580**
Recovery of amounts previously written off	-	-	2,026	-	2,026
Write offs	-	-	(14,009)	-	(14,009)
Effect of changes in foreign exchange rate	(33)	2	6	-	(25)
Acquisition of portfolio	133	22	188	-	343
Sale of portfolio	(2,033)	(62)	(185)	-	(2,280)
Impairment allowance as at 30 June 2021	**7,758**	**1,138**	**11,787**	**-**	**20,683**
Total					
Impairment allowance as at 30 June 2020	**32,420**	**2,167**	**22,781**	**5,301**	**62,669**
Changes in loss allowance					
Transfer between stages	(2,470)	(1,084)	(43)	3,597	-
New and increased provision (net of collective provision releases)	(3,535)	1,311	13,175	6,034	16,985
Recovery of amounts written off	-	-	(2,406)	-	(2,406)
Credit impairment charge	**(6,005)**	**227**	**10,726**	**9,631**	**14,579**
Recovery of amounts previously written off	-	-	2,406	-	2,406
Write offs	-	-	(19,291)	(7,303)	(26,594)
Effect of changes in foreign exchange rate	(33)	2	6	-	(25)
Acquisition of portfolio	133	22	188	-	343
Sale of portfolio	(2,083)	(62)	(185)	-	(2,330)
Impairment allowance as at 30 June 2021	**24,432**	**2,356**	**16,631**	**7,629**	**51,048**

14 Asset quality (continued)

(e) Other assets under administration

Other assets under administration are any loans, not being individually impaired or 90 days or more past due, where the customer is in any form of voluntary or involuntary administration, including receivership, liquidation, bankruptcy or statutory management. As at 31 December 2021, the Banking Group had $1.0 million assets under administration (December 2020: $0.2 million, June 2021: $0.3 million).

15 Liquidity risk

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

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

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

Reserve Bank of New Zealand (RBNZ) facilities

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

From 26 May 2020, the RBNZ made available a Term Lending Facility (**TLF**) to offer loans for a fixed term of three years at the Official Cash Rate, with access to the funds linked to banks’ lending under the Business Finance Guarantee Scheme. On 25 May 2021, RBNZ announced to close TLF applications on 28 July 2021.

Additional stimulus provided through a Funding for Lending Programme also commenced in December 2020 designed to enable banks to provide low-cost lending to the customer.

The Banking Group holds the following liquid assets and committed funding sources for the purpose of managing liquidity risk:

$000's	Unaudited December 2021	Unaudited December 2020	Audited June 2021
Cash and cash equivalents	137,937	104,965	112,903
Investments	295,813	448,856	357,157
Undrawn committed bank facilities	165,261	232,086	191,850
Total liquidity	**599,011**	**785,907**	**661,910**

Contractual liquidity profile of financial liabilities

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

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

15 Liquidity risk (continued)

Contractual liquidity profile of financial liabilities (continued)

$000's	On Demand	0-6 Months	6-12 Months	1-2 Years	2-5 Years	5+ Years	Total
Unaudited - December 2021							
Non - derivative financial liabilities							
Retail deposits	851,280	1,776,648	568,895	105,741	54,417	-	3,356,981
Other borrowings	-	118,017	156,616	242,902	126,252	-	643,787
Due to related parties	-	688	-	-	-	-	688
Lease liabilities	-	1,320	1,327	2,685	7,320	5,990	18,642
Other financial liabilities	-	27,670	-	-	-	-	27,670
Total non - derivative financial liabilities	**851,280**	**1,924,343**	**726,838**	**351,328**	**187,989**	**5,990**	**4,047,768**
Derivative financial liabilities							
Inflows from derivatives	-	3,277	4,065	6,936	5,303	-	19,581
Outflows from derivatives	-	5,206	4,222	7,396	5,107	-	21,931
Total derivative financial liabilities	**-**	**1,929**	**157**	**460**	**(196)**	**-**	**2,350**
Undrawn facilities available to customers	254,174	-	-	-	-	-	254,174
Undrawn committed bank facilities	165,261	-	-	-	-	-	165,261
Unaudited - December 2020							
Non - derivative financial liabilities							
Retail deposits	997,322	1,382,593	554,159	275,364	94,526	-	3,303,964
Other borrowings	-	39,124	5,223	228,074	130,690	-	403,111
Due to related parties	-	9,399	-	-	-	-	9,399
Lease liabilities	-	1,304	1,319	2,668	7,928	8,139	21,358
Other financial liabilities	-	11,749	-	-	-	-	11,749
Total non - derivative financial liabilities	**997,322**	**1,444,169**	**560,701**	**506,106**	**233,144**	**8,139**	**3,749,581**
Derivative financial liabilities							
Inflows from derivatives	-	136,042	14,178	678	337	-	151,235
Outflows from derivatives	-	141,491	17,172	3,879	767	-	163,309
Total derivative financial liabilities	**-**	**5,449**	**2,994**	**3,201**	**430**	**-**	**12,074**
Undrawn facilities available to customers	186,602	-	-	-	-	-	186,602
Undrawn committed bank facilities	232,086	-	-	-	-	-	232,086
Audited - June 2021							
Financial liabilities							
Retail deposits	974,984	1,324,902	560,232	292,091	91,107	-	3,243,316
Other borrowings	-	116,944	6,468	264,639	128,489	-	516,540
Due to related parties	-	3,210	-	-	-	-	3,210
Lease liabilities	-	1,308	1,320	2,663	7,605	7,085	19,981
Other financial liabilities	-	16,663	-	-	-	-	16,663
Total financial liabilities	**974,984**	**1,463,027**	**568,020**	**559,393**	**227,201**	**7,085**	**3,799,710**
Derivative financial liabilities							
Inflows from derivatives	-	14,251	610	800	12	-	15,673
Outflows from derivatives	-	16,750	2,174	1,316	16	-	20,256
Total derivative financial liabilities	**-**	**2,499**	**1,564**	**516**	**4**	**-**	**4,583**
Undrawn facilities available to customers	208,855	-	-	-	-	-	208,855
Undrawn committed bank facilities	191,850	-	-	-	-	-	191,850

16 Interest rate risk

Contractual repricing analysis

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

$000's	0-3 Months	3-6 Months	6-12 Months	1-2 Years	2+ Years	Non-Interest Bearing	Total
Unaudited - December 2021							
Financial assets							
Cash and cash equivalents	137,936	-	-	-	-	1	137,937
Investments	22,884	1,101	-	120,826	151,003	1,502	297,316
Finance receivables	1,592,561	163,419	307,064	495,447	840,205	71,307	3,470,003
Finance receivables - reverse mortgages	648,865	-	-	-	-	-	648,865
Due from related parties	-	-	-	-	-	1,345	1,345
Derivative financial assets	-	-	-	-	-	21,540	21,540
Other financial assets	-	-	-	-	-	2,282	2,282
Total financial assets	**2,402,246**	**164,520**	**307,064**	**616,273**	**991,208**	**97,977**	**4,579,288**
Financial liabilities							
Retail deposits	1,874,853	730,076	561,848	102,537	50,654	16,541	3,336,509
Other borrowings	286,552	60,714	151,260	-	123,810	-	622,336
Derivative financial liabilities	-	-	-	-	-	3,400	3,400
Due to related parties	-	-	-	-	-	688	688
Lease liabilities	-	-	-	-	-	16,703	16,703
Other financial liabilities	-	-	-	-	-	27,670	27,670
Total financial liabilities	**2,161,405**	**790,790**	**713,108**	**102,537**	**174,464**	**65,002**	**4,007,306**
Effect of derivatives held for risk management	669,798	(67,794)	(8,974)	(295,757)	(297,273)	-	-
Net financial assets/(liabilities)	**910,639**	**(694,064)**	**(415,018)**	**217,979**	**519,471**	**32,975**	**571,982**
Unaudited - December 2020							
Financial assets							
Cash and cash equivalents	104,950	-	-	-	-	15	104,965
Investments	55,036	23,265	38,705	75,963	255,886	2,304	451,159
Finance receivables	1,481,401	134,370	286,777	469,999	656,238	13,593	3,042,378
Finance receivables - reverse mortgages	622,137	-	-	-	-	-	622,137
Due from related parties	-	-	-	-	-	259	259
Derivative financial assets	-	-	-	-	-	15,023	15,023
Other financial assets	-	-	-	-	-	402	402
Total financial assets	**2,263,524**	**157,635**	**325,482**	**545,962**	**912,124**	**31,596**	**4,236,323**
Financial liabilities							
Retail deposits	1,740,674	611,540	546,713	266,193	86,697	19,292	3,271,109
Other borrowings	101,694	987	-	156,063	130,845	-	389,589
Derivative financial liabilities	-	-	-	-	-	12,390	12,390
Due to related parties	-	-	-	-	-	9,399	9,399
Lease liabilities	-	-	-	-	-	18,878	18,878
Other financial liabilities	-	-	-	-	-	11,749	11,749
Total financial liabilities	**1,842,368**	**612,527**	**546,713**	**422,256**	**217,542**	**71,708**	**3,713,114**
Effect of derivatives held for risk management	463,422	(63,969)	(92,103)	(130,194)	(177,156)	-	-
Net financial assets/(liabilities)	**884,578**	**(518,861)**	**(313,334)**	**(6,488)**	**517,426**	**(40,112)**	**523,209**

16 Interest rate risk (continued)

Contractual repricing analysis (continued)

$000's	0-3 Months	3-6 Months	6-12 Months	1-2 Years	2+ Years	Non-Interest Bearing	Total
Audited - June 2021							
Financial assets							
Cash and cash equivalents	112,893	-	-	-	-	10	112,903
Investments	31,897	8,034	19,669	53,505	244,052	1,818	358,975
Due from related parties	-	-	-	-	-	146	146
Finance receivables	1,554,461	147,303	291,415	450,415	699,967	70,032	3,213,593
Finance receivables - reverse mortgages	601,505	-	-	-	-	-	601,505
Derivative financial assets	-	-	-	-	-	14,111	14,111
Other financial assets	-	-	-	-	-	1,068	1,068
Total financial assets	**2,300,756**	**155,337**	**311,084**	**503,920**	**944,019**	**87,185**	**4,302,301**
Financial liabilities							
Retail deposits	1,706,735	570,068	554,340	285,025	85,077	18,277	3,219,522
Other borrowings	170,364	50,837	-	153,751	127,933	-	502,885
Derivative financial liabilities	-	-	-	-	-	4,789	4,789
Due to related parties	-	-	-	-	-	3,210	3,210
Lease liabilities	-	-	-	-	-	17,780	17,780
Other financial liabilities	-	-	-	-	-	16,663	16,663
Total financial liabilities	**1,877,099**	**620,905**	**554,340**	**438,776**	**213,010**	**60,719**	**3,764,849**
Effect of derivatives held for risk management	474,010	(9,023)	(146,067)	(85,670)	(233,250)	-	-
Net financial assets/(liabilities)	**897,667**	**(474,591)**	**(389,323)**	**(20,526)**	**497,759**	**26,466**	**537,452**

17 Concentrations of funding

(a) Regulatory liquidity ratios

RBNZ requires banks to hold minimum amounts of liquid assets to help ensure that they are effectively managing their liquidity risks. The mismatch ratio is a measure of a bank's liquid assets, adjusted for contractual cash inflows and outflows during a 1-month or 1-week period of stress. It is expressed as a ratio over the bank's total funding. The Banking Group must maintain its 1-month and 1-week mismatch ratios above zero on a daily basis. The below 1-month and 1-week mismatch ratios are averaged over the quarter.

RBNZ requires banks to get a minimum amount of funding from stable sources called core funding. From 2 April 2020, the minimum amount of core funding was lowered from 75% to 50% of a bank's total loans. The Banking Group must maintain its core funding ratio above the regulatory minimum on a daily basis. The below measure of the core funding ratio is averaged over the quarter. The RBNZ intends to increase the minimum requirement back to 75% on 1 January 2022.

	Average for the 3 Months Ended 31 December 2021	**Average for the 3 Months Ended 30 September 2021**
One-week mismatch ratio	8.05	6.58
One-month mismatch ratio	9.07	7.60
Core funding ratio	91.66	92.38

(b) Concentration of funding by industry

$000's	**Unaudited December 2021**	**Unaudited December 2020**	**Audited June 2021**
Agriculture	102,123	100,885	102,107
Forestry and fishing	18,182	17,104	14,226
Mining	119	196	94
Manufacturing	14,645	9,046	11,592
Finance and insurance	842,073	631,235	769,757
Wholesale trade	10,354	18,463	11,218
Retail trade and accommodation	24,204	26,073	28,521
Households	2,474,259	2,362,870	2,322,514
Rental, hiring and real estate services	57,392	37,666	46,245
Construction	25,959	22,666	24,231
Other business services	61,446	64,029	58,334
Transport and storage	4,713	4,792	4,337
Other	45,417	75,887	44,714
	3,680,886	**3,370,912**	**3,437,890**
Unsubordinated Notes	277,959	289,786	284,517
Total borrowings	**3,958,845**	**3,660,698**	**3,722,407**

(c) Concentration of funding by geographical area

$000's	**Unaudited December 2021**	**Unaudited December 2020**	**Audited June 2021**
New Zealand	3,866,286	3,591,675	3,635,405
Overseas	92,559	69,023	87,002
Total borrowings	**3,958,845**	**3,660,698**	**3,722,407**

Other Disclosures

18 Structured entities

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

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

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

$000's	Unaudited December 2021	Unaudited December 2020	Audited June 2021
Deposits	151,830	167,147	153,244

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

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

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

$000's	Unaudited December 2021	Unaudited December 2020	Audited June 2021
Cash and cash equivalents	19,840	5,876	9,047
Finance receivables - motor	273,289	79,672	126,399
Other borrowings	(275,787)	(81,541)	(128,125)

19 Capital adequacy

The capital adequacy tables set out on the following pages summarise the composition of regulatory capital and the capital adequacy ratios for the Banking Group as at 31 December 2021.

Internal Capital Adequacy Assessment Process (ICAAP)
The Banking Group has an ICAAP which complies with the requirements set out in the "Guidelines on a Bank's Internal Capital Adequacy Assessment Process (**ICAAP**)" Part D of the Banking Prudential Requirements (**BPR**) documents: BPR100 and is in accordance with its Conditions of Registration.

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

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

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

19 Capital adequacy (continued)

(a) Capital

$000's	Unaudited December 2021
Tier 1 Capital	
CET1 capital	
Paid-up ordinary shares issued by the Banking Group plus related share premium	553,239
Retained earnings (net of appropriations)	128,817
Accumulated other comprehensive income and other disclosed reserves	1,018
Less deductions from CET1 capital	
Intangible assets	(57,368)
Deferred tax assets	(14,595)
Hedging reserve	(7,525)
Defined benefit superannuation fund assets	(715)
Total CET1 capital	**602,871**
AT1 capital	-
Total Tier 1 capital	**602,871**
Tier 2 capital	**-**
Total Tier 2 capital	**-**
Total capital	**602,871**

(b) Capital structure

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

Ordinary shares

In accordance with BPR110, ordinary share capital is classified as CET1 capital. The ordinary shares have no par value. Each ordinary share of the Bank carries the right to vote on a poll at meetings of shareholders, the right to an equal share in dividends authorised by the Board and the right to an equal share in the distribution of the surplus assets of the Bank in the event of liquidation.

Retained earnings

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

Reserves classified as CET1 capital

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

19 Capital adequacy (continued)

(c) Credit risk

On balance sheet exposures

	Total Exposure After Credit Risk Mitigation $000's	Average Risk Weight %	Risk Weighted Exposure $000's	Minimum Pillar 1 Capital Requirement $000's
Unaudited - December 2021				
Sovereigns and central banks	667	0%	-	-
Multilateral development banks	163,344	0%	-	-
Multilateral development banks	66,108	20%	13,222	1,058
Banks - Short term - Tier 1	-	20%	-	-
Banks - Short term - Tier 2	139,148	20%	27,830	2,226
Banks - Short term - Tier 3	-	20%	-	-
Banks - Long term - Tier 1	-	20%	-	-
Banks - Long term - Tier 2	51,746	50%	25,873	2,070
Banks - Long term - Tier 3	1,704	50%	852	68
Public sector entity (AA- and above)	13,403	20%	2,681	214
Public sector entity (A- and above)	-	50%	-	-
Public sector entity (BBB+, BBB, BBB-)	-	100%	-	-
Corporates (AA- and above)	-	20%	-	-
Corporates (A- and above)	-	50%	-	-
Corporates (BBB- and above)	-	100%	-	-
Corporate Exposures - BFGS	58,896	20%	11,779	942
Corporate Exposures - unrated	1,755,689	100%	1,755,689	140,455
Welcome Home Loans - loan to value ratio (LVR) <= 80%[1]	1,772	35%	620	50
Welcome Home Loans - loan to value ratio (LVR) <= 90%[1]	-	35%	-	-
Welcome Home Loans - LVR 90% >= 100%[1]	-	50%	-	-
Welcome Home Loans - LVR > 100%[1]	-	100%	-	-
Reverse Residential mortgages <= 60% LVR	644,488	50%	322,244	25,780
Reverse Residential mortgages 60 <= 80% LVR	4,377	80%	3,502	280
Reverse Residential mortgages > 80% LVR	-	100%	-	-
Reverse Residential mortgages > 100% LVR	-	100%	-	-
Non Property Investment Mortgage Loan <=80% LVR	220,412	35%	77,144	6,172
Non Property Investment Mortgage Loan 80 <= 90% LVR	-	50%	-	-
Non Property Investment Mortgage Loan 90 <= 100% LVR	549	75%	412	33
Non Property Investment Mortgage Loan > 100% LVR	-	100%	-	-
Property Investment Mortgage Loan <= 80% LVR	2,992	40%	1,197	96
Property Investment Mortgage Loan 80 <= 90% LVR	-	70%	-	-
Property Investment Mortgage Loan 90 <= 100% LVR	-	90%	-	-
Property Investment Mortgage Loan < 100% LVR	-	100%	-	-
Past due residential mortgages	145	100%	145	12
Other past due assets - provision >= 20%	21,906	100%	21,906	1,752
Other past due assets - provision < 20%	42,569	150%	63,853	5,108
Equity holdings	-	300%	-	-
All other equity holdings	1,488	400%	5,950	476
Fixed Assets	7,617	100%	7,617	609
Leased Assets	14,609	100%	14,609	1,169
Other assets	1,396,798	100%	1,396,798	111,744
Not risk weighted assets	72,679	0%	-	-
Total on balance sheet exposures	**4,683,106**		**3,753,923**	**300,314**

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

19 Capital adequacy (continued)

(c) Credit risk (continued)

Off balance sheet exposures

	Total Exposure $000's	Credit Conversion Factor %	Credit Equivalent Amount $000's	Average Risk Weight %	Risk Weighted Exposure $000's	Minimum Pillar 1 Capital Requirement $000's
Unaudited - December 2021						
Direct credit substitute	2,336	100%	2,336	100%	2,336	187
Performance-related contingency	4,880	50%	2,440	100%	2,440	195
Other commitments where original maturity is more than one year	207,098	50%	103,549	100%	103,549	8,284
Other commitments where original maturity is more than one year	13,969	50%	6,985	35%	2,445	196
Other commitments where original maturity is less than or equal to one year	26,725	20%	5,345	100%	5,345	428
Other commitments where original maturity is less than or equal to one year	25,003	20%	5,001	50%	2,501	200
Other commitments where original maturity is less than or equal to one year	3,026	20%	605	35%	212	17
Market related contracts[1]						
Interest rate contracts	1,318,084	n/a	22,580	34%	7,632	611
Credit valuation adjustment	-		-		6,879	550
Total off balance sheet exposures	**1,601,121**		**148,841**		**133,339**	**10,668**

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

(d) Additional mortgage information – LVR range

$000's	On Balance Sheet Exposures	Off Balance Sheet Exposures[1]	Total Exposures
Unaudited - December 2021			
Does not exceed 80%	874,044	41,998	916,042
Exceeds 90%	694	-	694
Total exposures	**874,738**	**41,998**	**916,736**

[1] Off balance sheet exposures means unutilised limits.

At 31 December 2021, there were nil Welcome Home loans whose credit risk is mitigated by the Crown included in "Exceeds 90% residential mortgages". Other loans in the exceeds 90% LVR range is primarily business and rural lending where residential mortgage security is only a part of the total security. For capital adequacy calculations only the value of the first mortgages over residential property is included in the LVR calculation, in accordance with BPR131. All new residential mortgages in respect of non-property investments lending have a loan-to-valuation ratio of less than or equal to 80%.

19 Capital adequacy (continued)

(e) Reconciliation of mortgage related amounts

$000's	Note	Unaudited December 2021
Gross finance receivables - reverse mortgages	7(b)	648,865
Loans and advances - loans with residential mortgages		225,961
On balance sheet residential mortgage exposures subject to the standardised approach	14(a)	**874,826**
Less: collective provision for impairment		(88)
Off balance sheet mortgage exposures subject to the standardised approach	19(d)	41,998
Total residential exposures subject to the standardised approach		**916,736**

(f) Credit risk mitigation

As at 31 December 2021 the Banking Group had $1.8 million of Welcome Home Loans, whose credit risk was mitigated by the Crown. Other than this the Banking Group does not have any exposures covered by eligible collateral, guarantees and credit derivatives.

(g) Operational risk

$000's	Implied Risk Weight Exposure	Total Operational Risk Capital Requirement
Unaudited - December 2021		
Operational risk	270,745	21,660

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

(h) Market risk

$000's		Implied Risk Weighted Exposure	Aggregate Capital Charge
Unaudited - December 2021			
Market risk end-of-period capital charge	Equity rate risk only	1,488	119
Market risk peak end-of-day capital charge	Equity rate risk only	1,488	119
Market risk end-of-period capital charge	Interest rate risk only	153,307	12,265
Market risk peak end-of-day capital charge	Interest rate risk only	153,307	12,265
Market risk end-of-period capital charge	Foreign currency risk only	10	1
Market risk peak end-of-day capital charge	Foreign currency risk only	522	42

The Banking Group’s aggregate market exposure is derived in accordance with BPR140. Peak end-of-day capital charge disclosure is derived by taking the highest month end market exposure over the six months ended 31 December 2021. Interest rate risk, foreign exchange risk and equity risk are calculated monthly using the month end position. While the Banking Group views this methodology as being materially correct, it is currently investigating the impact a daily aggregate market risk exposure would have for future reporting periods.

19 Capital adequacy (continued)

(i) Total capital requirement

$000's	Total Exposure After Credit Risk Mitigation	Risk Weighted Exposure or Implied Risk Weighted Exposure	Total Capital Requirement
Unaudited - December 2021			
Total credit risk			
On balance sheet	4,683,106	3,753,923	300,314
Off balance sheet	1,601,121	133,339	10,668
Operational risk	n/a	270,745	21,660
Market risk	n/a	155,317	12,425
Total	**6,284,227**	**4,313,324**	**345,067**

(j) Capital ratios

%	Unaudited December 2021	Unaudited December 2020
Capital ratios compared to minimum ratio requirements		
Common Equity Tier 1 Capital expressed as a percentage of total risk weighted exposures	13.98%	13.95%
Minimum Common Equity Tier 1 Capital as per Conditions of Registration	4.50%	4.50%
Tier 1 Capital expressed as a percentage of total risk weighted exposures	13.98%	13.95%
Minimum Tier 1 Capital as per Conditions of Registration	6.00%	6.00%
Total Capital expressed as a percentage of total risk weighted exposures	13.98%	13.95%
Minimum Total Capital as per Conditions of Registration	8.00%	8.00%
Buffer ratio		
Buffer ratio	5.98%	5.95%
Buffer ratio requirement	2.50%	2.50%

(k) Solo capital adequacy

%	Unaudited December 2021	Unaudited December 2020
Capital ratios compared to minimum ratio requirements		
Common Equity Tier 1 Capital expressed as a percentage of total risk weighted exposures	14.80%	14.15%
Tier 1 Capital expressed as a percentage of total risk weighted exposures	14.80%	14.15%
Total Capital expressed as a percentage of total risk weighted exposures	14.80%	14.15%

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

(l) Capital for other material risks

In addition to the material risks included in the calculation of the capital ratios, the Banking Group has identified other material risks to be included in the capital allocation (being strategic/business risk, regulatory and additional credit risk). As at 31 December 2021, the Banking Group has made an internal capital allocation of $9.1 million to cover these risks (December 2020: $8.9 million; June 2021: $8.9 million).

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

Insurance business

MIL, a subsidiary of HBL, ceased writing insurance policies in 2020 with the periodic policies expected to expire in 2025.

The Banking Group's aggregate amount of insurance business comprises the total consolidated assets of MIL of $8.3 million (December 2020: $10.9 million; June 2021: $8.5 million), which represents 0.18% of the total consolidated assets of the Banking Group (December 2020: 0.25%; June 2021: 0.19%).

Securitisation, funds management and other fiduciary activities

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

Risk management

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

Provision of financial services and asset purchases

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

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

21 Contingent liabilities and commitments

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

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

$000's	Unaudited December 2021	Unaudited December 2020	Audited June 2021
Letters of credit, guarantee commitments and performance bonds	7,217	6,145	13,484
Total contingent liabilities	**7,217**	**6,145**	**13,484**
Undrawn facilities available to customers	254,174	186,602	208,855
Conditional commitments to fund at future dates	21,646	24,570	19,083
Total commitments	**275,820**	**211,172**	**227,938**

22 Events after reporting date

The Bank resolved to pay a cash dividend to its parent company HGH of $35.5 million on its ordinary shares on 21 February 2022.

There were no other events subsequent to the reporting period which would materially affect the consolidated financial statements.

Conditions of Registration

Changes to Conditions of Registration

With effect from 1 July 2021:

- The Bank must not include the amount of an Additional Tier 1 capital instrument or Tier 2 capital instrument issued on or after 1 July 2021 in the calculation of its capital ratios unless it has completed the notification requirements.

- A Tier 2 capital instrument is an instrument that meets the requirements of subsection B3.2(2)(a) or (c) of Banking Prudential Regulations BPR110: Capital Definitions.

With effect from 1 October 2021:

- Capital instrument translations of the banking capital adequacy requirements were updated from the Capital Adequacy Framework (Standardised Approach) BS2A documentation to the new Banking Prudential Requirements documents.

- The Bank's earnings payable to holders of CET1 capital to the percentage limit on distributions that corresponds to the Banking Group's buffer PCB ratio where revised.

Banking Group's PCB Ratio	Revised - Banking Group's PCB Ratio	Percentage Limit on Distributions of the Bank's Earnings	Revised - Percentage Limit on Distributions of the Bank's Earnings
0% – 0.625%	0% – 0.5%	0%	0%
>0.625 – 1.25%	>0.5 – 1%	20%	30%
>1 – 2%	>1 – 2%	40%	50%
>2 – 2.5%	>2 – 2.5%	50%	50%

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

Credit Ratings

As at the date of signing this Disclosure Statement, the Bank's credit rating issued by Fitch Australia Pty Ltd (Fitch Ratings) was BBB stable. This BBB credit rating was issued on 14 October 2015 and is applicable to long term unsecured obligations payable in New Zealand, in New Zealand dollars. This BBB stable credit rating was affirmed by Fitch Ratings on 05 October 2021.

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

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

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

Other Material Matters

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

Independent Review Report

To the shareholder of Heartland Bank Limited

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

Conclusion

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

- The consolidated interim financial statements formed of:
  - the consolidated interim statement of financial position as at 31 December 2021;
  - the consolidated interim statements of comprehensive income, changes in equity and cash flows for the 6 month period then ended; and
  - notes, including a summary of significant accounting policies and other explanatory information.
- the supplementary information prescribed in Schedules 5, 7, 9, 13, 16 and 18 of the Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order 2014 (as amended) (the "Order").

Based on our review of the consolidated interim financial statements and supplementary information of the Bank and the Banking Group on pages 5 to 51, nothing has come to our attention that causes us to believe that:

i. the consolidated interim financial statements do not present fairly in all material respects the Banking Group's financial position as at 31 December 2021 and its financial performance and cash flows for the 6 month period ended on that date;

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

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

iv. the supplementary information relating to capital adequacy and regulatory liquidity requirements, has not been, in all material respects, disclosed in accordance with Schedule 9 of the Order.

Basis for conclusion

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

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

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

Use of this Independent Review Report

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

Responsibilities of the Directors for the interim company and group financial statements

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

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

Auditor's Responsibilities for the review of the interim company and group financial statements

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

- the consolidated interim financial statements do not present fairly in all material respects the Banking Group's financial position as at 31 December 2021 and its financial performance and cash flows for the 6 month period ended on that date;
- the consolidated interim financial statements do not, in all material respects, comply with NZ IAS 34;
- the supplementary information, does not fairly state, in all material respects, the matters to which it relates in accordance with Schedules 5, 7, 9, 13, 16 and 18 of the Order; and

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

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

KPMG

KPMG
Auckland

21 February 2022