2021 Annual Report

Pūrongo ā-tau

HEARTLAND

Mahi tahi

Be one team
We're all in this together.

Mahi tipu

Be always evolving
Strive for excellence.

Mahi tika

Do the right thing
Do what's right and true.

Mahi toa

Have big ambition
Feel the fear and do it anyway.

Ngā mātāpono, our values

Our mātāpono (values) underpin who we are and everything we do. They were created by our people to be shared with our customers, partners, communities and shareholders.


HEARTLAND
1
2 ABC
3 DEF
4 GHI
5 JKL
6 MNO
7 PQRS
8 TUV
9 WXYZ
0
Forgot PIN
Unlock
Quick balance

Welcome to doing things differently

Nau mai ki te mahinga rerekētanga

Heartland has a proud whakapapa (history) stretching back to Ashburton, New Zealand in 1875 where life began as the Ashburton Permanent Building & Investment Society. We've come a long way since then, including first listing on the NZX 10 years ago after the merger of CBS Canterbury, Marac Finance and Southern Cross Building Society – and later, the acquisition of PGG Wrightson Finance and Australian Seniors Finance.

Throughout our history, our point of difference has been based on providing products which are the best or only of their kind. By prioritising digitalisation, our strategic positioning has evolved to providing those products through scalable online platforms. Our focus for the year ahead remains on embedding digitalisation and automation to deliver frictionless service and an enhanced experience for our customers – all while continuing to deliver exceptional value for our shareholders.

Nau mai ki te mahinga rerekētanga.

This Annual Report of Heartland Group Holdings Limited (**Heartland**) is dated 27 September 2021 and is signed on behalf of the Board of Directors by:

Geoffrey Ricketts
Chair of the Board

Jeffrey Greenslade
Chief Executive Officer and Executive Director

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GEOFFREY RICKETTS
Chair of the Board

Throughout the year, the effects of COVID-19 continued to prove challenging for many and changed the environment in which we are operating. On behalf of the Board, I am pleased to report that Heartland and its subsidiaries (the **Group**), and its customers, continued to respond well to the economic impacts of the pandemic.

Heartland achieved a net profit after tax (**NPAT**) of $87.0 million for the financial year ended 30 June 2021 (**FY2021**). This was an increase of $15.1 million (20.9%) compared with the financial year ended 30 June 2020 (**FY2020**). On an underlying basis[1] (which excluded the impacts of one-offs), FY2021 NPAT was $87.9 million, an increase of $11.0 million (14.3%) compared with the FY2020 underlying NPAT.[2]

Doing the right thing for customers

Heartland's commitment to doing the right thing for its customers is reflected in the social impact of its products, the way in which it conducts its business, and in one of its core values 'Mahi tika' – do the right thing.

Through FY2021, Heartland was pleased to meet a significant milestone – having helped more than 40,000 older New Zealanders and Australians to live a more comfortable retirement by releasing equity from their homes with a Heartland Reverse Mortgage.

Through the year, Heartland continued to support its customers affected by the impacts of COVID-19. This included providing more than 150 business customers with access to the New Zealand Government's Business Finance Guarantee Scheme, and lending more than $188 million through its Heartland Extend product for consumer and business customers needing flexibility with their repayments.

Like those presented through COVID-19, Heartland is conscious that vulnerabilities come in various forms, and many of its customers may be facing such vulnerabilities whilst applying for finance. Numerous processes are in place to support customer needs and deliver good customer outcomes, such as the provision of cooling off periods for some products, customer feedback and complaint management processes, and employee training to identify and respond to elder financial abuse.

Heartland Bank Limited (**Heartland Bank**) recently become a Hearing Accredited Workplace to better support customers who are deaf or hard of hearing. In FY2021, Heartland also completed its Conduct and Culture Work Plan, aimed at maintaining good conduct and culture in everything it does. You can read more about this and Heartland's social equity activity on page 67.

Regulatory update

There are various upcoming regulatory changes relating to banks which will impact on the Group. Among these, key changes include those to New Zealand's Credit Contracts and Consumer Finance Act 2003 and the Credit Contracts and Consumer Finance Regulations 2004 (**CCCFA**), the proposed Deposit Takers Bill, the Reserve Bank of New Zealand (**RBNZ**) capital implementation review, and Australia's new Design and Distribution Obligations.

Changes to the CCCFA will now come into effect on 1 December 2021. The changes touch on a number of aspects of Heartland Bank's processes for promotion, origination and fulfilment for its consumer loans. The liability regime for directors and senior managers will also be substantially strengthened. Heartland has used these changes as an opportunity to implement technologies that will allow it to carry out the new inquiries required of it in a way that is as user-friendly as possible for customers, while reducing the cost to serve.

Also related to Heartland Bank, the Deposit Takers Act is being developed to strengthen the regulatory framework for all institutions that take deposits, and to introduce a new deposit insurance scheme, overseen by the RBNZ. An exposure draft of the Act is expected to be available for submission later this year.

Australia's new Design and Distribution Obligations come into force on 5 October 2021. To ensure compliance, Australian Seniors Finance Pty Ltd must prepare 'Target Market Determinations' for its Reverse Mortgage and Well-Life Loan products, and review its existing processes in relation to marketing, third-party distribution, record keeping, and ongoing monitoring and assurance activities. Heartland is on track to implement the changes required to comply with the obligations before the commencement date.

The RBNZ's new Banking Prudential Requirements (**BPRs**) also come into force from October 2021, with the main changes relating to restrictions on dividends as capital buffer requirements for banks are increased, guidance on likely supervisory action in response to buffer breach, requirements for new financial instruments that can qualify for bank capital, and a new notification process relating to bank capital instruments. Requirements for increases in capital will be phased in over a seven-year period, starting from 1 July 2022.

Heartland in the community

Through the Heartland Trust[3], Heartland is pleased to have the opportunity to make a positive impact in the communities in which it operates. During the year, the Heartland Trust made grants totalling $448,183 to support our communities, including in the areas of education, sport and wellbeing.

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1 Underlying results exclude the impacts of one-offs. Refer to page 72 for details about FY2021 one-offs. A detailed reconciliation between reported and underlying financial information is set out in Heartland's FY2021 investor presentation available at shareholders.heartland.co.nz.

2 All comparative results are based on the audited full year consolidated financial statements of the Group for FY2020.

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

Through FY2020 and part of FY2021, many of the organisations and groups the Heartland Trust supports were impacted by COVID-19 lockdowns, with events and sport unable to go ahead. It has been fantastic to see rugby teams returning to the field, scholarship recipients able to connect with their cohort in person, and festivals run as planned.

The Heartland Trust was pleased to this year support Men's Health Week and continue its support of the InZone Education Foundation, the Kupe Leadership Scholarship, the Auckland Writers Festival, WORD Christchurch Festival, and both boys' and girls' 1st XV rugby. You can read more about the activities of the Heartland Trust on page 67 of this Annual Report.

Board changes

On 12 March 2021, Ellen Comerford resigned from her directorship of Heartland Bank. Ellen joined the Heartland Bank Board in January 2017, and remains a valued director of the Heartland Group Board and Chair of the Heartland Audit and Risk Committee. Ellen's retirement from the Heartland Bank Board reflects the maturing of the organisational structure within the Group.

The Board intends to appoint Geoff Summerhayes and Kate Mitchell as directors of the Heartland Board, effective 1 October 2021.

Geoff Summerhayes is a professional director and senior advisor, with extensive commercial and regulatory experience across a wide range of sectors including banking, insurance and financial services prudential regulation. Geoff is recognised as a global leader on climate change financial risk through his regulatory work at the Australian Prudential Regulatory Authority, the International Association of Insurance Supervisors and the UN Environment Programme where he chaired the Sustainable Insurance Forum. Heartland is pleased to boost its director capability with Geoff's commercial and regulatory experience.

Kate Mitchell has been a director of Heartland Bank since March 2019. Kate will continue in that role and will bring her considerable banking and finance experience directly to the Heartland Board.

Dividend

The Board resolved to pay a fully imputed final dividend of 7.0 cents per share on Wednesday 15 September 2021 to all shareholders on Heartland's register at 5.00pm NZST on Wednesday 1 September 2021. Together with the interim dividend of 4.0 cents per share, the total dividend for the year was 11.0 cents per share (4.0 cents per share up from FY2020).

Heartland is pleased to be able to continue to deliver shareholder return notwithstanding dividend restrictions imposed by the RBNZ on distributions by banks in New Zealand. Total shareholder return (**TSR**) was 107.2% for the five-year period 20 August 2016 – 20 August 2021, compared with TSR of 81.9% for the NZX50. This is an excellent result for our shareholders.

Outlook

The Board has been pleased with the way in which Heartland and its customers have responded to the effects of COVID-19. The Board is confident in Heartland's ability to deliver strong growth and profitability as it continues to deliver against its strategy to provide frictionless service at the lowest cost – reducing Heartland's cost to income (**CTI**) ratio and passing the benefits on to customers through lower pricing.

Noting uncertainties associated with the ongoing impacts of COVID-19, Heartland expects its NPAT for the year ending 30 June 2022 (**FY2022**) to be in the range of $93 million to $96 million.

On behalf of the Board, I would like to take this opportunity to acknowledge the continued support of our shareholders and to thank our Heartland whānau for their efforts this year.

Geoffrey Ricketts
Chair of the Board

Chief Executive Officer's Report
Na te Kaiwhakahaere Matua

JEFF GREENSLADE
Chief Executive Officer

The effects of the COVID-19 pandemic continue to be experienced in New Zealand and Australia. Subdued growth in the first half of FY2021 (**1H2021**) reflected reduced confidence brought about by the pandemic. However, in the second half (**2H2021**), confidence returned which saw higher 'business as usual' growth in core lending portfolios, enabling Heartland to achieve a strong financial result for FY2021.

Kei te tukituki tonu te urutā imurangi-19 i Aotearoa me Ahitereiria. I te whakaata te hekenga o te tupuranga ahumoni i te weherua tuatahi o te tau ahumoni (TAm)2021(1H2021) i te hekenga o te titikaha o te mākete i puta ake i te urutā. Heoti i te weherua tuarua (2H2021), i piki anō te titikaha i piki ai hoki te tupuranga 'kaipakihi māori' o ngā kōpaki nama matua. Koinā i tatū ai i a Heartland te putanga ahumoni pakari i te TA2021.

In addition, significant progress was made during the year towards strategic goals in digitalisation.

NPAT for FY2021 was $87.0 million, up 20.9% ($15.1 million) on FY2020.[1] On an underlying basis, NPAT was $87.9 million, up 14.3% ($11.0 million) on FY2020.[2] Gross finance receivables (**Receivables**)[3] continued to grow to $5.0 billion, up 8.0% ($371.8 million)[4] on FY2020.

The year also marked a significant 10-year milestone for Heartland. In 2011, CBS Canterbury, Marac Finance and Southern Cross Building Society – and later, PGG Wrightson Finance – came together to form Heartland New Zealand. This was followed by Heartland listing on the NZX Main Board.

Strategic Positioning

Throughout its history, Heartland's point of differentiation has been based on best or only products. Examples of best or only products include Reverse Mortgages and Motor loans amongst others. Recently, the advent of digitalisation has allowed Heartland to offer these products via online platforms (typically accessed by mobile phone). This technology has allowed Heartland to extend its reach and manufacture scale, reflected in lower onboarding costs.

These points of differentiation will give Heartland a sustainable base for growth and profitability.

Areas of focus

There are four elements underpinning Heartland's strategic positioning:

1. Business as Usual Growth
2. Frictionless Service at the Lowest Cost
3. Expansion in Australia
4. Acquisitions.

[1] All comparative results are based on the audited full year consolidated financial statements of the Group for FY2020.

[2] Underlying results exclude the impacts of one-offs.

[3] Receivables include Reverse Mortgages.

[4] Excluding the impact of changes in foreign currency exchange (**FX**) rates.

Me te mea hoki, kua kaha te ahunga whakamua i taua tau nei ki ngā whāinga rautaki o te whakamamati.

Kua $87.0 miriona te THRi (tahua huamoni rauiti) o te TAm2021, he pikinga 20.9% ($15.1 miriona) no te TAm2020. Hei matapae taketake, ka $87.9 million te THRi, he pikinga 14.3% ($11.0 miriona) no te TAm2020. I te tupu tonu ngā nama ahumoni raunui (Nama) ki te $5.0 piriona, he pikinga 8.0% ($371.8 miriona) no te TAm2020.

I tohu hoki taua tau nei i te houanga whakahirahira 10-tau nei o Heartland. I te tau 2011, i hono tahi a CBS Canterbury, a Marac Finance, a Southern Cross Building Society – ā, no muri mai hoki a PGG Wrightson Finance – kia puta ake ai a Heartland Aotearoa. I whāia taua hononga tahitanga ki te urunga atu o Heartland ki te rārangi kamupene o te Poari Matua o te Paehoko o Aotearoa (NZX Main Board).

Whakanōhanga Rautaki

No te tīmatanga rānō, ko tō Heartland hanga motuhake ko te piri ki ngā hua papai me ngā hua taratahi. Hei tauira o aua hua nei, ko ngā Mōkete Tauaro, ko ngā Mōkete Waka, ā, ko ētahi atu hoki. Nōnākuanei, no te whakarewa i ngā mahi whakamamati, kua tatū i a Heartland te tukutuku atu i aua hua nei ki ngā pae ipurangi (ā, mā ngā waea atamai hoki). Na te hangarau nei i roa ake ai te toronga atu, i nui ake ai hoki te taumata whakaputaputa, na, kua whakaatahia ki te hekenga o ngā utu i te whakarewanga.

Mā aua hanga motuhake e mau ai a Heartland ki te apataki toitū e pai ai te tupuranga me te huamoni.

Wāhanga arotahi

E whā ngā wāhanga e ārahi ana i te whakanōhanga rautaki a Heartland:

1. Tupuranga hei Kaipakihi Māori
2. Ratonga Pāpākore ki te Utu Iti Rawa
3. Whakarahinga atu i Ahitereiria
4. Whiwhinga.

[1] E ahu ana putanga whakariterite katoa i ngā arotakenga o ngā tauākī ahumoni tōpū o Te Hono o te katoa o te TAm2020.

[2] Kāore te tukinga pā tahi i waenga i ngā putanga taketake.

[3] He nama hoki ngā Mōkete Tauaro.

[4] I tua atu i te pānga o ngā rerenga kētanga o ngā taumata tauhokohoko moni nō tāwāhi (**FX**).

Business as Usual Growth

Through FY2021, core lending portfolios continued to perform well. Significant growth came in particular from Asset Finance[5] (Receivables up 14.4% to $570.9 million) and Motor (Receivables up 14.9% to $1,293.7 million). New Zealand Reverse Mortgages experienced a record year for new business (up 30.4% from FY2020), while Australian Reverse Mortgages grew 9.5%[6] and its loan book surpassed $1 billion.

The Motor dealer book contributed strongly to growth via car dealerships, brokers and partnerships such as Kia Finance and Jaguar/Land Rover Financial Services. This is expected to continue through FY2022 as relationships with dealers, brokers and vehicle brands are strengthened.

Whilst in their infancy, digital platforms for Home Loans and Sheep & Beef Direct performed well. Strong application rates for the Home Loans platform followed its launch with enquiries at 30 June 2021 totalling $895.2 million, with more than $200 million approved. Sheep & Beef Direct had, as of August 2021, online applications totalling $48.0 million, with $40.5 million approved online and $30.4 million drawn down.

Further information about the financial performance of Heartland's lending portfolios, and funding activity, is set out in 'Financial commentary' on page 71.

Frictionless Service at the Lowest Cost

The digitalisation process began with the front-end – the customer facing platforms. These platforms, accessible via mobile phone, laptop and desktop, provide reach beyond the constraints of physical distribution.

Online access to Heartland's products ranges from small business working capital (Open for Business), to Deposits, Home Loans and Sheep & Beef Direct farm loans amongst others. The platforms are now integrated into business units as the prime means of distribution. The next stage of digitalisation is aimed at creating scale through automation and self-service (via a mobile app). This removes 'friction', i.e. processes that cause customer inconvenience and delay.

Frictionless service at each stage of the customer's journey not only enhances the customer experience, it also removes costly processes. This produces a virtuous circle of better service and reduced costs,

Tupuranga Kaipakihi Māori

Huri noa i te TAm2021, i te pakari tonu ngā kōpaki nama matua. He pakari rawa te tupuranga i ahu mai i te Ahumoni Rawa (he pikinga 14.4% nō ngā Nama ki te $570.9 miriona) me ngā Mōkete Waka (he pikinga 14.9% nō ngā Nama ki te $1,293.7 miriona). He tau tiketike rawa mo te kaipakihi hou o ngā Mōkete Tauaro i Aotearoa (he pikinga 30.4% no te TAm2020). Me te mea hoki, he pikinga 9.5% nō ngā Mōkete Tauaro o Ahitereiria, ā, ka taha atu te pukapuka nama i te $1 piriona.

He taikaha te taunaki o te pukapuka kaihoko Waka i te tupuranga o ngā kamupene, o ngā kaiwhakariterite, o ngā hononga e hokohokona ai ngā waka, he pērā i a Kia Finance me Jaguar/Land Rover Financial Services. Ko te āhua nei, ka tupu tonu i te roanga o te TAm2022 i runga i te kahanga ake o te piringa atu ki ngā kaihoko, ki ngā kaiwhakarite, ki ngā waitohu waka.

Ahakoa te kānewhatanga, kua kaha ngā pae mamati o Home Loans me Sheep & Beef Direct. Kua maha ngā tono ki te pae o Home Loans i muri i te whakarewanga atu, ā, ka $895.2 miriona te ritenga o ngā tono, ā, ka taha atu ngā whakaaetanga i te $200 miriona. No te Akuhata 2021, kua $4.8 miriona te ritenga o ngā tono ki Sheep & Beef Direct, ā, kua $40.5 miriona tō ngā tono i whakaaetia. Na, kua tangohia te $30.4 miriona o aua whakaaetanga

Kei 'Whakawākanga ahumoni', kei te whārangi 71, ngā kōrero kē atu o te pakari o ngā kōpaki tukutuku pūtea o Heartland me ngā nekenekehanga tahua.

Ratonga Pāpākore ki te Utu Iti Rawa

I tīmata te pūnaha whakamamati ki te pito tōmua – ki te kiritaki e aro atu ana ki ngā pae mamati. Ratorato atu ai aua pae nei – aua pae tonu e taea ai i ngā waea atamai, i ngā rorohiko harihari, i ngā rorohiko tau tēpū – ki tua atu o ngā tepe o te ratonga kikokiko.

Ahu ai ngā ratonga ā-ipurangi o ngā putanga a Heartland i te tahua whakamahi mā ngā kaipakihi ririki (Tuhera ki te Kaipakihi - Open for Business) ki Moni Punga (Deposits), ki Tukurewa Kāinga (Home Loans), ki ngā tukurewa pāmu, ko Hipi & Pīwhi Tōtika (Sheep & Beef Direct), ā, ki ētahi atu. Kua whakariteritea ngā pae hei tūtahinga kaipakihi, hei ratonga tohatoha matua hoki. E aro atu ana te wāhanga whakamamati e whai ake nei ki te hanga rahinga ki te whakaaunoa me te rato ā-kiriaro (ki te taupānga harihari). Ka ngaro te 'pāpā' i reira, arā, i ngā pūnaha e raruraru ai, e takaroa ai hoki te kiritaki.

allowing Heartland to provide customers with better value through lower rates or time-savings. The Home Loans platform launched during the year shows what is possible. By transacting online, Heartland was able to offer market-leading rates.

Expansion in Australia

Growth in Australia is a key strategic priority for Heartland.

Market share in Reverse Mortgages Australia continued to increase, from 26% in March 2020[7], to 29% in March 2021.[8] Research by the Royal Melbourne Institute of Technology University, supported by Heartland, found that 90% of Australians wish to age in their homes, but that limited superannuation and the rising cost of living is restricting their ability to do so.[9] This research shows there is substantial opportunity for Heartland to support a greater number of older Australians to live the retirement they deserve. See page 19.

Expansion both through existing relationships with intermediaries and directly in the Small Business and Consumer segments is also being explored.

Acquisitions

Where there is a fit with Heartland's strategic vision and the opportunity to add value, acquisitions will be explored. There is currently nothing to report on, but as a means of adding scale or technology, Heartland will remain open to acquisitions.

COVID-19

Heartland's COVID-19 economic overlay of $9.6 million pre-tax, taken in respect of FY2020, remains unutilised. The overlay does not represent any actual losses, but was taken to provide a buffer against any future losses that the uncertainty of COVID-19 may give rise to.

5 Previously referred to as Business Intermediated.

6 Excluding the impact of changes in FX rates.

7 Based on APRA ADI Property Exposure and Heartland Reverse Mortgages data as at 31 March 2020.

8 Based on APRA ADI Property Exposure and Heartland Reverse Mortgages data as at 31 March 2021.

9 Reverse mortgages: Financing ageing in place, Royal Melbourne Institute of Technology (**RMIT**) University, cur.org.au/cms/wp-content/uploads/2020/11/financing-ageing-in-place.pdf.

Ehara i te mea ko te wheako anahe o te kiritaki i tērā tūāoma, i tērā tūāoma o ngā mahi e pai ake ai te ratonga pāpākore, ka tangohia hoki ngā pūnaha utu nui. Ka puta ake he huarahi ngāwari e pai ake ai te ratonga, e heke iho ai te utu. Hei reira tatū ai i a Heartland te ratorato i te wāriu pai ake ki ngā kiritaki nā ngā utu iti iho rānei, na te penapena rānei o te wā. Kua whakaatu te pae Home Loans i whakarewaina i te tau nei i ngā hua ka taea. Na te mahi ā-ipurangi, i āhei ai a Heartland ki te tuku i ngā utu papai o te mākete.

Whakarahinga atu i Ahitereiria

He whāinga rautaki matua nā Heartland te tupuranga i Ahitereiria.

I piki tonu te wāhanga mākete o ngā Mōkete Tauaro o Ahitereiria i te 26% i Maehe 2020[7] ki te 29% i Maehe 2021.[8] Ka kitea i ngā rangahau a Te Whare Wānanga o te Royal Melbourne Institute of Technology, me te tautoko a Heartland, kua 90% o ngā tāngata o Ahitereiria e hiahia ana kia kaumātua i roto i ō rātou ake kāinga, engari kua raruraru aua hiahia i te iti o te penihana me te nui o te utu whai oranga. E whakaatu ana ngā rangahau nei i te huarahi e tautoko ai a Heartland kia tokomaha atu ngā kaumātua o Ahitereiria e whai ai i te tāokinga e tika ana. Tirohia te whārangi 19.

Kei te torotoro hoki i ngā huarahi e rahi atu ai ngā hononga ki ngā takawaenga me ngā hononga torotika ki ngā tūtanga o ngā Kaipakihi Ririki me ngā Kaihokohoko.

Whiwhinga

Ina kitea he mea e hāngai ana ki ngā whāinga rautaki a Heartland, me te huarahi e pai atu ai te kounga, ka torotorongia atu hei whiwhinga. Kāore he aha hei pūrongo i tēnei wā, engari hei huarahi e tupu ai, e whai hangarau ai, ka tuhera tonu a Heartland ki ngā whiwhinga hou.

Imurangi-19

Kāore anō tā Heartland paparua ohaoha o te $9.6 miriona i mua i te tāke mo te imurangi-19, mo te TAm2020, kia whakamahia. Kāore hoki te paparua i te tohu i ngā ngaromanga tūturu, engari i whakaritea hei

5 Kiia tōmuatia ai hei Kaipakihi Whai Takawaenga.

6 I tua atu o ngā tukinga o ngā rerenga kētanga o ngā taupāpātanga FX.

7 E ahu ana i ngā raraunga o te APRA ADI Property Exposure me Heartland Mōkete Tauaro i te 31 Maehe 2020.

8 E ahu ana i ngā raraunga o te APRA ADI Property Exposure me Heartland Mōkete Tauaro i te 31 Maehe 2021.

9 Mōkete Tauaro: Te moni e kaumātua ai i te kāinga, Royal Melbourne Institute of Technology (**RMIT**) University, cur.org.au/cms/wp-content/uploads/2020/11/financing-ageing-in-place.pdf.

Caution continues to be warranted, evidenced by the recent lockdowns in New Zealand and Australia. In addition, there remains the ongoing uncertainty arising from supply-chain restrictions, border closures, and the prospect of rising inflation. Despite, to date, absorbing any direct impacts of the pandemic within business as usual impairments, a release of the COVID-19 economic overlay is not considered appropriate and it has been retained in full.

He manawa tangata – our people

I want to acknowledge that it has been 10 years since Heartland lost four of its Marac Finance colleagues in the Christchurch earthquakes on 22 February 2011. Me maumahara tonu tātou ki a rātou – let us always remember them.

The Heartland people have shown resilience and have worked hard throughout the year to achieve results. Heartland's commitment to diversity and building a culture of inclusion continues. Key activity in FY2021 included the establishment of Kainga Pasifika, a new internal committee to represent Pasifika employees, and development of the Iho Pūmanawa recruitment strategy which supports more equitable recruitment and selection outcomes. The Manawa Ako internship intake for 2020/2021 welcomed 45 participants, up from 34 in 2019/2020. This programme was established to provide opportunities for rangatahi, and to provide learnings on making Heartland a more welcoming working environment.

Read more about Heartland's progress in the Diversity Report on page 33.

This year, Heartland announced an ambitious Greenhouse Gas (**GHG**) emissions reduction target and made progress towards the reduction of its vehicle fleet (reducing by 7% in FY2021) as it transitions to a primarily hybrid and electric fleet. Heartland's sustainability initiatives are well underway and aligned closely with digitalisation goals. This is outlined in 'Our sustainability journey' on page 63.

Looking forward

Looking to the year ahead, Heartland remains committed to supporting customers as we continue to operate in a COVID-19 environment.

whakaruruhau i ngā ngaromanga o muri atu nei ka puta i te hanga tītahataha o te imurangi-19.

He tika tonu te whakatūpato i ngā rāhui nōnākuanui i Aotearoa me Ahitereiria. Hei tāpiritanga atu, e mau tonu ana te mānukahuka i ngā whatinga taura rawa, i ngā katinga rohe, i te takutaku o te tāminga ahumoni. Ahakoa ngā tikanga mohoa ake nei, ehara rawa i te tika te pēhi i ngā tukinga ka ahu hāngai mai i te urutā hei kaipakihi māori. Nō reira, kua kore te whakaaro e tika ana te tuku i ngā moni o te paparua ohaoha. Āna, kua puritia te katoa.

He manawa tangata – ō tātou tāngata

E hiahia ana ahau ki te whākī atu, kua taha atu te 10 tau i te whakangaromanga atu o ngā hoa tokowhā o Marac Finance i ngā rū whenua o Ōtautahi i te 22 o Pepuere 2011. Me maumahara tonu tātou ki a rātou – kei wareware i a tātou.

Kua manawanui, kua pukumahi ngā tāngata o Heartland i te roanga o te tau, kia puta tonu ai ngā hua. E mau tonu ana te ū o Heartland ki ngā hanga huhua me te waihanga i te ahurea whakahuihui tangata. Ko ētahi o ngā tino mahi i te TAm2021, ko te whakatū i te Kāinga Pasifika, he kōmiti rāroto hou hei māngai mō ngā kaimahi Pasifika, me te whakawhanake i te rautaki taritari kaimahi, ko te Iho Pūmanawa, hei tautoko i ngā tikanga e tairite atu ai ngā hua o te taritari me te whiriwhiri kaimahi. I whakatau atu a Manawa Ako i ngā pia e 45 i te tau 2020/2021, he pikinga ake i te 34 o te tau 2019/2020. I whakatūngia te hōtaka nei hei whakaatu i ngā huarahi ki te rangatahi, hei whakaatu hoki i ngā tikanga e pai atu ai a Heartland ki te whakarite i te taiao mahi whakahuihui tangata.

Kei te whārangi 33 te pūrongo hanga huhua e nui atu ana ngā kōrero mo te ahunga whakamua o Heartland.

No te tau nei, pānui ai a Heartland i te whāinga whakatoatoa e heke ai ngā whakaputanga hau kati mahana (GNG). Kua ahu whakamua hoki te whakahekenga o ngā waka (he hekenga 7% no te TAm2021), e tahuri atu ai ki te kahupapa e nui ana ngā waka hanumi, waka hiko. Kua kōkiritia ngā whāinga twhakaukauka hei tīaroarotanga ki ngā whāinga whakamamati. Kei te pūrongo 'Tō mātou hinonga whakaukauka', kei te whārangi 63.

Titiro whakamua

Hei te tau e haere mai nei, ka ū tonu a Heartland ki te tautoko i ngā kiritaki i a tātou e mahi ana i raro i ngā āhuatanga o te imurangi-19.

The growth momentum seen in the second half of 2021 may be impacted to some extent by the recent lockdown in New Zealand, but past experience suggests that a period of 'catch up' borrowing may occur.

It should be noted that higher growth in Reverse Mortgages, Home Loans and Harmoney (post adoption of an on-balance sheet model) will result in net interest margin contracting. However this will also drive an offsetting benefit of reduced impairment expenses, reflecting improved quality of the lending portfolio.

Our digitalisation programme continues, focusing on removing customer friction through automation and increasing the ability for customers to self-serve via the Heartland Mobile App. Longer term, we aim for this to flow through to reduction in the cost to income ratio, enabling Heartland to enjoy competitive advantage.

Work will continue towards Heartland's Environmental, Social and Governance strategy, as well as in our diversity initiatives, to foster an environment that is welcoming and inclusive of all people.

I would like to thank our Heartland whānau for living our mātāpono (values) throughout the year, and also wish to thank our shareholders for their continued support of Heartland.

Ngā mihi nui,

Jeff Greenslade
Chief Executive Officer

Tērā pea ka tukia te āngu tuputupu o te weherua tuarua o te tau 2021 e te rāhui i Aotearoa nōnākuanui, engari, e ai ki ngā kitenga o mua atu, ka pupū ake he wā whaiwhai noa o te tonotono pūtea.

Me mōhio hoki, ma te pikinga o te tupuranga o ngā Mōkete Tauaro, o Home Loans, o Harmoney (te whai tōmuri nei i te tauira ripanga tairite), e heke ai te paenga huamoni rauiti (NIM). Engari, mā reira hoki e āia ai te hua whakakorekore i te nui o ngā utu ruharuha, ā, ka whakaatahia i te pikinga o te kounga o te kōpaki tukutuku pūtea.

Kei te tupu tonu te hōtaka whakamamati, me te arotahi ki te whakakore i te pāpā mai o ngā kiritaki i te whakawhānui i te whakaaunoa me te āheinga o ngā kiritaki ki te whai ratonga i te taupānga Heartland Mobile. Hei te roanga atu, e ngana ana mātou kia kitea ngā painga i te taupāpātanga o te tōpūtanga rorohiko (CTI), ā, hei reira rēhia ai a Heartland i te huanga whakataetae.

Ka whai tonu i ngā mahi o te rautaki taiao, hapori, kāwana o Heartland. Waihoki ngā whāinga hanga huhua, hei poipoi i te taiao aumihi, whakahuihui tangata.

Ko tāku nei, ko te whakamihi i te whānau o Heartland e whakatinana mai rā i ō tātou mātāpono i te roanga o te tau nei, ā, ka whakamihi hoki i te hunga whai pānga e tautoko tonu mai ana i a Heartland.

Ngā mihi nunui,

Jeff Greenslade
Kaiwhakahaere Matua

2021 results at a glance
Ka kaperua ki ngā putanga o 2021

GROSS FINANCE RECEIVABLES

$5.0 billion

FY20 $4.6b

RETURN ON EQUITY

11.9%

Underlying return on equity 12.0%
FY20 10.5%
FY20 underlying return on equity 11.1%

NET INTEREST MARGIN

4.35%

FY20 4.33%
Consistently higher than banking peers[1]

EARNINGS PER SHARE

14.9 cents per share

Underlying earnings per share 15.1 cents per share
FY20 12.5 cents per share
FY20 underlying earnings per share 13.3 cents per share

FINAL DIVIDEND DECLARED

7.0 cents per share

FY20 2.5 cents per share

TOTAL DIVIDEND FOR THE YEAR

11.0 cents per share

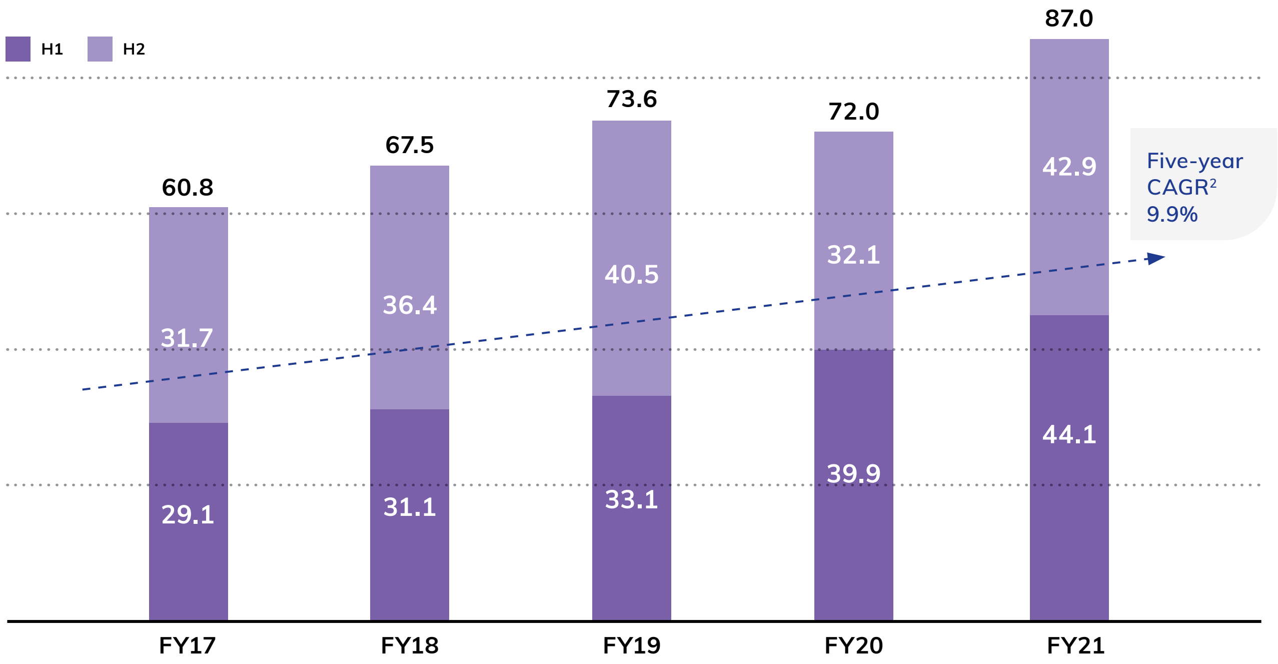
FY20 7.0 cents per share

NET PROFIT AFTER TAX

$87.0 million

Underlying net profit after tax $87.9m

FY20 $72.0m FY20 underlying net profit after tax $76.9m



CANSTAR SAVINGS BANK OF THE YEAR

Heartland Bank awarded Canstar's 2021 Bank of the Year – Savings Award (fourth consecutive year), and 5-Star Ratings for Outstanding Value for Direct Call and YouChoose accounts

AWARD-WINNING REVERSE MORTGAGE

Australian Reverse Mortgages awarded Your Mortgage Magazine's 5-Star Lender Award and InfoChoice's Best Reverse Mortgage Award

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[1] KPMG FIPS Report March 2021.

[2] Compound annual growth rate (**CAGR**) for the five years from FY2017-FY2021.

Note: Underlying results exclude the impacts of one-offs. FY2021 one-off items had a $0.8 million net impact on NPAT, consisting of $4.1 million of one-off net gains and $6.9 million of one-off expenses (net of tax). For more detail about FY2021 one-off items, go to page 72. FY2020 one-off items had a $4.9 million net impact on NPAT, consisting of $5.5 million of one-off income, $3.6 million of one-off expenses and a $9.6 million economic overlay due to COVID-19 (net of tax).

Digital Home Loans disrupt the market

Ka ihiihi te mākete i ngā pūtea taurewa ā-whare mamati

The launch of Heartland Home Loans

In October 2020, Heartland entered the residential mortgage market with the lowest fixed term rates New Zealand had seen in decades. Unlike some other lenders in the market with low or special rates, Heartland's strategy for offering market-leading rates did not involve the RBNZ Funding for Lending Programme. Instead, low interest rates were the result of our self-serve, digital application process which significantly reduces the cost of onboarding for Heartland and provides customers with a fast and convenient online application.

The October launch followed a successful trial in March 2020, which determined there was appetite in the market for an online mortgage application process – one where customers could apply and receive approval without needing to speak to a mortgage manager or visit a bank. Throughout the rest of FY2021, Heartland Home Loans continued to make waves in the residential mortgage market with the addition of the country's then lowest revolving credit home loan rate, as well as multiple fixed and floating rate drops.

Heartland's competitive advantage has historically lain in providing best or only products, which has allowed it to target niche markets. Our re-entry into the residential mortgage market signified the extension of Heartland's strategy to providing best or only products through scalable digital platforms.

Taking mortgage applications digital

Heartland's aim is to create a frictionless experience – 'friction' is all the things that keep customers waiting. At the same time, friction is costly. Investing in automation and self-service applications leads to better service at a lower cost.

In proving the effectiveness of a 'do-it-yourself' digital application, the Home Loans launch paved the way for Heartland to build digital application processes for a number of other lending products, such as vehicle loans and Sheep & Beef Direct rural loans.

Heartland's digital platform for mortgages incorporates an automated application and approval process, the benefits of which can be passed on to customers in the form of lower prices. This provides the opportunity to compete against the big lenders. Heartland's online Home Loans application can be completed in minutes, with an average turnaround time of less than three working days. The eligibility criteria that Heartland applies aims at simple, high quality leads that facilitates automation and a faster approval process.

New technologies open opportunities for the future

Heartland is focused on enhancing its digital platforms and applications to continue to provide customers with a frictionless service at each stage of their customer journey. We will be embedding property database checks into the online application to automate the eligibility verification of the customer's property.

In addition, as part of our response to the upcoming changes to the CCCFA, we are using bank scraping technology to assist with verifying customer income, debts and expenses for our consumer loans. Heartland is using this regulatory change as an opportunity to implement technologies that will accelerate the digitalisation of our business and cut down the cost to serve.

We are excited to continue disrupting the residential mortgage market through our digital processes and competitive rates, into FY2022 and beyond.

Home Loans successes in FY2021

The Heartland Home Loans platform has continued to evolve throughout FY2021.

$895.2 million total value of online enquiries

$200m+ approved from FY2021 applications

9,489

online applications received

19 minutes

average time for customers to complete the online application

2.7 working days

average time for Heartland to verify an online approval

3

loan calculators to help customers self-serve

3

market-leading interest rates (as at 30 June 2021)

Meeting the needs of older Australians

Te whakatutuki i ngā hiahia o ngā kaumātua o Ahitereiria

A comfortable retirement out of reach for many

The global population is ageing.[1] In Australia, the proportion of those aged 65 and over increased from 12.4% in 2000 to 16.3% in 2020 – this is expected to grow as more baby boomers (people born between 1946 and 1964) turn 65.[2]

However, managing the cost of retirement is becoming increasingly challenging. While more people are entering retirement, the cost of living continues to increase[3], as does the Retirement Savings Gap – the shortfall between the retirement income of working Australians and the income they need for an adequate retirement.[4]

The Australian government's pension is a core pillar of retirement income and the main source of income for most Australians aged over 65. As at July 2021, a retiree living alone receiving the maximum basic pension rate receives $868.30 fortnightly, and a couple receives $654.50 each fortnightly. This equates to an annual single person income of $22,576, or $17,017 for each person in a couple.[5]

According to the Association of Superannuation Funds of Australia Retirement Standard, for a retiree to live a modest lifestyle (with only the basics), they would need $28,514, or $41,170 for a couple.[6] This demonstrates that living a modest, let alone comfortable, lifestyle is often not possible on the pension alone. It is clear to see from these figures that additional financial support is needed to allow this age group to live more comfortably in retirement.

Increased financial support is needed

Recent research and the 2021 Australian Federal Budget reinforce the need for increased financial options. In May 2021, the Australian Federal Government announced various commitments to support people in retirement and to reform the aged care system. Funding commitments included increased pension contribution allowances for those wishing to downsize, support for older Australians to access aged care, and support to receive in-home care.

Further to this, research by RMIT University, supported by Heartland, found that the majority of older Australians wish to age in place – that is, ageing in their current home compared with moving into specialised care, or even moving at all.[7] So, while options to support downsizing may suit some, it's not the preference for most.

Though 90% of older Australians wish to age in place, 29% say they will not be able to afford the changes required to make their home aged-friendly.

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1 Ageing, Global Issues, United Nations, www.un.org/en/global-issues/ageing.

2 Twenty years of population change, Australian Bureau of Statistics, www.abs.gov.au/articles/twenty-years-population-change.

3 Australia's cost of living over the last decade, Australian Parliament House, www.aph.gov.au/About_Parliament/Parliamentary_Departments/Parliamentary_Library/pubs/BriefingBook46p/CostLiving.

4 Advisory Street 2020, Australia's National Saving Update: Beyond 2020, Report to FSC and MLC, Sydney.

5 Age Pension, Services Australia, Australian Government, www.servicesaustralia.gov.au/individuals/services/centrelink/age-pension.

6 ASFA Retirement Standard, The Association of Superannuation Funds of Australia, www.superannuation.asn.au/resources/retirement-standard.

7 Reverse mortgages: Financing ageing in place, RMIT University, cur.org.au/cms/wp-content/uploads/2020/11/financing-ageing-in-place.pdf.

Reverse Mortgages a solution to enable ageing in place

Limited superannuation and the rising cost of living is restricting the ability to age in place. RMIT University suggested expanding the 'traditional' three pillars of retirement funding (pensions, superannuation and private savings) to include equity release options – a market that is predicted to more than triple over the next decade.[8] This notion was supported by the Federal Government in its Independent Retirement Income Review Final Report which observed that "individuals can significantly boost their retirement incomes without having to increase their superannuation contributions [by] ...accessing equity in their home".[9]

In 2013-14, 85% of people aged 65 and over were homeowners.[10] For the majority of those homeowners who wish to remain in their home, an equity release option, such as a reverse mortgage, could be their solution.

Heartland has seen significant increase in demand for Reverse Mortgages, with enquiry levels in Australia for FY2021 increasing by 31% compared with the previous corresponding reporting period. The way in which customers are using their reverse mortgage strongly reflects the financial needs of this demographic – 46% are used for home improvements, 41% for debt consolidation, 20% for car repair or replacement and 16% for extra income.

As Australasia's leading provider of reverse mortgages (with market share in Australia increasing from 26%[11] to 29%[12]), there is substantial opportunity for Heartland to support more older Australians to live with more financial freedom in retirement.

Heartland's award-winning reverse mortgage has helped more than 22,000 Australians to release equity from their homes. Its Aged Care Reverse Mortgage is also one of the few specialist aged care loan products available in Australia, with as much as 50% of the home's equity available to release for upfront or ongoing aged care costs.

The future of retirement finance

As more Australians are reaching retirement than ever before, and with an increasingly high cost of living, Heartland recognises that some people may need to access funds sooner than retirement age, or need a one-off lump sum to fund an immediate need as they move towards retirement, or in retirement. Age requirements for Heartland Reverse Mortgages were recently expanded to enable senior Australians to access funds sooner as they transition into retirement – applications can now be accepted for couples where someone aged 60 or over has a partner aged 55-59. In February 2021, Heartland also launched its new Well-Life Loan to help those 60 and over to get an extra financial boost when taking their next step in life, without having to mortgage the family home.

Heartland is committed to innovation in financing the needs of Australians entering and in retirement. This includes servicing customers at each point of the 'technical maturity' spectrum – allowing customers to access information and retirement finance via convenient and accessible digital channels. Recently this has included the development of educational digital animations, embedded e-signing for loan documents, improvements to our online application, and consideration into the development of a mobile app to allow customers to more easily access and manage their loan.

With A$1.25 billion in aggregate available to support Heartland's growth aspirations, our aim is to more broadly service the needs of the aged sector in Australia through a diversified product offering to a wider demographic, including exploring options to provide more simplified equity release options and products which support entry into various stages of aged care.

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8 Global Equity Release market forecast to more than treble by 2031, The European Pensions and Property Asset Release Group, epparg.org/news/global-equity-release-market-forecast-to-more-than-treble-by-2031.

9 Retirement Income Review Final Report, The Australian Government the Treasury (November 2020).

10 Trends in home ownership in Australia: a quick guide, Australian Parliament House, www.aph.gov.au/About_Parliament/Parliamentary_Departments/Parliamentary_Library/pubs/rp/rp1617/Quick_Guides/TrendsHomeOwnership.

11 Based on APRA ADI Property Exposure and Heartland Reverse Mortgages data as at 31 March 2020.

12 Based on APRA ADI Property Exposure and Heartland Reverse Mortgages data as at 31 March 2021.

Our business
Tō mātou kaipakihi

OUR PEOPLE

512
Employees: 490 New Zealand + 22 Australia

12,000+
Shareholders

125,000+
Customers

13
Locations

52:47:1
Female : Male : Not Stated

20+
Ethnicities

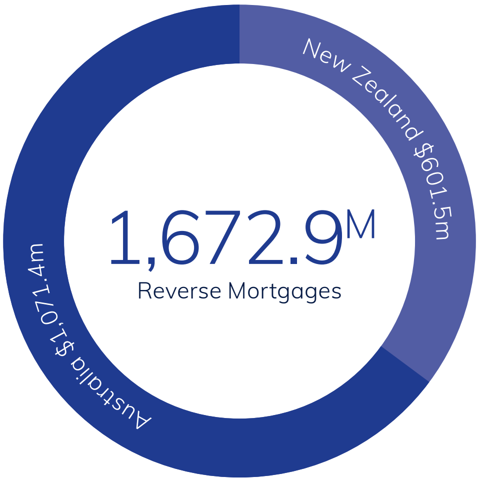
OUR FUNDING

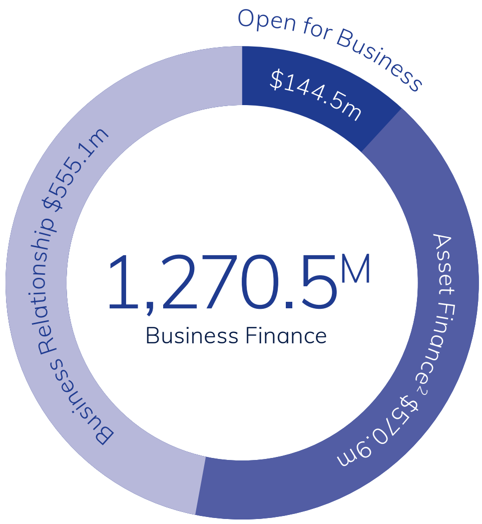
$3.2B
Retail deposits

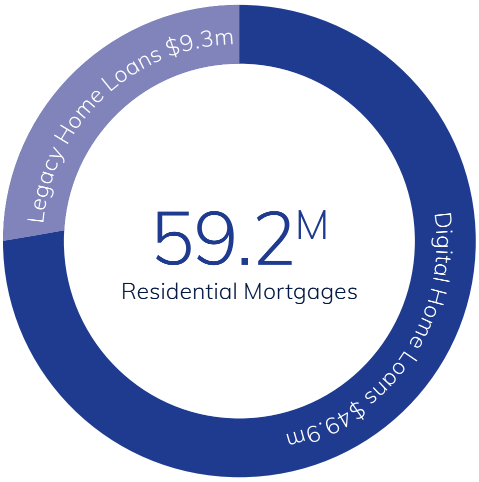
$1.0B
Securitisation facilities

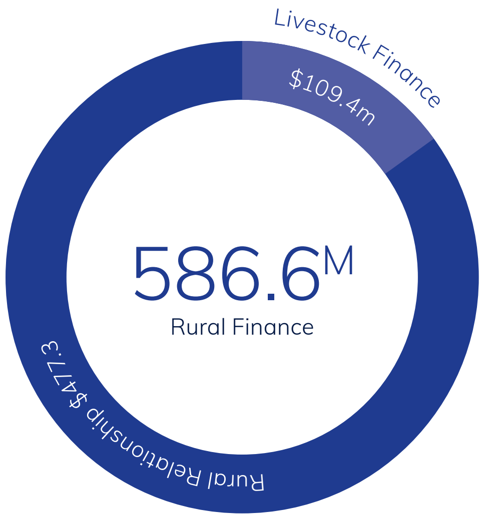
$0.5B
Unsubordinated bonds

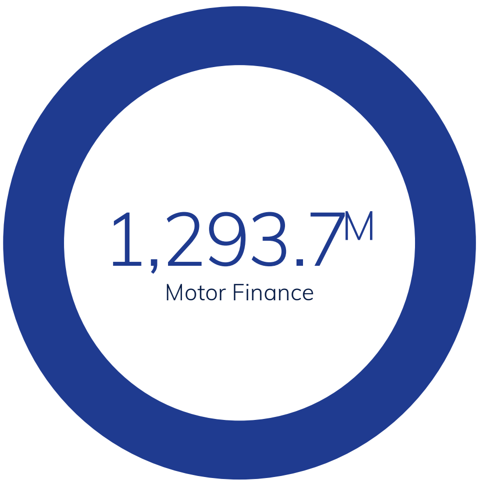
OUR LENDING[1]

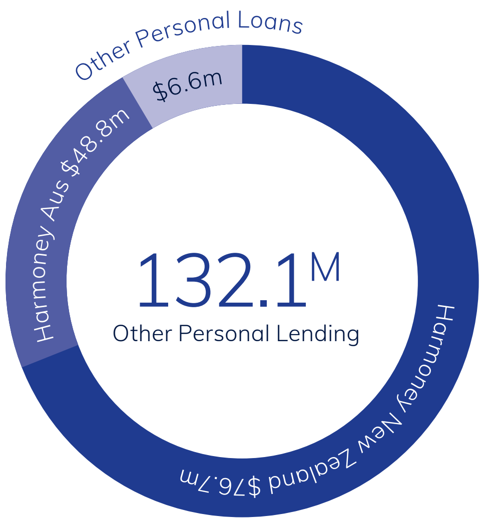












[1] All lending portfolio figures exclude FX impact.

[2] Previously referred to as Business Intermediated.

Heartland Group Board
Poari o te Hono Heartland

From left to right:

JEFFREY GREENSLADE
CEO and Executive Director
Appointed 19 July 2018
Committee memberships: N/A

GEOFFREY RICKETTS (CHAIR)
Chair and Independent Non-Executive Director
Appointed 31 October 2018
Committee memberships: Heartland Audit and Risk Committee, Heartland Corporate Governance, People, Remuneration and Nominations Committee (Chair)

ELLEN COMERFORD
Independent Non-Executive Director
Appointed 31 October 2018
Committee memberships: Heartland Audit and Risk Committee (Chair)

SIR CHRISTOPHER MACE
Independent Non-Executive Director
Appointed 31 October 2018
Committee memberships: Heartland Audit and Risk Committee

GREGORY TOMLINSON (DEPUTY CHAIR)
Non-Executive Director
Appointed 31 October 2018
Committee memberships: Heartland Corporate Governance, People, Remuneration and Nominations Committee

As at the date of this Annual Report.

For full profiles, visit
shareholders.heartland.co.nz

Heartland Bank Board

Poari o te Pēke Heartland

Pictured on pages 23-24:

JEFFREY GREENSLADE
Executive Director
Appointed 31 December 2015
Committee memberships: N/A

GEOFFREY RICKETTS
Independent Non-Executive Director
Appointed 31 December 2015
Committee memberships: Heartland Bank Audit Committee

As at the date of this Annual Report.

For full profiles, visit **shareholders.heartland.co.nz**

BRUCE IRVINE (CHAIR)
Independent Non-Executive Director
Appointed 31 December 2015
Committee memberships:
Heartland Bank Audit Committee,
Heartland Corporate Governance, People,
Remuneration and Nominations Committee[1]

[1] Refer to page 45 for information on Bruce Irvine's membership of the Heartland Corporate Governance, People, Remuneration and Nominations Committee.

EDWARD JOHN HARVEY
Independent Non-Executive Director
Appointed 31 December 2015
Committee memberships:
Heartland Bank Audit Committee (Chair),
Heartland Bank Risk Committee

KATHRYN MITCHELL
Independent Non-Executive Director
Appointed 29 March 2019
Committee memberships:
Heartland Bank Risk Committee

SHELLEY RUHA
Independent Non-Executive Director
Appointed 1 January 2020
Committee memberships:
Heartland Bank Risk Committee (Chair),
Heartland Bank Audit Committee

Strategic Management Group
Hono Whakahaere Rautaki

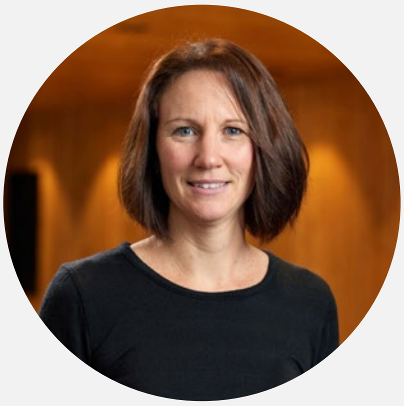
As at the date of this Annual Report.

For full profiles, visit
shareholders.heartland.co.nz

JEFF GREENSLADE
CEO, Heartland Group Holdings Limited

CHRIS FLOOD
CEO, Heartland Bank Limited

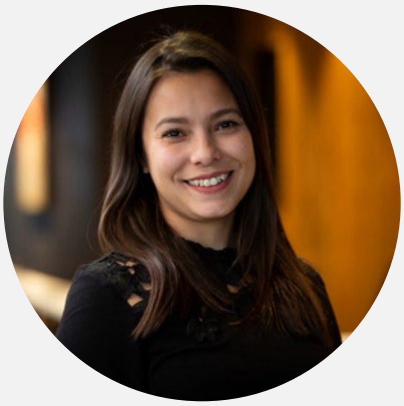
KEIRA BILLOT
Chief People & Brand Experience Officer



LAURA BYRNE
Chief Operating Officer

ANDREW DIXSON
Chief Financial Officer

MICHAEL DRUMM
Chief Risk Officer



LYDIA ZULKIFLI
Chief Digital Officer

Bringing our values to life
Te whakaora i ō mātou tikanga

Each year, Heartland is proud to welcome talented Māori and Pasifika rangatahi to join its Manawa Ako internship programme. In accordance with the Māori concept of 'ako' (to learn and to teach), the programme is designed to enable the interns to learn from their experience at Heartland, and for Heartland to learn from the interns – particularly in relation to the way in which we can continue to develop a welcoming and inclusive workplace culture and environment for Māori and Pasifika.

Mahi tika: Do the right thing

Whakataukī: Kia tika, kia pono. Do what's right and true.

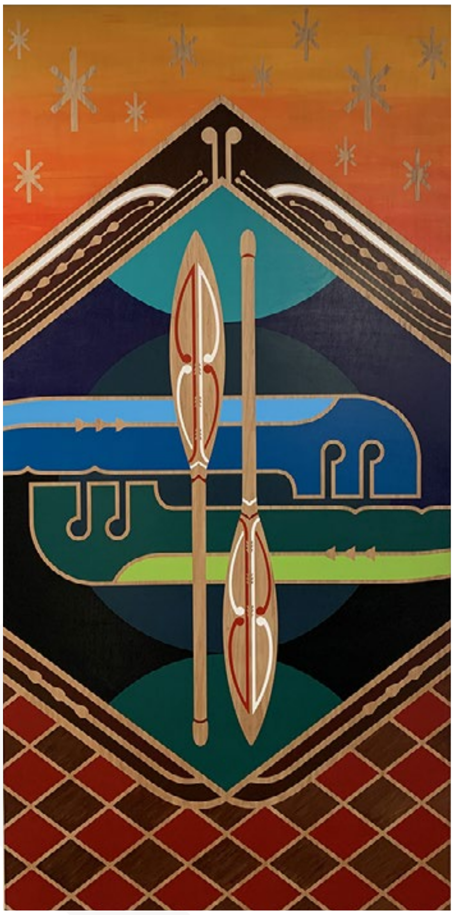
Symbol: Pātiki (flounder).

Do what's right for your whānau and the wider community, even if that means fishing for flounder at night while others sleep.

This artwork symbolises the many obstacles we may face in order to make the right choices to meet our aspirations and the needs of those we serve. This is represented by the kōhine (girl) looking up at the mountain ahead of her. The korowai (cloak) around her portrays the responsibilities she carries of her whānau and the wider community as she ventures off on her challenging path.

Following the work of the previous year's cohort, interns from the 2020/2021 intake worked with New Zealand artist Shane Hansen to create a series of four murals that represent Heartland's mātāpono (values). These are mahi tika (do the right thing), mahi tahi (be one team), mahi toa (have big ambition) and mahi tipu (be always evolving).

The meaning behind each value, its corresponding whakataukī (proverb) and symbolism has been carefully woven into the artworks which are now on display within our Teed Street, Newmarket, Auckland office and serve as reminders to uphold and live our mātāpono.



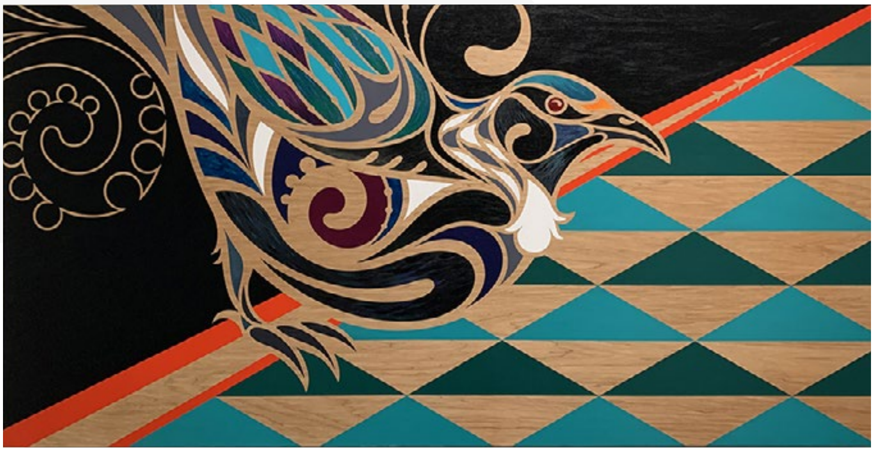
Mahi tahi: Be one team

Whakataukī: He waka eke noa. We're all in this together.

Symbol: Purapura whetū (stars).

Leverage the power of the team. If everyone in the waka is paddling and working together, it will go a lot faster and be a lot more efficient.

Everyone at Heartland has a part to play in our continued success. The hoe (paddles/oars) as the central focus in this artwork represents the coming together of all Heartland employees to paddle in the same direction. The blue and green 'hands' behind the hoe depict Ranginui and Papatūānuku, the Sky Father and Earth Mother in the creation story, demonstrating the need for us to acknowledge the world around us in order to grow.



Mahi toa: Have big ambition

Whakataukī: Tū whitia te hopo. Feel the fear and do it anyway.

Symbol: Niho taniwha (teeth of the taniwha).

Have big ambitions. Like a chief's lineage from the gods and the realm of mythology – if we can dream it, we can do it.

One of New Zealand's native birds, the tūī often symbolises strength and resilience in Māori culture, with significant connection to tribal chiefs. In this piece, the tūī depicts the strength and courage required to face your fears or the unknown. The koru behind the manu (bird) signifies a new beginning – it is time for one to spread their wings and be ambitious in the pursuit of their goals.

Mahi tipu: Be always evolving

Whakataukī: *Whāia te iti kahurangi. Strive for excellence.*

Symbol: *Poutama (steps/stairway).*

Embrace learning and evolving, even when it feels challenging. The stepped pattern signifies the growth of people, striving ever upwards to prosperity.

This artwork represents growth. The blossom on the left signifies the beginning of our journey, with much growth ahead before we flourish. The three kete (baskets) of knowledge through the centre symbolise the way in which Heartland provides for its employees – in the same way the baskets were obtained in the pursuit of knowledge. Finally, the eels to the right, swimming both up and downstream, depict the long journey eels go on to find a suitable habitat. The larger eel in the bottom right corner represents the growth experienced by the eels through their journey, and the growth we too can experience as we continue to strive for excellence.

Diversity Report
Pūrongo Aronga Rau

Tukua kia tū takitahi ngā whetū o te rangi
Let each star shine its own light

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

In order to articulate our commitment to diversity, Heartland has a Diversity and Inclusion Policy. The Diversity and Inclusion Policy is available on our shareholder website shareholders.heartland.co.nz

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

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

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

Current measurable objectives

- To improve the inclusiveness of our workplace by increasing cultural awareness and celebrating diversity in all of its forms.

- To achieve a gender balance at all levels of the organisation and work towards ensuring diverse ethnicities are represented throughout the organisation.

- To be a workplace where Māori can succeed as Māori and thereby create a pathway to being an employer that is welcoming to all cultures and ethnicities.

- To be a workplace and financial service that understands and welcomes sexuality and gender diversity.

The following sections demonstrate the progress made against these measurable objectives during the 2021 financial year.

To improve the inclusiveness of our workplace by increasing cultural awareness and celebrating diversity in all of its forms

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


Diversity & Inclusion Committee

Heartland's Diversity & Inclusion Committee is a forum for our people to come together and share ideas to measure, celebrate and promote diversity and inclusion. The Committee reports to the Board on diversity related matters, including Heartland's progress towards achievement of the measurable objectives.

The Diversity & Inclusion Committee coordinated a number of events throughout the year to celebrate and recognise times of cultural significance, including Christmas, Eid, Diwali, Lunar New Year, Matariki, and Māori Language Week. For Māori Language Week 2020, we partnered with Reo Whairawa to create a webinar on how to incorporate te reo Māori into online meetings. The webinar was made available to the wider finance sector with over 244 participants from 35 different organisations.

A 'Pasifika week' event was held in October 2020, creating an opportunity for our people to better understand the richness our Pasifika people bring to Aotearoa, for example Samoan is the third most spoken language in Aotearoa. This event was also the impetus for the creation of Heartland's Kainga Pasifika group who now lead initiatives that represent our Pacific nations.

In order to create awareness and inclusion in a wider sense, we also held events celebrating Mental Health Awareness Week, Movember, NZ Sign Language Week and Men's Health Week.

During the year, we became the National Foundation for Deaf and Hard of Hearing's (**NFD**) first ever Hearing Accredited workplace. This initiative has helped us become more aware of the experiences of those affected by hearing loss and to be more inclusive for our customers and employees who are deaf or hard of hearing.

Actions undertaken to earn Hearing Accreditation

- Two hearing accredited workplace workshops delivered to Heartland employees that covered hearing health, deaf awareness and basics in New Zealand Sign Language.
- Free hearing tests for all employees.
- Implementing Loud & Quiet Zone posters in all offices.
- Sharing career opportunities at Heartland with the NFD.
- Completion of workplace noise risk assessments.

Looking ahead, we will continue to improve our communication and practices in these areas to improve the experience for our customers and employees with hearing loss.

To achieve a gender balance at all levels of the organisation and work towards ensuring diverse ethnicities are represented throughout the organisation

Heartland continues to identify and address gender imbalances at all levels. The following table shows the gender diversity of directors and employees of Heartland in both New Zealand and Australia as at 30 June 2021 and 30 June 2020.

	As at 30 June 2021				As at 30 June 2020			
Positions	**Female**	**Male**	**Not Stated**	**Total**	**Female**	**Male**	**Not Stated**	**Total**
Board - Heartland	1 (20%)	3 (60%)	1 (20%)	5	1 (20%)	3 (60%)	1 (20%)	5
Board - Heartland Bank	2 (33.33%)	4 (66.67%)	0	6	3 (43%)	4 (57%)	0	7
Strategic Management Group	4 (50%)	4 (50%)	0	8	4 (44%)	5 (56%)	0	9
People in Key Leadership	14 (41.18%)	20 (58.82%)	0	34	16 (46%)	19 (54%)	0	35
All staff	269 (52.54%)	241 (47.07%)	2 (0.39%)	512	261 (52%)	231 (46%)	8 (2%)	500

We continued our partnership with Global Women during the year, enabling Heartland to access best practice trends and opportunities and to collaborate with other organisations that are leading diversity and inclusion in New Zealand.

There is a strong commitment from the Board to furthering our gender diversity objective. The following table summarises the Directors' participation in diversity forums and the aims of each of these forums.

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

We are now focused on recruiting and promoting women into more senior roles and ensuring proactive in-role development of women. We are encouraged by the representation of women in the Strategic Management Group and continue to seek to understand how we can maintain a gender balance as our workplace demographic evolves. For our employees aged 30 and under, the gender balance is encouraging, with 47% reporting as male and 53% reporting as female. We've invested in the individual development of female talent, including 56% of our Rangatahi (Youth) Advisory Board members being female which provides a rich development ground for future leaders.

Another way in which we foster gender diversity at Heartland is through Kia Eke, a group created to help aspiring female leaders at Heartland further develop their confidence and leadership aspirations. One of the main goals of Kia Eke is to grow a diverse set of female leadership from within the organisation. In FY2021, we welcomed a new cohort of 10 women from a range of different business units and locations into the programme. To date, our Kia Eke members have attended workshops and coaching sessions held by inspiring female leaders covering topics such imposter syndrome and how to find balance in ambition.

Heartland continues to support flexible working with a formal policy in place and people leaders being encouraged to take an open-minded approach to requests for flexible working, reinforcing the benefits to Heartland and its customers by providing flexibility to employees who value it. Whilst we see this as one of the many ways in which we can attract and retain women in more senior roles in the organisation, the benefits of having a flexible working policy extend


Kia Eke

beyond fostering a gender balance – it is also aligned to Heartland's objective to be a more generally diverse and inclusive workplace. Giving all employees flexibility enables them to access personal pursuits such as sport, community work, religious celebrations or care for family members.

To be a workplace where Māori can succeed as Māori, and thereby create a pathway to being an employer that is welcoming to all cultures and ethnicities

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

Whāia te iti kahurangi is Heartland's framework for providing a workplace and financial service that enables Māori to succeed as Māori. The purpose of Whāia te iti kahurangi is to support the work we do with Māori, te reo Māori, and customary practices. It is used as a reference point for our people on operational issues and to support the inclusion of an indigenous perspective around the work that we do. This framework sits alongside our policy documents and is linked to various business operations to ensure it is kept in our line of sight, reflecting its mana.

Our Manawa Ako internship programme also operates to further this objective, with 76 rangatahi participating over the past four years. We have continued our relationship with InZone Education Foundation and a number of secondary schools as part of the programme. This year we will be expanding our iwi partnerships, bringing a new perspective for the ākonga (interns) to identify opportunities to learn about the sector and return those learnings to their iwi. Heartland sees the value in the perspectives the ākonga bring to the workplace through their close connection to their identity.

"I was part of the first intake of the Manawa Ako programme at the end of 2017 and have worked at Heartland ever since. Now that I've finished my studies and am working full-time, my team have really helped me grow and develop in my role. I've been able to take on more responsibility and participate in a few Māori leadership opportunities as well."

Payton Taplin - Communications Coordinator

Manawa Whenua Committee

We've also made progress in the way we recruit by developing a new strategy, Iho Pūmanawa, which supports more equitable recruitment and selection outcomes. Partnerships with iwi groups mean that our job opportunities are shared with their iwi members, giving us reach to a wider pool of talent. We are also taking a proactive approach to career development for Māori within the business, including through a cadetship programme called Hīkina, in partnership with Te Puni Kōkiri and Indigenous Growth. During the year, 14 of our people completed Hīkina, with the overarching purpose of the programme being to enable promising and established indigenous leaders to take leadership opportunities and show how their cultural values are transferable and add value to the organisation.

Manawa Whenua, our internal network for Māori employees and allies, has played a pivotal role in driving, guiding, and celebrating Māori initiatives at Heartland and we continue to raise the status of te reo Māori where we can. We acknowledge our role as kaitiaki (guardians or caretakers) of the language and our responsibility to maintain a high standard of reo Māori by engaging recognised proficient translators. Māori language continues to be used in various contexts throughout the business. The increased use of te reo Māori lifts the status of the language, thereby creating a stronger sense of belonging for people who identify as Māori and also for people whose first language is not English.

We were proud to support Reo Whairawa and the Kura Reo Pakihi in Rotorua in April. This is a marae-based Māori language course for the financial and accounting community. Eight people from Heartland attended this two-day event along with people from a wide range of organisations across the sector. It was a great opportunity to stand shoulder to shoulder with others in the industry to collectively support the use and development of te reo Māori. We recognise that we are in a privileged position to be able to have a positive impact on regenerating our indigenous language.

Throughout the year, we have continued our aim to make Heartland and the banking sector more inclusive for Māori. Māori now make up 7% of our Heartland population, despite only 2% of people in the financial and insurance services sector identifying as Māori. We continue to make progress with our younger Māori workforce, with 59% of our employees who identify as Māori being aged 30 and under. This can be attributed to the efforts invested in the Manawa Ako internship programme, with 12 intern alumni currently employed by Heartland. The programme helps to build a workplace where Māori can see a career pathway and establish their career with cultural integrity.

To be a workplace and financial service that understands and welcomes sexuality and gender diversity

Inclusion of our rainbow community is another priority for Heartland. During the year we held two educational workshops facilitated by Rainbow Tick, enabling our people to learn more about our rainbow communities.

We also celebrated Pride Month and supported our people to participate in Sweat with Pride, a fundraising event for the New Zealand AIDS foundation, Rainbow Youth and Outline, being organisations that actively work towards improving mental, physical and sexual health for rainbow communities.

Throughout the year, we continued to work towards achieving the Rainbow Tick and the next step in this journey is for Heartland (with the help of Rainbow Tick) to host group conversations for our Heartlanders who identify with the rainbow community, to discuss what we are doing well and areas where we can continue to improve.

During the year, our Rainbow Committee introduced the option for our people to include pronouns in their email signatures as a way to easily convey the words they would like others to use when being addressed or referred to. We recognise that diversity comes in all forms and the ability to self-identify promotes confidence in bringing your true and authentic self to work.

These actions are only the beginning for our Rainbow Committee as we strengthen our focus towards increasing rainbow awareness and allyship, and being an organisation that understands, welcomes and embraces sexuality and gender diversity. We are confident that our values will be the foundation for total inclusivity.

We are very proud of what we have continued to achieve in FY2021 in embracing and promoting the diversity of our people. We are creating a more welcoming and inclusive workplace where all people are respected and valued. We recognise that all forms of diversity bring different perspectives and expressions of ideas and opinions within the Board, the Strategic Management Group and throughout the organisation, and contribute to Heartland's productivity, profitability and connection with our communities and stakeholders.

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

Kainga Pasifika Committee

Corporate governance
Te urungi ā-rangatōpū

This corporate governance statement describes Heartland's corporate governance policies and practices as at 30 June 2021, and has been approved by the Board.

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

Heartland is pleased to report that, other than in respect of the matter explained in the 'Principle 3 - Board Committees' section below, it was fully compliant with the corporate governance principles contained in the NZX Corporate Governance Code (the **NZX Code**) as at 30 June 2021.

Principle 1 – Code of Ethical Behaviour

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

Codes of Conduct

Heartland's Code of Conduct and Directors' Code of Conduct set out the ethical and behavioural standards expected of the Group's directors, employees and intermediaries. The Codes of Conduct are available on Heartland's shareholder website, shareholders.heartland.co.nz.

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

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

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

Insider Trading Policy

In addition to the prohibition on insider trading, the Group's directors, senior employees and other restricted persons are prohibited from buying or selling the Group's quoted financial products during 'blackout periods' – which are periods that commence 30 days prior to the end of the half-year and the full-year and end once the financial results from the half-year or the full-year have been released to the market. In addition, all of the Group's directors, senior employees and other restricted persons are required to obtain consent before buying or selling the Group's quoted financial products outside of blackout periods, and to certify that their decision to buy or sell has not been made on the basis of inside information.

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

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

Principle 2 – Board Composition and Performance

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

Role of the Board

The Board is responsible for corporate governance and setting the Group's overall strategic direction. The Board charter regulates Board procedure and describes the Board's role and responsibilities in detail, and is available on Heartland's shareholder website, shareholders.heartland.co.nz.

The Board establishes objectives, strategies and an overall policy framework within which the Group's business is conducted.

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

Board processes

The Board held 9 meetings, and the Heartland Bank Board held 9 meetings, during the year ended 30 June 2021. The following table shows attendance by each director at the meetings of the Heartland and Heartland Bank Boards and Committees of which he or she was a member.

	Heartland Board		Heartland Bank Board	
	Attend as Director	Attended as Observer	Attended as Director	Attended as Observer
J K Greenslade	9	-	9	-
E F Comerford	9	-	6[1]	3
E J Harvey	-	9	9	-
B R Irvine	-	9	9	-
C R Mace	9	-	-	8
K Mitchell	-	9	9	-
G T Ricketts	9	-	9	-
G R Tomlinson	9	-	-	8
S M Ruha	-	9	9	-

	Heartland directorships		Heartland Bank directorships	
	Audit & Risk Committee[2]	Corporate Governance, People, Remuneration and Nominations Committee	Audit Committee	Risk Committee
J K Greenslade	4*	5*	1*	-
E F Comerford	7	-	5*	6*
E J Harvey	6*	-	7	6
B R Irvine	6*	5	7	1*
C R Mace	6	-	4*	6*
K Mitchell	-	-	1*	6
G T Ricketts	6	5	7	1*
G R Tomlinson	-	5	-	1*
S M Ruha	2*	-	6**	6

* These meetings were attended by the director as an observer rather than as a member.

** The first three meetings were attended as an observer and the subsequent three as a member.

1 E Comerford resigned from the Heartland Bank Board on 12 March 2021.

2 Heartland's Risk Committee was merged with the Audit Committee in August 2020. These numbers include meetings of the Heartland Risk Committee.

All of the then serving members of the Board, and Heartland Bank Board, attended the Annual Meeting held on 30 November 2020.

Director appointment

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

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

Board membership, size and composition

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

As at 30 June 2021, the Board comprised five directors, being an independent Chairman, the Deputy Chair, the Chief Executive Officer and two non-executive directors. The Board encourages rigorous discussion and analysis when making decisions.

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

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

Board training and performance assessment

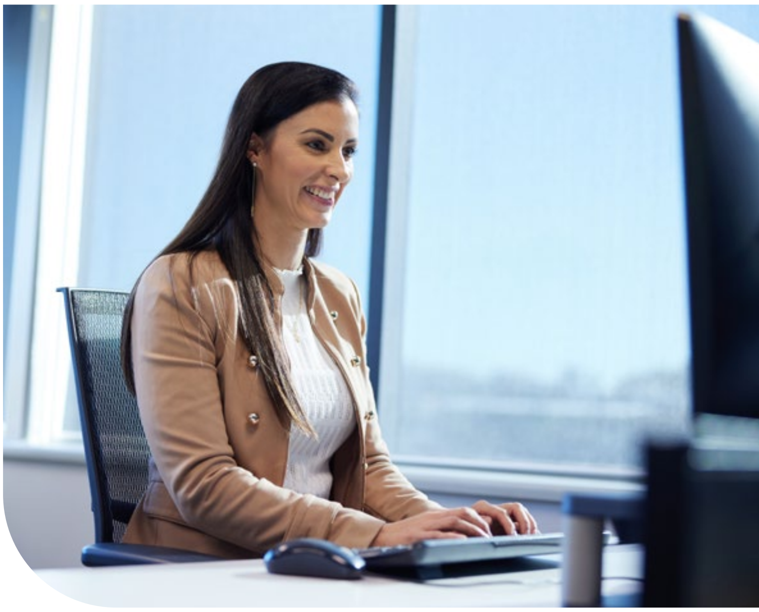
To ensure ongoing education, directors are regularly informed of developments that affect the industry and business environment, as well as company and legal issues that impact the directors themselves. Directors have access to management and any additional information they consider necessary for informed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

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

Diversity and inclusion

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

A discussion of Heartland's Diversity and Inclusion Policy and a report on the measurable objectives which were set for FY2021 is included on page 33 of this Annual Report.



Principle 3 – Board Committees

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

Board Committees

As at 30 June 2021, Heartland had two permanently constituted Board Committees, each of which is tasked with working with management in its specific area of responsibility and reporting its findings and recommendations to the Board. Management attend Committee meetings as required at the invitation of the relevant Committee.

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

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

As at 30 June 2021 Heartland Bank had a permanently constituted Risk Committee and an Audit Committee which are tasked with working with management and reporting their findings and recommendations to the Heartland Bank Board.

Audit & Risk Committee

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

As at 30 June 2021, the members of the Audit & Risk Committee were E F Comerford (Chair), C R Mace and G T Ricketts.

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

- the integrity of financial control, financial management and external financial reporting
- the internal audit function
- the independent audit process
- the formulation of its risk appetite
- to provide the Board with assurance that all risks within the key risk categories which are relevant to the Group have been appropriately identified, managed and reported to the Board.

The Audit & Risk Committee works closely with the Heartland Bank Audit Committee and the Heartland Bank Risk Committee, which have similar responsibilities in relation to Heartland Bank, and their meetings occur consecutively. As at 30 June 2021, the Board determined that all committee members had a recognised form of financial expertise in accordance with the Audit & Risk Committee's charter.

Corporate Governance, People, Remuneration and Nominations Committee

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

As at 30 June 2021, the members of the Corporate Governance, People, Remuneration and Nominations Committee were G T Ricketts (Chair), B R Irvine and G R Tomlinson. Although B R Irvine is a director of Heartland Bank and not Heartland, the Board are of the view that a director of Heartland Bank should be a member of the Corporate Governance, People, Remuneration and Nominations Committee given that the vast majority of employees of the Group are employed by Heartland Bank. B Irvine, as Chairman of Heartland Bank, represents Heartland Bank's position in that regard. Accordingly, Heartland has not strictly complied with recommendation 3.3 of the NZX Code as the majority of the Committee are not independent directors of Heartland. Instead, the Committee has one independent director of Heartland and one independent director of Heartland Bank but, as described above, the Board considers this appropriate for Heartland.

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

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

Takeovers Response Manual

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

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

Principle 4 – Reporting and Disclosures

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

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

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

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

Audit & Risk Committee

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

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

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

Heartland is committed to delivering value for its customers, shareholders, employees, communities, partners and intermediaries. This is the third year that Heartland has reported against a Corporate Social Responsibility Framework in order to provide more detailed information on the value created for Heartland's stakeholders. Refer to page 63 of this Annual Report.

Principle 5 – Remuneration

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

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

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

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

The full Remuneration Policy is available on Heartland's shareholder website at shareholders.heartland.co.nz. Heartland's Corporate Governance, People, Remuneration and Nominations Committee (**the Committee**) is kept up to date with relevant market information and best practice, obtaining advice from external advisors when necessary. Heartland has used PriceWaterhouseCoopers as a consultant for advice on various remuneration activities including, but not limited to, the structure of its long-term incentive schemes and the valuation of the performance rights under these schemes.

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

Non-executive directors' remuneration

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

Heartland's policy is to pay directors' fees in cash. There is no requirement for directors to take a portion of their remuneration in shares and nor is there a requirement for directors to hold shares in Heartland. However, as at 30 June 2021, a number of the directors held shares, or a beneficial interest in shares, in Heartland (see the Directors' disclosures section of this Annual Report for further details).

Senior executive remuneration

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

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

Disclosure of the CEO's remuneration is included in the Directors' disclosures section from page 51 of this Annual Report.

Principle 6 – Risk Management

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

Risk management

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

Health and safety

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

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

In the year ended 30 June 2021, there have been no notifiable events to report to WorkSafe New Zealand.

Principle 7 – Auditors

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

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

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

The external auditor monitors its independence and reports to the Audit & Risk Committee bi-annually to confirm that it has remained independent in the previous six months, in accordance with Heartland's External Auditor Independence Policy and the external auditor's policies and professional requirements. There have been no threats to auditor independence identified during the year ended 30 June 2021.

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

Principle 8 – Shareholder Rights & Relations

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

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

- periodic and continuous disclosure to NZX and ASX
- information provided to analysts and media during briefings
- Heartland's shareholder website shareholders.heartland.co.nz
- the Annual Meeting, at which shareholders have the opportunity to ask questions
- annual reports.

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

Directors' disclosures
Puakanga kaitohutohu

Directors

The following persons were directors of Heartland and its subsidiaries during the year ended 30 June 2021.

Company	Directors	Status
Heartland Group Holdings Limited	Geoffrey Thomas Ricketts	Independent Director (Chair)
	Gregory Raymond Tomlinson	Non-Independent Director (Deputy Chair)
	Ellen Frances Comerford	Independent Director
	Jeffrey Kenneth Greenslade	Executive Director
	Christopher Robert Mace	Independent Director
Heartland Bank Limited	Bruce Robertson Irvine	Independent Director (Chair)
	Ellen Frances Comerford	Independent Director (resigned 12/3/2021)
	Jeffrey Kenneth Greenslade	Non-Independent Director
	Edward John Harvey	Independent Director
	Shelley Maree Ruha	Independent Director
	Kathryn Mitchell	Independent Director
	Geoffrey Thomas Ricketts	Independent Director
ASF Custodians Pty Limited	Richard Glenn Udovenya	
	Jeffrey Kenneth Greenslade	
Australian Seniors Finance Pty Limited	Jeffrey Kenneth Greenslade	
	Christopher David Andrew Cowell	
	Andrew Peter Dixson	
	Sharon Susan Yardley	
	Grant Stuart Kemble	Appointed 06/07/2020 and resigned 31/03/2021

Company	Directors	Status
Heartland Australia Holdings Pty Ltd	Jeffrey Kenneth Greenslade	
	Christopher David Andrew Cowell	
	Andrew Peter Dixson	
	Sharon Susan Yardley	
	Grant Stuart Kemble	Appointed 06/07/2020 and resigned 31/03/2021
Heartland Australia Group Pty Ltd	Jeffrey Kenneth Greenslade	
	Christopher David Andrew Cowell	
	Andrew Peter Dixson	
	Sharon Susan Yardley	
	Grant Stuart Kemble	Appointed 06/07/2020 and resigned 31/03/2021
Heartland NZ Trustee Limited	Philippa Rosemary Drury	
	Christopher Patrick Francis Flood	
Heartland PIE Fund Limited	Jeffrey Kenneth Greenslade	
	Bruce Robertson Irvine	
Marac Insurance Limited	Andrew James Aitken	
	Christopher Patrick Francis Flood	
	Christopher Robert Mace	
	Sarah Elizabeth Ann Smith	Resigned 01/04/2021
VPS Properties Limited	Christopher Patrick Francis Flood	

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

Interests register

The following are the entries in the Interests Register of Heartland (and its subsidiaries) made during the year ended 30 June 2021.

Indemnification and insurance of directors

Heartland has given indemnities to, and has effected insurance for, directors of Heartland and its subsidiaries to indemnify and insure them in respect of any liability for, or costs incurred in relation to, any act or omission in their capacity as directors, to the extent permitted by the Companies Act 1993. The cost of the insurance premiums to the Group for the year ended 30 June 2021 was $240,270 (including GST).

Share dealings by directors

Details of individual directors' share dealings as entered in the Interests Register of Heartland under Section 148(2) of the Companies Act 1993 during the year ended 30 June 2021 are as follows (all dealings are in ordinary shares unless otherwise specified):

E J Harvey

Date of acquisition/ disposal	Nature of relevant interest	Acquisition/disposal	No. of shares	Consideration
9 October 2020	Allotment under DRP	Acquisition	2,517	$3,887.41
16 March 2021	Allotment under DRP	Acquisition	2,836	$5,114.80

J K Greenslade

Date of acquisition/ disposal	Nature of relevant interest	Acquisition/disposal	No. of shares	Consideration
9 December 2020	Transfer of Shares	Disposal	1,993,078	

B R Irvine

Date of acquisition/ disposal	Nature of relevant interest	Acquisition/disposal	No. of shares	Consideration
9 October 2020	Allotment under DRP	Acquisition	2,355	$2,936.74
9 October 2020	Allotment under DRP	Acquisition	8,167	$10,184.05
16 March 2021	Allotment under DRP	Acquisition	2,654	$4,786.56
16 March 2021	Allotment under DRP	Acquisition	9,203	$16,597.86

S Ruha

Date of acquisition/ disposal	Nature of relevant interest	Acquisition/disposal	No. of shares	Consideration
6 October 2020	Ordinary Shares	Acquisition	38,523	$50,079.90
7 October 2020	Ordinary Shares	Acquisition	58,450	$77,738.50
8 October 2020	Ordinary Shares	Acquisition	17,550	$23,341.50
3 November 2020	Ordinary Shares	Acquisition	36,477	$49,243.95
16 March 2021	Allotment under DRP	Acquisition	3,116	$5,619.79

K Mitchell

Date of acquisition/ disposal	Nature of relevant interest	Acquisition/disposal	No. of shares	Consideration
3 November 2020	Ordinary Shares	Acquisition	15,243	$20,000.00
4 November 2020	Ordinary Shares	Acquisition	7,795	$10,000.00
9 November 2020	Ordinary Shares	Acquisition	3,747	$5,000.00
12 November 2020	Ordinary Shares	Acquisition	7,391	$10,000.00
13 November 2020	Ordinary Shares	Acquisition	7,391	$10,000.00
1 April 2021	Ordinary Shares	Acquisition	2,864	$4,982.99
6 April 2021	Ordinary Shares	Acquisition	2,880	$4,982.99
6 April 2021	Ordinary Shares	Acquisition	2,897	$4,982.99
7 April 2021	Ordinary Shares	Acquisition	2,880	$4,983.02

General notice of disclosure of interests in the interests register

Details of any changes to Heartland and Heartland Bank directors' general disclosures entered in the relevant interests register under Section 140 of the Companies Act 1993 during the year ended 30 June 2021 are as follows:

E J Comerford	Appointed director to Airtasker Limited from 1 February 2021 and Lendi Group Pty Ltd from 3 May 2021. Appointed director to Auscred Ltd from 31 August 2020 and ceased directorship from 2 May 2021.
E J Harvey	No amendments for year ended 30 June 2021.
B R Irvine	Ceased directorship of Original Foods Limited from 2 November 2020, House of Travel ESP Trustee Limited from 23 December 2020 and Limeloader Irrigation Limited from 2 February 2021.
C R Mace	No amendments for the year ended 30 June 2021.
K Mitchell	No amendments for year ended 30 June 2021.
G T Ricketts	Appointed director to MCF Amplify Limited from 2 December 2020, MCF3 Green Limited from 12 April 2021 and MCF3 E&P Holdco Limited from 24 June 2020. Ceased directorship of MCF2 Nexus Limited from 1 December 2020, MCD 7 Limited from 1 December 2020, MCF 8 Limited from 1 December 2020, MCF 9 Limited from 1 December 2020 and The New Zealand Centre for Independent Studies Limited from 21 June 2021.
S M Ruha	Appointed director to Hobson Wealth Holdings Limited from 10 December 2020, Analey Investments Limited from 16 February 2021, TaxGift Limited from 28 April 2021 and Hobson Wealth Partners Limited from 17 May 2021.
G R Tomlinson	Appointed director to Tomlinson Group Argenta GP Limited from 19 February 2021. Ceased directorship of The Icehouse Limited from 27 November 2020, Impact Capital Limited from 21 December 2020, Argenta Limited from 9 March 2021, Forte Health Limited from 29 March 2021 and Forte Health Group Limited from 29 March 2021.
J K Greenslade	No amendments for year ended 30 June 2021.

Details of Heartland Bank directors' general disclosures entered in the relevant interest register under Section 140 of the Companies Act 1993 prior to 1 July 2020 can be found in earlier Annual Reports.

Specific disclosures of interest in the interests register

There were no specific disclosures of interests in transactions entered into by Heartland or its subsidiaries (including Heartland Bank) during the period 1 July 2020 to 30 June 2021.

Information used by directors

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

Heartland and Heartland Bank Directors' relevant interests

Director	Number of ordinary shares – beneficial	Number of ordinary shares – non-beneficial[1]	Number of options
J K Greenslade	1,993,078	Nil	Nil
E J Harvey	140,265	6,475,976	Nil
B R Irvine	586,377	6,475,976	Nil
C R Mace	14,337,489	6,475,976	Nil
G T Ricketts	13,267,285	6,475,976	Nil
G R Tomlinson	58,392,997	Nil	Nil
S Ruha	154,116	Nil	Nil
K Mitchell	53,088	Nil	Nil

1 The non-beneficial interest in the 6,475,976 shares arises from those directors being a trustee of the Heartland Trust, which held 6,475,976 shares in Heartland as at 30 June 2021.

Directors' remuneration

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

The table below sets out the fees payable to the non-executive directors of Heartland for the year ended 30 June 2021 based on the position(s) held.

Board/committee[2]	Position	Fees (per annum)
Board of Directors	Chair Member	$150,000 $100,000
Heartland Audit & Risk Committee	Chair Member	$15,000 Nil
Heartland Bank Audit Committee	Chair Member	$15,000 Nil
Heartland Bank Risk Committee	Chair Member	$15,000 Nil
Corporate Governance, People, Remuneration and Nominations Committee Nominations	Chair Member	$15,000 Nill

The total remuneration and value of other benefits[3] received by each non-executive director who held office in Heartland and/or any of its subsidiaries during the year ended 30 June 2021 is set out in the following table. Directors' fees exclude GST where appropriate.

1 On 4 October 2018, NZX granted Heartland a waiver from Rule 3.5.1, to the extent that this Rule requires the Directors' Remuneration Pool to be authorised by an Ordinary Resolution of Heartland (as opposed to Heartland Bank).

2 If a director sits on both the Heartland and Heartland Bank boards, they are only entitled to receive one fee.

3 In addition to these amounts, Heartland meets costs incurred by directors, which are incidental to the performance of their duties. This includes providing directors with telephone concessions and paying the cost of directors' travel. As these costs are incurred by Heartland to enable directors to perform their duties, no value is attributable to them as benefits to directors for the purposes of the tables included in this report.

		Heartland directorships		Heartland Bank directorships			
Director	**Board fees**	**Audit & Risk Committee[4]**	**Corporate Governance, People, Remuneration and Nominations Committee**	**Audit Committee**	**Risk Committee**	**Other**	**Total remuneration**
E F Comerford	$100,000	$15,000	-	-	$2,500[5]	-	$117,500
E J Harvey	$100,000		-	$15,000	-	-	$115,000
B R Irvine	$150,000		-	-	-	-	$150,000
K Mitchell	$100,000		-	-	-	-	$100,000
C R Mace	$100,000		-	-	-	-	$100,000
G T Ricketts	$150,000		$15,000	-	-	-	$165,000
S M Ruha[6]	$100,000		-	-	$12,500	-	$112,500
G R Tomlinson	$100,000		-	-	-	-	$100,000
			Subsidiary directorships				
A J Aitken	$32,000[7]			-	-	-	$32,000
E F Comerford	A$50,000[8]		-	-	-	-	$53,805
P Drury	$20,000[9]			-	-	-	$20,000
C R Mace	$15,000[10]			-	-	-	$15,000
R G Udovenya	A$30,000[11]						$32,283
Total							**$1,113,088[12]**

Remuneration and/or other benefits from the company and its subsidiaries to executive directors

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

4 Heartland Audit & Risk Committee commenced from 31 August 2020.

5 Resigned as Chair of the Heartland Bank Risk Committee with effect from 31 August 2020.

6 Commenced as Chair of the Heartland Bank Risk Committee from 31 August 2020.

7 Fees paid to A J Aitken as a director of MARAC Insurance Limited.

8 Fees paid to E F Comerford by Heartland Australia Group Pty Limited and Heartland Australia Holdings Pty Limited (E F Comerford resigned as a director from 26 July 2019 but still receives fees in return for consultancy services provided to those companies).

9 Fees paid to P Drury as a director of Heartland NZ Trustee Limited.

10 Fees paid to C R Mace as Chair of MARAC Insurance Limited.

11 Fees paid to R G Udovenya as a director of ASF Custodians Pty Limited.

12 For the purposes of this table, A$ fees have been converted to NZ$ using an exchange rate of $1.07610.

STI scheme

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

LTI schemes

Set out below is a summary of the grants made to the CEO under LTI schemes relating to the financial year ended 30 June 2021.

Performance Rights Plan – FY2021 Grant

Under the Performance Rights Plan – FY2021 Grant, the CEO was issued performance rights which, subject to continuous employment except in limited circumstances and achievement of certain financial measures, specified culture and conduct measures and key strategic objectives over the period commencing 1 July 2020 and ending on 30 June 2023, were to vest into up to one share in Heartland. The Board subsequently extended the performance period to end on 30 June 2024.

The Scheme Rules provide flexibility to adjust the relevant performance hurdles, including in order to account for changes during the performance period. This feature, in conjunction with the other features of the Performance Rights Plan, ensures that the FY2021 Grant will vest only if, and to the extent, that sustainable shareholder value is created during the performance period.

CEO remuneration disclosures

In the year ended 30 June 2021, the CEO received a fixed salary, a variable remuneration component comprising STI, and other benefits as detailed in the below tables. The tables also show a comparison between the year ended 30 June 2020 and the year ended 30 June 2021 and a summary of the CEO's total remuneration over the last five financial years.

This year, Heartland has presented the summary using both the cost to Heartland (being the accounting cost) of all current LTI grants made to the CEO, and also the value of the awards which actually vested and were referable to the relevant financial year (being the amount of remuneration actually received by the CEO in relation to service during the relevant financial year). The accounting cost of all current LTI grants differs from the value of the awards which actually vested. This is because the accounting cost of a grant is determined at the time the grant is made, reflects the uncertainty around whether the relevant performance criteria will be met, and is spread over the entire performance period of that grant. There are no LTI grants which vested in respect of FY2021.

CEO remuneration (FY2021 and FY2020)

Financial year ended	Salary	Benefits[13]	At risk pay			Total
			STI	LTI		
30 June 2021	$989,200	$10,800	$1,000,000	**Cost to Heartland in FY2021**	$650,666[14]	$2,650,666
				Benefit to CEO attributable to FY2021	$0	$2,000,000
30 June 2020	$989,200	$10,800	$956,512	**Cost to Heartland in FY2020**	$87,520[15]	$2,044,032
				Benefit to CEO attributable to FY2020	$0	$1,956,512

13 Motor vehicle

14 Cost of FY2018/2019 grant spread over the three-year service period (noting that this grant was amended, and has effectively been spread over its five-year service period). Also includes cost of FY2021 grant spread over its four-year service period.

15 This amount is net of a pre-existing reserve which had been built up pre-FY2020. Including the reserve, the total accounting cost of the grants would have been $309,180.

Five-year summary of total CEO remuneration

As noted above, this year Heartland has presented the below summary using the value of the awards which actually vested during the relevant financial year, the cost to Heartland as reflected in its accounts during that financial year and the remuneration actually received by the CEO in relation to service during the relevant financial year.

Financial year ended	Percentage STI against maximum	Value of LTI awards vested in that financial year	Percentage LTI vesting against maximum[16]	Span of relevant LTI performance period	Annual LTI cost to Heartland in that financial year	LTI benefit to CEO attributable to that financial year
30 June 2021	100%	$0	N/A	N/A	$650,666[17]	$0
30 June 2020	96%	$0	N/A	N/A	$87,520[18]	$0
30 June 2019	45%	$1,379,161	100%	FY2019[19]	$683,552[20]	$950,713[21]
30 June 2018	90%	$736,489	100%	FY2018[22]	$683,552[23]	$736,489[24]
30 June 2017	100%	$736,489	100%	FY2017[25]	$475,589[26]	$736,489[27]

Breakdown of CEO At Risk Pay (FY2020)

	Description	Performance measures	Percentage achieved
STI	Up to 100% of base salary based on the achievement of financial and non-financial performance expectations.	Based on achievement of financial and non-financial performance expectations.[28]	100%
LTI	N/A	N/A	N/A

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

17 Cost of FY2018/2019 grant spread over its three-year service period (noting that this grant was amended, and has effectively been spread over its five-year service period). Also includes cost of FY2021 grant spread over its four-year service period.

18 This amount is net of a pre-existing reserve which had been built up pre-FY2020. Including the reserve, the total accounting cost of the grants would have been $309,180.

19 The service period for the Senior Executive Scheme shares which are being treated as vesting in FY2019 was FY2019. However, the FY2017 grant spanned FY2017-FY2019.

20 The accounting cost of the Senior Executive Scheme, the FY2018/2019 grant and the FY2017 grant spread over their respective service periods.

21 Includes the value of the Senior Executive Shares attributable to FY2019. Also includes the value of the FY2017 grant which vested in full. The full amount of this vesting was $642,672, however it was referable to a three-year service period. One third ($214,224) was referable to FY2019.

22 The service period for the Senior Executive Scheme shares which are being treated as vesting in FY2018 was FY2018.

23 The accounting cost of the Senior Executive Scheme, the FY2018/2019 grant and the FY2017 grant spread over their respective service periods.

24 Includes the value of the Senior Executive Shares attributable to FY2018.

25 The service period for the Senior Executive Scheme shares which are being treated as vesting in FY2017 was FY2017.

26 The accounting cost of the Senior Executive Scheme and the FY2017 grant spread over its service periods.

27 Includes the value of the Senior Executive Shares attributable to FY2017.

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

CEO Grant under Performance Rights Scheme (FY2021 Grant)

Type of scheme interest	Basis of award	Face value of award and % of award vesting at threshold	Length of vesting period	Summary of performance measures and targets
Performance rights (2021 Grant)	A number of performance rights equal to 200% of FY2020 base salary divided by the Heartland volume weighted average share price on the date of issue.	$2,000,000 face value. 100% vesting on full achievement of performance measures or partial vesting depending upon the extent to which performance measures were met.	16 October 2020 to the date falling 20 business days following the date on which Heartland announces its full year results for the year ending 30 June 2024.	Continued employment and achievement of certain financial performance, culture and conduct, and strategic objectives during the vesting period.

Summary of Heartland's TSR performance (30 June 2016 – 30 June 2021)

The above total shareholder return (**TSR**) performance graph is provided to aid comparability between Heartland's performance and the remuneration information provided in this section. TSR has been calculated as at the end of the five-year period to 30 June 2021, including the benefit of imputation credits. A comparison is shown against the NZX50 Index which measures the performance of the 50 largest eligible stocks listed on the NZX Main Board by float-adjusted market capitalisation.

CEO remuneration as a multiple of staff remuneration

The CEO's salary as a multiple of the staff average is 10.5 times (FY20: 10.7 times), and his total remuneration as a multiple of the staff average is 25.9 times (FY20: 19.76 times).

Executive remuneration
Utu tumu whakarae

The number of employees of Heartland and its subsidiaries (including former employees), other than directors, who received remuneration, including non-cash benefits, in excess of $100,000 during the year ended 30 June 2021 is set out in the remuneration bands detailed below.

Remuneration	Number of employees
$100,000 - $109,999	21
$110,000 - $119,999	17
$120,000 - $129,999	34
$130,000 - $139,999	22
$140,000 - $149,999	17
$150,000 - $159,999	10
$160,000 - $169,999	10
$170,000 - $179,999	3
$180,000 - $189,999	5
$190,000 - $199,999	2
$200,000 - $209,999	3
$210,000 - $219,999	1
$220,000 - $229,999	3
$230,000 - $239,999	3
$240,000 - $249,999	1
$250,000 - $259,999	3
$260,000 - $269,999	2
$280,000 - $289,999	3
$290,000 - $299,999	3
$300,000 - $309,999	1
$330,000 - $339,999	1
$340,000 - $349,999	1
$350,000 - $359,999	1
$370,000 - $379,999	1
$380,000 - $389,999	1
$390,000 - $399,999	1
$400,000 - $409,999	1
$410,000 - $419,999	1
$560,000 - $569,999	1
$570,000 - $579,999	2
$630,000 - $639,999	1
$920,000 - $929,999	1
$980,000 - $989,999	1
Grand total	**178**

Our sustainability journey
Tō mātou hinonga whakaukauka

As an organisation trusted by thousands of customers and shareholders across New Zealand and Australia, Heartland has a corporate responsibility to ensure its business is operating in a way that's sustainable for our communities, the environment and our stakeholders.

Through our sustainability framework, which sets out the three key pillars of our sustainability strategy, Heartland achieved significant milestones in FY2021 and set further goals for the coming year.

Mahi tika Do the right thing.

Kia tika, kia pono – do what's right and true. In the spirit of 'Mahi tika', Heartland is working towards ambitious sustainability targets across the organisation. By making sustainability a strategic priority, we're doing our part to protect the planet, serve our people and communities, and improve economic outcomes for our stakeholders."

Laura Byrne - Chief Operating Officer

Environmental conservation

Acting as kaitiaki of our natural environment

Reducing our direct impact on the environment.	**Creating an internal culture of environmental awareness and conscientiousness.**	**Creating business practices that support good environmental outcomes.**

Our FY2021 achievements

- GHG emissions reduced from 1,157 tCO2e in FY2019, to 955 tCO2e in FY2020.
- Published ambitious GHG emissions reduction targets.
- Reduced the size of our vehicle fleet and began evaluating options to transition to a primarily hybrid and electric fleet.
- Contracted for certified renewable energy for all of our New Zealand electricity consumption.
- Established an internal Green Team to champion environmental initiatives and drive change.

Our goals for the year ahead

- Undertake an official waste audit to determine how we can reduce the environmental impact of our wastage.
- Promote and encourage our people to commute sustainably.
- Continue our transition towards digitalising paper-based customer letters and lowering our vehicle emissions.
- Begin to trial a number of sustainable lending projects.

Social equity

Caring for our people, customers and communities

Ensuring our conduct and culture drives fair outcomes for our customers.	Making a positive difference in our communities.	Creating and fostering internal and external cultures of diversity and inclusivity.

Our FY2021 achievements

- Completed our Conduct and Culture Work Plan.
- Developed our new Iho Pūmanawa recruitment strategy.
- Became New Zealand's first Hearing Accredited Workplace.
- Increased the proportion of Māori employees at Heartland by over 3%.

Our goals for the year ahead

- Complete the final steps to achieve the Rainbow Tick.
- Continue our work towards achieving gender balance at all levels of the organisation.
- Evaluate the diversity of our current supply chain and consider ways to support a more diverse network.

Economic prosperity

Creating sustainable economic outcomes for our stakeholders

Positively contributing to the New Zealand and Australian economies.	Enhancing economic outcomes for customers through digitalisation.	Creating sustainable economic value for our shareholders.

Our FY2021 achievements

- Launched Rocket, an app for school leavers designed to bridge financial literacy gaps in New Zealand.
- Developed a self-serve online home loan application, reducing the cost of onboarding and thereby providing cost-savings for customers in the form of market-leading rates.
- Built multiple app features designed to create a frictionless in-app experience and save customers valuable time and energy.
- Paid a total dividend of 11.0 cents per share, despite RBNZ restrictions on dividends by banks.

Our goals for the year ahead

- Present Rocket to 10+ schools in FY2022.
- Promote Heartland's values amongst our new and existing supply chain partners as part of an updated Procurement Policy.
- Continue our digitalisation work to save customers time while offering competitive rates.

Environmental conservation
Te atawhai ā-taiao

HIGHLIGHTS

955 tCO2e
GHG emissions in FY2020, reduced from 1,157 tCO2e in FY2019

By 2025, we aim to reduce GHG emissions from the FY2019 baseline by **35%**

7%
decrease in the size of Heartland's vehicle fleet

503
trees planted on behalf of Heartland employees as part of Christmas gift

POTENTIAL IMPACT OF DIGITALISING THE SIGNING OF DOCUMENTS BY CUSTOMERS

328,004
sheets of paper saved

39
trees protected

132,854 L
water conserved

13,390 kg
CO2 emissions averted

878 kg
waste avoided

Heartland's ambitious Greenhouse Gas emissions reduction targets

Heartland is a proud member of the Climate Leaders Coalition, working with other Kiwi organisations to limit global warming within 2°C of pre-industrial levels. During FY2021, Heartland formulated and published our GHG emissions reduction targets which go a step further than what is outlined in the Paris Agreement, aiming to keep global temperatures within 1.5°C.

During FY2021, the carbon reporting for our FY2019 baseline year was independently audited by Toitū Envirocare, and minor corrections and methodology improvements have now been incorporated.

Heartland's mandatory GHG emissions reported for FY2020 were 955 tCO2e, of which 406.4 tonnes are direct emissions (Scope 1), 87.5 tonnes are from electricity indirect emissions (Scope 2) and 461 tonnes are indirect Scope 3 emissions. This is an absolute reduction of 17% from the 1,157 tCO2e reported for FY2019, plus a significant reduction per business unit once the growth in the overall business is considered. The reduction can be attributed to both the initial activities in our emissions reduction plan, as well as the inadvertent reduction in our travel emissions due to COVID-19.

As we begin actively working to reduce our emissions, we encourage interested parties to find out more about sustainability at Heartland by visiting shareholders.heartland.co.nz (see the About Heartland menu item on the website). Here you can read more about the specifics of our GHG emissions reduction targets, as well as updates on our sustainability initiatives moving forward.

Optimising our vehicle fleet

Heartland's vehicle fleet allows our lending relationship managers to visit customers and intermediaries across New Zealand. Since the beginning of FY2021, we've worked to reduce our fleet size by 7%, which alone could decrease our carbon emissions by as much as 32.2 metric tonnes of CO2 per year. We will continue to identify opportunities to decrease our fleet size over the next financial year.

In addition, we are in the process of reviewing the types of vehicles that currently make up Heartland's fleet and which are candidates for replacement. We are currently creating a full transition plan for multiple Heartland locations, including the installation of charging stations, which we will begin to implement throughout FY2022.

Launching the Green Team

FY2021 saw the creation of an internal Green Team, made up of Heartland employees with a passion for environmental conservation and the drive to implement change across the business. The Green Team has been split into focus groups, each looking into how Heartland can make sustainable changes to waste management, commuting habits, customer communications, properties and more.

One project in progress is the switching of fluorescent lights for LED lights in the Newmarket, Auckland offices, which house over half of Heartland's people. This project has the potential to reduce our annual CO2 emissions by 4 tonnes and our power consumption by 41,000kWh.

Looking forward to FY2022

In addition to the achievements above, over the last financial year, Heartland has laid the foundation for other exciting initiatives that we aim to bring to fruition. The Green Team will be spearheading multiple initiatives, including undergoing a waste audit, installing composting methods and setting an overall waste reduction target, as well as looking into a new environmentally friendly commuting incentive programme.

Green Team

Social equity
Te tōkeke ā-hapori

GRANTED BY THE HEARTLAND TRUST[1]

$448,183

8

new members appointed to the Rangatahi (Youth) Advisory Board

7.1%

of Heartlanders identify as Māori, compared with 2.3% industry average

3

new internal groups and committees formed, including Kainga Pasifika (Pasifika Committee)

Became New Zealand's first Hearing Accredited Workplace

Read more about Heartland's diversity initiatives on page 33.

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

Completing our Conduct and Culture Work Plan

As part of cultivating a sustainable business, Heartland has a core focus on maintaining good conduct and culture in everything we do. Heartland launched its Conduct and Culture Work Plan in FY2020, following the recommendations that came out of the 2018 Financial Markets Authority and RBNZ conduct and culture review. The plan was then completed in 2021, including the following key initiatives.

- Published Manawa-Taki, an internal digital resource that is central to providing good outcomes for our customers.
- Improved tools and reporting for customer feedback.
- Created an alert in our core banking system to help identify vulnerable customers and mitigate possible issues before they occur.
- Launched a quality assurance programme to review phone calls and identify areas where we can improve our services.

Supporting our communities through the Heartland Trust

Through the Heartland Trust (the **Trust**), we support a number of organisations, clubs and schools. The Trust is funded by dividends paid by its Heartland shareholding. Despite the RBNZ's dividend restrictions in FY2021 reducing the amount of funding received, the Trust was able to make grants totalling $448,183 in areas like education, arts and culture, sport and wellbeing. The Trust's criteria were recently reviewed to better align with Heartland's mātāpono (values) and strategic objectives, leading to the addition of two new sponsorship pillars to allow the Trust to more readily support initiatives which foster environmental conservation and promote mental health.

The Trust is proud to be a long-term supporter of the InZone Education Foundation (**InZone**), which aims to enhance the educational outcomes of Māori and Pasifika youth by providing hostels in high performing school zones. Heartland's Manawa Ako internship programme was developed from our relationship with InZone. A number of InZone students have participated in the programme and are now working in permanent roles at Heartland, or have continued to tertiary education.

Read more about Manawa Ako and our Manawa Ako alumni in the Diversity Report on page 33.

The Trust has maintained many of its other existing sponsorships, including four boys' rugby teams and three girls' rugby teams, as well as Auckland University's Kupe Leadership Scholarship, Lifeline, Auckland Writers Festival and WORD Christchurch Festival.

Fostering a diverse group of leaders at Heartland

Heartland recognises the benefits of cultivating leadership skills earlier on in women's careers, in particular because a number of the female leaders within the Strategic Management Group grew into those roles over time. We have recently welcomed a new cohort to Kia Eke, a group created to help women at Heartland build confidence and ambition. The programme for 2021 includes sessions on imposter syndrome, developing people leadership skills and learning from Heartland's female directors.

Heartland also aims to grow a culturally diverse group of leaders from within the organisation. In April 2021, 14 people graduated from Hīkina, Heartland's Māori leadership programme with Indigenous Growth Limited. The programme was designed to encourage Māori employees to take leadership opportunities, and demonstrate how their cultural values are transferable and add value to the organisation.

In FY2020, Heartland acknowledged the importance of diversifying the perspectives of its strategic leadership by creating the Rangatahi Advisory Board, a group of employees aged 35 and under. Their purpose is to diversify the perspectives of Heartland's Senior Management Group, and ultimately the Board, by providing unique insights on our people and customers to enhance Heartland's strategic initiatives. In FY2021, the Rangatahi Advisory Board accepted eight new members of different genders, cultures, backgrounds and business areas who contribute their perspectives and experience towards Heartland's strategy.

Looking forward to FY2022

Over the coming year, one of our main focuses in the social equity space will be on working towards achieving gender balance at all levels of the organisation – this includes growing more female leaders, ensuring our hiring processes are equitable, and creating a space for gender diverse people to be represented in the workplace. This is described within the Diversity Report from page 36.

Another area on which we'll be focusing is our supply chain and the diversity of our partners. The first step will be evaluating Heartland's current supply chain to determine how diverse it is – from there, we will begin looking into ways we can support a more diverse and inclusive network. For example, supporting more female or Māori-owned businesses.

Economic prosperity
Te tōnuitanga ohaoha

HIGHLIGHTS

$200m

approved from Home Loans online applications received during FY2021

$188m

loaned to consumers and businesses through Heartland Extend

Rocket
Powered by
HEARTLAND

270 students and school leavers introduced to financial literacy app Rocket

"My daughter came home enthusiastic and engaged about the presentation. She was able to clearly explain it to me and has already used it to plan for her next steps at university and long-term travel goals."

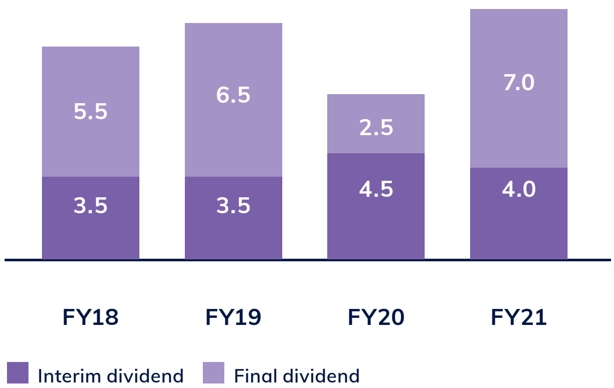
– St. Dominic's College parent

DELIVERING SHAREHOLDER VALUE

107.2%

total shareholder return over the last five years (20 August 2016 – 20 August 2021)

Dividend per share (cents per share)



Bridging financial literacy gaps

In FY2021, Heartland built and launched its financial literacy app called Rocket, designed to help school leavers become familiar with important financial concepts as they step into the real world. The Rangatahi Advisory Board held 15 workshops at secondary schools around Auckland during the second half of FY2021, presenting to hundreds of students on banking basics and demonstrating how the app works.

The response from students and parents has been positive, with a number of learnings resulting from the workshops and impacting the future direction of Rocket. Over the next financial year, the goal is to deliver workshops to at least 10 schools, while continuing to develop our presentations.

Creating a frictionless customer experience

Heartland's vision is to be the service provider that customers find easiest to deal with, which we aim to achieve by digitalising everything we do. We are already in the process of replacing traditionally manual processes, like loan applications and banking transactions, with digital solutions. The benefits of this approach from an economic perspective are twofold.

Firstly, customers can engage with Heartland in the way that best suits them, whether from the Heartland Mobile App, the website or through Heartland Digital. By removing or reducing traditional constraints, such as the requirement to visit a bank branch or call, we're saving precious time for customers.

Secondly, digital solutions have a positive economic impact on Heartland as they significantly reduce the cost to onboard. In some cases, these savings can then be passed on to customers in the form of market-leading rates. A great example of this was the relaunch of Heartland Home Loans in October 2020, where we disrupted the market with the lowest fixed rate in the country at the time. This was made possible because of Heartland's self-serve, online application, which allowed customers to apply on their own time without needing to speak to a mortgage manager or bank representative.

During FY2021, Heartland designed, built and released a number of digital updates designed to make the Heartland Mobile App even better for customers to use, and to increasingly allow customers to self-serve. Some of these included the ability to personalise the app, open some accounts end-to-end within the app as a new customer, set automatic regular payments and transfers, self-reset their password, download documents and more.

Delivering sustainable economic value for shareholders

Heartland continued to deliver positive economic outcomes for shareholders despite the economic challenges presented by COVID-19, including the RBNZ restrictions on dividends by banks. After the easing of RBNZ restrictions, we were pleased to be able to pay a final dividend of 7.0 cents per share (**cps**), bringing our total dividend in respect of FY2021 to 11.0 cps.

In addition to this, Heartland delivered total shareholder return (**TSR**) of 107.2% for the five-year period 20 August 2016 - 20 August 2021, compared with the NZX50 Index TSR of 81.9% in the same period, while also delivering growth in earnings per share (**EPS**) (up 2.4 cps to 14.9 cps).[1]

Looking forward to FY2022

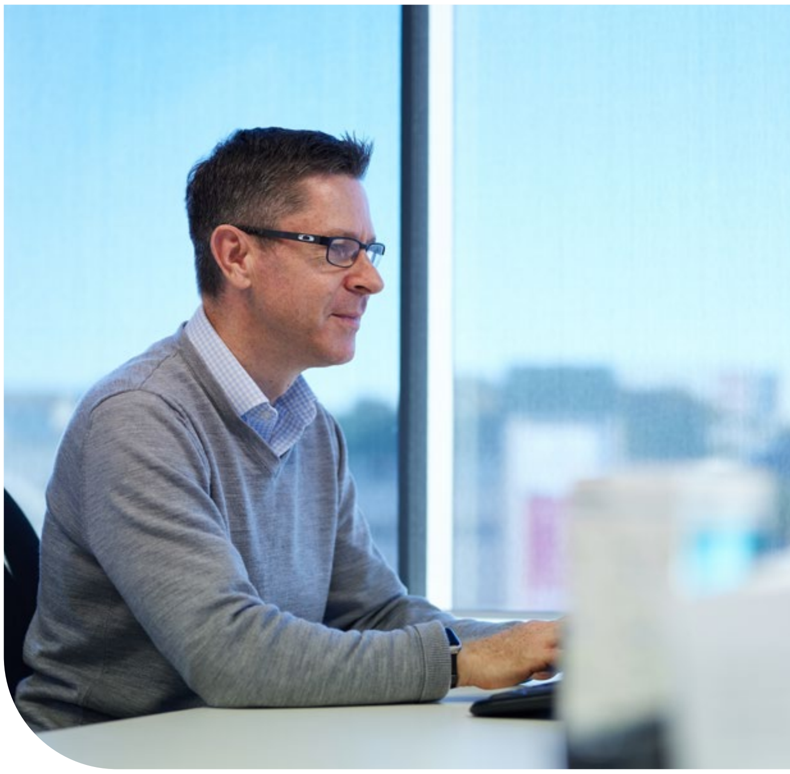
Over the next financial year, Heartland aims to solidify the strategic direction of the Rocket app and determine market fit. We will also continue running financial literacy presentations with our established pilot schools with whom we can work to continue to develop our presentations. In addition to this digital solution for financial literacy, Heartland will continue exploring other ways to streamline traditionally manual banking processes through digitalisation. In doing so, we can save our customers valuable time while lowering the cost to onboard, which can then lead to further cost savings for customers in the form of low rates.

Heartland's sustainability efforts have the potential to reach even further if we're able to use our spending power to influence our customers and partners to follow our lead. One of our goals for FY2022 is to update our Procurement Policy to tie it more closely with our sustainability framework. The updated framework will put processes in place for promoting Heartland's values amongst our new and existing supply chain partners. By doing so, we can enable positive economic outcomes for businesses that share our commitment to sustainability, as well as increase our shared impact.

1 Underlying EPS was 15.1 cps, up 1.8 cps from FY2020.

Financial commentary
Whakawākanga ahumoni

Heartland Group Holdings Limited (Heartland) (NZX/ASX: HGH) is pleased to announce a net profit after tax (NPAT) of $87.0 million for the financial year ended 30 June 2021 (FY2021), an increase of $15.1 million (20.9%) compared with the financial year ended 30 June 2020 (FY2020)[1]. On an underlying[2] basis, FY2021 NPAT was $87.9 million, an increase of $11.0 million (14.3%) compared with the FY2020 underlying NPAT.



Financial position

Total assets increased by $359.5 million (6.8%) during FY2021, driven by a $371.8 million (8.0%) increase in Receivables.

Receivables growth was experienced primarily in Motor, Australian Reverse Mortgages, Asset Finance[3], Business Relationship, digital Home Loans and New Zealand Reverse Mortgages, partly offset by decreases in Harmoney and other personal lending, Rural Relationship, Open for Business (**O4B**) and Livestock. Momentum in lending and a strong pipeline supported growth in the second half of FY2021 (**2H2021**) of $312.4 million (13.4%)[4], a significant uplift from $59.3 million (2.5%)[5] in the first half of FY2021 (**1H2021**).

Borrowings[6] increased by $326.5 million (7.2%). Funding other than deposits increased $407.2 million, mainly driven by an increase in wholesale and securitised funding. This resulted in deposits decreasing $80.7 million.

Net assets increased by $61.7 million to $761.7 million. Net tangible assets (**NTA**) increased by $68.3 million to $678.4 million, resulting in an NTA per share of $1.16 (30 June 2020: $1.05).

Profitability

NPAT was $87.0 million, a $15.1 million (20.9%) increase on FY2020. Underlying NPAT was $87.9 million, a $11.0 million (14.3%) increase on FY2020.

Return on equity (**ROE**) was 11.9%, up 144 basis points (**bps**) from FY2020. Underlying ROE was 12.0%, up 86 bps from FY2020.

Earnings per share (**EPS**) was 14.9 cents per share (**cps**), up 2.4 cps from FY2020. Underlying EPS was 15.1 cps, up 1.8 cps from FY2020.

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1 All comparative results are based on the audited full year consolidated financial statements of the Group for FY2020.

2 Underlying results exclude the impacts of one-offs. Refer to 'Profitability' for details about FY2021 one-offs. A detailed reconciliation between reported and underlying financial information is set out on page 33 of the FY2021 full year results investor presentation. General information about the use of non-GAAP financial measures is set out on page 2 of that presentation.

3 Previously referred to as Business Intermediated.

4 Annualised 2H2021 growth including the impact of changes in FX rates.

5 Annualised 1H2021 growth including the impact of changes in FX rates.

6 Includes retail deposits and other borrowings.

FY2021 one-offs included in the reported result

1. Fair value gain on equity investment in Harmoney Corp Limited (**Harmoney**):[7] A $3.9 million fair value gain was recognised on Heartland's equity investment in Harmoney. Harmoney listed on the ASX, and the NZX as a foreign exempt listing, in November 2020, with approximately 72% of shares (including those owned by Heartland) subject to escrow arrangements. The fair value as at 30 June 2021 takes into consideration the impact of the restriction imposed by the escrow arrangements on observed trading volumes and market prices (including bid and ask spreads) of Harmoney's shares.
2. Fair value gain on investment property: A $0.7 million fair value gain was recognised following updated external valuations received on Heartland Bank's investment property portfolio.
3. Fair value loss on equity investment in Fuelled Limited (Fuelled): A $0.5 million fair value loss was recognised following Heartland Bank acquiring remaining Fuelled shares in April 2021.
4. Voluntarily accelerated amortisation of intangible assets: A $4.3 million expense was recognised, reflecting an acceleration of amortisation of software assets held on the balance sheet.
5. Write-off and provisioning of aged suspense account items: $1.7 million of aged legacy suspense account transactions were written off or provisioned where collectability is uncertain.
6. Other non-recurring expenses: $0.9 million.

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

	Reported			Underlying		
	FY2021	**FY2020**	**Movement**	**FY2021**	**FY2020**	**Movement**
NOI[8] ($m)	251.2	235.3	15.8	247.1	229.8	17.3
Operating expenses	117.7	106.8	10.9	110.8	103.2	7.5
NPAT ($m)	87.0	72.0	15.1	87.9	76.9	11.0
NIM	4.35%	4.33%	2 bps	4.35%	4.33%	2 bps
NIM excl. liquid assets[9]	4.69%	4.59%	10 bps	4.69%	4.59%	10 bps
Cost to income (**CTI**) ratio	46.8%	45.4%	1.5 pps	44.8%	44.9%	(0.1 pps)
Impairment expense ratio	0.31%	0.65%	(34 bps)	0.31%	0.44%	(13 bps)
ROE	11.9%	10.5%	144 bps	12.0%	11.1%	86 bps
EPS	14.9 cps	12.5 cps	2.4 cps	15.1 cps	13.3 cps	1.8 cps

[7] Refer to Note 20 – Fair Value (page 115) in this Annual Report for further detail.
[8] Net operating income (**NOI**) includes fair value gains/losses on investments.
[9] Net interest margin (**NIM**) is calculated based on average gross interest earning assets excluding liquid assets.

Income

Total NOI was $251.2 million, an increase of $15.8 million (6.7%) from FY2020.

Underlying NOI was $247.1 million, $17.3 million (7.5%) higher than FY2020. This was largely due to a $16.8 million (7.8%) increase in NII, driven by $366.2 million (7.3%) higher average interest earning assets in FY2021 than FY2020, and a 2 bps increase in NIM compared with FY2020 to 4.35%.

Underlying other operating income increased by $0.4 million (3.1%) compared with FY2020, primarily due to a higher treasury result.

Expenses

Operating expenses were $117.7 million, an increase of $10.9 million (10.2%) on FY2020. Excluding the impact of one-offs (described above), underlying operating expenses were $110.8 million, $7.5 million (7.3%) higher compared with FY2020.

Higher underlying operating expenses were primarily due to the following:

1. A $6.7 million (12.2%) increase in staff expenses. On average, Heartland employed 63 more full-time equivalent (**FTE**) employees in permanent or fixed term roles compared with FY2020 to provide additional support to customers in response to COVID-19, and to support digital and technology capability, enabling Heartland to accelerate its evolution as a digitally-led financial services group. The teams are now well resourced to deliver on Heartland's strategic objectives, and the number of people employed in response to COVID-19 has been reduced.

2. A $2.1 million (17.1%) increase in IT and communication expenses (as a result of software amortisation and licencing costs for additional FTE).

3. Other non-recurring expenses: $0.9 million.

The CTI ratio increased to 46.8%, up 1.5 percentage points (**pps**) compared with FY2020. The underlying CTI ratio remained flat at 44.8%, a 0.1 pps decrease on prior year. Heartland's continued focus on creating end-to-end processing efficiencies through digitalisation has resulted in the underlying CTI ratio trending downwards in 2H2021, at 43.9% in 2H2021 vs 45.8% in 1H2021.

Impairment expense

Impairment expense was $15.0 million, a $14.4 million decrease (49.1%) on FY2020. On an underlying basis, which excludes the impact of the $9.6 million COVID-19 economic overlay in FY2020, impairment expense was $4.8 million (24.4%) lower than FY2020. This was mainly due to remediation activity in 1H2021 together with retraction in the Harmoney and personal lending portfolios which attract higher rates of provisioning.

Impairment expense in 2H2021 was $10.4 million, a $5.9 million increase on 1H2021, reflecting the benefit of post COVID-19 remediation activity which occurred in 1H2021 together with a return to more normal levels of asset growth and associated provisioning in 2H2021.

Impact of COVID-19

The impact of COVID-19 on Heartland's portfolios has been more benign than initially forecast. Heartland's COVID-19 economic overlay of $9.6 million, taken in respect of FY2020, remains unutilised. However, there remains significant uncertainty. In particular, the continued prevalence of COVID-19 (including the emergence of new variants), vaccination rates, lockdowns in Australia and now in New Zealand, and continued uncertainty regarding when borders will re-open.

Furthermore, economic stimulus has given rise to the potential for inflationary pressures, a steepening interest rate environment, and a higher cost of labour and inputs in the medium term. In the circumstances, a release of the COVID-19 economic overlay is not appropriate at this stage and the overlay has been retained in full.

Business performance

Asset Finance[10]

Asset Finance lending NOI was $28.5 million, an increase of $6.6 million (30.1%) compared with FY2020.

Asset Finance Receivables increased $71.9 million (14.4%) to $570.9 million, reflecting Heartland Bank's focus on this portfolio through deepening and expanding the intermediary network, and distributor/vendor and point of sale support. Strong demand from partners in the transport and logistics sector assisted growth following increased demand in the aftermath of the COVID-19 restrictions.

[10] Previously referred to as Business Intermediated.

Business Relationship

Business Relationship lending NOI was $26.1 million, an increase of $1.0 million (4.1%) compared with FY2020.

Business Relationship Receivables increased $58.7 million (11.8%)[11] to $555.1 million. Through the Government's Business Finance Guarantee Scheme, Heartland supported more than 150 businesses to access over $60 million in funding to meet their business needs. In addition, Heartland Bank also provided a funding facility to Go Car Finance in 2H2021 for its New Zealand loan book. This aligns with its strategy to diversify distribution in motor vehicle finance.

The residual portfolio's continued downward trend reflects Heartland's strategy to reduce non-core low margin Relationship lending or risk concentrations.

O4B

O4B NOI was $14.6 million, a decrease of $0.2 million (1.1%) compared with FY2020.

O4B Receivables decreased $10.8 million (6.9%)[11] to $144.5 million. COVID-19 disruptions and the availability of Government-backed funding for small businesses slowed O4B growth from 2H2020. This trend continued in 1H2021, resulting in O4B Receivables decreasing $14.4 million (9.3%)[11] to $140.7 million.

2H2021 saw growth of $3.6 million in line with improved business confidence and economic sentiment, which is expected to fuel return to pre-COVID-19 levels of growth.

Motor

Motor NOI was $69.2 million, an increase of $8.6 million (14.2%) compared with FY2020. Motor Receivables increased $168.1 million (14.9%) to $1,293.7 million. The growth was mainly from the Motor dealer book via car dealerships, brokers and partnerships such as Kia Finance and Jaguar/Land Rover Financial Services.

In July 2021, a new vehicle finance service iOWN, provided exclusively by Heartland Bank, was launched in partnership with Auto Distributors New Zealand Limited enabling the purchase of a new or used Peugeot or Citroen from authorised dealerships.

Harmoney and other personal lending

Harmoney NOI was $16.6 million, a decrease of $4.8 million (22.4%) compared with FY2020.

Harmoney Receivables decreased by $79.9 million (37.7%)[11], with the New Zealand Harmoney portfolio contracting $69.1 million (47.4%) to $76.7 million, while the Australian Harmoney portfolio decreased by $5.2 million (9.5%)[11] to $48.8 million. Both New Zealand and Australian portfolios continued to contract in FY2021 as a result of high repayments combined with greater utilisation by Harmoney of its own on-balance sheet funding facilities. Heartland is in the latter stages of completing its transition to offer Harmoney on-balance sheet funding facilities in both New Zealand and Australia.

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

Home Loans

Following a successful pilot, Home Loans launched in October 2020 with conservative lending criteria targeting high quality applicants. Loan drawdowns slowed over the summer holiday period in 1H2021, however strong application rates have continued in 2H2021. Online enquiries totalled $895.2 million and more than $200 million was approved from applications received during FY2021.

Growth was supported by Heartland's low and market-leading interest rates. In addition, Heartland launched a new revolving credit home loan product in 2H2021 with the lowest rate in the market at the time. Momentum in the book is pleasing, with the book expected to continue growing beyond the current rate of $12 million a month.

Rural

Rural lending NOI was $32.2 million, an increase of $1.5 million (4.7%) compared with FY2020.

Rural Receivables decreased by $19.0 million (3.1%) to $586.6 million. Rural Relationship Receivables reduced by $13.1 million (2.7%) to $477.3 million, while Livestock Receivables decreased by $5.9 million (5.1%) to $109.4 million. The downward trend reflects Heartland's strategy to reduce non-core low margin Rural Relationship lending.

Whilst in its infancy, the Sheep & Beef Direct platform has seen a pleasing volume of high-quality applications since its launch in late 2020. At 5 August 2021, eligible applications totalled $48.0 million, with $40.5 million approved online and $30.4 million drawn down.

New Zealand Reverse Mortgages

New Zealand Reverse Mortgages NOI was $24.4 million, an increase of $0.9 million (3.6%) compared with FY2020. Excluding the impact of one-offs (described above) from FY2020, underlying NOI increased $0.4 million (1.5%) compared with FY2020.

New Zealand Reverse Mortgages had a record year for new business, up 30.4% from FY2020 where the final quarter (**Q4**) was impacted by COVID-19, and 26.2% ahead of FY2019. Performance was driven by investment in marketing to increase awareness, education and lead nurturing activity, supported by lower interest rates and higher property prices.

Receivables increased by $41.6 million (7.4%) to $601.5 million, impacted by elevated repayments in 1H2021 due to:

- comparatively lower repayments in Q4 of FY2020 with property sales restricted by COVID-19 related lockdowns and the built-up demand associated with this
- a buoyant property market with higher sales volumes.

Australia

Australian Reverse Mortgages NOI was $36.2 million, an increase of $1.9 million (5.5%) compared with FY2020.

Australian Reverse Mortgages Receivables increased by $92.7 million (9.5%)[12] to $1,071.4 million, although impacted by historically high repayments due to a combination of factors, including:

- comparatively lower repayments in Q4 of FY2020 with property sales restricted by COVID-19 lockdowns
- a buoyant property market in 1H2021
- seniors moving in with family and pooling financial resources
- higher value homes being more cost effective to sell and downsize compared with 'average' homes.

Heartland's Reverse Mortgages received support from mortgage aggregators in Australia, including partnerships with Australian Finance Group, Choice Aggregation and PLAN Australia.

Funding and liquidity

New Zealand

Heartland Bank increased borrowings by $94.4 million (2.6%), primarily as a result of an increase in other borrowings of $144.2 million (40.2%) which partly offset a decrease in deposits of $49.7 million (1.5%).

Money market borrowings for short term funding and liquidity management purposes increased by $110.2 million and secured funding increased by $42.6 million.

Heartland Bank continues its focus on reducing risk concentrations in its deposit book while shifting the mix towards lower rate call deposits where Heartland is relatively underweight. This resulted in the call to total deposit ratio increasing to 30% as at 30 June 2021 (30 June 2020: 25%).

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

Heartland Bank's savings products have also received market recognition, being awarded Canstar's Bank of the Year – Savings Award in 2021 (fourth consecutive year), and Canstar's 5-Star Rating for Outstanding Value Savings Account for its Direct Call (sixth consecutive year) and YouChoose accounts (second consecutive year). Heartland Bank also expanded its savings products with the introduction of a 32-day Notice Saver account.

Heartland Bank decreased total liquidity by $99.1 million (13.7%) primarily due to a $72.5 million (18.6%) decrease in investments for liquidity management purposes.

Heartland Bank increased its committed auto warehouse facility from $150 million to $300 million in May 2020, and its target holding of cash and cash equivalents in response to the uncertain economic and liquidity impacts of COVID-19 in 2H2020, which it continued to maintain in 2H2021. As a result, Heartland Bank holds liquidity well in excess of regulatory minimums.

Heartland Bank's capital position has progressively increased during 2H2021, reflecting its continued strong profitability and the RBNZ restrictions on distributions imposed in 2H2020. Heartland Bank's regulatory capital ratio was 13.88% as at 30 June 2021 (30 June 2020: 12.67%), well in excess of regulatory minimums and providing a strong platform for Heartland Bank to meet RBNZ's future higher capital requirements.

Australia

The Heartland Australia group (comprising Heartland Australia Holdings Pty Ltd and its subsidiaries) increased borrowings by A$247.6 million (29.1%), largely as a result of A$36 million further drawdowns of the existing warehouse funding, new issuance of a A$75 million MTN and, in a first-of-its-kind transaction, a A$142 million new long-term mortgage-backed syndicated loan for the Australian Reverse Mortgage business funded by established offshore institutional investors. This transaction achieved another milestone in executing Heartland's strategy to diversify type, source and tenor of its Australian funding and, importantly, evidences market liquidity to existing warehouse funders.

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 MTN issued in July 2021, adding further diversity to the funding base.

Heartland Australia group has access to A$1.25 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.

Financial statements
Tauākī ahumoni

FOR THE YEAR ENDED 30 JUNE 2021

HEARTLAND

General information

These financial statements are issued by Heartland Group Holdings Limited (**HGH**) and its subsidiaries (the **Group**) for the year ended 30 June 2021.

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

Details of incorporation
HGH was incorporated in New Zealand under the Companies Act 1993 on 19 July 2018.

Auditor

KPMG
KPMG Centre
18 Viaduct Harbour Avenue
Auckland

Other material matters

There are no material matters relating to the business or affairs of the Group that are not 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 who resides in Australia. Communications to the Directors can be sent to Heartland Group Holdings Limited, 35 Teed Street, Newmarket, Auckland 1023. At the time of the signing of these consolidated financial statements the Directors of HGH and their details were:

Name: GEOFFREY THOMAS RICKETTS CNZM
Chairman - Board of Directors
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, 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 Resourceco 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.

Name: ELLEN FRANCES COMERFORD
Type of Director: 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 Limited, The Hollard Insurance Company Pty Limited.

Name: SIR CHRISTOPHER ROBERT MACE KNZM
Type of Director: Independent Non-Executive Director

Qualifications: CMInstD
Occupation: Company Director

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

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.

Name: JEFFREY KENNETH GREENSLADE
Type of Director: Non-Independent Executive Director

Qualifications: LLB
Occupation: Chief Executive Officer of HGH

External Directorships: Henley Family Investments Limited.

Directors' statements

The consolidated financial statements are dated 23 August 2021 and have been signed by all the Directors.

G T Ricketts (Chair)

E F Comerford

J K Greenslade

Sir C R Mace

G R Tomlinson

Consolidated statement of comprehensive income

For the year ended 30 June 2021

$000's	Note	June 2021	June 2020
Interest income	3	327,935	346,802
Interest expense	3	94,418	130,129
Net interest income		**233,517**	**216,673**
Operating lease income	4	5,004	5,946
Operating lease expense	4	3,149	4,063
Net operating lease income		**1,855**	**1,883**
Lending and credit fee income		8,090	10,811
Other income	5	3,634	3,882
Net operating income		**247,096**	**233,249**
Operating expenses	6	117,658	106,794
Profit before impaired asset expense and income tax		**129,438**	**126,455**
Fair value gain on investment		4,092	2,097
Impaired asset expense	8	14,974	29,419
Profit before income tax		**118,556**	**99,133**
Income tax expense	9	31,530	27,161
Profit for the year		**87,026**	**71,972**
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		8,940	(2,179)
Movement in fair value reserve		(5,646)	766
Movement in foreign currency translation reserve		(68)	114
Other comprehensive income/(loss) for the year, net of income tax		**3,226**	**(1,299)**
Total comprehensive income for the year		**90,252**	**70,673**
Earnings per share			
Basic earnings per share	10	15c	12c
Diluted earnings per share	10	15c	12c

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 2021

		June 2021				June 2020			
$000's	**Note**	**Share Capital**	**Reserves**	**Retained Earnings**	**Total Equity**	**Share Capital**	**Reserves**	**Retained Earnings**	**Total Equity**
Balance at beginning of year		**576,257**	**(5,500)**	**129,223**	**699,980**	**558,970**	**(4,297)**	**120,995**	**675,668**
NZ IFRS 16 adjustment		-	-	-	-	-	-	(751)	(751)
Restated balance at beginning of year		**576,257**	**(5,500)**	**129,223**	**699,980**	**558,970**	**(4,297)**	**120,244**	**674,917**
Total comprehensive income for the year									
Profit for the year		-	-	87,026	87,026	-	-	71,972	71,972
Other comprehensive income/(loss), net of income tax		-	3,226	-	3,226	-	(1,299)	-	(1,299)
Total comprehensive income for the year		**-**	**3,226**	**87,026**	**90,252**	**-**	**(1,299)**	**71,972**	**70,673**
Contributions by and distributions to owners									
Dividends paid	16	-	-	(37,861)	(37,861)	-	-	(62,993)	(62,993)
Dividend reinvestment plan	16	7,524	-	-	7,524	16,895	-	-	16,895
Transaction costs associated with capital raising		-	-	-	-	(28)	-	-	(28)
Share based payments		-	1,797	-	1,797	-	516	-	516
Shares vested		-	-	-	-	420	(420)	-	-
Total transactions with owners		**7,524**	**1,797**	**(37,861)**	**(28,540)**	**17,287**	**96**	**(62,993)**	**(45,610)**
Balance at the end of the year		**583,781**	**(477)**	**178,388**	**761,692**	**576,257**	**(5,500)**	**129,223**	**699,980**

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 2021

$000's	Note	June 2021	June 2020
Assets			
Cash and cash equivalents		182,333	147,179
Investments	11	377,823	413,340
Investment properties		11,832	11,132
Derivative financial instruments	12	14,139	17,246
Finance receivables	13	3,288,466	3,045,195
Finance receivables - reverse mortgages	13	1,676,073	1,538,585
Operating lease vehicles	14	10,865	17,603
Right of use assets	18	15,985	18,362
Other assets	18	16,815	19,558
Intangible assets	18	69,165	72,813
Deferred tax asset	9	14,117	17,123
Total assets		**5,677,613**	**5,318,136**
Liabilities			
Deposits	15	3,183,454	3,264,192
Other borrowings	15	1,675,133	1,267,931
Tax liabilities		7,440	12,303
Derivative financial instruments	12	4,802	17,012
Lease liabilities	18	18,166	20,456
Trade and other payables	18	26,926	36,262
Total liabilities		**4,915,921**	**4,618,156**
Equity			
Share capital	16	583,781	576,257
Retained earnings and reserves		177,911	123,723
Total equity		**761,692**	**699,980**
Total equity and liabilities		**5,677,613**	**5,318,136**

Total interest earning and discount bearing assets		5,432,181	5,114,348
Total interest and discount bearing liabilities		4,840,310	4,518,174

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 2021

$000's	Note	June 2021	June 2020
Cash flows from operating activities			
Interest received		233,447	258,665
Operating lease income received		5,046	5,934
Lending, credit fees and other income received		4,625	16,037
Operating inflows		**243,118**	**280,636**
Interest paid		(85,058)	(117,313)
Payments to suppliers and employees		(97,205)	(92,861)
Taxation paid		(34,004)	(24,619)
Operating outflows		**(216,267)**	**(234,793)**
Net cash flows from operating activities before changes in operating assets and liabilities		**26,851**	**45,843**
Proceeds from sale of operating lease vehicles		6,821	4,969
Purchase of operating lease vehicles		(1,788)	(9,938)
Net movement in finance receivables		(296,754)	(171,617)
Net movement in deposits		(74,608)	110,993
Net cash flows (applied to) operating activities[1]		**(339,478)**	**(19,750)**
Cash flows from investing activities			
Sale of property, plant and equipment and intangible assets		-	118
Total cash provided from investing activities		**-**	**118**
Purchase of property, plant and equipment and intangible assets		(7,562)	(6,739)
Net decrease/(increase) in investments		23,276	(45,562)
Total cash from/(applied to) investing activities		**15,714**	**(52,301)**
Net cash flows from/(applied to) investing activities		**15,714**	**(52,183)**
Cash flows from financing activities			
Net increase in wholesale funding		309,680	85,795
Proceeds from issue of Unsubordinated Notes		81,801	106,952
Total cash (provided from) financing activities		**391,481**	**192,747**
Dividends paid	16	(30,337)	(46,098)
Payment of lease liabilities		(2,226)	(2,005)
Transaction costs associated with capital raising		-	(28)
Total cash (applied to) financing activities		**(32,563)**	**(48,131)**
Net cash flows from financing activities		**358,918**	**144,616**
Net increase in cash held		**35,154**	**72,683**
Opening cash and cash equivalents		147,179	74,496
Closing cash and cash equivalents		**182,333**	**147,179**

[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 (continued)

For the year ended 30 June 2021

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

$000's	Note	June 2021	June 2020
Profit for the year		**87,026**	**71,972**
Add /(less) non-cash items:			
Depreciation and amortisation expense		14,615	9,161
Depreciation on lease vehicles	14	2,801	3,634
Capitalised net interest income and fee income		(68,755)	(77,429)
Impaired asset expense	8	14,974	29,419
Investment fair value movement		(4,092)	(2,097)
Other non-cash items		(24,538)	2,488
Total non-cash items		**(64,995)**	**(34,824)**
Add/(less) movements in operating assets and liabilities:			
Finance receivables		(296,754)	(171,617)
Operating lease vehicles		5,033	(4,969)
Other assets		3,448	9,528
Current tax		(4,863)	4,771
Derivative financial instruments		(163)	931
Deferred tax		3,006	(7,592)
Deposits		(74,608)	110,993
Other liabilities		3,392	1,057
Total movements in operating assets and liabilities		**(361,509)**	**(56,898)**
Net cash flows applied to operating activities[1]		**(339,478)**	**(19,750)**

[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 2021

1. Financial statements preparation

Reporting entity

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

As at 30 June 2021, 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 financial statements have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand (**NZ GAAP**) and the New Zealand's 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 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 financial statements have been prepared on a going concern basis after considering the Group's funding and liquidity position.

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

Certain comparative 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 investee 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 translation 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 other new or amended standards that are issued and effective that are expected to have a material impact on the Group.

Accounting standards issued but not yet effective

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

MARAC Insurance Limited (**MIL**), a subsidiary of Heartland Bank Limited (**HBL**), no longer conducts insurance business as HBL entered into a distribution agreement with DPL Insurance Limited (**DPL**) to distribute DPL's insurance products through HBL's network. MIL stopped writing insurance policies in the prior year with the last 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 20 - 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 20 - 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.

1. Financial statements preparation (continued)

Estimates and judgements (continued)

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 HBL's borrowers (**COVID Overlay**). The COVID Overlay was sized based on a range of techniques including stress testing, benchmarking, scenario analysis and expert judgement.

To date, the impact of COVID-19 on HBL's borrowers has been more benign than was initially forecast, and the COVID Overlay has not been utilised. However, the continued prevalence of COVID-19 in other countries (including the emergence of new variants), together with vaccination rates and border closures provides an ongoing risk of further economic disruption in New Zealand. Furthermore, Government stimulus has given rise to the potential for inflationary pressures, a steepening interest rate environment, and a higher cost of labour and inputs in the medium term.

Management notes the uncertainties associated with the ongoing economic impacts of COVID-19 and consequently have decided to retain the COVID Overlay in full at this stage.

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

The estimates and judgements considered to apply the COVID Overlay adequately in the ECL on finance receivables at amortised cost is further discussed in Note 8 Impaired asset expense.

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**)	11
Finance receivables – reverse mortgages	FVTPL	13
Finance receivables	Amortised cost	13

1. Financial statements preparation (continued)

Financial assets and liabilities (continued)

Financial Assets (continued)

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 on the principal balance.

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 on the principal balance 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.

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 not 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.

1. Financial statements preparation (continued)

Financial assets and liabilities (continued)

Financial Liabilities (continued)

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 20 - 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.

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.

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

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

The Group's operating segments are different from the industry categories detailed in Note 22 - Credit risk exposure. The operating segments are primarily categorised by sales channel, whereas Note 22 - Credit risk exposure categorises exposures based on credit risk concentrations.

$000's	Motor	Reverse Mortgages	Other Personal	Business	Rural	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 investment	-	-	-	-	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**

2. Segmental analysis (continued)

$000's	Motor	Reverse Mortgages	Other Personal	Business	Rural	Australia	Other	Total
June 2020								
Net interest income	56,957	20,118	18,365	57,950	29,674	30,127	3,482	216,673
Net other income	3,622	3,430	3,055	3,465	1,028	4,214	(2,238)	16,576
Net operating income	**60,579**	**23,548**	**21,420**	**61,415**	**30,702**	**34,341**	**1,244**	**233,249**
Operating expenses	3,248	4,804	6,776	11,283	2,648	11,680	66,355	106,794
Profit/(loss) before impaired asset expense and income tax	**57,331**	**18,744**	**14,644**	**50,132**	**28,054**	**22,661**	**(65,111)**	**126,455**
Fair value gain on investment	-	-	-	-	-	-	2,097	2,097
Impaired asset expense/(benefit)	10,160	-	11,119	10,110	(1,970)	-	-	29,419
Profit/(loss) before income tax	**47,171**	**18,744**	**3,525**	**40,022**	**30,024**	**22,661**	**(63,014)**	**99,133**
Income tax expense	-	-	-	-	-	-	27,161	27,161
Profit/(loss) for the year	**47,171**	**18,744**	**3,525**	**40,022**	**30,024**	**22,661**	**(90,175)**	**71,972**
Total assets	**1,125,295**	**559,934**	**214,759**	**1,126,632**	**604,938**	**979,496**	**707,082**	**5,318,136**
Total liabilities								**4,618,156**

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 2021	June 2020
Interest income		
Cash and cash equivalents	119	499
Investments	6,979	8,496
Finance receivables	232,845	250,606
Finance receivables - reverse mortgages	87,992	87,201
Total interest income	**327,935**	**346,802**
Interest expense		
Deposits	55,273	90,739
Other borrowings	35,609	35,888
Net interest expense on derivative financial instruments	3,536	3,502
Total interest expense	**94,418**	**130,129**
Net interest income	**233,517**	**216,673**

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 2021	June 2020
Operating lease income		
Lease income	3,908	5,194
Gain on disposal of lease assets	1,096	752
Total operating lease income	**5,004**	**5,946**
Operating lease expense		
Depreciation on lease assets	2,801	3,634
Direct lease costs	348	429
Total operating lease expense	**3,149**	**4,063**
Net operating lease income	**1,855**	**1,883**

5. Other income

Policy

Rental income from investment property

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 2021	June 2020
Rental income from investment properties	1,055	1,125
Insurance income	1,096	1,610
Gain on sale of investments	157	-
Other income	1,117	774
FX gain	209	373
Total other income	**3,634**	**3,882**

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 2021	June 2020
Personnel expenses	61,476	54,511
Directors' fees	1,129	1,059
Superannuation	1,535	1,069
Depreciation - property, plant and equipment	2,995	2,380
Legal and professional fees	2,876	3,615
Advertising and public relations	5,138	6,729
Depreciation - right of use asset	2,312	2,324
Technology services	7,262	6,372
Telecommunications, stationery and postage	1,843	1,886
Customer acquisition costs	6,982	7,419
Amortisation of intangible assets	9,308	4,456
Other operating expenses[1]	14,802	14,974
Total operating expenses	**117,658**	**106,794**

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

7. Compensation of auditor

$000's	June 2021	June 2020
Audit and review of the financial statements[1]	790	774
Other assurance services paid to auditor[2]	103	133
Total compensation of auditor	**893**	**907**

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

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

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 through the following stages based on their change in credit quality:

Stage 1 - 12 months ECL (past due 30 days or less)
Where there has been no evidence of increased credit risk since initial recognition, and 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 ECL 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).

$000's	June 2021	June 2020
Non-securitised		
Individually impaired asset expense	9,131	3,385
Collectively impaired asset expense	6,001	25,637
Total non-securitised impaired asset expense	**15,132**	**29,022**
Securitised		
Collectively impaired asset expense	(158)	397
Total securitised impaired asset expense	**(158)**	**397**
Total		
Individually impaired asset expense	9,131	3,385
Collectively impaired asset expense	5,843	26,034
Total impaired asset expense	**14,974**	**29,419**

8. Impaired asset expense (continued)

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. Judgment is required because analysis has been unable to establish any clear correlation between key economic indicators and the credit performance of the Group's unique portfolios.

The onset of COVID-19 caused a deterioration in economic conditions, creating uncertainty regarding the impact on HBL's borrowers over and above the modelled ECL. Accordingly, a COVID Overlay was sized based on a range of techniques (including stress testing, benchmarking, scenario analysis and expert judgement) and adopted by the Group.

The COVID-19 Overlay has not been utilised at this stage. Despite forecasts showing improvements in the economic conditions, new variants of COVID-19 have emerged and vaccination strategies are varied and as yet unproven across a sufficient population. Furthermore, Government stimulus has given rise to the potential for inflationary pressures, a steepening interest rate environment, and a higher cost of labour in the medium term. Management considers that sufficient uncertainty remains such that the COVID Overlay should be retained in full at this stage.

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 2021	June 2020
Income tax recognised in profit or loss		
Current tax		
Current year	30,584	30,868
Adjustments for prior year	(1,854)	1,834
Tax other rates	426	335
Deferred tax		
Current year	1,283	(3,568)
Adjustments for prior year	1,145	(2,289)
Tax other rates	(54)	(19)
Total income tax expense recognised in profit or loss	**31,530**	**27,161**
Income tax recognised in other comprehensive income		
Current tax		
Derivatives at fair value reserve	(2,197)	768
Fair value movements of cash flow hedge	3,457	(1,477)
Total income tax expense recognised in other comprehensive income	**1,260**	**(709)**

Reconciliation of effective tax rate:

$000's	June 2021	June 2020
Profit before income tax	**118,556**	**99,133**
Tax at New Zealand income tax rate of 28%	33,196	27,757
Higher tax rate for overseas jurisdiction	372	316
Adjusted tax effect of items not taxable/deductible	(1,330)	(457)
Adjustments for prior year	(708)	(455)
Total income tax expense	**31,530**	**27,161**

9. Taxation (continued)

Deferred tax assets comprise the following temporary differences:

$000's	June 2021	June 2020
Employee expenses	1,647	1,942
Share based payment	503	692
Provision for impairment	15,097	17,739
Intangibles and property, plant and equipment	(3,816)	(4,576)
Deferred acquisition costs	(475)	(936)
Operating lease vehicles	479	731
Other temporary differences	682	1,531
Total deferred tax assets	**14,117**	**17,123**
Opening balance of deferred tax assets	**17,123**	**9,531**
Movement recognised in profit or loss	(3,006)	7,336
Movement recognised in retained earnings	-	256
Closing balance of deferred tax assets	**14,117**	**17,123**

Imputation credit account

$000's	June 2021	June 2020
Imputation credit account	19,990	5,676

10. Earnings per share

	June 2021			June 2020		
	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	15	87,026	583,467	12	71,972	576,929
Diluted earnings	15	87,026	583,467	12	71,972	576,929

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 and corporate bonds. 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 2021	June 2020
Bank deposits, bank bonds and floating rate notes	351,613	366,289
Public sector securities and corporate bonds	5,543	30,716
Equity investments	20,667	16,335
Total investments	**377,823**	**413,340**

Refer to Note 20 - 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.

12. Derivative financial instruments (continued)

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 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, 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 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.

12. Derivative financial instruments (continued)

$000's	June 2021 Notional Principal	June 2021 Fair Value Assets	June 2021 Fair Value Liabilities	June 2020 Notional Principal	June 2020 Fair Value Assets	June 2020 Fair Value Liabilities
Held for risk management						
Interest rate related contracts						
Swaps	1,121,179	14,122	4,533	1,140,422	17,238	16,938
Foreign currency related contracts						
Forwards	69,525	17	269	237,900	8	74
Total derivative financial instruments	**1,190,704**	**14,139**	**4,802**	**1,378,322**	**17,246**	**17,012**

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 2021, the Group has received $4.09 million of cash collateral (2020: nil) and advanced $0.59 million of cash collateral (2020: nil) against derivative assets and liabilities respectively. The cash collateral received or advanced is not netted off against the balance of derivative assets and derivative liabilities disclosed in the consolidated statement of financial position.

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 ECL 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.

13. Finance receivables (continued)

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

$000's	June 2021	June 2020
Non-securitised		
Neither at least 90 days past due nor impaired	3,140,489	2,945,858
At least 90 days past due	36,882	58,876
Individually impaired	38,143	24,667
Gross finance receivables	**3,215,515**	**3,029,401**
Less provision for impairment	(53,448)	(62,272)
Total non-securitised finance receivables	**3,162,067**	**2,967,129**
Securitised		
Neither at least 90 days past due nor impaired	126,638	78,059
At least 90 days past due	-	404
Individually impaired	-	-
Gross finance receivables	**126,638**	**78,463**
Less provision for impairment	(239)	(397)
Total securitised finance receivables	**126,399**	**78,066**
Total		
Neither at least 90 days past due nor impaired	3,267,128	3,023,917
At least 90 days past due	36,882	59,280
Individually impaired	38,143	24,667
Gross finance receivables	**3,342,153**	**3,107,864**
Less provision for impairment	(53,687)	(62,669)
Total finance receivables	**3,288,466**	**3,045,195**

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.

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	-	-	-	-	-
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)

Movement in provision (continued)

$000's	12 - Month ECL	Lifetime ECL Not Credit Impaired	Lifetime ECL Credit Impaired	Specific Provision	Total
June 2020					
Non-securitised					
Impairment allowance as at 30 June 2019	**30,422**	**1,781**	**18,425**	**7,863**	**58,491**
Changes in loss allowance					
Transfer between stages	(1,190)	(294)	(109)	1,593	-
New and increased provision (net of collective provision releases)	2,901	2,090	25,047	1,792	31,830
Recovery of amounts written off	-	-	(2,808)	-	(2,808)
Credit impairment charge	**1,711**	**1,796**	**22,130**	**3,385**	**29,022**
Recovery of amounts previously written off	-	-	2,808	-	2,808
Write offs	-	(1,438)	(20,705)	(5,947)	(28,090)
Effect of changes in foreign exchange rate	27	4	10	-	41
Impairment allowance as at 30 June 2020	**32,160**	**2,143**	**22,668**	**5,301**	**62,272**
Securitised					
Impairment allowance as at 30 June 2019	**-**	**-**	**-**	**-**	**-**
Changes in loss allowance					
Transfer between stages	(19)	11	8	-	-
New and increased provision (net of collective provision releases)	279	12	106	-	397
Recovery of amounts written off	-	-	-	-	-
Credit impairment charge	**260**	**23**	**114**	**-**	**397**
Recovery of amounts previously written off	-	-	-	-	-
Write offs	-	-	-	-	-
Effect of changes in foreign exchange rate	-	-	-	-	-
Impairment allowance as at 30 June 2020	**260**	**23**	**114**	**-**	**397**
Total					
Impairment allowance as at 30 June 2019	**30,422**	**1,781**	**18,425**	**7,863**	**58,491**
Changes in loss allowance					
Transfer between stages	(1,209)	(283)	(101)	1,593	-
New and increased provision (net of collective provision releases)	3,180	2,102	25,153	1,792	32,227
Recovery of amounts written off	-	-	(2,808)	-	(2,808)
Credit impairment charge	**1,971**	**1,819**	**22,244**	**3,385**	**29,419**
Recovery of amounts previously written off	-	-	2,808	-	2,808
Write offs	-	(1,438)	(20,705)	(5,947)	(28,090)
Effect of changes in foreign exchange rate	27	4	10	-	41
Impairment allowance as at 30 June 2020	**32,420**	**2,166**	**22,782**	**5,301**	**62,669**

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 2021					
Gross finance receivables as at 30 June 2020	2,826,208	183,260	73,729	24,667	3,107,864
Transfer between stages	(103,233)	67,419	13,314	22,499	-
Additions	1,435,408	-	-	955	1,436,363
Deletions	(1,065,730)	(84,886)	(20,337)	(466)	(1,171,419)
Write offs	-	-	(21,142)	(9,512)	(30,655)
Gross finance receivables as at 30 June 2021	**3,092,653**	**165,793**	**45,564**	**38,143**	**3,342,153**
June 2020					
Gross finance receivables as at 30 June 2019	2,799,282	206,882	57,043	26,412	3,089,619
Transfer between stages	(61,191)	12,570	41,245	7,376	-
Additions	1,497,073	87,843	23,610	-	1,608,526
Deletions	(1,402,340)	(118,572)	(37,334)	(3,174)	(1,561,420)
Write offs	(6,616)	(5,463)	(10,835)	(5,947)	(28,861)
Gross finance receivables as at 30 June 2020	**2,826,208**	**183,260**	**73,729**	**24,667**	**3,107,864**

(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 2021	June 2020
Finance receivables - reverse mortgages	1,676,073	1,538,585
Total finance receivables - reverse mortgages	**1,676,073**	**1,538,585**

Note 20 (a) - Financial instruments measured at fair value discloses further information regarding the Group's valuation policy.

Note 22 - 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 2021	June 2020
Cost		
Opening balance	24,098	21,623
Additions	1,788	9,938
Disposals	(9,772)	(7,463)
Closing balance	**16,114**	**24,098**
Accumulated depreciation		
Opening balance	6,495	6,107
Depreciation charge for the year	2,801	3,634
Disposals	(4,047)	(3,246)
Closing balance	**5,249**	**6,495**
Opening net book value	17,603	15,516
Closing net book value	**10,865**	**17,603**

The future minimum lease payments receivable under operating leases not later than one year is $2.141 million (2020: $3.487 million), within one to five years is $1.406 million (2020: $2.053 million) and over five years is nil (2020: 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 2021	June 2020
Deposits	3,183,454	3,264,192
Total deposits	**3,183,454**	**3,264,192**
Unsubordinated Notes	521,399	448,228
Securitised borrowings	1,043,516	819,703
Certificate of deposit	69,853	-
Repurchase agreement[1]	40,365	-
Total other borrowings	**1,675,133**	**1,267,931**

[1] The amounts disclosed as securities sold under arrangements to repurchase include $40.0 million (face value) of high quality liquid assets. The cash consideration received (recognised as a liability) was $40.4 million.

15. Borrowings (continued)

Deposits and unsubordinated notes rank equally and are unsecured.

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

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

At 30 June 2021 the Group had the following securitised borrowings outstanding:

- Heartland Auto Receivables Warehouse Trust 2018-1 securitisation facility $300 million, drawn $108 million (2020: $300 million, drawn $66 million). Notes issued to investors are secured over the assets of the Heartland Auto Receivables Warehouse Trust 2018-1. The facility has a maturity date of 29 August 2022.
- Senior Warehouse Trust securitisation facility AU $600 million, drawn AU $556 million (2020: AU $600 million, drawn AU $544 million). Notes issued to investors are secured over the assets of Seniors Warehouse Trust. The facility has a maturity date of 30 September 2022.
- Senior Warehouse Trust No. 2 securitisation facility AU $250 million, drawn AU $182 million (2020: AU $250 million, drawn AU $160 million). Notes issued to investors are secured over the assets of Seniors Warehouse Trust No. 2. The facility has a maturity date of 1 July 2022.
- Atlas 2020-1 Trust securitisation facility AU $137 million, drawn AU $137 million (2020: nil). Loans issued to investors are secured over the assets of Atlas 2020-1 Trust and has a maturity date of 24 September 2050.

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 2021 Number of Shares	June 2020 Number of Shares
Issued shares		
Opening balance	580,979	569,338
Shares issued - performance rights plan	-	817
Shares issued - dividend reinvestment plan	4,925	10,824
Closing balance	**585,904**	**580,979**

16. Share capital and dividends (continued)

Under dividend reinvestment plans, 2,482,921 new shares were 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 (2020: 7,313,501 new shares were issued at $1.5444 per share on 6 September 2019 and 3,511,020 at $1.5948 on 11 March 2020).

Dividends paid

	June 2021			June 2020		
	Date Declared	Cents Per Share	$000's	Date Declared	Cents Per Share	$000's
Final dividend	17 September 2020	2.5	14,524	15 August 2019	6.5	37,007
Interim dividend	22 February 2021	4.0	23,337	18 February 2020	4.5	25,986
Total dividends paid			**37,861**			**62,993**

17. Other reserves

$000's	Employee Benefits Reserve	Foreign Currency Translation Reserve (FCTR)	Fair Value Reserve	Defined Benefit Reserve	Cash Flow Hedge Reserve	Total
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)**
June 2020						
Balance as at 30 June 2019	838	(4,021)	4,558	171	(5,843)	(4,297)
Other comprehensive income, net of income tax	-	114	766	-	(2,179)	(1,299)
Share based payments	516	-	-	-	-	516
Shares vested	(420)	-	-	-	-	(420)
Balance as at 30 June 2020	**934**	**(3,907)**	**5,324**	**171**	**(8,022)**	**(5,500)**

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 2021	June 2020
Other assets		
Trade receivables	643	1,952
GST receivable	1,763	985
Prepayments	3,699	4,857
Property, plant and equipment	9,061	10,153
Other receivables	1,059	1,611
Collateral paid on derivatives	590	-
Total other assets	**16,815**	**19,558**

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 varies up to 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 2021	June 2020
Computer software		
Cost	44,371	42,534
Accumulated amortisation	20,349	14,864
Net carrying value of computer software	**24,022**	**27,670**
Goodwill		
Cost	45,143	45,143
Net carrying value of goodwill	**45,143**	**45,143**
Total intangible assets	**69,165**	**72,813**

18. Other balance sheet items (continued)

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

- Heartland Australia Holdings Pty Limited: $15.3 million (2020: $15.3 million).
- Heartland Bank Limited: $29.8 million (2020: $29.8 million).

Goodwill is tested for impairment at a cash generating unit (CGU) 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 2021 (30 June 2020: nil). Uncertainty associated with the effects from the COVID-19 pandemic were considered in the impairment tests to determine the resilience of the headroom and no impairment was identified from the assessments.

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 2021	June 2020
Trade and other payables		
Trade payables	11,243	20,657
Insurance liability	3,353	6,094
Employee benefits	7,616	8,223
Other tax payables	623	1,288
Collateral received on derivatives	4,091	-
Total trade and other payables	**26,926**	**36,262**

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.

18. Other balance sheet items (continued)

$000's	June 2021	June 2020
Right of use assets		
Balance at beginning of year	18,362	10,728
Depreciation charge for the year, included within depreciation expense in the income statement	(2,313)	(2,324)
(Terminations)/additions to right of use assets	(64)	9,958
Total right of use assets	**15,985**	**18,362**
Lease liability		
Current	2,339	2,222
Non-current	15,827	18,234
Total lease liability	**18,166**	**20,456**
Interest expense relating to lease liability	**568**	**570**

19. 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).

19. Related party transactions and balances (continued)

(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 2021	June 2020
Transactions with key management personnel		
Interest income receivable	39	18
Interest expense payable	(22)	(47)
Key management personnel compensation		
Short-term employee benefits	(9,384)	(8,814)
Share-based payment expense	(1,797)	(828)
Total transactions with key management personnel	**(11,181)**	**(9,671)**
Due (to)/from key management personnel		
Lending	415	239
Borrowings - deposits	(23,409)	(1,646)
Total due (to) key management personnel	**(22,994)**	**(1,407)**

(b) Transactions with related parties

HGH is the ultimate parent company of the Group.

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

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

19. Related party transactions and balances (continued)

$000's	June 2021	June 2020
Southern Cross Building Society Staff Superannuation (SCBS)		
Interest expense payable to SCBS	12	33
Management fees receivable from SCBS	10	10
ASF Custodians Pty Limited		
Audit fees	7	7
Heartland Trust (HT)		
Dividends paid	421	712

HT held 6,475,976 shares in HGH (2020: 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 2021	June 2020
Southern Cross Building Society Staff Superannuation		
Deposits	1,760	1,934

20. Fair value

Policy

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

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

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

The Group measures fair values using the 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.

20. Fair value (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. Investments in listed equity securities that trade on a liquid, active market (e.g. stock exchange) where quoted prices are readily observable are measured under Level 1 of the fair value hierarchy without adjustment. A liquid, active market is one in which transactions take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

Investments in listed equity securities that trade on an illiquid, inactive market, and investments in unlisted equity securities are measured under Level 3 of the fair value hierarchy. In these cases, fair value is measured through market based valuation techniques using unobservable inputs that reflect assumptions market participants would use when pricing the investment in an equity security, including assumptions about risk.

(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 classified at 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 11 - 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.

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 the shares being in escrow (**Escrow Restrictions**). The escrowed shares are released from escrow in two stages, with the first 50% of escrow shares released in August 2021 and the final 50% of escrowed shares released in February 2022.

The Escrow Restrictions have significantly reduced the available trading pool of shares, resulting in an illiquid market for the instrument, wide bid-ask spreads and volume that is insufficient to meet the definition of an active market under New Zealand Equivalent to International Financial Reporting Standard 13 Fair Value Measurement (**NZ IFRS 13**) for purposes of Harmoney shares traded. As such the quoted price of Harmoney as at 30 June 2021 is not considered the most reliable evidence of fair value and accordingly HGH's equity investment in Harmoney has not been measured under Level 1 of the fair value hierarchy.

20. Fair value (continued)

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

Equity Investment in Harmoney Corp Limited (continued)

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

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

The fair value measurement of HGH's equity investment in Harmoney was AU $1.90 per share as at reporting date. This was a 26% premium to the market closing price of AU $1.51 as at 30 June 2021, which if used as the basis for measuring fair value would result in a $3.9 million lower fair value than that reported. The fair value of the Investment was previously measured at AU $2.11 per share at 31 December 2020.

Investment properties

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

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

Finance receivables - reverse mortgages

Reverse mortgage loans are classified at fair value through profit or loss. 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 move to care;
- Voluntary exits;
- House price changes;
- No negative equity guarantee; and
- Interest rate margin.

20. Fair value (continued)

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

Finance receivables - reverse mortgages (continued)

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

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

Derivative financial instruments

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

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

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

20. Fair value (continued)

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

There were no transfers between levels in the fair value hierarchy in the year ended 30 June 2021 (2020: nil).

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

$000's	Finance Receivables - Reverse Mortgages	Investments	Investment Properties	Total
June 2021				
As at 30 June 2020	1,538,585	16,335	11,132	1,566,052
New loans	300,689	-	-	300,689
Repayments	(257,999)	-	-	(257,999)
Capitalised interest and fees	91,812	-	-	91,812
Purchase of investments	-	940	-	940
Fair value gain on investment	-	3,392	700	4,092
Other	2,986	-	-	2,986
As at 30 June 2021	**1,676,073**	**20,667**	**11,832**	**1,708,572**
June 2020				
As at 30 June 2019	1,318,677	12,435	11,132	1,342,244
New loans	290,488	-	-	290,488
Repayments	(182,653)	-	-	(182,653)
Capitalised Interest and fees	91,288	-	-	91,288
Purchase of investments	-	1,803	-	1,803
Fair value gain on investment	-	2,097	-	2,097
Other	20,785	-	-	20,785
As at 30 June 2020	**1,538,585**	**16,335**	**11,132**	**1,566,052**

(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.

20. Fair value (continued)

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

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 7.08% (2020: 8.06%). Finance receivables with a floating interest rate are deemed to be at current market rates. The current amount of credit provisioning has been deducted from the fair value calculation of finance receivables as a proxy for future losses.

Borrowings

The fair value of deposits, bank borrowings and other borrowings is the present value of future cash flows and is based on the current market interest rates payable by the Group for the debt of similar maturities. The average current market rate used to fair value borrowings is 1.23% (2020: 2.24%).

Other financial assets and financial liabilities

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

The following table sets 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 2021			June 2020		
$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	182,333	182,333	Level 1	147,179	147,179
Investments[1]	Level 2	5,640	5,639	Level 2	7,375	7,351
Finance receivables	Level 2	3,362,536	3,288,466	Level 2	3,092,150	3,045,195
Other financial assets	Level 3	2,292	2,292	Level 3	3,563	3,563
Total financial assets		**3,552,801**	**3,478,730**		**3,250,267**	**3,203,288**
Liabilities						
Deposits	Level 2	3,192,708	3,183,454	Level 2	3,278,483	3,264,192
Other borrowings	Level 2	631,617	631,617	Level 2	448,626	448,228
Borrowings - securitised	Level 2	1,043,516	1,043,516	Level 2	819,305	819,703
Other financial liabilities	Level 3	18,687	18,687	Level 3	26,751	26,751
Total financial liabilities		**4,886,528**	**4,877,274**		**4,573,165**	**4,558,874**

[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.

20. Fair value (continued)

(c) Classification of financial instruments

The following table summarises 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 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**
June 2020					
Assets					
Cash and cash equivalents	-	-	147,179	147,179	147,179
Investments	389,654	16,335	7,351	413,340	413,364
Investment properties	-	11,132	-	11,132	11,132
Finance receivables	-	-	3,045,195	3,045,195	3,092,150
Finance receivables - reverse mortgages	-	1,538,585	-	1,538,585	1,538,585
Derivative financial instruments	32	17,213	-	17,246	17,246
Other financial assets	-	-	3,563	3,563	3,563
Total financial assets	**389,686**	**1,583,265**	**3,203,288**	**5,176,240**	**5,223,219**
Liabilities					
Deposits	-	-	3,264,192	3,264,192	3,278,483
Other borrowings	-	-	1,267,931	1,267,931	1,267,931
Derivative financial instruments	15,408	1,604	-	17,012	17,012
Other financial liabilities	-	-	26,751	26,751	26,751
Total financial liabilities	**15,408**	**1,604**	**4,558,874**	**4,575,886**	**4,590,177**

Risk Management

21. Enterprise risk management program

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

Role of the Board and the Board Audit Risk Committee

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

- 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 at least annually.
- 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 advise and make recommendations to the Board as to the key parameters for Internal Capital Adequacy Assessment Process (**ICAAP**), delegated authorities, risk appetite and stress testing for its subsidiary, Heartland Bank Limited.

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.

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.

21. Enterprise risk management program (continued)

Internal Audit (continued)

The Head of Internal Audit has a direct reporting line to the Chairman 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 the 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 HGH, CEO HBL, CFO HGH, Chief Legal & Bank Risk Officer, 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; and
- 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 losses. 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, responsibilities and accountabilities for operational and compliance risk management:

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

- The second line of defence is the Risk and Compliance function, responsible for the design and ownership of the Operational Risk Management Framework. It incorporates key processes including Risk and Control Self-Assessment (**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 the 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.

21. Enterprise risk management program (continued)

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

Foreign exchange risk

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

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

Counterparty Credit Risk

The Group has on-going credit 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.

22. Credit risk exposure

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

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

To manage this risk, 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; and
- 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 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. 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 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 2021 the Group had a total exposure of $64.3 million (2020, $6.5 million) to its customers under the scheme. BFGS has concluded on 30 June 2021 with scheme loans no longer being available.

22. 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 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 2021	June 2020
On balance sheet:		
Cash and cash equivalents	182,333	147,179
Investments	357,156	397,005
Finance receivables	3,288,466	3,045,195
Finance receivables - reverse mortgages	1,676,073	1,538,585
Derivative financial assets	14,139	17,246
Other financial assets	2,292	3,563
Total on balance sheet credit exposures	**5,520,459**	**5,148,773**
Off balance sheet:		
Letters of credit, guarantee commitments and performance bonds	13,484	6,515
Undrawn facilities available to customers	299,544	260,098
Conditional commitments to fund at future dates	19,083	58,045
Total off balance sheet credit exposures	**332,111**	**324,658**
Total credit exposures	**5,852,570**	**5,473,431**

As at 30 June 2021 there was $0.216 million undrawn lending commitments available to counterparties for whom drawn balances were classified as individually impaired (2020: nil).

Concentration of credit risk by geographic region

$000's	June 2021	June 2020
New Zealand	4,402,656	4,086,184
Australia	1,243,522	1,154,567
Rest of the world[1]	260,079	295,349
Total	**5,906,257**	**5,536,100**
Provision for impairment	(53,687)	(62,669)
Total credit exposures	**5,852,570**	**5,473,431**

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

22. 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 industry sectors.

$000's	June 2021	June 2020
Agriculture	670,428	695,661
Forestry and fishing	153,160	149,871
Mining	12,684	13,425
Manufacturing	76,951	80,776
Finance and insurance	674,854	609,657
Wholesale trade	56,522	48,055
Retail trade and accommodation	279,388	278,768
Households	2,994,980	2,752,641
Other business services	148,011	168,326
Construction	241,668	202,685
Rental, hiring and real estate services	185,320	154,318
Transport and storage	297,920	262,078
Other	114,371	119,839
Total	**5,906,257**	**5,536,100**
Provision for impairment	(53,687)	(62,669)
Total credit exposures	**5,852,570**	**5,473,431**

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.

22. 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 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**
June 2020						
Judgemental portfolio						
Grade 1 - Very Strong	28	-	-	-	-	28
Grade 2 - Strong	9,323	-	-	-	-	9,323
Grade 3 - Sound	65,084	-	189	-	-	65,273
Grade 4 - Adequate	509,154	5,117	4,238	-	-	518,509
Grade 5 - Acceptable	817,190	4,613	1,938	-	-	823,741
Grade 6 - Monitor	-	112,586	2,558	-	-	115,144
Grade 7 - Substandard	-	27,289	17,652	-	-	44,941
Grade 8 - Doubtful	-	-	-	16,025	-	16,025
Grade 9 - At risk of loss	-	-	-	8,642	-	8,642
Total Judgemental portfolio	1,400,779	149,605	26,575	24,667	-	1,601,626
Total Behavioural portfolio	1,425,429	33,655	47,154	-	1,538,585	3,044,823
Gross finance receivables	**2,826,208**	**183,260**	**73,729**	**24,667**	**1,538,585**	**4,646,449**
Provision for impairment	(32,420)	(2,166)	(22,782)	(5,301)	-	(62,669)
Total finance receivables	**2,793,788**	**181,094**	**50,947**	**19,366**	**1,538,585**	**4,583,780**

23. Liquidity risk

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

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

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

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.

On 16 March 2020, as a result of COVID-19, the RBNZ announced that it would provide term funding through a Term Auction Facility (**TAF**) to give banks the ability to access term funding using repurchase agreements with qualifying collateral for a term of up to twelve months. On 10 March 2021, RBNZ announced to remove TAF and the final TAF tenders was held on 16 March 2021.

From 26 May 2020, the RBNZ also made available, for a period of 6 months, a Term Lending Facility (**TLF**) to offer loans for a fixed term of three years at the Official Cash Rate, with access to the funds linked to banks' lending under the Business Finance Guarantee Scheme. On 20 August 2020, RBNZ announced the change of the lending term to five years. The availability of TLF was extended to 1 February 2021, and further extended to 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.

The Group had not utilised any of these facilities as at 30 June 2021.

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

$000's	June 2021	June 2020
Cash and cash equivalents	182,333	147,179
Investments	357,156	397,005
Undrawn committed bank facilities	311,993	390,762
Total liquidity	**851,482**	**934,946**

Contractual liquidity profile of liabilities

The following tables present the Group's 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.

23. Liquidity risk (continued)

Contractual liquidity profile of liabilities (continued)

$000's	On Demand	0-6 Months	6-12 Months	1-2 Years	2-5 Years	5+ Years	Total
June 2021							
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
Derivative financial liabilities	-	2,499	1,564	516	4	-	4,583
Other financial liabilities	-	18,688	-	-	-	-	18,688
Total financial liabilities	**971,924**	**1,438,900**	**684,084**	**1,500,990**	**256,571**	**188,329**	**5,040,798**
Undrawn facilities available to customers	299,544	-	-	-	-	-	299,544
Undrawn committed bank facilities	311,993	-	-	-	-	-	311,993
June 2020							
Financial liabilities							
Deposits	813,140	1,418,656	833,440	162,221	86,615	-	3,314,072
Other borrowings	-	13,517	61,038	196,835	1,039,462	-	1,310,852
Lease liabilities	-	1,400	1,415	5,730	7,634	7,085	23,264
Derivative financial liabilities	-	5,722	4,665	5,297	1,354	-	17,038
Other financial liabilities	-	26,751	-	-	-	-	26,751
Total financial liabilities	**813,140**	**1,466,046**	**900,558**	**370,083**	**1,135,065**	**7,085**	**4,691,977**
Undrawn facilities available to customers	260,098	-	-	-	-	-	260,098
Undrawn committed bank facilities	390,762	-	-	-	-	-	390,762

24. 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.

24. Interest rate risk (continued)

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 $0.45 million (+)/(-) to NPAT (2020: $1.5million (+)/(-)) 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.

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 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**

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 2020							
Financial assets							
Cash and cash equivalents	147,172	-	-	-	-	7	147,179
Investments	43,863	18,425	52,708	59,296	222,713	16,335	413,340
Finance receivables	1,522,837	198,446	352,076	557,569	400,658	13,609	3,045,195
Finance receivables - reverse mortgages	1,538,585	-	-	-	-	-	1,538,585
Derivative financial assets	-	-	-	-	-	17,246	17,246
Other financial assets	-	-	-	-	-	3,563	3,563
Total financial assets	**3,252,457**	**216,871**	**404,784**	**616,865**	**623,371**	**50,760**	**5,165,108**
Financial liabilities							
Deposits	1,616,521	585,482	815,366	155,219	77,655	13,949	3,264,192
Other borrowings	976,638	970	-	-	290,323	-	1,267,931
Derivative financial liabilities	-	-	-	-	-	17,012	17,012
Lease liabilities	-	-	-	-	-	20,456	20,456
Other financial liabilities	-	-	-	-	-	26,751	26,751
Total financial liabilities	**2,593,159**	**586,452**	**815,366**	**155,219**	**367,978**	**78,168**	**4,596,342**
Effect of derivatives held for risk management	557,955	(51,349)	(239,137)	(237,212)	(30,257)	-	-
Net financial assets/(liabilities)	**1,217,253**	**(420,930)**	**(649,719)**	**224,434**	**225,136**	**(27,408)**	**568,766**

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

25. Significant subsidiaries

Significant Subsidiaries	Country of Incorporation and Place of Business	Nature of Business	Proportion of ownership and voting power held June 2021	June 2020
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 Australia Group Pty Limited	Australia	Financial services	100%	100%
Australian Seniors Finance Pty Limited	Australia	Management services	100%	100%

26. Structured entities

A structured entity is one which has been designed such that voting or similar rights are not the dominant factor in deciding who controls the entity. Structured entities are created to accomplish a narrow and well-defined objective such as the securitisation or 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 2021	June 2020
Deposits	153,244	166,676

(b) Heartland Auto Receivables 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 Auto Warehouse 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 2021	June 2020
Cash and cash equivalents	9,047	5,493
Finance receivables	126,399	78,066
Other borrowings	(128,125)	(79,012)

26. 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 2021	June 2020
Cash and cash equivalents	29,170	26,491
Finance receivables - reverse mortgages	934,523	929,179
Other borrowings	(822,112)	(783,373)

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

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

$000's	June 2021
Cash and cash equivalents	17,592
Finance receivables - reverse mortgages	140,044
Other borrowings	(145,943)

27. Staff share ownership arrangements

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

(a) Share-based compensation plan details

Heartland 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 2020, there were 3 tranches being 2017, 2018 and 2022. The 2017 and 2018 tranche rules have been aligned to the PR Plan 2022, and therefore they all have the same terms and conditions applying regarding participants, awarding of PR, measurement date and vesting as outlined below.

27. Staff share ownership arrangements (continued)

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

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 days 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 date on which the Group announces its full year results for the financial year ended 2023.

	June 2021 PR Plan Number of Rights	June 2020 PR Plan Number of Rights
Opening balance	**3,216,927**	**3,121,340**
Granted	-	(816,858)
Issued	5,342,289	1,230,740
Forfeited	(816,940)	(318,295)
Closing balance	**7,742,276**	**3,216,927**

(b) Effect of share-based payment transactions

$000's	June 2021	June 2020
Award of Shares		
PR Plan	1,797	516
Total expense recognised	**1,797**	**516**

As at 30 June 2021, $3.0 million of the share scheme awards remain unvested and not expensed (2020: $1.9 million). This expense will be recognised over the vesting period of the awards.

27. Staff share ownership arrangements (continued)

(c) Number of rights outstanding

000's	June 2021 Rights Outstanding	June 2021 Remaining Years	June 2020 Rights Outstanding	June 2020 Remaining Years
PR Plan - 2017	1,943	1	2,039	2
PR Plan - 2018	170	1	259	2
PR Plan - 2022	722	1	919	2
PR Plan - 2023	4,908	2	-	-
Total	**7,743**		**3,217**	

28. Insurance business, securitisation, funds management, other fiduciary activities

Insurance business

Marac Insurance Limited, a subsidiary of HBL, no longer conducts Insurance business as HBL entered into a distribution agreement with DPL Insurance Limited to distribute DPL's insurance products through HBL's network. MIL stopped writing insurance policies in the prior year with the last policies expected to expire in 2025.

The Group's aggregate amount of insurance business comprises the total consolidated assets of MIL of $8.5 million (2020: $10.9 million), which represents 0.15% of the total consolidated assets of the Group (2020: 0.20%).

Securitisation, funds management and other fiduciary activities

Changes to the Group’s involvement in securitisation activities are set out in Note 26. There have been no material changes to the Group’s involvement in funds management and other fiduciary activities during the year.

29. Concentrations of funding

(a) Concentrations of funding by industry

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

$000's	June 2021	June 2020
Agriculture	102,107	109,268
Forestry and fishing	14,226	14,901
Mining	94	35
Manufacturing	11,592	6,976
Finance and insurance	1,669,055	1,431,320
Wholesale trade	11,218	10,855
Retail trade and accommodation	28,521	20,423
Households	2,322,514	2,263,668
Rental, hiring and real estate services	46,245	41,348
Construction	24,231	19,702
Other business services	58,334	63,697
Transport and storage	4,337	4,552
Other	44,714	97,150
Total	**4,337,188**	**4,083,895**
Unsubordinated notes	521,399	448,228
Total borrowings	**4,858,587**	**4,532,123**

(b) Concentration of funding by geographical area

$000's	June 2021	June 2020
New Zealand	3,599,337	3,470,744
Overseas	1,259,250	1,061,379
Total borrowings	**4,858,587**	**4,532,123**

30. 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 reliable 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 2021	June 2020
Letters of credit, guarantee commitments and performance bonds	13,484	6,515
Total contingent liabilities	**13,484**	**6,515**
Undrawn facilities available to customers	299,544	260,098
Conditional commitments to fund at future dates	19,083	58,045
Total commitments	**318,627**	**318,143**

31. Events after the reporting date

HGH subsidiary Heartland Australia Group Pty Limited completed a senior unsecured bond issuance of AU $45 million on 9 July 2021.

The Group declared a fully imputed final dividend of 7 cents per share on 23 August 2021.

On Tuesday 17 August 2021 the New Zealand Government, in response to a community outbreak of the Delta COVID variant, placed New Zealand into an immediate Level 4 lockdown. The Directors have considered the impact of this, on the reported performance of the Group, and consider the reported performance has adequately allowed for the potential impact of COVID at this time, and that the current lockdown does not affect the reported result for the 12 months ended 30 June 2021.

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

Independent Auditor's Report

To the shareholders of Heartland Group Holdings Limited

Report on the audit of the consolidated financial statements

Opinion

We have audited the accompanying consolidated financial statements of Heartland Group Holdings Limited and its subsidiaries (the "Group") which comprise:

- the consolidated statement of financial position as at 30 June 2021;
- the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended; and
- notes, including a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements of the Group on pages 83 to 138:

i. present fairly in all material respects the Group's financial position as at 30 June 2021 and its financial performance and cash flows for the year ended on that date; and

ii. comply with New Zealand Equivalents to International Financial Reporting Standards and International Financial Reporting Standards.

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) ("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 $5,820,000 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.

KPMG

We agreed with the 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 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 22 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.	Together with KPMG credit risk specialists we assessed the Group's collective and individual provisions. 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 different 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.

The key audit matter	How the matter was addressed in our audit
Valuation of finance receivables – reverse mortgages Refer to note 20 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 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

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

23 August 2021

Shareholder information
Mōhiohio o te hunga whaipānga

Spread of shares

Set out below are details of the spread of shareholders of Heartland as at 30 August 2021 (being a date not more than two months prior to the date of this Annual Report).

Size of holding	Number of shareholders	Total shares	% of issued shares
1 - 1,000 shares	1,464	798,555	0.14
1,001 - 5,000 shares	3,151	8,958,834	1.53
5,001 - 10,000 shares	2,214	16,458,658	2.81
10,001 - 50,000 shares	4,461	100,598,408	17.17
50,001 - 100,000 shares	785	54,253,997	9.26
100,001 shares and over	518	404,835,913	69.10
Total	**12,593**	**585,904,365**	**100.00**

Twenty largest shareholders

Set out below are details of the 20 largest shareholders of Heartland as at 30 August 2021 (being a date not more than two months prior to the date of this Annual Report).

Rank	Shareholder	Total shares	% of issued shares
1	Harrogate Trustee Limited	58,392,997	9.97
2	FNZ Custodians Limited	32,253,872	5.50
3	Citibank Nominees (NZ) Limited	23,935,655	4.09
4	Custodial Services Limited	15,199,494	2.59
5	Oceania & Eastern Limited	13,267,285	2.26
6	New Zealand Depository Nominee	11,631,144	1.99
7	Philip Maurice Carter	11,416,647	1.95
8	Accident Compensation Corporation	10,092,152	1.72
9	Hobson Wealth Custodian Limited	9,374,795	1.60
10	BNP Paribas Nominees NZ Limited	9,026,348	1.54
11	JPMORGAN Chase Bank	7,676,933	1.31
12	HSBC Nominees (New Zealand) Limited	7,204,322	1.23
13	Pt Booster Investments Nominees Limited	7,099,727	1.21
14	Heartland Trust	6,475,976	1.11
15	HSBC Nominees (New Zealand) Limited	6,032,802	1.03
16	Forsyth Barr Custodians Limited	5,218,372	0.89
17	Jarden Custodians Limited	4,794,667	0.82
18	FNZ Custodians Limited	4,583,129	0.78
19	ASB Nominees Limited	4,000,000	0.68
20	Public Trust	3,292,937	0.56
Total		**250,969,254**	**42.83**

Substantial product holders

As at 30 June 2021, the following product holders are substantial product holders in Heartland. Heartland had 585,904,365 ordinary shares on issue, being the only class of quoted voting products on issue.

Name	Number of shares	Class of shares	% of total number of shares in class
Harrogate Trustee Limited and Gregory Raymond Tomlinson	58,392,997	Ordinary	9.97

Other information
Mōhiohio kē atu

Auditors' fees

KPMG has continued to act as auditors of Heartland and its subsidiaries. The amount payable by Heartland and its subsidiaries to KPMG as audit fees during the year ended 30 June 2021 was $790,000. The amount of fees payable to KPMG for non-audit work during the year ended 30 June 2021 was $103,000. These non-audit fees were primarily for regulatory assurance services, agreed upon procedures engagements and supervisor reporting.

Credit rating

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

Donations

The total amount of donations made by Heartland and its subsidiaries during the year ended 30 June 2021 was $14,355.

Exercise of NZX disciplinary powers

NZX Limited did not exercise any of its powers under Listing Rule 9.9.3 in relation to Heartland and its subsidiaries during the year ended 30 June 2021.

NZX waivers

No waivers were granted to the Group by NZX, or relied on by the Group, within the 12-month period preceding 30 June 2021 other than the NZX class waiver providing issuers with additional time to prepare and release their full year results announcement and annual report in recognition that COVID-19 impacted issuers' abilities to meet the usual reporting timeframes which the Group relied upon in connection with the financial year ended 30 June 2020.

Directory
Te rēhita

DIRECTORS

Heartland Group Holdings Limited Board

GEOFFREY RICKETTS
Chair and Independent Non-Executive Director

GREGORY TOMLINSON
Deputy Chair and Non-Executive Director

JEFFREY GREENSLADE
Executive Director and CEO

ELLEN COMERFORD
Independent Non-Executive Director

SIR CHRISTOPHER MACE
Independent Non-Executive Director

Heartland Bank Limited Board

BRUCE IRVINE
Chair and Independent Non-Executive Director

JEFFREY GREENSLADE
Executive Director

EDWARD JOHN HARVEY
Independent Non-Executive Director

KATHRYN MITCHELL
Independent Non-Executive Director

GEOFFREY RICKETTS
Independent Non-Executive Director

SHELLEY RUHA
Independent Non-Executive Director

AUDITOR

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STRATEGIC MANAGEMENT GROUP

JEFFREY GREENSLADE
CEO, Heartland Group Holdings Limited

CHRIS FLOOD
CEO, Heartland Bank Limited

KEIRA BILLOT
Chief People & Brand Experience Officer

LAURA BYRNE
Chief Operating Officer

ANDREW DIXSON
Chief Financial Officer

MICHAEL DRUMM
Chief Risk Officer

LYDIA ZULKIFLI
Chief Digital Officer

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