Purongo Ā-tāu
Annual Report 2022

HEARTLAND GROUP

Te kāpehu whetū
The star compass

Te kāpehu whetū, the star compass, was used by the people of the Pacific to navigate. Like the stars in the night sky, Heartland's strategic pillars, customers, shareholders and employees guide us towards sustainable growth and differentiation.

Using the knowledge of the sun, moon, stars and winds, te kāpehu whetū provides a framework for navigation. Around the circumference of the compass, 32 houses mark the places on the horizon where a celestial body resides. The four main houses represent the cardinal points (listed below) based on the sun's placement in the sky – rising in the east, and returning to the ocean in the west.

These points break the compass further into four quadrants for each of the winds: Tokerau, Mararangi, Whakarunga and Whakararo.

To know te kāpehu whetū is to know your way. The stars and the sun in the sky, and the wind and ocean swells, can guide any navigator to their destination.

Navigating forth with confidence

Leveraging its whakapapa (history) dating back to 1875, Heartland has been on a journey to provide banking products which are the best or only of their kind since it was established as Heartland in 2011.

Guiding us to achieve our vision are our strategic pillars: business as usual growth, frictionless service at the lowest cost, expansion in Australia and acquisitions - underpinned by our commitment to our people, customers and shareholders, and our sustainability framework. Together, these areas of importance are depicted as houses around the circumference of the star compass. As the stars within each house provide guidance to navigators, so too do these areas of importance to Heartland.

In the centre of our compass is the raperape pattern. Carved into the oars of waka, this pays reference to the energy and movement of life. Diving into the detail of the raperape, and within Whakararo (the tail of the fish) and Whakarunga (the head of the fish), is unaunahi, a fish scale pattern signifying prosperity and abundance. Together, the raperape's shape in the centre of the compass represents the powerful wake left by our Heartland waka as the star compass guides us forward.

With our sights set firmly on our strategic vision, Heartland is navigating with confidence towards sustainable growth and differentiation.

The cardinal points

1. **Raki:** to the right of the sun's passage through the sky (north)
2. **Whitinga:** east where the sun rises out of the ocean
3. **Tonga:** to the left of the sun's passage (south)
4. **Tomokanga:** west where the sun returns to the ocean

The winds

5. **Tokerau:** the north-east trade winds
6. **Mararangi:** the south-east trade winds
7. **Whakarunga** (the head of the fish): the south-west winds
8. **Whakararo** (the tail of the fish): the north-west winds

Areas of importance

A. Our customers and shareholders

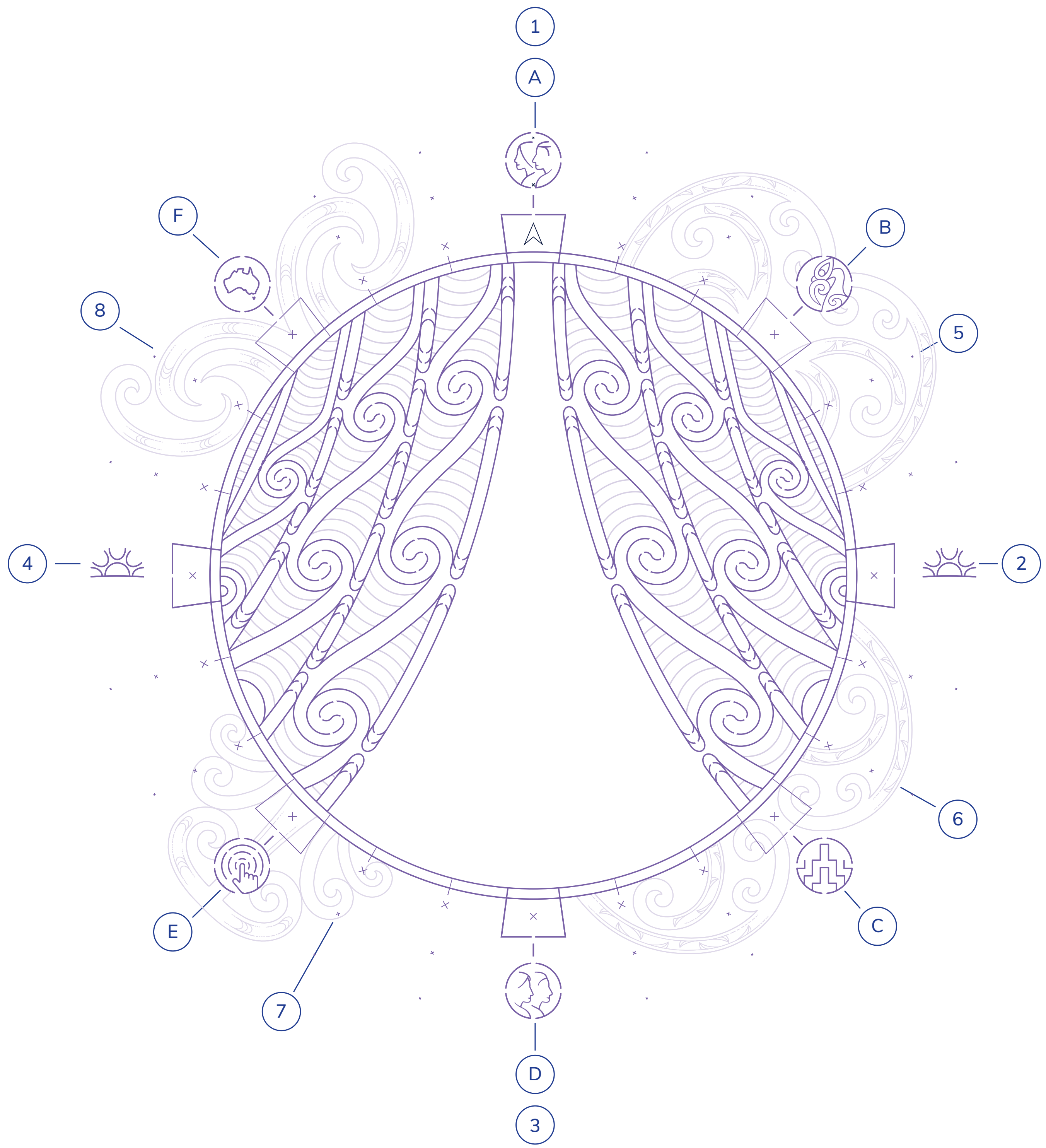
B. Sustainability

C. Business as usual growth

D. Our people

E. Frictionless service

F. Expansion in Australia



Rārangi ūpoko
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This Annual Report of Heartland Group Holdings Limited (**Heartland**) is dated 28 September 2022 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

01

Year in review

Nā te kaiwhakahaere poari
Chair's report

Geoffrey Ricketts Chair of the Board

On behalf of the Board, I am pleased to report that Heartland and its subsidiaries (the **Group**) reported another strong financial year.

Heartland achieved a net profit after tax (**NPAT**) of $95.1 million for the financial year ended 30 June 2022 (**FY2022**), an increase of $8.1 million (9.3%) compared with the financial year ended 30 June 2021 (**FY2021**)[1]. On an underlying[2] basis, FY2022 NPAT was $96.1 million, an increase of $8.2 million (9.3%) compared with the FY2021 underlying NPAT.

Equity raise

On 23 August 2022, Heartland announced a $200 million equity raise.

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

Heartland chose this offer structure due to the volatile market conditions to date in 2022, and its objective to further diversify its share register to promote increased liquidity on both the NZX and ASX. This is important in driving long-term value for all shareholders, by attracting depth of investment and widening demand.

Pleasingly, the $130 million Placement was fully subscribed. The Placement was strongly supported by shareholders, and attracted significant bids from new institutional and retail investors who we welcome as shareholders. The SPP had applications totalling approximately $68.8 million from shareholders who we thank for their ongoing support and contribution to Heartland's strategic ambitions.

The proceeds have been used to repay a A$158 million acquisition finance facility outstanding from the acquisition of StockCo Australia in May 2022, with the remainder to provide additional growth capital for Heartland's existing businesses in New Zealand and Australia.

Delivering sustainable profitability

Heartland's sustainability framework consists of three pillars: environmental conservation, social equity and economic prosperity.

Significant progress has been made against each pillar. Notably, work is underway to ensure Heartland is in a position to report its Greenhouse Gas (**GHG**) emissions for the year ending 30 June 2023 (**FY2023**) as part of its FY2023 financial reporting.

From FY2023, Heartland's GHG emissions reporting will include emissions attributed to customer activity enabled through lending.

With regard to social equity, Heartland has implemented processes and controls to prevent any connection to modern day slavery, whether through business practices, customer practices, or supply chain connections. Heartland was pleased to introduce pay gap reporting, and Heartland Bank Limited (**Heartland Bank**) was proud to achieve the Rainbow Tick in line with concerted efforts by Heartland's people to focus on diversity, equity and inclusion.

Economic prosperity was delivered though Heartland's Reverse Mortgage businesses enabling more than 40,000 New Zealanders and Australians to live a more comfortable retirement. Heartland Bank's deposit products were recognised for their contribution to New Zealanders by being awarded Canstar's prestigious Bank of the Year – Savings 2022, for the fifth year in a row. Heartland continued its work in digitalisation, with over 20,000 Heartland Bank customers now using the Heartland Mobile App, which allows Heartland to pass cost savings on to its customers in the form of low competitive rates. 2022 also saw the development of the Heartland Finance Mobile App for Australian Reverse Mortgage customers. The recent acquisition of StockCo Australia also allows Heartland to grow the StockCo Australia business and assist more of its agricultural clients in Australia to reach their business goals.

Read more in the *Sustainability* section on page 23.

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 $501,933 to support our communities, including in the areas of education, sport and wellbeing.

The Heartland Trust continued its support of the InZone Education Foundation, Auckland University's Kupe Leadership Scholarship, the Auckland Writers Festival, WORD Christchurch Festival and various high school and club women's and men's 1st XV rugby teams. This year, the Heartland Trust also funded for the first time Heartland Bank's Manawa Ako internship programme. You can read more about the activities of the Heartland Trust on page 43 of this Annual Report.

[1] All comparative results are based on the audited full year consolidated financial statements of the Group for FY2021

[2] Underlying results exclude the impacts of StockCo Holdings 2 Pty Ltd and StockCo Australia Management Pty Limited (together, **StockCo Australia**) and one-offs. Refer to *Financial commentary* on page 75 for a summary of reported and underlying FY2022 results. A detailed reconciliation between reported and underlying financial information, including details about FY2022 one-offs, is set out in Heartland's FY2022 full year results investor presentation available at shareholders.heartland.co.nz

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

Board and management changes

On 1 October 2021, Geoff Summerhayes and Kate Mitchell were appointed directors of the Heartland Board. Geoff and Kate were re-elected to the Board, in accordance with the constitution, on 28 October 2021.

On 28 October 2021, Sir Christopher Mace retired from the Heartland Board after 10 years of service to Heartland. Sir Christopher was appointed to the new role of Kaumātua.

On 19 May 2022, Heartland was pleased to announce the appointment of Chris Flood (previously CEO of Heartland Bank) as Deputy CEO of Heartland Group, and Leanne Lazarus as CEO of Heartland Bank, with effect from 1 August 2022.

In his new role as Deputy CEO of Heartland Group, Chris will take responsibility for Heartland's organic growth across New Zealand and Australia, applying Heartland Bank's successful growth model to Heartland's Australian entities. Chris will also lead further strategic initiatives across the group.

Leanne joins Heartland Bank from her role as CEO and Executive Director of Westpac Life Limited, Westpac New Zealand Limited's (**Westpac NZ**) insurance entity. Leanne has 30 years of global experience in banking and financial services, including having held a range of executive positions across Westpac NZ and ANZ Banking Group.

Leanne's extensive experience in operations and technology will contribute to advancing Heartland Bank's digitalisation strategy, and the ongoing reduction of Heartland Bank's cost to income (**CTI**) ratio through removing customer friction and enhancing customer experience.

Jeff Greenslade continues as CEO of Heartland Group with responsibility for Heartland's activity in New Zealand and Australia.

During the year, Heartland enhanced its Strategic Management Group (**SMG**), expanding the SMG across Heartland Group and Heartland Bank to support future growth. Heartland welcomed to the SMG Monique Forbes (Group Chief Marketing Officer, Heartland Group), Mike Grenfell (Chief Operating Officer, Heartland Bank), Lana West (Group Chief People & Culture Officer, Heartland Group) and Andy Wood (Chief Risk Officer, Heartland Bank). Michael Drumm (previously Chief Risk Officer, Heartland Bank) was appointed as Group Chief Operating Officer, Heartland Group. Keira Billot continues as Chief People & Brand Experience Officer, Heartland Bank, and Andrew Dixson continues as Chief Financial Officer, Heartland Group.

Dividend

The Board resolved to pay a fully imputed final dividend of 5.5 cents per share (**cps**) on Wednesday 14 September 2022 to all shareholders on Heartland's register at 5.00pm NZST on Friday 26 August 2022[4]. Together with the interim dividend, the total FY2022 dividend was 11.0 cps (flat on 2021). This represents a full year payout ratio of 68% which compares to the average over the last three years of 69%.

Heartland is pleased to be able to continue to deliver positive shareholder return. Total shareholder return (**TSR**) was 66.9% over the last five years (19 August 2017 – 19 August 2022), compared with the NZX50 Index TSR of 56.7% in the same period. This is an excellent result for our shareholders.

Regulatory update

Heartland continues to monitor the significant volume of regulatory change, including the changes being made to the New Zealand Credit Contracts and Consumer Finance Act 2003 and the Credit Contracts and Consumer Finance Regulations 2004 (**CCCFA**), the introduction of the Financial Markets (Conduct of Financial Institutions) Amendment Act 2022 (**Conduct Act**), the Deposit Takers Bill, and new Climate-Related Disclosures.

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

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

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

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

Outlook

The Board is confident in Heartland's ability to generate strong growth and profitability as it continues to deliver against its strategy to provide best or only products through scalable digital platforms, with further expansion expected in Australia.

The current economic environment presents the obvious challenges of rising inflation and rapidly rising interest rates, tempered somewhat by low unemployment, flowing through into business and consumer confidence. However, Heartland expects its NPAT for FY2023 to be within the guidance range of $109 million to $114 million, excluding any impacts of fair value changes on equity investments held.

On behalf of the Board, I would like to take this opportunity to acknowledge the continued support of our shareholders. In the face of a year that continued to be hampered by the impacts of COVID-19, I would also like to thank Heartland's management team and its people for their resilience and strong customer focus which enabled an exceptional result this year.

Geoffrey Ricketts
Chair of the Board

[4] NZ RegCo granted Heartland a waiver from the five Business Day notice requirement under NZX Listing Rule 3.14.1 in relation to the final dividend.

Na te kaiwhakahaere matua
CEO's report

Jeff Greenslade Chief Executive Officer

Heartland achieved NPAT for FY2022 of $95.1 million, up $8.1 million (9.3%) on FY2021[1]. On an underlying[2] basis, NPAT was $96.1 million, up $8.2 million (9.3%) on the FY2021 underlying NPAT. This was driven by growth in gross finance receivables (**Receivables**)[3] of 15.3% ($765.9 million)[4] on FY2021, to reach $6.2 billion.

I tutuki i a Heartland te THRi (tahua huamoni rauiti) i te TAm2022 nei, te $95.1 miriona, arā, kia $8.1 miriona ake (kia 9.3% ake) i te TAm2021[1]. Hei matapae taketake[2], kua $96.1 te THRn (tahua huamoni raunui), kia $8.2 miriona ake (kia 9.3% ake) i te THRn taketake o te TAm2021. Na te āinga a te tupuranga o ngā nama ahumoni raunui (**Nama**)[3] kia 15.3% (kia $765.9 miriona)[4] no te TAm2021 kua tae ake ki te $6.2 piriona.

Strategic vision

This result reflects the success of Heartland's strategic vision to create sustainable growth and differentiation through best or only products delivered through scalable digital platforms. There are four elements to this vision and considerable progress was made in each of these during the course of the year.

1. **Business as usual growth** – a 15.3% increase in underlying balance sheet growth was achieved.
2. **Frictionless service at the lowest cost** – a 120% uplift in Heartland Mobile App users and underlying CTI ratio reduction to 42.5%.
3. **Expansion in Australia** – increased market share in Reverse Mortgages from 29% to 33%.[5]
4. **Acquisitions** – the acquisition of StockCo Australia.

Business as usual growth

Heartland's portfolio mix has shifted towards higher quality and lower risk assets through:

- disproportionately higher aggregate growth in Reverse Mortgages and online Home Loans;
- the introduction of lower impairment livestock loans;
- a shift in the Motor book towards higher quality loans; and
- the run-off of higher risk personal lending.

The Reverse Mortgage portfolios in New Zealand and Australia have grown considerably, achieving 19.9% and 15.2%[6] growth in Receivables respectively. Increasing awareness and acceptance of reverse mortgages continues to aid growth in both markets, especially in a

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[1] All comparative results are based on the audited full year consolidated financial statements of the Group for FY2021.

[2] Underlying results exclude the impacts of StockCo Australia and one-offs. Refer to *Financial Commentary* on page 75 for a summary of reported and underlying FY2022 results. A detailed reconciliation between reported and underlying financial information, including details about FY2022 one-offs, is set out in Heartland's FY2022 full year results investor presentation available at shareholders.heartland.co.nz

[3] Receivables include Reverse Mortgages and StockCo Australia.

[4] Excludes the impact of StockCo Australia and changes in foreign currency exchange (**FX**) rates.

[5] Based on APRA ADI Property Exposure and Heartland Finance data as at 31 March 2021 and 31 March 2022.

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

Whakanōhanga rautaki

Kei te whakaata te putanga nei i te angitu o te whāinga rautaki a Heartland ki te hanga i te tupuranga toitū me te māhitihiti i ngā putanga pai rawa rānei, takitahi rānei hei whakaratorato atu i ngā paenga pūnaha matihiko. E whā ngā wāhanga o te whāinga nei, nā, kua ahu whakamua tēnā, tēnā o ēnā i te roanga o te tau.

1. **Kaipakihi hei tupuranga māori** – kua tutuki te pikinga 15.3% o te pūrongo taketake o ngā toenga.
2. **Ratonga Pāpākore ki te utu iti rawa** – ko te pikinga kia 120% o te hunga e whakamahi ana i te taupānga harihari o Heartland me te hekenga o te taupāpātanga CTI ki te 42.5%.
3. **Whakarahinga atu i Ahitereiria** – kua kitea i te TMa2022 te pikinga o te wāhanga mākete o ngā Mōkete Tauaro i te 29% ki te 33%.[5]
4. **Whiwhinga** – kua rahi atu te rautaki 'pai rawa rānei, takitahi rānei' i Ahitereiria i te whiwhinga atu o StockCo Ahitereiria.

Kaipakihi hei tupuranga māori

Kua nukunuku atu te kohinga kōpaki o Heartland ki ngā rawa kounga ake, tūraru iho:

- te tupuranga pūtahi teitei ohotata nei o ngā Mōkete Tauaro me ngā Pūtea Taurewa Kāinga ā-ipurangi;
- te whakarewa i ngā pūtea taurewa kāhui kararehe e iti nei te utu whakakopa;
- te nukuhanga atu o te kōpaki Waka ki ngā pūtea taurewa kounga ake;
- te whakakore i te tūraru nui o ngā pūtea taurewa kiritaki.

Kua tupu rawa ngā kōpaki Mōkete Tauaro i Aotearoa me Ahitereiria, ā, kua tutuki te tupuranga nama mai o te 19.9% me te 15.2%[6] i tēnā, i tēnā. Kei te piki tonu te aronga atu me te whakaaetanga

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[1] E ahu ana putanga whakariterite katoa i ngā arotakenga o ngā tauākī ahumoni tōpū o Te Hono o te katoa o te TAm2021.

[2] Kāore ngā pānga o StockCo Ahitereira me ngā mea takitahi i roto i ngā matapae taketake. Tahuri atu ki Financial commentary i te whārangi 75 hei pānui i te whakarāpopototanga o ngā putanga taketake me ngā mea kua pūrongohia i te TAm2022, me ngā taipitopito kōrero o ngā putanga takitahi o taua tau, ā, ka kitea i shareholders.heartland.co.nz

[3] Hei nama hoki ko ngā Mōkete Tauaro me StockCo Ahitereiria.

[4] Hāunga te tukinga o StockCo Ahitereiria me ngā rerenga kētanga o ngā pāpātanga o ngā moni o tāwāhi (**FX**).

[5] E ai ki te APRA ADI Property Exposure me ngā raraunga a Heartland Ahumoni i te 31 o Māehe 2021 me te 31 o Māehe 2022.

[6] Hāunga te pānga o ngā rerenga kētanga o ngā pāpātanga FX.

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time where the increasing cost of living is placing additional pressure on retirees.

Heartland's online Home Loans has grown rapidly with Receivables up 450.8% to $274.7 million despite the unintended effects of the CCCFA changes introduced on 1 December 2021. Motor Finance was also affected by the CCCFA changes, experiencing a considerable reduction in application automation and conversion rates following the law changes. As further amendments to the CCCFA were made and we continued to refine our processes in response, Motor portfolio performance has begun to move towards more normal levels.

Heartland Bank's Livestock Finance, funding the purchase of livestock for farmers in New Zealand, had a record year in FY2022, thanks to an increase in customers and loan utilisation rates. Receivables were up 57.0% to $62.3 million. Meanwhile, Sheep & Beef Direct contributed 53% of total Rural new business, confirming that there is a market for an online rural loan application for sheep and cattle farmers in New Zealand – allowing farmers to apply for finance online when and where it suits them, without having to take time from their day to call a bank or stand in a queue.

Further information about the financial performance of Heartland's lending portfolios and funding activity is set out in *Financial commentary* on page 75.

Frictionless service at the lowest cost

Progress continued in the digitalisation of Heartland's products and platforms. The aim is to reduce customer friction and improve service while creating scale and efficiencies. In many cases, this allows customers to benefit from cost savings through competitive interest rates. This ultimately enables Heartland to compete in markets we previously were not able to, such as Home Loans.

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

Read *Delivering frictionless service* on page 15 for more on Heartland's digitalisation progress.

Expansion in Australia

Growth in Australia remains a key strategic priority for Heartland. In Australia, our sights are set on growing both the existing Reverse Mortgage business and the recently acquired livestock finance business StockCo Australia, while also seeking further opportunities to expand our best or only strategy in the country.

In Australia, Heartland has 33% of the reverse mortgage market share and currently 74% share of growth in Australia[7]. However, there is opportunity for expansion in the potential addressable market which is estimated to be $10-15 billion[8].

Acquisitions

On 31 May 2022, Heartland completed the acquisition of livestock financier, StockCo Australia. Work now begins on growing the livestock finance business in the markets in which it operates, and enhancing its position as a market-leading provider of specialist livestock finance for cattle and sheep farmers across Australia. We intend to do this by delivering growth capital, digital enhancements and expanding into new market segments. Read more about StockCo Australia on *page 19*.

Following the completion of the acquisition of StockCo Australia, we will continue to be open to further opportunities for acquisition in Australia as a means of adding strategic value to our business.

As disclosed in our FY2022 full year results announcement, we have been exploring opportunities to establish or acquire an authorised deposit-taking licence (**ADI**) in Australia and have entered into a non-binding memorandum of understanding (**MoU**) with Avenue Hold Limited (**Avenue Hold**) in relation to the potential acquisition of Avenue Hold and its subsidiary Avenue Bank Limited (**Avenue Bank**) – a restricted ADI that is currently seeking to become a full ADI.

In accordance with the MoU, Heartland has made an initial subscription for A$5 million of capital in Avenue Hold. Heartland's due diligence review is continuing, as is negotiation of binding transaction documentation. Completion of any transaction is expected to be conditional upon a number of matters. Heartland's due diligence review is continuing. Refer to *Banking opportunity in Australia*, below.

Banking opportunity in Australia

Becoming an ADI in Australia would enable Heartland to carry out banking business,

[7] Based on APRA ADI Property Exposure and Heartland Finance data for the 12 months to 31 March 2022 (based solely on growing providers with publicly available data).

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

atu ki ngā Mōkete Tauaro e piki ai hoki te tupuranga i ngā mākete e rua, i te wā tonu nei o te pikinga o te utu oranga e pēhi kino nei i te hunga tāoki.

Kua tere hoki te pikinga o te tukutuku i ngā Pūtea Taurewa Kāinga ā-ipurangi a Heartland, kua piki ngā Nama whakaroto kia 450.8% ki te $274.7 miriona, ahakoa ngā pānga tūpono noa o ngā rerenga kētanga a te CCCFA i whakarewaina i te 1 o Tīhema, 2021. Kua pāngia hoki te Ahumoni Waka e aua rerenga kētanga, i heke nui ai ngā tono aunoa me ngā tono takahuri i muri i ngā kawenga kētanga o te ture. I te hurihuri o ngā tikanga a te CCCFA, ka kaha tonu mātou ki te whakariterite i ngā pūnaha hei whakaō atu, nā reira kua tahuri anō te kaha o te kōpaki Waka ki ngā taumata māori.

Na te piki i te tokomaha o ngā kiritaki me ngā pāpātanga whai pūtea taurewa, i huri te TAm2022 hei tihinga tau mo te Ahumoni Kāhui Kararehe o te Pēke Heartland hei tuku tahua e hokona ai ngā kāhui mā ngā kaipāmu o Aotearoa. I piki ngā Nama mai kia 57.0% ki te $62.3 miriona. Waihoki, toha atu ai a Hipi & Kau Torotika[7] i te 53% o ngā kaipakihi tuawhenua katoa, hei reira whakamātau ai i te mākete o ngā tono pūtea taurewa ā-ipurangi a ngā kaipāmu hipi me ngā kaipāmu kau i Aotearoa, te mākete e āhei ai ngā kaipāmu ki te tono moni i te wāhi me te wā e hiahia ana, hei aha te whakapau wā i te waea atu rānei ki te pēke, i te tū rānei i te rārangi tangata.

He kōrero kē atu mō ngā mahi ahumoni a ngā kōpaki tukutuku pūtea taurewa, tukutuku tahua a Heartland i te *Financial commentary* i te whārangi 75.

Ratonga Pāpākore ki te utu iti rawa

I ahu whakamua tonu te whakamatirau i ngā putanga me ngā pūnaha a Heartland. Ko te aronga ko te whakaiti i te pāpā atu a ngā kiritaki me te hiki i te ratonga atu i te wā tonu e hāpai ana i te rahinga me te whāomotanga. He maha ngā tauira e whai hua ai ngā kiritaki i te penapena moni o ngā pāpātanga huamoni whakataetae nei. Hei mutunga atu, ka āhei a Heartland ki te whakataetae i ngā mākete i te kati mai i mua, he pērā me ngā Pūtea Taurewa Kāinga.

I whakahekea te taupāpātanga o te tōpūtanga rorohiko (**CTI**) o Heartland, hei inenga o te whāomotanga o te whakamatihiko, i te 44.8% i te TAm2021 ki te 42.5% i te TAm2022, hei pūtake taketake. Ahakoa te koropupū o te wā poto e tū mai nei, kua pūmau mātou, wā roa nei, ki te whakahekeheke i te taupāpātanga CTI.

Tēnā, pānuihia te *Delivering frictionless service* i te whārangi 15 hei whai atu i te ahunga whakamua o ngā mahi whakamatihiko a Heartland.

Whakarahinga atu i Ahitereiria

He whāinga rautaki matua tonu te tupuranga ake i Ahitereiria. I reira, kei te aro tonu mātou ki te whakatupu tahi tonu i te kaipakihi Mōkete Tauaro me te whiwhinga hou o te kaipakihi ahumoni kāhui kararehe, i StockCo Ahitereiria, arā hoki, ka rapu tonu i ētahi atu ara hei whakarahi i tā mātou rautaki 'pai rawa rānei, takitahi rānei' i te whenua.

I Ahitereiria kua 33% te wāhanga mākete o Heartland o ngā Mōkete Tauaro o Ahitereiria, me te 74% nā ngā whakahaere o Ahitereiria ake.[8] Otirā, he ara tonu e tupu ake ai i roto i te mākete e whakaawhiwhitia ana kia rite ki te $10-15 piriona.[9]

Whiwhinga

I te 31 o Mei, 2022, i oti i a Heartland te whiwhinga ki te hunga ahumoni o ngā mahi kāhui kararehe, ki StockCo Ahitereiria. Nā, ka tīmata āianei te whakatupu i te kaipakihi kāhui kararehe nei i ngā mākete e hāngai ana, me te hiki i te taumata hei ratonga matua i te mākete motuhake o ngā kaipāmu kau me ngā kaipāmu hipi, huri noa i Ahitereiria. Ko tā mātou hei whakatutuki i tēnei whāinga, ko te ratorato i ngā moni whakatuputupu, i ngā āheinga matihiko, i te toronga atu ki ngā rāngai mākete hōu. Tēnā, pānuihia ngā kōrero kē atu mo StockCo Ahitereiria i te *whārangi 19*.

No muri mai i te whakaotinga o te whiwhinga ki StockCo Ahitereiria, ka rite tonu mātou ki te rapu i ngā ara whakawhiwhi kē atu hei hiki i te ritenga rautaki i tō tātou kaipakihi.

He pērā me te whakaaturanga o ngā putanga ā-tau oti i te TAm2022, kua torotoro mātou i ngā ara e mana ai rānei, e whai ai rānei i te raihana Umanga Whakaputu Moni Whai Mana (**ADI**)[10] i Ahitereiria. Ā, kua uru atu i te kawenata tauaroaro (**MoU**), herenga kore nei, me Avenue Hold Limited (**Avenue Hold**) i runga i te tūmanako ka whiwhi a Avenue Hold me te turuki Avenue Bank Limited (**Avenue Bank**) – he ADI kōpiri e rapu ana i te mana motuhake hei ADI.

Hei whai i te Kawenata Tauaroaro, kua whakarite a Heartland i te tono A$5 miriona o te haupū rawa o Avenue Hold hei tīmatanga. Kei te manatu tonu te arotake haurapatanga o Heartland, waihoki te tauwhiriwhiri i te kawenata paiherehere. Hāngai atu ai ngā mahi tauwhiriwhiri nei i runga i ētahi take. Kei te ahu whakamua tonu ngā tirohanga haurapatanga. Tēnā, tahuri ki te *Banking opportunity in Australia* i raro iho nei.

[7] Sheep & Beef Direct.

[8] E ai ki te APRA ADI Property Exposure me ngā raraunga Ahumoni a Heartland o te 12 marama e tae atu ai ki te 31 Māehe 2022 (e ai ki ngā raraunga pānui a ngā kairatorato e tokomaha haere nei).

[9] E ai ki Deloitte i te Hui o ngā Poupou e Toru 2021.

[10] Authorised deposit-taking licence.

such as accepting deposits from the public in Australia. This would provide Heartland with:

- access to a deep and efficient pool of funding to support ongoing growth;
- a potential uplift in our margin to the extent that retail (bank deposit) funding rates are less than wholesale rates; and
- a platform to extend our best or only strategy further into Australia.

The process is underway to test whether Avenue Hold provides a strategic and cultural fit and the most efficient pathway to achieving an ADI licence.

Any establishment or acquisition by Heartland of an ADI in Australia would be subject to regulatory approvals and would take some time to complete. It is expected that the completion of any acquisition would take place no earlier than the last quarter of FY2023. We will provide further updates to shareholders as required.

He manawa tangata – our people

After another challenging year with further COVID-19 lockdowns and restrictions in New Zealand and Australia, our Heartland people have continued to show their resilience and worked hard to achieve results.

This year, we were pleased to participate in MindtheGap pay gap reporting. Heartland was one of just seven organisations to commit to reporting pay gaps by gender, Māori and Pasifika as part of a reporting register launched in March 2022. While our gender pay gap of 24% is 7% better than the industry average of 31%, we acknowledge our pay gaps are far too high and work needs to be done to reduce these. Read more about our pay gaps on page 37 of the *Diversity* report.

Key activity in FY2022 also included the achievement of the Rainbow Tick, becoming recognised in the 2022 HRNZ Awards for our Manawa Ako internship programme, and confirming that our mātāpono (values) resonate with our people (93% responded as such within a recent survey).

Read more about Heartland's progress in the *Diversity* report on page 31.

Looking forward

The outlook for FY2023 offers potential for Heartland:

- the large number of residential mortgages in New Zealand coming off fixed rates during the course of the year provides opportunity for growth in Home Loans;
- Reverse Mortgages in New Zealand and Australia are expected to continue to perform well, driven by an aging population, and increasing awareness and acceptance of reverse mortgages as a solution to increasing cost of living pressures;
- Heartland Bank is optimistic that market share gains in Motor and Asset Finance are available, though these markets have seen some supply disruptions;
- the focus on parts of the rural market that are underserviced by larger banks has the potential to offset the ongoing exit of Heartland's larger rural relationship loans; and
- StockCo Australia is expected to contribute A$10-12 million to FY2023 NPAT.

However, this must be weighed against ongoing volatility and decreasing confidence levels in some sections of the market. In addition, rising interest rates are expected to elevate stress in the economy. Heartland customers are not immune from these impacts. We will continue to support our customers through what may be a difficult period for some.

The global risk environment remains uncertain. While we have released our COVID-19 Overlay, we have adopted an Economic Overlay of $8 million in order to provide coverage for a potential downside scenario in areas such as Business Relationship and Asset Finance where there are risk concentrations. In addition, the portfolio mix has shifted towards higher quality loans, with a strong increase in particular of Reverse Mortgages.

Alongside digitalisation, the major strategic priority is Australia: the first full year with StockCo Australia as a member of the Group, and in progressing Heartland's pathway to becoming a bank through obtaining an ADI licence in Australia.

Our people are a crucial part of our ability to deliver against our strategy. We remain committed to our diversity initiatives, and to creating an environment that is welcoming and inclusive of all people – so our people can bring their whole selves to work, and, with them, the diverse thinking that enables us to better understand and respond to our customers.

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

Ngā mihi nui,

Jeff Greenslade
Chief Executive Officer

Ara mana pēke i Ahitereiria

Ma te huri hei ADI i Ahitereiria, ka āhei a Heartland ki te whai i ngā rau mahi pēke, arā, ko te whakaputu moni na te marea o Ahitereiria. Hei reira ka āhei hoki a Heartland:

- ki te tono atu i te pūtea hōhonu, whāomo o ngā tāhua moni hei tautoko i ngā mahi whakatuputupu;
- ki te hiki pea i te paenga e iti iho ai ngā pāpātanga putunga pēke hokotahi i ō ngā mea hokorau;
- ki te pūtake e whānui atu ai te rautaki pai rawa, ahakoa kotahi noa iho, ki roto o Ahitereiria.

Tērā te tukanga kei te whāia kia kitea mehemea he painga rautaki, he painga ahurea e tutuki pai ai te raihana ADI.

Kia whakamana rānei a Heartland hei ADI, kia whai rānei a Heartland i tētahi atu ADI, me mātua whiwhi te whakaaetanga ā-ture, ā, ka roa te wā e tutuki ai. Ko tā mātou e whakapae ana kāore te whiwhinga atu e tutuki i mua i te whātanga whakamutunga i te TaM2023. Mā mātou ngā ritenga hōu e pānui atu ki te hunga whai pānga.

He manawa tangata – ō tātou tāngata

I muri i te tau werowero nei me tētahi whakarāhui KOWHEORI-19 kē atu, me ngā tikanga aukati i Aotearoa me Ahitereiria, kua whakaatu tonu ō tātou tāngata o Heartland i tō rātou māia, ā, kua kaha hoki ngā mahi kia tutuki ai ngā whāinga.

I te tau nei, i pārekareka mātou i te urunga atu ki ngā mahi pūrongo angotanga utu, arā, ko Aroa te Angotanga.[11] Ko Heartland tētahi o ngā whakahaere e whitu noa iho nei i pūmau ki te pūrongo i ngā angotanga utu ā-ira nei, i Ngāi Māori nei, i Ngāi Moutere nei hei wāhanga o te rēhita pūrongorongo i whakarewaina i te Māehe o 2022. Ahakoa kei runga ake [kia 7%] i te angotanga utu ā-ira e 24% nei o te toharite ahumahi, e 31% rā, ko tā mātou e mea ana he rahi rawa taua angotanga, ā, me pukumahi tonu mātou kia heke iho ai. Tēnā, pānuihia ngā kōrero kē atu mō ō mātou angotanga utu i te whārangi 37 o te *pūrongo Kanorau*.

Ko tētahi atu tino mahi o te TaM2022 ko te tatūnga o te Tunou Āniwaniwa[12], te whai ingoa i ngā Tohu HRNZ 2022 i tō mātou hōtaka pia, ko Manawa Ako, te whakamātau hoki i te hāngaitanga o ō mātou mātāpono ki ō mātou tāngata (koina tā te 93% i whakakī i te uiuinga whakamutunga).

Tēnā, pānhuihia ngā kōrero kē atu mo te ahunga whakamua o Heartland i te whārangi 31 o te *pūrongo Kanorau*.

Titiro whakamua

Tohu ai te TaM2023 i te ara e pakari ake ai a Heartland:

- tohu ai te maha o ngā mōkete nōhanga i Aotearoa e puta ake ana i ngā pāpātanga itaita i te roanga o te tau i te ara e tupu ai ngā Pūtea Taurewa Kāinga;
- ko te hanga nei ka tino kaha tonu ngā Mōkete Tauaro i Aotearoa me Ahitereiria, na te whakakaumātua o te taupori, me te aro atu me te whakaae atu ki ngā mōkete tauaro hei ōanga atu ki te pikinga o ngā utu i ngā pēhanga oranga;
- ko te ngākau rorotu o Heartland e mea ana ka wātea ētahi wāhanga hea mākete i te Ahumoni Waka, Ahumoni Rawa, ahakoa ngā raruraru whakaratorato;
- ko te iti o te ratonga atu o ngā pēke nunui ki te mākete tuawhenua, ā, hei reira te whakakapinga i te wehewehe haere o Heartland i ngā pūtea taurewa rarahi o te hononga ki te rāngai tuawhenua;
- ko te matapae ka tuku atu a StockCo Ahitereiria i te A$10-12 ki te TaM2023, THRi (tahua huamoni rauiti) nei.

Engari, me ineine atu ērā ki te tītahataha here nei i ētahi wāhanga o te mākete. Hei tāpiritanga atu, e tāria ana te pikinga kōhukihuki o te ōhanga i te piki o ngā pāpātanga huamoni. Kāore hoki ngā kiritaki o Heartland e āraia atu i aua tukinga. Ka ngana tonu mātou ki te tautoko i ā mātou kiritaki i ngā wā heke e raruraru ai ētahi.

Kei te koropupū tonu te tūraru taiao o te ao. Ahakoa kua whakaputaina kētia tā mātou kahurua KOWHEORI-19, kua whakaaetia hoki te Kahurua Ohaoha, e $8 miriona nei, hei whakangungu i ngā āhuatanga whakaheke, he pērā me tō te Hononga Kaipakihi me tō te Ahumoni Rawa, arā, i ngā wāhanga e nui ana ngā tūraru. Hei tua atu, kua aro atu te kohinga kōpaki ki ngā pūtea taurewa pakari ake, hei tauira, kua tino piki ngā Mōkete Tauaro.

Hei te taha o te whakamatihiko, ko tētahi tino whāinga whakarautaki ko Ahitereiria: koinei te tau oti tuatahi ko StockCo Ahitereiria hei mema o te Rōpū. Waihoki, kei te ahunga whakamua o te ara e huri ai a Heartland hei pēke mana i te whāinga atu i te raihana ADI i Ahitereiria.

Ko ō tātou tāngata te poutokomanawa e tutuki ai te rautaki. Ka pūmau tonu mātou ki ngā whāinga kanorau, me te hanga i te taiao tuhera e poapoaina ngā tāngata katoa – e tae ai te tangata me ōna āhuatanga katoa ki te mahi, ā, hei reira kitea ai ngā tini momo whakaaro e kaha atu ai mātou ki te aro atu me te whakaō atu ki ngā kiritaki.

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 nui,

Jeff Greenslade
Kaiwhakahaere Matua

[11] MindTheGap.
[12] Rainbow Tick.

Ka kaperua ki ngā putanga o 2022
FY2022 results at a glance

Gross finance receivables[1]

FY22 $6.2b ↑

FY21 $5.0b

Return on equity

FY22 12.1% ↑

Underlying return on equity 12.6%

FY21 11.9%

Underlying return on equity 12.0%

Net interest margin[2]

Consistently higher than banking peers[3]

FY22 4.16% ↓

FY21 4.35%

Earnings per share

FY22 16.1cps ↑

Underlying earnings per share 16.3 cps

FY21 14.9cps

Underlying earnings per share 15.1 cps

Final dividend declared

FY22 5.5cps ↓

FY21 7.0cps

Total dividend for the year

FY22 11.0cps

FY21 11.0cps

[1] Includes StockCo Australia as at 30 June 2022.
[2] Adjusted for the impact of StockCo Australia.
[3] KPMG FIPS Report March 2022.

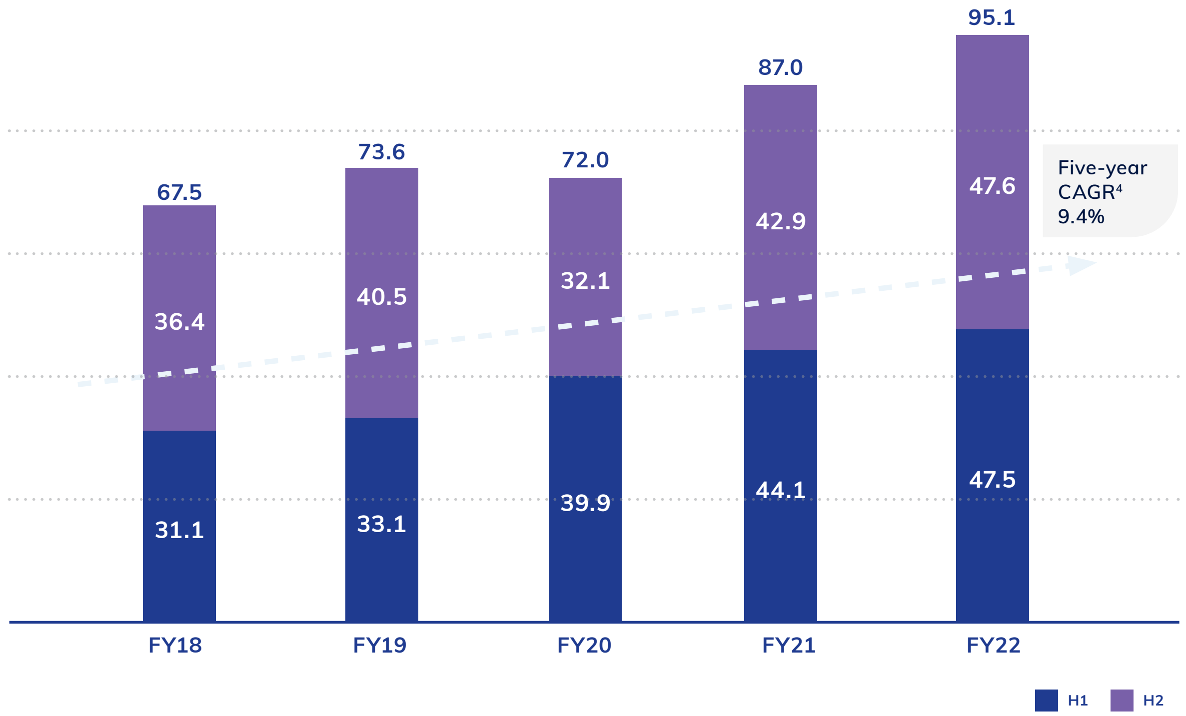
Net profit after tax (NPAT)

FY22 $95.1m ↑

Underlying net profit after tax $96.1m

FY21 $87.0m

Underlying net profit after tax $87.9m



Note: Underlying results exclude the impacts of one-offs.

FY2022 one-off items had a $0.9 million net impact on NPAT, consisting of a $1.6 million increase in NPAT contributed by one-off net fair value gains and benefits, offset by a $2.5 million decrease in NPAT contributed by one-off expenses. For more detail on FY2022 one-off items, go to page 75. FY2021 one-off items had a $0.8 million net impact on NPAT, consisting of a $4.1 million increase in NPAT contributed by one-off net fair value gains, offset by a $4.9 million decrease in NPAT contributed by one-off expenses.

[4] Compound annual growth rate (**CAGR**) for the five years from FY2018-FY2022.

Strategic highlights

- Heartland Bank received Canstar's 2022 Bank of the Year – Savings Award (fifth consecutive year), and awards for its Direct Call and Notice Saver accounts.
- Heartland Reverse Mortgages Australia received various awards for excellence in the sector.
- NZ Reverse Mortgages remains Consumer Trusted (fifth consecutive year).
- Successfully completed the acquisition of StockCo Australia.
- Exploring options to establish or acquire an ADI in Australia.

Te ratorato pāpākore
Delivering frictionless service

Heartland has always been committed to differentiation. Over the years, we have demonstrated this through our focus on providing products which are the best or only of their kind. That focus has evolved to providing best or only products through scalable digital platforms, leading to our aim of becoming a digitalised banking group.

Digitalisation allows Heartland to deliver value for customers and shareholders. Time is precious, and we don't think it should be spent queuing or waiting on the phone. By removing customer friction through the digitalisation of our platforms and processes, we can deliver fast, digital solutions without costly processes. This provides customers with better service, and, in some cases, cost savings through competitive lending interest rates, or attractive savings interest rates.

Importantly, digitalisation enables customers the chance to spend their time on what matters most to them.

We have invested in many digital developments during FY2022, all designed to remove friction for our customers and our teams. Here are some of the notable initiatives Heartland has delivered during the 2022 financial year.

Making more possible

When analysing our customer call data at the beginning of FY2022, we discovered that a high proportion of calls to Heartland Bank's main customer service phone lines in the second half of FY2021 were from customers requesting loan or account statements and balances, loan settlement quotes or transaction details – simple requests that we believe customers should be able to complete at a time and place that suits them, without the constraints of calling during business hours.

During FY2022, using these insights, we built functionality within the Heartland Mobile App and Heartland Digital, our online banking platform, to allow Heartland Bank customers to generate a statement or a settlement quote themselves, and increase transfer and payment ability.

These developments, alongside separate efforts to enable customers to self-serve within the app, are paying off. By the end of June 2022, we had significantly increased the number of users of the Heartland Mobile App, up 120%. App developments are providing an improved customer experience, and enabling our people to focus on providing higher value service.

More recently, we also launched a new online platform and mobile app for Heartland Reverse Mortgage customers in Australia. Our Australian Reverse Mortgage customers can now view their loan balance and any available cash reserve or redraw facilities from their mobile, tablet or computer.

During FY2023, we will continue to identify features we can add to our digital banking platforms to further reduce friction for existing and new customers, and enable self-service.

Improving our platforms

In order to be effective, our customers' self-service access should be fast and intuitive. FY2022 also saw us make improvements to our digital platforms so they are easier for customers to use. Among other things, these updates were designed to help improve accessibility (particularly for older app users), highlight important text, better prompt actions, reduce the need to scroll, improve design layout and create a more consistent user journey.

Automation and improved workflow processes have also been introduced to improve the loan application and onboarding experience behind the scenes for our employees – including increased DocuSign (digital document signature technology) integration to enable faster loan documentation execution and further reduce the need to print, and automated loan documents and letters of offers for some product areas.

Heartland's CTI ratio can be used as a measure of the efficiency of digitalisation. In FY2022 our CTI ratio reduced from 44.8% in FY2021 to 42.5% on an underlying basis.[1]

Investing in technology

In order to achieve our long-term digitalisation goals, we need to have scalable technologies in place that will future-proof us for digital growth. Over the course of FY2022, we have been undertaking a significant piece of work to upgrade our core banking system, requiring substantial investment in technology and resource to implement.

The upgrade is expected to provide Heartland with a stable long-term platform, leading to improved customer service. It is intended to provide us with an improved core banking system that is faster, offers enhanced security, and will position us well for future developments to our digital banking platforms that are not currently possible with our existing banking system. This upgrade is expected to be completed by the end of the calendar year, with implementation underway in 2023.

In FY2023, we are continuing to increase our focus on digitalisation to deliver further enhancements to existing product platforms in New Zealand and Australia. We will continue to develop digital solutions that make banking easier and faster for our customers. As a greater degree of self-service functionality is developed, we will create scalable digital platforms without costly processes, where enhanced valued can be passed on to customers through better service or competitive rates.

[1] Underlying results exclude the impacts of the acquisition of StockCo Australia and one-offs. For more information about FY2022 one-offs see *Financial commentary* on page 75.

Waka: Te whakamatihiko me te whāoma kora
Motor: Digitalisation and fuel efficiency

Maximising business as usual growth in our established product areas is a core part of achieving Heartland's strategic vision. Heartland Bank's Motor Finance business is an example of an area in which we have seen consistent growth while supporting our dealership and branded partners to grow their businesses, and helping New Zealanders to get behind the wheel.

In FY2022, Motor saw Receivables increase from $1.3 billion in FY2021 to $1.4 billion. This growth came despite the headwinds of COVID-19 and global supply chain disruption, and the unintended effects of changes to the CCCFA introduced on 1 December 2021.

Growth through branded partnerships

Heartland Bank's Motor portfolio includes lending direct to customers through Heartland Bank or the Marac brand, and lending through dealers, key partners and branded white label partnerships. Our key partners, including white label partnerships, are important contributors to the Motor book's growth.

Key partners, including branded white label partners, contributed $293 million of total Motor new business in FY2022, up 2% on FY2021.These include partnerships with Peugeot and Citroen (through Auto Distributors New Zealand Limited (**Auto Distributors**) under the iOWN brand), Kia (through Kia Finance and offering Kia Konfidence), Jaguar and Land Rover.

Auto Distributors have also been appointed the distributors for German Car brand Opel, arriving late October 2022, with finance to be provided by Heartland Bank.

Through these partnerships, Heartland Bank provides white label finance to the brand which the vehicle distributor or brand offers through its dealerships. This gives the dealership access to Heartland Bank's vehicle lending product suite, including Business Leasing, Operating Leases and Guaranteed Future Value (**GFV**) loans, along with the typical Consumer and Business term loans.

Strengthening these partnerships is mutually beneficial. Heartland Bank's digital platforms and finance solutions support growth for branded partners by providing New Zealanders with finance options to help them purchase their next vehicle. To aid ongoing growth, further digitalisation of dealer platforms is expected through FY2023.

Digitalising our vehicle lending platforms

Heartland Bank released the first stage of our online end-to-end platforms in the second quarter of FY2022. This allows customers to apply online anytime, anywhere with a decision possible in minutes – without needing to go into the dealership to apply for a loan. We will continue to develop these platforms to improve the customer experience and reduce friction.

This development will include integrating the origination platforms with our dealer management systems. For our dealership partners, this service will free them up from having to complete an application with the customer present. Customers will be able to complete the application from the comfort of their own home, in their own time, and feel confident about the amount of lending they can afford when choosing their next vehicle.

Lending for greener vehicles

The end-to-end dealer platforms we have developed for our partners allows them to provide their customers with a seamless vehicle purchase and finance experience, and offer a range of finance options including GFV loans. A GFV loan allows customers to have fixed regular repayments and assurance of the vehicle's minimum value at the end of the term. This service has been particularly valuable for those looking to upgrade to new generation EV and hybrid technology.

Heartland is committed to supporting our partnerships and customers in the clean energy transition to EV and hybrid vehicles. With our continued focus on sustainability, we are pleased to see the amount of lending in this area continue to grow. Lending for electric vehicles and hybrids now accounts for 5% of Motor lending, up from 1% in FY2021.

This growth is primarily through our partnerships with Kia, Peugeot and Citroen, who are seeing the share of these vehicles grow over internal combustion engine vehicles. Due to the Clean Car Discount, they have seen these cars make-up 40% of their sales. In late October 2022, Opel is expected to enter the market with a unique offering with German engineered, electrification across the range at an affordable price point – all models will be eligible for the Clean Car Discount.

Looking forward

As our partners increase their distribution of EV and hybrid vehicles, and supply chain constraints ease, we anticipate lending to new generation vehicles to grow significantly in the coming year.

Ongoing development of our digital platforms is expected to support this growth. We will continue to develop these platforms to ensure a frictionless customer experience, whether at the dealership or direct to customers online. The next key development we are working towards is to streamline the experience for customers applying via a mobile app. With these developments, more customers will be able to apply online and then self-service their loan by continuing to use an app – saving the customer time by reducing their need to wait in a queue or call.

01 Year in review | Waka: Te whakamatihiko me te whāoma kora | Motor: Digitalisation and fuel efficiency

Te whakarahinga tonu i Ahitereiria
Continuing our expansion into Australia

Expansion in Australia is a core component of Heartland's strategy. For Heartland, this means expansion within existing product areas, and looking for new opportunities in niche markets where we already have expertise, such as through the products offered by Heartland Bank in New Zealand. Closely related to this strategic focus, is growth through acquisition.

In FY2022, Heartland completed the acquisition of StockCo Australia which specialises in livestock finance for Australian cattle and sheep farmers – similar to the livestock finance product offered by Heartland Bank in New Zealand.

Holding a leading position in the market, StockCo Australia offers a livestock lending platform, aligning well with our strategic vision of creating sustainable growth and differentiation through best or only products and channels.

StockCo Australia contributed more than $337 million to Heartland's existing Australian portfolio at 30 June 2022, where our market-leading A$1.15 billion[1] Australian Reverse Mortgage business has helped more than 23,000 Australians fund a more comfortable retirement.

Bringing StockCo Australia into the Heartland whānau

StockCo Australia was founded in 2014 with origins in New Zealand dating back to 1995. Like Heartland Bank's livestock lending products in New Zealand, StockCo Australia's cashflow solutions are designed for customers who are typically asset rich, allowing them to purchase livestock, maximise returns and run their business more effectively.

StockCo Australia's livestock lending product is relatively unique in the Australian market, offering finance to cover up to 100% of the livestock purchase. StockCo Australia pays the purchase invoice directly with no repayments required from the customer until the livestock are sold.

"Like us, Heartland understands the power of being niche and specialised at what we do and how we work."

Doug Snell, StockCo Australia CEO

StockCo Australia has introduced some digitalisation to its onboarding and fulfilment process. However, part of the benefit of being owned by Heartland is that StockCo Australia can leverage Heartland's considerable experience in digitalising end-to-end customer application journeys, in order to enhance its offering for Australian farmers.

"Like us, Heartland understands the power of being niche and specialised at what we do and how we work," explained StockCo Australia CEO Doug Snell.

"When looking for a partner to assist us in moving forward and becoming the leading provider of livestock finance in Australia, it quickly became apparent that Heartland's goals and values were closely aligned with ours."

StockCo Australia has more than 1,560 customers across Australia and has financed more than $2.2 billion in livestock. With growing demand in the market for livestock finance, the acquisition will provide StockCo Australia with the balance sheet, appetite, desire and capital to grow the business through new clients and increased financial support to existing clients.

"This is an exciting opportunity for StockCo Australia and we're looking forward to continuing to support the livestock sector across Australia, where we assist our clients to access capital and generate profits for their businesses," Doug continued.

Heartland's future in Australia

Growth through acquisition is not new to Heartland. Heartland's Reverse Mortgage business in Australia had a loan book of A$377 million when it was acquired by Heartland in 2014. Eight years on, Heartland's Australian Reverse Mortgage book is now just over A$1 billion (as at 30 June 2022). Heartland hopes to achieve similar growth with StockCo Australia – supported by a livestock finance market currently estimated to be A$7 billion[2]. The acquisition is expected to contribute additional annual net profit after tax of A$10-12 million, before any ongoing cost of acquisition debt funding for FY2023.

With acquisitions as a core component of Heartland's strategy, we will continue to explore opportunities that have either a compelling distribution capability or offer innovative technology that we can use to further our aim of becoming a fully digitalised financial services group. This includes opportunities to acquire or obtain an ADI licence in Australia which would enable us access to deep and efficient funding markets to support ongoing growth across the Tasman.

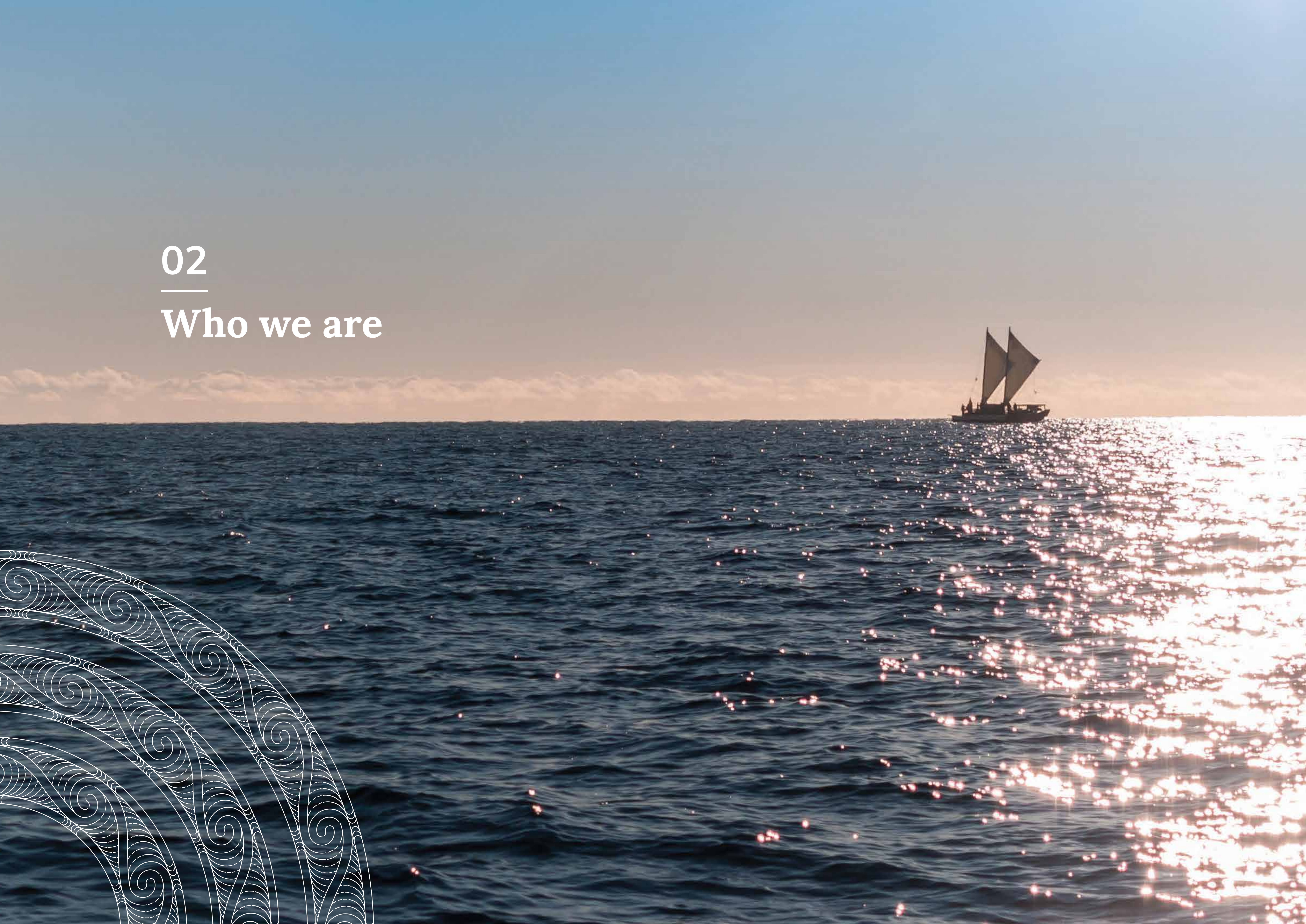
1 As at 30 June 2022.

2 Based on Australia Bureau of Statistics total rural debt and StockCo Australia data.

01 Year in review | Te whakarahinga tonu i Ahitereiria | Continuing our expansion into Australia

02

Who we are



Tō mātou kaipakihi
Our business

Our people

553 Employees in total[1]

525 in New Zealand

28 in Australia

15 Locations

Gender

Female	Male	Not stated
51	48	1

13,000+ Shareholders
(= 1,000)

130,000+ Customers[2]
(= 10,000)

Our funding

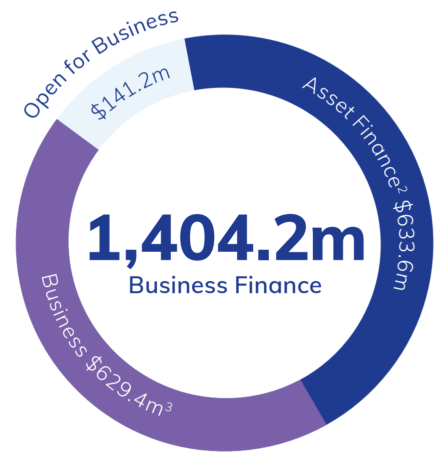
3.6b Retail deposits (= 100,000,000)

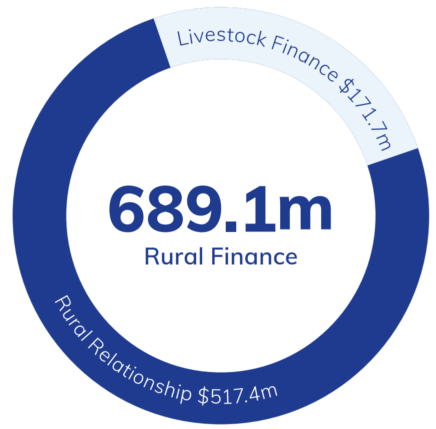
$1.3b Securitisation facilities

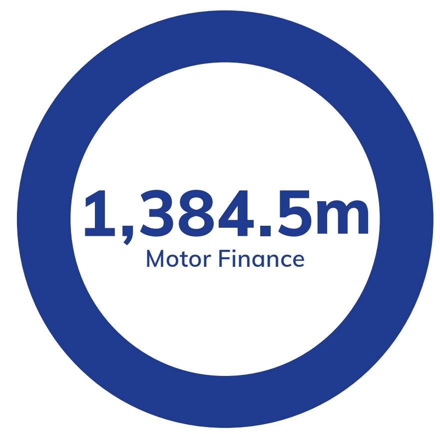
$0.6b Unsubordinated bonds

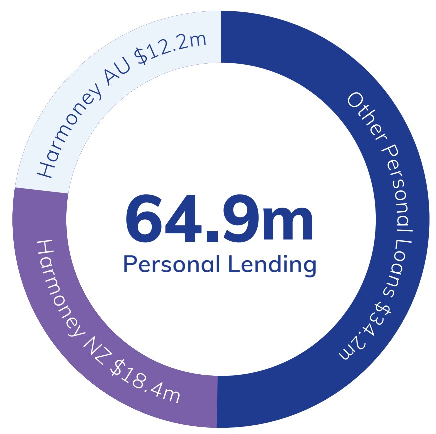
[1] Excluding StockCo Australia employees.
[2] Excluding StockCo Australia customers.

Our lending









[1] All lending portfolio figures exclude FX impact. [2] Previously referred to as Business Intermediated. [3] Business includes floorplan lending to vehicle retailers and wholesale facilities to other lenders. The portfolio includes what was previously known as Business Relationship.

Poari o te Hono Heartland
Heartland Group board

From left to right:

Sir Christopher Mace
Kaumātua
Retired from the Board.
Appointed Kaumātua 28 October 2021

Geoff Summerhayes
Independent Non-Executive Director
Appointed 1 Oct 2021

Gregory Tomlinson
(Deputy Chair)
Non-Executive Director
Appointed 31 Oct 2018

Committee memberships:
Heartland Corporate Governance, People, Remuneration and Nominations Committee

Geoffrey Ricketts (Chair)
Chair and Independent Non-Executive Director
Appointed 31 Oct 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 Oct 2018

Committee memberships:
Heartland Audit and Risk Committee (Chair)

Kathryn Mitchell
Independent Non-Executive Director
Appointed 1 Oct 2021

Committee memberships:
Heartland Audit and Risk Committee

Jeff Greenslade
CEO and Executive Director
Appointed 19 Jul 2018

As at the date of this Annual Report.

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

Poari o te Pēke Heartland
Heartland Bank board

From left to right:

Edward John Harvey
Independent Non-Executive Director
Appointed 31 Dec 2015
Committee memberships:
Heartland Bank Audit Committee (Chair),
Heartland Bank Risk Committee

Kathryn Mitchell
Non-Independent Non-Executive Director
Appointed 29 Mar 2019
Committee memberships:
Heartland Bank Risk Committee

Geoffrey Ricketts
Non-Independent Non-Executive Director
Appointed 31 Dec 2015
Committee memberships:
Heartland Bank Audit Committee

Shelley Ruha
Independent Non-Executive Director
Appointed 1 Jan 2020
Committee memberships:
Heartland Bank Risk Committee (Chair),
Heartland Bank Audit Committee

Bruce Irvine (Chair)
Chair and Independent Non-Executive Director
Appointed 31 Dec 2015
Committee memberships:
Heartland Bank Audit Committee,
Heartland Corporate Governance, People,
Remuneration and Nominations Committee

Jeff Greenslade
Executive Director
Appointed 31 Dec 2015

As at the date of this Annual Report.

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

02 Who we are | Poari o te Pēke Heartland | Heartland Bank board

Hono Whakahaere Rautaki
Strategic Management Group

Heartland Group

Jeff Greenslade | Group CEO

Chris Flood | Deputy Group CEO*

Andrew Dixson | Chief Financial Officer

Michael Drumm | Group Chief Operating Officer

Monique Forbes | Group Chief Marketing Officer

Lana West | Group Chief People & Culture Officer

Heartland Bank

Leanne Lazarus | Heartland Bank CEO*

Keira Billot | Chief People & Brand Experience Officer

Mike Grenfell | Chief Operating Officer

Andy Wood | Chief Risk Officer

As at the date of this Annual Report.

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

* On 19 May 2022, Heartland announced the appointment of Chris Flood as Deputy Group CEO of Heartland Group, and Leanne Lazarus as CEO of Heartland Bank, with effect from 1 August 2022.

02 Who we are | Hono Whakahaere Rautaki | Strategic Management Group

Pūrongo aronga rau
Diversity report

The diversity of our people contributes to our success as a business. Heartland is committed to supporting initiatives which foster diversity at all levels of the organisation. This puts us in a better position to attract a wide talent pool, understand and respond to diverse stakeholder needs, and enables us to draw from a broad experience base to identify new opportunities, solve problems and make decisions.

By embracing diversity, we promote a culture of inclusion and a sense of belonging. This enables our people to be engaged, feel comfortable to bring their whole selves to work, and be motivated to create the best outcomes for our customers, shareholders and other stakeholders.

Our commitment to diversity is documented within our Diversity and Inclusion Policy which 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 and Inclusion Committee, is responsible for setting measurable objectives and reviewing progress against them.

Heartland's diversity and inclusion measurable objectives

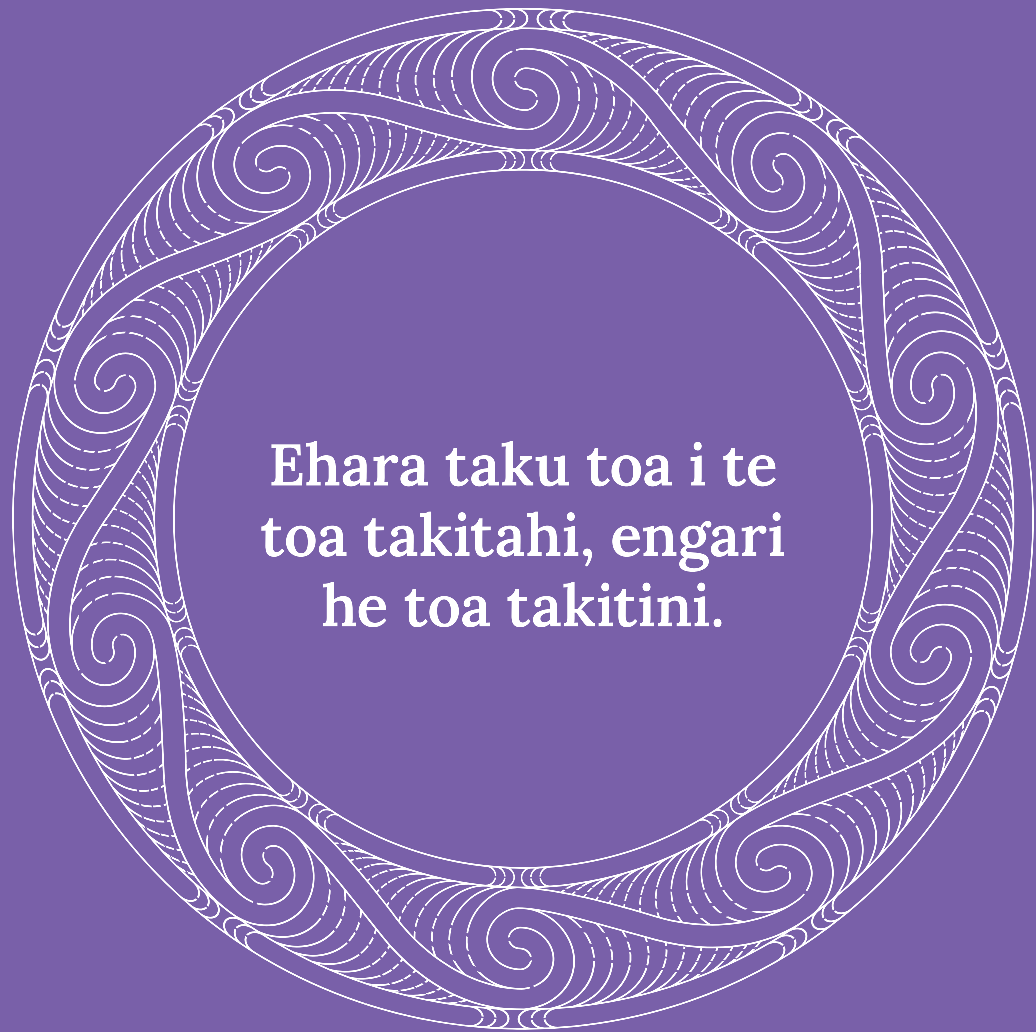
a) To improve the inclusiveness of our workplace by increasing cultural awareness and celebrating diversity in all of its forms.

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

c) 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.

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

The following sections highlight progress against these measurable objectives across FY2022, noting that due to COVID-19 lockdowns we embraced online and digital celebrations while working remotely.



Success is not the work of an individual, but the work of many.

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

Heartland's commitment to celebrating our diverse workforce, consisting of a wide variety of ethnicities, heritages, backgrounds, cultures, genders, sexualities and ages, can be seen through our dedication to strengthening our culture. We embrace and celebrate our diversity which enables our people to feel a sense of belonging, and, therefore, be their authentic selves at work.

Heartland's Diversity and 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 achieving our measurable objectives.

The Diversity and Inclusion Committee coordinated a number of events throughout the year to celebrate and recognise times of cultural significance, including Christmas, Ramadan, Diwali, Matariki, and te wiki o te reo Māori (Māori language week).

2022 marked the first year that Mānawatia a Matariki, the Māori new year, was celebrated as a national public holiday across New Zealand. Heartland celebrated Matariki by sharing educational resources on the importance of the Māori new year, and by coming together during a special Matariki event to reflect and celebrate the year that had passed, and look to our aspirations for the year ahead. As part of our Matariki celebrations, and in the spirit of manaakitanga (showing support and care for others), our people also collected food parcels, with donations distributed to local pātaka kai (open street pantries).

Acknowledgement of Pasifika language weeks has been spread across the year through Heartland's intranet. This included showcasing languages from Samoa, Tonga and Kiribati, which creates an opportunity for our people to better understand the richness Pasifika people bring to Aotearoa.

In order to create awareness and inclusion in a wider sense, we also held virtual events and shared information to celebrate and acknowledge events including Mental Health Awareness Week, NZ Sign Language Week, World Hearing Awareness Month, World Elder Abuse Awareness Day, International Women's Day and Pride Month.

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 table below shows the gender diversity of directors and employees of Heartland in both New Zealand and Australia as at 30 June 2022 and 30 June 2021.

Heartland understands the importance of building a pipeline of female leaders and remains committed to this. This year we introduced a new dataset for all of our people leader population (people with line management responsibilities), excluding the Strategic Management Group. These statistics show females represent 44% of our people leaders, and males represent 56%. This is encouraging. We continue to look at ways to increase opportunities for wāhine (women) in leadership roles, and on 1 August 2022, were pleased to welcome Heartland Bank's first female CEO, Leanne Lazarus. At Board level, we maintain a 30%+ ratio of wāhine.

For our employees aged 35 and under, the gender balance is encouraging, with 48% reporting as male and 53% reporting as female. Heartland selected four employees under 28 years of age to attend the immersive leadership development experience through Rotary Youth Leadership Awards, with the goal to develop leadership skills and strengthen our leadership pipeline. Our selection criteria aimed to achieve a gender balance across attendees – since 2019, 58% of our selected participants have been wāhine .

We've continued to invest in the individual development of wāhine at Heartland. This is evidenced by 58% of our Rangatahi Advisory Board members being female as at 30 June 2022, and at the end of the 2021 calendar year, four Heartland wāhine also completed the Global Women Activate Leaders Programme.

Leanne Lazarus was appointed Heartland Bank CEO on 1 August 2022.

Both opportunities provide a rich foundation for development for our future female leaders.

To better reflect the current environment and expectations of both current and potential employees, we have refreshed our approach towards supporting flexible working. Heartland's working from home experience during the COVID-19 pandemic was a success, and we remain committed to a flexible approach going forward. We recognise that every individual is different - each one of us has different personal circumstances and different preferences, and different roles require different degrees of face-to-face connection. People leaders are encouraged to take an open-minded approach to requests for flexible working. Whilst we see this as one of the many ways in which we can attract and retain wāhine in more senior roles in the organisation, the benefits of having a flexible working policy extend 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

	As at 30 June 2022				As at 30 June 2021			
Positions	**Female**	**Male**	**Unstated**	**Total**	**Female**	**Male**	**Unstated**	**Total**
Board - Heartland Group Holdings	2 (33%)	4 (67%)	0	**6**	1 (20%)	3 (60%)	1 (20%)	**5**
Board - Heartland Bank	2 (33%)	4 (67%)	0	**6**	2 (33%)	4 (67%)	0	**6**
Strategic Management Group (**SMG**)	3 (30%)	7 (70%)	0	**10**	4 (50%)	4 (50%)	0	**8**
All People Leaders (excl SMG)	47 (44%)	60 (56%)	0	**107**	41 (44%)	52 (56%)	0	**93**
All employees	284 (51%)	266 (48%)	3 (0.5%)	**553**	269 (52%)	241 (47%)	2 (0.4%)	**512**

flexibility enables them to access personal pursuits such as sport, community work, religious celebrations or care for family members.

Increased commitment to gender balance is expected in the year ahead. In FY2022, Heartland established a Growing Families group internally, providing a forum for employees who are parents and caregivers of young children and growing families to connect and share with each other, and to provide input to future initiatives and developments which support gender balance at Heartland.

Members of Manawa Whenua, Heartland's committee for Māori employees and allies.

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 where 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 102 rangatahi (young people) joining the programme as ākonga (interns) over the past five years.

Manawa Ako 2021/2022 intake.

Heartland employees attended reo Māori programme, Kura Reo Pakihi.

Heartland's 2021/2022 Manawa Ako intake required us to pivot to ensure we could continue providing this internship experience amidst changing COVID-19 traffic light settings in New Zealand. We were pleased to successfully run Manawa Ako virtually for 26 ākonga. Along with continuing our relationship with the InZone Education Foundation and a number of secondary schools as part of the programme, this year we also expanded the programme to our iwi partners, which brought a new perspective for the ākonga to identify opportunities to learn about the finance sector and return those learnings to their iwi. Built on the Māori principle of ako, to learn and to teach, while the ākonga gain experience in a corporate environment, Heartland also gains from the valuable perspectives the ākonga bring to the workplace through their close connection to their identity.

Progress has continued to make Heartland, and thereby the banking sector, more inclusive for Māori. Māori make up 7% of our Heartland population, despite only 2% of people in the financial and insurance services sector identifying as Māori. Consistent with last year, 59% of our employees who identify as Māori are aged 30 and under. This can be attributed to the efforts invested in the Manawa Ako internship programme, with 12 Manawa Ako alumni employed by Heartland as at 30 June 2022. The programme helps to build a workplace where Māori can see a career pathway and establish their career with cultural integrity.

In recognition of our efforts with Manawa Ako, Heartland was a finalist in the 2022 HRNZ Awards in the *Leader Māori HR award* category. The *Leader Māori HR award* is one of two newly launched Mana Tāngata Awards which recognise individuals or organisations commencing the journey to incorporate bicultural HR practices (*Emerging Māori HR*) and those demonstrating excellence in the enactment of tikanga Māori based HR practice (*Leader Māori HR*).

Manawa Whenua, Heartland's internal network for Māori employees and allies, has played a pivotal role in liaising, advising, 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, and, as part of Heartland's commitment, we offer reo Māori lessons to our people. This year was the first year our reo Māori lessons were online for a group of employees who signed up to a ten-week commitment to learning te reo and tikanga Māori. 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.

We recognise that we are in a privileged position to be able to have a positive impact on regenerating our indigenous language, and making the business and finance space more accessible and equitable. As such, we were proud to continue our support for Reo Whairawa's Kura Reo Pakihi programme – a marae-based Māori language course for the financial and accounting community. Three people from Heartland attended the two-day event held this Rotorua in April 2022, with a second cohort attending the course in July. Kura Reo Pakihi provided a great opportunity to connect with others in the industry and collectively support the use and development of te reo Māori.

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. In FY2022, Heartland was pleased to receive the Rainbow Tick. Achieving the Rainbow Tick isn't the end of our journey to create an inclusive space for Rainbow people, but it was a proud moment for us to know we are making good progress.

As part of our support of Pride Month in 2022, our people participated in Sweat with Pride, a fundraising event supporting the Burnett Foundation Aotearoa (formally the New Zealand AIDS Foundation), Rainbow Youth and Outline, being organisations that actively work towards improving mental, physical and sexual health for our Rainbow communities. Heartland employees fundraised $2,021, which Heartland matched.
In the first half of FY2023, we will again be offering educational workshops facilitated by Rainbow Tick to enable our people to learn and understand more about our Rainbow communities.

Heartland employees participated in Sweat with Pride, raising $2,021, which Heartland matched.

Heartland employees are increasingly taking up the option 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.

The activities undertaken over the past year have created a sound foundation which we will continue to build on as we strengthen our focus towards increasing Rainbow awareness and ally-ship, and being an organisation that understands, welcomes and embraces sexuality and gender diversity.

Pay gap reporting[1]

Heartland's commitment to diversity, equity and inclusion extends to ensuring we are providing fair pay to our people. In New Zealand, some of the ways we do this is by being a Living Wage Accredited Employer, and through our participation in MindtheGap pay gap reporting.

In FY2022, Heartland was one of just seven organisations in New Zealand who committed to reporting pay gaps for gender, Māori and Pasifika when the MindtheGap pay gap reporting register was launched in March 2022.

We know that the financial and insurance services industry gender pay gap is 31%. At 30 June 2022 our gender pay gap was 24%. While this is lower than the industry average, we are committed to reducing it and our ethnic pay gaps further.
Our reporting on ethnic pay gaps is limited to those who choose to identify as Māori or Pasifika.

Work is underway to gain a greater understanding of ethnic representation at Heartland, and we hope to provide a more accurate representation of ethnic pay gaps over time.

FY2022 pay gaps

- Gender pay gap: the gap between the median pay of men and women across all New Zealand roles at Heartland is 24%.
- Māori pay gap: the gap between the median pay of non-Māori and Māori across all New Zealand roles at Heartland is 32%.
- Pasifika pay gap: the gap between the median pay of non-Pasifika and Pasifika across all New Zealand roles at Heartland is 29%.

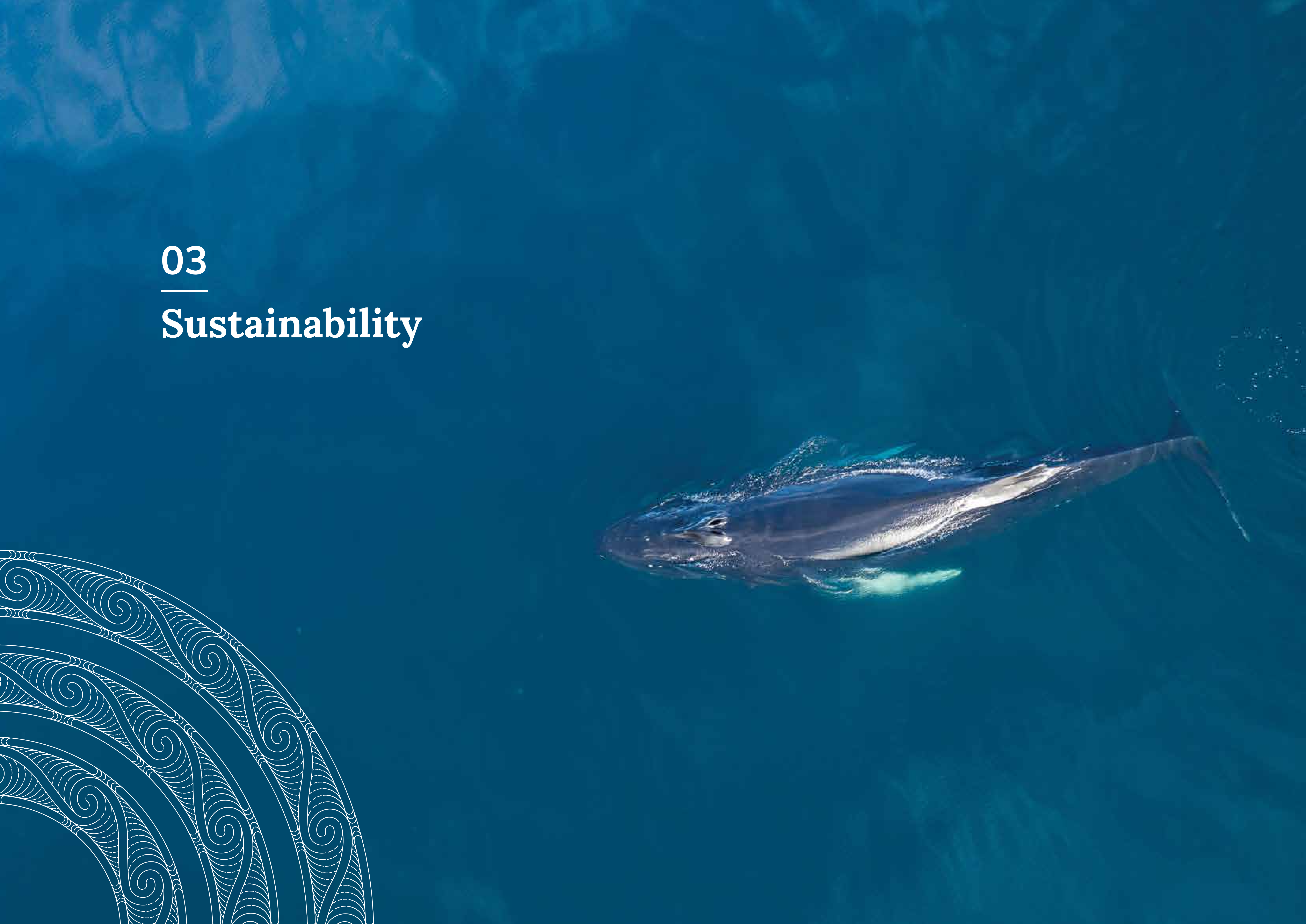
[1] Heartland's pay gap reporting includes pay for all New Zealand employees, including base pay and discretionary payments.

We are very proud of what we have continued to achieve in FY2022 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 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 Heartland.

03

Sustainability



Heartland's sustainability framework encapsulates our environmental, social and economic impact across New Zealand and Australia, and was defined for the first time in our Annual Report for the financial year ended 30 June 2020 (**FY2020**). In the two years since then, Heartland has achieved a number of milestones across these three pillars.

Now, as we begin our third year operating within this framework, our intention is to embed sustainability as a strategic focus throughout the business. By promoting sustainable ideals in all facets of the organisation, we can ensure we are operating in a way that's sustainable for our planet, customers, communities and stakeholders.

We're proud to share with you Heartland's FY2022 achievements across our three-pillar framework, and our trajectory and goals for the coming financial year.

Te atawhai ā-taiao
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

Amidst the challenges posed during FY2022 by COVID-19 lockdowns and restrictions, there were silver linings to be found – particularly from an environmental perspective.

Heartland continued work towards hitting our ambitious emissions reduction targets, achieving a 31% absolute reduction in our most recent reporting period (FY2021). An estimated 21% of which can be attributed to newly embedded ways of operating which reduce carbon emissions, and the remainder of which is a result of the ongoing impact of COVID-19. This puts us ahead of track to meet our absolute GHG emissions reduction target of 35% by the end of the financial year ending 30 June 2026 (**FY2026**), compared with our baseline for the financial year ended 30 June 2019 (**FY2019**).

Heartland's vehicle fleet is the single biggest contributor towards our GHG emissions. For that reason, fleet optimisation has been one of our primary environmental conservation focuses for a number of years, with FY2021 seeing the achievement of a 7% decrease in fleet size. During FY2022, we're pleased to confirm that we began phasing out our petrol- and diesel-engine fleet, starting with the replacement of all internal 4WD vehicles (equating 23% of the total fleet) with hybrid alternatives. The remaining 77% of the fleet (2WD petrol cars) will be considered for replacement in the first half of FY2023. Heartland has also commenced the installation of EV charging stations at our key office locations.

In terms of funding more fuel-efficient vehicles for customers, Heartland is financing an increasing number of "new generation" (electric and hybrid) vehicles. During FY2022, 5% of vehicles financed in our Motor portfolio were new generation. However, that percentage increased steadily over the year and continues to climb as Heartland's key partners (including Kia, Peugeot, Citroen, Jaguar and Land Rover) increase their production of new generation vehicles.

FY2022 also brought with it the introduction of a mandatory reporting regime for climate-related disclosures in New Zealand through the Financial Sector (Climate-related Disclosures and Other Matters) Amendment Act 2021. This comes into effect from FY2024 and will require qualifying financial institutions to report on their environmental impact in a way that's visible to the market. Through our memberships with the New Zealand Bankers Association and the Climate Leaders Coalition, Heartland contributed to the consultation process for this new regime.

Our FY2022 GHG emissions are currently being measured to ensure that we will be in a position to report our FY2023 GHG emissions as part of our FY2023 financial reporting. From FY2023, Heartland's GHG emissions reporting will include emissions attributed to customer activity enabled though lending.

Analysis of the physical risks (including flood, drought or other natural hazard risk) and transitional risks (including the potential for climate change related regulatory change, the ongoing availability of insurance, and changes in borrower behaviour and preferences) has also been conducted using two climate change scenarios over the medium- and long-term, to understand the potential impact of climate change on our product portfolios. This will support informed decision making going forward.

Heartland is building good momentum in respect of our environmental conservation efforts, however, there is much to do. We are committed to continuing to transition our business and support our customers to transition to a lower carbon future. This includes remaining focused on lowering our emissions activity to hit our FY2026 emissions reduction targets. In FY2023, we also intend to continue to engage our employees in sustainability-minded activities and more actively support the green initiatives of our customers, intermediaries and branded partners.

798.62 tCO2e — **GHG emissions in FY2021,** reduced from 955 tCO2e in FY2020

21% — **COVID-19-adjusted reduction** in GHG emissions

Increasingly financing "new generation" vehicles

23% — **of vehicle fleet replaced** with hybrid alternatives

Heartland employee Shreyansh Patni participating in the Aotearoa Bike Challenge, where Heartland employees rode 1,087km, saving 32kg of CO^2.

Motor Finance Regional Manager, Matt Atkin, and his children, with his new hybrid vehicle.

Te tōkeke ā-hapori
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

He aha te mea nui o tea o? He tangata, he tangata, he tangata!

What is the most important thing in the world? It is people, it is people, it is people!

Heartland has been part of the fabric of the New Zealand community since 1875, and we remain dedicated to supporting our people, customers and local communities.

In FY2022, we achieved our goal of becoming Rainbow Tick Accredited, demonstrating our ongoing commitment to being an organisation that understands, welcomes and embraces sexuality and gender diversity. Heartland also introduced pay gap reporting around gender and ethnicity during FY2022, and was one of only seven organisations to disclose its gender, Māori and Pasifika pay gap measures on the first day of the registry's launch. Our gender pay gap as at 30 June 2022 of 24% is better than the financial and insurance services industry average of 31%. While this is a good start, it is still far too high, and we are committed to reducing our pay gaps further. More detail about Heartland's diversity and inclusion commitments are described in the Diversity report on page 31.

Through the Heartland Trust[1], we continued supporting organisations and initiatives in the areas of education and learning, arts and culture, and mental health and wellbeing over the course of the financial year. Heartland Trust grants for FY2022 totalled $501,933. This included giving back to the community through grants to Auckland City Mission, InZone Education, and various high school and club rugby teams.

Among the initiatives funded through the Heartland Trust in FY2022 was Heartland Bank's 2021-2022 Manawa Ako intake. The Manawa Ako internship programme is Heartland's annual 6-week paid internship programme for rangatahi Māori and Pasifika, which this year was recognised as a finalist in the 2022 HRNZ Awards' Leader Māori HR award category (read more in the Diversity report on page 31).

Social equity includes creating a work environment where our people can thrive. Ensuring alignment between individual and organisational values is a great contributor to this. In May, we refreshed our mātāpono (values) and conducted a survey to understand the connection our people have to our Heartland mātāpono, so we know what we are doing well, and where we need to improve. Pleasingly, 93% of employees resonate with our mātāpono, stating that they are values that are important to them personally.

As part of Heartland's commitment to social equity, we aim to ensure that we prevent any connection to modern day slavery, whether through our own practices, our customers or our supply chain. In FY2022, we implemented processes and controls across Heartland Group to assess our risk exposure to modern day slavery practices on an ongoing basis and have found the exposure to be relatively limited – however, ongoing improvements continue to be made, including developing a due diligence framework for ongoing governance of higher risk suppliers.

In FY2023, our main focuses in the social equity space continue to be on achieving gender and ethnic balance at all levels of the organisation, including working towards reducing our pay gaps.

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

	Began reporting gender, Māori and Pasifika pay gaps
	Received Rainbow Tick accreditation
26	rangatahi Māori and Pasifika who took part in the **2021-2022 Manawa Ako internship programme**
$501,933	**granted through the** Heartland Trust
	Finalist for Leader Māori HR award at the 2022 HRNZ Awards for Manawa Ako
93%	**of employees resonate with** Heartland's mātāpono (values)

Te tōnuitanga ohaoha
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

FY2022 saw a number of exciting developments for Heartland from an economic prosperity point of view – particularly across the ditch.

Heartland's $154.4 million acquisition of livestock financier StockCo Australia was finalised on 31 May 2022, a purchase that is expected to contribute additional annual net profit after tax of A$10-12 million, in a market estimated to be worth $7 billion[1]. More information about the StockCo Australia acquisition can be found on page 19.

Heartland's Australian Reverse Mortgage loan book also surpassed $1 billion at the beginning of FY2022, reporting $1.24 billion[2] in Receivables by 30 June 2022 – growth of $846 million in just over eight years. Continued sustainable economic growth in Australia remains one of Heartland's strategic priorities moving forward.

Our New Zealand Reverse Mortgage team also achieved a significant milestone this year, helping their 20,000th customer. Together with our Australian Reverse Mortgages team, we have helped more than 40,000 New Zealanders and Australians to live a more comfortable retirement through a reverse mortgage.

After most of FY2022 presented an extremely low interest rate environment, rates in New Zealand have been steadily inclining, with the average (standard) 1-year mortgage rate of the big four banks increasing by 245 basis points (**bps**) from July 2021 to June 2022.[3] Our self-serve online home loan application has enabled us to continue offering online Home Loans customers with cost-savings through some of New Zealand's lowest mortgage rates, despite the rapidly rising interest rate environment. Our online home loan offering has been a success in proving the merit of a digital-only loan application offering where low onboarding costs mean better rates for customers. We will continue exploring new opportunities where we can adopt similar approaches to other product platforms in the future.

Another notable achievement in the economic prosperity sphere was the updating of our Procurement Policy to connect it more closely with Heartland's sustainability framework. The aim is to promote our values amongst new and existing supply chain partners and support a more diverse and inclusive network. This work was completed in FY2022 and will support us in building stronger, more sustainable supply chain partnerships moving forward.

Heartland continued to deliver positive economic outcomes for shareholders despite the continued economic challenges presented by COVID-19. We were pleased to be able to pay a final dividend of 5.5 cps, bringing our total dividend in respect of FY2022 to 11.0 cps with a full year payout ratio of 68%, consistent with the average over the last three years.

In addition to this, Heartland delivered total shareholder return (**TSR**) of 66.9% over the last five years (19 August 2017 – 19 August 2022), compared with the NZX50 Index TSR of 56.7% in the same period, while also delivering growth in EPS (up 1.2 cps to 16.1 cps)[4].

In conjunction with our full year results announcement for FY2022, we also announced a proposed equity raise of $200 million to repay a A$158 million debt from the acquisition of StockCo Australia, and to fund future growth ambitions in Australia and New Zealand – our first equity raise since 2017. The equity raise included a $130 million fully underwritten placement and a non-underwritten share purchase plan to shareholders in New Zealand and Australia of up to $70 million, with the ability for Heartland to accept oversubscriptions. Pleasingly, the Placement was fully subscribed and the SPP received applications totalling approximately $68.8 million.

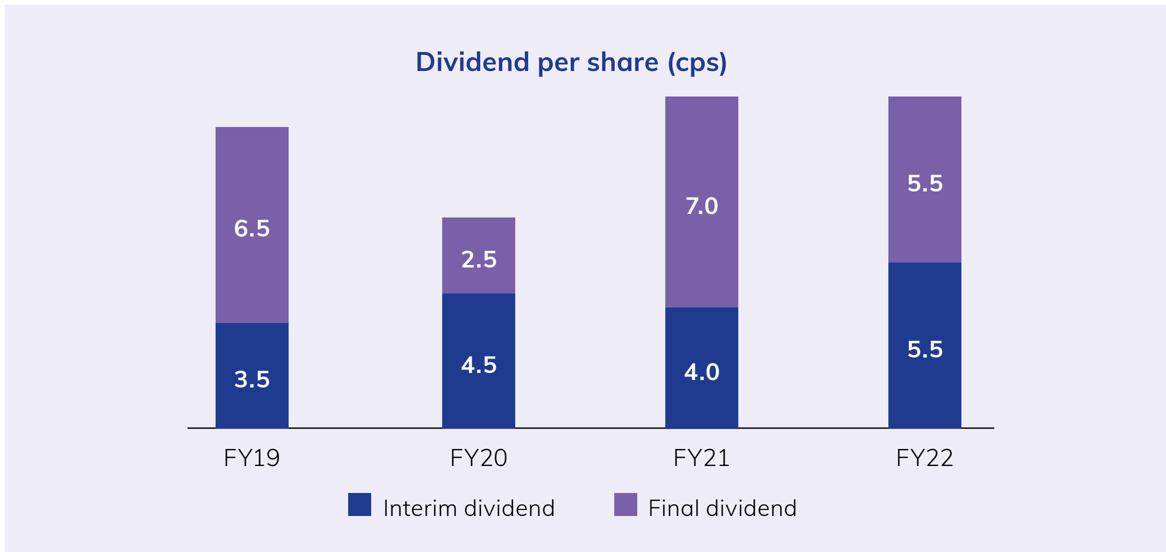
[1] Based on Australia Bureau of Statistics total rural debt and StockCo Australia data.
[2] Excluding FX impact.
[3] Calculated by averaging ANZ, ASB, BNZ and Westpac's standard (non-special) 1-year mortgage rates as advertised on interest.co.nz, comparing 4 July 2021 with 23 June 2022.
[4] Underlying EPS was 16.3 cps, up 1.2 cps from FY2021.

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

40,000 New Zealanders and Australians enabled to **live a more comfortable retirement** through a Reverse Mortgage

66.9% **Total shareholder return** over the last five years (19 August 2017 – 19 August 2022)

$198.6m **Funding raised through 2022 equity raise** to enable future growth ambitions



04

Disclosures

Te urungi ā-rangatōpū
Corporate governance

This corporate governance statement describes Heartland's corporate governance policies and practices as at 30 June 2022, 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 matters explained in the "Principle 2 – Board Composition & Performance" and "Principle 3 – Board Committees" sections to follow, it was fully compliant with the corporate governance principles contained in the NZX Corporate Governance Code (**the NZX Code**) as at 30 June 2022.

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 Group 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; and
- the procedure for advising Heartland of a suspected breach.

Every new director or employee is to be provided with a copy of the Code of Conduct and is required to read it. Each director and employee has an obligation, at all times, to comply with the spirit as well as the letter of the law, and 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 8 meetings, and the Heartland Bank Board held 8 meetings, during the year ended 30 June 2022. The following table shows attendance by each director at the meetings of the Heartland and Heartland Bank Boards and Heartland Board Committees of which he or she was a member.

	Heartland Board		Heartland Bank Board	
	Attended as Director	Attended as Observer	Attended as Director	Attended as Observer
J K Greenslade	8	-	7	-
E F Comerford	8	-	-	8
E J Harvey	-	8	8	-
B R Irvine	-	8	8	-
C R Mace[1]	4	-	-	8
K Mitchell[2]	5	3	8	-
G T Ricketts	8	-	8	-
G R Tomlinson	8	-	-	8
S M Ruha	-	8	8	-
G E Summerhayes[3]	5	1	-	6

[1] C M Mace resigned from the Heartland Board on 28 October 2021.
[2] K Mitchell joined the Heartland Board on 1 October 2021.
[3] G E Summerhayes joined the Heartland Board on 1 October 2021.

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

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

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

*** K Mitchell was appointed to the Committee during FY22 and attended all Committee meetings following her appointment.

All of the then serving members of the Board, and Heartland Bank Board, attended the Annual Meeting in-person or virtually, held on 28 October 2021.

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 2022, the Board comprised six directors, being an independent Chairman, the Deputy Chair, the Chief Executive Officer and three non-executive directors. The Board encourages rigorous discussion and analysis when making decisions.

On 1 October 2021, K Mitchell and G E Summerhayes were appointed to the Board. The retirement of C M Mace from the Board was announced on 28 October 2021. K Mitchell was an independent director from appointment and G E Summerhayes became an independent director on 1 January 2022.[4] Accordingly, Heartland did not strictly comply with recommendation 2.8 of the NZX Code[5] during the period from 29 October 2021 to 1 January 2022, as half of the Board were independent directors, rather than a majority. G E Summerhayes' appointment to the Board boosted its director capability with his commercial and regulatory experience. The short period of non-independence allowed him to conclude a contractor arrangement with another member of the Group and was considered appropriate by the Board given its brevity.

As aforementioned, 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 & Inclusion Policy and a report on the measurable objectives which were set for 2022 is included on page 31 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.

As at 30 June 2022, 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 2022 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 & Risk Committee must be an independent director who is not the Chair of the Board.

As at 30 June 2022, the members of the Audit & Risk Committee were E F Comerford (Chair), K Mitchell and G T Ricketts.

[4] G E Summerhayes became an independent director on 1 January 2022 following the cessation of a contractor arrangement with Heartland Australia Group Pty Ltd.

[5] Recommendation 2.8 of the NZX Code provides that a majority of the Board should be independent directors.

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; and
- 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 2022, 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 2022, 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 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; and
- 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 the Group 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 fourth 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 39 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; and
- 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 is kept up to date with relevant market information and best practice, obtaining advice from external advisors when necessary.

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

[6] C M Mace resigned from the Committee and K Mitchell was appointed to the Committee during the financial year ended 30 June 2022.

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 2022, a number of the directors held shares, or a beneficial interest in shares, in Heartland (see the *Directors' disclosures* section on page 59 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 on page 65 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 & Wellbeing Policy. Induction includes instruction on our Health, Safety & Wellbeing Policy and procedures. The Health, Safety & Wellbeing Committee, representing all employees, convenes every second month to discuss reported incidents, incidents 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 2022, 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 & Risk 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 2022.

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 the Heartland Bank Audit Committee and management of Heartland.

Principle 8 – Shareholder rights and 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; and
- 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.

Heartland equity raise – August 2022

On 23 August 2022, Heartland announced a NZ$200 million equity raise via a fully underwritten NZ$130 million placement of new shares (**Placement**) and a non-underwritten share purchase plan offer (**SPP**) of up to NZ$70 million. The Placement was fully subscribed and the SPP had applications totalling approximately $68.8 million. For the purposes of recommendation 8.4 of the NZX Code, below is an explanation of why this capital raising method was preferred.

Heartland elected to undertake this offer structure having regard to the volatile market conditions preceding the offer and its objective to further diversify its share register to promote increased liquidity on both the NZX and ASX.

Heartland endeavoured to treat existing shareholders in eligible jurisdictions fairly through the Placement via an allocation policy that sought, to the extent possible, to provide pro rata allocations to existing shareholders that bid for at least such quantum into the Placement. To further enhance fairness for retail shareholders who participated in the SPP offer (which allows applications up to $50,000), downside pricing protection was provided (but was ultimately not required). This was intended to reduce market risk for retail shareholders during the offer period, which is not available under a rights offer.

In addition, the proposed size of the SPP ($70 million with ability to accept oversubscriptions) was larger than retail demand Heartland had previously seen from its shareholder base. The 2017 SPP received applications totalling $62 million and the 2017 rights offer received applications (including oversubscriptions) for $67 million.

[7] Heartland's trading liquidity is lower than other NZX50 companies of similar size. Increasing liquidity is expected to attract further institutional investors which is positive for Heartland and all shareholders.

[8] The final price was the lower of the Placement price ($1.80) or a 2.5% discount to the 5-day VWAP prior to, and including, the closing date for the SPP Offer. Shares were allocated under the SPP offer at $1.80.

Puakanga kaitohutohu
Directors' disclosures

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 (retired 28 October 2021)
	Kathryn Mitchell	Independent Director (appointed 1 October 2021)
	Geoffrey Edward Summerhayes	Independent Director (appointed 1 October 2021)[1]
Heartland Bank Limited	Bruce Robertson Irvine	Independent Director (Chair)
	Jeffrey Kenneth Greenslade	Non-Independent Director
	Edward John Harvey	Independent Director
	Shelley Maree Ruha	Independent Director
	Kathryn Mitchell	Non-Independent Director
	Geoffrey Thomas Ricketts	Non-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	
Heartland Australia Holdings Pty Ltd	Jeffrey Kenneth Greenslade	
	Christopher David Andrew Cowell	
	Andrew Peter Dixson	
	Sharon Susan Yardley	
	Geoffrey Edward Summerhayes	Appointed 21 March 2022
Heartland Australia Group Pty Ltd	Jeffrey Kenneth Greenslade	
	Christopher David Andrew Cowell	
	Andrew Peter Dixson	
	Sharon Susan Yardley	
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	
VPS Properties Limited	Christopher Patrick Francis Flood	
Fuelled Limited	Christopher Patrick Francis Flood	
StockCo Holdings 2 Pty Limited (acquired 31 May 2022)	Jeffrey Kenneth Greenslade	
	Douglas Robert Snell	
	Andrew Peter Dixson	
	Geoffrey Edward Summerhayes	
StockCo Holdings Pty Limited (acquired 31 May 2022)	Jeffrey Kenneth Greenslade	
	Douglas Robert Snell	
	Andrew Peter Dixson	
StockCo AgriCapital Pty Ltd (acquired 31 May 2022)	Jeffrey Kenneth Greenslade	
	Douglas Robert Snell	
	Andrew Peter Dixson	
StockCo Feedlot Holdings Pty Limited (acquired 31 May 2022)	Jeffrey Kenneth Greenslade	
	Douglas Robert Snell	
StockCo Feedlot Capital Pty Limited (acquired 31 May 2022)	Jeffrey Kenneth Greenslade	
	Douglas Robert Snell	
StockCo Australia Management Pty Ltd (acquired 31 May 2022)	Jeffrey Kenneth Greenslade	
	Douglas Robert Snell	
	Andrew Peter Dixson	Appointed 7 June 2022

[1] Geoff Summerhayes became an independent director on 1 January 2022 following the cessation of a contractor arrangement with Heartland Australia Group Pty Ltd.

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 in such a way that those factors might interfere, or might reasonably be seen to interfere, with the director's capacity to bring an independent judgment to bear on issues before the Board, to act in the best interests of Heartland and to represent the interests of its shareholders generally.

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Interests Register

The following are the entries in the Interests Register of the Group made during the year ended 30 June 2022.

Indemnification and insurance of directors

Heartland has given indemnities to, and has effected insurance for, directors of the Group 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 2022 was $319,987 (including GST).

Share dealings by directors

Details of individual directors' share dealings as entered in the Interests Register of Heartland and Heartland Bank under Section 148(2) of the Companies Act 1993 during the year ended 30 June 2022 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
15 September 2021	Allotment under DRP	Acquisition	4,023	$9,137.27
16 March 2022	Allotment under DRP	Acquisition	3,499	$7,384.54

B R Irvine

Date of acquisition/ disposal	Nature of relevant interest	Acquisition/disposal	No. of shares	Consideration
15 September 2021	Allotment under DRP	Acquisition	3,764	$8,549.01
15 September 2021	Allotment under DRP	Acquisition	13,053	$29,646.71
16 March 2022	Allotment under DRP	Acquisition	3,274	$6,909.68
16 March 2022	Allotment under DRP	Acquisition	11,354	$23,962.28

S M Ruha

Date of acquisition/ disposal	Nature of relevant interest	Acquisition/disposal	No. of shares	Consideration
15 September 2021	Allotment under DRP	Acquisition	4,420	$10,038.95

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 2022 are as follows:

E J Comerford	No amendments for the year ended 30 June 2022.
E J Harvey	Ceased directorships of Investore Property Limited, Stride Property Limited and Stride Investment Management Limited from 31 May 2022.
B R Irvine	Appointed director to Scenic Circle (Rotorua) Limited, Scenic Circle (Queenstown) Limited, Scenic Hotels Limited, Abalon Investments Limited, Airedale Developments (Auckland) Limited, Scenic Hotels (Tonga) Limited, Waiho Investments Limited, Scenic Circle Hotels Management Services Limited, Scenic Circle Punakaiki Rocks Hotel Limited, Scenic Hotel Collection New Zealand Limited, Scenic Hotels (Auckland) Limited, Scenic Hotels (Niue) Limited, Scenic Hotels (Kaikoura) Limited, Heartland Hotels Limited, Scenic (Franz Josef) Limited, Scenic Circle (Airedale) Limited, Scenic Circle (Bay Of Islands) Limited, Platinum Hotels Limited, Scenic Aviation Limited, Scenic Circle (Bay Of Plenty) Limited, Scenic Circle (Blenheim) Limited, Karma Finance Limited, Scenic Circle Hotels (Dunedin) Limited, Refined Hotels Limited, Scenic Hospitality Services Limited, Scenic Circle Glacier Country Hotel Limited, Scenic Circle (North Island) Limited, Scenic Hotels Technology Limited and Scenic Circle (Rotorua Lakes) Limited from 15 December 2021, Ezibed Limited, Mainstay International Hotels (NZ)(2022) Limited, Gold Chain (NZ) Limited, Mainstay International Hotels (2022) Limited and Mitchell Corp New Zealand (2022) Limited from 23 March 2022. Ceased directorship of Rakon ESOP Trustee Limited and Rakon PPS Trustee Limited from 21 June 2022, Rakon Limited from 4 April 2022 and USC Investments Limited from 25 February 2022.
K Mitchell	No amendments for the year ended 30 June 2022.
G T Ricketts	Appointed director to MCF3 Re. Group Limited from 21 December 2021, MCF 11 Limited from 21 October 2021 and MCF3 Architectus Limited from 7 October 2021.Ceased directorship of Tamaki Health Group from 31 March 2022.
S M Ruha	Appointed director to Paysauce Limited from 17 February 2022.
G R Tomlinson	Appointed director to Terra Vitae Vineyards Limited from 30 September 2021 and Villa Maria Estate Limited from 30 September 2021.
J K Greenslade	Appointed director to StockCo Holdings 2 Pty Limited, StockCo Holdings Pty Limited, StockCo AgriCapital Pty Ltd, StockCo Feedlot Holdings Pty Limited, StockCo Feedlot Capital Pty Limited and StockCo Australia Management Pty Ltd from 31 May 2022.
G Summerhayes	Appointed director of Beyond Zero Emissions (BZE) from 30 November 2021, Zurich Investment Management Limited, Zurich Australia Limited, Zurich Australian Insurance Limited, Zurich Financial Services Australia Limited, OnePath Life Limited and OnePath General Insurance Pty Limited from 1 January 2022. Appointed director of Heartland Australia Holdings Pty Ltd from 21 March 2022 and StockCo Holdings 2 Pty Limited from 31 May 2022.

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 the Group (including Heartland Bank) during the period 1 July 2021 to 30 June 2022.

Information used by directors

No director of the Group (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	147,787	6,475,976	Nil
B R Irvine	617,822	6,475,976	Nil
G T Ricketts	13,267,285	6,475,976	Nil
G R Tomlinson	58,392,997	Nil	Nil
S M Ruha	158,536	Nil	Nil
K Mitchell	53,088	Nil	Nil

Directors' remuneration

The current total fee pool for the non-executive directors of the Group approved by shareholders at the Annual Shareholder Meeting of Heartland Bank held on 22 November 2016 is $1,200,000 per annum.[2]

The table below sets out the fees payable to the non-executive directors of Heartland for the year ended 30 June 2022 based on the position(s) held.

Board/committee[3]	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	Chair Member	$15,000 Nill

The total remuneration and value of other benefits[4] received by each non-executive director who held office in Heartland and/or any of its subsidiaries during the year ended 30 June 2022 is set out in the table on next page. Directors' fees exclude GST where appropriate.

[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.

[2] 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 Group Holdings Limited (as opposed to Heartland Bank Limited).

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

[4] 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.

[5] For the purposes of the total remuneration column in this table, A$ fees have been converted to NZ$ using an exchange rate of $1.0406.

Director	Board Fees	Heartland Audit & Risk Committee	Heartland Bank Audit Committee	Heartland Bank Risk Committee	Heartland Corporate Governance, People, Remuneration & Nominations Committee	Other	Total Remuneration[5]
Heartland and Heartland Bank directorships							
E F Comerford	$100,000	$15,000	-		-	-	$115,000
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	$32,610[6]		-	-	-	-	$32,610
G T Ricketts	$150,000		-	-	$15,000	-	$165,000
S M Ruha	$100,000		-	$15,000	-	-	$115,000
G R Tomlinson	$100,000		-	-	-	-	$100,000
G E Summerhayes	$75,000						$75,000
Subsidiary directorships							
A J Aitken	$32,000[7]		-	-	-	-	$32,000
E F Comerford	A$55,000[8]						$57,233
P Drury	$20,000[9]		-	-	-	-	$20,000
C R Mace	$15,000[10]		-	-	-	-	$15,000
R G Udovenya	A$30,000 [11]						$31,218
G E Summerhayes [12]	A$73,860						$76,859
	Total						**$1,199,920**

[6] Retired as a director of Heartland on 28 October 2021.

[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 these 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] Upon cessation of Geoff Summerhayes' contractor arrangement (see footnote 1), all fees payable to him became subject to the $1.2 million fee cap approved by shareholders. So that the directors' fee cap for FY2022 was not exceeded, Geoff Summerhayes agreed to defer payment of part of his FY2022 director fees pending approval by shareholders at the Annual Meeting to increase the total fee pool for non-executive directors.

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

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

STI scheme

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

LTI schemes

Set out on the next page is a summary of the grants made to the CEO under LTI schemes relating to the financial year ended 30 June 2022.

Performance Rights Plan – FY2022 Grant

Under the Performance Rights Plan – FY2022 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 2021 and ending on 30 June 2025, are to vest into shares in Heartland.

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 FY2022 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 2022, the CEO received a fixed salary, a variable remuneration component comprising STI, and other benefits as detailed in the following tables. The tables also show a comparison between the year ended 30 June 2021 and the year ended 30 June 2022 and a summary of the CEO's total remuneration over the last five financial years.

This year, Heartland has presented the following summary using the cost to Heartland (being the accounting cost) of all current LTI grants made to the CEO. 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. The value of the awards which actually vested and were referable to the year ended 30 June 2022 (and previous financial years forming part of the measurement period), being the amount of remuneration actually received by the CEO in relation to service during the relevant financial year, are included in the Breakdown of CEO At Risk Pay (FY2022) table.

CEO remuneration (FY2022 and FY2021)

Financial year ended	Salary	Benefits[13]	At Risk Pay		
			STI	LTI	
30 June 2022	$1,089,200	$10,800	$975,000	**Cost to Heartland in FY2022**	$990,103[14]
30 June 2021	$989,200	$10,800	$1,000,000	**Cost to Heartland in FY2021**	$650,666[15]

Five-year summary of total CEO remuneration

This year Heartland has presented the below summary using the value of the awards which actually vested 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
30 June 2022	89%	$2,000,000	100%	5 years
30 June 2021	100%	N/A	N/A	N/A
30 June 2020	96%	N/A	N/A	N/A
30 June 2019	45%	$1,379,161	100%	FY2019[17]
30 June 2018	90%	$736,489	100%	FY2018[18]

Breakdown of CEO At Risk Pay (FY2022)

	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.[19]	89%
LTI	Value of $389,707 on vesting of performance rights, subject to achievement of certain performance measures.[20]	Based on achievement of certain financial measures, specified culture and conduct measures and key strategic objectives over the period commencing 1 July 2017 and ending on 30 June 2022.	100%

[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 three-year service period and FY2022 grant spread over its four-year period.

[15] Cost of FY2018/2019 grant spread over the four-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 three-year service period.

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

[17] The service period for the Senior Executive Scheme shares which are being treated as vesting in FY2019 was FY2019.

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

[19] STI payments are entirely discretionary and entitlement is not guaranteed even if measures are achieved.

[20] Value of the grant which vested on 24 August 2022 and in respect of which Heartland shares were allotted on 16 September 2022, spread over its five-year service period. One fifth is referable to FY2022, with the other four fifths referable to FY2018 to FY2021, respectively. The total value of the awards which actually vested is $1,948,536.

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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 (2022 Grant)	LTI Value ($2,500,000) / the Volume Weighted Average of the sale prices (VWAP) of Heartland's shares on the NZX measured over the 20 Business Days after Heartland announced its full year results for the financial year ended 30 June 2021.	$2,500,000 face value. 100% vesting on full achievement of performance measures or partial vesting depending upon the extent to which performance measures were met.	22 September 2021 to the date falling 1 business day following the date on which Heartland announces its full year results for the year ending 30 June 2025.	Continued employment and achievement of certain financial performance, culture and conduct, and strategic objectives during the vesting period.

[21] $2.283659 was the VWAP used at the time of calculating the performance rights.

Five-year summary of Heartland's TSR performance (30 June 2017 – 30 June 2022)

The above five-year total shareholder return (**TSR**) performance graph is provided to aid comparability between Heartland's performance and the remuneration information provided in this section. TSR has been calculated as at the end of the five-year period to 30 June 2022, 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 employee remuneration

The CEO's salary as a multiple of the employee average is 11.08 times (FY2021: 10.5 times), and his total remuneration as a multiple of the employee average is 23.17 times (FY2021: 19.76 times).

Utu tumu whakarae
Executive remuneration

The number of Heartland employees (including former employees, and excluding directors) who received remuneration (including non-cash benefits) in excess of $100,000 during FY2022 is detailed in the remuneration bands below.

Remuneration	Number of employees
$100,000 - $109,999	18
$110,000 - $119,999	25
$120,000 - $129,999	28
$130,000 - $139,999	19
$140,000 - $149,999	21
$150,000 - $159,999	10
$160,000 - $169,999	7
$170,000 - $179,999	7
$180,000 - $189,999	3
$190,000 - $199,999	1
$200,000 - $209,999	2
$210,000 - $219,999	2
$220,000 - $229,999	3
$240,000 - $249,999	1
$250,000 - $259,999	3
$260,000 - $269,999	2
$270,000 - $279,999	2
$280,000 - $289,999	1
$290,000 - $299,999	3
$310,000 - $319,999	2
$320,000 - $329,999	1
$330,000 - $339,999	2
$410,000 - $419,999	1
$480,000 - $489,999	1
$490,000 - $499,999	2
$560,000 - $569,999	1
$640,000 - $649,999	1
$650,000 - $659,999	1
$790,000 - $799,999	1
$1,160,000 - $1,169,999	1
Grand total	**172**

Mōhiohio o te hunga whaipānga
Shareholder information

Spread of shares

Set out below are details of the spread of shareholders of Heartland as at 1 August 2022 (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	1,554	838,880	0.14
1,001 - 5,000 shares	3,453	9,895,544	1.67
5,001 - 10,000 shares	2,315	17,350,479	2.93
10,001 - 50,000 shares	4,494	101,587,476	17.13
50,001 - 100,000 shares	787	55,078,196	9.29
100,001 shares and over	522	408,153,245	68.84
Total	**13,125**	**592,903,820**	**100.00**

Twenty largest shareholders

Set out below are details of the 20 largest shareholders of Heartland as at 1 August 2022 (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	9.85
2	FNZ Custodians Limited	36,514,324	6.16
3	Citibank Nominees (NZ) Limited	21,805,682	3.68
4	Custodial Services Limited	15,322,226	2.58
5	New Zealand Depository Nominee	14,352,370	2.42
6	Oceania & Eastern Limited	13,267,285	2.24
7	Philip Maurice Carter	11,416,647	1.93
8	Accident Compensation Corporation	11,053,136	1.86
9	Bnp Paribas Nominees NZ Limited	10,800,202	1.82
10	Hobson Wealth Custodian Limited	10,024,636	1.69
11	JPMORGAN Chase Bank	7,294,515	1,23
12	HSBC Nominees (New Zealand) Limited <040-016842-230>	6,986,841	1.18
13	Heartland Trust	6,475,976	1.09
14	HSBC Nominees (New Zealand) Limited	5,322,984	0.90
15	Pt Booster Investments Nominees Limited	4,801,906	0.81
16	Jarden Custodians Limited	4,794,667	0.81
17	Public Trust	4,496,317	0.76
18	Forsyth Barr Custodians Limited	4,240,931	0.72
19	ASB Nominees Limited	4,230,735	0.71
20	TEA Custodians Limited	4,003,012	0.68
Total		**255,597,389**	**43.12**

Substantial product holders

As at 30 June 2022, the following product holders are substantial product holders in Heartland.

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	9.85

Mōhiohio kē atu
Other information

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 2022 was $879,000. The amount of fees payable to KPMG for non-audit work during the year ended 30 June 2022 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 (**Fitch**) long-term credit rating of BBB (outlook negative). Heartland Bank has a Fitch long-term credit rating of BBB (outlook stable) and Heartland Australia Group Pty Ltd has a Fitch long-term credit rating of BBB- (outlook negative).

Donations

The total amount of donations made by Heartland during the year ended 30 June 2022 was $5,034.

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 2022.

NZX waivers

No waivers were granted to Heartland or relied on by Heartland during the 12 month period to 30 June 2022. However, the following is a summary of the waivers granted by NZ RegCo to Heartland on 22 August 2022 relating to Heartland's $200 million equity raise via a fully underwritten $130 million placement of new shares and a non-underwritten SPP offer of up to $70 million which was announced on 23 August 2022 (**Offer**):

- **Waiver under Listing Rule 3.14.1:**
  This Listing Rule requires an issuer to release details of a proposal to pay a dividend at least five business days before the record date. The waiver permitted Heartland to have a shorter three business day notice period. Heartland wished to set the record date so that any shares allotted under the Offer would not be able to participate in the dividend relating to FY2022. This waiver was granted by the NZ RegCo for the reasons described in its decision.
- **Waiver from Listing Rule 4.14.1(b)(ii)(A):**
  This waiver permits Heartland to acquire Heartland shares from an employee who is also a director of Heartland. This waiver was obtained from NZ RegCo in the context of the long term incentive scheme operated by Heartland under which selected employees are offered performance share rights (**PRs**) to be converted to ordinary shares in Heartland (**Shares**), for nil consideration, subject to certain performance hurdles being met (**Scheme**). Heartland wished to assist participants in the Scheme to meet their tax obligations arising when the PRs vested by offering to pay PAYE on the participants' behalf and funding the participants' corresponding liability to Heartland by buying back an amount of the Shares equal in value to the participants' PAYE liability. Listing Rule 4.14.1(b)(ii)(A) would have prevented Heartland purchasing shares off a participant who is also a director of Heartland, so a waiver from NZ RegCo was sought to enable all Scheme participants to receive the buyback offer. This waiver was granted by the NZ RegCo for the reasons described in its decision.

For further information about this equity raise refer to page 58 in the Corporate governance section of this Annual Report.

05

Our financial results

Whakawākanga ahumoni
Financial commentary

Heartland (**NZX/ASX: HGH**) was pleased to announce a NPAT of $95.1 million for FY2022, an increase of $8.1 million (9.3%) compared with FY2021[1]. On an underlying[2] basis, FY2022 NPAT was $96.1 million, an increase of $8.2 million (9.3%) compared with the FY2021 underlying NPAT.

Financial position

Total assets increased by $1,412.7 million (24.9%) during FY2022, driven by a $1,177.5 million (23.5%) increase in gross finance receivables (**Receivables**)[3].

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

Borrowings[4] increased by $1,312.1 million (27.0%). On an underlying basis, which excludes the impacts of the StockCo Australia acquisition, borrowings increased by $810.4 million (16.7%), with deposits increasing by $409.1 million (12.8%), while other borrowings increased by $401.3 million (24.0%) during FY2022.

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

Profitability

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

Return on equity (**ROE**) was 12.1%, up 21 bps from FY2021. Underlying ROE was 12.6%, up 59 bps from FY2021.

Earnings per share (**EPS**) was 16.1 cps, up 1.2 cps from FY2021. Underlying EPS was 16.3 cps, also up 1.2 cps from FY2021.

FY2022 reported results include StockCo Australia earnings contribution since the completion of the acquisition on 31 May 2022, and one-off items which should be considered when analysing the underlying result[2].

Significant one-off items included in Heartland's FY2022 reported results are outlined on the next page.

[1] All comparative results are based on the audited full year consolidated financial statements of the Group for FY2021.
[2] Underlying results exclude the impacts of StockCo Australia and one-offs. Refer to Profitability for a summary of reported and underlying FY2022 results. A detailed reconciliation between reported and underlying financial information, including details about FY2022 one-offs, is set out in Appendix 3 on page 47 of Heartland's FY2022 full year results investor presentation available at shareholders.heartland.co.nz.
General information about the use of non-GAAP financial measures is set out on page 3 of that presentation.
[3] Receivables include Reverse Mortgages and StockCo Australia.
[4] Includes retail deposits and other borrowings.

1. Hedge accounting impacts: A $16.7 million gain was recognised in relation to derivatives that were de-designated from hedge accounting relationships. Heartland's hedging strategy was economically very effective throughout FY2022, with interest rate swaps utilised to hedge fixed lending with tenors greater than 12 months to 3-month Bank Bill Reference Rate (**BKBM**), thus limiting volatility to future interest rate changes. However, 3-month BKBM ceased to be an identifiable risk for hedging relationships during FY2022. This resulted in balances held in the Cash Flow Hedge Reserve against these hedge relationships having to be released to the profit and loss for the 30 June 2022 period.
2. Impairment provisions: The $9.6 million COVID-19 Overlay, originally raised in FY2020, remained entirely unutilised and was released in full. However, given the uncertainty of the current operating environment, it has been considered prudent to create a new $8.0 million Economic Overlay.
3. Fair value loss on equity investment in Harmoney: A $12.7 million net fair value loss was recognised on investment in Harmoney shares during FY2022. The fair value as at 30 June 2022 takes into consideration the closing market price of Harmoney shares on the ASX of A$0.71.

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

	Reported			Underlying		
	FY2022	FY2021	Movement	FY2022	FY2021	Movement
NOI[5] ($m)	267.6	251.2	16.4	262.0	247.1	14.9
Operating expenses ($m)	116.8	117.7	(0.9)	111.4	110.8	0.6
NPAT ($m)	95.1	87.0	8.1	96.1	87.9	8.2
Net interest margin (**NIM**)	4.05%	4.35%	(29 bps)	4.16%	4.35%	(19 bps)
NIM excl. liquid assets[6]	4.35%	4.69%	(33 bps)	4.47%	4.69%	(22 bps)
CTI ratio	43.6%	46.8%	(3.2 pps)	42.5%	44.8%	(2.3 pps)
Impairment expense ratio	0.25%	0.31%	(6 bps)	0.29%	0.31%	(2 bps)
ROE	12.1%	11.9%	21 bps	12.6%	12.0%	59 bps
EPS	16.1 cps	14.9 cps	1.2 cps	16.3 cps	15.1 cps	1.2 cps

Income

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

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

Expenses

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

Higher underlying operating expenses were primarily due to a $2.8 million (19.2%) increase in IT and communication expenses, driven by software amortisation and licencing costs as a result of continued investments in technology and digital capabilities.

The CTI ratio decreased to 43.6%, down 3.2 percentage points (**pps**) compared with FY2021. The underlying CTI ratio decreased 2.3 pps to 42.5%.

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

Impairment expense

Impairment expense was $13.8 million, $1.2 million (7.7%) down on FY2021. This includes the net benefit of $1.6 million due to the release of Heartland's $9.6 million COVID-19 Overlay, partially offset by the newly created $8.0 million Economic Overlay. Excluding this and the impacts of the acquisition of StockCo Australia, underlying impairment expense was $15.7 million, $0.7 million (4.9%) higher than in FY2021.

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

Business performance

Asset Finance

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

Asset Finance Receivables increased $62.6 million (11.0%) to $633.6 million. Despite the impacts of COVID-19, new business growth in FY2022 exceeded expectations as Heartland continues to build its intermediated partnership strategy and delivery processes. Demand from the logistics and other productive sectors remained resilient through variable conditions, and activity remains focused in these segments. Significant market share opportunities exist and will be pursued in the financial year ending 30 June 2023 (**FY2023**).

Business

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

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

Business Receivables increased $74.3 million (13.4%)[7] to $629.4 million. Growth in facility utilisation rates has been driven by strong underlying demand in motor vehicle sales combined with erratic shipping schedules. Heartland has onboarded new customers in this segment, and supported the growth strategies of wholesale borrowers in other sectors.

Open for Business

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

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

O4B Receivables decreased $3.3 million (2.3%)[7] to $141.2 million. COVID-19 interrupted momentum in Heartland's O4B target market more severely than in other Business segments. Although there were signs of recovery early in FY2022, the arrival of the Omicron COVID-19 variant adversely impacted sector demand again. O4B growth in FY2023 will remain challenging as the SME sector struggles to accommodate difficult macro-economic, logistical, and labour conditions.

Motor

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

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

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

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

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

Personal Lending

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

Personal Lending Receivables decreased by $67.3 million (50.9%) to $64.9 million. Harmoney Receivables decreased by $94.9 million (75.6%)[7], made up of a decrease in the New Zealand Harmoney channel of $58.3 million (76.0%) to $18.4 million, and a decrease in the Australian Harmoney channel of $36.6 million (74.9%)[7] to $12.2 million.

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

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

Home Loans[8]

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

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

Although growth in Q2 (1 October to 31 December 2021) was adversely impacted by the unintended effects of the CCCFA changes, Q3 (1 January to 31 March 2022) advertising saw a return to rapid growth, with the Home Loans book size increasing by $51.8 million. Heartland's commitment to decision new loan applications within 48 hours of receipt of all loan documentation has further disrupted a credit market in which longer timeframes have traditionally prevailed. Heartland has also experienced strong customer retention in a competitive market – the retention rate for customers whose fixed rates expired during the second half of FY2022 (**2H2022**) was 91.1%.

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

[8] Excludes legacy Retail Mortgages.

Rural

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

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

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

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

StockCo Australia

On 31 May 2022, Heartland completed the acquisition of StockCo Australia. StockCo Australia specialises in livestock finance for cattle and sheep farmers across Australia (74% cattle/26% sheep), with total assets of A$358 million, and a leading position in the market, estimated to be A$7 billion.[9]

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

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

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

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

New Zealand Reverse Mortgages

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

Growth was due to:

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

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

Australian Reverse Mortgages

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

Australian Reverse Mortgages Receivables increased by $163.8 million (15.2%)[10] to $1.24 billion, driven primarily by:

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

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

Funding and liquidity

Heartland increased borrowings by $1,312.1 million (26.9%) to $6,170.7 million, contributed to by increases in New Zealand and Australia.

On an underlying basis, which excludes the impacts of the StockCo Australia acquisition, borrowings increased by $810.4 million (16.7%) to $5,669.0 million.

New Zealand

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

Deposits[11] grew $377.6 million (11.7%) during FY2022 to $3,597.1 million, which was driven primarily by the launch of a 32 Day Notice Saver product early in the period and, more recently, a 90 Day Notice Saver product.

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

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

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

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

Heartland Bank's capital position has progressively increased during FY2022, reflecting its continued strong profitability and partial removal of the RBNZ restrictions on distributions. Heartland Bank's regulatory capital ratio was 13.49% as at 30 June 2022 (30 June 2021: 13.88%), well in excess of regulatory minimums, and providing a strong platform for Heartland Bank to meet RBNZ's future higher capital requirements. These requirements are for a core capital ratio of 11.50% and a total capital ratio of 16.00% by 1 July 2028.

Australia

The Heartland Australia group (comprising Heartland Australia Holdings Pty Ltd and its subsidiaries) increased borrowings by A$102.6 million (9.3%) to A$1,200.2 million.

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

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

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

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

Tauākī ahumoni
Financial statements
for the year ended 30 June 2022

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Financial statements

General information

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

Name and address for service

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

Details of incorporation

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

Auditor

KPMG
KPMG Centre
18 Viaduct Harbour Avenue
Auckland 1010

Other material matters

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

Directors

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

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

There have been no other changes to the composition of the Board of Directors of the Group for the year ended 30 June 2022.

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

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

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

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

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

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

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

Name: Jeffrey Kenneth Greenslade
Qualifications: LLB
Type of Director: Non-Independent Executive Director
Occupation: Chief Executive Officer of HGH
External Directorships: Henley Family Investments Limited.

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

Name: Geoffrey Edward Summerhayes
Qualifications: BBA
Type of Director: Independent Non-Executive Director
Occupation: Company Director
External Directorships: Zurich Financial Services Australia Limited, Zurich Australian Insurance Limited, Zurich Investment Management Limited, Zurich Australia Limited, OnePath Life Limited, OnePath General Insurance Pty Limited.

Directors' statements

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

G T Ricketts (Chair)

E F Comerford

J K Greenslade

G R Tomlinson

K Mitchell

G E Summerhayes

Consolidated statement of comprehensive income

For the year ended 30 June 2022

$000s	Note	June 2022	June 2021
Interest income	3	342,101	327,935
Interest expense	3	91,959	94,418
Net interest income		**250,142**	**233,517**
Operating lease income	4	5,284	5,004
Operating lease expense	4	3,383	3,149
Net operating lease income		**1,901**	**1,855**
Lending and credit fee income		9,639	8,090
Other income	5	18,933	3,634
Net operating income		**280,615**	**247,096**
Operating expenses	6	116,753	117,658
Profit before impaired asset expense and income tax		**163,862**	**129,438**
Fair value (loss)/gain on investment		(12,998)	4,092
Impaired asset expense	8	13,823	14,974
Profit before income tax		**137,041**	**118,556**
Income tax expense	9	41,916	31,530
Profit for the year		**95,125**	**87,026**
Other comprehensive income			
Items that are or may be reclassified subsequently to profit or loss, net of income tax:			
Effective portion of change in fair value of derivative financial instruments		7,041	8,940
Movement in fair value reserve		(712)	(5,646)
Movement in foreign currency translation reserve		2,340	(68)
Items that will not be reclassified to profit or loss, net of income tax:			
Movement in defined benefit reserve		(171)	-
Other comprehensive income		(473)	-
Other comprehensive income/(loss) for the year, net of income tax		**8,025**	**3,226**
Total comprehensive income for the year		**103,150**	**90,252**
Earnings per share			
Basic earnings per share	10	16.13c	14.92c
Diluted earnings per share	10	16.13c	14.92c

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

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

Consolidated statement of changes in equity

For the year ended 30 June 2022

		June 2022				June 2021			
$000s	**Note**	**Share Capital**	**Reserves**	**Retained Earnings**	**Total Equity**	**Share Capital**	**Reserves**	**Retained Earnings**	**Total Equity**
Balance at beginning of year		**583,781**	**(477)**	**178,388**	**761,692**	**576,25**	**(5,500)**	**129,223**	**699,980**
Total comprehensive income for the year									
Profit for the year		-	-	95,125	95,125	-	-	87,026	87,026
Other comprehensive income /(loss), net of income tax	17	-	8,498	(473)	8,025	-	3,226	-	3,226
Total comprehensive income for the year		**-**	**8,498**	**94,652**	**103,150**	**-**	**3,226**	**87,026**	**90,252**
Contributions by and distributions to owners									
Dividends paid	16	-	-	(73,454)	(73,454)	-	-	(37,861)	(37,861)
Dividend reinvestment plan	16	15,404	-	-	15,404	7,524	-	-	7,524
Share based payments		-	1,915	-	1,915	-	1,797	-	1,797
Total transactions with owners		**15,404**	**1,915**	**(73,454)**	**(56,135)**	**7,524**	**1,797**	**(37,861)**	**(28,540)**
Balance at end of the year		**599,185**	**9,936**	**199,586**	**808,707**	**583,781**	**(477)**	**178,388**	**761,692**

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

Consolidated statement of financial position

As at 30 June 2022

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

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

Consolidated statement of cash flows

For the year ended 30 June 2022

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

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

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

Consolidated statement of cash flows (continued)

For the year ended 30 June 2022

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

$000s	Note	June 2022	June 2021
Profit for the year		**95,125**	**87,026**
Add/(less) non-cash items:			
Depreciation and amortisation expense		10,691	14,615
Depreciation on lease vehicles	14	3,103	2,801
Capitalised net interest income and fee income		(95,271)	(68,755)
Impaired asset expense	8	13,823	14,974
Investment fair value movement		12,998	(4,092)
Other non-cash items		(30,407)	(24,538)
Total non-cash items		**(85,063)**	**(64,995)**
Add/(less) movements in operating assets and liabilities:			
Finance receivables		(693,512)	(296,754)
Operating lease vehicles		(6,277)	5,033
Other assets		(207)	3,448
Current tax		14,604	(4,863)
Derivative financial instruments		(23,214)	(163)
Deferred tax		(8,957)	3,006
Deposits		407,484	(74,608)
Other liabilities		37,703	3,392
Total movements in operating assets and liabilities		**(272,376)**	**(361,509)**
Net cash flows applied to operating activities[1]		**(262,314)**	**(339,478)**

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

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

Notes to the financial statements

For the year ended 30 June 2022

1. Financial statements preparation

Reporting entity

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

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

Basis of preparation

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

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

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

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

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

Basis of measurement

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

Principles of consolidation

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

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

1. Financial statements preparation (continued)

Changes in accounting standards

Accounting standards issued and effective

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

Accounting standards issued but not yet effective

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

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

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

Estimates and judgements

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

- Provisions for impairment - The effect of credit risk is quantified based on the Group's best estimate of future cash repayments and proceeds from any security held or by reference to risk profile groupings, historical loss data and forward-looking information. Refer to Note 8 - Impaired asset expense, and Note 13 - Finance receivables for further details.
- Investment in equity securities - Judgements have been applied in techniques to determine the fair value of Harmoney equity securities to reflect the underlying characteristics. Refer to Note 21 - Fair value for further details.
- Fair value of reverse mortgages - Fair value is quantified by the transaction price and the Group's subsequent best estimate of the risk profile of the reverse mortgage portfolio. Refer to Note 21 - Fair value for further details.
- Goodwill - Determining the fair value of assets and liabilities of acquired businesses requires the Group to exercise judgement. The carrying value of goodwill is tested annually for impairment, refer to Note 18 - Other balance sheet items.

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

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

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

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

Financial assets and liabilities

Financial Assets

Financial assets are classified based on:

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

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

Financial assets are classified into the following measurement categories:

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

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.

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

Financial assets measured at FVOCI

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

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

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.

1. Financial statements preparation (continued)

Financial assets and liabilities (continued)

Financial Liabilities (continued)

Financial liabilities measured at FVTPL

Financial liabilities are measured at FVTPL if:

- they are held for trading whose principal objective is achieved through selling or repurchasing the financial liability in the near term, or forms part of a portfolio of financial instruments that are managed together and for which there is evidence of short-term profit taking; or
- they are designated at FVTPL upon initial recognition to eliminate or reduce an accounting mismatch.

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

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

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

Recognition

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

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. Refer to Note 23 - Credit Risk Exposure for details of this product.
Personal lending	Transactional, home loans and personal loans to individuals.
Business	Term debt, plant and equipment finance, commercial mortgage lending and working capital solutions for small-to-medium sized businesses.
Rural	Specialist financial services to the farming sector, primarily offering livestock finance, rural mortgage lending, seasonal and working capital financing, as well as leasing solutions to farmers.
StockCo Australia	Specialising in livestock finance within Australia. This segment was acquired through the acquisition of StockCo Holdings 2 Pty Ltd and StockCo Australia Management Pty Ltd on 31 May 2022. As at 30 June 2022, one month of Profit and loss is recognised in this segment. Refer to Note 19 - Acquisition for details.
Australia	Reverse mortgage lending and other financial services within Australia.

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

The Group's operating segments are different from the industry categories detailed in Note 23 - Credit risk exposure. The operating segments are primarily categorised by sales channel, whereas Note 23 - Credit risk exposure categorises exposures based on credit risk concentrations.

2 Segmental analysis (continued)

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

2 Segmental analysis (continued)

$000s	Motor	Reverse Mortgages	Personal Lending	Business	Rural	StockCo Australia	Australia	Other	Total
June 2021									
Net interest income	65,829	22,257	12,073	63,898	30,579	-	39,348	(467)	233,517
Net other income	3,343	2,143	1,946	2,723	881	-	2,684	(141)	13,579
Net operating income	**69,172**	**24,400**	**14,019**	**66,621**	**31,460**		**42,032**	**(608)**	**247,096**
Operating expenses	3,787	4,284	6,833	11,340	2,124	-	12,390	76,900	117,658
Profit/(loss) before impaired asset expense and income tax	**65,385**	**20,116**	**7,186**	**55,281**	**29,336**	**-**	**29,642**	**(77,508)**	**129,438**
Fair value gain on investments	-	-	-	-	700	-	-	3,392	4,092
Impaired asset expense	5,298	-	2,081	5,649	1,649	-	297	-	14,974
Profit/(loss) before income tax	**60,087**	**20,116**	**5,105**	**49,632**	**28,387**	**-**	**29,345**	**(74,116)**	**118,556**
Income tax expense	-	-	-	-	-	-	-	31,530	31,530
Profit/(loss) for the year	**60,087**	**20,116**	**5,105**	**49,632**	**28,387**	**-**	**29,345**	**(105,646)**	**87,026**
Total assets	**1,287,978**	**601,505**	**137,910**	**1,225,710**	**586,318**	**-**	**1,149,610**	**688,582**	**5,677,613**
Total liabilities									**4,915,921**

3 Net interest income

Policy

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

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

4 Net operating lease income

Policy

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

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

5 Other income

Policy

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

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

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

6 Operating expenses

Policy

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

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

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

7 Compensation of auditor

$000s	June 2022	June 2021
Audit and review of the financial statements[1]	879	790
Other assurance services paid to auditor [2]	103	103
Total compensation of auditor	**982**	**893**

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

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

8 Impaired asset expense

Policy

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

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

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

Stage 1 - 12 months ECL (past due 30 days or less)
Where there has been no evidence of increased credit risk since initial recognition, and finance receivables are not credit impaired upon origination, the portion of the lifetime ECL associated with the probability of default events occurring within the next 12 months is recognised.

Stage 2 - Lifetime ECL not credit impaired (greater than 30 but less than 90 days past due)
Where there has been a significant increase in credit risk.

Stage 3 - Lifetime ECL credit impaired (90 days past due or more)
Objective evidence of impairment, so are considered to be in default or otherwise credit impaired.

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

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

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

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8 Impaired asset expense (continued)

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

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

9 Taxation

Policy

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

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

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

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

9 Taxation (continued)

Income tax expense

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

9 Taxation (continued)

Deferred tax assets comprise the following temporary differences:

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

Imputation credit account

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

10 Earnings per share

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

Financial Position

11 Investments

Policy

Investments are classified into one of the following categories:

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

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

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

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

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

12 Derivative financial instruments

Policy

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

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

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

Fair value hedge accounting

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

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

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

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

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

Cash flow hedge accounting

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

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

12 Derivative financial instruments (continued)

Cash flow hedge accounting (continued)

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

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

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

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

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

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

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13 Finance receivables

(a) Finance receivables held at amortised cost

Policy

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

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

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

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

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

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

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

13 Finance receivables (continued)

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

Movement in provision

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

$000s	12-Month ECL	Lifetime ECL Not Credit Impaired	Lifetime ECL Credit Impaired	Specific Provision	Total
June 2022					
Non-securitised					
Impairment allowance as at 30 June 2021	**26,591**	**2,405**	**16,823**	**7,629**	**53,448**
Changes in loss allowance					
Transfer between stages	(3,903)	(2,447)	1,074	5,276	-
New and increased provision (net of collective provision releases)	(3,652)	1,998	13,396	5,507	17,249
Recovery of amounts written off	-	-	(3,356)	-	(3,356)
Credit impairment charge	**(7,555)**	**(449)**	**11,114**	**10,783**	**13,893**
Recovery of amounts previously written off	-	-	3,356	-	3,356
Write offs	-	-	(16,692)	(3,411)	(20,103)
Effect of changes in foreign exchange rate	32	3	-	-	35
Acquisition of portfolio	-	-	-	-	-
Impairment allowance as at 30 June 2022	**19,068**	**1,959**	**14,601**	**15,001**	**50,629**
Securitised					
Impairment allowance as at 30 June 2021	**216**	**22**	**1**	**-**	**239**
Changes in loss allowance					
Transfer between stages	(6)	(109)	115	-	-
New and increased provision (net of collective provision releases)	(14)	85	(141)	-	(70)
Recovery of amounts written off	-	-	-	-	-
Credit impairment charge	**(20)**	**(24)**	**(26)**	**-**	**(70)**
Recovery of amounts previously written off	-	-	-	-	-
Write offs	-	-	26	-	26
Effect of changes in foreign exchange rate	-	1	-	-	1
Acquisition of portfolio	992	-	-	188	1,180
Impairment allowance as at 30 June 2022	**1,188**	**(1)**	**1**	**188**	**1,376**

13 Finance receivables (continued)

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

Movement in provision (continued)

$000s	12-Month ECL	Lifetime ECL Not Credit Impaired	Lifetime ECL Credit Impaired	Specific Provision	Total
Total					
Impairment allowance as at 30 June 2021	**26,807**	**2,427**	**16,824**	**7,629**	**53,687**
Changes in loss allowance					
Transfer between stages	(3,909)	(2,556)	1,189	5,276	-
New and increased provision (net of collective provision releases)	(3,666)	2,083	13,255	5,507	17,179
Recovery of amounts written off	-	-	(3,356)	-	(3,356)
Credit impairment charge	**(7,575)**	**(473)**	**11,088**	**10,783**	**13,823**
Recovery of amounts previously written off	-	-	3,356	-	3,356
Write offs	-	-	(16,666)	(3,411)	(20,077)
Effect of changes in foreign exchange rate	32	4	-	-	36
Acquisition of portfolio	992	-	-	188	1,180
Impairment allowance as at 30 June 2022	**20,256**	**1,958**	**14,602**	**15,189**	**52,005**

June 2021

$000s	12-Month ECL	Lifetime ECL Not Credit Impaired	Lifetime ECL Credit Impaired	Specific Provision	Total
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**

13 Finance receivables (continued)

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

Movement in provision (continued)

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

13 Finance receivables

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

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

$000s	12-Month ECL	Lifetime ECL Not Credit Impaired	Lifetime ECL Credit Impaired	Specific Provision	Total
June 2022					
Gross finance receivables as at 30 June 2021	**3,092,653**	**165,793**	**45,564**	**38,143**	**3,342,153**
Transfer between stages	(112,179)	25,532	31,253	55,394	-
Additions	2,433,553	-	-	3,190	2,436,743
Deletions	(1,446,110)	(72,901)	(12,782)	(26,945)	(1,558,738)
Write offs	-	-	(17,921)	(3,411)	(21,332)
Gross finance receivables as at 30 June 2022	**3,967,917**	**118,424**	**46,114**	**66,371**	**4,198,826**
June 2021					
Gross finance receivables as at 30 June 2020	**2,826,208**	**183,260**	**73,729**	**24,667**	**3,107,864**
Transfer between stages	(103,233)	67,419	13,314	22,499	-
Additions	1,435,408	-	-	955	1,436,363
Deletions	(1,065,730)	(84,886)	(20,337)	(466)	(1,171,419)
Write offs	-	-	(21,142)	(9,512)	(30,654)
Gross finance receivables as at 30 June 2021	**3,092,653**	**165,793**	**45,564**	**38,143**	**3,342,153**

(b) Finance receivables held at fair value

Policy

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

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

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

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

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

There were no credit risk adjustments on individual financial assets.

14 Operating lease vehicles

Policy

Operating lease vehicles are stated at cost less accumulated depreciation.

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

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

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

15 Borrowings

Policy

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

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

Deposits and unsubordinated notes rank equally and are unsecured.

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

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

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

- Heartland Auto Receivables Warehouse Trust 2018-1 securitisation facility $400 million, drawn $268 million (2021: $300 million, drawn $108 million). Notes issued to investors are secured over the assets of the Heartland Auto Receivables Warehouse Trust 2018-1 (predominantly motor loans). The facility has a maturity date of 26 August 2023.
- Senior Warehouse Trust securitisation facility AU $600 million, drawn AU $585 million (2021: AU$600 million, drawn AU $556 million). Notes issued to investors are secured over the assets of Seniors Warehouse Trust (predominantly reverse mortgage loans). The facility has a maturity date of 30 September 2025.
- Senior Warehouse Trust No. 2 securitisation facility AU $350 million, drawn AU $210 million (2021: AU$250 million, drawn AU $182 million). Notes issued to investors are secured over the assets of Seniors Warehouse Trust No. 2 (predominantly reverse mortgage loans). The facility has a maturity date of 1 July 2024.

15 Borrowings (continued)

- Atlas 2020-1 Trust securitisation facility AU $127 million, drawn AU $127 million (2021: AU $137 million, drawn AU $137 million). Loans issued to investors are secured over the assets of Atlas 2020-1 Trust (predominantly reverse mortgage loans) and has a maturity date of 24 September 2050.
- StockCo Securitisation Trust 2022-1 securitisation facility AU $300 million, drawn AU $249 million (2021: nil). Loans issued to investors are secured over the assets of StockCo Securitisation Trust 2022-1 (predominantly livestock loans). The facility has a maturity date of 27 May 2024.

16 Share capital and dividends

Policy

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

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

The Group issued 3,930,116 new shares at $2.2713 per share on 15 September 2021 and 3,069,339 new shares at $2.1105 per share on 16 March 2022 under the dividend reinvestment plan for the period (2021: 2,482,921 new shares issued at $1.8035 per share on 16 March 2021 and 2,442,338 new shares at $1.2470 per share on 9 October 2020 under dividend reinvestment plan).

Dividends paid

	June 2022			June 2021		
	Date Declared	Cents Per Share	$000s	Date Declared	Cents Per Share	$000s
Final dividend	24 August 2021	7.0	41,013	17 September 2020	2.5	14,524
Interim dividend	22 February 2022	5.5	32,441	22 February 2021	4.0	23,337
Total dividends paid			**73,454**			**37,861**

17 Other reserves

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

18 Other balance sheet items

Policy

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

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

18 Other balance sheet items (continued)

Policy

Intangible assets

Intangible assets with finite useful lives

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

Goodwill

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

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

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

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

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

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

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18 Other balance sheet items (continued)

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.

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

Policy

Leases

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

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

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

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

18 Other balance sheet items (continued)

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

19 Acquisition

Policy

Business combination

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

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

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

19 Acquisition (continued)

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

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

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

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

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

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

20 Related party transactions and balances

Policy

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

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

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

(a) Transactions with key management personnel

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

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

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

20 Related party transactions and balances (continued)

(a) Transactions with key management personnel

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

(b) Transactions with related parties

HGH is the ultimate parent company of the Group.

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

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

$000s	June 2022	June 2021
Southern Cross Building Society Staff Superannuation Scheme (SCBS)		
Interest expense payable to SCBS	6	12
Management fees receivable from SCBS	10	10
Cash recieved from SCBS	350	-
ASF Custodians Pty Limited		
Audit fees	7	7
Heartland Trust (HT)		
Dividends paid	809	421

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

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

20 Related party transactions and balances (continued)

(c) Other balances with related parties

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

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

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

21 Fair value

Policy

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

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

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

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

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

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

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

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

(a) Financial instruments measured at fair value

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

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

21 Fair value (continued)

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

Investments

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

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

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

Equity Investment in Harmoney Corp Limited

Harmoney Corp Limited (**Harmoney**) listed on the ASX with a foreign exempt listing on the NZX on 19 November 2020, raising AU $92.5 million as part of its Initial Public Offering (**IPO**). As part of the IPO, HGH, alongside other major shareholders, employees and directors, entered into escrow arrangements that restrict the ability to sell its Harmoney shares, with approximately 72% of total shares were subject to escrow arrangements (**Escrow Restrictions**) from the time that Harmoney completed its IPO. There are two categories of escrowed shares: being unaffiliated escrow shareholders and affiliated escrow shareholders. The timing of release of escrowed shareholdings is dependent on these categories. The escrowed shareholdings for unaffiliated escrow shareholders have a two staged release with the first 50% of those escrowed shares released in September 2021 and the remaining 50% released in March 2022. HGH is considered an unaffiliated escrow shareholder for its shareholding recorded at the time of the IPO. The escrowed shareholdings for affiliated escrow shareholders have a three stage release with the first 25% released in September 2021, a second 25% released in March 2022 and the remaining 50% of the affiliated escrow shares (representing 16.3% of the total Harmoney shares on issue) expected to be released at the time or after the release of Harmoney's FY22 annual audited financial report.

Previously, the Escrow Restrictions had significantly reduced the available trading pool of shares, resulting in an illiquid market for the instrument, wide bid-ask spreads and volume that is insufficient to meet the definition of an active market under NZ IFRS 13 Fair Value Measurement for purposes of Harmoney shares traded.

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

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

21 Fair value (continued)

Investment properties

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

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

Finance receivables - reverse mortgages

Reverse mortgage loans are classified at FVTPL. On initial recognition the Group considers the transaction price to represent the fair value of the loan.

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

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

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

At balance date the Group does not consider any of the above expectations to have moved outside of the original expectation range. Therefore, the Group has continued to estimate the fair value of the portfolio at transaction price. There has been no fair value movement recognised in profit or loss during the period (2021: nil). Fair value is not highly sensitive to the above assumptions due to the nature of reverse mortgage loans. In particular, given conservative origination loan-to-value ratio criteria, a material deterioration in house prices combined with a material increase in interest rates over a sustained period of time would likely need to occur before any potential impact to fair value.

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

Derivative financial instruments

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

21 Fair value (continued)

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

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

$000s	Level 1	Level 2	Level 3	Total
June 2022				
Assets				
Investments	279,841	-	7,032	286,873
Investment properties	-	-	11,832	11,832
Derivative financial instruments	-	45,221	-	45,221
Finance receivables - reverse mortgages	-	-	1,996,854	1,996,854
Total financial assets measured at fair value	**279,841**	**45,221**	**2,015,718**	**2,340,780**
Liabilities				
Derivative financial instruments	-	6,341	-	6,341
Total financial liabilities measured at fair value	**-**	**6,341**	**-**	**6,341**
June 2021				
Assets				
Investments	259,041	92,476	20,667	372,184
Investment properties	-	-	11,832	11,832
Derivative financial instruments	-	14,139	-	14,139
Finance receivables - reverse mortgages	-	-	1,676,073	1,676,073
Total financial assets measured at fair value	**259,041**	**106,615**	**1,708,572**	**2,074,228**
Liabilities				
Derivative financial instruments	-	4,802	-	4,802
Total financial liabilities measured at fair value	**-**	**4,802**	**-**	**4,802**

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

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21 Fair value (continued)

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

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

$000s	Finance Receivables - Reverse Mortgage	Investments	Investment properties	Total
June 2022				
As at 30 June 2021	1,676,073	20,667	11,832	1,708,572
New loans	439,110	-	-	439,110
Repayments	(257,319)	-	-	(257,319)
Capitalised Interest and fees	106,966	-	-	106,966
Purchase of investments	-	7,414	-	7,414
Fair value (loss)/gain on investment	-	(12,998)	-	(12,998)
Other	32,024	-	-	32,024
Transfer out of Level 3	-	(8,051)	-	(8,051)
As at 30 June 2022	**1,996,854**	**7,032**	**11,832**	**2,015,718**
June 2021				
As at 30 June 2020	1,538,585	16,335	11,132	1,566,052
New loans	300,689	-	-	300,689
Repayments	(257,999)	-	-	(257,999)
Capitalised Interest and fees	91,812	-	-	91,812
Purchase of investments	-	940	-	940
Fair value (loss)/gain on investment	-	3,392	700	4,092
Other	2,986	-	-	2,986
As at 30 June 2021	**1,676,073**	**20,667**	**11,832**	**1,708,572**

(b) Financial instruments not measured at fair value

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

Cash and cash equivalents

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

Finance receivables

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

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

21 Fair value (continued)

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

Borrowings

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

Other financial assets and financial liabilities

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

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

	June 2022			June 2021		
$000s	Fair Value Hierarchy	Total Fair Value	Total Carrying Value	Fair Value Hierarchy	Total Fair Value	Total Carrying Value
Assets						
Cash and cash equivalents	Level 1	310,758	310,758	Level 1	182,333	182,333
Investments[1]	Level 2	2,418	2,421	Level 2	5,640	5,639
Finance receivables	Level 3	4,073,977	4,146,821	Level 3	3,362,536	3,288,466
Other financial assets	Level 3	273	273	Level 3	2,292	2,292
Total financial assets		**4,387,426**	**4,460,273**		**3,552,801**	**3,478,730**
Liabilities						
Retail deposits	Level 2	3,590,918	3,592,508	Level 2	3,192,708	3,183,454
Borrowings - securitised	Level 2	1,559,108	1,559,108	Level 2	631,617	631,617
Other borrowings	Level 2	1,019,105	1,019,105	Level 2	1,043,516	1,043,516
Other financial liabilities	Level 3	55,538	55,538	Level 3	18,687	18,687
Total financial liabilities		**6,224,669**	**6,226,259**		**4,886,528**	**4,877,274**

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

21 Fair value (continued)

(c) Classification of financial instruments

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

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

Risk Management

22 Enterprise risk management program

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

Role of the Board and the Board Audit Risk Committee

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

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

Internal Audit

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

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

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.

22 Enterprise risk management program (continued)

Internal Audit (continued)

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

Asset and Liability Committee (ALCO)

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

- market risk (including non-traded interest rate risk and the investment of capital);
- liquidity risk (including funding);
- foreign exchange rate risk;
- balance sheet structure; 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 loss. Operational and compliance risk losses can occur as a result of fraud, human error, missing or inadequately designed processes, failed systems, damage to physical assets, improper behaviour or from external events. The losses range from direct financial losses, to reputational damage, unfavourable media attention, injury to or loss of staff or clients or as a breach of laws or banking regulations. Where appropriate, risks are mitigated by insurance.

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

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

22 Enterprise risk management program (continued)

Market risk

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

Interest rate risk

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

- mismatches between the repricing dates of interest bearing assets and liabilities (yield curve and repricing risk);
- banking products repricing differently to changes in wholesale market rates (basis risk);
- loan prepayment or deposit early withdrawal behaviour from customers that deviates from the expected or contractually agreed behaviour (optionality risk); and
- the effect of internal or market forces on a bank's net interest margin where, for example, in a low rate environment any fall in rates will further decrease interest income earned on the assets whereas funding cost cannot be reduced as it is already at the minimum level (margin compression risk).

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

Foreign exchange risk

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

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

22 Enterprise risk management program (continued)

Counterparty Credit Risk

The Group has on-going credit exposure associated with:

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

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

23 Credit risk exposure

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

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

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

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

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

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

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

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23 Credit risk exposure (continued)

Reverse mortgage loans and negative equity risk

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

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

Business Finance Guarantee Scheme (BFGS)

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

Maximum exposure to credit risk at the relevant reporting dates

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

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

23 Credit risk exposure (continued)

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

Concentration of credit risk by geographic region

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

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

Concentration of credit risk by industry sector

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

$000s	June 2022	June 2021
Agriculture	1,120,678	670,428
Forestry and fishing	148,797	153,160
Mining	12,524	12,684
Manufacturing	78,432	76,951
Finance and insurance	784,948	674,854
Wholesale trade	41,986	56,522
Retail trade and accommodation	423,975	279,388
Households	3,555,566	2,994,980
Other business services	189,860	148,011
Construction	291,971	241,668
Rental, hiring and real estate services	199,388	185,320
Transport and storage	323,732	297,920
Other	114,608	114,371
	7,286,465	**5,906,257**
Provision for impairment	(52,005)	(53,687)
Total credit exposures	**7,234,460**	**5,852,570**

23 Credit risk exposure (continued)

Credit risk grading

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

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

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

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

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

23 Credit risk exposure (continued)

Credit risk grading (continued)

$000s	12 Months ECL	Lifetime ECL Not Credit Impaired	Lifetime ECL Credit Impaired	Specifically Provided	Fair Value	Total
June 2022						
Judgemental portfolio						
Grade 1 - Very strong	26	-	-	-	-	26
Grade 2 - Strong	10,859	-	-	-	-	10,859
Grade 3 - Sound	53,756	-	-	-	-	53,756
Grade 4 - Adequate	697,590	5,382	1,052	-	-	704,024
Grade 5 - Acceptable	1,366,680	1,823	53	-	-	1,368,556
Grade 6 - Monitor	-	25,106	2,308	-	-	27,414
Grade 7 - Substandard	-	64,203	4,998	-	-	69,201
Grade 8 - Doubtful	-	-	-	62,860	-	62,860
Grade 9 - At risk of loss	-	-	-	3,511	-	3,511
Total Judgemental portfolio	2,128,911	96,514	8,411	66,371	-	2,300,207
Total Behavioural portfolio	1,839,006	21,910	37,703	-	1,996,854	3,895,473
Gross finance receivables	**3,967,917**	**118,424**	**46,114**	**66,371**	**1,996,854**	**6,195,680**
Provision for impairment	(20,256)	(1,958)	(14,602)	(15,189)	-	(52,005)
Total finance receivables	**3,947,661**	**116,466**	**31,512**	**51,182**	**1,996,854**	**6,143,675**

$000s	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**

24 Liquidity risk

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

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

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

Reserve Bank of New Zealand (RBNZ) facilities

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

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

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

The Group had not utilised any of these facilities as at 30 June 2022 (2021: nil).

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

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

Contractual liquidity profile of financial liabilities

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

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

24 Liquidity risk (continued)

Contractual liquidity profile of financial liabilities (continued)

$000s	On Demand	0-6 Months	6-12 Months	1-2 Years	2-5 Years	5+ Years	Total
June 2022							
Non - derivative financial liabilities							
Deposits	887,976	2,028,225	561,468	103,192	41,655	-	3,622,516
Other borrowings	-	505,191	268,653	702,349	1,160,157	210,428	2,846,778
Lease liabilities	-	1,575	1,525	2,616	6,985	4,911	17,612
Other financial liabilities	-	55,538	-	-	-	-	55,538
Total non - derivative financial liabilities	**887,976**	**2,590,529**	**831,646**	**808,157**	**1,208,797**	**215,339**	**6,542,444**
Derivative financial liabilities							
Inflows from derivatives	-	15,681	1,759	3,505	813	-	21,758
Outflows from derivatives	-	14,800	3,227	6,621	839	-	25,487
Total derivative financial liabilities	**-**	**(881)**	**1,468**	**3,116**	**26**	**-**	**3,729**
Undrawn facilities available to customers	416,561	-	-	-	-	-	416,561
Undrawn committed bank facilities	360,859	-	-	-	-	-	360,859
June 2021							
Non - derivative financial liabilities							
Deposits	971,924	1,291,863	560,232	292,091	91,107	-	3,207,217
Other borrowings	-	124,431	120,855	1,205,547	157,855	181,244	1,789,932
Lease liabilities	-	1,419	1,433	2,836	7,605	7,085	20,378
Other financial liabilities	-	18,687	-	-	-	-	18,687
Total non - derivative financial liabilities	**971,924**	**1,436,400**	**682,520**	**1,500,474**	**256,567**	**188,329**	**5,036,214**
Derivative financial liabilities							
Inflows from derivatives	-	14,251	610	800	12	-	15,673
Outflows from derivatives	-	16,750	2,174	1,316	16	-	20,256
Total derivative financial liabilities	**-**	**2,499**	**1,564**	**516**	**4**	**-**	**4,583**
Undrawn facilities available to customers	299,544	-	-	-	-	-	299,544
Undrawn committed bank facilities	311,993	-	-	-	-	-	311,993

25 Interest rate risk

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

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

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

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

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

The Group also manages interest rate risk by:

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

25 Interest rate risk (continued)

Contractual repricing analysis

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

$000s	0–3 Months	3-6 Months	6-12 Months	1–2 Years	2+ Years	Non-Interest Bearing	Total
June 2022							
Financial assets							
Cash and cash equivalents	310,749	-	-	-	-	9	310,758
Investments	1,568	854	51,144	91,974	128,672	15,082	289,294
Finance receivables	1,906,457	277,891	426,251	561,636	913,210	61,376	4,146,821
Finance receivables - reverse mortgages	1,996,854	-	-	-	-	-	1,996,854
Derivative financial assets	-	-	-	-	-	45,221	45,221
Other financial assets	-	-	-	-	-	273	273
Total financial assets	**4,215,628**	**278,745**	**477,395**	**653,610**	**1,041,882**	**121,961**	**6,789,221**
Financial liabilities							
Deposits	2,190,337	684,378	546,718	99,196	38,325	33,554	3,592,508
Other borrowings	2,320,575	130,873	-	121,191	-	5,574	2,578,213
Derivative financial liabilities	-	-	-	-	-	6,341	6,341
Lease liabilities	-	-	-	-	-	16,240	16,240
Other financial liabilities	-	-	-	-	-	55,538	55,538
Total financial liabilities	**4,510,912**	**815,251**	**546,718**	**220,387**	**38,325**	**117,247**	**6,248,840**
Effect of derivatives held for risk management	986,194	(76,349)	(127,004)	(309,781)	(473,060)	-	-
Net financial assets/ (liabilities)	**690,910**	**(612,855)**	**(196,327)**	**123,442**	**530,497**	**4,714**	**540,381**

25 Interest rate risk (continued)

Contractual repricing analysis (continued)

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

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

Other disclosures

26 Significant subsidiaries

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

27 Structured entities

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

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

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

$000s	June 2022	June 2021
Deposits	149,824	153,244

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

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

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

$000s	June 2022	June 2021
Cash and cash equivalents	20,197	9,047
Finance receivables	312,239	126,399
Other borrowings	(315,308)	(128,125)

27 Structured entities (continued)

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

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

$000s	June 2022	June 2021
Cash and cash equivalents	26,003	29,170
Finance receivables - reverse mortgages	1,136,644	934,523
Other borrowings	(902,155)	(822,112)

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

Atlas Trust was set up on 11 September 2020 as part of ASF's reverse mortgage business similar to the existing SW Trusts and ASFTrust. 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:

$000s	June 2022	June 2021
Cash and cash equivalents	15,774	17,592
Finance receivables - reverse mortgages	138,950	140,044
Other borrowings	(145,219)	(145,943)

(e) StockCo Securitisation Trust 2022-1

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

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

28 Staff share ownership arrangements

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

(a) Share-based compensation plan details

Heartland performance rights plan (PR plan)

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

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

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

PR Plan 2022 Tranche (PR plan 2022)

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

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

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

PR Plan 2023 Tranche (PR plan 2023)

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

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28 Staff share ownership arrangements (continued)

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

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

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

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

(b) Effect of share-based payment transactions

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

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

(c) Number of rights outstanding

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

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

Insurance business

Marac Insurance Limited (**MIL**), a subsidiary of HBL, no longer conducts insurance business as HBL entered into a distribution agreement with DPL Insurance Limited (**DPL**) to distribute DPL's insurance products through HBL's network. MIL ceased writing insurance policies in 2020 with the periodic policies expected to expire in 2025.

The Group's aggregate amount of insurance business comprises the total consolidated assets of MIL of $7.4 million (2021: $8.5 million), which represents 0.11% of the total consolidated assets of the Group (2021: 0.15%).

Securitisation, funds management and other fiduciary activities

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

30 Concentrations of funding

(a) Concentration of funding by industry

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

$000s	June 2022	June 2021
Agriculture	113,848	102,107
Forestry and fishing	14,391	14,226
Mining	1,524	94
Manufacturing	18,643	11,592
Finance and insurance	2,420,850	1,669,055
Wholesale trade	5,854	11,218
Retail trade and accommodation	19,491	28,521
Households	2,754,452	2,322,514
Rental, hiring and real estate services	43,797	46,245
Construction	28,449	24,231
Other business services	66,731	58,334
Transport and storage	4,598	4,337
Other	41,686	44,714
Total	**5,534,314**	**4,337,188**
Unsubordinated Notes	636,407	521,399
Total borrowings	**6,170,721**	**4,858,587**

(b) Concentration of funding by geographical area

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

31 Contingent liabilities and commitments

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

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

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

32 Events after reporting date

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

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

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

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

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Independent Auditor's Report

To the shareholders of Heartland Group Holdings Limited

Report on the audit of the consolidated financial statements

Opinion

In our opinion, the consolidated financial statements of Heartland Group Holdings Limited and its subsidiaries (the "Group") on pages 81 to 150 present fairly in all material respects the Group's financial position as at 30 June 2022 and its financial performance and cash flows for the year ended on that date in accordance with New Zealand Equivalents to International Financial Reporting Standards and International Financial Reporting Standards.

We have audited the accompanying consolidated financial statements which comprise:

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

Basis for opinion

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

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

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

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

Materiality

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

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

Key audit matters

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

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

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

Other information

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

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

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Use of this independent auditor's report

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

Responsibilities of the Directors for the consolidated financial statements

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

- the preparation and fair presentation of the consolidated financial statements in accordance with generally accepted accounting practice in New Zealand (being New Zealand Equivalents to International Financial Reporting Standards) and International Financial Reporting Standards;
- implementing necessary internal control to enable the preparation of a consolidated set of financial statements that is fairly presented and free from material misstatement, whether due to fraud or error; and
- assessing the ability to continue as a going concern. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate or to cease operations or have no realistic alternative but to do so.

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

Our objective is:

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

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

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

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

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

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

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

For and on behalf of

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KPMG
Auckland

22 August 2022

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Directory

Directors

Heartland Group Board

Geoffrey Ricketts
Chair and Independent Non-Executive Director

Gregory Tomlinson
Deputy Chair and Non-Executive Director

Jeff Greenslade
CEO and Executive Director

Ellen Comerford
Independent Non-Executive Director

Kathryn Mitchell
Independent Non-Executive Director

Geoff Summerhayes
Independent Non-Executive Director

Sir Christopher Mace
Kaumātua
(retired from the Board on 28 October 2021)

Heartland Bank Board

Bruce Irvine
Chair and Independent Non-Executive Director

Jeff Greenslade
Executive Director

Edward John Harvey
Independent Non-Executive Director

Kathryn Mitchell
Non-Independent Non-Executive Director

Geoffrey Ricketts
Non-Independent Non-Executive Director

Shelley Ruha
Independent Non-Executive Director

Strategic Management Group

Heartland Group

Jeff Greenslade
Heartland Group CEO

Chris Flood*
Deputy Group CEO

Andrew Dixson
Chief Financial Officer

Michael Drumm
Group Chief Operating Officer

Monique Forbes
Group Chief Marketing Officer

Lana West
Group Chief People & Culture Officer

Heartland Bank

Leanne Lazarus*
Heartland Bank CEO

Keira Billot
Chief People & Brand Experience Officer

Mike Grenfell
Chief Operating Officer

Andy Wood
Chief Risk Officer

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* On 19 May 2022, Heartland announced the appointment of Chris Flood as Deputy Group CEO of Heartland Group, and Leanne Lazarus as CEO of Heartland Bank, with effect from 1 August 2022.

shareholders.heartland.co.nz