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HEARTLAND

Heartland announces record FY2022 profit, and equity raising to retire bridge debt and fund growth ambitions for existing business

Heartland Group Holdings Limited (**Heartland**) (**NZX/ASX: HGH**) is pleased to announce a net profit after tax (**NPAT**) of $95.1 million for the financial year ended 30 June 2022 (**FY2022**), an increase of $8.1 million (9.3%) compared with the financial year ended 30 June 2021 (**FY2021**)[1]. On an underlying[2] basis, FY2022 NPAT was $96.1 million, an increase of $8.2 million (9.3%) compared with the FY2021 underlying NPAT.

Heartland is also pleased to announce a $200 million equity raise comprising a $130 million fully underwritten placement and a $70 million non-underwritten share purchase plan to shareholders in New Zealand and Australia, with the ability for Heartland to accept oversubscriptions at its discretion. Proceeds will be used to repay a A$158 million acquisition finance facility outstanding in relation to the recent acquisition of StockCo Holdings 2 Pty Ltd and StockCo Australia Management Pty Limited (together, **StockCo Australia**), and to provide additional growth capital for Heartland's existing businesses in Australia and New Zealand.

Highlights for FY2022

- NPAT of $95.1 million, up 9.3% ($8.1 million). Underlying NPAT of $96.1 million, up 9.3% ($8.2 million) on FY2021 underlying NPAT.
- One-off items had a $0.9 million net[3] impact on NPAT.
- Gross finance receivables (**Receivables**)[4] of $6.2 billion, up 15.3%[5] ($765.9 million).
- Return on equity (**ROE**) of 12.1%, up 21 basis points (**bps**). Underlying ROE of 12.6%, up 59 bps.
- Net interest margin (**NIM**)[6] of 4.16%, down 19 bps.
- Net interest income (**NII**) of $250.1 million, up 7.1%.
- Cost to income (**CTI**) ratio of 43.6%, down 3.2 percentage points (**pps**). Underlying CTI ratio of 42.5%, down 2.3 pps, and CTI ratio of 41.9% for the second half of FY2022 (**2H2022**).
- Impairment expense as a percentage of average receivables decreased from 0.31% in FY2021 to 0.25% in FY2022.[7] Underlying impairment expense of 0.29% benefitted from an improved book quality.
- FY2022 final dividend of 5.5 cents per share (**cps**), taking FY2022 total dividend to 11.0 cps – flat on FY2021, with a payout ratio consistent with the average over the last three years.
- Earnings per share (**EPS**) of 16.1 cps, up 1.2 cps.
- Completed the acquisition of StockCo Australia on 31 May 2022.

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[1] All comparative results are based on the audited full year consolidated financial statements of Heartland and its subsidiaries (the **Group**) for FY2021.
[2] Underlying results exclude the impacts of StockCo Australia and one-offs. Refer to *Profitability* on page 5 for a summary of reported and underlying FY2022 results. A detailed reconciliation between reported and underlying financial information, including details about FY2022 one-offs, is set out in Appendix 3 on page 47 of the accompanying FY2022 investor presentation. General information about the use of non-GAAP financial measures is set out on page 3 of that presentation.
[3] Includes tax impact on one-offs.
[4] Receivables include Reverse Mortgages and StockCo Australia.
[5] Excludes the impact of StockCo Australia and changes in foreign currency exchange (**FX**) rates.
[6] NIM is calculated based on average gross interest earning assets and is adjusted for the impact of StockCo Australia.
[7] Reported impairment expense includes a $1.6 million benefit from the release of the $9.6 million COVID-19 Overlay, net of a new $8.0 million Economic Overlay.

- 120% increase in users of Heartland Bank Limited's (**Heartland Bank**) mobile app.
- Heartland Bank awarded Canstar Savings Bank of the Year 2022 (fifth consecutive year), and awards for its Direct Call, 32 Day Notice Saver and 90 Day Notice Saver accounts.
- New Zealand Reverse Mortgages awarded Consumer Trusted Accreditation (fifth consecutive year), and helped its 20,000th customer.
- Australian Reverse Mortgages business increased market share to 33.1%.[8]

Strategic vision

Heartland remains committed to its strategic vision to create sustainable growth and differentiation through best or only products delivered through scalable digital platforms. Fundamental to the execution of Heartland's vision are the following four strategic pillars:

1. Business as Usual Growth (reported on in *Business performance* from page 7)
2. Frictionless Service at the Lowest Cost
3. Expansion in Australia
4. Acquisitions.

Frictionless Service at the Lowest Cost

Heartland's focus on providing best or only products has evolved to providing those products through scalable digital platforms. This focus on digitalisation allows Heartland to deliver exceptional service and value for its customers. Reduced customer friction creates scale without costly processes, while delivering better service.

Through FY2022, Heartland developed new functionality for its digital platforms to enable increased self-service by customers. The number of users on Heartland Bank's mobile app increased by 120% in FY2022, and in June 2022, the average number of inbound calls per customer to Heartland Bank's main customer service phone lines reduced by more than 10% compared with June 2021. In addition, Heartland Finance recently launched its online customer portal, allowing Australian Reverse Mortgage customers to view their loan balance, cash reserve and redraw balances, and current interest rate. The Heartland Finance Mobile App launched soon after in August 2022.

A greater degree of self-service functionality development is planned for the financial year ended 30 June 2023 (**FY2023**), to deliver enhancements to Heartland's existing product platforms in New Zealand and Australia.

CTI ratio, as a measure of the efficiency of digitalisation, reduced from 44.8% in FY2021 to 42.5% in FY2022 on an underlying basis. Despite the possibility of volatility in the short term, Heartland is committed in the long term to reductions in the CTI.

Heartland has committed a significant degree of technology investment through FY2022, and considers it is at peak investment phase due to the upgrade of its core banking system. This upgrade is expected to provide Heartland with a stable long-term platform, leading to improved customer service.

Expansion in Australia

Heartland's focus on expansion in Australia is on:

1. growing its existing Australian Reverse Mortgages business;
2. growing Livestock Finance following the recent acquisition of StockCo Australia; and

[8] Based on Australian Prudential Regulation Authority (**APRA**) ADI Property Exposure and Heartland Finance data as at 31 March 2022.

3. seeking other opportunities to expand Heartland's best or only strategy into Australia.

In FY2022, Heartland solidified its position as the leading provider of reverse mortgages in Australia, with an origination share of 74%[9]. Additionally, of the $3.3 billion of reverse mortgage loans reported in the Australian market, Heartland's market share was 33.1% at 31 March 2022 (up from 29.3% at 31 March 2021)[10]. The Australian market remains a significant opportunity for growth for Heartland, with the potential addressable market for reverse mortgages estimated to be $10-15 billion.[11]

Acknowledging increasing cost of living pressures, Heartland adjusted various specifications for its Well-Life Loan and Reverse Mortgage products to increase the eligible market. In January 2022, Heartland also launched Express Reverse Mortgages, a new streamlined loan targeting homeowners aged 60 to 70.

Acquisitions

StockCo Australia

On 31 May 2022, Heartland completed its acquisition of StockCo Australia, a leading livestock finance business based in Brisbane, Australia. Heartland's focus is to build on StockCo Australia's position as a market-leading provider of specialist livestock finance for cattle and sheep farmers across Australia. It intends to do this by delivering growth capital, digital enhancements, and expanding into new market segments. Read more about the acquisition of StockCo Australia on page 9.

Further opportunities for growth in Australia

Heartland is continuing to look for further opportunities in Australia as a key growth market, and has been exploring opportunities to establish or acquire an authorised deposit-taking institution (**ADI**) in Australia. Becoming a bank through an ADI in Australia would make possible a number of benefits:

- access to a deep and efficient pool of funding to support ongoing growth;
- potential uplift in margin, to the extent that retail funding rates are less than wholesale rates; and
- providing a platform to extend Heartland's best or only strategy into Australia.

The aim is to create the potential for a digital bank which, once Heartland assets are transferred into it, would be profitable. This, together with Heartland's best or only strategy, provides the opportunity for a differentiated proposition.

To this end, Heartland has entered into a non-binding memorandum of understanding (**MoU**) with Avenue Hold Limited (**Avenue Hold**) in relation to the potential acquisition of Avenue Hold and its subsidiary Avenue Bank Limited (**Avenue Bank**). Avenue Bank is a restricted ADI. This means Avenue Bank may conduct banking business in Australia for a limited period and subject to specific restrictions. Avenue Bank is seeking to progress to becoming a full ADI.

Any establishment or acquisition by Heartland of an ADI in Australia would be subject to regulatory approvals.

Subject to regulatory approvals and transaction completion, Heartland's existing businesses in Australia would be transferred to sit in or under Avenue Bank, and this would be the vehicle for growth in Australia.

In accordance with the MoU, Heartland has made an initial subscription for A$5 million of capital in Avenue Hold. Heartland's due diligence review is continuing, as is negotiation of binding transaction documentation. Completion of any transaction is expected to be conditional upon a number of matters (which may include Heartland securing acquisition funding, Heartland being satisfied as to the likelihood of Avenue Bank progressing to being a full ADI, Avenue Hold shareholder support of the transaction, receipt of all necessary

[9] Based on APRA ADI Property Exposure and Heartland Finance data for the 12 months to 31 March 2022.
[10] Based on APRA ADI Property Exposure and Heartland Finance data as at 31 March 2021 and 31 March 2022.
[11] According to Deloitte at the 2021 Three Pillars Forum.

regulatory approvals (including from APRA and the Reserve Bank of New Zealand (**RBNZ**)), and the absence of any material adverse change).

Any requirements or conditions of regulatory approvals (including capital and liquidity requirements for the bank and relevant business of Heartland held below Heartland's top-level holding company in Australia, Heartland Australia Holdings Pty Limited (**HAH**)) will:

1. become known only as engagement with APRA and RBNZ progresses; and
2. be relevant to Heartland's decision to proceed with the transaction.

It is currently expected that completion of any acquisition would take place no earlier than the last quarter of FY2023, and possibly not until the first half of the financial year ending 30 June 2024 (**FY2024**). The consideration payable by Heartland on completion is expected to be A$49 million, subject to adjustments.

For regulatory reasons, Heartland would be required to hold any ADI in Australia through an Australian incorporated non-operating holding company (**NOHC**) which is approved and regulated by APRA. It is currently anticipated that HAH would be the appropriate vehicle to apply to APRA for authority to act as a NOHC. To pre-position HAH for this opportunity, Heartland is seeking the consent of the RBNZ for HAH to also act as the NOHC of Heartland Bank in New Zealand. This would not result in any change to Heartland Bank's beneficial ownership. This engagement with RBNZ is at an early stage.

Operating environment

The current operating environment continues to present challenges, with heightened geopolitical tensions and rising inflation contributing to increasing cost of living and rapidly rising interest rates.

Whilst businesses learned to operate with COVID-19 present, the flow-on effects from border restrictions and restrained supply chains continued in FY2022. New Zealand and Australia's borders remained largely closed to international travel until 2H2022. This has put pressure on industries, businesses and consumers on both sides of the Tasman, and resulted in higher transport and freight costs being passed on to consumers.

Increasing cost of living is evident in global inflation rates. Both New Zealand and Australia inflation rates are currently the highest for 30 years, at 7.3% and 6.1% respectively.[12] As a result, interest rates have risen rapidly – the RBNZ recently increased the Official Cash Rate to 3% in August 2022, its highest level since 2015, with further increases expected.

Heartland remains focused on ensuring support is provided to customers who may be struggling in the current environment. Notwithstanding these pressures, Heartland's loan portfolios have performed strongly. Underlying impairment expense ratio was 29 bps in FY2022, 2 bps lower than in FY2021.

Heartland's COVID-19 Overlay of $9.6 million, taken in the financial year ended 30 June 2020 (**FY2020**), has been released in full. The Overlay was taken to provide a buffer against any future losses that the uncertainty of COVID-19 may have given rise to. Heartland now has more certainty around those impacts than in 2020, and its lending portfolios have benefited from improved quality as the portfolio mix has moved towards higher quality and lower risk assets. The Overlay has not been utilised by Heartland, and there is no longer any basis for retaining it. However, given the above-mentioned uncertainty and economic pressures facing businesses, it has been considered prudent to create an Economic Overlay of $8.0 million. The Economic Overlay will provide more resilience in areas such as Business Relationship lending and Asset Finance which have larger loan sizes.

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[12] Inflation rates reflect Consumer Price Index figures for the 12 months ended 30 June 2022.

Risk

Heartland's portfolio mix has continued to move towards higher quality and lower risk assets.

For example, Heartland's Reverse Mortgage portfolios in New Zealand and Australia have grown considerably and continue to perform very strongly. Heartland's Home Loans portfolio has grown significantly – conservative lending standards mean that this book has performed very strongly and is expected to be highly resilient to house price reductions and other potential economic shocks. Livestock, which has historically proven to be a resilient portfolio, has also grown significantly. Motor has not only grown, but has also benefited from improved quality as the volume of new car business in that book continues to increase. At the same time, Heartland's Personal Loans portfolio has reduced.

Heartland's total (collective and specific) provisions as at 30 June 2022 were $52.0 million, with a coverage ratio of 1.24%. This is a reduction from the coverage ratio of 1.61% as at 30 June 2021, but is reflective of the improved quality and mix of Heartland's portfolios (including the growth of online Home Loans and Livestock Finance, and the reduction of the Harmoney Corp Limited (**Harmoney**) personal loans channel). This improved quality is evidenced by the percentage of Heartland's receivables that attract a lifetime expected credit loss provision reducing from 6.32% as at 30 June 2021, to 3.92% as at 30 June 2022.[13]

Financial results

Profitability

NPAT was $95.1 million, an $8.1 million (9.3%) increase on FY2021. Underlying NPAT was $96.1 million, a $8.2 million (9.3%) increase on FY2021.

ROE was 12.1%, up 21 bps from FY2021. Underlying ROE was 12.6%, up 59 bps from FY2021.

EPS was 16.1 cps, up 1.2 cps from FY2021. Underlying EPS was 16.3 cps, also up 1.2 cps from FY2021.

FY2022 reported results include StockCo Australia earnings contribution since the completion of the acquisition on 31 May 2022, and one-off items which should be considered when analysing the underlying result.[14]

Significant one-off items included in Heartland's FY2022 reported results are outlined below.

1. *Hedge accounting impacts:* A $16.7 million gain was recognised in relation to derivatives that were de-designated from hedge accounting relationships. Heartland's hedging strategy was economically very effective throughout FY2022, with interest rate swaps utilised to hedge fixed lending with tenors greater than 12 months to 3-month Bank Bill Reference Rate (**BKBM**), thus limiting volatility to future interest rate changes. However, 3-month BKBM ceased to be an identifiable risk for hedging relationships during FY2022. This resulted in balances held in the Cash Flow Hedge Reserve against these hedge relationships having to be released to the profit and loss for the 30 June 2022 period.

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[13] Heartland is not required to hold provisions in respect of its Reverse Mortgage portfolios, and so the coverage ratio does not include those portfolios. Heartland carries the Reverse Mortgage portfolios at fair value, which is currently determined to be the face value of those loans. There is potential for loss from those loans, however it is immaterial in the context of the face value of the loans, and does not impact Heartland's determination that fair value of those loans is their face value.

[14] Refer to Appendix 3 on page 47 of the accompanying FY2022 investor presentation for an exhaustive list of FY2022 one-offs and a detailed reconciliation between reported and underlying financial information.

2. *Impairment provisions:* The $9.6 million COVID-19 Overlay, originally raised in FY2020, remained entirely unutilised and was released in full. However, given the uncertainty of the current operating environment, it has been considered prudent to create a new $8.0 million Economic Overlay.

3. *Fair value loss on equity investment in Harmoney:* A $12.7 million net fair value loss was recognised on investment in Harmoney shares during FY2022. The fair value as at 30 June 2022 takes into consideration the closing market price of Harmoney shares on the ASX of A$0.71.

The impact of one-off items on the respective financial metrics is outlined in the table below.

	Reported			**Underlying**		
	FY2022	FY2021	Movement	FY2022	FY2021	Movement
NOI[15] ($m)	267.6	251.2	16.4	262.0	247.1	14.9
Operating expenses ($m)	116.8	117.7	(0.9)	111.4	110.8	0.6
NPAT ($m)	95.1	87.0	8.1	96.1	87.9	8.2
NIM	4.05%	4.35%	(29 bps)	4.16%	4.35%	(19 bps)
NIM excl. liquid assets[16]	4.35%	4.69%	(33 bps)	4.47%	4.69%	(22 bps)
CTI ratio	43.6%	46.8%	(3.2 pps)	42.5%	44.8%	(2.3 pps)
Impairment expense ratio	0.25%	0.31%	(6 bps)	0.29%	0.31%	(2 bps)
ROE	12.1%	11.9%	21 bps	12.6%	12.0%	59 bps
EPS	16.1 cps	14.9 cps	1.2 cps	16.3 cps	15.1 cps	1.2 cps

Income

Total NOI was $267.6 million, an increase of $16.4 million (6.5%) from FY2021.

Underlying NOI was $262.0 million, $14.9 million (6.0%) higher than in FY2021. This was largely due to a $14.7 million (6.3%) increase in NII, driven by $599.5 million (11.2%) higher average interest earning assets in FY2022 than in FY2021, and a 19 bps decrease in underlying NIM compared with FY2021. Underlying other operating income remained stable year-on-year.

Expenses

Operating expenses were $116.8 million, a decrease of $0.9 million (0.8%) on FY2021. Excluding the impact of one-offs, the underlying operating expenses were $0.6 million (0.6%) higher compared with FY2021.

Higher underlying operating expenses were primarily due to a $2.8 million (19.2%) 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 43.6%, down 3.2 pps compared with FY2021. The underlying CTI ratio decreased 2.3 pps to 42.5%.

Impairment expense

Impairment expense was $13.8 million, $1.2 million (7.7%) down on FY2021. This includes the net benefit of $1.6 million due to the release of Heartland's $9.6 million COVID-19 Overlay, partially offset by the newly

[15] Net operating income (**NOI**) includes fair value gains/losses on investments.
[16] Calculated based on average gross interest earning assets excluding liquid assets.

created $8.0 million Economic Overlay. Excluding this and the impacts of the acquisition of StockCo Australia, underlying impairment expense was $15.7 million, $0.7 million (4.9%) higher than in FY2021.

While the Receivables portfolio recorded strong growth during the year, impairment expense benefitted from an improved book quality as a result of the continued tilt of the portfolio mix towards lower risk assets.

Financial position

Total assets increased by $1,407.2 million (24.8%) during FY2022, driven by a $1,177.5 million (23.5%) increase in Receivables.

On an underlying basis, which excludes the impacts of the StockCo Australia acquisition and changes in FX rates, Receivables grew $765.9 million (15.3%) in FY2022. The unintended effects of changes to the New Zealand Credit Contracts and Consumer Finance Act 2003 and the Credit Contracts and Consumer Finance Regulations 2004 (**CCCFA**), introduced on 1 December 2021, initially resulted in a temporary slowdown, particularly in the Motor and Home Loans portfolios. Despite this, growth momentum recovered and strong growth was experienced across the majority of Heartland's portfolios. This was partly offset by the decrease in the Harmoney personal loans channel.

Borrowings[17] increased by $1,306.6 million (26.9%). On an underlying basis, which excludes the impacts of the StockCo Australia acquisition, borrowings increased by $804.9 million (16.5%), with deposits increasing by $409.1 million (12.8%), while other borrowings increased by $395.8 million (23.6%) during FY2022. See further information under *Funding and liquidity* on page 10.

Net assets increased by $47.0 million to $808.7 million. Net tangible assets (**NTA**) decreased by $111.7 million to $566.8 million, primarily due to growth in intangible assets as a result of the StockCo Australia acquisition, resulting in an NTA per share of $0.96 (30 June 2021: $1.16).

Business performance

Asset Finance

Asset Finance NOI was $30.6 million, an increase of $2.1 million (7.5%) compared with FY2021.

Asset Finance Receivables increased $62.6 million (11.0%) to $633.6 million. Despite the impacts of COVID-19, new business growth in FY2022 exceeded expectations as Heartland continues to build its intermediated partnership strategy and delivery processes. Demand from the logistics and other productive sectors remained resilient through variable conditions, and activity remains focused in these segments. Significant market share opportunities exist and will be pursued in FY2023.

Business

Business includes floorplan lending to vehicle retailers and wholesale facilities to other lenders. The portfolio includes what was previously known as Business Relationship.

Business NOI was $30.9 million, an increase of $4.9 million (18.6%) compared with FY2021.

Business Receivables increased $74.3 million (13.4%)[18] to $629.4 million. Growth in facility utilisation rates has been driven by strong underlying demand in motor vehicle sales combined with erratic shipping schedules. Heartland has onboarded new customers in this segment, and supported the growth strategies of wholesale borrowers in other sectors.

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[17] Includes retail deposits and other borrowings.
[18] Excluding the impact of changes in FX rates.

Open for Business

Open for Business (**O4B**) is Heartland's first digital platform that provides unsecured loans to the small-to-medium enterprise (**SME**) sector, with online approval possible within one minute.

O4B NOI was $13.7 million, a decrease of $0.8 million (5.8%) compared with FY2021.

O4B Receivables decreased $3.3 million (2.3%)[16] to $141.2 million. COVID-19 interrupted momentum in Heartland's O4B target market more severely than in other Business segments. Although there were signs of recovery early in FY2022, the arrival of the Omicron COVID-19 variant adversely impacted sector demand again. O4B growth in FY2023 will remain challenging as the SME sector struggles to accommodate difficult macro-economic, logistical, and labour conditions.

Motor Finance

Motor Finance NOI was $73.1 million, an increase of $3.9 million (5.6%) compared with FY2021. Motor Finance Receivables increased $90.8 million (7.0%) to $1.38 billion.

Growth was mainly from the Motor dealer book via car dealerships, brokers and partnerships such as Kia Finance, Jaguar/Land Rover Financial Services, and Peugeot/Citroen (through Auto Distributors New Zealand Limited (**Auto Distributors**) under the iOwn brand). Auto Distributors have also been appointed the distributors for Opel which arrives in late September 2022.

Growth in FY2022 was hindered by COVID-19 and the unintended effects of changes to the CCCFA introduced on 1 December 2021, which considerably reduced application automation rates and impacted conversion rates. Since implementing a new process for premium customers, application automation rates have started to increase.

Motor Finance portfolio performance returned to more normal levels in the last quarter of FY2022, recording a 194% increase in growth on the previous quarter, and producing an annualised growth rate of 7.4% for the quarter.

Personal Lending

Personal Lending includes loans originated directly through Heartland Bank, and those originated by Harmoney in New Zealand and Australia. Personal Lending NOI was $10.3 million, a decrease of $7.0 million (40.4%) compared with FY2021.

Personal Lending Receivables decreased by $67.3 million (50.9%)[19] to $64.9 million. Harmoney Receivables decreased by $94.9 million (75.6%)[19], made up of a decrease in the New Zealand Harmoney channel of $58.3 million (76.0%) to $18.4 million, and a decrease in the Australian Harmoney channel of $36.6 million (74.9%)[19] to $12.2 million.

Heartland had been in negotiations with Harmoney on proposed new wholesale facilities as Harmoney moved its funding model from a peer-to-peer off-balance sheet model to wholesale securitised on-balance sheet funding via warehouse structures. These negotiations ended in March 2022. Heartland's Harmoney personal loans channel is therefore running down.

From a risk perspective, Heartland is comfortable with the reduction in Personal Lending in the current environment.

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

Home Loans[20]

Home Loans NOI was $2.1 million (FY2021: $0.1 million). Home Loans Receivables increased $224.8 million (450.8%) to $274.7 million.

Rising interest rates drove a high volume of applications in FY2022, as customers sought to lock in competitive rates. Heartland's rates were frequently market-leading across standard residential mortgage products throughout the year.

Although growth in Q2 (1 October to 31 December 2021) was adversely impacted by the unintended effects of the CCCFA changes, Q3 (1 January to 31 March 2022) advertising saw a return to rapid growth, with the Home Loans book size increasing by $51.8 million. Heartland's commitment to decision new loan applications within 48 hours of receipt of all loan documentation has further disrupted a credit market in which longer timeframes have traditionally prevailed. Heartland has also experienced strong customer retention in a competitive market – the retention rate for customers whose fixed rates expired during 2H2022 was 91.1%.

Heartland Home Loans remains in a phase of rapid growth, and is targeting a book size of $495 million by the end of FY2023.

Rural

Rural lending NOI was $30.2 million, a decrease of $2.0 million (6.1%) compared with FY2021.

Overall Rural portfolio Receivables increased by $102.5 million (17.5%) to $689.1 million. Livestock Receivables increased by $62.3 million (57.0%) to $171.7 million, and Rural Receivables increased by $40.2 million (8.4%) to $517.4 million.

Heartland's Livestock business enjoyed record growth in FY2022, resulting from an increase in customers, and facility utilisation rates reaching a historic high. New and expanded partnership opportunities that were developed in FY2022 are expected to flow positively into FY2023.

Heartland's Sheep & Beef Direct platform has been a success story throughout FY2022, contributing 53% of total Rural new business. The product produced consistent growth, which confirmed the market niche it was developed for. FY2022 also saw the development of a similar product for dairy farmers, Dairy Direct, which is expected to grow consistently with Sheep & Beef Direct.

StockCo Australia

On 31 May 2022, Heartland completed the acquisition of StockCo Australia. StockCo Australia specialises in livestock finance for cattle and sheep farmers across Australia (74% cattle/26% sheep), with total assets of A$358 million, and a leading position in the market, estimated to be A$7 billion.[21]

The acquisition's total consideration (which includes A$1.6 million of deferred consideration payable subject to performance hurdles) was A$154.4 million, funded through a A$158 million bridge facility provided by a major Australasian financial institution. At the same time, a new long-term syndicated securitisation warehouse was executed, with A$300 million of senior funding provided by two major Australasian financial institutions.

Heartland's focus is to build on StockCo Australia's position as a market-leading provider of specialist livestock finance for cattle and sheep farmers across Australia.

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[20] Excludes legacy Retail Mortgages.

[21] Based on Australia Bureau of Statistics total rural debt and StockCo Australia data.

Transaction costs of $1.2 million were expensed in FY2022, and StockCo Australia contributed $1.4 million to FY2022 NPAT (excluding bridge finance costs). StockCo Australia is projected to contribute A$10 million to A$12 million to FY2023 NPAT.

New Zealand Reverse Mortgages

New Zealand Reverse Mortgages NOI was $32.5 million, an increase of $8.1 million (33.4%) compared with FY2021. Receivables increased $119.8 million (19.9%) to $721.3 million.

Growth was due to:

- strong new business particularly in 2H2022 (17.6% higher than in the first half of FY2022);
- increased awareness and acceptance of reverse mortgages as a solution to help older homeowners live a more comfortable retirement;
- cost of living increases placing pressure on retirees and a Reverse Mortgage being a solution; and
- continued enhancement of the product and application process.

The outlook for New Zealand Reverse Mortgages remains positive, with the pipeline sitting well above the previous corresponding period. As cost of living pressures continue and indebtedness in retirement increases, greater awareness and acceptance of reverse mortgages is expected to lead to increased demand through FY2023.

Australian Reverse Mortgages

Australian Reverse Mortgages NOI was $39.2 million, an increase of $3.0 million (8.2%) compared with FY2021.

Australian Reverse Mortgages Receivables increased by $163.8 million (15.2%)[22] to $1.24 billion, driven primarily by:

- the relaxation of COVID-19 lockdowns in Australia;
- growing acceptance of the use of reverse mortgages to age in place (i.e. for a person to remain in their home as they age);
- promotion by the Australian Federal Government of its Home Equity Access Scheme, normalising equity release options further; and
- targeted marketing to increase uptake and interest at key seasonal points across the year, leading to record applications and settlements in key months.

Heartland Reverse Mortgages Australia received four awards in FY2022, including Infochoice's Best Reverse Mortgage, and Australian Mortgage Awards' 'Most Effective Digital Strategy – Lender' Excellence Award for its digital focus.

Funding and liquidity

Heartland increased borrowings by $1,306.6 million (26.9%) to $6,170.7 million, contributed to by increases in New Zealand and Australia.

On an underlying basis, which excludes the impacts of the StockCo Australia acquisition, borrowings increased by $804.9 million (16.5%) to $5,669.0 million.

New Zealand

Heartland Bank increased borrowings by $624.2 million (16.8%) to $4,346.6 million.

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

Deposits[23] grew $377.6 million (11.7%) during FY2022 to $3,597.1 million, which was driven primarily by the launch of a 32 Day Notice Saver product early in the period and, more recently, a 90 Day Notice Saver product.

During the period, Heartland Bank significantly increased the number of active users of the Heartland Mobile App, providing an improved customer experience, and enabling employees to focus on providing higher value service. Heartland Bank was also pleased to be awarded Canstar's Savings Bank of the Year 2022 (for the fifth consecutive year), and to receive Canstar awards for its Direct Call and Notice Saver accounts.

Term deposits decreased by $55.5 million (2.5%), while call deposits decreased by $73.1 million (7.6%) during FY2022, with the call to total deposit ratio decreasing to 25% as at 30 June 2022 (30 June 2021: 30%).

Other borrowings increased by $246.6 million (49.0%), largely driven by increases in Heartland Bank's committed auto warehouse facility, whose limit was increased from $300 million to $400 million in September 2021, with the amount drawn down increasing by $159.6 million.

Heartland Bank's total liquidity remained stable, increasing by $6.4 million (1.0%) to $627.9 million, well in excess of regulatory minimums. Regulatory liquidity ratios remained strong.

Heartland Bank's capital position has progressively increased during FY2022, reflecting its continued strong profitability and partial removal of the RBNZ restrictions on distributions. Heartland Bank's regulatory capital ratio was 13.49% as at 30 June 2022 (30 June 2021: 13.88%), well in excess of regulatory minimums, and providing a strong platform for Heartland Bank to meet 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$102.6 million (9.3%) to A$1,200.2 million.

The Heartland Australia group continues to successfully execute on its strategic funding programme to cater for strong growth in its portfolios, with a further A$45 million Medium Term Note (**MTN**) issued in July 2021, and a A$115 million MTN issued in May 2022 to refinance an existing A$100 million MTN and provide additional funding for future growth, taking the aggregate outstanding issuance under Heartland Australia's MTN programme to A$280 million as at 30 June 2022. Additionally, a A$30 million tap into an existing A$45 million funding line, maturing in July 2024, was issued in August 2022, adding further diversity to the funding base.

Maturity of reverse mortgage securitisation warehouses was extended by two and three years, and aggregate senior limits were expanded by A$100 million, providing additional headroom to fund future growth in the portfolio. This provides Heartland Australia group with access to A$1.35 billion of committed funding in aggregate.

Further expansion of existing warehouse funding through increased senior limits and the introduction of mezzanine funding is well advanced, and focus will continue to be on sourcing optimal long-term duration matched funding.

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[23] Includes intercompany deposits received by Heartland Bank (30 June 2022: $4.6 million; 30 June 2021: $36.1 million).

Proposed equity raise

Heartland has announced a $200 million equity raise. The proceeds of the equity raise will be used to:

1. repay a A$158 million acquisition finance facility outstanding in relation to the recent acquisition of StockCo Australia; and
2. provide additional growth capital for Heartland's existing businesses in both Australia and New Zealand.

The equity raise will comprise a $130 million fully underwritten placement (**Placement**) and a non-underwritten share purchase plan to shareholders in New Zealand and Australia to raise up to $70 million (**SPP**), with the ability for Heartland to accept oversubscriptions at its discretion.

The Placement is fully underwritten by Jarden Partners Limited, and will be conducted today through a bookbuild in which institutional and other selected investors in New Zealand, Australia and a limited number of other jurisdictions will be invited to participate. The Placement has been fully underwritten at a fixed price of $1.80 per new share, being a 12.8% discount to the ex-dividend adjusted last close price of $2.065 on 22 August 2022, and a 13.7% discount to the 5-day volume weighted average ex-dividend adjusted price of Heartland shares on the NZX ending on 22 August 2022. ASX settlement will take place on Friday 26 August, and NZX settlement and allotment of all new shares issued under the Placement will take place on Monday 29 August. A trading halt has been requested from NZX and ASX to facilitate the Placement.

Heartland also intends to undertake a non-underwritten SPP of $70 million to allow eligible shareholders with an address recorded in Heartland's share register that is in New Zealand or Australia at 7.00pm NZST (5.00pm AEST) on the Record Date of Monday 22 August 2022, to apply for up to $50,000/A$45,000 of new shares. Heartland has the ability to accept oversubscriptions at its discretion. Registered and beneficial shareholders outside of New Zealand and Australia are not eligible to participate in the SPP. New shares will be offered under the SPP at the lower of the price paid by investors in the Placement, and a 2.5% discount to the 5-day volume weighted average price of Heartland shares traded on the NZX during the five NZX trading days up to, and including, the closing date. The closing date for SPP applications by eligible shareholders is Monday 5 September 2022.

If the SPP is oversubscribed, applications will be scaled having regard to shareholdings at the Record Date, and otherwise at Heartland's discretion.

The SPP Offer Document will be sent to eligible shareholders on Thursday 25 August 2022 and will be available at www.heartlandshareoffer.co.nz on the same day. This document contains the final terms of the SPP Offer. Applications can be made through this website or as otherwise directed by Heartland.

Harrogate Trustee Limited, Heartland's largest shareholder, has committed to bid into the Placement with the intention of maintaining a minimum shareholding of 9.8% post completion of the proposed equity raise.

New shares to be issued under both the Placement and the SPP will rank equally in all respects with Heartland's existing ordinary shares on issue, but will not be eligible for the FY2022 final dividend with a record date of Friday 26 August 2022 (refer to page 15 for additional detail).

Heartland elected this offer structure due to the volatile market conditions to date in 2022, and its objective to further diversify its share register to promote increased liquidity on both the NZX and ASX. This is important in driving long-term value for all shareholders, by attracting depth of investment and widening demand. Heartland will endeavour to treat existing shareholders in eligible jurisdictions fairly through the Placement via an allocation policy that seeks, to the extent possible, to provide pro rata allocations to existing shareholders that bid for at least such into the Placement. Heartland is also utilising its placement capacity to increase the ability of shareholders to participate in the SPP the maximum amount possible under the NZX Listing Rules for a SPP without utilising placement capacity, being 5% of shares on issue and $15,000 per applicant. The SPP provides to participants the benefit of a downside pricing mechanism which is not available in pro rata structures.

Equity raise key dates[24]

SPP Offer Record Date	Monday 22 August
Announcement of equity raise and Placement bookbuild while Heartland is in trading halt	Tuesday 23 August
Announcement of results of Placement and trading halt lifted on NZX and ASX	Wednesday 24 August
SPP Offer Opening Date	Thursday 25 August
ASX Placement settlement	Friday 26 August
NZX Placement settlement	Monday 29 August
Allotment of new shares issued under the Placement	Monday 29 August
SPP Offer Closing Date	Monday 5 September
Announcement of results of SPP Offer	Thursday 8 September
NZX and ASX settlement	Friday 9 September
Allotment of new shares issued under the SPP Offer	Friday 9 September
SPP Offer shares commence trading on NZX	Friday 9 September
SPP Offer shares commence trading on ASX	Monday 12 September

Regulatory update

Heartland continues to monitor the significant volume of regulatory change.

Initial changes to the CCCFA came into force on 1 December 2021. Heartland Bank implemented new processes and technologies to enable it to comply with these changes, and continues to refine them. Additional CCCFA changes were announced in June 2022 (effective 7 July 2022). Following the completion of the New Zealand Government's investigation into the impact of the December 2021 changes, further amendments which seek to reduce the unintended impacts of the initial changes are expected to be implemented in March 2023.

The Financial Markets (Conduct of Financial Institutions) Amendment Act 2022 (**Conduct Act**) was passed in June 2022, and is planned to come into force in early 2025, following a transitional period. The Conduct Act applies to registered banks, licensed insurers and licensed non-bank deposit takers, and is regulated by the Financial Markets Authority (**FMA**). The Conduct Act introduces a new conduct licensing regime, the requirement to establish, implement, maintain and comply with a fair conduct programme, and the regulation of incentives (via new regulations which are yet to be consulted on). Incentives regulations will apply both to Heartland Bank and its intermediaries involved in the distribution of its products.

New legislation (to be known as the Deposit Takers Bill) is being developed to:

1. strengthen the regulatory framework for all institutions that take deposits (including Heartland Bank) through the strengthening of the RBNZ's supervision and enforcement powers; and
2. introduce a new depositor compensation scheme, overseen by the RBNZ.

An exposure draft of the Deposit Takers Bill is expected to be introduced to Parliament in the latter half of 2022.

[24] Dates are subject to change and are indicative only.

In June 2022, the RBNZ announced the remaining dividend restrictions placed on banks, in response to the impact of COVID-19, would be removed from 1 July 2022.

Continued preparation is underway to meet the Climate-Related Disclosures obligations introduced through the Financial Sector (Climate-related Disclosures and Other Matters) Amendment Act 2021, with Heartland's first climate statement required as part of reporting for the period ended 30 June 2024.

Sustainability update

Delivering sustainable profitability is a key tenet of Heartland's overarching purpose and is supported by Heartland's three pillars of sustainability: environmental, social and economic. Key achievements for FY2022 in each area of sustainability are noted below.

Environmental conservation

- Continued work towards hitting Heartland's ambitious emissions reduction targets, achieving a 31% absolute reduction in Greenhouse Gas (**GHG**) emissions (estimated to be 21% when the short-term impacts of COVID-19 are taken into account) in the two years to FY2021 (Heartland's most recent GHG emissions reporting period).
- Currently measuring Heartland's FY2022 GHG emissions. This will be completed during FY2023 so that Heartland will be in a position to report its FY2023 GHG emissions as part of its FY2023 financial reporting. From FY2023, Heartland's GHG emissions reporting will include emissions attributed to customer activity enabled though lending.
- Heartland is financing an increasing number of "new generation" (electric and hybrid) vehicles. During FY2022, 5% of vehicles financed in our Motor portfolio were new generation. However, that percentage increased steadily over the year and continues to climb as Heartland's key partners (including Kia, Peugeot, Citroen, Jaguar and Land Rover) increase their production of new generation vehicles.
- Conducted analysis of the physical risks (including flood, drought or other natural hazard risk) and transitional risks (including the potential for climate change related regulatory change, the ongoing availability of insurance, and changes in borrower behaviour and preferences) of two climate change scenarios over the medium- and long-term, to understand the potential impact of climate change on Heartland's portfolios, and support informed decision making going forward.
- Commenced the replacement of all fleet 4WD vehicles (23% of the fleet) with hybrid alternatives, with the aim of converting the majority of the fleet to hybrid or electric by the end of 2023.
- Contributed to the consultation process for the mandatory reporting regime for climate-related disclosures in New Zealand via memberships with the New Zealand Bankers Association (**NZBA**) and the Climate Leaders Coalition.

Social equity

- Introduced pay gap reporting for gender and ethnicity. Heartland's gender pay gap of 23% as at 31 January 2022 was 8% below the financial and insurance services industry average. Heartland's Māori and Pasifika pay gaps were 25% each. Pay gaps as at 30 June 2022 will be reported in the Annual Report published on 28 September 2022.
- Heartland Bank achieved the Rainbow Tick in November 2021.
- Heartland Bank was a finalist in the 2022 HRNZ Awards in the *Leader Māori HR* award category for its Manawa Ako internship programme.
- 93% of employees resonate with Heartland's mātāpono (values) as being important values to them.
- Heartland Trust[25] grants totalled $501,933 to community groups and organisations.

[25] The Heartland Trust is a registered charitable trust which is independent from, but closely supported by Heartland and Heartland Bank.

- Implemented processes and controls across Heartland to prevent any connection to modern day slavery, whether through Heartland practices, customer practices, or supply chain connections.

Economic prosperity

- Enabled more than 40,000 New Zealanders and Australians to live a more comfortable retirement through a reverse mortgage.
- Grew the Australian business through the acquisition of livestock financier StockCo Australia, which is expected to contribute A$10-12 million to FY2023 NPAT.
- Continued to offer customers cost savings through some of New Zealand's lowest mortgage rates with Heartland's self-serve online Home Loans application, despite a rapidly rising interest rate environment.
- Updated Heartland's Procurement Policy to connect it more closely with Heartland's sustainability framework, with the aim of promoting Heartland's values amongst new and existing supply-chain partners, and supporting a more diverse and inclusive network.
- Delivered total shareholder return (**TSR**) of 66.9% over the last five years (19 August 2017 – 19 August 2022), compared with the NZX50 Index TSR of 56.7% in the same period.

More information and goals for the year ahead will be included in Heartland's FY2022 Annual Report, to be published on 28 September 2022 and available at shareholders.heartland.co.nz.

Final dividend

Heartland is pleased to declare a FY2022 final dividend of 5.5 cps, taking the total FY2022 dividend to 11.0 cps (flat on 2021). This represents a full year payout ratio of 68% which compares to the average over the last three years of 69%. The dividend yield of 7.1%[26] is unchanged from FY2021[27].

The final dividend will be paid on Wednesday 14 September 2022 (**Payment Date**) to shareholders on the company's register as at 5.00pm on Friday 26 August 2022[28] (**Record Date**) and will be fully imputed.

Heartland's Dividend Reinvestment Plan (**DRP**), giving eligible shareholders the opportunity to reinvest some or all of their dividend payments into new ordinary shares, is suspended for the final dividend due to the proposed equity raise – see page 11.

Looking forward

The current economic environment presents the obvious challenges of rising inflation and rapidly rising interest rates, tempered somewhat by low unemployment, flowing through into business and consumer confidence.

To a meaningful extent, Heartland is insulated against these challenges due to expected levels of growth in Reverse Mortgages (driven by demographics) and Livestock (driven by global demand for protein).

The large number of residential mortgages in New Zealand coming off fixed rates during the course of the year should support ongoing growth of Home Loans. There is optimism that market share gains in Motor and Asset Finance are available to underpin growth in markets that have seen some supply disruptions and a decline in confidence. Similarly, Heartland's focus on parts of the rural market that are underserviced by

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[26] FY2022 total fully imputed dividends divided by the closing share price as at 19 August 2022 of $2.16.
[27] FY2021 total fully imputed dividends divided by the closing share price as at 20 August 2021 of $2.16.
[28] NZ RegCo granted Heartland a waiver from the five Business Day notice requirement under NZX Listing Rule 3.14.1 in relation to the final dividend.

larger banks, has the potential to offset the ongoing exit of larger rural relationship loans. However, this must be weighed against decreasing confidence levels in some sections of the market.

With regard to risk in this environment, while Heartland has released its COVID-19 Overlay, it has adopted an Economic Overlay of $8 million in order to provide coverage for a potential downside scenario. Alongside this, the portfolio mix has shifted towards higher quality loans, with a strong increase in particular of Reverse Mortgages, which are expected to continue to perform very well.

Efforts will continue to create efficiencies and frictionless service at the lowest cost. It will also be a very important year for Heartland's Australian strategy – the first full year with StockCo Australia as a member of the Group, and in progressing Heartland's pathway to becoming a bank through obtaining an ADI licence in Australia.

Heartland expects NPAT for FY2023 to be within the guidance range of $109 million to $114 million, excluding any impacts of fair value changes on equity investments held.

– ENDS –

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Currency
Unless otherwise stated, all references to "$" are to the New Zealand dollar.

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FY2022
Annual Results

23 August 2022

HEARTLAND
GROUP

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This presentation has been prepared by Heartland Group Holdings Limited (the **Company** or **Heartland**) in relation to its financial statements for the year ended 30 June 2022 (**FY2022**) and an offer of new shares in the Company (**New Shares**) by way of:

- a placement to eligible institutional and other selected investors (**Placement**); and
- a share purchase plan offer to existing shareholders of the Company with an address recorded in Heartland's share register which is in New Zealand or Australia (**SPP**),

in New Zealand under clause 19 of Schedule 1 to the Financial Markets Conduct Act 2013 (**FMCA**), and in Australia under part 6D.2 of the Corporations Act 2001 (Cth), as notionally modified by Australian Securities and Investments Commission (**ASIC**) Corporations (Share and Interest Purchase Plans) Instrument 2019/547 and ASIC Instrument 22-0735 (**the Corporations Act**) (the Placement and the SPP, together, are referred to as the **Offer**).

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NZX and ASX

The New Shares will be quoted on the NZX Main Board following completion of each of the Placement and the SPP, and an application will be made by Heartland for the New Shares to be quoted on the ASX. Neither NZX nor ASX accepts any responsibility for any statement in this presentation. NZX is a licensed market operator, and the NZX Main Board is a licensed market under the FMCA.

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Forward-looking statements in this presentation include statements regarding the timetable, conduct and outcome of the Offer and the use of proceeds thereof, Heartland's strategies and future plans and Heartland's future financial performance. Any indications of, or guidance or outlook on, future earnings or financial position or performance and future distributions are also forward-looking statements. All such forward-looking statements involve known and unknown risks, significant uncertainties, assumptions, contingencies, and other factors, many of which are outside the control of the Company, which may cause the actual results or performance of the Company to be materially different from any future results or performance expressed or implied by such forward-looking statements. Such forward-looking statements speak only as of the date of this presentation.
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Past performance

Past performance information provided in this presentation is given for illustrative purposes only and should not be relied upon as (and is not) a promise, representation, warranty or guarantee as to the past, present or future performance of the Company.

General

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By attending or reading this presentation, you agree to be bound by the foregoing limitations and restrictions and, in particular, will be deemed to have represented, warranted, undertaken and agreed that: (i) you have read and agree to comply with the contents of this Disclaimer and Important Notice; (ii) you are permitted under applicable laws and regulations to receive the information contained in this presentation; and (iii) you will base any investment decision solely on information released by the Company via NZX and ASX (including, in the case of the SPP, the Offer Document).

Contents

Executive summary

Financial results and trading update

- Achieved net profit after tax (**NPAT**) and earnings per share (**EPS**) growth of 9.3% and 8.1% respectively vs FY2021.
- Cost to income (**CTI**) ratio of 43.6%, down 3.2 percentage points (pps). Underlying CTI ratio of 42.5%, down 2.3 pps.
- Completed acquisition of StockCo Holdings 2 Pty Ltd and StockCo Australia Management Pty Limited (together, **StockCo Australia**).
- Increased AU Reverse Mortgage market share from 29.3% to 33.1%[1], with origination share of 74%[2].

Strategic vision

- A focused strategic vision to provide best or only products via scalable digital platforms, achieved through:
  - Business as Usual Growth
  - Frictionless Service at the Lowest Cost
  - Expansion in Australia
  - Acquisitions.
- Heartland continues to explore options to establish or acquire an authorised deposit-taking institution (**ADI**) licence in Australia.

Capital raising overview[3]

- $200 million equity raising comprising:
  - $130 million fully underwritten placement (**Placement**)
  - $70 million non-underwritten share purchase plan (**SPP**), with the ability for Heartland to accept oversubscriptions at its discretion.
- Proceeds will be used to repay the A$158 million acquisition finance facility outstanding in relation to the recent acquisition of StockCo Australia, and to provide additional growth capital for Heartland's existing businesses in Australia and New Zealand.
- The structure is designed to avoid volatility, but primarily to address Heartland's share liquidity due to low levels of institutional investment. This is important in driving long-term value for all shareholders, by attracting depth of investment and widening demand.

[1] Based on APRA ADI Property Exposure and Heartland Finance data as at 31 March 2021 and 31 March 2022.
[2] Based on APRA ADI Property Exposure and Heartland Finance data for the 12 months to 31 March 2022.
[3] Heartland's largest shareholder, Harrogate Trustee Limited, has pre-committed to participate in the Placement to maintain a minimum shareholding of 9.8% following completion of the Equity Raise. The Placement is fully underwritten by Jarden Partners Limited.

FY2022 highlights

Financial highlights

Financial position

$6,196m
GROSS FINANCE RECEIVABLES[3]
+23.5% vs June 2021

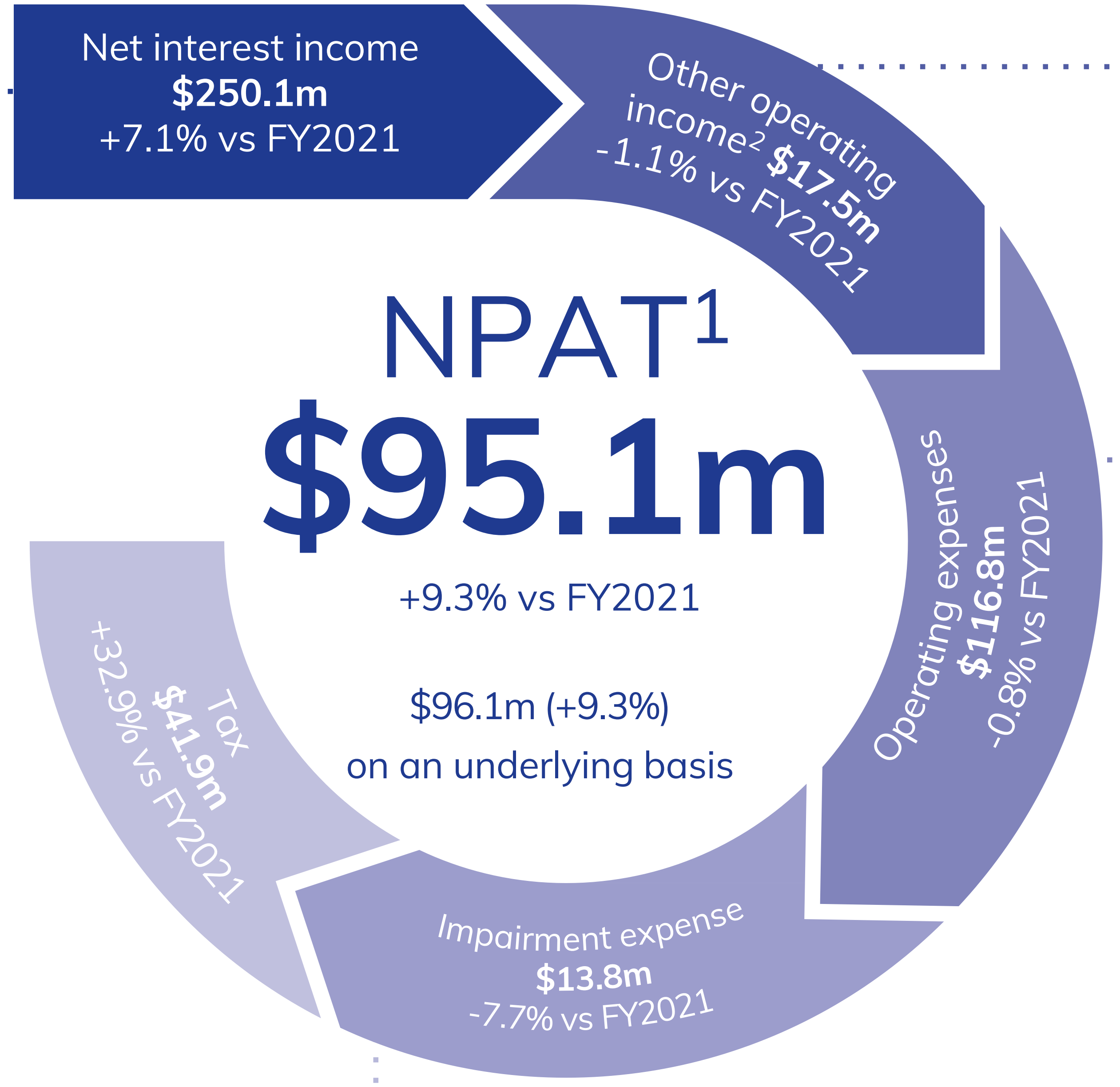
$6,171m
BORROWINGS
+26.9% vs June 2021

$809m
EQUITY
+6.2% vs June 2021

11.4%
EQUITY/TOTAL ASSETS
- 2.0 pps vs June 2021

Underlying net interest margin (**NIM**) 4.16% (-19 basis points (**bps**) vs FY2021).

Underlying average interest earning assets +$599.5m (+11.2% vs FY2021).



Underlying other operating income $13.7m (+1.2% vs FY2021).

Underlying operating expenses (**OPEX**) $111.4m (+0.6% vs FY2021).

Underlying CTI ratio 42.5% (-2.3 pps vs FY2021).

Underlying impairment expense $15.7m (+4.9% vs FY2021).

Underlying impairment expense ratio 0.29% (-2 bps vs FY2021).

Financial performance

4.16%
NET INTEREST MARGIN[4]
-19 bps vs FY2021

43.6%
COST TO INCOME RATIO
-3.2 pps vs FY2021

0.25%
IMPAIRMENT EXPENSE RATIO[5]
-6 bps vs FY2021

Financial return

12.1%
RETURN ON EQUITY
+21 bps vs FY2021

16.1cps
EARNINGS PER SHARE
+1.2 cents per share (**cps**) vs FY2021

[1] Reported FY2022 results include StockCo Australia earnings contribution since completion of the acquisition on 31 May 2022. Refer to Appendix 3 for reconciliation between reported and underlying NPAT result.
[2] Other operating income (**OOI**) includes fair value gains/losses on investments.
[3] Gross finance receivables (**Receivables**) also include Reverse Mortgages and StockCo Australia.
[4] Adjusted for the impact of StockCo Australia.
[5] Impairment expense as a percentage of average receivables.

Impairments, provisioning and operating environment

- The current operating environment continues to present challenges, with heightened geopolitical tensions and rising inflation contributing to increasing cost of living and rapidly rising interest rates.
- Heartland remains focused on ensuring support is provided to customers who may be struggling in the current environment. Notwithstanding these pressures, Heartland's loan portfolios have performed strongly. Underlying impairment expense ratio was 29 bps in FY2022, 2 bps lower than in FY2021.
- Impairment expense was $13.8 million, $1.2 million (7.7%) down on FY2021. This includes the net benefit of $1.6 million due to the release of Heartland's $9.6 million COVID-19 Overlay, partially offset by the newly created $8.0 million Economic Overlay.
- Excluding this and the impacts of the acquisition of StockCo Australia, underlying impairment expense was $15.7 million, $0.7 million (4.9%) higher than in FY2021.
- While the Receivables portfolio recorded strong growth during the year, impairment expense benefitted from an improved book quality as a result of the continued tilt of the portfolio mix towards lower risk assets.
- Heartland's COVID-19 Overlay of $9.6 million, taken in FY2020, has been released in full.
- The Overlay was taken to provide a buffer against any future losses that the uncertainty of COVID-19 may have given rise to. Heartland now has more certainty around those impacts than in 2020, and its lending portfolios have benefited from improved quality as the portfolio mix has moved towards higher quality and lower risk assets.
- The Overlay has not been utilised by Heartland, and there is no longer any basis for retaining it.
- However, given the above-mentioned uncertainty and economic pressures facing businesses, it has been considered prudent to create an Economic Overlay of $8.0 million. The Economic Overlay will provide more resilience in areas such as Business Relationship lending and Asset Finance which have larger loan sizes.

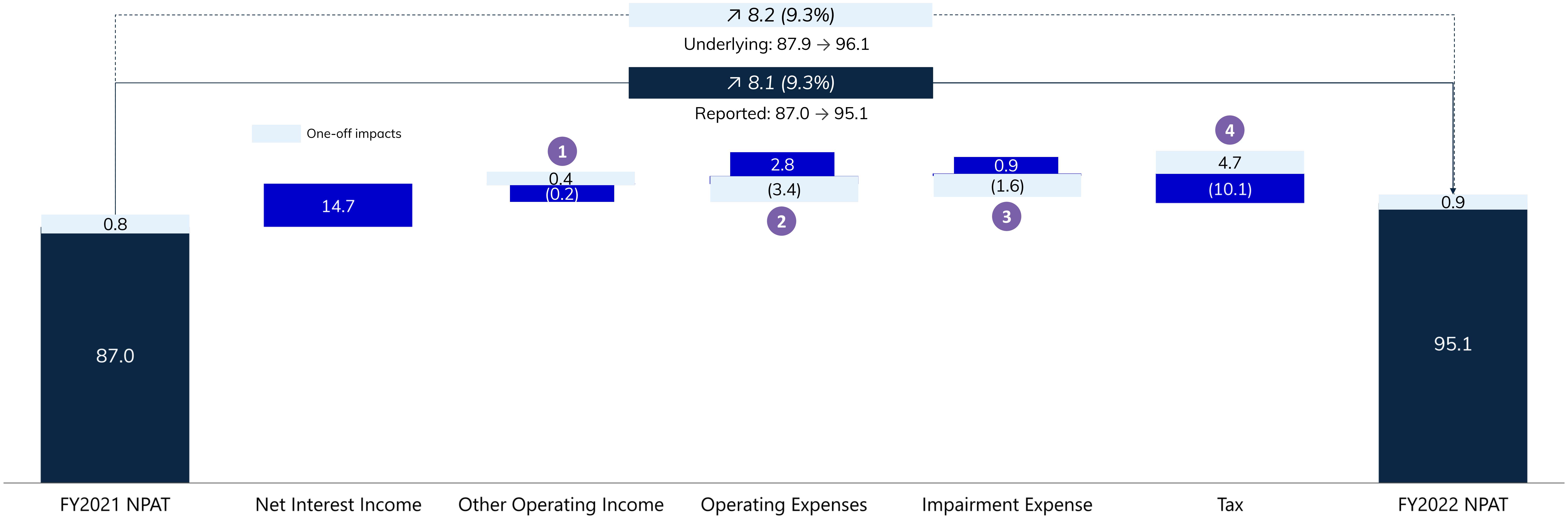
Risk

- Heartland's portfolio mix has continued to move towards higher quality and lower risk assets.
- For example, Heartland's Reverse Mortgage portfolios in New Zealand and Australia have grown considerably and continue to perform very strongly.
- Heartland's Home Loans portfolio has grown significantly – conservative lending standards mean this book has performed very strongly and is expected to be highly resilient to house price reductions and other potential economic shocks.
- Livestock, which has historically proven to be a resilient portfolio, has also grown significantly.
- Motor has not only grown, but has also benefited from improved quality as the volume of new car business in that book continues to increase.
- At the same time, Heartland's Personal Loans portfolio has reduced.
- Heartland's total (collective and specific) provisions as at 30 June 2022 were $52.0 million, with a coverage ratio of 1.24%. This is a reduction from the coverage ratio of 1.61% as at 30 June 2021, but is reflective of the improved quality and mix of Heartland's portfolios (including the growth of online Home Loans and Livestock Finance, and the reduction of the Harmoney Corp Limited (Harmoney) personal loans channel). This improved quality is evidenced by the percentage of Heartland's receivables that attract a lifetime expected credit loss provision reducing from 6.32% as at 30 June 2021, to 3.92% as at 30 June 2022.[1]

[1] Heartland is not required to hold provisions in respect of its Reverse Mortgage portfolios, and so the coverage ratio does not include those portfolios. Heartland carries the Reverse Mortgage portfolios at fair value, which is currently determined to be the face value of those loans. There is potential for loss from those loans, however it is immaterial in the context of the face value of the loans, and does not impact Heartland's determination that fair value of those loans is their face value.

Financial results

Growth in profitability



1 FY2021 one-offs: $4.1 million net fair value gain on equity investments. FY2022 one-offs: (i) $16.7 million hedge accounting impacts, (ii) ($13.0 million) net fair value loss on equity investments.

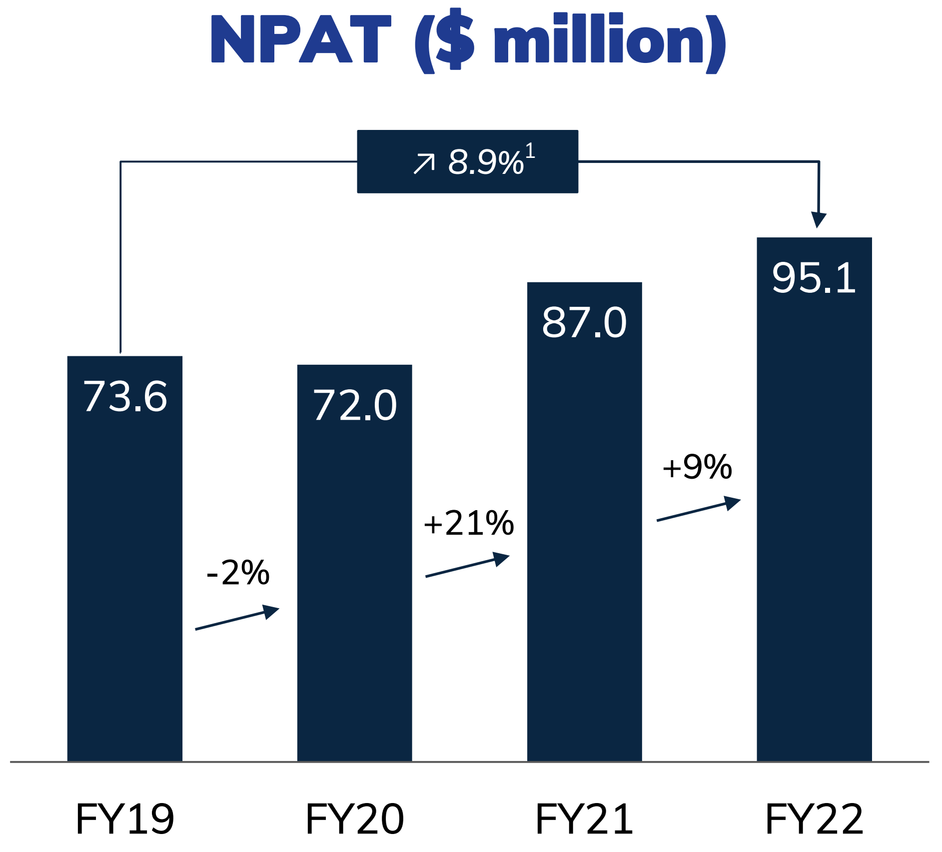
2 FY2021 one-offs: (i) $4.3 million voluntarily accelerated amortisation, (ii) $1.7 million aged items write-off and provision, (iii) $0.9 million other non-recurring items. FY2022 one-offs: (i) $2.9 million voluntary amortisation of intangibles (ii) $1.0 million other non-recurring items (iii) ($0.5 million) aged items provision.

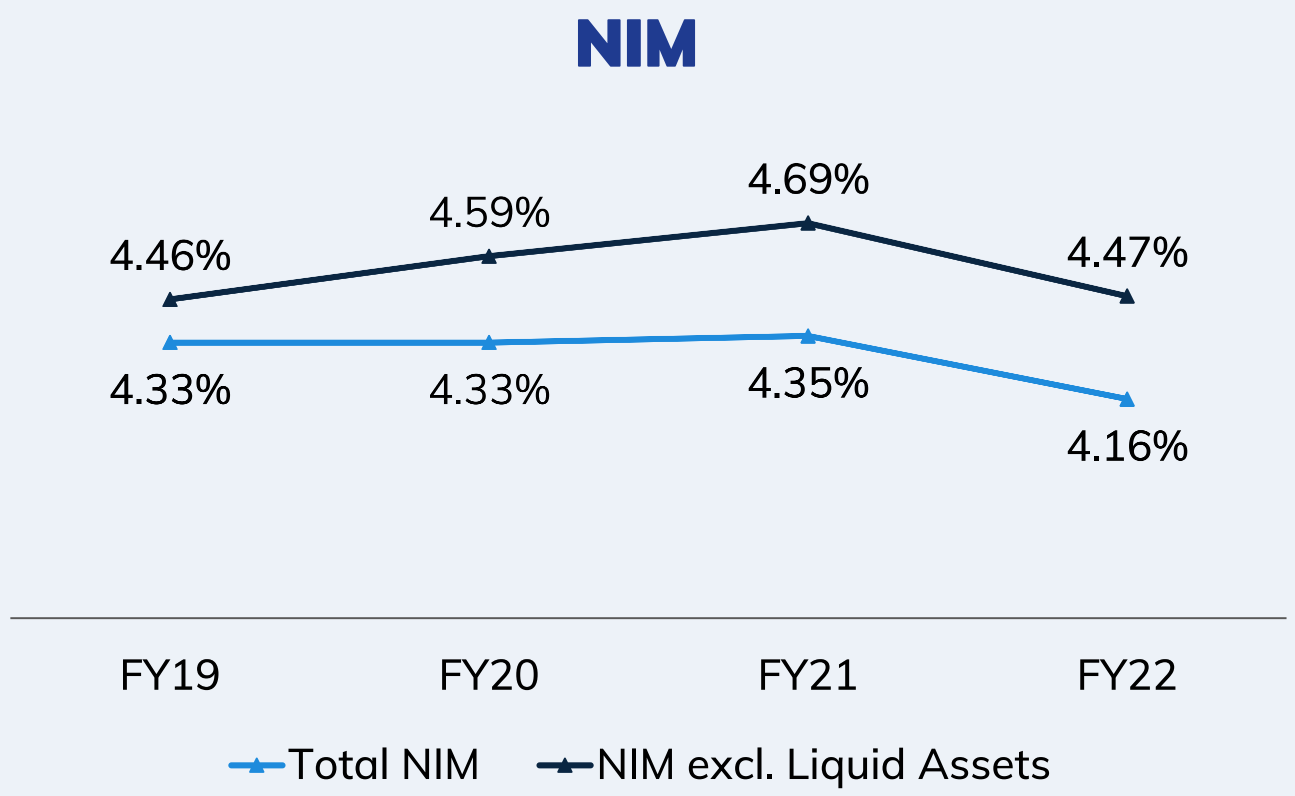
3 FY2022 one-offs: (i) ($9.6) million COVID-19 Overlay release, (ii) $8.0 million newly created Economic Overlay.

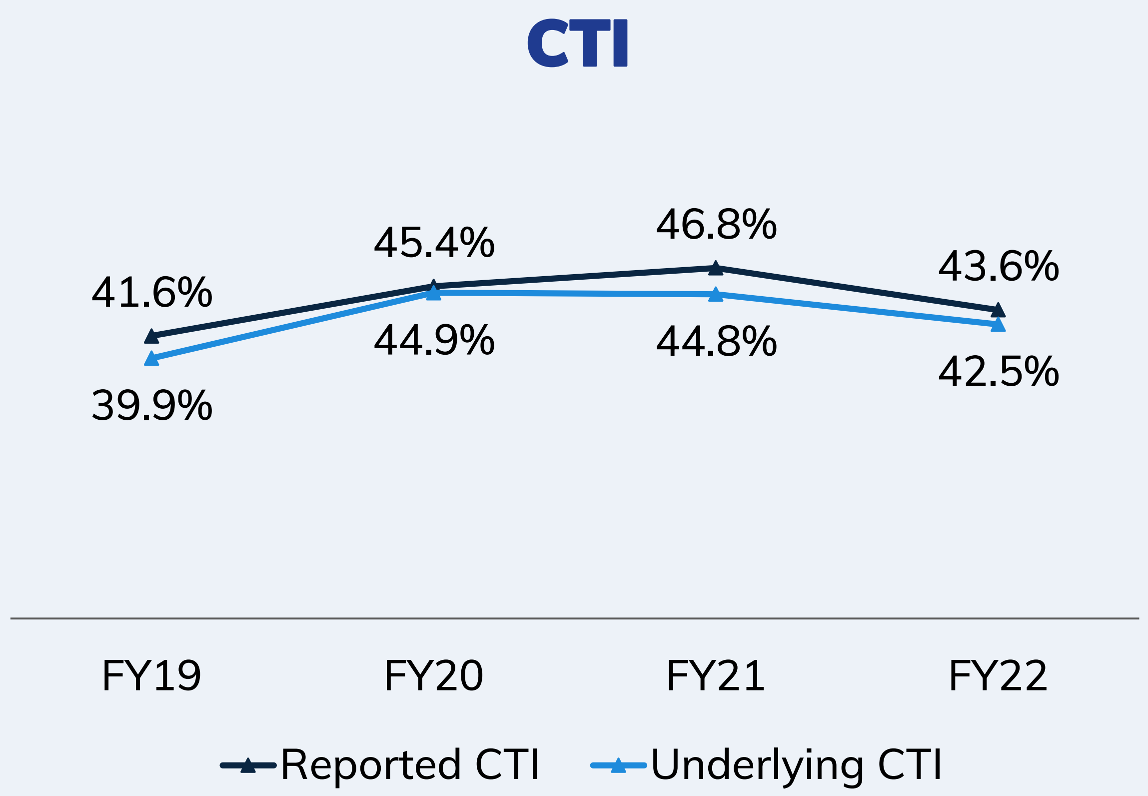
4 FY2021 one-offs: $1.9 million tax impact on one-offs. FY2022 one-offs: (i) ($1.4 million) non-recurring adjustments, (ii) $4.2 million tax impact on one-offs.

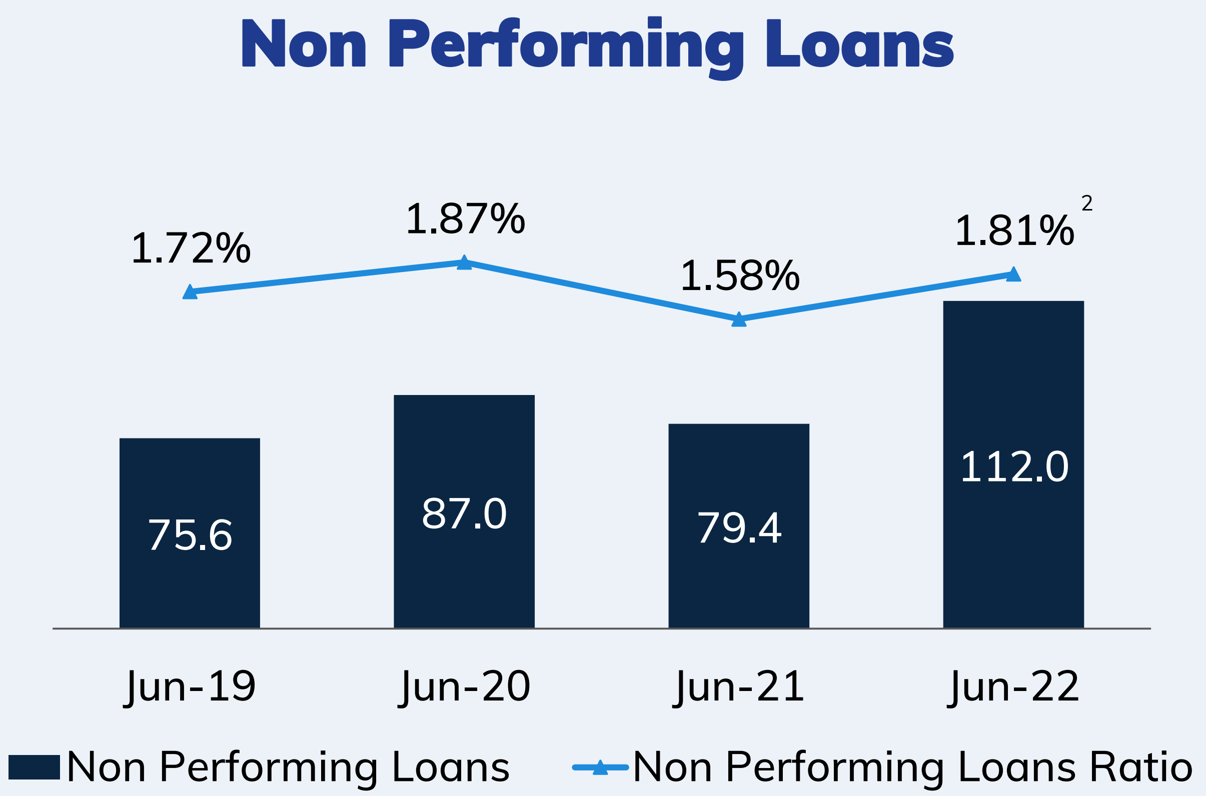
Note: All figures in NZ$m and excluding StockCo Australia impacts. Refer to Appendix 3 for reconciliation between reported and underlying NPAT result. Chart is not to scale.

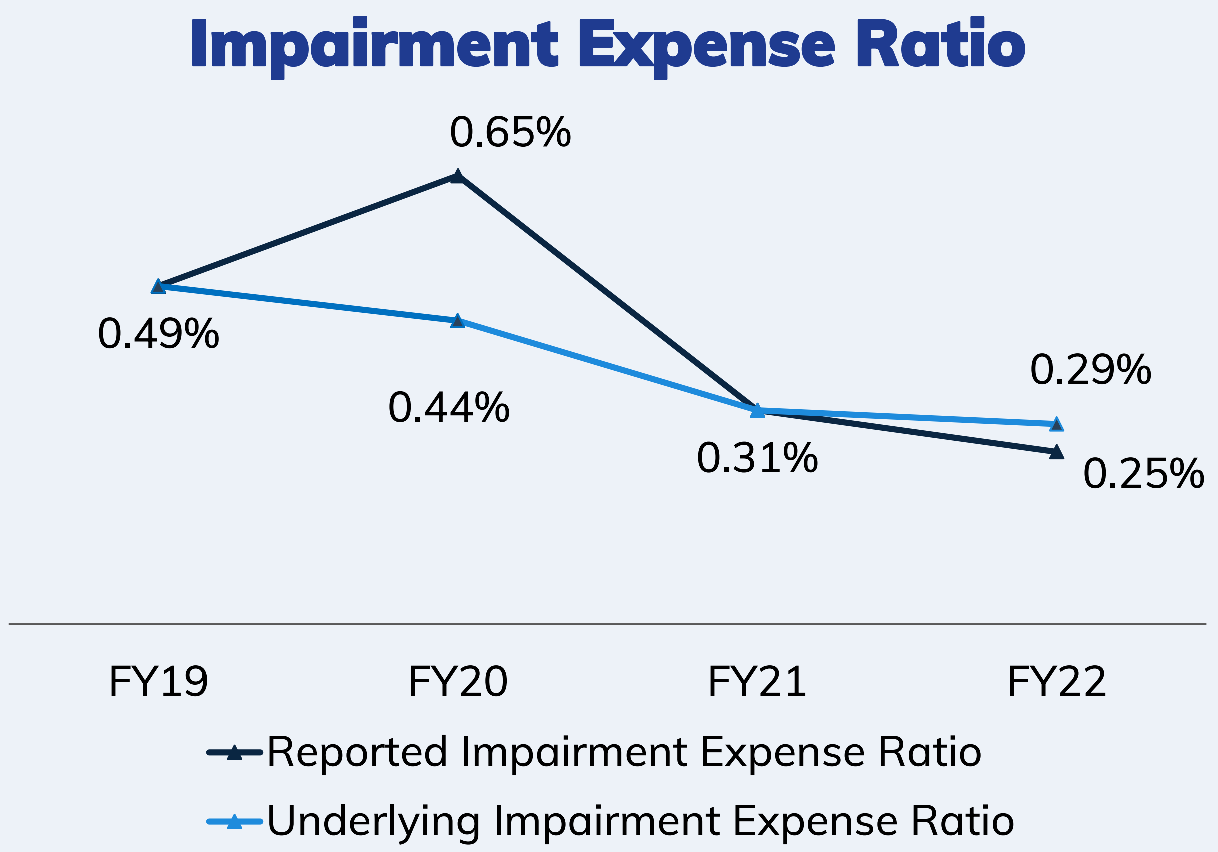
Key performance measures











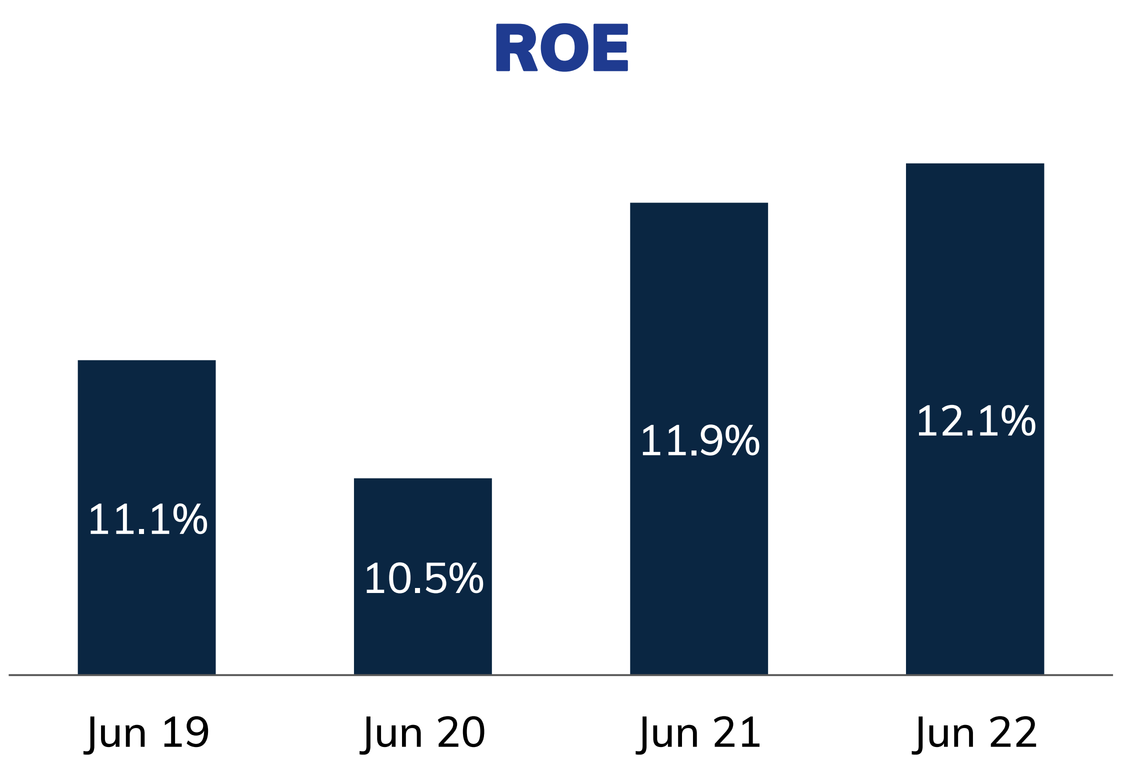
Note:

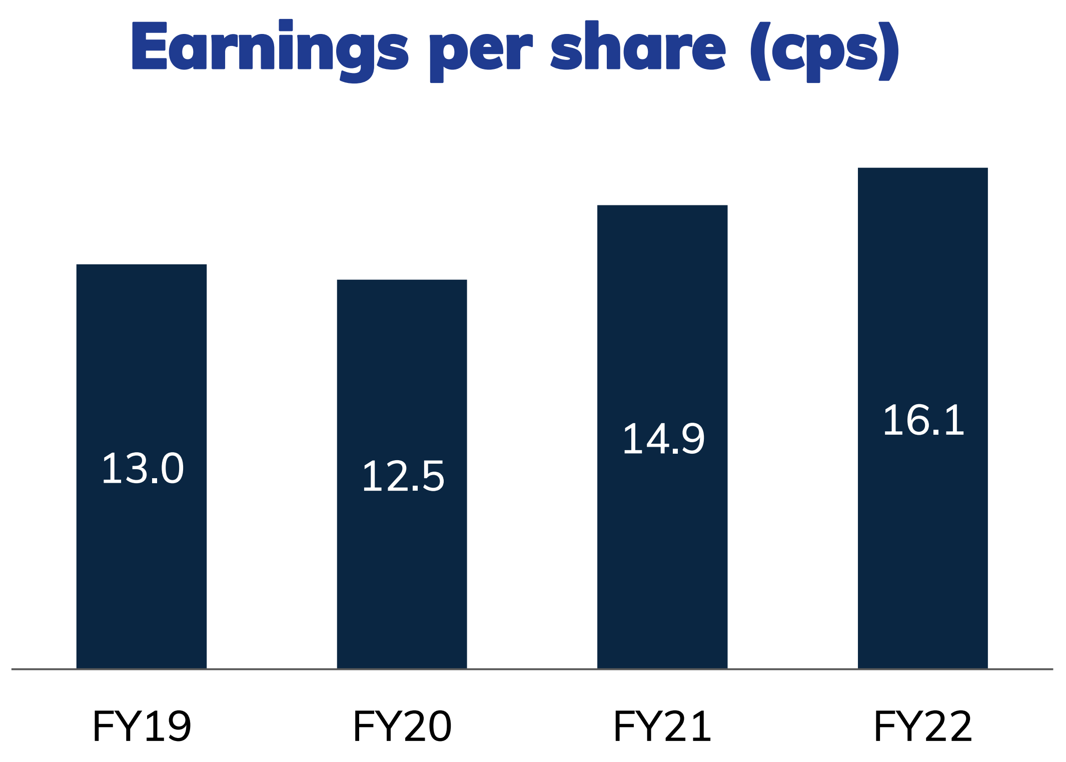
- NIM is calculated as net interest income/average gross interest earning assets, adjusted for the impact of StockCo Australia.
- Impairment expense ratio is calculated as impairment expense/average gross finance receivables.
- Underlying CTI ratio and impairment expense ratio exclude one-off impacts. Refer to Appendix 3 for reconciliation between reported and underlying result.

[1] Compounded annual growth rate for the period FY2019-FY2022.
[2] Increase in non performing loans (**NPL**) is primarily due to strong growth, with NPL ratio trending near historical averages.

Shareholder return

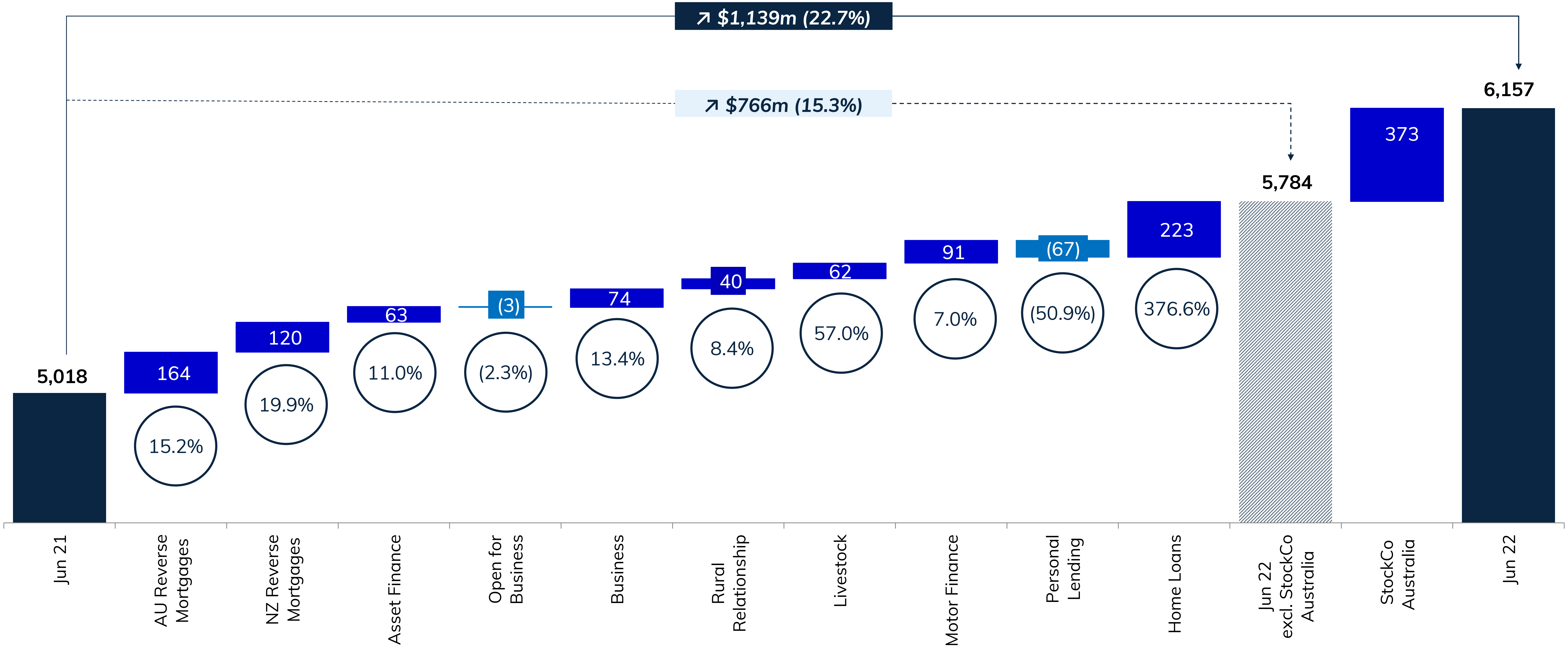
- Return on equity (**ROE**) of 12.1% (up 21 bps vs FY2021). Underlying ROE of 12.6% (up 59 vs FY2021).
- Earnings per share (**EPS**) of 16.1 cps, up 1.2 cps compared with FY2021.
- Final dividend of 5.5 cps, taking FY2022 total dividend to 11.0 cps (flat on FY2021).
- Full year payout ratio of 68%, compared with the average over the last three years of 69%.
- Dividend yield of 7.1%[1] (FY2021: 7.1%[2]).
- Five year total shareholder return (**TSR**) of 66.9%, (19 August 2017 – 19 August 2022) compared with the NZX50 Index TSR of 56.7% in the same period.
- Heartland's Dividend Reinvestment Plan (**DRP**) is suspended for this dividend due to the proposed equity raise.





[1]Total fully imputed dividends divided by the closing share price as at 19 August 2022 of $2.16.
[2]Total fully imputed dividends divided by the closing share price as at 20 August 2021 of $2.16.
[3]Includes imputation credits.

Growth in receivables



Note: The graph shows FY2022 growth in receivables by portfolio excluding the impact of changes in FX rates. All figures in NZ$m.

Strategic update

1

Strategic progress

Heartland's strategic vision is to provide **best or only products via scalable digital platforms**, achieved through the four pillars below.

Business as usual growth

Reported on in **divisional summary** section, page 20.

Launched new products: **90 Day Notice Saver** and **Dairy Direct**.

Heartland Bank awarded **Canstar's 2022 Savings Bank of the Year** (fifth consecutive year).

NZ Reverse Mortgages remains **Consumer Trusted** (fifth consecutive year).

Frictionless service at the lowest cost

120% increase in Heartland Bank mobile app users.

Ongoing development of **new functionality and digital platforms** to enable increased self-service.

Underlying CTI ratio reduced from 44.8% in FY2021 to 42.5% in FY2022.

Core banking system upgrade underway.

Expansion in Australia

Launched **Express Reverse Mortgage**.

AU Reverse Mortgages received **various awards for excellence in the sector**.

AU Reverse Mortgage **market share of 33.1%** at 31 March 2022.[1]

Well-Life Loan and Reverse Mortgage **product adjustments to increase eligible market**.

Acquisitions

Successfully completed the **acquisition of StockCo Australia**.

Exploring options to **establish or acquire an ADI in Australia**.

Exploring acquisitions where there is a fit with Heartland's strategic vision and the opportunity to add value, either as a means of adding scale or technology.

[1] Based on APRA ADI Property Exposure and Heartland Finance data as at 31 March 2022.

Sustainability

Heartland's sustainability framework is built on three key pillars: environmental conservation, social equity and economic prosperity.

Environmental Conservation

31% absolute reduction in Greenhouse Gas emissions (21% adjusted for COVID-19) from FY2019 baseline.

Percentage of "new generation" (electric and hybrid) vehicles financed increased steadily over the year and continues to climb as Heartland's key partners increase production of new generation vehicles.

23% of vehicle fleet replaced with hybrid alternatives.

Preparation and contribution to **new climate-related disclosures** in NZ (coming into effect from FY2024).

Social equity

Rainbow Tick achieved in November 2021.

2022 HRNZ Awards finalist in the *Leader Māori HR* award category for Manawa Ako internship programme.

93% of employees resonate with Heartland's mātāpono (values) as important values to them.

Gender pay gap of 23% (8% below Financial and Insurance Services industry average), **Māori and Pasifika pay gaps each 25%.**[1]

Heartland Trust[2] grants totalled $501,933 to community groups and organisations.

Economic prosperity

Enabled more than **40,000 New Zealanders and Australians** to live a more comfortable retirement through a reverse mortgage.

Offered **customer cost savings** through some of New Zealand's lowest mortgage rates.

Delivered **shareholder return** as described on page 13.

[1] Pay gaps as at 31 January 2022. Pay gaps as at 30 June 2022 will be reported in the Annual Report published on 28 September 2022.

[2] The Heartland Trust is a registered charitable trust which is independent from, but closely supported by Heartland and Heartland Bank.

StockCo Australia

- On 31 May 2022, Heartland completed the acquisition of StockCo Australia.
- Total consideration was A$154.4 million[1], funded through a A$158 million bridge facility provided by a major Australasian financial institution.
- At the same time, a new long-term syndicated securitisation warehouse was executed with A$300 million of senior funding provided by two major Australasian financial institutions.
- StockCo Australia specialises in livestock finance for cattle and sheep farmers across Australia (74% cattle/26% sheep), with total assets of A$358 million and a leading position in the market, estimated to be A$7 billion[2].
- Heartland's focus is to build on StockCo Australia's position as a market-leading provider of specialist livestock finance for cattle and sheep farmers across Australia.
- Transaction costs of $1.2 million were expensed in FY2022 and StockCo Australia contributed $1.4 million to FY2022 NPAT (excluding bridge finance costs).
- StockCo Australia is projected to contribute A$10 million to A$12 million to FY2023 NPAT.

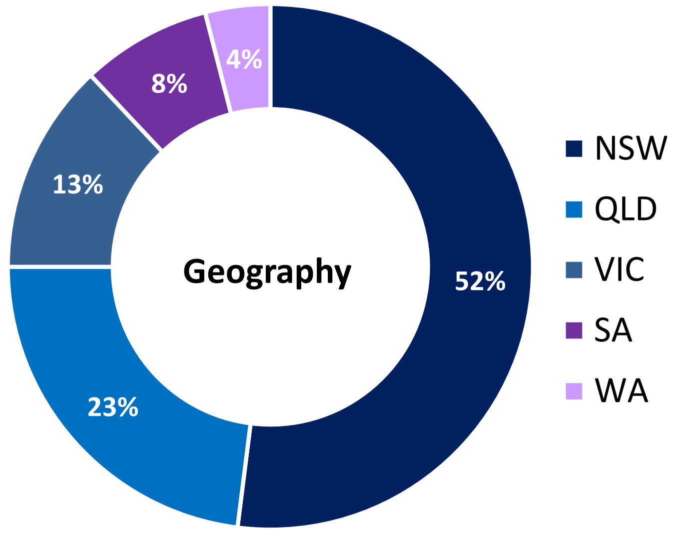
Key operating metrics

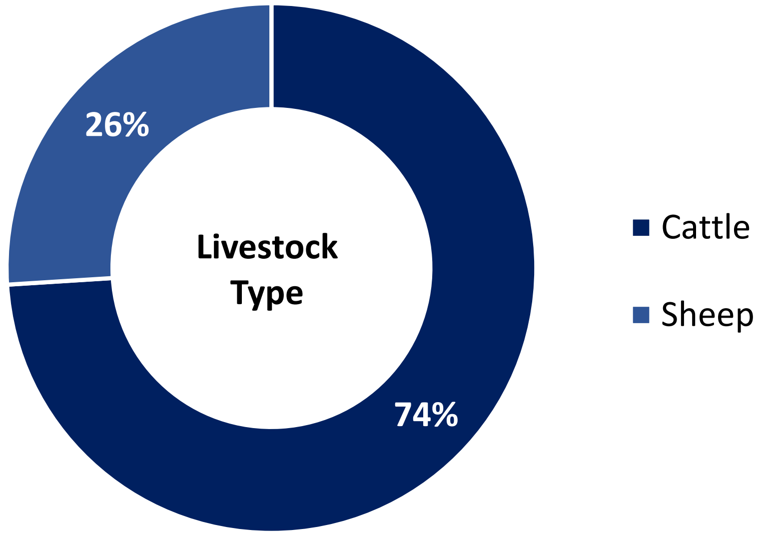
Number of customers	1,579
Cumulative Loss Rate	0.02%
FY22 Gross Yield	11.4%
Weighted average tenor	6.1 months

Acquisition metrics

Cash and cash equivalents	A$8.7m
Livestock receivables	A$339.9m
Other assets	A$9.4m
Total assets	**A$358.0m**
Borrowings	A$325.9m
Other liabilities	A$1.2m
Total liabilities	**A$327.1m**
Net assets acquired	A$30.9m
Goodwill on acquisition	**A$124.9m**

Diversified loan portfolio





[1] Including A$1.6 million of deferred consideration payable subject to performance hurdles.
[2] Based on Australia Bureau of Statistics total rural debt and StockCo Australia data.

Further opportunities for growth in Australia

- Heartland has been exploring opportunities to establish or acquire an ADI in Australia. Becoming a bank through an ADI in Australia would make possible a number of benefits:
  - access to a deep and efficient pool of funding to support ongoing growth;
  - potential uplift in margin, to the extent that retail funding rates are less than wholesale rates; and
  - a platform to extend Heartland's best or only strategy into Australia.
- The aim is to create the potential for a digital bank which, once Heartland assets are transferred into it, would be profitable. This, together with Heartland's best or only strategy, provides the opportunity for a differentiated proposition.
- To this end, Heartland has entered into a non-binding memorandum of understanding (**MoU**) with Avenue Hold Limited (**Avenue Hold**) in relation to the potential acquisition of Avenue Hold and its subsidiary Avenue Bank Limited (**Avenue Bank**). Avenue Bank is a restricted ADI and is seeking to progress to becoming a full ADI.
- Any establishment or acquisition by Heartland of an ADI in Australia would be subject to regulatory approvals.
- Subject to regulatory approvals and transaction completion, Heartland's existing businesses in Australia would be transferred to sit in or under Avenue Bank, and this would be the vehicle for growth in Australia.
- In accordance with the MoU, Heartland has made an initial subscription for $5 million of capital in Avenue Hold. Heartland's due diligence review is continuing, as is negotiation of binding transaction documentation. Completion of any transaction is expected to be conditional upon a number of matters (which may include Heartland securing acquisition funding, Heartland being satisfied as to the likelihood of Avenue Bank progressing to being a full ADI, Avenue Hold shareholder support of the transaction, receipt of all necessary regulatory approvals (including from APRA and the RBNZ), and the absence of any material adverse change).
- Any requirements or conditions of regulatory approvals (including capital and liquidity requirements for the bank and relevant business of Heartland held below Heartland's top-level holding company in Australia, Heartland Australia Holdings Pty Limited (**HAH**)) will:
  - become known only as engagement with APRA and RBNZ progresses; and
  - be relevant to Heartland's decision to proceed with the transaction.
- It is currently expected that completion of any acquisition would take place no earlier than the last quarter of FY2023, and possibly not until the first half of FY2024. The consideration payable by Heartland on completion is expected to be A$49 million, subject to adjustments.
- For regulatory reasons, Heartland would be required to hold any ADI in Australia through an Australian incorporated non-operating holding company (**NOHC**) which is approved and regulated by APRA. It is currently anticipated that HAH would be the appropriate vehicle to apply to APRA for authority to act as a NOHC. To pre-position HAH for this opportunity, Heartland is seeking the consent of the RBNZ for HAH to also act as the NOHC of Heartland Bank in New Zealand. This would not result in any change to Heartland Bank's beneficial ownership. This engagement with RBNZ is at an early stage.

Divisional summary

Reverse Mortgages portfolio analytics

NEW ZEALAND

Average loan size	$116,728
Weighted average borrowers' age	78
Average origination LVR	10.0%
Weighted average LVR	18.3%
Proportion of the loan book over 75% LVR	0.0%
Number of loans in the book over 75% LVR	1
FY2022 origination	$165m (+$63m vs FY2021)
Total repayments in FY2022	$85m (-$8m vs FY2021)
FY2022 repayment rate	14.0% (vs 16.5% in FY2021)
Compounded annual growth rate[1]	12.1%
Repayments from vintage loans (+11 years)	32.1% (vs 37.0% in FY2021)

$721m
NZ Reverse Mortgages
+$120m (19.9%)
vs June 2021

AUSTRALIA

A$1,154m
AU Reverse Mortgages
+A$152m (15.2%)
vs June 2021

Average loan size	A$148,405
Weighted average borrowers' age	77
Average origination LVR	11.6%
Weighted average LVR	20.5%
Proportion of the loan book over 75% LVR	0.1%
Number of loans in the book over 75% LVR	5
FY2022 origination	$254m (+$64m vs FY2021)
Total repayments in FY2022	A$157m (+A$2m vs FY2021)
FY2022 repayment rate	15.7% (vs 16.9% in FY2021)
Compounded annual growth rate[1]	18.6%
Repayments from vintage loans (+11 years)	19.0% (vs 23.3% in FY2021)

[1] Compounded annual growth rate for the period 1 January 2017 – 30 June 2022.

AU Reverse Mortgages

- Receivables increased by $163.8 million (15.2%)[1] to $1.24 billion.
- Growth was driven by the relaxation of COVID-19 lockdowns, growing acceptance of reverse mortgages, promotion by the Australian Federal Government of its Home Equity Access Scheme, and advertising campaigns.
- Product specification adjustments made to Well-Life Loan and Reverse Mortgage products to increase eligible market.
- Received four awards in FY2022, including Infochoice's Best Reverse Mortgage, and Australian Mortgage Awards' 'Most Effective Digital Strategy – Lender' Excellence Award for its digital focus.
- The potential addressable market for reverse mortgages is estimated to be $10-15 billion.[2]

$39.2m

NET OPERATING INCOME

As at 30 June 2022

+8.2%

increase since June 2021

$1.24b

RECEIVABLES

As at 30 June 2022

+15.2%[1]

growth since June 2021

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

[2] According to Deloitte at the 2021 Three Pillars Forum.

NZ Reverse Mortgages

- New Zealand Reverse Mortgages net operating income (**NOI**) was up 33.4% from FY2021 due to record asset growth and improved margins.
- Receivables increased $119.8 million (19.9%) to $721.3 million.
- Increased awareness supported by advertising and a specialist team.
- New business in 2H2022 was 17.6% higher than 1H2022.
- Outlook positive as pipeline sits well above the previous corresponding period.
- As cost of living pressures continue and indebtedness in retirement increases, greater acceptance of reverse mortgages is expected to lead to increased demand through FY2023.

$32.5m — NET OPERATING INCOME

As at 30 June 2022

+33.4% — increase since June 2021

$721.3m — RECEIVABLES

As at 30 June 2022

+19.9% — growth since June 2021

Open for Business

- Open for Business (**O4B**) is Heartland's first digital platform that provides unsecured loans to the small-to-medium enterprise (**SME**) sector, with online approval possible within one minute.
- FY2022 saw a decrease of $0.8 million (5.8%) in O4B NOI.
- Receivables decreased $3.3 million (2.3%)[1] to $141.2 million.
- COVID-19 interrupted momentum in the O4B target market more severely than in other Business segments.
- Although there were signs of recovery early in FY2022, the arrival of the Omicron variant adversely impacted sector demand again.
- O4B growth in FY2023 will remain challenging as the SME sector struggles to accommodate difficult macro-economic, logistical and labour conditions.

$13.7m NET OPERATING INCOME
As at 30 June 2022

-5.8% decrease since June 2021

$141.2m RECEIVABLES
As at 30 June 2022

-2.3%[1] decrease since June 2021

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

Asset Finance[1]

- Asset Finance NOI was up 7.5% from FY2021.
- Receivables increased $62.6 million (11.0%) to $633.6 million.
- New business growth exceeded expectations as Heartland continues to build its intermediated partnership strategy and delivery processes.
- Demand from logistics and other productive sectors remained resilient through variable conditions. Activity remains focused in these segments.
- Significant market share opportunities exist and will be pursued in FY2023.

$30.6m

NET OPERATING INCOME

As at 30 June 2022

+7.5%

increase since June 2021

$633.6m

RECEIVABLES

As at 30 June 2022

+11.0%

growth since June 2021

[1] Previously referred to as Business Intermediated.

Business

- Business includes floorplan lending to vehicle retailers and wholesale facilities to other lenders. The portfolio includes what was previously known as Business Relationship.
- Receivables increased $74.3 million (13.4%)[1] to $629.4 million.
- Growth in facility utilisation rates was driven by strong underlying demand in motor vehicle sales combined with erratic shipping schedules.
- Heartland has onboarded new customers in this segment and supported the growth strategies of wholesale borrowers in other sectors.

$30.9m

NET OPERATING INCOME

As at 30 June 2022

+18.6%

increase since June 2021

$629.4m

RECEIVABLES

As at 30 June 2022

+13.4%[1]

growth since June 2021

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

Motor Finance

- Motor Finance NOI was up 5.6% from FY2021.
- Receivables increased $90.8 million (7.0%) to $1.38 billion.
- Growth was mainly from the Motor dealer book via car dealerships, brokers and partnerships such as Kia Finance, Jaguar/Land Rover Financial Services, and Peugeot/Citroen (through Auto Distributors New Zealand Limited (Auto Distributors) under the iOwn brand). Auto Distributors have also been appointed the distributors for Opel which arrives in late September 2022.
- Growth in FY2022 was hindered by COVID-19 and the unintended effects of changes to the CCCFA introduced on 1 December 2021, which considerable reduced application automation rates and impacted conversion rates.
- Since implementing a new process for premium customers, application automation rates have started to increase.
- Portfolio performance returned to more normal levels in the last quarter of FY2022, recording a 194% increase in growth on the previous quarter and producing an annualised growth rate of 7.4% for the quarter.

$73.1m **+5.6%**

NET OPERATING INCOME | increase since June 2021

As at 30 June 2022

$1.38b **+7.0%**

RECEIVABLES | growth since June 2021

As at 30 June 2022

Personal Lending

- Personal Lending includes loans originated directly through Heartland Bank, and those originated by Harmoney in New Zealand and Australia.
- The **New Zealand Harmoney channel** decreased $58.3 million (76.0%) to $18.4 million.
- The **Australian Harmoney channel** decreased by $36.6 million (74.9%)[1] to $12.2 million.
- Negotiations with Harmoney on proposed new wholesale facilities ended in March 2022. Heartland's Harmoney personal loans channel is therefore running down.
- In the current risk environment, Heartland is comfortable with this book running down.

$10.3m

NET OPERATING INCOME

As at 30 June 2022

-40.4%

decrease since June 2021

$64.9m

RECEIVABLES

As at 30 June 2022

-50.9%[1]

decrease since June 2021

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

Home Loans[1]

- Home Loans[1] Receivables increased $224.8 million (450.8%) in FY2022 to $274.7 million.
- The rising interest rate environment drove a high volume of applications, as customers locked in competitive rates.
- Heartland's rates were frequently market-leading across standard residential mortgage products throughout the year.
- Q2 growth was adversely impacted by the unintended effects of the CCCFA changes introduced on 1 December 2021. Q3 advertising saw a return to rapid growth, with book size increasing by $51.8 million.
- Strong customer retention in a competitive market. Retention rate for customers whose fixed rates expired during 2H2022 was 91.1%.
- Heartland Home Loans remains in a phase of rapid growth, and a book size of $495 million by the end of FY2023 is being targeted.

$2.1m

NET OPERATING INCOME

As at 30 June 2022

$0.1m

As at 30 June 2021

$274.7m

RECEIVABLES

As at 30 June 2022

450.8%

increase since June 2021

[1] Excludes legacy Retail Mortgages.

Rural

- An increase in both **Livestock** Receivables of $62.3 million (57.0%) to $171.7 million, and an increase in **Rural** Receivables of $40.2 million (8.4%) to $517.4 million.
- Livestock enjoyed record growth in FY2022, resulting from an increase in customers and facility utilisation rates reaching a historic high.
- New and expanded partnership opportunities that were developed in FY2022 are expected to flow positively into FY2023.
- Sheep & Beef Direct was a success story throughout FY2022, contributing 53% of total Rural new business. The product produced consistent growth, which confirmed the market niche it was developed for.
- A similar product for dairy farmers, Dairy Direct, was launched in FY2022 and is expected to grow consistently with Sheep & Beef Direct.

$30.2m

NET OPERATING INCOME

As at 30 June 2022

-6.1%

decrease since June 2021

$689.1m

RECEIVABLES

As at 30 June 2022

17.5%

increase since June 2021

Funding, liquidity and capital update

NZ funding and liquidity

Heartland Group

Heartland Group increased borrowings by 26.9% to $6,170.7 million, contributed to by increases in New Zealand and Australia.
Excluding StockCo Australia impacts, total borrowings increased by 16.5% to $5,669.0 million.

New Zealand

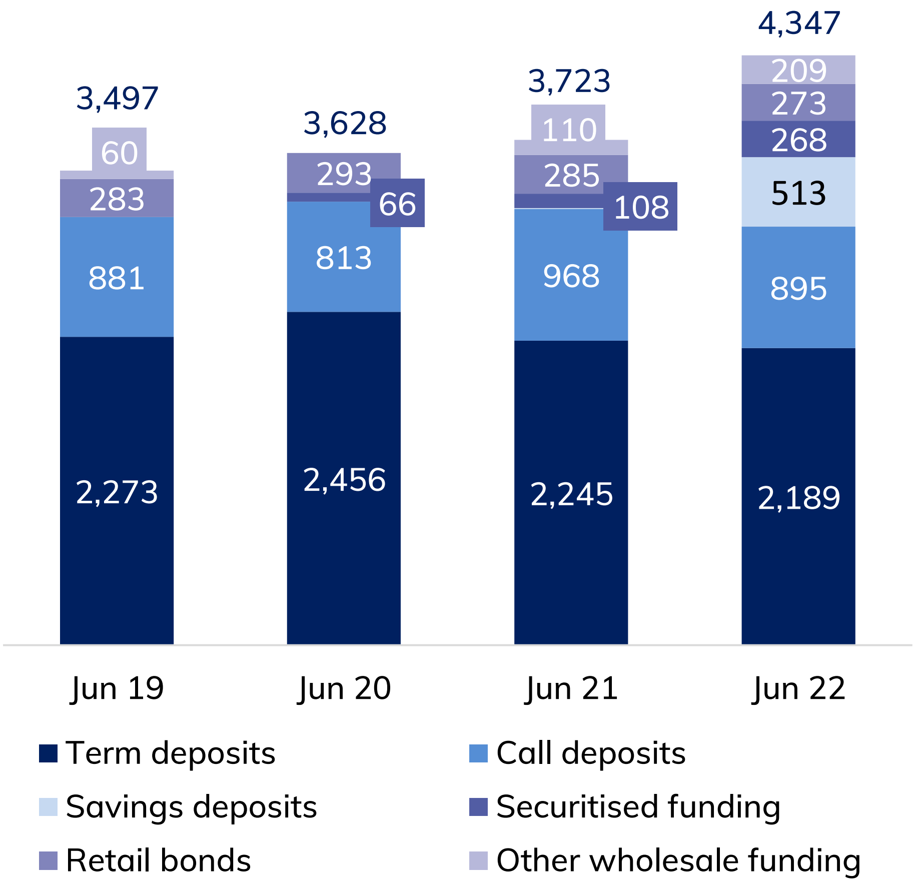
- Heartland Bank increased borrowings by 16.8% to $4,346.6 million.
  - Deposits grew 11.7% to $3,597.1 million, largely driven by strong growth in Notice Saver.
  - In FY2022, Heartland Bank launched a 90 Day Notice Saver product at a market-leading rate following the successful launch of a 32 Day Notice Saver in late FY2021. Heartland Bank was announced Canstar's Savings Bank of the Year 2022 (fifth consecutive year), with awards for Direct Call and Notice Saver accounts.
  - Other borrowings increased by 49.0% to $749.5 million, largely driven by increases in committed auto warehouse facility and commercial paper.
- Increased committed auto warehouse facility from $300 million to $400 million in September 2021, with the amount drawn down increasing by $159.6 million.
- Total liquidity remained strong, increasing by 1.0% to $627.9 million.
- Heartland Bank holds liquidity well in excess of regulatory minimums and maintains strong regulatory liquidity ratios.

Core funding ratio
90.2%
as at Jun 22
vs 75% regulatory minimum
↓3.1 pps vs Jun 21

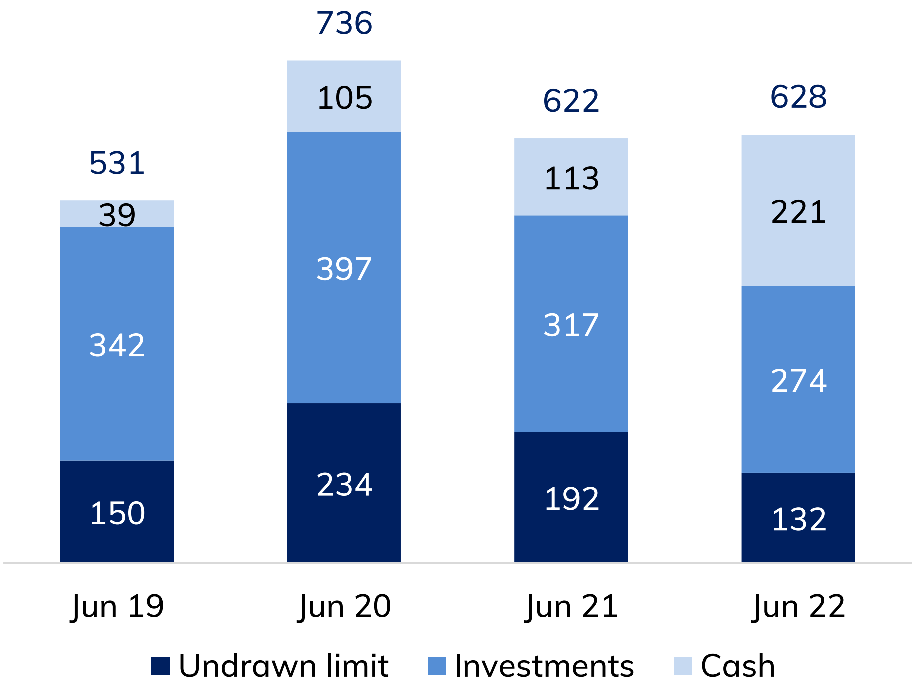
1-week mismatch
7.16%
as at Jun 22
vs 0% regulatory minimum
↑60 bps vs Jun 21

1-month mismatch
6.88%
as at Jun 22
vs 0% regulatory minimum
↓90 bps vs Jun 21

Heartland Bank
Funding Composition[1] $m



Heartland Bank
Liquidity Composition $m

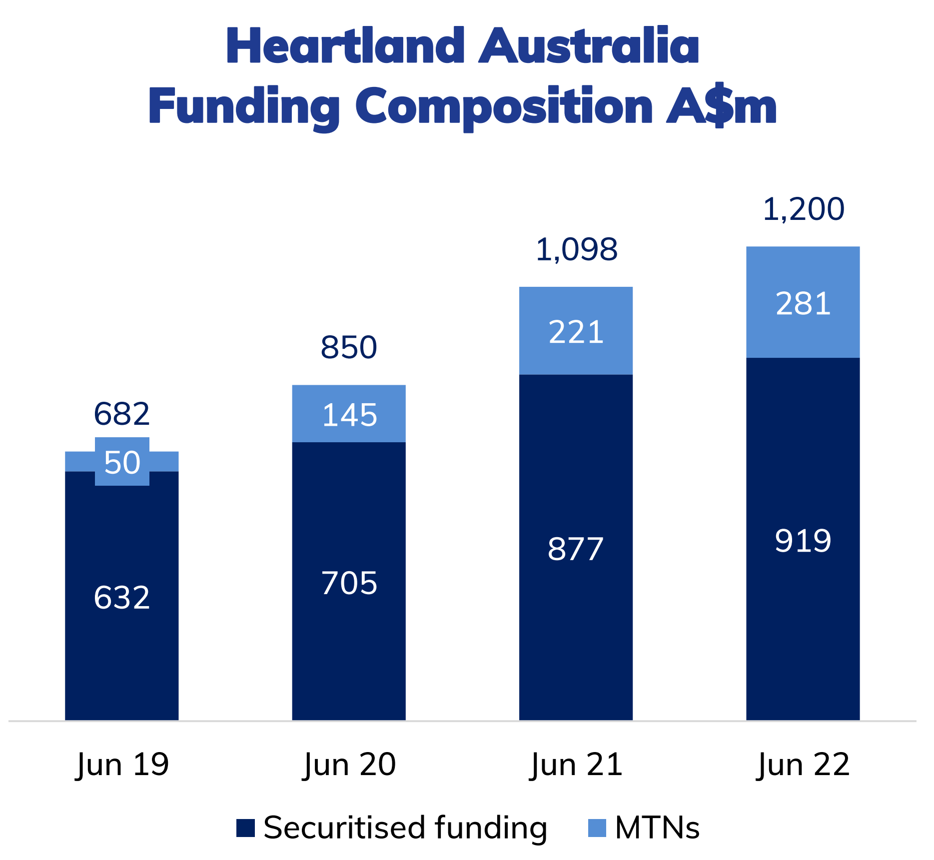


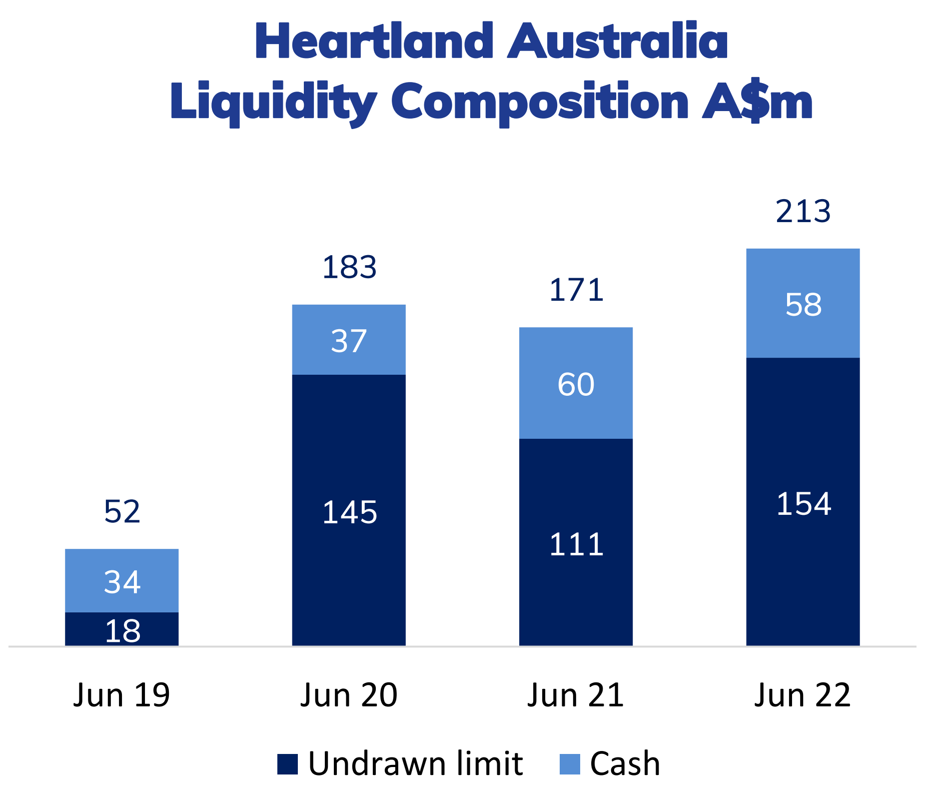
[1] Includes intercompany deposits.

AU funding and liquidity

Australia

- Heartland Australia increased borrowings by 9.3% to A$1,200.2 million in FY2022, and has access to committed Australian reverse mortgage loan funding of A$1.35 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.
- Reverse mortgage securitisation warehouses maturity was extended by two and three years, and aggregate senior limits were expanded by A$100 million, providing additional headroom to fund future growth in the portfolio.
- An additional A$45 million Medium-Term Note (**MTN**) was issued in July 2021.
- An A$115 million MTN was issued in May 2022 to refinance an existing A$100 million MTN and provide additional funding for future growth, taking the aggregate outstanding issuance under Heartland Australia's MTN programme to A$280 million as at 30 June 2022.
- Additionally, a A$30 million tap into an existing A$45 million funding line, maturing in July 2024, was issued in August 2022, adding further diversity to the funding base.





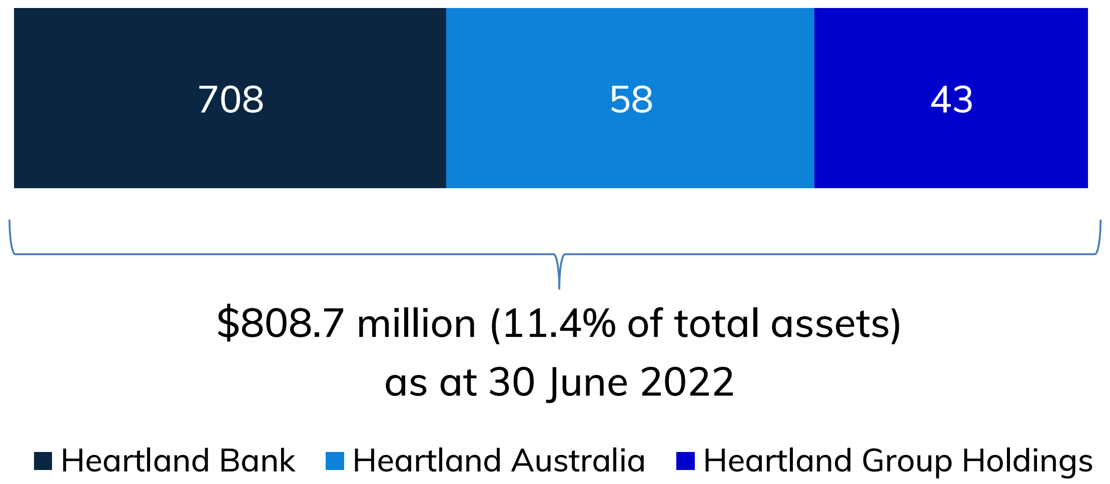
Capital

- Partial restriction on bank dividends removed effective 1 July 2022.
- Heartland Bank's capital ratio as at 30 June 2022 is 13.49% (down from 13.88% as at 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 beginning from 1 July 2021, requiring the minimum total capital ratio to gradually be increased from the current 10.5% to 16.0%.
- On current footings, Heartland Bank would require $24 million additional capital to meet the 14% Tier 1 ratio requirement, and a further $93 million to meet the 16% total capital requirement. Heartland Bank currently has no hybrid capital (additional tier 1 or tier 2) on issue.
- Heartland Bank's current capital position and organic growth in capital is expected to be sufficient to meet future minimum requirements.

Heartland Bank Capital Ratio

Heartland Capital Movement $m

Heartland Capital Allocation $m



Regulatory update and outlook

Regulatory update

Heartland continues to monitor the significant volume of regulatory change.

Changes to the CCCFA

- Initial changes came into force on 1 December 2021.
- Heartland Bank implemented new processes and technologies to enable it to comply with these changes and continues to refine them.
- Additional CCCFA changes were announced in June 2022 (effective 7 July 2022).
- Following completion of the Government's investigation into the impact of the December 2021 changes, further changes which seek to reduce the unintended impacts of these changes are expected to be implemented in March 2023.

Financial Markets (Conduct of Financial Institutions) Amendment Act 2022

- Passed in June 2022, the Act is planned to come into force in early 2025 following a transitional period.
- Applies to registered banks, licensed insurers and licensed non-bank deposit takers and is regulated by the Financial Markets Authority (**FMA**).
- The Act introduces a new conduct licensing regime, the requirement to establish, implement, maintain and comply with a fair conduct programme and the regulation of incentives (via new regulations which are yet to be consulted on).
- Incentives regulations will apply both to Heartland Bank and its intermediaries involved in the distribution of its products.

Proposed Deposit Takers Act

- New legislation is being developed to:
  - strengthen the regulatory framework for all institutions that take deposits (including Heartland Bank) through the strengthening of RBNZ's supervision and enforcement powers; and
  - introduce a new depositor compensation scheme, overseen by RBNZ.
- An exposure draft of the Deposit Takers Bill is expected to be introduced to Parliament in the latter half of 2022.

Removal of RBNZ dividend restrictions placed on banks

- In June 2022, the RBNZ announced the remaining dividend restrictions placed on banks would be removed from 1 July 2022.

Climate-Related Disclosures

- Continued preparation is underway to meet the Climate-Related Disclosures obligations introduced through the Financial Sector (Climate-related Disclosures and Other Matters) Amendment Act 2021, with Heartland's first climate statement required as part of reporting for the period ended 30 June 2024.

Looking forward

- The current economic environment presents the obvious challenges of rising inflation and rapidly rising interest rates, tempered somewhat by low unemployment, flowing through into business and consumer confidence.

- To a meaningful extent, Heartland is insulated against these challenges due to expected levels of growth in Reverse Mortgages (driven by demographics) and Livestock (driven by global demand for protein).

- The large number of residential mortgages in New Zealand coming off fixed rates during the course of the year should support ongoing growth of Home Loans. Continued market share gains in Motor and Asset Finance is expected to underpin growth in markets that have seen supply disruptions and a decline in confidence. Similarly, Heartland's focus on parts of the rural market that are underserviced by larger banks, has the potential to offset the ongoing exit of larger rural relationship loans. However, this must be weighed against decreasing confidence levels in some sections of the market.

- With regard to risk in this environment, while Heartland has released its COVID-19 Overlay, it has adopted an Economic Overlay of $8 million in order to provide coverage for a potential downside scenario. Alongside this, the portfolio mix has shifted towards higher quality loans, with a strong increase in particular of Reverse Mortgages, which are expected to continue to perform very well.

- Efforts will continue to create efficiencies and frictionless service at the lowest cost. It will also be a very important year for Heartland's Australian strategy – the first full year with StockCo Australia as a member of the Group, and in progressing Heartland's pathway to becoming a bank through obtaining an ADI licence in Australia.

NPAT for FY2023

Heartland expects NPAT for FY2023 to be in the range of $109 million to $114 million, excluding any impacts of fair value changes on equity investments held.

Proposed equity raise

1

Equity raise offer summary

Offer size and structure	Heartland is seeking to raise NZ$200 million (**Equity Raise**) in new equity via a: – NZ$130 million fully underwritten placement to eligible investors; and – NZ$70 million share purchase plan, with the ability for Heartland to accept oversubscriptions at its discretion. • The SPP is open to all eligible shareholders with an address recorded in Heartland's share register that is in New Zealand or Australia on the Record Date. Each eligible shareholder can apply for up to NZ$50,000/A$45,000 shares. • Heartland elected this offer structure due to the volatile market conditions to date in 2022, and its objective to further diversify its share register to promote increased liquidity on both the NZX and ASX. This is important in driving long-term value for all shareholders, by attracting depth of investment and widening demand.
Use of proceeds	• Proceeds will be used to repay the A$158 million acquisition finance facility outstanding in relation to the recent acquisition of StockCo Australia, and to provide additional growth capital for Heartland's existing businesses both in Australia and New Zealand.
Offer price	• New Shares under the Placement will be issued at a fixed price of NZ$1.80 per share (**Placement Price**). • The underwritten fixed price represents a discount of: – 12.8% to the ex-dividend adjusted last close of NZ$2.065 per share on 22 August 2022; and – 13.7% to the ex-dividend adjusted 5-day volume weighted average price (**VWAP**) of NZ$2.0851 per share. • New Shares will be offered under the SPP at the lower of the Placement Price or a 2.5% discount to the 5-day VWAP of Heartland shares traded on the NZX up to and including the closing date of the SPP.
Ranking and quotation	• New Shares issued under the Placement and the SPP will rank equally with existing Heartland shares on issue and will be quoted on NZX Main Board and ASX from the date of allotment. • The New Shares issued under the Placement and SPP will not be entitled to the FY2022 final dividend payable on 14 September 2022, with a Record Date of 26 August 2022.
Underwriting	• Heartland's largest shareholder, Harrogate Trustee Limited, has pre-committed to participate in the placement to maintain a minimum shareholding of 9.8% following completion of the Equity Raise. • The Placement is fully underwritten by Jarden Partners Limited.

Equity raise timetable

- Eligible investors interested in participating in the Placement should contact their broker on Tuesday 23 August 2022.
- Shareholders entitled to participate in the SPP should visit www.heartlandshareoffer.co.nz and apply online by 7.00pm (NZST) on Monday, 5 September 2022.
- Heartland trades ex-dividend on Thursday 25 August 2022. New Shares issued under the Placement and SPP will not be entitled to the FY2022 final dividend.

Placement	Date[1]
Trading halt commences and Placement bookbuild opens	Tuesday 23 August 2022
Announcement of results of Placement and trading halt lifted	Wednesday 24 August 2022
ASX settlement	Friday 26 August 2022
NZX settlement	Monday 29 August 2022
Placement shares allotted and commence trading on NZX Main Board and ASX	Monday 29 August 2022

SPP[2]	Date[1]
Record date (7.00pm NZST)	Monday 22 August 2022
Expected dispatch of Offer Document	Thursday 25 August 2022
SPP opens	Thursday 25 August 2022
SPP closes	7.00pm NZST (5.00pm AEST) Monday 5 September 2022
Announcement of results of SPP, including issue price in NZ$ and A$	Thursday 8 September 2022
NZX and ASX settlement	Friday 9 September 2022
SPP shares allotted and commence trading on NZX	Friday 9 September 2022
Expected mailing of holding statements	Friday 9 September 2022
SPP shares commence trading on ASX	Monday 12 September 2022

[1]Dates above are subject to change and are indicative only
[2]Eligible shareholders with an address recorded in Heartland's share register that is in New Zealand or Australia on the Record Date can find out more about the SPP at www.heartlandshareoffer.co.nz and can apply online during the SPP period.

Key risks

This section outlines the key risks that Heartland has identified as relevant to investors in the proposed equity raise. These risks may affect the future operating and financial performance of Heartland and the Heartland share price. Like any investment, there are risks associated with an investment in Heartland's shares.

This section does not (and does not purport to) set out all of the risks related to an investment in Heartland shares, the future operating or financial performance of Heartland, the proposed equity raise or general market or industry risks. Some risks may be unknown and other risks, currently believed to be immaterial, could turn out to be material.

In light of heightened geopolitical tensions, rising inflation contributing to an increasing cost of living and rapidly rising interest rates, extra caution should also be taken when assessing the risks associated with the investment. These ever-evolving situations continue to pose challenges for global financial markets and the economy as a whole. Capital markets continue to see equity securities suffer from spikes in volatility and significant price declines.

As a financial institution, Heartland is exposed to credit, capital, liquidity, market (including interest rate), operational, compliance and general business risk. Heartland has implemented structures, policies, procedures, controls and information systems that it considers appropriate to manage these risks, but there are inherent limitations to any risk management framework – Heartland is exposed to risks that may not be anticipated or are outside its control, or its risk management framework may not operate effectively. If any of Heartland's risk management processes and procedures prove ineffective or inadequate or are otherwise not appropriately implemented, Heartland could suffer unexpected losses and reputational damage which could adversely affect Heartland's business and financial performance.

Before deciding whether to invest in Heartland shares, you must make your own assessment of the risks associated with such an investment and consider whether it is suitable for you, having regard to publicly available information (including this presentation), your personal circumstances and following consultation with a financial adviser or other professional adviser.

Risks

Macro-economic conditions	• Increased volatility in macro-economic conditions (rising inflation, increasing costs of living and rapidly rising interest rates) is being experienced as a result of geopolitical tensions and other factors. • Severe deterioration in macro-economic conditions could impact on the availability and/or utility of Heartland's funding arrangements or otherwise impact upon Heartland's liquidity. • It could also result in increased credit risk through higher unemployment for consumers and adverse financial conditions for businesses. As a financial services group, either of those outcomes could have a material adverse impact on Heartland.
Successful execution of strategic objectives	• Heartland's strategy involves continuing to seek and execute on growth opportunities, either through business as usual growth or acquisitions. • The proposed equity raise will provide Heartland with capital to continue to grow. There is a risk that Heartland may not be successful in executing its growth strategies, resulting in costs being incurred without commensurate benefits being enjoyed. In addition, there are other risks associated with this strategy. Those risks include Heartland's ability to successfully compete in the increasingly competitive landscape in which Heartland operates; the fact that Heartland's growth ambitions are, in some cases, reliant on the receipt of regulatory approvals which are beyond Heartland's control; and that overall market conditions mean that it is more challenging to execute Heartland's strategy within normal timeframes and budgets in the current environment.
People and projects	• The tight labour market and health impacts on the workforce from the ongoing prevalence of COVID-19 strains and other illnesses affects the continuity and availability of people and make recruiting of appropriately qualified employees challenging. This is particularly in areas where key skills are in high demand. Resource challenges could affect the delivery of major projects at Heartland, achievement of strategic priorities, and the smooth functioning of business operations.
Information technology and cybersecurity	• Heartland relies on the performance, reliability and availability of its information technology, communication and other business systems. Malicious or operational causes, damage, interruption or failure of Heartland's key systems and cybersecurity measures, or compromise of data, could result in significant disruptions to Heartland's business, reputational damage, and heightened regulatory scrutiny. • Heartland is currently undertaking a program of investment in its information technology systems. Heartland is upgrading its core banking system, Flexcube, provided by Oracle, which is expected to be completed by November. Associated projects are also occurring, which are contingent on completion of the Flexcube upgrade. The program is currently operating on schedule, however, experience suggests that issues may arise which cause delays and/or cost overruns, and could possibly impact upon FY2023 NPAT.

Risks cont.

Biosecurity	• Heartland Bank has a livestock and rural funding business in New Zealand. Heartland Group recently acquired StockCo Australia, a market-leading provider of specialist livestock finance for cattle and sheep farmers across Australia. Through these businesses, Heartland either finances, or takes security, over livestock, which exposes Heartland to disease and mortality risk. • There is presently a Foot and Mouth outbreak in Bali. Should Foot and Mouth disease reach Australia or New Zealand, there are Governmental response plans to stamp it out by immediately controlling movement of livestock, isolating, tracing and culling livestock. There are also compensation schemes available for farmers of culled livestock. Those measures, in addition to Heartland's origination procedures and lending standards, are expected to limit Heartland's longer term risk, however there could be a material adverse effect on Heartland's financial performance in the short term due to a national market price reduction in the early stages of an incursion, potential delays in receiving compensation payments and/or lengthened trades due to processing challenges.
Regulatory impact	• The financial services sector continues to face significant regulatory scrutiny and change. Any failures by Heartland to comply with existing regulatory requirements may impact both Heartland's business and its reputation. Future changes in laws and regulations in New Zealand and Australia may require changes to Heartland's business plan and model and may affect Heartland's financial performance.
Reverse Mortgage portfolio risk	• Heartland has portfolios of reverse mortgage loans in both New Zealand and Australia. • The terms of Heartland's reverse mortgage loans mean that a borrower can choose to live in their home for as long as they wish, and the amount required to repay their loan will never exceed the sale proceeds of their property. This exposes Heartland to some risk (namely that the loan balance exceeds the value of the property). Heartland monitors and is comfortable with this risk, but significant movements in borrower mortality trends, trends in borrower movement to retirement care facilities, interest rates and house price inflation could increase that risk and have a material adverse impact on Heartland. • Reverse mortgage loans are also an area of heightened potential reputational risk. Heartland has comprehensive origination procedures and lending standards which aim to eliminate any source of potential reputational risk, but there is a chance that those lending standards may not operate effectively on occasion and that Heartland could be exposed to reputational risk.
Hedge accounting	• Heartland endeavours to fully hedge the economics of its interest rate risks. The derivatives used to create these hedges are subject to different accounting treatment than the loan and deposit books. Hedge accounting for derivatives is complex, and in some market environments where ordinary correlations dislocate, it is difficult to achieve. This may cause accounting hedge ineffectiveness, or for hedge accounting relationships to fail, resulting in some gain or loss through profit or loss. Should this occur, it could possibly impact upon FY2023 NPAT, however it would be non-cash and not reflective of underlying performance.

Appendices

Appendix 1: Financial performance

$m	FY2022	FY2021	Change ($)	Change (%)
Net Operating Income[1]	267.6	251.2	16.4	6.5%
Operating Expenses	116.8	117.7	(0.9)	(0.8%)
Impairment Expense	13.8	15.0	(1.2)	(7.7%)
Profit Before Tax	**137.0**	**118.6**	**18.5**	**15.6%**
Tax Expense	41.9	31.5	10.4	32.9%
Net Profit After Tax	**95.1**	**87.0**	**8.1**	**9.3%**

Net Interest Margin[2]	4.16%	4.35%	(19 bps)
Cost to Income ratio	43.6%	46.8%	(3.2 pps)
Impairment Expense Ratio	0.25%	0.31%	(6 bps)
Return on Equity	12.1%	11.9%	21 bps
Earnings per Share	16.1 cps	14.9 cps	1.2 cps

[1] Includes fair value movements.
[2] Adjusted for the impact of StockCo Australia.

Appendix 2: Financial position

$m	30 June 2022	30 June 2021	Movement ($m)	Movement (%)
Liquid Assets	585	539	45	8.4%
Gross Finance Receivables	6,196	5,018	1,177	23.5%
Provisions	(52)	(54)	2	(3.1%)
Other Assets	362	179	183	101.9%
Total Assets	**7,090**	**5,683**	**1,407**	**24.8%**
Retail Deposits	3,593	3,183	409	12.8%
Other Borrowings	2,578	1,681	898	53.4%
Total Funding	6,171	4,864	1,307	26.9%
Other Liabilities	111	57	54	93.3%
Equity	809	762	47	6.2%
Total Equity & Liabilities	**7,090**	**5,683**	**1,407**	**24.8%**

Appendix 3: Reconciliation of reported with underlying results

FY2022 one-offs included in the reported result:

- *Hedging*: A $16.7 million gain was recognised in relation to derivatives that were de-designated from hedge accounting relationships.
- *Impairment provisions:* $9.6 million COVID-19 Overlay, originally raised in FY2020, remained entirely unutilised and was released in full. A new $8.0 million Economic Overlay was created.
- *Valuation of investments:* a $12.7 million fair value loss was recognised on investment in Harmoney shares, and a further $0.3 million fair value loss was recognised on Heartland Bank's rights over a profit-sharing arrangement with a customer.
- *Voluntary amortisation of intangibles:* $2.9 million expense was recognised for intangibles that are no longer expected to derive future economic benefits.
- *Other non-recurring expenses:* $1.0 million.
- *Aged items provisions and legacy accruals:* a combined $0.5 million of unwarranted accruals and provisions for aged legacy suspense account transactions were released.
- *Tax adjustments:* a $1.2 million release of tax provisions relating to prior periods and $0.2 million of other non-recurring tax benefits were recognised during the year.

FY2021 one-offs included in the reported result:

- *Valuation of investments:* a $3.9 million fair value gain was recognised on Harmoney shares, and a further $0.2 million net fair value gain on other equity investments.
- *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:* $0.9 million.

$m	FY2022	FY2021	Movement ($m)	Movement (%)
Reported NOI	**267.6**	**251.2**	**16.4**	**6.5%**
Less:				
StockCo Australia impacts[1]	1.9	-	1.9	
Hedge accounting impacts	16.7	-	16.7	
Net fair value gain/(loss) on investments	(13.0)	4.1	(17.1)	
Underlying NOI	**262.0**	**247.1**	**14.9**	**6.0%**
Reported OPEX	**116.8**	**117.7**	**(0.9)**	**(0.8%)**
Less:				
StockCo Australia impacts[1]	1.9	-	1.9	
Voluntary (accelerated) amortisation	2.9	4.3	(1.4)	
Aged items provisions and legacy accruals	(0.5)	1.7	(2.2)	
Other non-recurring items	1.0	0.9	0.1	
Underlying OPEX	**111.4**	**110.8**	**0.6**	**0.6%**
Reported impairment expense	**13.8**	**15.0**	**(1.2)**	**(7.7%)**
Less:				
StockCo Australia impacts[1]	(0.3)	-	(0.3)	
COVID-19 Overlay release	(9.6)	-	(9.6)	
Economic Overlay created	8.0	-	8.0	
Underlying impairment expense	**15.7**	**15.0**	**0.7**	**4.9%**
Reported NPAT	**95.1**	**87.0**	**8.1**	**9.3%**
Less:				
Post-tax StockCo Australia impacts[1]	-	-	-	
Post-tax impact of one-offs	(2.3)	(0.8)	(1.5)	
Tax adjustments relating to prior periods	1.4	-	1.4	
Underlying NPAT	**96.1**	**87.9**	**8.2**	**9.3%**
Reported NIM	4.05%	4.35%	(29 bps)	
Underlying NIM	**4.16%**	**4.35%**	**(19 bps)**	
Reported CTI	43.6%	46.8%	(3.2 pps)	
Underlying CTI	**42.5%**	**44.8%**	**(2.3 pps)**	
Reported ROE	12.1%	11.9%	21 bps	
Underlying ROE	**12.6%**	**12.0%**	**59 bps**	

[1] Includes StockCo Australia's results and transaction costs related to the acquisition of StockCo Australia (where applicable).

Appendix 4: International offer restrictions

This document does not constitute an offer of New Shares in any jurisdiction in which it would be unlawful. In particular, this document may not be distributed to any person, and the New Shares may not be offered or sold, in any country outside Australia and New Zealand except in the Placement to the extent permitted below.

Australia

The information in this presentation has been prepared on the basis that all offers of New Shares under the Placement will be made to Australian resident investors to whom an offer of shares for issue may lawfully be made without disclosure under Part 6D.2 of the Corporations Act 2001 (Cth) (**Corporations Act**) because of sections 708(8) to 708(11) of that act. Accordingly, if you are in Australia or a person for whom you are acquiring the New Shares under the Placement is in Australia, the offer is made to you on the basis that:

- you are a "wholesale investor"; and
- any person for whom you are acquiring the New Shares under the Placement is in compliance with any applicable legal offer restrictions and any applicable selling restrictions set out in the Information Materials and, subject to those selling restrictions, may not need to be a "wholesale investor".

"wholesale investor" means a sophisticated investor within the meaning of section 708(8) of the Corporations Act or an experienced investor meeting the criteria in section 708(10) of the Corporations Act or a "professional investor" within the meaning of section 708(11) of the Corporations Act.

Hong Kong

WARNING: This document has not been, and will not be, registered as a prospectus under the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32) of Hong Kong, nor has it been authorised by the Securities and Futures Commission in Hong Kong pursuant to the Securities and Futures Ordinance (Cap. 571) of the Laws of Hong Kong (the **SFO**). Accordingly, this document may not be distributed, and the New Shares may not be offered or sold, in Hong Kong other than to "professional investors" (as defined in the SFO and any rules made under that ordinance).

No advertisement, invitation or document relating to the New Shares has been or will be issued, or has been or will be in the possession of any person for the purpose of issue, in Hong Kong or elsewhere that is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to New Shares that are or are intended to be disposed of only to persons outside Hong Kong or only to professional investors. No person allotted New Shares may sell, or offer to sell, such securities in circumstances that amount to an offer to the public in Hong Kong within six months following the date of issue of such securities.

The contents of this document have not been reviewed by any Hong Kong regulatory authority. You are advised to exercise caution in relation to the offer. If you are in doubt about any contents of this document, you should obtain independent professional advice.

Singapore

This document and any other materials relating to the New Shares have not been, and will not be, lodged or registered as a prospectus in Singapore with the Monetary Authority of Singapore. Accordingly, this document and any other document or materials in connection with the offer or sale, or invitation for subscription or purchase, of New Shares, may not be issued, circulated or distributed, nor may the New Shares be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to persons in Singapore except pursuant to and in accordance with exemptions in Subdivision (4) Division 1, Part 13 of the Securities and Futures Act 2001 of Singapore (the **SFA**) or another exemption under the SFA.

This document has been given to you on the basis that you are an "institutional investor" or an "accredited investor" (as such terms are defined in the SFA). If you are not such an investor, please return this document immediately. You may not forward or circulate this document to any other person in Singapore.

Any offer is not made to you with a view to the New Shares being subsequently offered for sale to any other party in Singapore. On-sale restrictions in Singapore may be applicable to investors who acquire New Shares. As such, investors are advised to acquaint themselves with the SFA provisions relating to resale restrictions in Singapore and comply accordingly.

United Kingdom

Neither this document nor any other document relating to the offer has been delivered for approval to the Financial Conduct Authority in the United Kingdom and no prospectus (within the meaning of section 85 of the Financial Services and Markets Act 2000, as amended ("FSMA")) has been published or is intended to be published in respect of the New Shares.

The New Shares may not be offered or sold in the United Kingdom by means of this document or any other document, except in circumstances that do not require the publication of a prospectus under section 86(1) of the FSMA. This document is issued on a confidential basis in the United Kingdom to "qualified investors" within the meaning of Article 2(e) of the UK Prospectus Regulation. This document may not be distributed or reproduced, in whole or in part, nor may its contents be disclosed by recipients, to any other person in the United Kingdom.

Any invitation or inducement to engage in investment activity (within the meaning of section 21 of the FSMA) received in connection with the issue or sale of the New Shares has only been communicated or caused to be communicated and will only be communicated or caused to be communicated in the United Kingdom in circumstances in which section 21(1) of the FSMA does not apply to the Company.

In the United Kingdom, this document is being distributed only to, and is directed at, persons (i) who have professional experience in matters relating to investments falling within Article 19(5) (investment professionals) of the Financial Services and Markets Act 2000 (Financial Promotions) Order 2005 ("FPO"), (ii) who fall within the categories of persons referred to in Article 49(2)(a) to (d) (high net worth companies, unincorporated associations, etc.) of the FPO or (iii) to whom it may otherwise be lawfully communicated (together "relevant persons"). The investment to which this document relates is available only to relevant persons. Any person who is not a relevant person should not act or rely on this document.

United States

This document does not constitute an offer to sell, or a solicitation of an offer to buy, securities in the United States. The New Shares have not been, and will not be, registered under the US Securities Act of 1933 or the securities laws of any state or other jurisdiction of the United States. Accordingly, the New Shares may not be offered or sold in the United States except in transactions exempt from, or not subject to, the registration requirements of the US Securities Act and applicable US state securities laws.

The New Shares will only be offered and sold in the United States to:

- "qualified institutional buyers" (as defined in Rule 144A under the US Securities Act); and
- dealers or other professional fiduciaries organized or incorporated in the United States that are acting for a discretionary or similar account (other than an estate or trust) held for the benefit or account of persons that are not US persons and for which they exercise investment discretion, within the meaning of Rule 902(k)(2)(i) of Regulation S under the US Securities Act.

Thank you

For Heartland's FY2022 full year results announcement, please see **shareholders.heartland.co.nz**

HEARTLAND GROUP

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	12 months to 30 June 2022	
Previous Reporting Period	12 months to 30 June 2021	
Currency	NZD	
	Amount (000s)	**Percentage change**
Revenue from continuing operations	$267,617	6.5%
Total Revenue	$267,617	6.5%
Net profit/(loss) from continuing operations	$95,125	9.3%
Total net profit/(loss)	$95,125	9.3%
Interim/Final Dividend		
Amount per Quoted Equity Security	$0.05500000	
Imputed amount per Quoted Equity Security	$0.02138889	
Record Date	26/08/2022	
Dividend Payment Date	14/09/2022	
	Current period	**Prior comparable period**
Net tangible assets per Quoted Equity Security	$0.96	$1.16
A brief explanation of any of the figures above necessary to enable the figures to be understood	Please refer to the audited financial statements that accompany this announcement for a further explanation of these figures.	
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	23/08/2022	

Audited financial statements accompany this announcement.

HEARTLAND

Distribution Notice

Please note: all cash amounts in this form should be provided to 8 decimal places, including zeros (ie 0.01001000)

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	x	Quarterly	
	Half Year		Special	
	DRP applies			
Record date	26/08/2022			
Ex-Date (one business day before the Record Date)	25/08/2022			
Payment date (and allotment date for DRP)	14/09/2022			
Total monies associated with the distribution[1]	$32,609,710.10			
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~~			

[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.

	~~No imputation~~
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	$0.00381944
Section 4: Distribution re-investment plan (if applicable)	
DRP % discount (if any)	N/A – DRP has been suspended for this dividend due to the proposed equity raise announced by Heartland
Start date and end date for determining market price for DRP	
Date strike price to be announced (if not available at this time)	
Specify source of financial products to be issued under DRP programme (new issue or to be bought on market)	
DRP strike price per financial product	
Last date to submit a participation notice for this distribution in accordance with DRP participation terms	
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	23/08/2022

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

HEARTLAND

NZX/ASX release
23 August 2022

ASX Listing Rule 1.15.3 Statement

Heartland Group Holdings Limited (**Heartland**) (**NZX/ASX: HGH**) (an ASX Foreign Exempt Listing) confirms, for the purposes of ASX Listing Rule 1.15.3, that it has complied with and continues to comply with the Listing Rules of NZX Limited, which is its overseas home exchange.

– ENDS –

For further information, please contact the person(s) who authorised this announcement:

Andrew Dixson
Chief Financial Officer
Heartland Group Holdings Limited
DDI 09 927 9274
andrew.dixson@heartland.co.nz
Level 3, Heartland House, 35 Teed Street, Newmarket, Auckland, New Zealand

HEARTLAND

Corporate Action Notice

(Other than for a Distribution)

Section 1: Issuer information (mandatory)				
Name of issuer	Heartland Group Holdings Limited			
Class of Financial Product	Ordinary Shares			
NZX ticker code	HGH			
ISIN (If unknown, check on NZX website)	NZHGHE0007S9			
Name of Registry	Link Market Services Limited			
Type of corporate action (Please mark with an X in the relevant box/es)	Share Purchase Plan/retail offer	x	Renounceable Rights issue or Accelerated Offer	
	Capital reconstruction		non-Renounceable Rights issue or Accelerated Offer	
	Call		Bonus issue	
Record date	22/08/2022			
Ex Date (one business day before the Record Date)	19/08/2022			
Currency	NZD / AUD			

Section 6: Share Purchase Plans/retail offer	
Number of Financial Products to be issued OR Maximum dollar amount of Financial Products to be issued	Up to NZ$50,000 / A$45,000 per shareholder/beneficial owner with an address recorded in Heartland's share register that is in New Zealand or Australia, for an aggregate offer size of NZ$70 million, with the ability for Heartland to accept oversubscriptions at its discretion.
Minimum application amount (if any)	No minimum application amount.
Maximum application amount per financial product holder	NZ$50,000 / A$45,000.
Subscription price per Financial Product	The Shares will be issued at the lower of the price paid by investors in Heartland's recent Placement, being NZ$1.80 per Share, and a 2.5% discount to the five day volume weighted average price of Heartland shares traded on NZX during the five NZX trading days up to, and including, the Closing Date.
Scaling reference date	By reference to holdings at Record Date.
Closing date	05/09/2022
Allotment date	09/09/2022

Section 7: Authority for this announcement (mandatory)	
Name of person authorised to make this announcement	Phoebe Gibbons
Contact person for this announcement	Phoebe Gibbons
Contact phone number	+64 9 927 9986
Contact email address	Phoebe.Gibbons@heartland.co.nz
Date of release through MAP	23/08/2022

HEARTLAND GROUP

23 August 2022

NZ RegCo Level 1, NZX Centre 11 Cable Street Wellington 6011 New Zealand	ASX Limited 20 Bridge Street Sydney NSW 2000 Australia

HEARTLAND GROUP HOLDINGS LIMITED (NZX: HGH, ASX: HGH): NOTICE PURSUANT TO CLAUSE 20(1)(a) OF SCHEDULE 8 TO THE FINANCIAL MARKETS CONDUCT REGULATIONS 2014

Heartland Group Holdings Limited (*Heartland*) has today announced that it will undertake a placement (the *Placement*), and share purchase plan (the *Share Purchase Plan*) of new fully paid ordinary shares of the same class as already quoted on the NZX and the ASX (together, the *Offer*).

Pursuant to clause 19 of Schedule 1 of the Financial Markets Conduct Act 2013 (*FMCA*), clause 20 of Schedule 8 of the Financial Markets Conduct Regulations 2014 (*FMC Regulations*) and the Australian Corporations Act 2001 (Cth) (*Corporations Act*), Heartland states that:

1 Heartland is making the Offer in reliance upon the exclusion in clause 19 of Schedule 1 of the FMCA and is giving this notice under clause 20(1)(a) of Schedule 8 of the FMC Regulations.

2 Heartland will offer the ordinary shares for issue and issue the ordinary shares without disclosure under Part 6D.2 of the Corporations Act.

3 Heartland is giving this notice under paragraph 708(12G) of the Corporations Act (as notionally inserted by ASIC Instrument 18-1012) and 708A(12J) of the Corporations Act (as notionally inserted by ASIC Instrument 22-0735) and ASIC Corporations (Share and Interest Purchase Plans) Instrument 2019/547 as amended by ASIC Instrument 22-0735.

4 As at the date of this notice, Heartland is in compliance:

4.1 with the continuous disclosure obligations that apply to it in relation to Heartland's quoted ordinary shares and its obligations under rule 1.15.2 of the ASX Listing Rules; and

4.2 with its "financial reporting obligations" within the meaning set out in clause 20(5) of Schedule 8 of the FMC Regulations.

5 As at the date of this notice, there is no information that is "excluded information" as defined in clause 20(5) of Schedule 8 to the FMC Regulations in respect of Heartland.

The Offer is not expected to have any effect on the control of Heartland within the meaning set out in clause 48 of Schedule 1 of the FMCA.

This notice has been authorised for release to NZX and ASX by:

Michael Drumm
Group Chief Operating Officer
Heartland Group Holdings Limited

Financial Statements

For the year ended 30 June 2022

HEARTLAND GROUP

Contents

General Information

These financial statements are issued by Heartland Group Holdings Limited (**HGH**) and its subsidiaries (the **Group**) for the year ended 30 June 2022.

Name and address for service

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

Details of incorporation

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

Auditor

KPMG
KPMG Centre
18 Viaduct Harbour Avenue
Auckland 1010

Other Material Matters

There are no material matters relating to the business or affairs of the Group that are not disclosed in these consolidated financial statements which, if disclosed, would materially affect the decision of a person to subscribe for debt or equity instruments of which the Group is the issuer.

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 to the composition of the Board of Directors of the Group for the year ended 30 June 2022.

The Directors of HGH and their details at the time these financial statements were signed were:

Chairman – Board of Directors
Name: Geoffrey Thomas Ricketts CNZM
Type of Director: Independent Non-Executive Director
Qualifications: LLB (Hons), LLD *(honoris causa)*, CFInstD
Occupation: Company Director

External Directorships:
Janmac Capital Limited, Maisemore Enterprises Limited, MCF2 Message4U Limited, MCF3 Amplify Limited, MCF3 Green Limited, MCF3 E&P Holdco Limited, MCF3 Re. Group Limited, MCF3 Architectus Limited, MCF 10 Limited, MCF2 (Fund 1) Limited, MCF 11 Limited, MCF2A General Partner Limited, MCF2 GP Limited, MCF3 GP Limited, MCF3B General Partner Limited, MCF3A General Partner Limited, MCF2 FFF-GK Limited, MCF3 Cook Limited, MCF3 TEG Limited, MCF3 Resourceco Limited, MCF3 Squiz Limited, MC Medical Properties Limited, Mercury Capital No.1 Fund Limited, Mercury Capital No. 1Trustee Limited, New Zealand Catholic Education Office Limited, NZCEO Finance Limited, O & E Group Services Limited, Oceania and Eastern Finance Limited, Oceania and Eastern Group Funds Limited, Oceania and Eastern Holdings Limited, Oceania and Eastern Limited, Oceania and Eastern Securities Limited, Oceania North Limited, Oceania Securities Limited, Quartet Equities Limited.

Name: Ellen Frances Comerford
Type of Director: Non-Independent Non-Executive Director
Qualifications: BEc
Occupation: Company Director

External Directorships:
Airtasker Limited, Comerford Gohl Holdings Pty Limited, Hollard Holdings Australia Pty Limited, Lendi Group Pty Ltd, The Hollard Insurance Company Pty Ltd.

Name: Gregory Raymond Tomlinson
Type of Director: Non-Independent Non-Executive Director
Qualifications: AME
Occupation: Company Director

External Directorships:
Alta Cable Holdings Limited, Chippies Vineyard Limited, Indevin Group Limited, Little Ngakuta Trust Company Limited, Mountbatten Trustee Limited, Nearco Stud Limited, Oceania Healthcare Limited, Pelorus Finance Limited, St Leonards Limited, Tomlinson Group Argenta GP Limited, Tomlinson Group NZ Limited, Tomlinson Holdings Limited, Tomlinson Group Investments Limited, Tomlinson Ventures Limited, Terra Vitae Vineyards Limited, Villa Maria Estate Limited.

Name: Jeffrey Kenneth Greenslade
Type of Director: Non-Independent Executive Director
Qualifications: LLB
Occupation: Chief Executive Officer of Heartland Group Holdings

External Directorships:
Henley Family Investments Limited.

Name: Kathryn Mitchell
Type of Director: Independent Non-Executive Director
Qualifications: BA, CMInstD
Occupation: Company Director

External Directorships:
Chambers@151 Limited, Christchurch International Airport Limited, Farmright Limited, Firsttrax Limited, Helpings Hands Holdings Limited, Link Engine Management Limited, Morrison Horgan Limited, The New Zealand Merino Company Limited.

Directors (continued)

Name: Geoffrey Edward Summerhayes
Type of Director: Independent Non-Executive Director

Qualifications: BBA
Occupation: Company Director

External Directorships:
Zurich Financial Services Australia Limited, Zurich Australian Insurance Limited, Zurich Investment Management Limited, Zurich Australia Limited, OnePath Life Limited, OnePath General Insurance Pty Limited.

Directors' Statements

The consolidated financial statements are dated 22 August 2022 and have been signed by all Directors.

G T Ricketts (Chair)

E F Comerford

J K Greenslade

G R Tomlinson

K Mitchell

G E Summerhayes

Consolidated Statement of Comprehensive Income

For the year ended 30 June 2022

$000's	Note	June 2022	June 2021
Interest income	3	342,101	327,935
Interest expense	3	91,959	94,418
Net interest income		**250,142**	**233,517**
Operating lease income	4	5,284	5,004
Operating lease expense	4	3,383	3,149
Net operating lease income		**1,901**	**1,855**
Lending and credit fee income		9,639	8,090
Other income	5	18,933	3,634
Net operating income		**280,615**	**247,096**
Operating expenses	6	116,753	117,658
Profit before impaired asset expense and income tax		**163,862**	**129,438**
Fair value (loss)/gain on investments		(12,998)	4,092
Impaired asset expense	8	13,823	14,974
Profit before income tax		**137,041**	**118,556**
Income tax expense	9	41,916	31,530
Profit for the year		**95,125**	**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		7,041	8,940
Movement in fair value reserve		(712)	(5,646)
Movement in foreign currency translation reserve		2,340	(68)
Items that will not be reclassified to profit or loss, net of income tax:			
Movement in defined benefit reserve		(171)	-
Other comprehensive income		(473)	-
Other comprehensive income for the year, net of income tax		**8,025**	**3,226**
Total comprehensive income for the year		**103,150**	**90,252**
Earnings per share			
Basic earnings per share	10	16.13c	14.92c
Diluted earnings per share	10	16.13c	14.92c

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

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

Consolidated Statement of Changes in Equity

For the year ended 30 June 2022

$000's	Note	June 2022 Share Capital	June 2022 Reserves	June 2022 Retained Earnings	June 2022 Total Equity	June 2021 Share Capital	June 2021 Reserves	June 2021 Retained Earnings	June 2021 Total Equity
Balance at beginning of year		**583,781**	**(477)**	**178,388**	**761,692**	**576,257**	**(5,500)**	**129,223**	**699,980**
Total comprehensive income for the year									
Profit for the year		-	-	95,125	95,125	-	-	87,026	87,026
Other comprehensive income /(loss), net of income tax	17	-	8,498	(473)	8,025	-	3,226	-	3,226
Total comprehensive income for the year		**-**	**8,498**	**94,652**	**103,150**	**-**	**3,226**	**87,026**	**90,252**
Contributions by and distributions to owners									
Dividends paid	16	-	-	(73,454)	(73,454)	-	-	(37,861)	(37,861)
Dividend reinvestment plan	16	15,404	-	-	15,404	7,524	-	-	7,524
Share based payments		-	1,915	-	1,915	-	1,797	-	1,797
Total transactions with owners		**15,404**	**1,915**	**(73,454)**	**(56,135)**	**7,524**	**1,797**	**(37,861)**	**(28,540)**
Balance at end of the year		**599,185**	**9,936**	**199,586**	**808,707**	**583,781**	**(477)**	**178,388**	**761,692**

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

Consolidated Statement of Financial Position

As at 30 June 2022

$000's	Note	June 2022	June 2021
Assets			
Cash and cash equivalents		310,758	182,333
Investments	11	289,294	377,823
Investment properties		11,832	11,832
Derivative financial instruments	12	45,221	14,139
Finance receivables	13	4,146,821	3,288,466
Finance receivables - reverse mortgages	13	1,996,854	1,676,073
Operating lease vehicles	14	15,161	10,865
Right of use assets	18	14,145	15,985
Other assets	18	18,229	16,815
Intangible assets	18	218,874	69,165
Deferred tax asset	9	23,074	14,117
Total assets		**7,090,263**	**5,677,613**
Liabilities			
Deposits	15	3,592,508	3,183,454
Other borrowings	15	2,578,213	1,675,133
Lease liabilities	18	16,240	18,166
Tax liabilities		22,044	7,440
Derivative financial instruments	12	6,341	4,802
Trade and other payables	18	66,210	26,926
Total liabilities		**6,281,556**	**4,915,921**
Equity			
Share capital	16	599,185	583,781
Retained earnings and other reserves		209,522	177,911
Total equity		**808,707**	**761,692**
Total equity and liabilities		**7,090,263**	**5,677,613**
Total interest earning and discount bearing assets		6,667,260	5,432,181
Total interest and discount bearing liabilities		6,131,593	4,840,310

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

Consolidated Statement of Cash Flows

For the year ended 30 June 2022

$000's	Note	June 2022	June 2021
Cash flows from operating activities			
Interest received		222,894	233,447
Operating lease income received		3,913	5,046
Lending, credit fees and other income received		6,101	4,625
Operating inflows		**232,908**	**243,118**
Interest paid		(100,467)	(85,058)
Payments to suppliers and employees		(69,463)	(97,205)
Taxation paid		(32,987)	(34,004)
Operating outflows		**(202,917)**	**(216,267)**
Net cash flows from operating activities before changes in operating assets and liabilities		**29,991**	**26,851**
Proceeds from sale of operating lease vehicles		4,481	6,821
Purchase of operating lease vehicles		(10,758)	(1,788)
Net movement in finance receivables		(693,512)	(296,754)
Net movement in deposits		407,484	(74,608)
Net cash flows (applied to) operating activities[1]		**(262,314)**	**(339,478)**
Cash flows from investing activities			
Purchase of property, plant and equipment and intangible assets		(9,809)	(7,562)
Net movement in investments		75,531	23,276
Purchase of subsidiary, net of cash acquired		(159,919)	-
Total cash (applied to)/from investing activities		**(94,197)**	**15,714**
Net cash flows (applied to)/from investing activities		**(94,197)**	**15,714**
Cash flows from financing activities			
Net increase in wholesale funding		468,139	309,680
Proceeds from issue of unsubordinated notes		77,243	81,801
Total cash provided from financing activities		**545,382**	**391,481**
Dividends paid		(58,050)	(30,337)
Payment of lease liabilities		(2,396)	(2,226)
Total cash (applied to) financing activities		**(60,446)**	**(32,563)**
Net cash flows from financing activities		**484,936**	**358,918**
Net increase in cash held		**128,425**	**35,154**
Opening cash and cash equivalents		182,333	147,179
Closing cash and cash equivalents		**310,758**	**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 financial statements form an integral part of, and should be read in conjunction with, these consolidated financial statements.

Consolidated Statement of Cash Flows

For the year ended 30 June 2022

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

$000's	Note	June 2022	June 2021
Profit for the year		**95,125**	**87,026**
Add/(less) non-cash items:			
Depreciation and amortisation expense		10,691	14,615
Depreciation on lease vehicles	14	3,103	2,801
Capitalised net interest income and fee income		(95,271)	(68,755)
Impaired asset expense	8	13,823	14,974
Investment fair value movement		12,998	(4,092)
Other non-cash items		(30,407)	(24,538)
Total non-cash items		**(85,063)**	**(64,995)**
Add/(less) movements in operating assets and liabilities:			
Finance receivables		(693,512)	(296,754)
Operating lease vehicles		(6,277)	5,033
Other assets		(207)	3,448
Current tax		14,604	(4,863)
Derivative financial instruments		(23,214)	(163)
Deferred tax		(8,957)	3,006
Deposits		407,484	(74,608)
Other liabilities		37,703	3,392
Total movements in operating assets and liabilities		**(272,376)**	**(361,509)**
Net cash flows applied to operating activities[1]		**(262,314)**	**(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 financial statements form an integral part of, and should be read in conjunction with, these consolidated financial statements.

Notes to the Financial Statements

For the year ended 30 June 2022

1 Financial statements preparation

Reporting entity

The financial statements presented are the consolidated financial statements comprising Heartland Group Holdings (**HGH**) and its subsidiaries (the **Group**). Refer to Note 26 – Significant subsidiaries for further details.

As at 30 June 2022, HGH is a company incorporated in New Zealand under the Companies Act 1993 and a Financial Market Conduct (**FMC**) reporting entity for the purposes of the Financial Markets Conduct Act 2013.

Basis of preparation

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

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

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

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

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.

Basis of measurement

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

Principles of consolidation

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

Assets and liabilities in a transactional currency that is not the New Zealand dollar, are translated at the exchange rates ruling at balance date. Revenue and expense items are translated at the average rate at the balance date. Exchange differences are taken to the consolidated statement of comprehensive income.

1 Financial statements preparation (continued)

Changes in accounting standards

Accounting standards issued and effective

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.

Estimates and judgements

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

- Provisions for impairment - The effect of credit risk is quantified based on the Group's best estimate of future cash repayments and proceeds from any security held or by reference to risk profile groupings, historical loss data and forward-looking information. Refer to Note 8 - Impaired asset expense, and Note 13 - Finance receivables for further details.

- Investment in equity securities - Judgements have been applied in techniques to determine the fair value of Harmoney equity securities to reflect the underlying characteristics. Refer to Note 21 - Fair value for further details.

- Fair value of reverse mortgages - Fair value is quantified by the transaction price and the Group's subsequent best estimate of the risk profile of the reverse mortgage portfolio. Refer to Note 21 - Fair value for further details.

- Goodwill - Determining the fair value of assets and liabilities of acquired businesses requires the Group to exercise judgement. The carrying value of goodwill is tested annually for impairment, refer to Note 18 - Other balance sheet items.

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

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.

Whilst economic uncertainty remains, credit risk factors arising from the impact of COVID-19 are now apparent. Consequently the COVID Overlay has been released in full and it has been considered appropriate to create an economic overlay of $8.0 million as at 30 June 2022, resulting in a net $1.6 million release to profit or loss.

The accounting judgement that is most impacted by the economic 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.

1 Financial statements preparation (continued)

Financial assets and liabilities

Financial Assets

Financial assets are classified based on:

- The business model within which the assets are managed; and
- Whether the contractual cash flows of the instrument represent solely payment of principal and interest (**SPPI**).

The Group determines the business model at the level that reflects how groups of financial assets are managed. When assessing the business model, the Group considers factors including how performance and risks are managed, evaluated and reported and the frequency and volume of, and reason for sales in previous periods.

Financial assets are classified into the following measurement categories:

Financial Assets	Measurement Category	Note
Bank bonds and floating rate notes	Fair value through other comprehensive income (**FVOCI**)	11
Public sector securities and corporate bonds	FVOCI	11
Equity investments	Fair value through profit or loss (**FVTPL**) and FVOCI	11
Finance receivables – Reverse mortgages	FVTPL	13
Finance receivables	Amortised cost	13

Financial assets measured at amortised cost
Financial assets are measured at amortised cost if they are held within a business model whose objective is achieved through holding the financial asset to collect contractual cash flows which represent SPPI.

Financial assets at amortised cost are initially recognised at fair value and subsequently measured at amortised cost using the effective interest rate method.

Financial assets measured at FVOCI
Financial assets are measured at FVOCI if they are held within a business model whose objective is achieved both through collecting contractual cash flows which represent SPPI or selling the financial asset.

Financial assets at FVOCI are measured at fair value with unrealised gains and losses recognised in other comprehensive income except for interest income, impairment charges and foreign exchange gains and losses, which are recognised in profit or loss.

1 Financial statements preparation (continued)

Financial assets and liabilities (continued)

Financial Assets (continued)

Financial assets measured at FVTPL
Financial assets are measured at FVTPL if:

- they are held within a business model whose objective is achieved through selling or repurchasing the financial asset in the near term, or forms part of a portfolio of financial instruments that are managed together and for which there is evidence of short-term profit taking; or

- they are designated at FVTPL upon initial recognition to eliminate or reduce an accounting mismatch.

Financial assets at FVTPL are measured at fair value with subsequent changes in fair value recognised in profit or loss.

Financial Liabilities

Financial liabilities are classified into the following measurement categories:

- those to be measured at amortised cost;

- those to be measured at FVTPL.

Financial liabilities measured at amortised cost
Financial liabilities are measured at amortised cost if they are not held for trading or designated at FVTPL.

Financial liabilities measured at amortised cost are accounted for using the effective interest rate method.

Financial liabilities measured at FVTPL
Financial liabilities are measured at FVTPL if:

- they are held for trading whose principal objective is achieved through selling or repurchasing the financial liability in the near term, or forms part of a portfolio of financial instruments that are managed together and for which there is evidence of short-term profit taking; or

- they are designated at FVTPL upon initial recognition to eliminate or reduce an accounting mismatch.

Financial liabilities at FVTPL are measured at fair value with subsequent changes in fair value recognised in profit or loss.

Further details of the accounting policy for each category of financial asset or financial liability mentioned above is set out in the note for the relevant item.

The Group's policies for determining the fair value of financial assets and financial liabilities are set out in Note 21 - Fair value.

Recognition

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

1 Financial statements preparation (continued)

Derecognition

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

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

Financial liabilities are derecognised when the obligation is discharged, cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, the exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, with the difference in the respective carrying amounts recognised in profit or loss.

Offsetting financial instruments

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

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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. Refer to Note 23 - Credit Risk Exposure for details of this product.
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.
StockCo Australia	Specialising in livestock finance within Australia. This segment was acquired through the acquisition of StockCo Holdings 2 Pty Ltd and StockCo Australia Management Pty Ltd on 31 May 2022. As at 30 June 2022, one month of Profit and loss is recognised in this segment. Refer to Note 19 - Acquisition for details.
Australia	Reverse mortgage lending and other financial services within Australia.

Certain operating expenses, such as premises, IT and support centre costs are not allocated to operating segments and are included in Other. Finance receivables are allocated across the operating segments. Other 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 23 - Credit risk exposure. The operating segments are primarily categorised by sales channel, whereas Note 23 - Credit risk exposure categorises exposures based on credit risk concentrations.

2 Segmental analysis (continued)

$000's	Motor	Reverse Mortgages	Personal Lending	Business	Rural	StockCo Australia	Australia	Other	Total
June 2022									
Net interest income	69,730	29,957	10,287	70,602	29,460	1,889	38,662	(445)	250,142
Net other income	3,326	2,583	1,562	2,679	741	3	2,690	16,889	30,473
Net operating income	**73,056**	**32,540**	**11,849**	**73,281**	**30,201**	**1,892**	**41,352**	**16,444**	**280,615**
Operating expenses	3,792	4,485	6,419	9,358	3,038	1,692	11,286	76,683	116,753
Profit/(loss) before impaired asset expense and income tax	**69,264**	**28,055**	**5,430**	**63,923**	**27,163**	**200**	**30,066**	**(60,239)**	**163,862**
Fair value (loss) on investments	-	-	-	-	-	-	-	(12,998)	(12,998)
Impaired asset expense/(benefit)	1,481	-	(877)	11,831	2,256	(291)	(577)	-	13,823
Profit before income tax	**67,783**	**28,055**	**6,307**	**52,092**	**24,907**	**491**	**30,643**	**(73,237)**	**137,041**
Income tax expense	-	-	-	-	-	-	-	41,916	41,916
Profit/(loss) for the year	**67,783**	**28,055**	**6,307**	**52,092**	**24,907**	**491**	**30,643**	**(115,153)**	**95,125**
Total assets	**1,382,367**	**721,264**	**332,783**	**1,387,352**	**687,232**	**372,172**	**1,288,494**	**918,599**	**7,090,263**
Total liabilities									**6,281,556**

2 Segmental analysis (continued)

$000's	Motor	Reverse Mortgages	Personal Lending	Business	Rural	StockCo Australia	Australia	Other	Total
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 year	**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

Policy

Interest income and expense on financial instruments is measured using the effective interest rate method that discounts the financial instruments' future cash flows to their present value and allocates the interest income or expense over the life of the financial instrument. The effective interest rate is established on initial recognition of the financial assets or liabilities and is not subsequently revised. For financial instruments at amortised cost, the calculation of the effective interest rate includes all yield related fees and commissions paid or received that are an integral part of the underlying financial instrument.

$000's	June 2022	June 2021
Interest income		
Cash and cash equivalents	811	119
Investments	5,156	6,979
Finance receivables	236,916	232,845
Finance receivables - reverse mortgages	99,218	87,992
Total interest income	**342,101**	**327,935**
Interest expense		
Deposits	45,717	55,273
Other borrowings	46,110	35,609
Net interest expense on derivative financial instruments	132	3,536
Total interest expense	**91,959**	**94,418**
Net interest income	**250,142**	**233,517**

4 Net operating lease income

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

$000's	**June 2022**	**June 2021**
Operating lease income		
Lease income	4,161	3,908
Gain on disposal of lease assets	1,123	1,096
Total operating lease income	**5,284**	**5,004**
Operating lease expense		
Depreciation on lease assets	3,103	2,801
Direct lease costs	280	348
Total operating lease expense	**3,383**	**3,149**
Net operating lease income	**1,901**	**1,855**

5 Other income

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

Insurance income
Insurance premium income and commission expense are recognised in profit or loss from the date of attachment of the risk over the period of the insurance contract. Claim expense is recognised in the profit or loss on an accrual basis once our liability to the policyholder has been confirmed under the terms of the contract.

$000's	**June 2022**	**June 2021**
Rental income from investment properties	833	1,055
Insurance income	664	1,096
Gain on sale of investments	-	157
Other income	703	1,117
Fair value gain on derivative financial instruments	16,723	-
FX gain	10	209
Total other income	**18,933**	**3,634**

6 Operating expenses

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

$000's	June 2022	June 2021
Personnel expenses	61,152	61,476
Directors' fees	1,149	1,129
Superannuation	1,530	1,535
Depreciation - property, plant and equipment	2,459	2,995
Legal and professional fees	3,112	2,876
Advertising and public relations	4,510	5,138
Depreciation - right of use asset	2,310	2,312
Technology services	9,374	7,262
Telecommunications, stationary and postage	1,723	1,843
Customer acquisition costs	5,974	6,982
Amortisation of intangible assets	5,922	9,308
Other operating expenses[1]	17,538	14,802
Total operating expenses	**116,753**	**117,658**

[1]Other operating expenses include compensation of auditor which is disclosed in Note 7.

7 Compensation of auditor

$000's	June 2022	June 2021
Audit and review of the financial statements[1]	879	790
Other assurance services paid to auditor [2]	103	103
Total compensation of auditor	**982**	**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, trust deed reporting, registry audits and other agreed upon procedure engagements.

8 Impaired asset expense

Policy

Impairment of finance receivables

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

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

Assets may migrate between the following stages based on their change in credit quality:

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

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

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

Where there has been a significant increase in credit risk.

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

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

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

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

For assets that are individually assessed for ECL, the allowance for ECL is calculated directly as the difference between the defaulted assets carrying value and the recoverable amount (being the present value of expected future cash flows, including cash flows from the realisation of collateral or guarantees, where applicable).

8 Impaired asset expense (continued)

$000's	June 2022	June 2021
Non-securitised		
Individually impaired asset expense	10,783	9,131
Collectively impaired asset expense	3,110	6,001
Total non-securitised impaired asset expense	**13,893**	**15,132**
Securitised		
Collectively impaired asset expense	(70)	(158)
Total securitised impaired asset expense	**(70)**	**(158)**
Total		
Individually impaired asset expense	10,783	9,131
Collectively impaired asset expense	3,040	5,843
Total impaired asset expense	**13,823**	**14,974**

The Group's models for estimating ECL for each of its portfolios are based on the historic credit experience of those portfolios. The models assume that economic conditions (such as GDP growth, unemployment rates, and house price index forecasts) remain static over time. If the Group forecasts that economic conditions may change in the foreseeable future, the Group applies judgement to determine whether the modelled output should be subject to an economic overlay. Judgement is required to establish clear correlation between key economic indicators and the credit performance of the Group's unique portfolios.

9 Taxation

Policy

Income tax

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

Current tax

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

Deferred tax

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

Goods and services tax (GST)

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

9 Taxation (continued)

Income tax expense

$000's	June 2022	June 2021
Income tax recognised in profit or loss		
Current tax		
Current year	46,239	30,584
Adjustments for prior year	(760)	(1,854)
Tax other rates	486	426
Deferred tax		
Current year	(3,750)	1,283
Adjustments for prior year	(282)	1,145
Tax other rates	(17)	(54)
Total income tax expense recognised in profit or loss	**41,916**	**31,530**
Income tax recognised in other comprehensive income		
Current tax		
Derivatives at fair value reserve	(5,271)	(2,197)
Fair value movements of cash flow hedge	7,743	3,457
Total income tax expense recognised in other comprehensive income	**2,472**	**1,260**
Reconciliation of effective tax rate		
Profit before income tax	**137,041**	**118,556**
Tax at New Zealand income tax rate of 28%	38,372	33,196
Higher tax rate for overseas jurisdiction	469	372
Adjusted tax effect of items not taxable/deductible	4,117	(1,330)
Adjustments for prior year	(1,042)	(708)
Total income tax expense	**41,916**	**31,530**

Deferred tax assets comprise the following temporary differences:

$000's	June 2022	June 2021
Employee expenses	2,169	1,647
Share Based payment	1,039	503
Provision for impairment	14,649	15,097
Intangibles and property plant and equipment	(2,968)	(3,816)
Deferred acquisition costs	(196)	(475)
Operating lease vehicles	680	479
Deferred income	(4,786)	-
Prior year tax loss	9,362	-
Deductible prior year expense	603	-
Other temporary differences	2,522	682
Total deferred tax assets	**23,074**	**14,117**
Opening balance of deferred tax assets	**14,117**	**17,123**
Movement recognised in profit or loss	4,084	(3,006)
Transfer on acquisition of business	4,873	-
Closing balance of deferred tax assets	**23,074**	**14,117**

Imputation credit account

$000's	June 2022	June 2021
Imputation credit account	19,114	19,990

10 Earnings Per Share

	June 2022			June 2021		
	Earnings Per Share Cents	Net Profit After Tax $000's	Weighted Average No. of Shares 000's	Earnings Per Share Cents	Net Profit After Tax $000's	Weighted Average No. of Shares 000's
Basic earnings	16.13	95,125	589,771	14.92	87,026	583,467
Diluted earnings	16.13	95,125	589,771	14.92	87,026	583,467

Financial Position

11 Investments

Policy
Investments are classified into one of the following categories:

Fair value through profit or loss
Investments under this category include equity investments and are measured at fair value plus transaction costs. Changes in fair value of these investments are recognised in profit or loss in the period in which they occur.

Fair value through other comprehensive income
Investments under this category include bank bonds, floating rate notes, local authority stock, public securities, corporate bonds and equity investments. These are initially measured at fair value, including transaction costs, and subsequently carried at fair value. Changes in fair value of these investments are recognised in other comprehensive income and presented within the fair value reserve.

Amortised cost
Investments under this category include bank deposits and are measured using effective interest rate method. They are held to collect contractual cash flows that are solely payments of principal and interest on the principal amount outstanding.

$000's	**June 2022**	**June 2021**
Bank deposits, bank bonds and floating rate notes	261,259	351,613
Public sector securities and corporate bonds	12,953	5,543
Equity investments	15,082	20,667
Total investments	**289,294**	**377,823**

Refer to Note 21 - Fair value for details of the split between investments measured at fair value through profit or loss, fair value through other comprehensive income and amortised cost.

12 Derivative financial instruments

Policy
The Group uses derivatives for risk management purposes. Derivatives held for risk management purposes include hedges that either meet the hedge accounting requirements set out in NZ IAS 39, or economic hedges not placed into an accounting hedge relationship.

Derivatives are recognised at their fair value, with the derivatives being carried as assets when their fair value is positive and as liabilities when their fair value is negative.

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

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

- the hedging relationship must be formally designated and documented at inception of the hedge,
- effectiveness testing must be carried out on an on-going basis to ensure the hedge is effective and consistent with the originally documented risk management strategy, and
- the instruments or counterparty must be a third party external to the Group.

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

Subsequent to initial designation, changes in the fair value of derivatives that are designated and qualify for fair value hedge accounting are recorded through profit or loss alongside any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

Where the hedged item is carried at amortised cost, the movement in fair value of the hedged item attributable to the hedged risk is made as an adjustment to the carrying value of the hedged asset or liability. When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, the adjustment to carrying amount of a hedged item carried at amortised cost is amortised to the consolidated statement of comprehensive income on an effective yield basis over the remaining period to maturity of the hedged item. Where a hedged item carried at amortised cost is derecognised from the balance sheet, the adjustment to the carrying amount of the asset or liability is immediately transferred to the consolidated statement of comprehensive income.

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

- the hedging relationship must be formally designated and documented at inception of the hedge,
- effectiveness testing must be carried out on an on-going basis to ensure the hedge is effective and consistent with the originally documented risk management strategy, and
- the instruments or counterparty must be a third party external to the Group.

12 Derivative financial instruments (continued)

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

A fair value gain or loss associated with the effective portion of a derivative designated as a cash flow hedge is recognised initially in the hedging reserve. The ineffective portion of a fair value gain or loss is recognised immediately in the consolidated statement of comprehensive income.

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

	June 2022			June 2021		
$000's	**Notional Principal**	**Fair Value Assets**	**Fair Value Liabilities**	**Notional Principal**	**Fair Value Assets**	**Fair Value Liabilities**
Held for risk management						
Interest rate related contracts						
Swaps	1,495,841	45,221	6,341	1,121,179	14,122	4,533
Foreign currency related contracts						
Forwards	786	-	-	69,525	17	269
Total derivative financial instruments	**1,496,627**	**45,221**	**6,341**	**1,190,704**	**14,139**	**4,802**

The Group has entered into credit support annexes (**CSAs**) which form a part of International Swaps and Derivatives Association (**ISDA**) Master Agreement, in respect of certain exposures relating to derivative transactions. As per these CSAs, the Group or the counterparty needs to collateralise the market value of outstanding derivative transactions. As at 30 June 2022, the Group has received $32.34 million of cash collateral (2021: $4.09 million) against derivative assets. The cash collateral received is not netted off against the balance of derivative assets disclosed in the consolidated statement of financial position.

The Group actively manages interest rate risk by entering into derivative contracts to hedge against movements in interest rates. During the year interest rate swaps entered into by the Group could not be designated into a hedging relationship with the portfolio of financial assets and liabilities held considering their underlying risks could no longer be critically matched against those of the interest rate swaps. Consequently, hedge accounting could not be established resulting in the recognition of fair value gains from the interest rate swaps in the consolidated statement of comprehensive income.

13 Finance receivables

(a) Finance receivables held at amortised cost

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

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

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

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

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

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

$000's	June 2022	June 2021
Non-securitised		
Neither at least 90 days past due nor impaired	3,404,451	3,140,489
At least 90 days past due	41,768	36,882
Individually impaired	66,183	38,143
Gross finance receivables	**3,512,402**	**3,215,515**
Less provision for impairment	(50,629)	(53,448)
Total non-securitised finance receivables	**3,461,773**	**3,162,067**
Securitised		
Neither at least 90 days past due nor impaired	686,236	126,638
Individually impaired	188	-
Gross finance receivables	**686,424**	**126,638**
Less provision for impairment	(1,376)	(239)
Total securitised finance receivables	**685,048**	**126,399**
Total		
Neither at least 90 days past due nor impaired	4,090,687	3,267,128
At least 90 days past due	41,768	36,882
Individually impaired	66,371	38,143
Gross finance receivables	**4,198,826**	**3,342,153**
Less provision for impairment	(52,005)	(53,687)
Total finance receivables	**4,146,821**	**3,288,466**

13 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
June 2022					
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	(3,903)	(2,447)	1,074	5,276	-
New and increased provision (net of collective provision releases)	(3,652)	1,998	13,396	5,507	17,249
Recovery of amounts written off	-	-	(3,356)	-	(3,356)
Credit impairment charge	**(7,555)**	**(449)**	**11,114**	**10,783**	**13,893**
Recovery of amounts previously written off	-	-	3,356	-	3,356
Write offs	-	-	(16,692)	(3,411)	(20,103)
Effect of changes in foreign exchange rate	32	3	-	-	35
Acquisition of portfolio	-	-	-	-	-
Impairment allowance as at 30 June 2022	**19,068**	**1,959**	**14,601**	**15,001**	**50,629**
Securitised					
Impairment allowance as at 30 June 2021	**216**	**22**	**1**	**-**	**239**
Changes in loss allowance					
Transfer between stages	(6)	(109)	115	-	-
New and increased provision (net of collective provision releases)	(14)	85	(141)	-	(70)
Recovery of amounts written off	-	-	-	-	-
Credit impairment charge	**(20)**	**(24)**	**(26)**	**-**	**(70)**
Recovery of amounts previously written off	-	-	-	-	-
Write offs	-	-	26	-	26
Effect of changes in foreign exchange rate	-	1	-	-	1
Acquisition of portfolio	992	-	-	188	1,180
Impairment allowance as at 30 June 2022	**1,188**	**(1)**	**1**	**188**	**1,376**
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	(3,909)	(2,556)	1,189	5,276	-
New and increased provision (net of collective provision releases)	(3,666)	2,083	13,255	5,507	17,179
Recovery of amounts written off	-	-	(3,356)	-	(3,356)
Credit impairment charge	**(7,575)**	**(473)**	**11,088**	**10,783**	**13,823**
Recovery of amounts previously written off	-	-	3,356	-	3,356
Write offs	-	-	(16,666)	(3,411)	(20,077)
Effect of changes in foreign exchange rate	32	4	-	-	36
Acquisition of portfolio	992	-	-	188	1,180
Impairment allowance as at 30 June 2022	**20,256**	**1,958**	**14,602**	**15,189**	**52,005**

13 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
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)
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	-	-	-	-	-
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**

13 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
June 2022					
Gross finance receivables as at 30 June 2021	3,092,653	165,793	45,564	38,143	3,342,153
Transfer between stages	(112,179)	25,532	31,253	55,394	-
Additions	2,433,553	-	-	3,190	2,436,743
Deletions	(1,446,110)	(72,901)	(12,782)	(26,945)	(1,558,738)
Write offs	-	-	(17,921)	(3,411)	(21,332)
Gross finance receivables as at 30 June 2022	**3,967,917**	**118,424**	**46,114**	**66,371**	**4,198,826**
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)	(30,654)
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

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

$000's	June 2022	June 2021
Finance receivables - reverse mortgages	1,996,854	1,676,073
Total finance receivables - reverse mortgages	**1,996,854**	**1,676,073**

Note 21 (a) - Financial instruments measured at fair value discloses further information regarding the Group's valuation policy.

Note 23 - Credit risk exposure discloses further information regarding how reverse mortgages operate.

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

There were no credit risk adjustments on individual financial assets.

14 Operating lease vehicles

Policy
Operating lease vehicles are stated at cost less accumulated depreciation.

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

$000's	June 2022	June 2021
Cost		
Opening balance	16,114	24,098
Additions	10,758	1,788
Disposals	(6,422)	(9,772)
Closing balance	**20,450**	**16,114**
Accumulated depreciation		
Opening balance	5,249	6,495
Depreciation charge for the year	3,103	2,801
Disposals	(3,063)	(4,047)
Closing balance	**5,289**	**5,249**
Opening net book value	10,865	17,603
Closing net book value	**15,161**	**10,865**

The future minimum lease payments receivable under operating leases not later than one year is $3.057 million (2021: $2.141 million), within one to five years is $6.465 million (2021: $1.406 million) and over five years is nil (2021: nil).

15 Borrowings

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

$000's	June 2022	June 2021
Deposits	3,592,508	3,183,454
Total borrowings related to deposits	**3,592,508**	**3,183,454**
Unsubordinated notes	636,407	521,399
Securitised borrowings	1,559,108	1,043,516
Certificate of deposit	198,715	69,853
Bank borrowings	173,982	-
Money market borrowings	10,001	-
Repurchase agreement	-	40,365
Total other borrowings	**2,578,213**	**1,675,133**

Deposits and unsubordinated notes rank equally and are unsecured.

15 Borrowings (continued)

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
$125 million	Amortised cost	12 April 2019	12 April 2024	Semi-annually
$150 million	Amortised cost	21 September 2017	21 September 2022	Semi-annually
AU $45 million	Amortised cost	8 March 2021	21 April 2023	Quarterly
AU $45 million	Amortised cost	9 July 2021	9 July 2024	Quarterly
AU $47 million	Amortised cost	15 March 2017	6 October 2022	Monthly
AU $75 million	Amortised cost	15 January 2021	21 April 2023	Quarterly
AU $115 million	Amortised cost	13 May 2022	13 May 2025	Quarterly

At 30 June 2022 the Group had the following securitised borrowings outstanding:

- Heartland Auto Receivables Warehouse Trust 2018-1 securitisation facility $400 million, drawn $268 million (2021: $300 million, drawn $108 million). Notes issued to 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 26 August 2023.

- Senior Warehouse Trust securitisation facility AU $600 million, drawn AU $585 million (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 2025

- Senior Warehouse Trust No. 2 securitisation facility AU $350 million, drawn AU $210 million (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 2024.

- Atlas 2020-1 Trust securitisation facility AU $127 million, drawn AU $127 million (2021: AU $137 million, drawn AU $137 million). 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.

- StockCo Securitisation Trust 2022-1 securitisation facility AU $300 million, drawn AU $249 million (2021: nil). Loans issued to investors are secured over the assets of StockCo Securitisation Trust 2022-1 (predominantly livestock loans). The facility has a maturity date of 27 May 2024.

16 Share capital and dividends

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

000's	**June 2022 Number of Shares**	**June 2021 Number of Shares**
Issued shares		
Opening balance	585,904	580,979
Shares issued - dividend reinvestment plan	7,000	4,925
Closing balance	**592,904**	**585,904**

The Group issued 3,930,116 new shares at $2.2713 per share on 15 September 2021 and 3,069,339 new shares at $2.1105 per share on 16 March 2022 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 at $1.2470 per share on 9 October 2020 under dividend reinvestment plan).

Dividends paid

	June 2022			**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 Spetember 2020	2.5	14,524
Interim dividend	22 February 2022	5.5	32,441	22 February 2021	4.0	23,337
Total dividends paid			**73,454**			**37,861**

17 Other reserves

$000's	**Employee Benefit Reserve**	**Foreign Currency Translation Reserve (FCTR)**	**Fair Value Reserve**	**Defined Benefit Reserve**	**Cash Flow Hedge Reserve**	**Total**
June 2022						
Balance as at 30 June 2021	2,731	(3,975)	(322)	171	918	(477)
Other comprehensive income, net of income tax	-	2,340	(712)	(171)	7,041	8,498
Share based payments	1,915	-	-	-	-	1,915
Balance as at 30 June 2022	**4,646**	**(1,635)**	**(1,034)**	**-**	**7,959**	**9,936**
June 2021						
Balance as at 30 June 2020	934	(3,907)	5,324	171	(8,022)	(5,500)
Other comprehensive income, net of income tax	-	(68)	(5,646)	-	8,940	3,226
Share based payments	1,797	-	-	-	-	1,797
Balance as at 30 June 2021	**2,731**	**(3,975)**	**(322)**	**171**	**918**	**(477)**

18 Other balance sheet items

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

$000's	June 2022	June 2021
Other assets		
Trade receivables	-	643
GST receivables	2,946	1,763
Prepayments	7,674	3,699
Property, plant and equipment	7,336	9,061
Other receivables	273	1,059
Collateral paid on derivatives	-	590
Total other assets	**18,229**	**16,815**

Policy
Intangible assets
Intangible assets with finite useful lives
Software acquired or internally developed by the Group is stated at cost less accumulated amortisation and any accumulated impairment losses. Expenditure on software assets is capitalised only when it increases the future economic value of that asset. Amortisation of software is on a straight line basis, at rates which will write off the cost over the assets' estimated useful lives. The expected useful life of the software has been determined to be ten years.

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

$000's	June 2022	June 2021
Computer software		
Cost	61,914	44,371
Accumulated depreciation	26,275	20,349
Net carrying value of computer software	**35,639**	**24,022**
Goodwill		
Cost	182,718	45,143
Foreign exchange movement	517	-
Net carrying value of goodwill	**183,235**	**45,143**
Total intangible assets	**218,874**	**69,165**

For the purposes of impairment testing, goodwill is allocated to cash generating units. A Cash Generating Unit (**CGU**) is the smallest identifiable group of assets that generate independent cash inflows. Group has assessed that goodwill should be allocated to the smallest identifiable CGU:

- Heartland Australia Holdings Pty Limited: $15.3 million (2021: $15.3 million).
- Heartland Bank Limited: $29.8 million (2021: $29.8 million).
- StockCo AU Group: $138.1 million (2021: nil).

Goodwill is tested for impairment at a cash generating unit level. The recoverable amounts are determined on a value in use basis using a five-year discounted cash flow methodology based on financial budget and forecasts. Key assumptions used in the models included a discount rate of 10-14% and a terminal growth rate of 2% which reflect both past experience and external sources of information. The recoverable amounts for each CGU are compared to the respective carrying value of net assets.

KPMG

18 Other balance sheet items (continued)

There was no indication of impairment and no impairment losses have been recognised against the carrying amount of goodwill for the year ended 30 June 2022 (30 June 2021: nil).

Policy

Employee benefits

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

$000's	June 2022	June 2021
Trade and other payables		
Trade payables	21,358	11,243
Insurance liability	1,838	3,353
Employee benefits	9,548	7,616
Other tax payables	1,124	623
Collateral received on derivatives	32,342	4,091
Total trade and other payables	**66,210**	**26,926**

Policy

Leases

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

In determining the lease term, all facts and circumstances that create an economic incentive to exercise an extension option are considered. Extension options are only included in the lease term if the lease is reasonably certain to be extended.

Lease liabilities are measured at the present value of the remaining lease payments and discounted using the Group's incremental borrowing rate (**IBR**). Lease liabilities are measured using the effective interest method. Carrying amounts are remeasured only upon reassessments and lease modifications.

Right of use assets are depreciated at the shorter of lease term or the Group's depreciation policy for that asset class.

$000's	June 2022	June 2021
Right of use assets		
Balance at beginning of year	15,985	18,362
Depreciation charge for the year, included within depreciation expense in the income statement	(2,310)	(2,313)
Additions/(terminations) to right of use assets	470	(64)
Total right of use assets	**14,145**	**15,985**
Lease liability		
Current	3,674	2,339
Non-current	12,566	15,827
Total lease liability	**16,240**	**18,166**
Interest expense relating to lease liability	**479**	**568**

19 Acquisition

Policy
Business combination
The Group accounts for business combinations using the acquisition method when the acquired set of activities and assets meets the definition of a business and control is transferred to the Group. In determining whether a particular set of activities and assets is a business, the Group assesses whether the set of assets and activities consists of inputs and processes applied to those inputs that have the ability to contribute to the creation of outputs.

The consideration transferred in the acquisition and any contingent consideration to be transferred are generally measured at fair value, as are the identifiable net assets acquired. Goodwill is initially measured at cost (being the excess of the aggregate of the consideration transferred over the fair value of the net assets acquired) and is tested annually for impairment. Any gain on a bargain purchase is recognised in profit or loss immediately. If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see paragraph below), or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognised as of that date. The measurement period is the period from the date of acquisition to the date the Group obtains complete information about facts and circumstances that existed as of the acquisition date, and does not exceed twelve months. Transaction cost related to the acquisition is recognised as an expense in profit or loss when incurred with the exception of costs to issue debt or equity securities.

On 31 May 2022, the Group acquired 100% of the shares in StockCo Holdings 2 Pty Ltd and StockCo Australia Management Pty Ltd (collectively **StockCo Australia**). The Group is assessing the fair value of the identifiable assets and liabilities acquired, and determining the related deferred tax effects, in line with the principles for estimating fair value adopted by the Group. Values were provisionally allocated to identifiable assets and liabilities on completion date, based on information available. They may be adjusted during the 12 months following that date on the basis of new information obtained relating to the facts and circumstances prevailing at completion date.

Total consideration in relation to these transactions was AU $155.78 million (NZ $171.58 million), including non-cash consideration of AU $0.28 million (NZ $0.31 million) and deferred consideration estimated to be AU $1.62 million (NZ $1.78 million) as at 30 June 2022. Provisional goodwill of AU $124.91 million (NZ $137.58 million) has been recognised from the acquisitions.

19 Acquisition (continued)

The fair values of the identifiable assets and liabilities of StockCo Australia as at the date of acquisition were:

$000's	**Provisional fair value recognised on acquisition**
Assets	
Cash and cash equivalents	9,564
Livestock receivables	374,384
Right of use assets	354
Deferred tax asset	5,285
Other assets	4,713
Total assets	**394,300**
Liabilities	
Other borrowings	358,942
Lease liabilities	354
Trade and other payables	1,001
Total liabilities	**360,297**
Net assets acquired	**34,003**
Provisional goodwill arising on acquisition	137,575
Fair value of consideration	**171,578**
Less:	
Non - cash consideration transferred	314
Deferred consideration	1,781
Total cash consideration transferred	**169,483**
Cash flow on acquisition	
Net cash acquired with the subsidiary	9,564
Net change in cash and cash equivalents	**159,919**

Provisional goodwill represents the future economic benefits that the Group expects to derive from the acquisition of StockCo Australia. It has been allocated to the StockCo Australia business segment.

Transaction costs of $1.1 million have been expensed and are included in the operating expenses in the consolidated statement of comprehensive income.

From the date of acquisition, StockCo Australia contributed $3.3 million to Interest income and $1.7 million to Net profit before tax of the Group. If the acquisition had taken place at the beginning of the year, it is estimated that the contribution to the Group's interest income and net profit before tax would have been $37.6 million and $13.5 million respectively.

20 Related party transactions and balances

Policy
A person or entity is a related party under the following circumstances:

a) A person or a close member of that person's family if that person:
   i) has control or joint control over HGH;
   ii) has significant influence over HGH; or
   iii) is a member of the key management personnel of HGH.

b) An entity is related to HGH if any of the following conditions applies:
   i) the entity and HGH are members of the same group;
   ii) one entity is an associate or joint venture of the other entity;
   iii) both entities are joint ventures of the same third party;
   iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
   v) the entity is a post-employment benefit plan for the benefit of employees of either the reporting entity or an entity related to HGH
   vi) the entity is controlled, or jointly controlled by a person identified in (a); and
   vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

(a) Transactions with key management personnel

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

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

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

$000's	June 2022	June 2021
Transactions with key management personnel		
Interest income receivable	26	39
Interest expense payable	(24)	(22)
Key management personnel compensation		
Short-term employee benefits	(8,790)	(9,384)
Share-based payment expense	(1,915)	(1,797)
Total transactions with key management personnel	**(10,703)**	**(11,181)**
Due from/(to) key management personnel		
Lending	229	415
Borrowings - deposits	(508)	(23,409)
Total due (to) key management personnel	**(279)**	**(22,994)**

20 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	June 2022	June 2021
Southern Cross Building Society Staff Superannuation Scheme (SCBS)		
Interest expense payable to SCBS	6	12
Management fees receivable from SCBS	10	10
Cash recieved from SCBS	350	-
ASF Custodians Pty Limited		
Audit fees	7	7
Heartland Trust (HT)		
Dividends paid	809	421

HT held 6,475,976 shares in HGH (2021: 6,475,976 shares).

The Trustees of HT and certain employees of the Group provided their time and skills to the oversight and operation of HT at no charge.

(c) Other balances with related parties

$000's	June 2022	June 2021
Southern Cross Building Society Staff Superannuation Scheme		
Retail deposits owing to SCBS[1]	35	1,760

[1] During the year, the beneficiaries of SCBS accepted a settlement offer and were paid a final lump sum totalling $1.3 million. This was supported by an actuarial valuation and approved by the Financial Markets Authority (**FMA**). The residual balance was transferred to HBL as the employer, leaving the above balance to cover remaining costs.

The Group has indemnified HBL against a non performing loan which had a balance of $4.3 million as at 30 June 2022 (2021: nil).

21 Fair value

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

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

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

The Group measures fair values using the following fair value hierarchy, which reflects the observability of the inputs used in measuring fair value:

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

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

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

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

(a) Financial instruments measured at fair value

The following 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.

21 Fair value (continued)

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

Investments (continued)

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% released in March 2022. 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% released in March 2022 and the remaining 50% of the affiliated escrow shares (representing 16.3% of the total Harmoney shares on issue) expected to be released at the time or after the release of Harmoney's FY22 annual audited financial report.

Previously, the Escrow Restrictions had 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.

Considering the remaining pool of shares under Escrow Restrictions is no longer substantial as at 30 June 2022, the Group has measured fair value of the equity investment in Harmoney using the quoted closing price of Harmoney of AU $0.71, which is a Level 1 input within the fair value hierarchy.

For the prior reporting period, the fair value of HGH's investment in Harmoney has been measured using a six-month volume weighted average price (**VWAP**) of Harmoney shares traded on the ASX. This is considered Level 3 within the fair value hierarchy as unobservable inputs under a market approach valuation technique were used. This VWAP was evaluated through a composite valuation weighting the closing price of Harmoney shares as at 30 June 2021, revenue multiples of comparable public companies, IPO price and analyst valuations. Both the VWAP and composite valuation approaches derived reasonably consistent outcomes. The fair value measurement of HGH's equity investment in Harmoney was AU $1.90 per share at 30 June 2021. This was a 26% premium to the quoted closing price of AU $1.51.

Investment properties

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

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

21 Fair value (continued)

Finance receivables - reverse mortgages

Reverse mortgage loans are classified at 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 (2021: nil). 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.

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

Derivative financial instruments

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

21 Fair value (continued)

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

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**
June 2022				
Assets				
Investments	279,841	-	7,032	286,873
Investment properties	-	-	11,832	11,832
Derivative financial instruments	-	45,221	-	45,221
Finance receivables - reverse mortgages	-	-	1,996,854	1,996,854
Total financial assets measured at fair value	**279,841**	**45,221**	**2,015,718**	**2,340,780**
Liabilities				
Derivative financial instruments	-	6,341	-	6,341
Total financial liabilities measured at fair value	**-**	**6,341**	**-**	**6,341**
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**

During the year, $8.1 million of equity investments transferred out of Level 3 to Level 1. There were no other transfers between levels in the fair value hierarchy in the year ended 30 June 2022 (2021: nil).

21 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
June 2022				
As at 30 June 2021	1,676,073	20,667	11,832	1,708,572
New loans	439,110	-	-	439,110
Repayments	(257,319)	-	-	(257,319)
Capitalised Interest and fees	106,966	-	-	106,966
Purchase of investments	-	7,414	-	7,414
Fair value (loss)/gain on investment	-	(12,998)	-	(12,998)
Other	32,024	-	-	32,024
Transfer out of Level 3	-	(8,051)	-	(8,051)
As at 30 June 2022	**1,996,854**	**7,032**	**11,832**	**2,015,718**
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 (loss)/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**

(b) Financial instruments not measured at fair value

The following assets and liabilities of the Group are not measured at fair value in the consolidated statement of financial position.

Cash and cash equivalents

Cash and cash equivalents are measured at amortised cost and their carrying value is considered equivalent to their fair value due to their short term nature.

Finance receivables

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

The current weighted average lending rate used to fair value finance receivables with a fixed interest rate was 7.77% (2021: 7.08%). Finance receivables with a floating interest rate are deemed to be at current market rates. The current amount of credit provisioning has been deducted from the fair value calculation of finance receivables as a proxy for future losses.

21 Fair value (continued)

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

Borrowings

The fair value of deposits, bank borrowings and other borrowings is the present value of future cash flows and is based on the current market interest rates payable by the Group for debt of similar maturities. The average current market rate used to fair value borrowings was 3.57% (2021: 1.23%).

Other financial assets and financial liabilities

The fair value of financial instruments such as short-term trade receivables and payables is considered equivalent to their carrying value due to their short-term nature.

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.

	June 2022			June 2021		
$000's	**Fair Value Hierarchy**	**Total Fair Value**	**Total Carrying Value**	**Fair Value Hierarchy**	**Total Fair Value**	**Total Carrying Value**
Assets						
Cash and cash equivalents	Level 1	310,758	310,758	Level 1	182,333	182,333
Investments[1]	Level 2	2,418	2,421	Level 2	5,640	5,639
Finance receivables	Level 3	4,073,977	4,146,821	Level 3	3,362,536	3,288,466
Other financial assets	Level 3	273	273	Level 3	2,292	2,292
Total financial assets		**4,387,426**	**4,460,273**		**3,552,801**	**3,478,730**
Liabilities						
Retail deposits	Level 2	3,590,918	3,592,508	Level 2	3,192,708	3,183,454
Borrowings - securitised	Level 2	1,559,108	1,559,108	Level 2	631,617	631,617
Other borrowings	Level 2	1,019,105	1,019,105	Level 2	1,043,516	1,043,516
Other financial liabilities	Level 3	55,538	55,538	Level 3	18,687	18,687
Total financial liabilities		**6,224,669**	**6,226,259**		**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.

21 Fair value (continued)

(c) Classification of financial instruments

The following tables summarise the categories of financial instruments and the carrying value and fair value of all financial instruments of the Group:

$000's	FVOCI	FVTPL	Amortised Cost	Total Carrying Value	Total Fair Value
June 2022					
Assets					
Cash and cash equivalents	-	-	310,758	310,758	310,758
Investments	277,318	9,555	2,421	289,294	289,291
Investment properties	-	11,832	-	11,832	11,832
Finance receivables	-	-	4,146,821	4,146,821	4,073,977
Finance receivables - reverse mortgages	-	1,996,854	-	1,996,854	1,996,854
Derivative financial instruments	26,137	19,084	-	45,221	45,221
Other financial assets	-	-	273	273	273
Total financial assets	**303,455**	**2,037,325**	**4,460,273**	**6,801,053**	**6,728,206**
Liabilities					
Deposits	-	-	3,592,508	3,592,508	3,590,918
Other borrowings	-	-	2,578,213	2,578,213	2,578,213
Derivative financial instruments	1,105	5,236	-	6,341	6,341
Other financial liabilities	-	-	55,538	55,538	55,538
Total financial liabilities	**1,105**	**5,236**	**6,226,259**	**6,232,600**	**6,231,010**
June 2021					
Assets					
Cash and cash equivalents	-	-	182,333	182,333	182,333
Investments	351,517	20,667	5,639	377,823	377,824
Investment properties	-	11,832	-	11,832	11,832
Finance receivables	-	-	3,288,466	3,288,466	3,362,536
Finance receivables - reverse mortgages	-	1,676,073	-	1,676,073	1,676,073
Derivative financial instruments	3,230	10,909	-	14,139	14,139
Other financial assets	-	-	2,292	2,292	2,292
Total financial assets	**354,747**	**1,719,481**	**3,478,730**	**5,552,958**	**5,627,029**
Liabilities					
Deposits	-	-	3,183,454	3,183,454	3,192,708
Other borrowings	-	-	1,675,133	1,675,133	1,675,133
Derivative financial instruments	4,408	394	-	4,802	4,802
Other financial liabilities	-	-	18,687	18,687	18,687
Total financial liabilities	**4,408**	**394**	**4,877,274**	**4,882,076**	**4,891,330**

Risk Management

22 Enterprise risk management program

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

Role of the Board and the Board Audit Risk Committee

The Board, through its Board Audit and Risk Committee (**BARC**) is responsible for oversight and governance of the development of the RMP. The role of the BARC includes assisting the Board to formulate its risk appetite, and monitoring the effectiveness of the RMP. BARC's responsibilities also include:

- Financial reporting and application of accounting policies as part of the internal control and risk assessment framework.
- Monitors the identification, evaluation and management of all significant risks through the Group. This work is supported by internal audit, which provides an independent assessment of the design, adequacy and effectiveness of internal controls. The BARC receives regular reports from internal audit.
- To advise the Board on the formulation of the Board's Risk Appetite Statement.
- To review any reports, policies, standards, other risk documents or matters, or minutes which have been prepared by or in respect of the HGH's Board.
- To monitor material, emerging and strategic risks for the Group and its subsidiaries.

Internal Audit

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

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

22 Enterprise risk management program (continued)

Internal Audit (continued)

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

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

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

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

Asset and Liability Committee (ALCO)

The ALCO comprises the CEO HBL, CFO, CRO, Head of Retail, Financial Controller HBL and Chief Distribution Officer. The ALCO generally meets monthly, and provides reports to the BARC. ALCO's specific responsibilities include decision making and oversight of risk matters in relation to:

- Market risk (including non-traded interest rate risk and the investment of capital).
- Liquidity risk (including funding).
- Foreign exchange rate risk.
- Balance sheet structure.
- Capital management.

Operational and compliance risk

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

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

22 Enterprise risk management program (continued)

Operational and compliance risk (continued)

- The first line of defence is the business line management of the identification, management and mitigation of the risks associated with the products and processes of the business. This accountability includes regular testing and attestation of the adequacy and effectiveness of controls and compliance with the Group's policies.

- The second line of defence is the Risk and Compliance function, responsible for the design and ownership of the Operational Risk Management Framework. It incorporates key processes including Risk and Control Self-Assessment (**RCSA**), incident management, independent evaluation of the adequacy and effectiveness of the internal control framework, and the attestation process.

- The third line of defence is Internal Audit which is responsible for independently assessing how effectively the Group is managing its risk according to its stated risk appetite.

Market risk

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

Interest rate risk

Interest rate risk refers to exposure of an entity's earnings and / or capital because of a mismatch between the interest rate exposures of its assets and liabilities. Interest rate risk for the Group arises from the provision of non-traded retail banking products and services and from traded wholesale transactions entered into to reduce aggregate interest rate risk (known as hedges). This risk arises from four key sources:

- Mismatches between the repricing dates of interest bearing assets and liabilities (yield curve and repricing risk);

- Banking products repricing differently to changes in wholesale market rates (basis risk);

- Loan prepayment or deposit early withdrawal behaviour from customers that deviates from the expected or contractually agreed behaviour (optionality risk); and

- The effect of internal or market forces on a bank's net interest margin where, for example, in a low rate environment any fall in rates will further decrease interest income earned on the assets whereas funding cost cannot be reduced as it is already at the minimum level (margin compression risk).

Refer to Note 25 - Interest rate risk for further details regarding interest rate risk.

KPMG

22 Enterprise risk management program (continued)

Foreign exchange risk

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

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

Counterparty Credit Risk

The Group has on-going credit exposure associated with:

- Cash and cash equivalents;
- Finance receivables;
- Holding of investment securities; and
- Payments owed to the Group from risk management instruments.

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

23 Credit risk exposure

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

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

To manage this risk the HBL’s Executive Risk Committee (**ERC**) oversees the formal credit risk management strategy. The ERC reviews the Group's credit risk exposures typically on a monthly basis. The credit risk management strategies aim to ensure that:

- Credit origination meets agreed levels of credit quality at point of approval;
- Sector concentrations are monitored;
- Maximum total exposure to any one debtor is actively managed;
- Changes to credit risk are actively monitored with regular credit reviews.

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

HBL's Board Risk Committee (**BRC**) has authority for approval of all credit exposures. Lending authority has been provided to the HBL's Credit Committee, and to the business units under a detailed Delegated Lending Authority framework. Application of credit discretions in the business operation are monitored through a defined review and hindsight structure as outlined in the Credit Risk Oversight Policy. Delegated Lending Authorities are provided to individual officers with due cognisance of their experience and ability. Larger and higher risk exposures require approval of senior management, the Credit Committee and ultimately through to HBL's BRC.

The Group employs a credit risk oversight process of hindsighting loans to ensure that credit policies and the quality of credit processes are maintained.

Reverse mortgage loans and negative equity risk

Reverse mortgage loans are a form of mortgage lending designed for the needs of people over 60 years of age. These loans differ to conventional mortgages in that they typically are not repaid until the borrower ceases to reside in the property. Further, interest is not required to be paid, it is capitalised into the loan balance and is repayable on termination of the loan. As such, there are no incoming cash flows and therefore no default risk to manage during the term of the loan. Negative equity risk arises from the promise by the Group that the maximum repayment amount is limited to the net sale proceeds of the borrowers' property.

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

Business Finance Guarantee Scheme (BFGS)

HBL, along with other registered banks in New Zealand, has entered into a Deed of Indemnity with the New Zealand Government to implement the New Zealand Government's Business Finance Guarantee Scheme. The purpose of the scheme is to provide short term credit to eligible small and medium size businesses, who have been impacted by the economic effects of COVID-19. The scheme allows banks to lend to a maximum of $5 million for a maximum of five years. The New Zealand Government will guarantee 80% of any loss incurred (credit risk) with HBL holding the remaining 20%. As at 30 June 2022 the Group had a total exposure of $64.8 million (2021: $64.3 million) to its customers under the scheme. BFGS has concluded on 30 June 2021 with scheme loans no longer being available.

23 Credit risk exposure (continued)

Maximum exposure to credit risk at the relevant reporting dates

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

$000's	June 2022	June 2021
On balance sheet:		
Cash and cash equivalents	310,758	182,333
Investments	274,212	357,156
Finance receivables	4,146,821	3,288,466
Finance receivables - reverse mortgages	1,996,854	1,676,073
Derivative financial assets	45,221	14,139
Other financial assets	273	2,292
Total on balance sheet credit exposures	**6,774,139**	**5,520,459**
Off balance sheet:		
Letters of credit, guarantee commitments and performance bonds	8,969	13,484
Undrawn facilities available to customers	416,561	299,544
Conditional commitments to fund at future dates	34,791	19,083
Total off balance sheet credit exposures	**460,321**	**332,111**
Total credit exposures	**7,234,460**	**5,852,570**

As at 30 June 2022 there was $0.003 million undrawn lending commitments available to counterparties for whom drawn balances are classified as individually impaired (2021: $0.216 million).

Concentration of credit risk by geographic region

$000's	June 2022	June 2021
New Zealand	5,264,609	4,402,656
Australia	1,809,104	1,243,522
Rest of the world [1]	212,752	260,079
	7,286,465	**5,906,257**
Provision for impairment	(52,005)	(53,687)
Total credit exposures	**7,234,460**	**5,852,570**

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

23 Credit risk exposure (continued)

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	**June 2022**	**June 2021**
Agriculture	1,120,678	670,428
Forestry and fishing	148,797	153,160
Mining	12,524	12,684
Manufacturing	78,432	76,951
Finance and insurance	784,948	674,854
Wholesale trade	41,986	56,522
Retail trade and accommodation	423,975	279,388
Households	3,555,566	2,994,980
Other business services	189,860	148,011
Construction	291,971	241,668
Rental, hiring and real estate services	199,388	185,320
Transport and storage	323,732	297,920
Other	114,608	114,371
	7,286,465	**5,906,257**
Provision for impairment	(52,005)	(53,687)
Total credit exposures	**7,234,460**	**5,852,570**

Credit risk grading

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

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

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

Judgemental loans are individually risk graded based on loan status, financial information, security and debt servicing ability. Exposures in the Judgemental portfolio are credit risk graded by an internal risk grading mechanism where grade 1 is the strongest risk. Grade 8 and grade 9 are the weakest risk grades where a loss is probable. Behavioural loans are managed based on their arrears status.

Upon adoption of NZ IFRS 9 all loans past due but not impaired have been categorised into three impairments stages (see Note 8) which are in most cases based on arrears status. If a Judgemental loan is risk graded 6 or above it will be classified as stage 2 as a minimum and carry a provision based on lifetime ECL.

23 Credit risk exposure (continued)

Credit risk grading (continued)

$000's	12 Months ECL	Lifetime ECL Not Credit Impaired	Lifetime ECL Credit Impaired	Specifically Provided	Fair value	Total
June 2022						
Judgemental portfolio						
Grade 1 - Very Strong	26	-	-	-	-	26
Grade 2 - Strong	10,859	-	-	-	-	10,859
Grade 3 - Sound	53,756	-	-	-	-	53,756
Grade 4 - Adequate	697,590	5,382	1,052	-	-	704,024
Grade 5 - Acceptable	1,366,680	1,823	53	-	-	1,368,556
Grade 6 - Monitor	-	25,106	2,308	-	-	27,414
Grade 7 - Substandard	-	64,203	4,998	-	-	69,201
Grade 8 - Doubtful	-	-	-	62,860	-	62,860
Grade 9 - At risk of loss	-	-	-	3,511	-	3,511
Total Judgemental portfolio	2,128,911	96,514	8,411	66,371	-	2,300,207
Total Behavioural portfolio	1,839,006	21,910	37,703	-	1,996,854	3,895,473
Gross finance receivables	**3,967,917**	**118,424**	**46,114**	**66,371**	**1,996,854**	**6,195,680**
Provision for impairment	(20,256)	(1,958)	(14,602)	(15,189)	-	(52,005)
Total finance receivables	**3,947,661**	**116,466**	**31,512**	**51,182**	**1,996,854**	**6,143,675**
June 2021						
Judgemental portfolio						
Grade 1 - Very Strong	34	-	-	-	-	34
Grade 2 - Strong	10,854	64	-	-	-	10,918
Grade 3 - Sound	50,816	163	-	-	-	50,979
Grade 4 - Adequate	580,289	4,675	1,734	-	-	586,698
Grade 5 - Acceptable	877,393	5,658	1,882	-	-	884,933
Grade 6 - Monitor	-	58,178	1,038	-	-	59,216
Grade 7 - Substandard	-	71,718	8,107	-	-	79,825
Grade 8 - Doubtful	-	-	-	33,228	-	33,228
Grade 9 - At risk of loss	-	-	-	4,915	-	4,915
Total Judgemental portfolio	1,519,386	140,456	12,761	38,143	-	1,710,746
Total Behavioural portfolio	1,573,267	25,337	32,803	-	1,676,073	3,307,480
Gross finance receivables	**3,092,653**	**165,793**	**45,564**	**38,143**	**1,676,073**	**5,018,226**
Provision for impairment	(26,807)	(2,427)	(16,824)	(7,629)	-	(53,687)
Total finance receivables	**3,065,846**	**163,366**	**28,740**	**30,514**	**1,676,073**	**4,964,539**

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

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 30 June 2022 (2021: nil).

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

$000's	**June 2022**	**June 2021**
Cash and cash equivalents	310,758	182,333
Investments	274,212	357,156
Undrawn committed bank facilities	360,859	311,993
Total liquidity	**945,829**	**851,482**

24 Liquidity risk (continued)

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.

$000's	On Demand	0-6 Months	6-12 Months	1-2 Years	2-5 Years	5+ Years	Total
June 2022							
Non - derivative financial liabilities							
Deposits	887,976	2,028,225	561,468	103,192	41,655	-	3,622,516
Other borrowings	-	505,191	268,653	702,349	1,160,157	210,428	2,846,778
Lease liabilities	-	1,575	1,525	2,616	6,985	4,911	17,612
Other financial liabilities	-	55,538	-	-	-	-	55,538
Total non - derivative financial liabilities	**887,976**	**2,590,529**	**831,646**	**808,157**	**1,208,797**	**215,339**	**6,542,444**
Derivative financial liabilities							
Inflows from derivatives	-	15,681	1,759	3,505	813	-	21,758
Outflows from derivatives	-	14,800	3,227	6,621	839	-	25,487
Total derivative financial liabilities	**-**	**(881)**	**1,468**	**3,116**	**26**	**-**	**3,729**
Undrawn facilities available to customers	416,561	-	-	-	-	-	416,561
Undrawn committed bank facilities	360,859	-	-	-	-	-	360,859
June 2021							
Non - derivative financial liabilities							
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

25 Interest rate risk

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

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

The objective of the Group's interest rate risk policies is to limit underlying net profit after tax (**NPAT**) volatility. The measurement comprises net interest income the Group generates from its interest earning assets and interest bearing liabilities.

The exposure to net interest income comes from a reduction in margins on interest earning assets or interest bearing liabilities and is managed when setting rates by taking into consideration wholesale rates, liquidity premiums, as well as appropriate lending credit margins.

An analysis of the Group's sensitivity to an increase (+) or decrease (-) in market interest rates by 100 basis points (**BP**) is as follows. An (+)/(-) to market interest rates of 100 BP would result in a $0.67 million (+)/(-) to NPAT (2021: $0.45 million (+)/(-)) with a corresponding impact to equity.

The Group also manages interest rate risk by:

- Monitoring maturity profiles and seeking to match the re-pricing of assets and liabilities;
- Monitoring interest rates daily and regularly (at least monthly) reviewing interest rate exposures; and
- Entering into derivatives to hedge against movements in interest rates.

25 Interest rate risk (continued)

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
June 2022							
Financial assets							
Cash and cash equivalents	310,749	-	-	-	-	9	310,758
Investments	1,568	854	51,144	91,974	128,672	15,082	289,294
Finance receivables	1,906,457	277,891	426,251	561,636	913,210	61,376	4,146,821
Finance receivables - reverse mortgages	1,996,854	-	-	-	-	-	1,996,854
Derivative financial assets	-	-	-	-	-	45,221	45,221
Other financial assets	-	-	-	-	-	273	273
Total financial assets	**4,215,628**	**278,745**	**477,395**	**653,610**	**1,041,882**	**121,961**	**6,789,221**
Financial liabilities							
Deposits	2,190,337	684,378	546,718	99,196	38,325	33,554	3,592,508
Other borrowings	2,320,575	130,873	-	121,191	-	5,574	2,578,213
Derivative financial liabilities	-	-	-	-	-	6,341	6,341
Lease liabilities	-	-	-	-	-	16,240	16,240
Other financial liabilities	-	-	-	-	-	55,538	55,538
Total financial liabilities	**4,510,912**	**815,251**	**546,718**	**220,387**	**38,325**	**117,247**	**6,248,840**
Effect of derivatives held for risk management	986,194	(76,349)	(127,004)	(309,781)	(473,060)	-	-
Net financial assets/(liabilities)	**690,910**	**(612,855)**	**(196,327)**	**123,442**	**530,497**	**4,714**	**540,381**

25 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
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							
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**

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

Other Disclosures

26 Significant subsidiaries

Significant Subsidiaries	Country of incorporation and place of business	Nature of business	Proportion of ownership and voting power held June 2022	June 2021
Heartland Bank Limited	New Zealand	Bank	100%	100%
VPS Properties Limited	New Zealand	Investment property holding company	100%	100%
Marac Insurance Limited	New Zealand	Insurance services	100%	100%
Heartland Australia Holdings Pty Limited	Australia	Financial services	100%	100%
Heartland Group Pty Limited	Australia	Financial services	100%	100%
Australian Seniors Finance Pty Limited	Australia	Management services	100%	100%
StockCo Holdings 2 Pty Limited	Australia	Financial services	100%	-
StockCo Australia Management Pty Limited	Australia	Management services	100%	-

27 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	June 2022	June 2021
Deposits	149,824	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	June 2022	June 2021
Cash and cash equivalents	20,197	9,047
Finance receivables	312,239	126,399
Other borrowings	(315,308)	(128,125)

27 Structured entities (continued)

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

SW Trusts and ASF Trust (collectively the Trusts) form part of ASF's reverse mortgage business and were set up by ASF as asset holding entities. The Trustee for the Trusts is ASF Custodians Pty Limited and the Trust Manager is ASF. 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	June 2022	June 2021
Cash and cash equivalents	26,003	29,170
Finance receivables - reverse mortgages	1,136,644	934,523
Other borrowings	(902,155)	(822,112)

(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	June 2022	June 2021
Cash and cash equivalents	15,774	17,592
Finance receivables - reverse mortgages	138,950	140,044
Other borrowings	(145,219)	(145,943)

(e) StockCo Securitisation Trust 2022-1

StockCo Securitisation Trust 2022-1 was set up on 31 May 2022 as part of StockCo's livestock business. The Trustee for the Trust is AMAL Trustees Pty Limited and the Trust Manager is AMAL Management Services Pty Limited. The balances of StockCo Securitisation Trust 2022-1 are represented as follows:

$000's	June 2022
Cash and cash equivalents	15,007
Finance receivables	354,901
Other borrowings	(311,415)

28 Staff share ownership arrangements

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

(a) Share-based compensation plan details

Heartland performance rights plan (PR plan)

The PR plan was established to enhance the alignment of participants' interests with those of the Group's shareholders. Under the PR plan participants are issued performance rights which will entitle them to receive shares in the Group. As at June 2022, there were 6 tranches being 2017, 2018, 2022, 2023, 2024 and 2025. All tranches are subject to the existing rules of the PR plan.

PR Plan 2017 Tranche and PR Plan 2018 Tranche (collectively the Legacy Tranches)

The rules for the Legacy Tranches have been aligned with PR plan 2022 Tranche and therefore have the same terms and conditions applying regarding participants, awarding of performance rights, measurement date and vesting as outlined below:

PR Plan 2022 Tranche (PR plan 2022)

The number of performance rights offered is determined by the participant's long-term incentive (**LTI**) value over the volume weighted average price (**VWAP**) of the Group's ordinary shares on the NZX Main Board for the 20 business days immediately before (and excluding) the issue date. The issue date is 14 September 2019. Performance rights do not entitle participants to dividends or voting rights.

The performance rights are issued subject to the participants' continued employment with the Group until the measurement date and the Group achieving its financial measures, strategic objectives and culture and conduct objectives, over the period commencing 1 July 2019 and ending on 30 June 2022. The targets are dynamic and may be adjusted by the Board from time to time in order to account for unanticipated capital changes during the performance period. The measurement date is the business day following the date on which the Group announces its full year results for the financial year ended 2022.

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

PR Plan 2023 Tranche (PR plan 2023)

PR plan 2023 was issued for period commencing 1 July 2020 and ending on 30 June 2023. The tranche rules have been aligned with PR plan 2022. The measurement date for this tranche is the business day after the Group announces its full year results for the financial year ended 30 June 2023.

28 Staff share ownership arrangements (continued)

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

PR Plan 2024 Tranche (PR plan 2024) and PR Plan 2025 Tranche (PR plan 2025)

PR plan 2024 and PR plan 2025 were issued for period commencing 1 July 2021 and ending on 30 June 2024 and 30 June 2025 respectively. The tranche rules have been aligned with PR plan 2022. Measures are tested on the business day after the announcement of full year results for the financial years ended 30 June 2024 and 30 June 2025 respectively.

	June 2022 PR Plan Number of Rights	June 2021 PR Plan Number of Rights
Opening balance	**7,742,276**	**3,216,927**
Issued	2,454,395	5,342,289
Forfeited	(1,395,575)	(816,940)
Closing balance	**8,801,096**	**7,742,276**

(b) Effect of share-based payment transactions

$000's	June 2022	June 2021
Award of Shares		
PR Plan	1,915	1,797
Total expense recognised	**1,915**	**1,797**

As at 30 June 2022, $3.1 million of the share scheme awards remain unvested and not expensed (2021: $3.0 million). This expense will be recognised over the performance period of the awards.

(c) Number of rights outstanding

	June 2022		June 2021	
$000's	Rights Outstanding	Remaining Years	Rights Outstanding	Remaining Years
PR Plan - 2017	1,543	-	1,943	1
PR Plan - 2018	139	-	170	1
PR Plan - 2022	568	-	722	1
PR Plan - 2023	4,096	1	4,908	2
PR Plan - 2024	922	2	-	-
PR Plan - 2025	1,533	3	-	-
Total	**8,801**		**7,743**	

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

Insurance business

Marac Insurance Limited (**MIL**), a subsidiary of HBL, no longer conducts insurance business as HBL entered into a distribution agreement with DPL Insurance Limited (**DPL**) to distribute DPL's insurance products through HBL's network. MIL 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 $7.4 million (2021: $8.5 million), which represents 0.11% of the total consolidated assets of the Group (2021: 0.15%).

Securitisation, funds management and other fiduciary activities

Changes to the Group's involvement in securitisation activities are set out in Note 27 Structured entities. There have been no material changes to the Group's involvement in funds management and other fiduciary activities during the year.

30 Concentrations of funding

(a) Concentration of funding by industry

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	June 2022	June 2021
Agriculture	113,848	102,107
Forestry and fishing	14,391	14,226
Mining	1,524	94
Manufacturing	18,643	11,592
Finance and insurance	2,420,850	1,669,055
Wholesale trade	5,854	11,218
Retail trade and accommodation	19,491	28,521
Households	2,754,452	2,322,514
Rental, hiring and real estate services	43,797	46,245
Construction	28,449	24,231
Other business services	66,731	58,334
Transport and storage	4,598	4,337
Other	41,686	44,714
Total	**5,534,314**	**4,337,188**
Unsubordinated Notes	636,407	521,399
Total borrowings	**6,170,721**	**4,858,587**

(b) Concentration of funding by geographical area

$000's	June 2022	June 2021
New Zealand	4,410,372	3,599,337
Overseas	1,760,349	1,259,250
Total borrowings	**6,170,721**	**4,858,587**

31 Contingent liabilities and commitments

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

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

$000's	**June 2022**	**June 2021**
Letters of credit, guarantee commitments and performance bonds	8,969	13,484
Total contingent liabilities	**8,969**	**13,484**
Undrawn facilities available to customers	416,561	299,544
Conditional commitments to fund at future dates	34,791	19,083
Total commitments	**451,352**	**318,627**

32 Events after reporting date

HGH subsidiary Heartland Australia Group Pty Limited completed an issuance of an AU $30 million senior unsecured bond on 16 August 2022 as an increase to the existing AU $45 million senior unsecured bond.

On 9th August 2022 the Group completed an AU $5 million investment in Avenue Hold Limited (**Avenue Hold**). Avenue Hold is the Non-operating Holding Company of Avenue Bank Limited which holds a Restricted Authorised Deposit-taking Institution licence in Australia.

The Group approved a fully imputed final dividend of 5.5 cents per share on 22 August 2022.

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

KPMG

Independent Auditor's Report

To the shareholders of Heartland Group Holdings Limited

Report on the audit of the consolidated financial statements

Opinion

In our opinion, the consolidated financial statements of Heartland Group Holdings Limited and its subsidiaries (the "Group") on pages 7 to 67 present fairly in all material respects the Group's financial position as at 30 June 2022 and its financial performance and cash flows for the year ended on that date in accordance with New Zealand Equivalents to International Financial Reporting Standards and International Financial Reporting Standards.

We have audited the accompanying consolidated financial statements which comprise:

- the consolidated statement of financial position as at 30 June 2022;
- the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended; and
- notes, including a summary of significant accounting policies.

Basis for opinion

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

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

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

Our firm has also provided other services to the Group in relation to the review of the Group's consolidated interim financial statements, 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 auditor of the Group. The firm has no other relationship with, or interest in, the Group.

Materiality

The scope of our audit was influenced by our application of materiality. Materiality helped us to determine the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and on the consolidated financial statements as a whole. The materiality for the consolidated financial statements as a whole was set at $6,540,000 determined with reference to a benchmark of the Group's profit before tax. We chose the benchmark because, in our view, this is a key measure of the Group's performance.

We agreed with the Board Audit and Risk Committee that we would report to them, misstatements identified during our audit above $320,000 as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Key audit matters

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

The key audit matter	How the matter was addressed in our audit
Provision for impairment of finance receivables Refer to notes 1, 13 and 23 to the consolidated financial statements.	
The provision for impairment of finance receivables is a key audit matter due to the financial significance and the inherent complexity of the Group's expected credit loss ("ECL") models. Significant judgement and estimates are required to incorporate forward-looking information to reflect future economic conditions. The collective provision is estimated through the ECL models using historical data which is adjusted for forward looking information and the assigned risk grade or arrears status. Additionally, management apply judgement in the determination of provision overlays to adjust for future market conditions. The level of judgement involved in determining the provision for collectively impaired assets requires us to challenge the appropriateness of management's assumptions. The provision for individually impaired assets is based on the application of management judgement regarding expected future cashflows, which are inherently uncertain.	Our procedures, amongst others, included: — Assessing the Group's governance and oversight, including the continuous reassessment of overall provisioning; — Assessing the Group's significant accounting policies and expected credit loss ("ECL") modelling methodology against the requirements of the standards and underlying accounting records; — Testing key controls including the arrears calculations, customer loan ratings, annual loan reviews, credit risk reviews and data reconciliations between the ECL models and source systems; — Assessing the model output against actual losses incurred by the Group; — Challenging the key assumptions, including forward looking economic assumptions, against external information including benchmarking management's estimates to a range of observable industry data and market forecasts; — Evaluating individual credit assessments for a sample of 'rural' and other 'corporate' loans on management's credit watchlist. This included inspection of the latest correspondence with the borrower, assessment of the provision estimates prepared by credit risk officers, and consideration of the resolution strategy. We challenged assumptions and assessed collateral values by comparing them to valuations performed by independent valuers; and — Assessing the disclosures in the consolidated financial statements against the requirements of NZ IFRS. From the procedures performed we consider the Group appropriately identified and considered the uncertainties in the provision estimates.

KPMG

The key audit matter	How the matter was addressed in our audit
Valuation of finance receivables – reverse mortgages Refer to note 21 of the consolidated financial statements.	
The Group's reverse mortgage portfolio is held at fair value. The fair value calculation is based on the application of management judgement. In assessing the fair value, the Group continuously considers evidence of a relevant active market. In the absence of such a market, in the current period, the Group considered changes since loan origination and expected future cashflows. The inherent uncertainties include estimated exits, interest rates and security property values.	Our procedures over the fair value loan portfolios, amongst others, included: — Testing key controls over the accuracy of data impacting the fair value assessment; — Assessing evidence of a relevant active market or observable inputs; and — Challenging the key assumptions used by the Group in determining the portfolio's fair value. The estimates and assumptions used to determine the valuation of finance receivables are reasonable, with no evidence of management bias or influence identified from our procedures.
Operation of IT systems and controls	
The Group is reliant on complex IT systems for the processing and recording of significant volumes of transactions and other core banking activity. For significant financial statement balances, such as finance receivables and deposits, where relevant, our audit involves an assessment of the design of the Group's internal control environment. There are some areas of the audit where we seek to test and place reliance on IT systems, automated controls and reporting. The effective operation of these controls is dependent upon the Group's general IT control environment, which incorporates controls relevant to IT system changes and development, IT operations, and developer and user access.	Our audit procedures, amongst others, included: — Gaining an understanding of business processes, key controls and IT systems relevant to significant financial statement balances, including technology services provided by a third party; — Assessing the effectiveness of the IT control environment, including core banking IT systems, key automated controls and reporting; and — Evaluating general IT controls relevant to IT system changes and development, IT operations, and developer and user access. Where we noted design or operating effectiveness matters relating to IT system or application controls relevant to our audit, we performed alternative audit procedures. We also identified and tested mitigating controls in order to respond to the impact on our overall audit approach. We did not identify any material issues or exceptions from those additional procedures.

Other information

The Directors, on behalf of the Group, are responsible for the other information included in the entity's Annual Report. Other information may include the Chairman's Report, Chief Executive Officer's Report and disclosures relating to corporate governance. Our opinion on the consolidated financial statements does not cover any other information and we do not express any form of assurance conclusion thereon.

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

KPMG

Use of this independent auditor’s report

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

Responsibilities of the Directors for the consolidated financial statements

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

— the preparation and fair presentation of the consolidated financial statements in accordance with generally accepted accounting practice in New Zealand (being New Zealand Equivalents to International Financial Reporting Standards) and International Financial Reporting Standards;

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

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

Auditor’s responsibilities for the audit of the consolidated financial statements

Our objective is:

— to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error; and

— to issue an independent auditor’s report that includes our opinion.

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

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

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

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

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

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

For and on behalf of

KPMG

KPMG
Auckland

22 August 2022

Disclosure Statement

For the year ended 30 June 2022

HEARTLAND BANK

Contents

General Information

This Disclosure Statement has been issued by Heartland Bank Limited (**HBL** or the **Bank**) and its subsidiaries (the **Banking Group**) for the year ended 30 June 2022 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 year ended 30 June 2022 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.

Name and address for service

The name of the Registered Bank is Heartland Bank Limited.

The Banking Group consists of the Bank and all of its subsidiaries.

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

The address for service of the ultimate parent, Heartland Group Holdings Limited (**HGH**), is Level 3, 35 Teed Street, Newmarket, Auckland 1023.

Details of incorporation

The Bank was incorporated under the Companies Act 1993 on 30 September 2010.

Interests in 5% or more of voting securities of the Bank

Name	Percentage held
Heartland Group Holdings Limited	100%

Heartland Group Holdings Limited have the ability to appoint 100% of Directors, subject to Reserve Bank of New Zealand (**RBNZ**) restrictions and RBNZ Director approval.

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 1010

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 for the year ended 30 June 2022.

The Directors of the Bank and their details at the time this Disclosure Statement was signed were:

Chairman – Board of Directors
Name: Bruce Robertson Irvine
Qualifications: BCom, LLB, FCA, CFInstD
Type of Director: Independent Non-Executive Director
Occupation: Company Director
External Directorships:
Air Rarotonga Limited, Amaia Day Spa (Tonga) Limited, Amaia Luxury Spa Limited, Amyes Road Limited (in liquidation), B R Irvine Limited, Blackbyre Horticulture Limited, Bowdens Mart Limited, MG Sustainable Operations Limited, Chambers @151 Limited, Clipper Investments (2002) Limited, Cockerill and Campbell (2007) Limited, Embassy Hotels Limited, GZ Capital Limited, GZ NZ Limited, GZ RES Limited, Hansons Lane International Holdings Limited, Hawling Holdings Limited, House of Travel ESP Trustee Limited, House of Travel Holdings Limited, J.S. Ewers Limited, Kaipaki Holdings Limited, Kaipaki Properties Limited, Lake Angelus Holdings Limited, Lamanna Bananas (NZ) Limited, Lamanna Premier Group Pty Limited, Lamanna Limited, Market Fresh Wholesale Limited, Market Gardeners Limited, MG Group Holdings Limited, MG Marketing Limited, MG New Zealand Limited, Monarch Hotels Limited, Noblesse Oblige Limited, Paradise Islands Limited, Phimai Holdings Limited, Quitachi Limited, Scenic Hotels (Karapiro) Limited, Scenic Hotels (Hamilton) Limited, Scenic Circle Convention Services Limited, Scenic Hotel (Haast) Limited, Scenic Circle (Napier) Limited, Scenic Hotel Group Limited, Scenic Hotels (Ashburton) Limited, Scenic Hotels (International) Limited, Scenic Circle MLC Café & Bar Limited, Skope Industries Limited, Southland Produce Markets Limited, Stark Holdings (NZ) Limited, Wavell Resources Limited, Scenic Circle (Rotorua) Limited, Scenic Circle (Queenstown) Limited, Scenic Hotels Limited, Abalon Investments Limited, Airedale Developments (Auckland) Limited, Scenic Hotels (Tonga) Limited, Waiho Investments Limited, Scenic Circle Hotels Management Services Limited, Scenic Circle Punakaiki Rocks Hotel Limited, Scenic Hotel Collection New Zealand Limited, Scenic Hotels (Auckland) Limited, Scenic Hotels (Niue) Limited, Scenic Hotels (Kaikoura) Limited, Heartland Hotels Limited, Scenic (Franz Josef) Limited, Scenic Circle (Airedale) Limited, Scenic Circle (Bay Of Islands) Limited, Platinum Hotels Limited, Scenic Aviation Limited, Scenic Circle (Bay Of Plenty) Limited, Scenic Circle (Blenheim) Limited, Karma Finance Limited, Scenic Circle Hotels (Dunedin) Limited, Refined Hotels Limited, Scenic Hospitality Services Limited, Scenic Circle Glacier Country Hotel Limited, Scenic Circle (North Island) Limited, Scenic Hotels Technology Limited, Scenic Circle (Rotorua Lakes) Limited, Ezibed (2022) Limited, Mainstay International Hotels (NZ)(2022) Limited, Golden Chain (NZ) Limited, Mainstay International Hotels (2022) Limited, Mitchell Corp New Zealand (2022) Limited, Te Kaikoura Investments Limited, MLC Scenic Limited, Wagstaff Holdings Limited, Heartland PIE Fund Limited.

Name: Jeffrey Kenneth Greenslade
Qualifications: LLB
Type of Director: Non-Independent Non-Executive Director
Occupation: Chief Executive Officer of Heartland Group Holdings
External Directorships:
Heartland Australia Group Pty Limited, Heartland Australia Holdings Pty Limited, Australian Seniors Finance Pty Limited, ASF Custodians Pty Limited, Heartland Group Holdings Limited, Henley Family Investments Limited, StockCo Holdings 2 Pty Limited, StockCo Australia Management Pty Limited.

Name: Edward John Harvey
Qualifications: BCom, CA, CFInstD
Type of Director: Independent Non-Executive Director
Occupation: Company Director
External Directorships:
KMD Brands Limited, Napier Port Holdings Limited, Pomare Investments Limited, Port of Napier Limited.

Name: Geoffrey Thomas Ricketts CNZM
Qualifications: LLB (Hons), LLD
Type of Director: Non-Independent Non-Executive Director
Occupation: Company Director
External Directorships:
Heartland Group Holdings Limited, Janmac Capital Limited, Maisemore Enterprises Limited, MCF2 Message4U Limited, MCF 10 Limited, MCF2 (Fund 1) Limited, MCF2A General Partner Limited, MCF2 GP Limited, MCF3 GP Limited, MCF3B General Partner Limited, MCF3A General Partner Limited, MCF2 FFF-GK Limited, MCF3 Cook Limited, MCF3 TEG Limited, MCF3 Squiz Limited, MC Medical Properties Limited, Mercury Capital No.1 Fund Limited, Mercury Capital No. 1 Trustee Limited, Mercury Medical Holdings Limited, New Zealand Catholic Education Office Limited, NZCEO Finance Limited, O & E Group Services Limited, Oceania and Eastern Finance Limited, Oceania and Eastern Group Funds Limited, Oceania and Eastern Holdings Limited, Oceania and Eastern Limited, Oceania and Eastern Securities Limited, Oceania North Limited, Oceania Securities Limited, Quartet Equities Limited,

Directors (continued)

MCF3 RE.Group Limited, MCF11 Limited, MCF3 Resourceco Limited, MCF3 Green Limited, MCF E&P Holdco Limited, MCF3 Amplify Limited, MCF3 Architectus Limited.

Name: Kathryn Mitchell
Qualifications: BA, CMInstD
Type of Director: Independent Non-Executive Director
Occupation: Company Director
External Directorships:
Chambers@151 Limited, Christchurch International Airport Limited, Farmright Limited, Firsttrax Limited, Helpings Hands Holdings Limited, Link Engine Management Limited, Morrison Horgan Limited, The New Zealand Merino Company Limited, Heartland Group Holdings Limited.

Name: Shelley Maree Ruha
Qualifications: BCom, DipBank
Type of Director: Independent Non-Executive Director
Occupation: Company Director
External Directorships:
Analey Holdings Limited, IT & Business Consulting Limited, New Zealand Rural Land Management Limited, Partners Group Holdings Limited, Partners Life Limited, 9 Spokes International Limited, Taxgift Limited, Hobson Wealth Holdings Limited, Hobson Wealth Partner's Limited, Paysauce Limited.

Conflicts of interest policy

All Directors are required to disclose to the Board any actual or potential conflicts of interest which may exist or is thought to exist upon appointment and are required to keep these disclosures up to date. The details of each disclosure made by a Director to the Board must be entered in the Interests Register.

Directors are required to take any necessary and reasonable measures to try to resolve the conflict and comply with the Companies Act 1993 by disclosing interests and restrictions on voting. Any Director with a material personal, professional or business interest in a matter being considered by the Board must declare their interest and, unless the Board resolves otherwise, may not be present during the boardroom discussions or vote on the relevant matter.

Interested transactions

There have been no transactions between the Bank or any member of the Banking Group and any Director or immediate relative or close business associate of any Director which either has been entered into on terms other than those which would in the ordinary course of business of the Bank or any member of the Banking Group be given to any other person of like circumstances or means, or could be reasonably likely to influence materially the exercise of the Directors' duties.

Audit committee composition

Members of the Bank's Audit Committee as at the date of this Disclosure Statement are as follows:

Edward John Harvey (Chairperson)	Independent Non-Executive Director
Bruce Robertson Irvine	Independent Non-Executive Director
Geoffrey Thomas Ricketts	Non-Independent Non-Executive Director
Shelley Maree Ruha	Independent Non-Executive Director

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 year ended 30 June 2022:

   (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 22 August 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 Statement of Comprehensive Income

For the year ended 30 June 2022

$000's	Note	June 2022	June 2021
Interest income	3	275,770	272,562
Interest expense	3	66,205	73,753
Net interest income		**209,565**	**198,809**
Operating lease income	4	5,284	5,004
Operating lease expense	4	3,383	3,149
Net operating lease income		**1,901**	**1,855**
Lending and credit fee income		6,943	6,455
Other income	5	24,860	6,696
Net operating income		**243,269**	**213,815**
Operating expenses	6	96,203	100,852
Profit before impaired asset expense and income tax		**147,066**	**112,963**
Fair value (loss)/gain on investments		(315)	215
Impaired asset expense	8	14,692	14,579
Profit before income tax		**132,059**	**98,599**
Income tax expense	9	36,068	27,090
Profit for the year		**95,991**	**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		6,540	8,928
Movement in fair value reserve		(712)	(5,646)
Items that will not be reclassified to profit or loss, net of income tax:			
Movement in defined benefit reserve		(171)	-
Other comprehensive income		(473)	-
Other comprehensive income for the year, net of income tax		**5,184**	**3,282**
Total comprehensive income for the year		**101,175**	**74,791**

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

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

Consolidated Statement of Changes in Equity

For the year ended 30 June 2022

		June 2022				June 2021			
$000's	**Note**	**Share Capital**	**Reserves**	**Retained Earnings**	**Total Equity**	**Share Capital**	**Reserves**	**Retained Earnings**	**Total Equity**
Balance at beginning of year		**553,239**	**755**	**87,834**	**641,828**	**553,239**	**(2,527)**	**46,325**	**597,037**
Total comprehensive income for the year									
Profit for the year		-	-	95,991	95,991	-	-	71,509	71,509
Other comprehensive (loss), net of income tax	16	-	5,657	(473)	5,184	-	3,282	-	3,282
Total comprehensive income for the year		**-**	**5,657**	**95,518**	**101,175**	**-**	**3,282**	**71,509**	**74,791**
Contributions by and distributions to owner									
Dividend to Heartland Group Holdings Limited	15	-	-	(35,500)	(35,500)	-	-	(30,000)	(30,000)
Total transactions with owner		**-**	**-**	**(35,500)**	**(35,500)**	**-**	**-**	**(30,000)**	**(30,000)**
Balance at end of the year		**553,239**	**6,412**	**147,852**	**707,503**	**553,239**	**755**	**87,834**	**641,828**

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

Consolidated Statement of Financial Position

As at 30 June 2022

$000's	Note	June 2022	June 2021
Assets			
Cash and cash equivalents		221,469	112,903
Investments	10	275,714	358,975
Investment properties		11,832	11,832
Derivative financial instruments	11	44,487	14,111
Due from related parties	18	1,540	146
Finance receivables	12	3,762,231	3,213,593
Finance receivables - reverse mortgages	12	721,264	601,505
Operating lease vehicles	13	15,161	10,865
Right of use assets	17	13,660	15,654
Other assets	17	13,338	14,822
Intangible assets	17	58,418	52,831
Deferred tax asset	9	15,538	12,251
Total assets		**5,154,652**	**4,419,488**
Liabilities			
Deposits	14	3,597,144	3,219,522
Other borrowings	14	749,478	502,885
Due to related parties	18	1,535	3,210
Lease liabilities	17	15,726	17,780
Tax liabilities		22,479	7,556
Derivative financial instruments	11	6,335	4,789
Trade and other payables	17	54,452	21,918
Total liabilities		**4,447,149**	**3,777,660**
Equity			
Share capital	15	553,239	553,239
Retained earnings and other reserves		154,264	88,589
Total equity		**707,503**	**641,828**
Total equity and liabilities		**5,154,652**	**4,419,488**
Total interest earning and discount bearing assets		4,918,261	4,215,116
Total interest and discount bearing liabilities		4,312,180	3,704,130

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

Consolidated Statement of Cash Flows

For the year ended 30 June 2022

$000's	Note	June 2022	June 2021
Cash flows from operating activities			
Interest received		232,601	236,081
Operating lease income received		3,913	5,046
Lending, credit fees and other income received		11,740	8,431
Operating inflows		**248,254**	**249,558**
Interest paid		(87,131)	(88,635)
Payments to suppliers and employees		(47,169)	(86,261)
Taxation paid		(26,616)	(27,518)
Operating outflows		**(160,916)**	**(202,414)**
Net cash flows from operating activities before changes in operating assets and liabilities		**87,338**	**47,144**
Proceeds from sale of operating lease vehicles		4,482	6,821
Purchase of operating lease vehicles		(10,758)	(1,788)
Net movement in finance receivables		(636,981)	(136,202)
Net movement in deposits		376,052	(43,587)
Net movement in related party balances		(3,069)	(3,399)
Net cash flows (applied to) operating activities[1]		**(182,936)**	**(131,011)**
Cash flows from investing activities			
Purchase of property, plant and equipment and intangible assets		(11,889)	(6,520)
Net increase in investments		82,946	24,215
Total cash from investing activities		**71,057**	**17,695**
Net cash flows from investing activities		**71,057**	**17,695**
Cash flows from financing activities			
Net increase in wholesale funding		258,127	152,783
Total cash provided from financing activities		**258,127**	**152,783**
Dividends paid	15	(35,500)	(30,000)
Payment of lease liabilities		(2,182)	(2,027)
Total cash (applied to) financing activities		**(37,682)**	**(32,027)**
Net cash flows from financing activities		**220,445**	**120,756**
Net increase in cash held		**108,566**	**7,440**
Opening cash and cash equivalents		112,903	105,463
Closing cash and cash equivalents		**221,469**	**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 financial statements form an integral part of, and should be read in conjunction with, these consolidated financial statements.

Consolidated Statement of Cash Flows

For the year ended 30 June 2022

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

$000's	Note	June 2022	June 2021
Profit for the year		**95,991**	**71,509**
Add/(less) non-cash items:			
Depreciation and amortisation expense		10,294	14,293
Depreciation on lease vehicles	13	3,103	2,801
Capitalised net interest income and fee income		(41,863)	(34,555)
Impaired asset expense	8	14,692	14,579
Investment fair value movement		315	(215)
Other non-cash items		(17,490)	(23,210)
Total non-cash items		**(30,949)**	**(26,307)**
Add/(less) movements in operating assets and liabilities:			
Finance receivables		(636,981)	(136,202)
Operating lease vehicles		(6,276)	5,033
Other assets		(1,780)	2,884
Current tax		14,923	(3,715)
Derivative financial instruments		(23,002)	(122)
Deferred tax		(3,287)	3,076
Deposits		376,052	(43,587)
Other liabilities		32,373	(3,580)
Total movements in operating assets and liabilities		**(247,978)**	**(176,213)**
Net cash flows applied to operating activities		**(182,936)**	**(131,011)**

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

Notes to the Financial Statements

For the year ended 30 June 2022

1 Financial statements preparation

Reporting entity

The financial statements presented are the consolidated financial statements comprising HBL and the Banking Group. Refer Note 26 – Significant subsidiaries for further details.

As at 30 June 2022, the Bank is a company incorporated in New Zealand under the Companies Act 1993, a registered bank under the Reserve Bank of New Zealand Act 1989 and a Financial Market Conduct (**FMC**) reporting entity for the purposes of the Financial Markets Conduct Act 2013.

Basis of preparation

The financial statements have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand (**NZ GAAP)** and with the requirements of the Financial Markets Conduct Act 2013. The financial statements comply with New Zealand equivalents to International Financial Reporting Standards (**NZ IFRS**) and other applicable Financial Reporting Standards as appropriate for profit-oriented entities, and the Registered Bank Disclosure Statement (New Zealand Incorporated Registered Banks) Order 2014 (as amended) (the **Order**). The financial statements also comply with International Financial Reporting Standards (**IFRS**) as issued by the International Accounting Standards Board.

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

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

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

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.

Basis of measurement

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

Principles of consolidation

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

Assets and liabilities in a transactional currency that is not the New Zealand dollar, are translated at the exchange rates ruling at balance date. Revenue and expense items are translated at the average rate at the balance date. Exchange differences are taken to the consolidated statement of comprehensive income.

1 Financial statements preparation (continued)

Changes in accounting standards

Accounting standards issued and effective

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.

Estimates and judgements

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

- Provisions for impairment - The effect of credit risk is quantified based on the Banking Group's best estimate of future cash repayments and proceeds from any security held or by reference to risk profile groupings, historical loss data and forward-looking information. Refer to Note 8 - Impaired asset expense, and Note 12 - Finance receivables for further details.

- Fair value of reverse mortgages - Fair value is quantified by the transaction price and the Banking Group's subsequent best estimate of the risk profile of the reverse mortgage portfolio. Refer to Note 19 - Fair value for further details.

- Goodwill - Determining the fair value of assets and liabilities of acquired businesses requires the Banking Group to exercise judgement. The carrying value of goodwill is tested annually for impairment, refer to Note 17 - Other balance sheet items.

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

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.

Whilst economic uncertainty remains, credit risk factors arising from the impact of COVID-19 are now apparent. Consequently the COVID Overlay has been released in full and it has been considered appropriate to create an economic overlay of $8.0 million as at 30 June 2022, resulting in a net $1.6 million release to profit or loss.

1 Financial statements preparation (continued)

COVID-19 Pandemic - Impact on Estimates and Judgements (continued)

The accounting judgement that is most impacted by the economic 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.

Financial assets and liabilities

Financial Assets

Financial assets are classified based on:

- The business model within which the assets are managed; and
- Whether the contractual cash flows of the instrument represent solely payment of principal and interest (**SPPI**).

The Banking Group determines the business model at the level that reflects how groups of financial assets are managed. When assessing the business model, the Banking Group considers factors including how performance and risks are managed, evaluated and reported and the frequency and volume of, and reason for sales in previous periods.

Financial assets are classified into the following measurement categories:

Financial Assets	Measurement Category	Note
Bank bonds and floating rate notes	Fair value through other comprehensive income (**FVOCI**)	10
Public sector securities and corporate bonds	FVOCI	10
Local authority stock	FVOCI	10
Equity investments	Fair value through profit or loss (**FVTPL**) and FVOCI	10
Finance receivables – reverse mortgages	FVTPL	12
Finance receivables	Amortised cost	12

Financial assets measured at amortised cost
Financial assets are measured at amortised cost if they are held within a business model whose objective is achieved through holding the financial asset to collect contractual cash flows which represent SPPI.

Financial assets at amortised cost are initially recognised at fair value and subsequently measured at amortised cost using the effective interest rate method.

Financial assets measured at FVOCI
Financial assets are measured at FVOCI if they are held within a business model whose objective is achieved both through collecting contractual cash flows which represent SPPI or selling the financial asset.

Financial assets at FVOCI are measured at fair value with unrealised gains and losses recognised in other comprehensive income except for interest income, impairment charges and foreign exchange gains and losses, which are recognised in profit or loss.

1 Financial statements preparation (continued)

Financial assets and liabilities (continued)

Financial Assets (continued)

Financial assets measured at FVTPL
Financial assets are measured at FVTPL if:

- They are held within a business model whose objective is achieved through selling or repurchasing the financial asset in the near term, or forms part of a portfolio of financial instruments that are managed together and for which there is evidence of short-term profit taking; or

- They are designated at FVTPL upon initial recognition to eliminate or reduce an accounting mismatch.

Financial assets at FVTPL are measured at fair value with subsequent changes in fair value recognised in profit or loss.

Financial Liabilities

Financial liabilities are classified into the following measurement categories:

- Those to be measured at amortised cost;

- Those to be measured at FVTPL.

Financial liabilities measured at amortised cost
Financial liabilities are measured at amortised cost if they are not held for trading or designated at FVTPL.

Financial liabilities measured at amortised cost are accounted for using the effective interest rate method.

Financial liabilities measured at FVTPL
Financial liabilities are measured at FVTPL if:

- They are held for trading whose principal objective is achieved through selling or repurchasing the financial liability in the near term, or forms part of a portfolio of financial instruments that are managed together and for which there is evidence of short-term profit taking; or

- They are designated at FVTPL upon initial recognition to eliminate or reduce an accounting mismatch.

Financial liabilities at FVTPL are measured at fair value with subsequent changes in fair value recognised in profit or loss.

Further details of the accounting policy for each category of financial asset or financial liability mentioned above is set out in the note for the relevant item.

The Banking Group's policies for determining the fair value of financial assets and financial liabilities are set out in Note 19 - Fair value.

Recognition

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

1 Financial statements preparation (continued)

Derecognition

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

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

Financial liabilities are derecognised when the obligation is discharged, cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, the exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, with the difference in the respective carrying amounts recognised in profit or loss.

Offsetting financial instruments

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

Performance

2 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. Refer to Note 21 - Credit risk exposure for details of this product.

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. 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 Banking Group's operating segments are different from the industry categories detailed in Note 21 - Credit risk exposure. The operating segments are primarily categorised by sales channel, whereas Note 21 - Credit risk exposure categorises exposures based on credit risk concentrations.

$000's	Motor	Reverse Mortgages	Personal Lending	Business	Rural	Other	Total
June 2022							
Net interest income	69,730	29,957	10,218	70,602	29,460	(402)	209,565
Net other income	3,326	2,583	1,562	2,679	739	22,815	33,704
Net operating income	**73,056**	**32,540**	**11,780**	**73,281**	**30,199**	**22,413**	**243,269**
Operating expenses	3,792	4,485	6,417	9,358	3,038	69,113	96,203
Profit/(loss) before impaired asset expense and income tax	**69,264**	**28,055**	**5,363**	**63,923**	**27,161**	**(46,700)**	**147,066**
Fair value (loss) on investments	-	-	-	-	-	(315)	(315)
Impaired asset expense/(benefit)	1,481	-	(877)	11,831	2,257	-	14,692
Profit before income tax	**67,783**	**28,055**	**6,240**	**52,092**	**24,904**	**(47,015)**	**132,059**
Income tax expense	-	-	-	-	-	36,068	36,068
Profit/(loss) for the year	**67,783**	**28,055**	**6,240**	**52,092**	**24,904**	**(83,083)**	**95,991**
Total assets	**1,382,367**	**721,264**	**332,783**	**1,387,352**	**687,232**	**643,654**	**5,154,652**
Total liabilities							**4,447,149**

2 Segmental analysis (continued)

$000's	Motor	Reverse Mortgages	Personal Lending	Business	Rural	Other	Total
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

Policy
Interest income and expense on financial instruments is measured using the effective interest rate method that discounts the financial instruments' future cash flows to their present value and allocates the interest income or expense over the life of the financial instrument. The effective interest rate is established on initial recognition of the financial assets or liabilities and is not subsequently revised. For financial instruments at amortised cost, the calculation of the effective interest rate includes all yield related fees and commissions paid or received that are an integral part of the underlying financial instrument.

$000's	June 2022	June 2021
Interest income		
Cash and cash equivalents	805	117
Investments	5,156	6,979
Finance receivables	230,514	231,659
Finance receivables - reverse mortgages	39,295	33,807
Total interest income	**275,770**	**272,562**
Interest expense		
Retail deposits	45,387	55,295
Other borrowings	20,727	14,935
Net interest expense on derivative financial instruments	91	3,523
Total interest expense	**66,205**	**73,753**
Net interest income	**209,565**	**198,809**

4 Net operating lease income

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

$000's	June 2022	June 2021
Operating lease income		
Lease income	4,161	3,908
Gain on disposal of lease assets	1,123	1,096
Total operating lease income	**5,284**	**5,004**
Operating lease expense		
Depreciation on lease assets	3,103	2,801
Direct lease costs	280	348
Total operating lease expense	**3,383**	**3,149**
Net operating lease income	**1,901**	**1,855**

5 Other income

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

Insurance income
Insurance premium income and commission expense are recognised in profit or loss from the date of attachment of the risk over the period of the insurance contract. Claim expense is recognised in the profit or loss on an accrual basis once our liability to the policyholder has been confirmed under the terms of the contract.

$000's	June 2022	June 2021
Rental income from investment properties	833	1,055
Insurance income	664	1,096
Gain on sale of investments	-	157
Other income	6,624	4,211
Fair value gain on derivative financial instruments	16,723	-
FX gain / (loss)	16	177
Total other income	**24,860**	**6,696**

6 Operating expenses

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

$000's	**June 2022**	**June 2021**
Personnel expenses	53,826	57,036
Directors' fees	542	676
Superannuation	1,045	979
Depreciation - property, plant and equipment	2,342	2,883
Legal and professional fees	1,697	2,110
Advertising and public relations	2,814	3,972
Depreciation - right of use asset	2,122	2,123
Technology services	9,014	6,908
Telecommunications, stationary and postage	1,492	1,610
Customer acquisition costs	2,419	2,123
Amortisation of intangible assets	5,830	9,285
Other operating expenses[1]	13,060	11,147
Total operating expenses	**96,203**	**100,852**

[1]Other operating expenses include compensation of auditor which is disclosed in Note 7.

7 Compensation of auditor

$000's	**June 2022**	**June 2021**
Audit and review of the financial statements[1]	593	599
Other assurance services paid to auditor [2]	20	20
Total compensation of auditor	**613**	**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, trust deed reporting and registry audits.

8 Impaired asset expense

Policy

Impairment of finance receivables

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

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

Assets may migrate between the following stages based on their change in credit quality:

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

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

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

Where there has been a significant increase in credit risk.

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

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

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

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

For assets that are individually assessed for ECL, the allowance for ECL is calculated directly as the difference between the defaulted assets carrying value and the recoverable amount (being the present value of expected future cash flows, including cash flows from the realisation of collateral or guarantees, where applicable).

8 Impaired asset expense (continued)

$000's	June 2022	June 2021
Non-securitised		
Individually impaired asset expense	10,782	9,131
Collectively impaired asset expense	3,980	5,606
Total non-securitised impaired asset expense	**14,762**	**14,737**
Securitised		
Collectively impaired asset expense	(70)	(158)
Total securitised impaired asset expense	**(70)**	**(158)**
Total		
Individually impaired asset expense	10,782	9,131
Collectively impaired asset expense	3,910	5,448
Total impaired asset expense	**14,692**	**14,579**

The Banking Group's models for estimating ECL for each of its portfolios are based on the historic credit experience of those portfolios. The models assume that economic conditions (such as Gross Domestic Product (**GDP**) growth, unemployment rates, and house price index forecasts) remain static over time. If the Banking Group forecasts that economic conditions may change in the foreseeable future, the Banking Group applies judgement to determine whether the modelled output should be subject to an economic overlay. Judgement is required to establish clear correlation between key economic indicators and the credit performance of the Group's unique portfolios.

9 Taxation

Policy

Income tax

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

Current tax

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

Deferred tax

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

Goods and services tax (GST)

Revenues, expenses and assets are recognised net of GST. As the Banking Group is predominantly involved in providing financial services, only a proportion of GST paid on inputs is recoverable. The non-recoverable proportion of GST is treated as an expense or, if relevant, as part of the cost of acquisition of an asset.

9 Taxation (continued)

Income tax expense

$000's	June 2022	June 2021
Income tax recognised in profit or loss		
Current tax		
Current year	40,104	24,823
Adjustments for prior year	(748)	(483)
Deferred tax		
Current year	(2,895)	2,573
Adjustments for prior year	(393)	177
Total income tax expense recognised in profit or loss	**36,068**	**27,090**
Income tax recognised in other comprehensive income		
Current tax		
Derivatives at fair value reserve	(5,271)	(2,197)
Fair value movements of cash flow hedge	7,537	3,457
Total income tax expense recognised in other comprehensive income	**2,266**	**1,260**

Reconciliation of effective tax rate

Profit before income tax	**132,059**	**98,599**
Prima facie tax @ 28%	36,976	27,607
Adjusted tax effect of items not taxable/deductible	232	(211)
Adjustments for prior year	(1,140)	(306)
Total income tax expense	**36,068**	**27,090**

Deferred tax assets comprise the following temporary differences:

$000's	June 2022	June 2021
Employee entitlements	1,234	1,009
Share based payment	501	202
Provision for impairment	14,176	14,305
Intangibles and property, plant and equipment	(2,972)	(3,800)
Deferred acquisition costs	(196)	(475)
Operating lease vehicles	680	479
Other temporary differences	2,116	531
Total deferred tax assets	**15,538**	**12,251**
Opening balance of deferred tax assets	**12,251**	**15,327**
Movement recognised in profit or loss	3,287	(3,076)
Closing balance of deferred tax assets	**15,538**	**12,251**

Financial Position

10 Investments

Policy
Investments are classified into one of the following categories:

Fair value through profit or loss
Investments under this category include equity investments and are measured at fair value plus transaction costs. Changes in fair value of these investments are recognised in profit or loss in the period in which they occur.

Fair value through other comprehensive income
Investments under this category include bank bonds, floating rate notes, local authority stock, public securities, corporate bonds and equity investments. These are initially measured at fair value, including transaction costs, and subsequently carried at fair value. Changes in fair value of these investments are recognised in other comprehensive income and presented within the fair value reserve.

Amortised cost
Investments under this category include bank deposits and are measured using effective interest rate method. They are held to collect contractual cash flows that are solely payments of principal and interest on the principal amount outstanding.

$000's	June 2022	June 2021
Bank deposits, bank bonds and floating rate notes	261,258	351,614
Public sector securities and corporate bonds	12,953	5,543
Equity investments	1,503	1,818
Total investments	**275,714**	**358,975**

Refer to Note 19 - Fair value for details of the split between investments measured at fair value through profit or loss, fair value through other comprehensive income and amortised cost.

11 Derivative financial instruments

Policy
The Banking Group uses derivatives for risk management purposes. Derivatives held for risk management purposes include hedges that either meet the hedge accounting requirements set out in NZ IAS 39, or economic hedges not placed into an accounting hedge relationship.

Derivatives are recognised at their fair value, with the derivatives being carried as assets when their fair value is positive and as liabilities when their fair value is negative.

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

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

- the hedging relationship must be formally designated and documented at inception of the hedge,
- effectiveness testing must be carried out on an on-going basis to ensure the hedge is effective, consistent with the originally documented risk management strategy, and
- the instruments or counterparty must be a third party external to the Banking Group.

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

Subsequent to initial designation, changes in the fair value of derivatives that are designated and qualify for fair value hedge accounting are recorded through profit or loss alongside any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

Where the hedged item is carried at amortised cost, the movement in fair value of the hedged item attributable to the hedged risk is made as an adjustment to the carrying value of the hedged asset or liability. When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, the adjustment to carrying amount of a hedged item carried at amortised cost is amortised to the consolidated statement of comprehensive income on an effective yield basis over the remaining period to maturity of the hedged item. Where a hedged item carried at amortised cost is derecognised from the balance sheet, the adjustment to the carrying amount of the asset or liability is immediately transferred to the consolidated statement of comprehensive income.

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

- the hedging relationship must be formally designated and documented at inception of the hedge,
- effectiveness testing must be carried out on an on-going basis to ensure the hedge is effective, consistent with the originally documented risk management strategy, and
- the instruments or counterparty must be a third party external to the Banking Group.

11 Derivative financial instruments (continued)

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

A fair value gain or loss associated with the effective portion of a derivative designated as a cash flow hedge is recognised initially in the hedging reserve. The ineffective portion of a fair value gain or loss is recognised immediately in the consolidated statement of comprehensive income.

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

$000's	June 2022 Notional Principal	June 2022 Fair Value Assets	June 2022 Fair Value Liabilities	June 2021 Notional Principal	June 2021 Fair Value Assets	June 2021 Fair Value Liabilities
Held for risk management						
Interest rate related contracts						
Swaps	1,478,151	44,487	6,335	1,104,012	14,106	4,520
Foreign currency related contracts						
Forwards	-	-	-	27,846	5	269
Total derivative financial instruments	**1,478,151**	**44,487**	**6,335**	**1,131,858**	**14,111**	**4,789**

The Banking Group has entered into credit support annexes (**CSAs**) which form a part of International Swaps and Derivatives Association (**ISDA**) Master Agreement, in respect of certain exposures relating to derivative transactions. As per these CSAs, the Banking Group or the counterparty needs to collateralise the market value of outstanding derivative transactions. As at 30 June 2022, the Banking Group has received $32.34 million of cash collateral (2021: $4.09 million) against derivative assets. The cash collateral received is not netted off against the balance of derivative assets disclosed in the consolidated statement of financial position.

The Banking Group actively manages interest rate risk by entering into derivative contracts to hedge against movements in interest rates. During the year interest rate swaps entered into by the Banking Group could not be designated into a hedging relationship with the portfolio of financial assets and liabilities held considering their underlying risks could no longer be critically matched against those of the interest rate swaps. Consequently, hedge accounting could not be established resulting in the recognition of fair value gains from the interest rate swaps in the consolidated statement of comprehensive income.

12 Finance receivables

(a) Finance receivables held at amortised cost

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

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

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

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

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

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

$000's	June 2022	June 2021
Non-securitised		
Neither at least 90 days past due nor impaired	3,391,832	3,063,258
At least 90 days past due - at amortised cost	41,279	36,602
Individually impaired - at amortised cost	66,183	38,143
Gross finance receivables	**3,499,294**	**3,138,003**
Less provision for impairment	(50,232)	(50,809)
Total non-securitised finance receivables	**3,449,062**	**3,087,194**
Securitised		
Neither at least 90 days past due nor impaired	313,364	126,638
At least 90 days past due - at amortised cost	-	-
Individually impaired - at amortised cost	-	-
Gross finance receivables	**313,364**	**126,638**
Less provision for impairment	(195)	(239)
Total securitised finance receivables	**313,169**	**126,399**
Total		
Neither at least 90 days past due nor impaired	3,705,196	3,189,896
At least 90 days past due - at amortised cost	41,279	36,602
Individually impaired - at amortised cost	66,183	38,143
Gross finance receivables	**3,812,658**	**3,264,641**
Less provision for impairment	(50,427)	(51,048)
Total finance receivables	**3,762,231**	**3,213,593**

Refer to Note 22 - Asset quality for further analysis of finance receivables by credit risk concentration.

12 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
June 2022					
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	(3,800)	(2,391)	916	5,275	-
New and increased provision (net of collective provision releases)	(1,411)	1,922	11,499	5,507	17,517
Recovery of amounts written off	-	-	(2,755)	-	(2,755)
Credit impairment charge	**(5,211)**	**(469)**	**9,660**	**10,782**	**14,762**
Recovery of amounts previously written off	-	-	2,755	-	2,755
Write offs	-	-	(14,684)	(3,410)	(18,094)
Impairment allowance as at 30 June 2022	**19,005**	**1,865**	**14,361**	**15,001**	**50,232**
Securitised					
Impairment allowance as at 30 June 2021	**216**	**22**	**1**	**-**	**239**
Changes in loss allowance					
Transfer between stages	(6)	(109)	115	-	-
New and increased provision (net of collective provision releases)	(14)	85	(141)	-	(70)
Recovery of amounts written off	-	-	-	-	-
Credit impairment charge	**(20)**	**(24)**	**(26)**	**-**	**(70)**
Recovery of amounts previously written off	-	-	-	-	-
Write offs	-	-	26	-	26
Impairment allowance as at 30 June 2022	**196**	**(2)**	**1**	**-**	**195**
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	(3,806)	(2,500)	1,031	5,275	-
New and increased provision (net of collective provision releases)	(1,425)	2,007	11,358	5,507	17,447
Recovery of amounts written off	-	-	(2,755)	-	(2,755)
Credit impairment charge	**(5,231)**	**(493)**	**9,634**	**10,782**	**14,692**
Recovery of amounts previously written off	-	-	2,755	-	2,755
Write offs	-	-	(14,658)	(3,410)	(18,068)
Impairment allowance as at 30 June 2022	**19,201**	**1,863**	**14,362**	**15,001**	**50,427**

12 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
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**

12 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
June 2022					
Gross finance receivables as at 30 June 2021	**3,016,571**	**164,728**	**45,199**	**38,143**	**3,264,641**
Transfer between stages	(109,051)	24,871	28,786	55,394	-
Additions	2,059,181	-	-	3,002	2,062,183
Deletions	(1,383,366)	(72,084)	(13,341)	(26,946)	(1,495,737)
Write offs	-	-	(15,019)	(3,410)	(18,429)
Gross finance receivables as at 30 June 2022	**3,583,335**	**117,515**	**45,625**	**66,183**	**3,812,658**
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

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

$000's	June 2022	June 2021
Finance receivables - reverse mortgages	721,264	601,505
Total finance receivables - reverse mortgages	**721,264**	**601,505**

Note 19 (a) - Financial instruments measured at fair value discloses further information regarding the Banking Group's valuation policy.

Note 21 - Credit risk exposure discloses further information regarding how reverse mortgage loans operate.

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

There were no credit risk adjustments on individual financial assets.

13 Operating lease vehicles

Policy
Operating lease vehicles are stated at cost less accumulated depreciation.

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

$000's	**June 2022**	**June 2021**
Cost		
Opening balance	16,114	24,098
Additions	10,758	1,788
Disposals	(6,422)	(9,772)
Closing balance	**20,450**	**16,114**
Accumulated depreciation		
Opening balance	5,249	6,495
Depreciation charge for the year	3,103	2,801
Disposals	(3,063)	(4,047)
Closing balance	**5,289**	**5,249**
Opening net book value	10,865	17,603
Closing net book value	**15,161**	**10,865**

The future minimum lease payments receivable under operating leases not later than one year is $3.057 million (2021: $2.141 million), within one to five years is $6.465 million (2021: $1.406 million) and over five years is nil (2021: nil).

14 Borrowings

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

$000's	**June 2022**	**June 2021**
Deposits	3,597,144	3,219,522
Total borrowings related to deposits	**3,597,144**	**3,219,522**
Unsubordinated notes	272,983	284,517
Securitised borrowings	267,779	108,150
Certificate of deposit	198,715	69,853
Money market borrowings	10,001	-
Repurchase agreement	-	40,365
Total other borrowings	**749,478**	**502,885**

Deposits and unsubordinated notes rank equally and are unsecured.

14 Borrowings (continued)

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	Semi-annually
$150 million	Amortised cost	21 September 2017	21 September 2022	Semi-annually

At 30 June 2022 the Banking Group had the following securitised borrowings outstanding:

- Heartland Auto Receivables Warehouse Trust 2018-1 securitisation facility $400 million, drawn $268 million (2021: $300 million, drawn $108 million). Notes issued to investors are secured over the assets of the Heartland Auto Receivables Warehouse Trust 2018-1. The facility has a maturity date of 26 August 2023.

15 Share capital and dividends

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

000's	June 2022 Number of Shares	June 2021 Number of Shares
Issued shares		
Opening balance	565,430	565,430
Closing balance	**565,430**	**565,430**

There were nil new shares issued during the period (2021:nil).

Dividends paid

	June 2022 Date Declared	$000's	June 2021 Date Declared	$000's
Dividend to HGH	21 February 2022	35,500	18 June 2021	30,000
Total dividends paid		**35,500**		**30,000**

16 Other reserves

$000's	Fair Value Reserve	Defined Benefit Reserve	Cash Flow Hedge Reserve	Total
June 2022				
Balance as at 30 June 2021	(322)	171	906	755
Other comprehensive income, net of income tax	(712)	(171)	6,540	5,657
Balance as at 30 June 2022	**(1,034)**	**-**	**7,446**	**6,412**
June 2021				
Balance as at 30 June 2020	5,324	171	(8,022)	(2,527)
Other comprehensive income, net of income tax	(5,646)	-	8,928	3,282
Balance as at 30 June 2021	**(322)**	**171**	**906**	**755**

17 Other balance sheet items

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

$000's	June 2022	June 2021
Other assets		
Trade receivables	-	635
GST receivables	1,506	1,476
Prepayments	4,697	2,832
Property, plant and equipment	6,960	8,830
Other receivables	175	1,049
Total other assets	**13,338**	**14,822**

Policy
Intangible assets
Intangible assets with finite useful lives
Software acquired or internally developed by the Banking Group is stated at cost less accumulated amortisation and any accumulated impairment losses. Expenditure on software assets is capitalised only when it increases the future economic value of that asset. Amortisation of software is on a straight line basis, at rates which will write off the cost over the assets' estimated useful lives. The expected useful life of the software varies up to ten years.

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

17 Other balance sheet items (continued)

$000's	June 2022	June 2021
Computer software		
Cost	54,777	43,360
Accumulated depreciation	26,158	20,328
Net carrying value of computer software	**28,619**	**23,032**
Goodwill		
Cost	29,799	29,799
Net carrying value of goodwill	**29,799**	**29,799**
Total intangible assets	**58,418**	**52,831**

For the purposes of impairment testing, goodwill is allocated to cash generating units. A Cash Generating Unit (**CGU**) is the smallest identifiable group of assets that generate independent cash inflows. The Banking Group has assessed that goodwill should be allocated to Heartland Bank Limited as the smallest identifiable CGU.

Goodwill is tested for impairment at a cash generating unit level. The recoverable amounts are determined on a value in use basis using a five-year discounted cash flow methodology based on financial budget and forecasts. Key assumptions used in the models included a discount rate of 10% and a terminal growth rate of 2% which reflect both past experience and external sources of information. The recoverable amounts for each CGU are compared to the respective carrying value of net assets.

There was no indication of impairment and no impairment losses have been recognised against the carrying amount of goodwill for the year ended 30 June 2022 (30 June 2021: nil).

Policy

Employee benefits

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

$000's	June 2022	June 2021
Trade and other payables		
Trade payables	13,329	9,218
Insurance liability	1,840	3,354
Employee benefits	5,810	4,625
Other tax payables	1,132	630
Collateral received on derivatives	32,341	4,091
Total trade and other payables	**54,452**	**21,918**

17 Other balance sheet items (continued)

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

In determining the lease term, all facts and circumstances that create an economic incentive to exercise an extension option are considered. Extension options are only included in the lease term if the lease is reasonably certain to be extended.

Lease liabilities are measured at the present value of the remaining lease payments and discounted using the Banking Group's incremental borrowing rate (**IBR**). Lease liabilities are measured using the effective interest method. Carrying amounts are remeasured only upon reassessments and lease modifications.

Right of use assets are depreciated at the shorter of lease term or the Banking Group’s depreciation policy for that asset class.

$000's	June 2022	June 2021
Right of use assets		
Balance at beginning of year	15,654	17,843
Depreciation charge for the year, included within depreciation expense in the income statement	(2,122)	(2,123)
Additions/(terminations) to right of use assets	128	(66)
Total right of use assets	**13,660**	**15,654**
Lease liability		
Current	3,181	2,124
Non-current	12,545	15,656
Total lease liability	**15,726**	**17,780**
Interest expense relating to lease liability	**470**	**555**

18 Related party transactions and balances

Policy
A person or entity is a related party under the following circumstances:

a) A person or a close member of that person's family if that person:
   i) has control or joint control over the Bank;
   ii) has significant influence over the Bank; or
   iii) is a member of the key management personnel of the Bank.

b) An entity is related to the Bank if any of the following conditions applies:
   i) The entity and the Bank are members of the same group;
   ii) One entity is an associate or joint venture of the other entity;
   iii) Both entities are joint ventures of the same third party;
   iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity;
   v) The entity is a post-employment benefit plan for the benefit of employees of either the reporting entity or an entity related to the bank;
   vi) The entity is controlled, or jointly controlled by a person identified in (a); and
   vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

(a) Transactions with key management personnel

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

18 Related party transactions and balances (continued)

(a) Transactions with key management personnel (continued)

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

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

$000's	June 2022	June 2021
Transactions with key management personnel		
Interest income receivable	26	39
Interest expense payable	(24)	(22)
Key management personnel compensation		
Short-term employee benefits	(2,373)	(2,793)
Short-term employee benefits - HGH parent	(6,417)	(6,591)
Share-based payment expense	(1,915)	(1,797)
Total transactions with key management personnel	**(10,703)**	**(11,164)**
Due from/(to) key management personnel		
Lending	229	415
Borrowings - deposits	(508)	(23,409)
Total due (to) key management personnel	**(279)**	**(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	June 2022	June 2021
Heartland Group Holdings Limited (HGH)		
Interest expense	68	21
Deposits/(withdrawals)	(31,500)	31,000
Dividends paid to HGH	35,500	30,000
Management fees payable to HGH	8,327	15,785
Management fees receivable from HGH	2,164	1,149
Heartland Australia Group Pty Limited (HAG)		
Sale of Spotcap facility	-	28,049
Sale of Harmoney Australia Fund	-	40,966

18 Related party transactions and balances (continued)

(b) Transactions with related parties (continued)

$000's	June 2022	June 2021
Australian Seniors Finance Pty Limited (ASF)		
Management fees payable to ASF	-	4
Management fees receivable from ASF	2,752	1,707
ASF Settlement Trust		
Sale of Australian dollar reverse mortgage loan book	-	45,971
Southern Cross Building Society Staff Superannuation (SCBS)		
Interest expense payable to SCBS	6	12
Management fees receivable from SCBS	10	10
Cash received from SCBS	350	-

(c) Due from/to related parties

$000's	June 2022	June 2021
Due from		
Australian Seniors Finance Pty Limited	1,540	146
Total due from related parties	**1,540**	**146**
Due to		
Heartland Group Holdings Limited	1,535	3,210
Total due to related parties	**1,535**	**3,210**

(d) Other balances with related parties

$000's	June 2022	June 2021
Heartland Group Holdings Limited		
Retail deposits owing to HGH	4,636	36,068
Southern Cross Building Society Staff Superannuation		
Retail deposits owing to SCBS[1]	35	1,760

[1] During the year, the beneficiaries of SCBS accepted a settlement offer and were paid a final lump sum totalling $1.3 million. This was supported by an actuarial valuation and approved by the Financial Markets Authority (**FMA**). The residual balance was transferred to HBL as the employer, leaving the above balance to cover remaining costs.

HGH has indemnified HBL against a non performing loan which had a balance of $4.3 million as at 30 June 2022 (2021: nil).

19 Fair value

Policy

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

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

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

19 Fair value (continued)

The Banking Group measures fair values using the following fair value hierarchy, which reflects the observability of the inputs used in measuring fair value:

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

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

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

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

(a) Financial instruments measured at fair value

The following 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 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). Refer to Note - 10 Investments for more details.

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.

Investment properties

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

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

Finance receivables - reverse mortgages

Reverse mortgage loans are classified at FVTPL. On initial recognition the Banking Group considers the transaction price to represent the fair value of the loan.

19 Fair value (continued)

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

Finance receivables - reverse mortgages (continued)

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.

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 (2021: nil). 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 judgement 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.

19 Fair value (continued)

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

$000's	**Level 1**	**Level 2**	**Level 3**	**Total**
June 2022				
Assets				
Investments	271,790	-	1,503	273,293
Investment properties	-	-	11,832	11,832
Derivative financial instruments	-	44,487	-	44,487
Finance receivables - reverse mortgages	-	-	721,264	721,264
Total financial assets measured at fair value	**271,790**	**44,487**	**734,599**	**1,050,876**
Liabilities				
Derivative financial instruments	-	6,335	-	6,335
Total financial liabilities measured at fair value	**-**	**6,335**	**-**	**6,335**
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 levels in the fair value hierarchy in the year ended 30 June 2022 (2021: nil).

19 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
June 2022				
As at 30 June 2021	601,505	1,818	11,832	615,155
New loans	162,166	-	-	162,166
Repayments	(83,629)	-	-	(83,629)
Capitalised Interest and fees	41,864	-	-	41,864
Fair value (loss) on investment	-	(315)	-	(315)
Other	(642)	-	-	(642)
As at 30 June 2022	**721,264**	**1,503**	**11,832**	**734,599**
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
Disposal	(45,650)	-	-	(45,650)
Fair value (loss)/gain on investment	-	(485)	700	215
Other	101	-	-	101
As at 30 June 2021	**601,505**	**1,818**	**11,832**	**615,155**

(b) Financial instruments not measured at fair value

The following assets and liabilities of the Banking Group are not measured at fair value in the consolidated statement of financial position.

Cash and cash equivalents

Cash and cash equivalents are measured at amortised cost and their carrying value is considered equivalent to their fair value due to their short term nature.

Finance receivables

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

The current weighted average lending rate used to fair value finance receivables with a fixed interest rate was 7.77% (2021: 7.08%). Finance receivables with a floating interest rate are deemed to be at current market rates. The current amount of credit provisioning has been deducted from the fair value calculation of finance receivables as a proxy for future losses.

19 Fair value (continued)

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

Borrowings

The fair value of deposits, bank borrowings and other borrowings is the present value of future cash flows and is based on the current market interest rates payable by the Banking Group for debt of similar maturities. The average current market rate used to fair value borrowings was 3.57% (2021: 1.23%).

Due to and from related parties

The fair value of amounts due to and from related parties is considered equivalent to their carrying value due to their short term nature.

Other financial assets and financial liabilities

The fair value of financial instruments such as short-term trade receivables and payables is considered equivalent to their carrying value due to their short-term nature.

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.

	June 2022			June 2021		
$000's	**Fair Value Hierarchy**	**Total Fair Value**	**Total Carrying Value**	**Fair Value Hierarchy**	**Total Fair Value**	**Total Carrying Value**
Assets						
Cash and cash equivalents	Level 1	221,469	221,469	Level 1	112,903	112,903
Investments[1]	Level 2	2,418	2,421	Level 2	5,640	5,639
Finance receivables	Level 3	3,701,694	3,762,231	Level 3	3,283,159	3,213,593
Due from related parties	Level 3	1,540	1,540	Level 3	146	146
Other financial assets	Level 3	175	175	Level 3	1,684	1,684
Total financial assets		**3,927,296**	**3,987,836**		**3,403,532**	**3,333,965**
Liabilities						
Retail deposits	Level 2	3,595,554	3,597,144	Level 2	3,228,791	3,219,522
Borrowings - securitised	Level 2	267,779	267,779	Level 2	108,150	108,150
Other borrowings	Level 2	481,699	481,699	Level 2	394,735	394,735
Due to related parties	Level 3	1,535	1,535	Level 3	3,210	3,210
Other financial liabilities	Level 3	47,510	47,510	Level 3	16,663	16,663
Total financial liabilities		**4,394,077**	**4,395,667**		**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.

19 Fair value (continued)

(c) Classification of financial instruments

The following tables summarise the categories of financial instruments and the carrying value and fair value of all financial instruments of the Banking Group:

$000's	FVOCI	FVTPL	Amortised Cost	Total Carrying Value	Total Fair Value
June 2022					
Assets					
Cash and cash equivalents	-	-	221,469	221,469	221,469
Investments	271,790	1,503	2,421	275,714	275,711
Investment properties	-	11,832	-	11,832	11,832
Finance receivables	-	-	3,762,231	3,762,231	3,701,694
Finance receivables - reverse mortgages	-	721,264	-	721,264	721,264
Derivative financial instruments	25,403	19,084	-	44,487	44,487
Due from related parties	-	-	1,540	1,540	1,540
Other financial assets	-	-	175	175	175
Total financial assets	**297,193**	**753,683**	**3,987,836**	**5,038,712**	**4,978,172**
Liabilities					
Deposits	-	-	3,597,144	3,597,144	3,595,554
Other borrowings	-	-	749,478	749,478	749,478
Derivative financial instruments	1,099	5,236	-	6,335	6,335
Due to related parties	-	-	1,535	1,535	1,535
Other financial liabilities	-	-	47,510	47,510	47,510
Total financial liabilities	**1,099**	**5,236**	**4,395,667**	**4,402,002**	**4,400,412**
June 2021					
Assets					
Cash and cash equivalents	-	-	112,903	112,903	112,903
Investments	351,518	1,818	5,639	358,975	358,975
Investment properties	-	11,832	-	11,832	11,832
Finance receivables	-	-	3,213,593	3,213,593	3,283,159
Finance receivables - reverse mortgages	-	601,505	-	601,505	601,505
Derivative financial instruments	3,213	10,898	-	14,111	14,111
Due from related parties	-	-	146	146	146
Other financial assets	-	-	1,684	1,684	1,684
Total financial assets	**354,731**	**626,053**	**3,333,965**	**4,314,749**	**4,384,315**
Liabilities					
Deposits	-	-	3,219,522	3,219,522	3,228,791
Other borrowings	-	-	502,885	502,885	502,885
Derivative financial instruments	4,395	394	-	4,789	4,789
Due to related parties	-	-	-	3,210	3,210
Other financial liabilities	-	-	16,663	16,663	16,663
Total financial liabilities	**4,395**	**394**	**3,739,070**	**3,747,069**	**3,756,338**

Risk Management

20 Enterprise risk management program

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

Role of the Board and the Board Risk Committee

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

- The Board's Risk Appetite Statement.
- Heartland's Internal Capital Adequacy Assessment Program (**ICAAP**) including appropriate stress testing scenarios.
- The effectiveness of the ERMF and internal compliance and risk related policies, including approval or variation of policies, procedures and standards.
- Respond to changes anticipated in the economic, business and regulatory environment.
- Conduct, culture and customer outcomes, including emerging risks and any areas of concern.
- Credit exposures of the Bank, including the Delegated Lending Authority Policy and Framework.
- New products, including the process for approval of new products.

The BRC consists of three non-executive directors. Two members of the BRC sit on the Board Audit Committee (**BAC**). In addition, the CEO HBL, CRO, Head of Internal Audit and the CFO Heartland Group Holdings Limited (or their nominee, subject to the Chair's prior approval) attend the BRC meetings, and the directors who are not members of the BRC are entitled to attend meetings and to receive copies of the BRC papers.

Board Audit Committee

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

Charters for both the BRC and the BAC ensure suitable cross representation to allow effective communication pertaining to identified issues with oversight by the Board. The CRO has a direct reporting line to the Chair of the BRC. The Head of Internal Audit has a direct reporting line to the Chair of the BAC.

Internal Audit

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

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

20 Enterprise risk management program (continued)

Internal Audit (continued)

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

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

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

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

Asset and Liability Committee (ALCO)

The ALCO comprises the CEO HBL, CFO, CRO, Head of Retail, Financial Controller HBL and Chief Distribution Officer. The ALCO has responsibility for overseeing aspects of risk management of the Banking Group's financial position. The ALCO usually meet monthly, and provide reports to the BRC. ALCO's specific responsibilities include decision making and oversight of risk matters in relation to:

- Market risk (including non-traded interest rate risk and the investment of capital).
- Liquidity risk (including funding).
- Foreign exchange rate risk.
- Balance sheet structure.
- Capital management.

Executive Risk Committee (ERC)

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

Operational and compliance risk

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

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

20 Enterprise risk management program (continued)

Operational and compliance risk (continued)

- The first line of defence is the business line management of the identification, management and mitigation of the risks associated with the products and processes of the business. This accountability includes regular testing and attestation of the adequacy and effectiveness of controls and compliance with the Banking Group's policies.

- The second line of defence is the Risk and Compliance function, responsible for the design and ownership of the Operational Risk Management Framework. It incorporates key processes including Risk and Control Self-Assessment (**RCSA**), incident management, independent evaluation of the adequacy and effectiveness of the internal control framework and the attestation process.

- The third line of defence is Internal Audit which is responsible for independently assessing how effectively the Banking Group is managing its risk according to its stated risk appetite.

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

Market risk

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

Interest rate risk

Interest rate risk refers to exposure of an entity’s earnings and / or capital because of a mismatch between the interest rate exposures of its assets and liabilities. Interest rate risk for the Banking Group arises from the provision of non-traded retail banking products and services and from traded wholesale transactions entered into to reduce aggregate interest rate risk (known as hedges). This risk arises from four key sources:

- Mismatches between the repricing dates of interest bearing assets and liabilities (yield curve and repricing risk);

- Banking products repricing differently to changes in wholesale market rates (basis risk);

- Loan prepayment or deposit early withdrawal behaviour from customers that deviates from the expected or contractually agreed behaviour (optionality risk); and

- The effect of internal or market forces on a bank’s net interest margin where, for example, in a low rate environment any fall in rates will further decrease interest income earned on the assets whereas funding cost cannot be reduced as it is already at the minimum level (margin compression risk).

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

Foreign exchange risk

Foreign exchange risk is the risk that the Banking Group’s earnings and shareholder equity position are adversely impacted from changes in foreign exchange rates. The Banking Group has exposure to foreign exchange translation risks through its holding of AUD assets.

20 Enterprise risk management program (continued)

Counterparty Credit Risk

The Banking Group has on-going credit exposure associated with:

- Cash and cash equivalents;
- Finance receivables;
- Holding of investment securities; and
- Payments owed to the Banking Group from risk management instruments.

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

21 Credit risk exposure

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

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

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

- Credit origination meets agreed levels of credit quality at point of approval;
- Sector concentrations are monitored;
- Maximum total exposure to any one debtor is actively managed;
- Changes to credit risk are actively monitored with regular credit reviews.

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

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

The Banking Group employs a credit risk oversight process of hindsighting loans to ensure that credit policies and the quality of credit processes are maintained.

21 Credit risk exposure (continued)

Reverse mortgage loans and negative equity risk

Reverse mortgage loans are a form of mortgage lending designed for the needs of people over 60 years of age. These loans differ to conventional mortgages in that they typically are not repaid until the borrower ceases to reside in the property. Further, interest is not required to be paid, it is capitalised into the loan balance and is repayable on termination of the loan. As such, there are no incoming cash flows and therefore no default risk to manage during the term of the loan. Negative equity risk arises from the promise by the Banking Group that the maximum repayment amount is limited to the net sale proceeds of the borrowers' property.

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

Business Finance Guarantee Scheme (BFGS)

The Bank, along with other registered banks in New Zealand, has entered into a Deed of Indemnity with the New Zealand Government to implement the New Zealand Government's Business Finance Guarantee Scheme. The purpose of the scheme is to provide short term credit to eligible small and medium size businesses, who have been impacted by the economic effects of COVID-19. The scheme allows banks to lend to a maximum of $5 million for a maximum of five years. The New Zealand Government will guarantee 80% of any loss incurred (credit risk) with the Bank holding the remaining 20%. As at 30 June 2022 the Bank had a total exposure of $64.8 million (2021: $64.3 million) to its customers under the scheme. BFGS has concluded on 30 June 2021 with scheme loans no longer being available.

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 on balance sheet exposures set out below are based on net carrying amounts as reported in the consolidated statement of financial position.

$000's	June 2022	June 2021
On balance sheet:		
Cash and cash equivalents	221,469	112,903
Investments	274,211	357,157
Finance receivables	3,762,231	3,213,593
Finance receivables - reverse mortgages	721,264	601,505
Derivative financial assets	44,487	14,111
Due from related parties	1,540	146
Other financial assets	175	1,684
Total on balance sheet credit exposures	**5,025,377**	**4,301,099**
Off balance sheet:		
Letters of credit, guarantee commitments and performance bonds	8,969	13,484
Undrawn facilities available to customers	272,735	208,855
Conditional commitments to fund at future dates	34,791	19,083
Total off balance sheet credit exposures	**316,495**	**241,422**
Total credit exposures	**5,341,872**	**4,542,521**

As at 30 June 2022 there was $0.003 million undrawn lending commitments available to counterparties for whom drawn balances are classified as individually impaired (2021: $0.216 million).

21 Credit risk exposure (continued)

Concentration of credit risk by geographic region

$000's	June 2022	June 2021
New Zealand	5,176,026	4,332,737
Australia	3,520	753
Rest of the world [1]	212,753	260,079
	5,392,299	**4,593,569**
Provision for impairment	(50,427)	(51,048)
Total credit exposures	**5,341,872**	**4,542,521**

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

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	June 2022	June 2021
Agriculture	747,618	670,428
Forestry and fishing	148,797	153,160
Mining	12,524	12,684
Manufacturing	78,432	76,951
Finance and insurance	685,938	577,486
Wholesale trade	41,986	56,522
Retail trade and accommodation	423,975	279,388
Households	2,134,097	1,780,799
Other business services	189,860	148,011
Construction	291,971	241,668
Rental, hiring and real estate services	199,388	185,320
Transport and storage	323,732	297,920
Other	113,981	113,232
	5,392,299	**4,593,569**
Provision for impairment	(50,427)	(51,048)
Total credit exposures	**5,341,872**	**4,542,521**

Credit exposures to connected persons

The Banking Group's methodology for calculating credit exposure concentrations is on the basis of actual credit exposures and calculated on a gross basis (net of individual credit impairment allowances and excluding advances of a capital nature) in accordance with the Bank's conditions of registration and the Reserve Bank's Connected Exposures Policy (**BS8**). Peak end-of-day credit exposures to non-bank connected persons are calculated using the Banking Group’s Tier 1 capital at the end of the reporting period.

21 Credit risk exposure (continued)

Credit exposures to connected persons (continued)

In accordance with its conditions of registration, the Banking Group's aggregate credit exposures to all connected persons must not exceed its rating contingent limit of 15% of tier one capital. Within the overall rating contingent limit, there is a sub-limit of 15% of tier one capital which applies to the aggregate credit exposures to non-bank connected persons. There have been no rating-contingent limit changes during the accounting period.

	As at June 2022	Peak End-of-Day for Year Ended June 2022
Credit exposures to connected persons ($000's)	1,540	1,540
As a percentage of Tier 1 capital of the Banking Group at end of the year (%)	0.25%	0.25%
Credit exposures to non-bank connected persons ($000's)	1,540	1,540
As a percentage of Tier 1 capital of the Banking Group at end of the year (%)	0.25%	0.25%

As at 30 June 2022, the Banking Group had no aggregate contingent exposures to connected persons arising from risk lay-off arrangements in respect of credit exposures to counterparties (excluding counterparties that are connected persons). The aggregate amount of the Banking Group's individual credit provisions provided against credit exposure to connected persons was nil at 30 June 2022.

Credit exposure to individual counterparties

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

The peak end-of-day aggregate concentration of credit exposure to individual counterparties has been calculated by determining the maximum end-of-day aggregate amount of credit exposure over the relevant six-month period and then dividing the amount by the Banking Group's common equity tier one capital as at 30 June 2022.

	Number of Exposures As at June 2022	Number of Exposures Peak End-of-Day over 6 Months to June 2022
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	1	1
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% to less than 15% of CET1 capital that do not have a long-term credit rating.	1	1

22 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
June 2022				
Neither at least 90 days past due nor impaired	2,377,755	1,006,977	1,041,728	4,426,460
At least 90 days past due	15,276	131	25,872	41,279
Individually impaired	65,970	-	213	66,183
Gross finance receivables	**2,459,001**	**1,007,108**	**1,067,813**	**4,533,922**
Provision for impairment	(40,196)	(115)	(10,116)	(50,427)
Total net finance receivables	**2,418,805**	**1,006,993**	**1,057,697**	**4,483,495**
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**

(b) Past due but not impaired

$000's	Corporate	Residential	All Other	Total
June 2022				
Less than 30 days past due	4,147	171	3,249	7,567
At least 30 but less than 60 days past due	15,320	263	10,751	26,334
At least 60 but less than 90 days past due	4,621	85	5,071	9,777
At least 90 days past due	15,276	131	25,872	41,279
Total past due but not impaired	**39,364**	**650**	**44,943**	**84,957**
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**

22 Asset quality (continued)

(c) Individually impaired assets

$000's	Corporate	Residential	All Other	Total
June 2022				
Opening	37,561	9	573	38,143
Additions	58,396	-	-	58,396
Deletions	(26,577)	(9)	(360)	(26,946)
Write offs	(3,410)	-	-	(3,410)
Closing gross individually impaired assets	**65,970**	**-**	**213**	**66,183**
Less: provision for individually impaired assets	15,001	-	-	15,001
Total net individually impaired assets	**50,969**	**-**	**213**	**51,182**
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**

(d) Credit risk grading

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

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

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

Judgemental loans are individually risk graded based on loan status, financial information, security and debt servicing ability. Exposures in the Judgemental portfolio are credit risk graded by an internal risk grading mechanism where grade 1 is the strongest risk. Grade 8 and grade 9 are the weakest risk grades where a loss is probable. Behavioural loans are managed based on their arrears status.

22 Asset quality (continued)

(d) Credit risk grading (continued)

All loans past due but not impaired have been categorised into three impairments stages (refer Note 8) which are in most cases based on arrears status. If a Judgemental loan is risk graded 6 or above it will be classified as stage 2 as a minimum and carry a provision based on lifetime expected credit losses.

$000's	12 Months ECL	Lifetime ECL Not Credit Impaired	Lifetime ECL Credit Impaired	Specifically Provided	Fair value	Total
June 2022						
Judgemental portfolio						
Grade 1 - Very Strong	26	-	-	-	-	26
Grade 2 - Strong	10,859	-	-	-	-	10,859
Grade 3 - Sound	53,756	-	-	-	-	53,756
Grade 4 - Adequate	697,590	5,382	1,052	-	-	704,024
Grade 5 - Acceptable	994,079	1,823	53	-	-	995,955
Grade 6 - Monitor	-	25,106	2,308	-	-	27,414
Grade 7 - Substandard	-	64,203	4,727	-	-	68,930
Grade 8 - Doubtful	-	-	-	62,672	-	62,672
Grade 9 - At risk of loss	-	-	-	3,511	-	3,511
Total Judgemental portfolio	1,756,310	96,514	8,140	66,183	-	1,927,147
Total Behavioural portfolio	1,827,025	21,001	37,485	-	721,264	2,606,775
Gross finance receivables	**3,583,335**	**117,515**	**45,625**	**66,183**	**721,264**	**4,533,922**
Provision for impairment	(19,201)	(1,863)	(14,362)	(15,001)	-	(50,427)
Total finance receivables	**3,564,134**	**115,652**	**31,263**	**51,182**	**721,264**	**4,483,495**
June 2021						
Judgemental portfolio						
Grade 1 - Very Strong	34	-	-	-	-	34
Grade 2 - Strong	10,854	64	-	-	-	10,918
Grade 3 - Sound	50,816	163	-	-	-	50,979
Grade 4 - Adequate	580,289	4,675	1,734	-	-	586,698
Grade 5 - Acceptable	849,286	5,658	1,882	-	-	856,826
Grade 6 - Monitor	-	58,178	1,038	-	-	59,216
Grade 7 - Substandard	-	71,718	8,107	-	-	79,825
Grade 8 - Doubtful	-	-	-	33,228	-	33,228
Grade 9 - At risk of loss	-	-	-	4,915	-	4,915
Total Judgemental portfolio	1,491,279	140,456	12,761	38,143	-	1,682,639
Total Behavioural portfolio	1,525,293	24,272	32,437	-	601,505	2,183,507
Gross finance receivables	**3,016,572**	**164,728**	**45,198**	**38,143**	**601,505**	**3,866,146**
Provision for impairment	(24,432)	(2,356)	(16,631)	(7,629)	-	(51,048)
Total finance receivables	**2,992,140**	**162,372**	**28,567**	**30,514**	**601,505**	**3,815,098**

22 Asset quality (continued)

(e) Provision for impairment

$000's	12 Months ECL	Lifetime ECL Not Credit Impaired	Lifetime ECL Credit Impaired	Specific Provision	Total
June 2022					
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	(3,614)	(1,060)	(601)	5,275	-
New and increased provision (net of collective provision releases)	6,381	739	4,164	5,507	16,791
Recovery of amounts written off	-	-	(193)	-	(193)
Credit impairment charge	**2,767**	**(321)**	**3,370**	**10,782**	**16,598**
Recovery of amounts previously written off	-	-	193	-	193
Write offs	-	-	(3,462)	(3,410)	(6,872)
Impairment allowance as at 30 June 2022	**19,353**	**893**	**4,949**	**15,001**	**40,196**
Residential					
Impairment allowance as at 30 June 2021	**88**	**4**	**(4)**	**-**	**88**
Changes in loss allowance					
New and increased provision (net of collective provision releases)	27	-	-	-	27
Recovery of amounts written off	-	-	-	-	-
Credit impairment charge	**27**	**-**	**-**	**-**	**27**
Recovery of amounts previously written off	-	-	-	-	-
Write offs	-	-	-	-	-
Impairment allowance as at 30 June 2022	**115**	**4**	**(4)**	**-**	**115**
All Other					
Impairment allowance as at 30 June 2021	**7,758**	**1,138**	**11,787**	**-**	**20,683**
Changes in loss allowance					
Transfer between stages	(192)	(1,440)	1,632	-	-
New and increased provision (net of collective provision releases)	(7,833)	1,268	7,194	-	629
Recovery of amounts written off	-	-	(2,562)	-	(2,562)
Credit impairment charge	**(8,025)**	**(172)**	**6,264**	**-**	**(1,933)**
Recovery of amounts previously written off	-	-	2,562	-	2,562
Write offs	-	-	(11,196)	-	(11,196)
Impairment allowance as at 30 June 2022	**(267)**	**966**	**9,417**	**-**	**10,116**

22 Asset quality (continued)

(e) Provision for impairment (continued)

$000's	12 Months ECL	Lifetime ECL Not Credit Impaired	Lifetime ECL Credit Impaired	Specific Provision	Total
June 2022					
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	(3,806)	(2,500)	1,031	5,275	-
New and increased provision (net of collective provision releases)	(1,425)	2,007	11,358	5,507	17,447
Recovery of amounts written off	-	-	(2,755)	-	(2,755)
Credit impairment charge	**(5,231)**	**(493)**	**9,634**	**10,782**	**14,692**
Recovery of amounts previously written off	-	-	2,755	-	2,755
Write offs	-	-	(14,658)	(3,410)	(18,068)
Impairment allowance as at 30 June 2022	**19,201**	**1,863**	**14,362**	**15,001**	**50,427**
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**
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**

22 Asset quality (continued)

Provision for impairment (continued)

$000's	12 Months ECL	Lifetime ECL Not Credit Impaired	Lifetime ECL Credit Impaired	Specific Provision	Total
June 2021					
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**

(f) 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 30 June 2022, the Banking Group had $1.0 million assets under administration (2021: $0.3 million).

23 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. 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 facilities

In March 2020, the Bank was onboarded by the Reserve Bank of New Zealand (**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 had not utilised any of these facilities as at 30 June 2022.

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

$000's	**June 2022**	**June 2021**
Cash and cash equivalents	221,469	112,903
Investments	274,211	357,157
Undrawn committed bank facilities	132,221	191,850
Total liquidity	**627,901**	**661,910**

23 Liquidity risk (continued)

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.

$000's	On Demand	0-6 Months	6-12 Months	1-2 Years	2-5 Years	5+ Years	Total
June 2022							
Non - derivative financial liabilities							
Retail Deposits	892,612	2,028,225	561,468	103,192	41,655	-	3,627,152
Other borrowings	-	368,926	7,251	397,859	-	-	774,036
Due to related parties	-	1,535	-	-	-	-	1,535
Lease liabilities	-	1,282	1,292	2,615	6,985	4,911	17,085
Other financial liabilities	-	47,510	-	-	-	-	47,510
Total non - derivative financial liabilities	**892,612**	**2,447,478**	**570,011**	**503,666**	**48,640**	**4,911**	**4,467,318**
Derivative finanical liabilities							
Inflows from derivatives	-	5,007	1,759	3,505	813	-	11,084
Outflows from derivatives	-	3,893	3,227	6,621	839	-	14,580
Total derivative financial liabilities	**-**	**(1,114)**	**1,468**	**3,116**	**26**	**-**	**3,496**
Undrawn facilities available to customers	272,735	-	-	-	-	-	272,735
Undrawn committed bank facilities	132,221	-	-	-	-	-	132,221
June 2021							
Non - derivative 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 non - derivative 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

24 Interest rate risk

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

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

The objective of the Banking Group's interest rate risk policies is to limit underlying net profit after tax (**NPAT**) volatility. The measurement comprises net interest income the Banking Group generates from its interest earning assets and interest bearing liabilities.

The exposure to net interest income comes from a reduction in margins on interest earning assets or interest bearing liabilities and is managed when setting rates by taking into consideration wholesale rates, liquidity premiums, as well as appropriate lending credit margins.

An analysis of the Banking Group's sensitivity to an increase (+) or decrease (-) in market interest rates by 100 basis points (**BP**) is as follows. An (+)/(-) to market interest rates of 100 BP would result in a $0.7 million (+)/(-) to NPAT (2021: $0.2 million (+)/(-)) with a corresponding impact to equity.

The Banking Group also manages interest rate risk by:

- Monitoring maturity profiles and seeking to match the re-pricing of assets and liabilities;
- Monitoring interest rates daily and regularly (at least monthly) reviewing interest rate exposures; and
- Entering into derivatives to hedge against movements in interest rates.

24 Interest rate risk (continued)

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
June 2022							
Financial assets							
Cash and cash equivalents	221,460	-	-	-	-	9	221,469
Investments	1,568	854	51,144	91,974	128,672	1,502	275,714
Finance receivables	1,730,148	178,756	323,766	558,256	910,399	60,906	3,762,231
Finance receivables - reverse mortgages	721,264	-	-	-	-	-	721,264
Due from related parties	-	-	-	-	-	1,540	1,540
Derivative financial assets	-	-	-	-	-	44,487	44,487
Other financial assets	-	-	-	-	-	175	175
Total financial assets	**2,674,440**	**179,610**	**374,910**	**650,230**	**1,039,071**	**108,619**	**5,026,880**
Financial liabilities							
Deposits	2,194,973	684,378	546,718	99,196	38,325	33,554	3,597,144
Other borrowings	548,488	78,911	-	121,191	-	888	749,478
Derivative financial liabilities	-	-	-	-	-	6,335	6,335
Due to related parties	-	-	-	-	-	1,535	1,535
Lease liabilities	-	-	-	-	-	15,726	15,726
Other financial liabilities	-	-	-	-	-	47,510	47,510
Total financial liabilities	**2,743,461**	**763,289**	**546,718**	**220,387**	**38,325**	**105,548**	**4,417,728**
Effect of derivatives held for risk management	986,194	(76,349)	(127,004)	(309,781)	(473,060)	-	-
Net financial assets/(liabilities)	**917,173**	**(660,028)**	**(298,812)**	**120,062**	**527,686**	**3,071**	**609,152**

24 Interest rate risk (continued)

Contractual repricing analysis (continued)

$000's	0-3 Months	3-6 Months	6-12 Months	1-2 Years	2+ Years	Non-Interest Bearing	Total
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
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
Due from related parties	-	-	-	-	-	146	146
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							
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	474010	(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**

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

25 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. RBNZ requires banks to get a minimum amount of funding from stable sources called core funding. From 1 January 2022, the minimum amount of core funding was increased from 50% to 75% 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.

	Average for the 3 Months Ended 30 June 2022	Average for the 3 Months Ended 31 March 2022
One-week mismatch ratio	6.05	6.81
One-month mismatch ratio	6.24	7.30
Core funding ratio	89.06	90.45

25 Concentrations of funding (continued)

(b) Concentration of funding by industry

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

$000's	June 2022	June 2021
Agriculture	113,848	102,107
Forestry and fishing	14,391	14,226
Mining	1,524	94
Manufacturing	18,643	11,592
Finance and insurance	960,175	769,757
Wholesale trade	5,854	11,218
Retail trade and accommodation	19,491	28,521
Households	2,754,452	2,322,514
Rental, hiring and real estate services	43,797	46,245
Construction	28,449	24,231
Other business services	66,731	58,334
Transport and storage	4,598	4,337
Other	41,686	44,714
Total	**4,073,639**	**3,437,890**
Unsubordinated Notes	272,983	284,517
Total borrowings	**4,346,622**	**3,722,407**

(c) Concentration of funding by geographical area

$000's	June 2022	June 2021
New Zealand	4,241,026	3,635,405
Overseas	105,596	87,002
Total borrowings	**4,346,622**	**3,722,407**

Other Disclosures

26 Significant subsidiaries

Significant Subsidiaries	Country of Incorporation and Place of business	Nature of business	Proportion of ownership and voting power held June 2022	June 2021
VPS Properties Limited	New Zealand	Investment property holding company	100%	100%
Marac Insurance Limited	New Zealand	Insurance services	100%	100%

27 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	June 2022	June 2021
Deposits	149,824	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	June 2022	June 2021
Cash and cash equivalents	20,197	9,047
Finance receivables	312,239	126,399
Other borrowings	(315,308)	(128,125)

28 Capital adequacy

The Banking Group is subject to regulation by the Reserve Bank of New Zealand. The RBNZ has set minimum regulatory capital requirements for Banks that are consistent with the internationally agreed framework developed by the Basel Committee on Banking Supervision. The resulting Basel II and III requirements define what is acceptable as capital and provide for methods of measuring the risks incurred by the Banking Group.

The Banking Group's Conditions of Registration prescribes minimum capital adequacy ratios calculated in accordance with Banking Prudential Requirements documents (**BPRs**).

The Banking Group has adopted the Basel II standardised approach per RBNZ BPRs to calculate its regulatory requirements. Basel II is made up of the following three Pillars:

- Pillar 1 sets out the minimum capital requirements for credit, market and operational and compliance risks.

- Pillar 2 is designed to ensure that Banks have adequate capital to support all risks (not just those set out under Pillar 1 above) and is enforced through the requirement for supervisory review.

- Pillar 3 outlines the requirements for adequate and transparent disclosure.

Basel III was developed in order to strengthen the regulation, supervision and risk management of the Banking sector. The measures aim to improve the Banking sector's ability to absorb shocks arising from financial and economic stress; improve risk management and governance; and strengthen Banks' transparency and disclosures. The requirements that impact capital are as follows:

- The level of capital required to be held by Banks increased through the introduction of new minimum capital requirements for CET1 Capital, Additional Tier 1 (**AT1**) Capital and Total Capital as a percentage of risk-weighted-assets (**RWAs**).

- A capital conservation buffer held over and above the minimum capital ratio requirements used to absorb losses during periods of financial and economic stress.

- A counter-cyclical capital buffer held and to be used at the RBNZ's discretion, to assist in attaining the macro-prudential goal of protecting the Banking sector from periods of extraordinary excess aggregate credit growth.

- Strengthen the calculation of RWAs, particularly in respect of counterparty credit risk.

The Basel III requirements have not affected the Banking Group's minimum capital requirements as the Banking Group's Conditions of Registration prescribe minimum capital requirements higher than the Basel III requirements.

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 30 June 2022.

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.

28 Capital adequacy (continued)

Internal Capital Adequacy Assessment Process (ICAAP) (continued)

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.

RBNZ capital review

The RBNZ released a consultation paper in December 2018 in relation to proposed changes to the Capital Adequacy Framework for Registered Banks in New Zealand (the **Framework**). On 5 December 2019, the RBNZ released its final decision on the revised Framework.

The revised Framework requires the Bank, as a standardised registered bank, to increase its Total Capital ratio to 16% over a seven-year transitional period, being from 1 July 2021. The Bank's Total Capital ratio is 13.39% as at 30 June 2022. This means the revised Framework requires the Bank to increase its Total Capital ratio by 2.61% over the transitional period.

The Bank does not expect the revised Framework to result in any changes to the underlying business model or its approach to raising equity, given:

- The quantum of the capital requirement;
- That some of the capital requirement may be satisfied through hybrid capital instruments rather than common equity;
- The length of the transitional period;
- The Bank’s existing capital position.

The corporate structure of HGH, the ultimate parent company provides the Banking Group with flexibility to mitigate the impact of the revised Framework. Various capital raising options available include using HGH’s dividend reinvestment plan, or raise debt and use the proceeds to subscribe for new capital in the Bank.

The Bank will continue to assess the options available to it to meet the requirements of the revised Framework over the transitional period.

KPMG

28 Capital adequacy (continued)

(a) Capital

$000's	June 2022
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)	147,852
Accumulated other comprehensive income and other disclosed reserves	6,412
Less deductions from CET1 capital	
Intangible assets	(58,433)
Deferred tax assets	(15,538)
Hedging reserve	(7,446)
Total CET1 capital	**626,086**
AT1 capital	-
Total Tier 1 capital	**626,086**
Tier 2 capital	-
Total Tier 2 capital	**-**
Total capital	**626,086**

(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.
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.

28 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
June 2022				
Cash	-	0%	-	-
Sovereigns and central banks	1,506	0%	-	-
Multilateral development banks	119,079	0%	-	-
Multilateral development banks	91,425	20%	18,285	1,463
Banks - Short term - Tier 1	-	20%	-	-
Banks - Short term - Tier 2	221,819	20%	44,364	3,549
Banks - Short term - Tier 3	-	20%	-	-
Banks - Long term - Tier 1	-	20%	-	-
Banks - Long term - Tier 2	50,405	50%	25,202	2,016
Banks - Long term - Tier 3	35	50%	18	1
Public sector entity (AA- and above)	12,953	20%	2,591	207
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	54,892	20%	10,978	878
Corporate Exposures- unrated	1,993,591	100%	1,993,591	159,487
Welcome Home Loans - loan to value ratio (LVR) <= 80%[1]	1,591	35%	557	45
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	718,022	50%	359,011	28,721
Reverse Residential mortgages 60 <= 80% LVR	3,045	80%	2,436	195
Reverse Residential mortgages > 80% LVR	197	100%	197	16
Reverse Residential mortgages > 100% LVR	-	100%	-	-
Non Property Investment Mortgage Loan <=80% LVR	281,118	35%	98,391	7,871
Non Property Investment Mortgage Loan 80 <= 90% LVR	-	50%	-	-
Non Property Investment Mortgage Loan 90 <= 100% LVR	543	75%	408	33
Non Property Investment Mortgage Loan > 100% LVR	-	100%	-	-
Property Investment Mortgage Loan <= 80% LVR	2,345	40%	938	75
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	131	100%	131	10
Other past due assets - provision >= 20%	37,144	100%	37,144	2,972
Other past due assets - provision < 20%	41,816	150%	62,724	5,018
Equity holdings	-	300%	-	-
All other equity holdings	1,488	400%	5,950	476
Fixed Assets	6,960	100%	6,960	557
Leased Assets	13,660	100%	13,660	1,093
Other assets	1,382,907	100%	1,382,907	110,633
Not risk weighted assets	73,971	0%	-	-
Total on balance sheet exposures	**5,110,643**		**4,066,443**	**325,316**

[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.

28 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
June 2022						
Direct credit substitute	4,010	100%	4,010	100%	4,010	321
Performance-related contingency	4,959	50%	2,480	100%	2,480	198
Other commitments where original maturity is more than one year	198,367	50%	99,184	100%	99,184	7,935
Other commitments where original maturity is more than one year	22,480	50%	11,240	35%	3,934	315
Other commitments where original maturity is less than or equal to one year	48,865	20%	9,773	100%	9,773	782
Other commitments where original maturity is less than or equal to one year	36,116	20%	7,223	50%	3,612	289
Other commitments where original maturity is less than or equal to one year	1,698	20%	340	35%	119	10
Market related contracts[1]						
Interest rate contracts	1,478,151	N/A	45,019	32%	14,616	1,169
FX forward contracts	-	N/A	-	0%	-	-
Credit valuation adjustment	-		-		12,951	1,036
Total off balance sheet exposures	**1,794,646**		**179,269**		**150,679**	**12,055**

[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[2]	Total Exposures
June 2022			
Does not exceed 80%	1,006,121	60,295	1,066,416
Exceeds 80% and not 90%	197	-	197
Exceeds 90%	675	-	675
Total exposures	**1,006,993**	**60,295**	**1,067,288**

[2] Off balance sheet exposures means unutilised limits.

At 30 June 2022, there were no 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%.

28 Capital adequacy (continued)

(e) Reconciliation of mortgage related amounts

$000's	Note	June 2022
Gross finance receivables - reverse mortgages	12b	721,264
Loans and advances - loans with residential mortgages		285,844
On balance sheet residential mortgage exposures subject to the standardised approach	22a	**1,007,108**
Less: collective provision for impairment		(115)
Off balance sheet mortgage exposures subject to the standardised approach	28d	60,295
Total residential exposures subject to the standardised approach		**1,067,288**

(f) Credit risk mitigation

As at 30 June 2022 the Banking Group had $1.6 million of Welcome Home Loans (2021: $1.8 million), whose credit risk was mitigated by the Crown. Other than this the Banking Group does not have any exposures covered by eligible collateral, guarantees and credit derivatives.

(g) Operational risk

$000's	Implied Risk Weighted Exposure	Total Operational Risk Capital Requirement
June 2022		
Operational risk	279,018	22,321

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

(h) Market risk

Market risk is the risk that market interest rates or foreign exchange rates will change and impact on the Banking Group's earnings due to either mismatches between repricing dates of interest bearing assets and liabilities and/or differences between customer pricing and wholesale rates.

$000's		Implied Risk Weighted Exposure	Aggregate Capital Charge
June 2022			
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	144,627	11,570
Market risk peak end-of-day capital charge	Interest rate risk only	150,608	12,049
Market risk end-of-period capital charge	Foreign currency risk only	69	5
Market risk peak end-of-day capital charge	Foreign currency risk only	165	13

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 30 June 2022. 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.

28 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
June 2022			
Total credit risk			
On balance sheet	5,110,643	4,066,443	325,316
Off balance sheet	1,794,647	150,679	12,055
Operational risk	n/a	279,018	22,321
Market risk	n/a	146,184	11,694
Total	**6,905,290**	**4,642,324**	**371,386**

(j) Capital ratios

%	June 2022	June 2021
Capital ratios compared to minimum ratio requirements		
Common Equity Tier 1 Capital expressed as a percentage of total risk weighted exposures	13.49%	13.88%
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	13.49%	13.88%
Minimum Tier 1 Capital as per Conditions of Registration	6.00%	6.00%
Total Capital expressed as a percentage of total risk weighted exposures	13.49%	13.88%
Minimum Total Capital as per Conditions of Registration	8.00%	8.00%
Prudential capital buffer ratio		
Prudential capital buffer ratio	5.49%	5.88%
Buffer trigger ratio	2.50%	2.50%

(k) Solo capital adequacy

%	June 2022	June 2021
Capital ratios compared to minimum ratio requirements		
Common Equity Tier 1 Capital expressed as a percentage of total risk weighted exposures	14.37%	14.24%
Tier 1 Capital expressed as a percentage of total risk weighted exposures	14.37%	14.24%
Total Capital expressed as a percentage of total risk weighted exposures	14.37%	14.24%

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 30 June 2022, the Banking Group has made an internal capital allocation of $8.4 million to cover these risks (2021: $8.9 million).

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

Insurance business

Marac Insurance Limited (**MIL**), a subsidiary of HBL, no longer conducts insurance business as HBL entered into a distribution agreement with DPL Insurance Limited (**DPL**) to distribute DPL's insurance products through HBL's network. MIL 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 $7.4 million (2021: $8.5 million), which represents 0.14% of the total consolidated assets of the Banking Group (2021: 0.19%).

Marketing and distribution of the insurance products

Pre February 2020's distribution agreement with DPL, the Banking Group marketed and distributed term life insurance and general insurance covering risks such as redundancy, bankruptcy or suspension of employment. The insurance products were either underwritten by MIL, a subsidiary of the Banking Group or sold by MIL on behalf of other parties who underwrite those products themselves.

Securitisation

As at 30 June 2022, the Banking Group had $312.24 million securitised assets (2021: $126.40 million).

There have been no material changes to the Banking Group's involvement in the securitisation activities.

Funds management and other fiduciary activities

The Banking Group, through Heartland PIE Fund Limited, controls, manages and administers the Heartland Cash and Term PIE Fund and its products (Heartland Call PIE and Heartland Term Deposit PIE). Note 27 - Structured entities has further details. The Heartland Cash and Term PIE Fund deals with the Bank in the normal course of business, in the Bank's capacity as Registrar of the Fund and also invests in the Bank's deposits. The Banking Group is considered to control the Heartland Cash and Term PIE Fund, and as such the Heartland Cash and Term PIE Fund is consolidated within the financial statements of the Banking Group.

Heartland NZ Trustee Limited (**HNZT**), a subsidiary of the Bank, acts as manager for a superannuation scheme. The assets and liabilities of this scheme are not included in the financial statements of the Banking Group as the Banking Group does not control the scheme. The Bank provides services to HNZT and its fees for performance of those services are included in other income.

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. The policies and procedures include comprehensive and prominent disclosure of information regarding products, and formal and regular review of operations and policies by management and internal and external auditors. Further information on the Banking Group's risk management policies and practices is included in Note 20 - Enterprise risk management program.

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.

29 Insurance business, securitisation, funds management, other fiduciary activities (continued)

Peak aggregate funding to entities

The Banking Group did not provide any funding to entities conducting funds management and other fiduciary activities, or insurance product or marketing and distribution activities described in this note, during the year (2021: nil).

The Bank provided the following funding in relation to securitisation entities.

	Total Trusts	
	June 2022	**June 2021**
Peak end-of-day aggregate amount of funding provided ($000's)	305,038	110,000
Peak end-of-day aggregate amount of funding provided as a percentage of the Banking Group's Tier 1 Capital as at the end of the year (%)	49.0%	19.1%

For this purpose, peak ratio information was derived by determining the maximum end-of-day aggregate amount of funding over the financial year and then dividing that amount by the amount of the entity's assets or the Banking Group's Tier 1 Capital (as the case required) as at the end of the year.

	Auto Warehouse	
	June 2022	**June 2021**
Peak end-of-day aggregate amount of funding provided ($000's)	305,038	110,000
Peak end-of-day aggregate amount of funding provided as a percentage of the total assets of the individual entity as at the end of the year	93.5%	86.5%

For this purpose, peak ratio information was derived by determining the maximum end-of-day aggregate amount of funding and then dividing that amount by the amount of the entity's assets or the Banking Group's Tier 1 Capital (as the case required) as at the end of the year.

30 Contingent liabilities and commitments

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

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

$000's	**June 2022**	**June 2021**
Letters of credit, guarantee commitments and performance bonds	8,969	13,484
Total contingent liabilities	**8,969**	**13,484**
Undrawn facilities available to customers	272,735	208,855
Conditional commitments to fund at future dates	34,791	19,083
Total commitments	**307,526**	**227,939**

31 Events after reporting date

The Bank resolved to pay a cash dividend to its parent company HGH of $30 million on its ordinary shares on 22 August 2022.

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

Historical Summary of Financial Statements

For the year ended 30 June 2022

$000's	Audited June 2022	Audited June 2021	Audited June 2020	Audited June 2019	Audited June 2018
Interest income	275,770	272,562	297,512	284,064	272,323
Interest expense	66,205	73,753	108,476	111,665	108,737
Net interest income	**209,565**	**198,809**	**189,036**	**172,399**	**163,586**
Other net income	33,704	15,006	15,742	9,409	12,683
Net operating income	**243,269**	**213,815**	**204,778**	**181,808**	**176,269**
Operating expenses	96,203	100,852	90,782	76,298	76,291
Profit before impaired asset expense and income tax	**147,066**	**112,963**	**113,996**	**105,510**	**99,978**
Fair value (loss)/gain on investments	(315)	215	-	1,936	-
Impaired asset expense	14,692	14,579	29,372	20,554	21,833
Profit before income tax	**132,059**	**98,599**	**84,624**	**86,892**	**78,145**
Profit before income tax from discontinued operations	-	-	-	6,169	16,149
Income tax expense	36,068	27,090	23,924	24,762	26,781
Profit for the year	**95,991**	**71,509**	**60,700**	**68,299**	**67,513**
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	6,540	8,928	(2,179)	(4,762)	72
Movement in fair value reserve	(712)	(5,646)	766	2,968	981
Movement in foreign currency translation reserve	-	-	-	(4,229)	2,315
Items that will not be reclassified to profit or loss, net of income tax:					
Movement in defined benefit reserve	(171)	-	-	(86)	340
Other comprehensive income	(473)	-	-	-	-
Other comprehensive income / (loss) for the year, net of income tax	**5,184**	**3,282**	**(1,413)**	**(6,109)**	**3,708**
Total comprehensive income for the year	**101,175**	**74,791**	**59,287**	**62,190**	**71,221**
Dividends paid to equity holders	35,500	30,000	65,000	112,042	47,895

As at 30 June 2022

$000's	Audited June 2022	Audited June 2021	Audited June 2020	Audited June 2019	Audited June 2018
Total assets	5,154,652	4,419,488	4,314,559	4,143,828	4,496,849
Individually impaired assets	66,183	38,143	24,667	26,412	45,186
Total liabilities	4,447,149	3,777,660	3,717,522	3,540,438	3,832,689
Total equity	707,503	641,828	597,037	603,390	664,160

Amendments to Conditions of Registration

Changes in 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 BS2A documentation to the new Banking Prudential Requirements (BPR) 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%

The RBNZ further amended the Conditions of Registration on 1 January 2022 to increase the Core Funding Ratio minimum requirement from 50% to 75%.

The RBNZ further amended the Conditions of Registration on 23 June 2022, to make reference to the new versions of the Outsourcing Policy (BS11) and the Open Bank Resolution Policy (BS17), which in turn, incorporate a change in definition of "Business Day".

As at 30 June 2022, there have been no other changes to the Conditions of Registration.

Conditions of Registration

These conditions apply on and after 23 June 2022.

The registration of Heartland Bank Limited ("the bank") as a registered bank is subject to the following conditions:

1.That—

(a) the Total capital ratio of the banking group is not less than 8%;
(b) the Tier 1 capital ratio of the banking group is not less than 6%;
(c) the Common Equity Tier 1 capital ratio of the banking group is not less than 4.5%;
(d) the Total capital of the banking group is not less than $30 million.

For the purposes of this condition of registration,—

"Total capital ratio", "Tier 1 capital ratio", and "Common Equity Tier 1 capital ratio" have the same meaning as in Subpart B2 of BPR100: Capital Adequacy;

"Total capital" has the same meaning as in BPR110: Capital Definitions.

1A. That—

(a) the bank has an internal capital adequacy assessment process ("ICAAP") that accords with the requirements set out in Part D of BPR100: Capital Adequacy;
(b) under its ICAAP the bank identifies and measures its "other material risks" defined in Part D of BPR100: Capital Adequacy; and
(c) the bank determines an internal capital allocation for each identified and measured "other material risk".

1B. That, if the Prudential Capital Buffer (PCB) ratio of the banking group is 2.5% or less, the bank must—

(a) according to the following table, limit the aggregate distributions of the bank's earnings, other than discretionary payments payable to holders of Additional Tier 1 capital instruments, to the percentage limit on distributions that corresponds to the banking group's PCB ratio; and

Banking group's PCB ratio	**Percentage limit on distributions of the bank's earnings**	**Capital Buffer Response Framework stage**
0% – 0.5%	0%	Stage 3
>0.5 – 1%	30%	Stage 2
>1 – 2%	50%	Stage 1
>2 – 2.5%	50%	None

(b) comply with the Capital Buffer Response Framework requirements as set out in Part D of BPR120: Capital Adequacy Process Requirements.

For the purposes of this condition of registration,—

"prudential capital buffer ratio", "distributions", and "earnings" have the same meaning as in Subpart B2 of BPR100: Capital Adequacy;

an Additional Tier 1 capital instrument is an instrument that meets the requirements of B2.2(2)(a), (c) or (d) of BPR110: Capital Definitions.

1BA. That the bank must not make any distribution on a transitional AT1 capital instrument on or after the date on which on any conversion or write-off provision in the terms and conditions of the instrument is triggered due to either a loss absorption trigger event or a non-viability trigger event.

Conditions of Registration (continued)

For the purposes of this condition of registration, “transitional AT1 capital instrument” has the meaning given in section A2.3 of BPR110: Capital Definitions and “loss absorption trigger event” and “non-viability trigger event” have the meanings given in sub-section C2.2(3) of BPR120: Capital Adequacy Requirements.

1C. That, if the prudential capital buffer ratio of the banking group is more than 2.5%, the bank must limit aggregate distributions, other than discretionary payments payable to holders of Additional Tier 1 capital instruments, to no more than 50% of the bank’s earnings.

For the purposes of this condition of registration,—

“prudential capital buffer ratio”, “distributions”, and “earnings” have the same meaning as in Subpart B2 of BPR100: Capital Adequacy;

an Additional Tier 1 capital instrument is an instrument that meets the requirements of B2.2(2)(a), (c) or (d) of BPR110: Capital Definitions;

the bank must not make any individual dividend payment contributing to aggregate distributions for a financial year until it has completed its interim financial accounts for the first six months of its financial year or its annual financial accounts for its full financial year, and must not make any such dividend payment less than six months after any previous such dividend payment.

1D. That:

(a) 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 in Part B of BPR120: Capital Adequacy Process Requirements in respect of the instrument; and
(b) the bank meets the requirements of Part C of BPR120: Capital Adequacy Process Requirements in respect of regulatory capital instruments.

For the purposes of this condition of registration, —

an Additional Tier 1 capital instrument is an instrument that meets the requirements of subsection B2.2(2)(a) or (c) of BPR110: Capital Definitions;
a Tier 2 capital instrument is an instrument that meets the requirements of subsection B3.2(2)(a) or (c) of BPR110: Capital Definitions.

2. That the banking group does not conduct any non-financial activities that in aggregate are material relative to its total activities.

In this condition of registration, the meaning of “material” is based on generally accepted accounting practice.

3. That the banking group’s insurance business is not greater than 1% of its total consolidated assets. For the purposes of this condition of registration, the banking group’s insurance business is the sum of the following amounts for entities in the banking group:

(a) if the business of an entity predominantly consists of insurance business and the entity is not a subsidiary of another entity in the banking group whose business predominantly consists of insurance business, the amount of the insurance business to sum is the total consolidated assets of the group headed by the entity; and
(b) if the entity conducts insurance business and its business does not predominantly consist of insurance business and the entity is not a subsidiary of another entity in the banking group whose business predominantly consists of insurance business, the amount of the insurance business to sum is the total liabilities relating to the entity’s insurance business plus the equity retained by the entity to meet the solvency or financial soundness needs of its insurance business.

In determining the total amount of the banking group’s insurance business—

(a) all amounts must relate to on balance sheet items only, and must comply with generally accepted accounting practice; and

Conditions of Registration (continued)

(b) if products or assets of which an insurance business is comprised also contain a non-insurance component, the whole of such products or assets must be considered part of the insurance business.

For the purposes of this condition of registration,—

"insurance business" means the undertaking or assumption of liability as an insurer under a contract of insurance:

"insurer" and "contract of insurance" have the same meaning as provided in sections 6 and 7 of the Insurance (Prudential Supervision) Act 2010.

4. That aggregate credit exposures (of a non-capital nature and net of any allowances for impairment) of the banking group to all connected persons do not exceed the rating-contingent limit outlined in the following matrix

Credit rating of the Bank[1]	Connected exposure limit (% of the Banking Group's Tier 1 capital)
AA/Aa2 and above	75
AA-/Aa3	70
A+/A1	60
A/A2	40
A-/A3	30
BBB+/Baa1 and below	15

[1]This table uses the rating scales of Standard & Poor's, Fitch Ratings and Moody's Investors Service. (Fitch Ratings' scale is identical to Standard & Poor's.)

Within the rating-contingent limit, credit exposures (of a non-capital nature and net of any allowances for impairment) to non-bank connected persons shall not exceed 15% of the banking group's Tier 1 capital.

For the purposes of this condition of registration, compliance with the rating-contingent connected exposure limit is determined in accordance with the Reserve Bank of New Zealand document entitled "Connected exposure policy" (BS8) dated October 2021.

5. That exposures to connected persons are not on more favourable terms (e.g. as relates to such matters as credit assessment, tenor, interest rates, amortisation schedules and requirement for collateral) than corresponding exposures to non-connected persons.

6. That the Bank complies with the following corporate governance requirements:
   (a) the board of the Bank must have at least five directors;
   (b) the majority of the board members must be non-executive directors;
   (c) at least half of the board members must be independent directors;
   (d) an alternate director,—
      (i) for a non-executive director must be non-executive; and
      (ii) for an independent director must be independent;
   (e) at least half of the independent directors of the Bank must be ordinarily resident in New Zealand;
   (f) the chairperson of the board of the Bank must be independent; and
   (g) the Bank's constitution must not include any provision permitting a director, when exercising powers or performing duties as a director, to act other than in what he or she believes is the best interests of the company (i.e. the Bank).

   For the purposes of this condition of registration,—

   "independent,"—

   (a) in relation to a person other than a person to whom paragraph (b) applies, has the same meaning as in the Reserve Bank of New Zealand document entitled "Corporate Governance" (BS14) dated July 2014; and
   (b) in relation to a person who is the chairperson of the board of the Bank, means a person who—
      (i) meets the criteria for independence set out in section 10 except for those in paragraph 10(1)(a) in BS14; and
      (ii) does not raise any grounds of concern in relation to the person's independence that are communicated in writing to the Bank by the Reserve Bank of New Zealand:

Conditions of Registration (continued)

"non-executive" has the same meaning as in the Reserve Bank of New Zealand document entitled "Corporate Governance" (BS14) dated July 2014.

7. That no appointment of any director, chief executive officer, or executive who reports or is accountable directly to the chief executive officer, is made in respect of the Bank unless:
   (a) the Reserve Bank has been supplied with a copy of the curriculum vitae of the proposed appointee; and
   (b) the Reserve Bank has advised that it has no objection to that appointment.

8. That a person must not be appointed as chairperson of the board of the Bank unless:
   (a) the Reserve Bank has been supplied with a copy of the curriculum vitae of the proposed appointee; and
   (b) the Reserve Bank has advised that it has no objection to that appointment.

9. That the bank has a board audit committee, or other separate board committee covering audit matters, that meets the following requirements:
   (a) the mandate of the committee must include: ensuring the integrity of the bank's financial controls, reporting systems and internal audit standards;
   (b) the committee must have at least three members;
   (c) every member of the committee must be a non-executive director of the Bank;
   (d) the majority of the members of the committee must be independent; and
   (e) the chairperson of the committee must be independent and must not be the chairperson of the Bank.

   For the purposes of this condition of registration, "independent" and "non-executive" have the same meanings as in condition of registration 6.

10. That a substantial proportion of the Bank's business is conducted in and from New Zealand.

11. That the Banking Group complies with the following quantitative requirements for liquidity-risk management:
    (a) the one-week mismatch ratio of the Banking Group is not less than zero percent at the end of each business day;
    (b) the one-month mismatch ratio of the Banking Group is not less than zero percent at the end of each business day; and
    (c) the one-year core funding ratio of the Banking Group is not less than 75 percent at the end of each business day.

    For the purposes of this condition of registration, the ratios identified must be calculated in accordance with the Reserve Bank of New Zealand documents entitled "Liquidity Policy" (BS13) dated January 2018 and "Liquidity Policy Annex: Liquid Assets" (BS13A) dated October 2018.

12. That the Bank has an internal framework for liquidity risk management that is adequate in the Bank's view for managing the Bank's liquidity risk at a prudent level, and that, in particular:
    (a) is clearly documented and communicated to all those in the organisation with responsibility for managing liquidity and liquidity risk;
    (b) identifies responsibility for approval, oversight and implementation of the framework and policies for liquidity risk management;
    (c) identifies the principal methods that the Bank will use for measuring, monitoring and controlling liquidity risk; and
    (d) considers the material sources of stress that the Bank might face, and prepares the Bank to manage stress through a contingency funding plan.

13. That no more than 10% of total assets may be beneficially owned by a SPV.

    For the purposes of this condition,—

    "total assets" means all assets of the banking group plus any assets held by any SPV that are not included in the banking group's assets:

    "SPV" means a person—
    (a) to whom any member of the Banking Group has sold, assigned, or otherwise transferred any asset;
    (b) who has granted, or may grant, a security interest in its assets for the benefit of any holder of any covered bond; and
    (c) who carries on no other business except for that necessary or incidental to guarantee the obligations of any member of the Banking Group under a covered bond:

    "covered bond" means a debt security issued by any member of the Banking Group, for which repayment to holders is guaranteed by a SPV, and investors retain an unsecured claim on the issuer.

Conditions of Registration (continued)

14. That—
    (a) no member of the Banking Group may give effect to a qualifying acquisition or business combination that meets the notification threshold, and does not meet the non-objection threshold, unless:
        (i) the bank has notified the Reserve Bank in writing of the intended acquisition or business combination and at least 10 working days have passed; and
        (ii) at the time of notifying the Reserve Bank of the intended acquisition or business combination, the bank provided the Reserve Bank with the information required under the Reserve Bank of New Zealand Banking Supervision Handbook document "Significant Acquisitions Policy" (BS15) dated December 2011; and
    (b) no member of the banking group may give effect to a qualifying acquisition or business combination that meets the non-objection threshold unless:
        (i) the bank has notified the Reserve Bank in writing of the intended acquisition or business combination;
        (ii) at the time of notifying the Reserve Bank of the intended acquisition or business combination, the bank provided the Reserve Bank with the information required under the Reserve Bank of New Zealand Banking Supervision Handbook document "Significant Acquisitions Policy" (BS15) dated December 2011; and
        (iii) the Reserve Bank has given the Bank a notice of non-objection to the significant acquisition or business combination.

    For the purposes of this condition of registration, "qualifying acquisition or business combination", "notification threshold" and "non-objection threshold" have the same meaning as in the Reserve Bank of New Zealand Banking Supervision Handbook document "Significant Acquisitions Policy" (BS15) dated December 2011.

15. That the Bank is pre-positioned for Open Bank Resolution and in accordance with a direction from the Reserve Bank, the Bank can—
    (a) close promptly at any time of the day and on any day of the week and that effective upon the appointment of the statutory manager—
        (i) all liabilities are frozen in full; and
        (ii) no further access by customers and counterparties to their accounts (deposits, liabilities or other obligations) is possible;
    (b) apply a de minimis to relevant customer liability accounts;
    (c) apply a partial freeze to the customer liability account balances;
    (d) reopen by no later than 9am the next business day following the appointment of a statutory manager and provide customers access to their unfrozen funds;
    (e) maintain a full freeze on liabilities not pre-positioned for open bank resolution; and
    (f) reinstate customers' access to some or all of their residual frozen funds.

    For the purposes of this condition of registration, "de minimis", "partial freeze", "customer liability account", and "frozen and unfrozen funds" have the same meaning as in the Reserve Bank of New Zealand document "Open Bank Resolution (OBR) Pre-positioning Requirements Policy" (BS17) dated September 2013.

16. That the Bank has an Implementation Plan that—
    (a) is up-to-date; and
    (b) demonstrates that the Bank's prepositioning for Open Bank Resolution meets the requirements set out in the Reserve Bank document: "Open Bank Resolution Pre-positioning Requirements Policy" (BS 17) dated September 2013.

    For the purposes of this condition of registration, "Implementation Plan" has the same meaning as in the Reserve Bank of New Zealand document "Open Bank Resolution (OBR) Pre-positioning Requirements Policy" (BS17) dated September 2013.

17. That the Bank has a compendium of liabilities that—
    (a) at the product-class level lists all liabilities, indicating which are—
        (i) pre-positioned for Open Bank Resolution; and
        (ii) not pre-positioned for Open Bank Resolution;
    (b) is agreed to by the Reserve Bank; and
    (c) if the Reserve Bank's agreement is conditional, meets the Reserve Bank's conditions.

    For the purposes of this condition of registration, "compendium of liabilities", and "pre-positioned and non pre-positioned liabilities" have the same meaning as in the Reserve Bank of New Zealand document "Open Bank Resolution (OBR) Pre-positioning Requirements Policy" (BS17) dated June 2022.

Conditions of Registration (continued)

18. That on an annual basis the bank tests all the component parts of its Open Bank Resolution solution that demonstrates the bank's prepositioning for Open Bank Resolution as specified in the bank's Implementation Plan.

    For the purposes of this condition of registration, "Implementation Plan" has the same meaning as in the Reserve Bank of New Zealand document "Open Bank Resolution (OBR) Pre-positioning Requirements Policy" (BS17) dated June 2022.

19. That, for a loan-to-valuation measurement period ending on or after 31 October 2021, the total of the bank's qualifying new mortgage lending amount in respect of property-investment residential mortgage loans with a loan-to-valuation ratio of more than 60%, must not exceed 5% of the total of the qualifying new mortgage lending amount in respect of property-investment residential mortgage loans arising in the loan-to-valuation measurement period.

20. That, for a loan-to-valuation measurement period ending on or before 31 March 2022, the total of the bank's qualifying new mortgage lending amount in respect of non property-investment residential mortgage loans with a loan-to-valuation ratio of more than 80%, must not exceed 20% of the total of the qualifying new mortgage lending amount in respect of non property-investment residential mortgage loans arising in the loan-to-valuation measurement period.

21. That, for a loan-to-valuation measurement period ending on or after 30 April 2022, the total of the bank's qualifying new mortgage lending amount in respect of non property-investment residential mortgage loans with a loan-to-valuation ratio of more than 80%, must not exceed 10% of the total of the qualifying new mortgage lending amount in respect of non property-investment residential mortgage loans arising in the loan-to-valuation measurement period.

22. That the bank must not make a residential mortgage loan unless the terms and conditions of the loan contract or the terms and conditions for an associated mortgage require that a borrower obtain the registered bank's agreement before the borrower can grant to another person a charge over the residential property used as security for the loan.

In these conditions of registration,—
"Banking Group" means Heartland Bank Limited (as reporting entity) and all other entities included in the Group as defined in section 6(1) of the Financial Markets Conduct Act 2013 for the purposes of Part 7 of that Act.

"generally accepted accounting practice" has the same meaning as in section 8 of the Financial Reporting Act 2013.

In these conditions of registration, the version dates of the Reserve Bank of New Zealand Banking Prudential Requirement (BPR) documents that are referred to in the capital adequacy conditions 1 to 1D, or are referred to in turn by those documents or by Banking Supervision Handbook (BS) documents, are—

BPR document	**Version date**
BPR100: Capital adequacy	1 October 2021
BPR110: Capital definitions	1 October 2021
BPR120: Capital adequacy process requirements	1 July 2021
BPR130: Credit risk RWAs overview	1 July 2021
BPR131: Standardised credit risk RWAs	1 October 2021
BPR132: Credit risk mitigation	1 October 2021
BPR133: IRB credit risk RWAs	1 October 2021
BPR134: IRB minimum system requirements	1 July 2021
BPR140: Market risk exposure	1 October 2021
BPR150: Standardised operational risk	1 July 2021
BPR151: AMA operational risk	1 July 2021
BPR160: Insurance, securitisation, and loan transfers	1 July 2021
BPR001: Glossary	1 July 2021

Conditions of Registration (continued)

In conditions of registration 19 to 22,—

> "loan-to-valuation ratio", "non property-investment residential mortgage loan", "property-investment residential mortgage loan", "qualifying new mortgage lending amount in respect of property-investment residential mortgage loans", "qualifying new mortgage lending amount in respect of non property-investment residential mortgage loans", and "residential mortgage loan" have the same meaning as in the Reserve Bank of New Zealand document entitled "Framework for Restrictions on High-LVR Residential Mortgage Lending" (BS19) dated October 2021:
>
> "loan-to-valuation measurement period" means a period of six calendar months ending on the last day of the sixth calendar month.

Conditions of Registration – Non Compliance

Conditions of Registration Non-Compliance

The Bank has complied with the conditions of registrations since its last disclosure statement.

Conditions of Registration Non-Compliance Prior Period

In July 2021 the Bank was made aware of the RBNZ's Liquidity Thematic review quantitative findings. These identified four issues where the Bank's calculation of its liquidity ratios was not in compliance with its Condition of Registration 11 (COR 11).

All non-compliance issues identified have now been remedied, and the ratios when recalculated remained at all times within the Bank's Conditions of Registration.

Pending Proceedings

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

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 7 April 2022.

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 Auditor's Report

To the shareholder of Heartland Bank Limited

Report on the audit of the consolidated disclosure statement

Opinion

In our opinion, the accompanying consolidated financial statements (excluding supplementary information relating to Capital Adequacy and Regulatory Liquidity Requirements) of Heartland Bank Limited (the "Bank") and its subsidiaries (the "Banking Group") on pages 7 to 72:

i. give a true and fair view of the Banking Group's financial position as at 30 June 2022 and its financial performance and cash flows for the year ended on that date; and

ii. comply with New Zealand Generally Accepted Accounting Practice, which in this instance means New Zealand Equivalents to International Financial Reporting Standards ("NZ IFRS") and International Financial Reporting Standards.

In our opinion, the supplementary information (excluding supplementary information relating to Capital Adequacy and Regulatory Liquidity Requirements) that is required to be disclosed in accordance with Schedules 4, 7, 13, 14, 15 and 17 of the Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order 2014 (as amended) (the "Order"):

i. has been prepared, in all material respects, in accordance with the guidelines issued pursuant to section 78(3) of the Reserve Bank of New Zealand Act 1989 and any conditions of registration;

ii. is in accordance with the books and records of the Banking Group in all material respects; and

iii. fairly states the matters to which it relates in accordance with those Schedules

We have audited the accompanying consolidated financial statements and supplementary information (excluding supplementary information relating to Capital Adequacy and Regulatory Liquidity Requirements) which comprise:

— the consolidated statement of financial position as at 30 June 2022;

— the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended;

— notes, including a summary of significant accounting policies and other explanatory information; and

— the information that is required to be disclosed in accordance with Schedules 4, 7, 13, 14, 15 and 17 of the Order.

Basis for Opinion

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

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

Our responsibilities under ISA (NZ) are further described in the auditor's responsibilities for the audit of the consolidated financial statements (excluding supplementary information relating to Capital Adequacy and Regulatory Liquidity Requirements) section of our report.

Our firm has also provided other services to the Banking Group in relation to the review of the Banking Group's half year disclosure statement, regulatory assurance services 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 auditor of the Banking Group. The firm has no other relationship with, or interest in, the Banking Group.

Materiality

The scope of our audit was influenced by our application of materiality. Materiality helped us to determine the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and on the consolidated financial statements as a whole. The materiality for the consolidated financial statements as a whole was set at $5,800,000 determined with reference to a benchmark of the Banking Group's profit before tax. We chose the benchmark because, in our view, this is a key measure of the Banking Group's performance.

We agreed with the Board Audit Committee that we would report to them, misstatements identified during our audit above $290,000 as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Key audit matters

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

The key audit matter	How the matter was addressed in our audit
Provision for impairment of finance receivables Refer to notes 1, 12 and 22 to the consolidated disclosure statement.	
The provision for impairment of finance receivables is a key audit matter due to the financial significance and the inherent complexity of the Banking Group's	Our procedures, amongst others, included: — Assessing the Banking Group's governance and oversight, including the continuous reassessment of overall provisioning; — Assessing the Banking Group's significant accounting policies and expected credit loss ("ECL") modelling methodology against the requirements of the standards and underlying accounting records;

The key audit matter	How the matter was addressed in our audit
expected credit loss ("ECL") models. Significant judgement and estimates are required to incorporate forward-looking information to reflect future economic conditions. The collective provision is estimated through the ECL models using historical data which is adjusted for forward looking information and the assigned risk grade or arrears status. Additionally, management apply judgement in the determination of provision overlays to adjust for future market conditions. The level of judgement involved in determining the provision for collectively impaired assets requires us to challenge the appropriateness of management's assumptions. The provision for individually impaired assets is based on the application of management judgement regarding expected future cashflows, which are inherently uncertain.	— Testing key controls including the arrears calculations, customer loan ratings, annual loan reviews, credit risk reviews and data reconciliations between the ECL models and source systems; — Assessing the model output against actual losses incurred by the Banking Group; — Challenging the key assumptions, including forward looking economic assumptions, against external information including benchmarking management's estimates to a range of observable industry data and market forecasts; — Evaluating individual credit assessments for a sample of 'rural' and other 'corporate' loans on management's credit watchlist. This included inspection of the latest correspondence with the borrower, assessment of the provision estimates prepared by credit risk officers, and consideration of the resolution strategy. We challenged assumptions and assessed collateral values by comparing them to valuations performed by independent valuers; and — Assessing the disclosures in the consolidated disclosure statement against the requirements of NZ IFRS. From the procedures performed we consider the Banking Group appropriately identified and considered the uncertainties in the provision estimates.

Valuation of finance receivables – reverse mortgages

Refer to note 19 of the consolidated disclosure statement.

The Banking Group's reverse mortgage portfolio is held at fair value. The fair value calculation is based on the application of management judgement. In assessing the fair value, the Banking Group continuously considers evidence of a relevant active market. In the absence of such a market, in the current period, the Banking Group considered changes since loan origination and expected future cashflows. The inherent uncertainties include estimated exits, interest rates and security property values.	Our procedures over the fair value loan portfolios, amongst others, included: — Testing key controls over the accuracy of data impacting the fair value assessment; — Assessing evidence of a relevant active market or observable inputs; and — Challenging the key assumptions used by the Banking Group in determining the portfolio's fair value. The estimates and assumptions used to determine the valuation of finance receivables are reasonable, with no evidence of management bias or influence identified from our procedures.

The key audit matter	How the matter was addressed in our audit
Operation of IT systems and controls	
The Banking Group is reliant on complex IT systems for the processing and recording of significant volumes of transactions and other core banking activity. For significant financial statement balances, such as finance receivables and deposits, where relevant, our audit involves an assessment of the design of the Banking Group's internal control environment. There are some areas of the audit where we seek to test and place reliance on IT systems, automated controls and reporting. The effective operation of these controls is dependent upon the Banking Group's general IT control environment, which incorporates controls relevant to IT system changes and development, IT operations, and developer and user access.	Our audit procedures, amongst others, included: — Gaining an understanding of business processes, key controls and IT systems relevant to significant financial statement balances, including technology services provided by a third party; — Assessing the effectiveness of the IT control environment, including core banking IT systems, key automated controls and reporting; and — Evaluating general IT controls relevant to IT system changes and development, IT operations, and developer and user access. Where we noted design or operating effectiveness matters relating to IT system or application controls relevant to our audit, we performed alternative audit procedures. We also identified and tested mitigating controls in order to respond to the impact on our overall audit approach. We did not identify any material issues or exceptions from those additional procedures.

Other information

The Directors, on behalf of the Banking Group, are responsible for the other information included in the Banking Group's consolidated disclosure statement. Other information includes the information required to be included in the consolidated disclosure statement in accordance with schedule 2 of the Order. Our opinion on the consolidated disclosure statement does not cover any other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated disclosure statement our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated disclosure statement or our knowledge obtained in the audit or otherwise appears materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Report on other legal and regulatory requirements

In accordance with the requirements of clauses 2(1)(d) and 2(1)(e) of Schedule 1 of the Order, we report that:

— we have obtained all the information and explanations we have required; and

— in our opinion, proper accounting records have been kept by the Banking Group, as far as appears from our examination of those records.

Responsibilities of Directors for the consolidated financial statements and supplementary information (excluding supplementary information relating to Capital Adequacy and Regulatory Liquidity Requirements)

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

- the preparation and fair presentation of the consolidated financial statements in accordance with Clause 24 of the Order, NZ IFRS and International Financial Reporting Standards;
- the preparation and fair presentation of supplementary information (excluding the supplementary information relating to Capital Adequacy and Regulatory Liquidity Requirements), in accordance with Schedules 2, 4, 7, 13, 14, 15 and 17 of the Order;
- implementing necessary internal control to enable the preparation of consolidated financial statements that are fairly presented and free from material misstatement, whether due to fraud or error; and
- assessing the ability to continue as a going concern. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate or to cease operations or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the consolidated financial statements and supplementary information (excluding supplementary information relating to Capital Adequacy and Regulatory Liquidity Requirements)

Our objective is:

- to obtain reasonable assurance about whether the consolidated disclosure statement, including the financial statements prepared in accordance with Clause 24 of the Order, and supplementary information (excluding the supplementary information relating to Capital Adequacy and Regulatory Liquidity Requirements), in accordance with Schedules 4, 7, 13, 14, 15 and 17 of the Order as a whole is free from material misstatement, whether due to fraud or error; and
- to issue an independent auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISA's (NZ) will always detect a material misstatement when it exists.

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

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

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

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

KPMG

Review conclusion on the supplementary information relating to Capital Adequacy and Regulatory Liquidity Requirements

Based on our review, nothing has come to our attention that causes us to believe that the supplementary information relating to Capital Adequacy and Regulatory Liquidity Requirements, disclosed in note 25(a) and 28 to the disclosure statement, is not, in all material respects disclosed in accordance with Schedule 9 of the Order.

We have reviewed the supplementary information relating to Capital Adequacy and Regulatory Liquidity Requirements, as disclosed in note 25(a) and 28 of the consolidated disclosure statement for the year ended 30 June 2022. The supplementary information relating to Capital Adequacy and Regulatory Liquidity Requirements comprises the information that is required to be disclosed in accordance with Schedule 9 of the Order.

Basis for conclusion on the supplementary information relating to Capital Adequacy and Regulatory Liquidity Requirements

A review of the supplementary information relating to Capital Adequacy and Regulatory Liquidity Requirements 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. Our responsibilities under that standard are further described in the Auditor's Responsibilities for the Review of the supplementary information relating to Capital Adequacy and Regulatory Liquidity Requirements section of our report.

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.

Responsibilities of Directors for the supplementary information relating to Capital Adequacy and Regulatory Liquidity Requirements

The directors are responsible for the preparation of supplementary information relating to Capital Adequacy and Regulatory Liquidity Requirements that is required to be disclosed under Schedule 9 of the Order in accordance with the requirements of that Schedule and as described in note 25(a) and 28 to the consolidated disclosure statement.

Auditor's responsibilities for the review of the supplementary information relating to Capital Adequacy and Regulatory Liquidity Requirements

Our responsibility is to express a conclusion on the supplementary information relating Capital Adequacy and Regulatory Liquidity Requirements based on our review. We conducted our review in accordance with NZ SRE 2410 issued by the New Zealand External Reporting Board. As the auditor of Heartland Bank Limited, NZ SRE 2410 requires that we plan and perform the review to obtain limited assurance about whether the supplementary information relating Capital Adequacy and Regulatory Liquidity Requirements is, in all material respects disclosed in accordance with Schedule 9 of the Order.

A review of the supplementary information relating to Capital Adequacy and Regulatory Liquidity Requirements in accordance with NZ SRE 2410 is a limited assurance engagement. The auditor performs procedures, primarily consisting of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures.

The procedures performed in a review are substantially less than those performed in an audit conducted in accordance with ISA's (NZ). Accordingly, we do not express an audit opinion on the supplementary information relating to Capital Adequacy and Regulatory Liquidity Requirements disclosures.

Use of this independent auditor's report

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

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

For and on behalf of

KPMG

KPMG
Auckland

22 August 2022

[_Name_**]**
[_Address_**]**

23 August 2022

Dear shareholder,

Proposed Buyback of Shares from Long Term Incentive Scheme Participants

Heartland Group Holdings Limited (**Heartland** or the **Company**) gives notice to its shareholders that it intends to make an offer to acquire certain shares to be issued by the Company as part of its executive long term incentive scheme from the participants in that scheme in order to fund the tax liability that will arise for those participants upon receipt of shares under that scheme (**Buyback Offer**). This disclosure document is for your information only and is given pursuant to section 61(5) of the Companies Act 1993.

The Company operates a long term incentive scheme under which selected executives of Heartland and Heartland Bank Limited (**Participants**) were issued performance share rights (**Performance Rights**), which are eligible to be converted to ordinary shares in the Company (**Shares**) for nil consideration, subject to certain vesting conditions being met (**Scheme**). Vesting conditions for a number of Performance Rights issued under the Scheme in 2017, 2018 and 2019 will be assessed on 24 August 2022, being the business day after Heartland releases its full year results for the year ended 30 June 2022.

The Company has determined that it will assist Participants to meet the tax obligations that will arise when Performance Rights vest and Shares are issued to them by offering to apply the PAYE rules on the Participants' behalf in respect of the Shares issued to them and to make the Buyback Offer in order for Participants to fund the corresponding liability to the Company. The terms of the Buyback Offer are as follows:

- The Company will pay PAYE on each Participant's behalf in relation to the Shares issued to that Participant and the Participant shall be required to make a payment to the Company that is equal to the PAYE paid on their behalf in respect of their Shares.

- The Company shall offer to buyback such number of Shares as is equal in value to the Participant's PAYE liability which the Company has agreed to meet on their behalf (rounded to the nearest whole share), with the purchase price for those Shares to be retained by Heartland in satisfaction of the payment the Participant is required to make to the Company in respect of their PAYE liability. At a marginal tax rate of 39%, this means that 39% of a Participant's Shares would be bought back by the Company.

- The price at which Shares will be bought back from Participants will be the market value of the Shares on issue, calculated as the volume weighted average price of Heartland's ordinary shares traded on market on the NZX for the five days prior to the issue of Shares.

- The Buyback Offer will be made on 7 September 2022 and must be accepted by Participants by no later than 5pm on 14 September 2022. It is intended that the Shares will be issued and acquired by the Company under the Buyback Offer by 21 September 2022.

The Participants to whom the Buyback Offer will be made are as follows:

Participant Name	***Participant Title***
Jeffrey Greenslade	Chief Executive Officer, Heartland Group Holdings
Chris Flood	Group Deputy Chief Executive Officer, Heartland Group Holdings
Andrew Dixson	Group Chief Financial Officer, Heartland Group Holdings
Michael Drumm	Group Chief Operating Officer, Heartland Group Holdings
Andrew Ford	General Manager, Retail & Reverse Mortgages New Zealand, Heartland Bank
Peter Griffin	General Manager, Business, Heartland Bank
Darryl Hartnett	General Manager, Consumer, Heartland Bank
Keira Billot	Chief People & Brand Experience Officer, Heartland Bank

Jeffrey Greenslade is a Participant in his capacity as the Chief Executive Officer of the Company. Mr Greenslade is also a director of the Company. Mr Greenslade will have a relevant interest in up to 1,064,774 Shares to be issued to him under the Scheme if all vesting conditions are met, 415,262 of which will be subject to the Buyback Offer (subject to rounding).

To give effect to the Buyback Offer, the Board resolved on 22 August 2022 that:

1. The Company make the Buyback Offer.

2. The acquisition of the Shares under the Buyback Offer is in the best interests of the Company and of benefit to the remaining shareholders.

3. The terms of the Buyback Offer and the consideration offered for the Shares are fair and reasonable to both the Company and the remaining shareholders.

4. It is not aware of any information that will not be disclosed to shareholders:

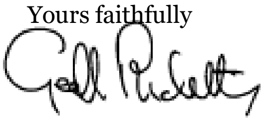
    4.1 which is material to an assessment of the value of the Shares; and

    4.2 as a result of which the terms of the Buyback Offer and consideration offered for the Shares are unfair to shareholders accepting the Buyback Offer.

5. The Board is satisfied that the Company will, immediately after acquiring the Shares, satisfy the solvency test applied under section 52 of the Companies Act 1993;

6. For the purposes of section 67A of the Companies Act 1993, the Shares shall not be cancelled on acquisition.

Yours faithfully



Geoffrey Ricketts
For the Board of Directors