NZX/ASX release
28 February 2023

Heartland announces strong half year profit and Heartland Bank considers offer of subordinated notes

Heartland Group Holdings Limited (**Heartland**) (**NZX/ASX: HGH**) is pleased to announce a net profit after tax (**NPAT**) of $48.7 million for the six-month period ended 31 December 2022 (**1H2023**), an increase of $1.1 million (2.4%) compared with the six-month period ended 31 December 2021 (**1H2022**)[1]. On an underlying[2] basis, 1H2023 NPAT was $54.7 million, an increase of $7.6 million (16.2%) compared with the 1H2022 underlying NPAT.

Heartland Bank Limited (**Heartland Bank**) is considering making an offer of up to $75 million (with the right to accept oversubscriptions of up to an additional $50 million at Heartland Bank's discretion) of unsecured subordinated notes (**Notes**) to New Zealand investors and certain overseas institutional investors. See page 12 for more detail.

Highlights for 1H2023

Financial highlights

- NPAT of $48.7 million, up 2.4% ($1.1 million). Underlying NPAT of $54.7 million, up 16.2% ($7.6 million) on 1H2022 underlying NPAT.
- One-off items had a $6.0 million net[3] impact on NPAT.
- Gross finance receivables (**Receivables**)[4] of $6.5 billion, up 10.1%[5] ($264.5 million).
- Underlying return on equity (**ROE**) of 12.1%, down 7 basis points (**bps**).[6]
- Net interest margin (**NIM**)[7] of 3.97%, down 34 bps. Underlying NIM of 4.02%, down 29 bps.
- Net interest income (**NII**) of $138.9 million, up 12.1%. Underlying NII of 140.8 million, up 13.6%.

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[1] All comparative results are based on the unaudited half year consolidated financial statements of Heartland and its subsidiaries (the **Group**) for 1H2022.
[2] Financial results in this announcement are presented on a reported and underlying basis. Reported results are prepared in accordance with NZ GAAP and include the impacts of one-offs, both positive and negative, which can make it difficult to compare performance between periods. Underlying results (non-GAAP financial information) exclude any impacts of fair value changes on equity investments held, the de-designation of derivatives, and other one-offs. This is intended to allow for easier comparability between periods, and is used internally by management for this purpose. Refer to *Profitability* on page 5 for a summary of reported and underlying 1H2023 results. A detailed reconciliation between reported and underlying financial information, including details about 1H2023 one-offs, is set out in *Appendix 3* on page 41 of the accompanying 1H2023 investor presentation. General information about the use of non-GAAP financial measures is set out on page 2 and 5 of that presentation.
[3] Includes tax impact on one-offs.
[4] Receivables includes Reverse Mortgages.
[5] Annualised 1H2023 growth excluding the impact of changes in foreign currency exchange (**FX**) rates.
[6] Underlying ROE refers to ROE calculated using underlying results. When calculated using reported results, ROE was 10.6%, down 166 bps. See page 5 of the accompanying 1H2023 investor presentation for more information about the use of ROE, a supplementary, non-GAAP measure.
[7] NIM is calculated based on average gross interest earning assets.

- Underlying cost to income (**CTI**) ratio of 42.7%, down 40 bps.[8]
- Impairment expense as a percentage of average Receivables decreased from 0.33% in 1H2022 to 0.29% in 1H2023, benefitting from an improved book quality.
- 1H2023 interim dividend of 5.5 cents per share (**cps**), flat on 1H2022.
- Earnings per share (**EPS**) of 7.3 cps, down 0.8 cps. Underlying EPS of 8.2 cps, up 0.2 cps from 1H2022.

Strategic highlights

- $198.6 million raised through 2022 equity raise to retire bridge debt and fund growth ambitions for existing businesses.
- Substantially completed the integration of StockCo Australia into Heartland, and repaid a A$158 million acquisition finance facility using proceeds from the equity raise.
- Signed a share purchase agreement for the purchase of Challenger Bank Limited (**Challenger Bank**) on 20 October 2022, conditional only on obtaining regulatory approvals.
- Australian Reverse Mortgages business increased market share to 35.9%.[9]
- Heartland Bank experienced the highest growth rate in retail deposits of all main and domestic banks in New Zealand for the first quarter (**Q1**) of the financial year ending 30 June 2023 (**FY2023**).[10]

Strategic vision

Heartland's strategic vision is to create sustainable growth and differentiation through best or only products delivered through scalable digital platforms. Underpinning this are four strategic pillars:

1. Business as Usual Growth (reported on in *Business performance* from page 8)
2. Frictionless Service at the Lowest Cost
3. Expansion in Australia
4. Acquisitions.

Frictionless Service at the Lowest Cost

Digitalisation of product platforms enables Heartland to deliver enhanced customer experience by reducing customer friction and creating scale without costly processes.

Through 1H2023, Heartland continued to develop new functionality and automated solutions for its digital platforms to enable increased self-service by customers. As a result, calls per customer to Heartland's Motor, Deposits and Business teams reduced by 7% from July to December 2022. Further, the number of users of Heartland Bank's Mobile App continued to increase, up 46% from July 2022.

Despite short-term volatility, the CTI ratio is a measure of efficiency. On an underlying basis, the CTI ratio reduced from 43.1% in 1H2022 to 42.7% in 1H2023.[8] Heartland remains committed in the long term to reductions in the CTI ratio.

The banking industry has yet to harness the full benefit of technology. Heartland's objective is to differentiate through a continuous focus on reducing its cost of onboarding and customer service via

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[8] Underlying CTI ratio refers to the CTI ratio calculated using underlying results. When calculated using reported results, the CTI ratio was 44.8%, up 94 bps. See page 5 of the accompanying 1H2023 investor presentation for more information about the use of the CTI ratio, a supplementary, non-GAAP measure.
[9] Based on Australian Prudential Regulation Authority (**APRA**) authorised deposit-taking institution (**ADI**) Property Exposure and Heartland Finance data as at 30 September 2022.
[10] Based on balance sheet data from the Reserve Bank of New Zealand (**RBNZ**) for Q1 of FY2023.

automation and self-service. This will drive an easier and faster customer experience, and contribute to reductions in the CTI ratio.

The upgrade of Heartland Bank's core banking system is almost complete. This upgrade will be an enabler for greater automation and digitalisation, positioning Heartland for increased scalability in the future.

Expansion in Australia

Heartland's focus for expansion in Australia is on:

1. growing its existing Australian Reverse Mortgages business
2. growing Livestock Finance following the recent acquisition of StockCo Australia
3. seeking other opportunities to expand Heartland's 'best or only' strategy into Australia.

The Australian market presents Heartland with the opportunity for growth in areas underserviced by the larger banks such as livestock finance and reverse mortgages.

The Australian Government's Home Equity Access Scheme (previously known as the Pension Loan Scheme) has contributed to a greater awareness of home equity release options, including reverse mortgages. Non-bank participation has contributed to greater awareness and acceptance of reverse mortgages as the product continues to be normalised through promotion. Heartland has maintained its position as the largest active provider, with market share of 35.9% at 30 September 2022 (up from 30.9% at 30 September 2021)[11].

StockCo Australia's livestock finance allows cattle and sheep producers across Australia to maximise their capital. StockCo Australia offers finance to cover up to 100% of the livestock purchase, with no repayments required until the livestock is sold. While the portfolio experienced some adverse weather impacts in 1H2023, the outlook for the second half of the financial year ending 30 June 2023 (**2H2023**) is positive. See page 10 for more detail.

The purpose of the Challenger Bank acquisition is to fuel expansion in Australia through access to retail deposits and by creating the opportunity for expansion into new product areas.

Acquisitions

On 20 October 2022, Heartland announced it had signed a conditional share purchase agreement for the purchase of Challenger Bank from Challenger Limited (**ASX: CGF**). Completion under the share purchase agreement remains subject to obtaining the requisite regulatory approvals.

Based in Melbourne, Australia, Challenger Bank is an established authorised deposit-taking institution (**ADI**) and offers customers a range of savings and lending products. The benefits of this acquisition include:

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

Heartland's vision is to create a sustainable and profitable digital bank serving sectors of the Australian market which Heartland considers are under-serviced by major banks (including older Australians, rural Australia, and small businesses). Heartland already holds strong positions in Australia with Reverse Mortgages and Livestock Finance. Further expansion is intended by leveraging

[11] Based on APRA ADI Property Exposure and Heartland Finance data as at 30 September 2021 and 30 September 2022.

Heartland's experience and expertise in New Zealand to offer additional products in the Australian market (including Auto Finance, Asset Finance and Online Home Loans).

Additional transaction costs are expected in 2H2023 in relation to obtaining an ADI licence, including for the completion of the Challenger Bank acquisition. Heartland will provide further information to the market on the Challenger Bank acquisition as updates become available.

Operating environment

1H2023 was affected by rising inflation and the cost of living. The 2023 calendar year is expected to have similar challenges. New Zealand's annual inflation rate remains at a 30-year high, while Australia's continues to rise. Rising household costs and high interest rates are being felt in both countries.

Notwithstanding these pressures, Heartland's loan portfolios have performed well. Overall credit quality remains good, benefitting from Heartland's continued move towards higher quality and lower risk assets.

As an example, the Reverse Mortgage portfolios have remained resilient to economic conditions, particularly to changes in house prices and rising interest rates, with conservative loan-to-value ratios (**LVRs**). The weighted average current LVRs for New Zealand and Australian Reverse Mortgages respectively were 19.7% and 20.0% at 31 December 2022. In New Zealand, 97.7% of loans had an LVR under 40% on an index adjusted valuation basis, and no loans had an LVR over 60%. In Australia, 98.1% of loans had an LVR under 40% on an index adjusted valuation basis, and 0.1% of loans had an LVR over 60%.

Heartland experienced an increase in arrears in its Motor portfolio in the first four months of 1H2023, as rising costs impacted household budgets. This was reflected in the percentage of the Motor book in arrears increasing from 3.17% at 30 June 2022 to 3.99% at 31 October 2022. However, this has since moderated with the percentage of the Motor book arrears falling to 3.73% by 31 December 2022, reflecting the return to pre-COVID-19 levels of arrears at this point in the financial year for the portfolio. The subsequent seasonal increase experienced in January 2023 was at a similar level to January 2022.

Heartland is focused on supporting its vulnerable customers and those who may be experiencing temporary difficulties. In response to the rising interest rate environment, Heartland intentionally delayed passing the full impact of these increases onto some borrower customers, and did not pass the full increase onto New Zealand or Australian Reverse Mortgage customers – this was believed to be the socially responsible approach.

The recent flooding and severe weather in the upper North Island had a devastating impact on many households and businesses. Heartland has been supporting its customers and employees who have been affected and will continue to do so. Heartland commenced a proactive call programme to all customers in the impacted regions to understand customer impact and how Heartland can assist them. Support has included deferred loan repayments, interest only payments, additional funding or other solutions determined on a case-by-case basis.

Heartland's Economic Overlay of $8.0 million taken in the financial year ended 30 June 2022 (**FY2022**) remains unchanged at 31 December 2022. The Economic Overlay is considered a sufficient buffer against the potential impacts of a future deterioration in the economic environment.

Financial results

Profitability

NPAT was $48.7 million, a $1.1 million (2.4%) increase on 1H2022. Underlying NPAT was $54.7 million, a $7.6 million (16.2%) increase on 1H2022.

Underlying ROE was 12.1%, down 7 bps from 1H2022.[12]

EPS was 7.3 cps, down 0.8 cps from 1H2022. Underlying EPS was 8.2 cps, up 0.2 cps from 1H2022.

1H2023 reported results include StockCo Australia earnings contribution of $4.8 million[13], and one-off items which should be considered when analysing the underlying result.[14]

Significant one-off items included in Heartland's 1H2023 reported results are outlined below.

1. Legacy hedge accounting impacts: a $3.6 million loss contributed by the derivatives that were de-designated from their prior hedge accounting relationships in FY2022. The de-designation resulted in a mark-to-market (**MTM**) accounting gain on these derivatives being recognised in FY2022. This MTM gain is subsequently unwound as a loss as the cashflows from these derivatives are realised.
2. Fair value loss on equity investment in Harmoney Corp Limited (**Harmoney**): a $2.4 million net fair value loss was recognised on investment in Harmoney shares during 1H2023. The fair value as at 31 December 2022 is determined based on the closing mid-market price of Harmoney shares on the Australian Stock Exchange of A$0.4875, being the last bid/ask price mid-point on 30 December 2022 considering there were no trades on the final trading day of 2022.
3. Interest expense on the bridging loan for the acquisition of StockCo Australia: a $1.9 million interest expense was recognised in 1H2023 in relation to a A$158 million bridging loan taken by Heartland to acquire StockCo Australia. The loan was fully repaid in September 2022 using the proceeds from the recent equity raise.

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

	Reported			Underlying		
	1H2023	1H2022	Movement	1H2023	1H2022	Movement
NOI[15] ($m)	141.7	130.7	11.0	149.6	130.8	18.8
Operating expenses (**OPEX**) ($m)	63.4	57.3	6.2	63.9	56.4	7.5
NPAT ($m)	48.7	47.5	1.1	54.7	47.1	7.6
NIM	3.97%	4.30%	(34 bps)	4.02%	4.30%	(29 bps)
CTI ratio	44.8%	43.8%	94 bps	42.7%	43.1%	(40 bps)

[12] Underlying ROE refers to ROE calculated using underlying results. When calculated using reported results, ROE was 10.6%, down 166 bps from 1H2022. See page 5 of the accompanying 1H2023 investor presentation for more information about the use of ROE, a supplementary non-GAAP measure.
[13] Represents StockCo Australia's 1H2023 NPAT on a standalone basis.
[14] Refer to *Appendix 3* on page 41 of the accompanying 1H2023 investor presentation for an exhaustive list of 1H2023 one-offs and a detailed reconciliation between reported and underlying financial information.
[15] Net operating income (**NOI**) includes fair value gains/losses on investments.

	Reported			Underlying		
	1H2023	1H2022	Movement	1H2023	1H2022	Movement
Impairment expense ratio	0.29%	0.33%	(4 bps)	0.29%	0.33%	(4 bps)
ROE	10.6%	12.2%	(166 bps)	12.1%	12.1%	(7 bps)
EPS	7.3 cps	8.1 cps	(0.8 cps)	8.2 cps	8.0 cps	0.2 cps

Income

Total NOI was $141.7 million, an increase of $11.0 million (8.4%) from 1H2022.

Underlying NOI was $149.6 million, $18.8 million (14.4%) higher than in 1H2022, $11.5 million of which was contributed by StockCo Australia. This was largely due to a $16.9 million (13.6%) increase in NII, driven by $1,238.3 million (21.7%) higher average interest earning assets in 1H2023 than in 1H2022, and a 29 bps decrease in underlying NIM compared with 1H2022.

The contraction in NIM was partly due to a continued shift in portfolio mix toward higher quality assets, and margin compression in individual portfolio NIMs.

The change in portfolio composition was a result of the continued run off in higher risk portfolios, with personal lending and unsecured small-to-medium enterprise (**SME**) lending both reducing, and Business and Rural Relationship lending experiencing larger repayments of higher risk exposures. At the same time, there has been strong growth in higher quality portfolios, such as Reverse Mortgages and Online Home Loans. The impacts of this compression were partly offset following the acquisition of StockCo Australia, a higher NIM portfolio.

After being at record lows for a long period of time, the cash rates in New Zealand and Australia have seen a rapid and sharp increase, rising from 0.75% and 0.10% at December 2021, to 4.25% and 3.10% at December 2022 respectively – creating a difficult environment to manage margins. Heartland intentionally delayed passing the full impact of these increases onto some borrower customers, and, in the case of Reverse Mortgages in New Zealand and Australia, did not pass on the full increases. With depositors, Heartland was quick to pass on the benefits of the rising cash rate. It is believed that while this did not maximise potential NIM, it was the socially responsible and more sustainable approach.

Furthermore, competitor activity in Heartland's key portfolios, primarily Asset Finance and Motor, intensified with aggressive pricing from smaller competitors attempting to grow their market share. Heartland proactively managed pricing to remain competitive, while protecting its market position.

Through proactive portfolio pricing and margin management, the compression in NIM has stabilised. Heartland's underlying NIM recorded an 8 bps decrease on the six months to 30 June 2022 (**2H2022**) and is expected to remain stable going forward.

Unlike other banks in New Zealand, Heartland Bank did not have the benefit of participating in the RBNZ's Funding for Lending Programme (**FLP**) as the assets required for use as collateral did not match Heartland Bank's lending book. The FLP was introduced in December 2020 and allowed eligible banks to borrow directly from the RBNZ at the Official Cash Rate (**OCR**) with the borrowing rate adjusting over the term of the transaction as the OCR changes. At 31 December 2022, $19 billion had been drawn by eligible banks[16], allowing them to benefit from the low OCR during this period.

Underlying other operating income increased by $2.0 million (28.3%) mainly driven by an increase in upfront Reverse Mortgage income.

Expenses

OPEX was $63.4 million, an increase of $6.2 million (10.8%) on 1H2022. Excluding the impact of one-offs, the underlying OPEX was $7.5 million (13.3%) higher compared with 1H2022.

Higher underlying OPEX was primarily due to the acquisition of StockCo Australia which contributed $4.5 million to 1H2023 OPEX. The remaining underlying OPEX increase is $3.0 million (5.3%), which was mainly driven by a 4.8% increase in staff expenses, a 27.9% increase in upfront Reverse Mortgages expenses completely offset by an increase in upfront Reverse Mortgages income, and the balance from increased administration costs.

The underlying CTI ratio decreased to 42.7%, down 40 bps compared with 1H2022.[17]

Impairment expense

Impairment expense was $9.2 million, $0.7 million (8.3%) up on 1H2022. Impairment expense ratio decreased to 0.29% in 1H2023, downs 4 bps compared with 1H2022. While the Receivables portfolio recorded strong growth during 1H2023, impairment expense benefitted from an improved book quality as a result of the continued tilt of the portfolio mix towards lower risk assets.

Financial position

Total assets increased by $347.6 million (4.9%) during 1H2023, driven by a $264.5 million (10.1%)[18] increase in Receivables and a $69.6 million (11.9%) increase in liquid assets.

Receivables growth was experienced primarily in Australian Reverse Mortgages, New Zealand Reverse Mortgages, Motor, Asset Finance and Online Home Loans, partly offset by decreases in Business, Rural Relationship and the Harmoney originated personal loans channel.

Heartland operates in resilient parts of the market that are relatively insulated against current economic challenges – such as Livestock (driven by global demand for protein), Asset Finance (driven by demand in the transport industry) and Reverse Mortgages (driven by demographics). As such, the majority of Heartland's portfolios experienced strong growth despite a number of economic uncertainties and challenges in 1H2023. The increasing cost of funds, alongside the Receivables portfolio mix continuing to tilt towards higher quality and lower risk assets, contributed to a margin contraction during 1H2023. These margin pressures were, however, partially relieved through proactive pricing and portfolio margin management. As previously expected, the improved book quality also benefitted 1H2023 impairment expense – the lower cost origination model is expected to contribute further benefits in the future.

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[16] According to RBNZ 'Influences on settlement cash' data.
[17] Underlying CTI ratio refers to the CTI ratio calculated using underlying results. When calculated using reported results, the CTI ratio was 44.8%, up 94 bps compared with 1H2022. See page 5 of the accompanying 1H2023 investor presentation for more information about the use of the CTI ratio, a supplementary, non-GAAP measure.
[18] Annualised 1H2023 growth excluding the impact of changes in FX rates (where applicable).

Borrowings[19] increased by $158.3 million (2.6%). Deposits increased by $478.0 million (13.3%), partially offset by a decrease in other borrowings of $319.7 million (12.4%) during 1H2023. See further information under *Funding and liquidity* on page 11.

Net assets increased by $207.1 million to $1,015.9 million. Net tangible assets (**NTA**) increased by $205.5 million to $772.3 million, primarily as a result of a $198.7 million equity raise completed in September 2022, resulting in an NTA per share of $1.09 (30 June 2022: $0.96).

Business performance

New Zealand

Asset Finance

Asset Finance NOI was $14.9 million, a decrease of $0.8 million (4.8%) compared with 1H2022. Asset Finance Receivables increased $42.7 million (13.4%)[18] to $676.3 million.

Asset Finance NIM deteriorated due to the impact of interest rate changes required to maintain competitive pricing in an aggressive market, and the lag in time taken to fully reprice fixed rate loans. NOI is expected to improve once market rates stabilise.

Sustained growth stemmed from demand in Heartland's core asset segments of trucks, trailers and yellow goods. Weaker demand from the logging sector was offset by strong activity in logistics and further expansion of Heartland's intermediary partnership model.

Business

Business NOI was $15.8 million, an increase of $0.3 million (1.6%) compared with 1H2022.

Business Receivables decreased $34.7 million (10.9%)[18] to $595.5 million. The negative movement was driven by lower floorplan utilisation as stock inventory levels remained impacted by global supply chain and erratic shipping conditions. Heartland expects this position to improve in 2H2023 as stock arrivals continue through 2023. The portfolio is also expected to benefit as larger legacy loans run down, contributing to a book that is lower risk, with low cost origination and superior margins.

Open for Business

Open for Business (**O4B**) NOI was $6.7 million, a decrease of $0.5 million (6.8%) compared with 1H2022.

O4B Receivables decreased $8.2 million (11.5%)[18] to $133.0 million. A strategy reset occurred in the second quarter of FY2023 from 1 October 2022 to 31 December 2022 (**Q2**), following a change in the demand profile for O4B through COVID-19. This also reflects the sensitivities that SMEs are experiencing due to changing macro-economic conditions. Amortisation is expected to outperform growth for the remainder of FY2023.

Motor Finance

Motor Finance NOI was $32.7 million, a decrease of $3.6 million (9.9%) compared with 1H2022.

Motor Finance Receivables increased $75.9 million (10.9%)[18] to $1.46 billion as early repayments slowed due to customers being less inclined to refinance at higher rates or top-up their mortgages as interest rates rose.

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[19] Includes retail deposits and other borrowings.

NIM was impacted by competitor activity, and by the change in portfolio mix of business, where 75% of business came from the quality end of the market. This is expected to have a positive impact on impairments in 2H2023.

Growth has been a product of market share gains at the higher quality end of the market, and, as mentioned above, an extension of the Motor book as early repayments slowed. This includes through branded partners such as Peugeot, Citroen and OPEL (each under the iOWN brand), Kia and Jaguar Land Rover, and other key partnerships.

In 1H2023, the total new and used car sales in the New Zealand market declined by 8.6%[20] compared with 1H2022. Whereas Heartland's Motor portfolio experienced 10.9% growth. Motor is expected to continue to outperform the market in 2H2023.

This is a pleasing result considering the ongoing challenges of the changes made to the New Zealand Credit Contracts and Consumer Finance Act 2003 and the Credit Contracts and Consumer Finance Regulations 2004 (together, the **CCCFA**) which came into effect in December 2021 with additional amendments effective in July 2022 and further amendments expected to be effective in March 2023.

Ongoing development and enhancements to the Motor digital platforms are expected to contribute to improved efficiency, customer experience and growth for the portfolio in 2H2023.

Personal Lending

Personal Lending includes loans originated directly through Heartland Bank, and those originated by Harmoney in New Zealand and Australia. Heartland's Harmoney personal loans channel is closed to new business and running down.

Personal Lending NOI was $3.4 million, a decrease of $1.9 million (35.4%) compared with 1H2022.

Personal Lending Receivables decreased by $2.3 million (6.9%)[18] to $62.8 million. Harmoney Receivables decreased by $11.4 million (73.3%)[18], made up of a decrease in the New Zealand Harmoney channel of $6.8 million (73.6%) to $11.6 million, and a decrease in the Australian Harmoney channel of $4.6 million (72.8%)[18] to $7.9 million. This is partially offset by Heartland originated personal lending which increased by $9.1 million (52.9%)[18] to $43.4 million.

Online Home Loans[21]

Online Home Loans NOI was $2.1 million, an increase of $1.5 million (267.2%). Online Home Loans Receivables increased $27.6 million (19.9%)[18] to $302.3 million.

The reduction in the rate of book growth was driven by the sharp decline in property sales and new mortgage volumes in New Zealand. The number of properties sold during the second half of the 2022 calendar year was the lowest observed in over a decade. The market outlook remains subdued, with 'days to sell' at elevated levels.[22] Similarly, the number of new mortgages has been the lowest observed since at least 2014 (when the RBNZ began collating this data).[23]

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[20] Based on data from the Motor Industry Association of New Zealand on new and used vehicle sales from motor vehicle dealers.
[21] Excludes legacy Retail Mortgages.
[22] Based on data from the Real Estate Institute of New Zealand.
[23] Based on RBNZ data on new residential mortgage lending by borrower type.

Conversion rates improved towards the end of 1H2023 due to platform updates made off the back of the CCCFA amendments which came into effect in July 2022. These updates have increased approval automation and reduced the friction involved in verifying approvals.

Additionally, the Online Home Loans criteria was expanded in Q2 to permit lending against terraced homes and townhouses. This change is expected to support a 10% uplift in lending volumes compared with the previous restriction to standalone homes only.

Rural

Rural lending NOI was $16.9 million, an increase of $1.4 million (9.2%) compared with 1H2022.

Overall Rural portfolio Receivables decreased by $13.3 million (3.8%)[18] to $675.8 million. This was driven from the normal seasonal fluctuations in Heartland's Livestock Receivables which decreased by $32.6 million (37.7%) to $139.0 million, offset in part by Rural Receivables increasing by $19.4 million (7.4%)[18] to $536.8 million.

Strong pasture growth late in the season is expected to support cattle restocking, and additional intermediary partnerships are expected to push utilisation up into 2H2023. Activity in Rural Receivables continues to be mainly targeted to Heartland's niche Rural Direct segments (providing finance specifically for sheep, beef and dairy farmers).

New Zealand Reverse Mortgages

New Zealand Reverse Mortgages NOI was $20.5 million, an increase of $5.1 million (33.4%) compared with 1H2022. Receivables increased $87.4 million (24.0%)[18] to $808.7 million.

The business continues to experience strong demand and growth due to:

- a reverse mortgage being a solution to the ongoing strain placed on older home owners by cost of living pressures
- increased awareness and acceptance of reverse mortgages
- nurturing of a lead pool which has been built over a decade
- Heartland being recognised as New Zealand's leading reverse mortgage provider.

The outlook for New Zealand Reverse Mortgages remains positive, with additional demand from cost of living pressures more than offsetting the impact of lower house prices and higher interest rates.

Australia

StockCo Australia

StockCo Australia NOI was $13.4 million in 1H2023. Receivables increased $12.5 million (6.7%)[18] to $385.6 million, supported by strong onboarding of new clients, and increased facility limit requirements and usage. StockCo Australia's key distribution partner, Elders Limited, also experienced an increase in new clients and facility limit usage, contributing to the overall growth of the portfolio.

Growth in 1H2023 slowed due to adverse weather conditions, the rising interest rate environment, and stock value. Weather conditions across eastern Australia impacted on livestock movement and activity in 1H2023, while rising interest rates contributed to a reduction in profitability as customer interest rates were managed to ensure competitiveness. The value of livestock softened during late 2022, resulting in lower dollars per head on the StockCo Australia balance sheet. While stock value was offset by higher unit numbers, this had an impact on growth. However, as experienced in the past, these temporary market price volatilities are not expected to have a material impact on the quality of the book. Historically, the impact of the variation in price has, in most cases, been more than offset through livestock weight gains. Additionally, StockCo Australia has options available to support clients should they need help to return to a profitable position.

The 2022 calendar year saw export volumes at a 19-year low, and slaughter production down approximately 27% from 2021 volumes. Low export demand, driven by COVID-19 lockdowns across China, is expected to ease during 2023 and result in strong demand for protein as people return to pre-COVID-19 activities.

Australian producers' concerted effort to retain female stock to rebuild the herd post the 2019 drought also contributed to low export volumes. The USA drought breaking is expected to see an effort by the USA to rebuild their herd, resulting in a reduced volume of beef on the export market. This will likely benefit the volume and value of Australian exports, especially into Europe and parts of Asia.

Work is underway to develop a white label offering to complement StockCo Australia's existing distribution strategy and support ongoing growth through 2H2023.

Australian Reverse Mortgages

Australian Reverse Mortgages NOI was $23.1 million, an increase of $4.1 million (21.5%) compared with 1H2022.

Australian Reverse Mortgages Receivables increased by $128.0 million (19.9%)[18] to $1.40 billion, driven primarily by:

- increased debt consolidation and cost of living requests due to the current economic environment
- customers looking to enjoy retirement with modest lifestyle spending (such as holidays or a new car) following the relaxation of COVID-19 lockdowns in Australia
- growing acceptance of the use of reverse mortgages to age in place (for a person to remain in their home and make it more retirement-friendly as they age)
- targeted marketing to new and existing customers to increase uptake and interest at key seasonal points across the year, leading to record settlements in key months.

Growth is expected to continue in 2H2023 as ongoing improvements and efficiencies are made to the application, approval and loan maintenance process.

Funding and liquidity

Heartland increased borrowings by $158.3 million (2.6%) to $6,329.1 million.

New Zealand

Heartland Bank increased borrowings by $249.7 million (5.7%) to $4,596.3 million.

Deposits[24] grew $480.5 million (13.4%) during 1H2023 to $4,077.7 million, which was driven by competitive pricing on targeted products, including Heartland's Notice Saver offerings which both received Canstar New Zealand recognition in the half. Heartland Bank's 32-day Notice Saver won a 5-Star Rating and the 90-day Notice Saver achieved a Rising Star Rating with all the makings of a 5-star account in the future. Heartland Bank was awarded Canstar New Zealand's Bank of the Year –

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[24] Includes intercompany deposits received by Heartland Bank (31 December 2022: $7.1 million; 30 June 2022: $4.6 million).

Savings for the fifth year in a row.[25] In Q1 of FY2023, Heartland Bank experienced the highest growth rate in retail deposits of all main and domestic banks in New Zealand.[26]

Notice Saver increased by $311.5 (60.7%) million. Term deposits increased by $256.2 million (11.7%), while call deposits decreased by $87.2 million (9.7%) during 1H2023. The call to total deposit ratio decreased to 20% as at 31 December 2022 (30 June 2022: 25%).

Other borrowings decreased by $230.8 million (30.8%), largely due to the maturity of a $150 million retail bond, as well as the amount drawn down in Heartland Bank's committed auto warehouse facility decreasing by $76.6 million.

Heartland Bank's total liquidity (including liquid assets and available committed lines) strengthened further in the half, increasing by $146.9 million (23.4%) to $774.8 million, well in excess of regulatory minimums. Regulatory liquidity ratios remained strong.

Heartland Bank's regulatory capital ratio reduced to 13.15% as at 31 December 2022 (30 June 2022: 13.49%) following the removal of any bank dividend restrictions by the RBNZ on 1 July 2022. Heartland Bank continues to operate significantly in excess of regulatory minimums and is well positioned to meet the RBNZ's future higher capital requirements. These requirements are for a core capital ratio of 11.50% and a total capital ratio of 16.00% by 1 July 2028. In order to accelerate this journey, diversify its capital base and accommodate future projected growth, Heartland Bank is considering an offer of Tier 2 Capital notes (discussed below).

Australia

Heartland Australia (comprising Heartland Australia Holdings Pty Ltd and its subsidiaries) increased borrowings by A$167.8 million (14.0%) to A$1,368.0 million.

Heartland Australia continues to successfully execute on its strategic funding programme to cater for strong growth in its portfolios. A A$30 million tap issue was completed in August 2022 and a further A$50 million Medium Term Note (**MTN**) was issued in October 2022, taking the aggregate outstanding issuance under Heartland Australia's MTN programme to A$360 million as at 31 December 2022.

Maturity of Reverse Mortgage securitisation warehouses were extended by two and three years, and aggregate senior limits were expanded by A$50 million, providing additional headroom to fund future growth in the portfolio. This provides Heartland Australia with access to A$1.49 billion of committed funding in aggregate.

StockCo Australia (comprising StockCo Australia Management Pty Ltd, StockCo Holdings 2 Pty Ltd and their subsidiaries) increased borrowings by A$15.0 million (4.6%) to A$344.2 million.

Heartland Bank considers offer of subordinated notes

Heartland Bank is considering making an offer of up to $75 million (with the right to accept oversubscriptions of up to an additional $50 million at Heartland Bank's discretion) of unsecured Notes to New Zealand investors and certain overseas institutional investors.

The Notes are expected to constitute Tier 2 Capital for Heartland Bank's regulatory capital

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[25] Awarded July 2022.

[26] Based on balance sheet data from the RBNZ.

requirements. The Notes are expected to have a 10-year maturity date, but may be redeemed early in some circumstances. If certain conditions are met, Heartland Bank may redeem the Notes after 5 years or on any quarterly Interest Payment Date after that date, or on any quarterly Interest Payment Date for tax or regulatory reasons.

The Notes are expected to have a credit rating of BB+ from Fitch Australia Pty Limited (**Fitch**). Heartland Bank has a long-term unsecured credit rating of BBB (stable) from Fitch.

It is expected that full details of any offer will be released in mid-March 2023.

Heartland Bank has appointed Westpac Banking Corporation (ABN 33 007 457 141) (acting through its New Zealand branch) (**Westpac**) as Arranger, and Bank of New Zealand (contact 0800 284 017), Craigs Investment Partners Limited (contact 0800 226 263), Forsyth Barr Limited (contact 0800 367 227) and Westpac (contact 0800 772 142) as Joint Lead Managers in relation to the offer. Investors can register their interest in the offer by contacting a Joint Lead Manager or their usual financial advice provider. Indications of interest will not be an obligation or commitment to buy the Notes.

No money is currently being sought and applications for the Notes cannot currently be made. If Heartland Bank offers the Notes, the offer will be made in accordance with the Financial Markets Conduct Act 2013. The Notes are expected to be quoted on the NZX Debt Market.

Regulatory update

Heartland continues to monitor the significant volume of regulatory change.

Initial changes to the CCCFA came into force on 1 December 2021, with additional 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 Financial Markets (Conduct of Financial Institutions) Amendment Act 2022 (**Conduct Act**) was passed in June 2022, and is planned to come into force in early 2025, following a transitional period. The Conduct Act applies to registered banks, licensed insurers and licensed non-bank deposit takers, and is regulated by the Financial Markets Authority (**FMA**). The Conduct Act introduces a new conduct licensing regime, the requirement to establish, implement, maintain and comply with a fair conduct programme, and the regulation of incentives (via new regulations which are yet to be published). Incentives regulations will apply both to Heartland Bank and its intermediaries involved in the distribution of its products.

The Deposit Takers Bill (**DT Bill**) was introduced to Parliament on 22 September 2022 and had its first reading on 27 September before being referred to the Select Committee. The DT Bill:

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

Heartland has begun considering the impact of the DT Bill on Heartland's operations and is actively participating in industry submissions on the bill.

In July 2021, the New Zealand Government announced it would implement a legislative framework for a new consumer data right (**CDR**), with a decision announced in November 2022 to designate banks into the new regime first. A consumer data right in the banking sector (in other words, 'open banking') would allow customers to consent to share their banking data with third parties. Work is now underway by the Government on the design and cost of the CDR and this is intended to be completed later in 2023. Following this, an exposure draft of a data sharing Bill is anticipated to be released for industry feedback.

Work 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 its financial year ending 30 June 2024.

Sustainability update

Heartland's sustainability strategy is built on three pillars: environmental conservation, social equity and economic prosperity. Key progress in 1H2023 is outlined below. For more detail, visit heartlandgroup.info/sustainability.

Environmental conservation

- Heartland's unaudited FY2022 Greenhouse Gas (**GHG**) inventory shows a 56% absolute reduction from Heartland's FY2019 base year in GHG emissions generated from operations, near doubling Heartland's reduction target of 35% by 2025. While partly due to COVID-19 restrictions during FY2022, this also shows the effects of Heartland's continuous transition to low emitting new generation vehicles, using carbon neutral paper and renewable electricity within New Zealand offices.
- New generation vehicle lending increased from 5% in 1H2022 to 14% in 1H2023 as distributors reported a higher ratio of EV, PHEV and HEV sales to internal combustion engine sales.
- Heartland launched a green vehicle rate to dealers and customers in December 2022 and will continue this through 2H2023.
- Heartland introduced a guaranteed future value product across the Opel range, including two dedicated EVs.
- Heartland undertook Australian and New Zealand Standard Industrial Classification (**ANZSIC**) code analysis to understand Heartland's exposure to customers in high emitting industries, and industries susceptible to governmental regulations in New Zealand's journey to carbon-zero by 2050, with the aim to educate identified customers on how they can directly reduce their emissions and mitigate the risks climate change poses to their business.

Social equity

- The Manawa Ako internship programme recently concluded its sixth year, welcoming 25 Māori and Pasifika interns to Heartland Bank in December 2022. More than 110 rangatahi (young people) have participated in the programme since inception.
- Heartland Bank was pleased to renew its Rainbow Tick accreditation and deliver several LGBTTQIA+ education workshops to its employees across New Zealand.
- The diversity of Heartland's people was celebrated through various events, which included opportunities to raise cultural awareness and understanding. Celebrations included Te Wiki o Te Reo Māori (Māori Language Week), Diwali and several Pasifika language weeks.

Economic prosperity

- Heartland Bank consistently offered market leading and competitive deposit rates, enabling New Zealanders to grow their savings in a high cost of living environment. Of all main and domestic banks in New Zealand, Heartland Bank experienced the greatest percentage of retail deposit growth in Q1 of FY2023, up 9.3%.

- A refix comparison calculator was developed for Online Home Loans, allowing potential applicants to see how much could be saved by refinancing their mortgage with Heartland Bank.
- An 18-month fixed term rate was also introduced, providing New Zealand home owners with more options to suit their financial needs when setting or refixing their mortgage.

Interim dividend

Heartland is pleased to declare a 1H2023 interim dividend of 5.5 cps, flat on 1H2022. Heartland's interim dividend yield of 8.7%[27] compares with 7.4%[28] in 1H2022.

The interim dividend will be paid on Wednesday 22 March 2023 (**Payment Date**) to shareholders on the company's register as at 5.00pm NZDT on Wednesday 8 March 2023 (**Record Date**) and will be fully imputed.

Heartland has a Dividend Reinvestment Plan (**DRP**), giving eligible shareholders the opportunity to reinvest some or all of their dividend payments into new ordinary shares. The DRP will apply to the interim dividend with a 2.0% discount.[29] The DRP offer document and participation form is available on Heartland's website at heartlandgroup.info/investor-information/dividends.

Looking forward

The pleasing result in 1H2023 highlights the resilience of Heartland's product portfolios despite the ongoing current economic challenges in New Zealand and Australia. Strong growth continued in core portfolios, though softened elsewhere due to suppressed credit demand.

It is currently anticipated that 2H2023 will deliver a similar result to 1H2023 on an underlying basis. In particular, continued growth is expected in Motor through white label and key partnerships, and in Asset Finance which has become one of Heartland's fastest growing portfolios. Usual seasonal fluctuations are expected to contribute to a better half for StockCo Australia and Heartland Bank's Rural portfolio in New Zealand. Further, increased demand is expected for Reverse Mortgages in both countries where the product has proven to offer a good solution for many seniors wanting to live a more comfortable retirement, especially as the cost of living rises.

Heartland's NIM is expected to stabilise at its current level as Heartland continues to proactively manage portfolio pricing and margin in competitive markets.

Efficiencies through digitalisation and the upgrade of Heartland Bank's core banking system are critical pathways to a lower CTI ratio. As the results demonstrate, Heartland continues to grow its revenue line, contributing favourably to its CTI ratio. However, ultimate efficiency requires that costs are also addressed. This will remain a focus of Heartland's through 2H2023.

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[27] Total fully imputed dividends for 1H2023 (interim) and 2H2022 (final) divided by the closing share price as at 24 February 2023 of $1.75.
[28] Total fully imputed dividends for 1H2022 (interim) and 2H2021 (final) divided by the closing share price as at 14 February 2022 of $2.35.
[29] That is, the strike price under the DRP will be 98.0% of the volume weighted average sale price of Heartland shares over the five trading days following the Record Date. For the full details of the DRP and the Strike Price calculation, refer to the Heartland DRP offer document dated 10 December 2018.

The remainder of the 2023 calendar year will be significant for Heartland as it progresses towards the completion of the acquisition of Challenger Bank, therefore becoming an ADI in Australia, and realises the benefits this will provide its existing Australian businesses Heartland Finance and StockCo Australia – as well as future product opportunities.

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

– ENDS –

The person(s) who authorised this announcement:

Jeff Greenslade
Chief Executive Officer, Heartland Group Holdings Limited

Andrew Dixson
Chief Financial Officer, Heartland Group Holdings Limited

Leanne Lazarus
Chief Executive Officer, Heartland Bank Limited

For further information and media enquiries, please contact:

Nicola Foley
Group Head of Communications, Heartland Group Holdings Limited
+64 27 345 6809
nicola.foley@heartland.co.nz
Level 3, Heartland House, 35 Teed Street, Newmarket, Auckland, New Zealand

About Heartland

Heartland Group Holdings Limited (**Heartland**) is a financial services group with operations in Australia and New Zealand. Heartland has a long history with roots stretching back to 1875, and is listed on the New Zealand and Australian stock exchanges (NZX/ASX: HGH) with a market cap in excess of NZ$1 billion.

Heartland's New Zealand business, Heartland Bank, provides customers with savings and deposit products, Online home loans, reverse mortgages, business loans, car loans and rural loans. In Australia, Heartland's main business is currently in reverse mortgages through Heartland Finance which is a market leader. Heartland also operates StockCo Australia, a specialist livestock financier, which was acquired by Heartland in May 2022.

Heartland's point of differentiation is its 'best or only' strategy – where it focuses on providing products which are the best or only of their kind through scalable digital platforms. Heartland is committed to delivering financial solutions through speed and simplicity, particularly via digital platforms which reduce the cost of onboarding and make it easier for customers to open accounts or apply for funds when they need it.

More about Heartland: heartlandgroup.info

FY2023
Half year results

HEARTLAND
GROUP

28 February 2023

Important notice

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

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

The information in the Presentation has been prepared with due care and attention, but its accuracy, correctness and completeness cannot be guaranteed. No person (including the Company and its directors, shareholders and employees) will be liable to any other person for any loss arising in connection with the Presentation.

The Presentation outlines a number of the Company's forward-looking plans and projections. Those plans and projections reflect current expectations, but are inherently subject to risk and uncertainty, and may change at any time. There is no assurance that those plans will be implemented or that projections will be realised. You are strongly cautioned not to place undue reliance on any forward-looking statements, particularly in light of the current economic climate.

No person is under any obligation to update this presentation at any time after its release or to provide further information about the Company.

The information in this presentation is of a general nature and does not constitute financial product advice, investment advice or any recommendation. Nothing in this presentation constitutes legal, financial, tax or other advice.

Non-GAAP measures

This presentation contains references to non-GAAP measures including underlying profit or loss, underlying ROE, underlying CTI ratios and underlying EPS. A reconciliation between reported and the non-GAAP measure of underlying financial information is included on page 41.

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

Non-GAAP financial information has not been subject to review by PricewaterhouseCoopers, Heartland's external auditor.

All amounts are in New Zealand dollars unless otherwise indicated. Financial data in this presentation is as at 31 December 2022 unless otherwise indicated. Any other financial information provided as at a date after 31 December 2022 has not been audited or reviewed by any independent registered public accounting firm.

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1H2023 highlights

Jeff Greenslade
Chief Executive Officer
Heartland Group

Presentation of results

Financial results in this investor presentation are presented on a reported and underlying basis.

- **Reported results** are prepared in accordance with NZ GAAP and include the impacts of one-offs, both positive and negative, which can make it difficult to compare performance between periods.
- **Underlying results** exclude the impacts of fair value changes on equity investments held, the de-designation of derivatives, and other one-offs. This is intended to allow for easier comparability between periods, and is used internally by management for this purpose.

Adjustments for underlying results impact net operating income (**NOI**), operating expenses (**OPEX**), net profit after tax (**NPAT**), net interest margin (**NIM**) and earnings per share (**EPS**). Return on equity (**ROE**) and cost to income (**CTI**) ratio are supplementary, non-GAAP measures that may be used by investors, industry analysts and others in assessing and benchmarking profitability and performance against the industry and/or other companies. A GAAP and non-GAAP comparative is provided for each of these measures.

Refer to Appendix 3 on page 41 for a detailed reconciliation between reported and underlying financial information, including details about one-offs in the periods covered in this investor presentation.

General information about the use of non-GAAP financial measures is set out on page 2 of this investor presentation.

Financial highlights

		REPORTED	UNDERLYING
Financial performance	Net Interest Income	$138.9m ↑ 12.1% vs 1H2022	$140.8m ↑ 13.6% vs 1H2022
	Other Operating Income (**OOI**)[1]	$2.8m ↓ 58.6% vs 1H2022	$8.9m ↑ 28.3% vs 1H2022
	OPEX	$63.4m ↑ 10.8% vs 1H2022	$63.9m ↑ 13.3% vs 1H2022
	Impairment Expense	$9.2m ↑ 8.3% vs 1H2022	$9.2m ↑ 8.3% vs 1H2022
	Tax Expense	$20.4m ↑ 17.3% vs 1H2022	$21.8m ↑ 15.8% vs 1H2022
	NPAT[2]	$48.7m ↑ 2.4% vs 1H2022	$54.7m ↑ 16.2% vs 1H2022
	NIM	3.97% ↓ 34 bps vs 1H2022	4.02% ↓ 29 bps vs 1H2022 ↓ 8 bps vs 2H2022
	CTI Ratio	44.8% ↑ 94 bps vs 1H2022	42.7% ↓ 40 bps vs 1H2022
	Impairment Expense Ratio[3]	0.29% ↓ 4 bps vs 1H2022	
Financial return	ROE	10.6% ↓ 166 bps vs 1H2022	12.1% ↓ 7 bps vs 1H2022
	EPS	7.3 cps ↓ 0.8 cps vs 1H2022	8.2 cps ↑ 0.2 cps vs 1H2022
Financial position	Gross Finance Receivables (**Receivables**)[4]	$6,460m ↑ 10.1%[5] vs June 2022	
	Borrowings	$6,329m ↑ 2.6% vs June 2022	
	Equity	$1,016m ↑ 25.6% vs June 2022	
	Equity/Total Assets	13.7% ↑ 2.3 pps vs June 2022	

[1] OOI includes fair value gains/losses on investments. [2] Refer to Appendix 3 for a reconciliation between reported and underlying NPAT result. [3] Impairment expense as a percentage of average Receivables.
[4] Receivables also includes Reverse Mortgages and StockCo Australia. [5] Annualised 1H2023 growth excluding the impact of changes in foreign currency exchange (**FX**) rates.

Operating environment

Overall credit quality remains good, benefitting from Heartland's continued move towards higher quality and lower risk assets.

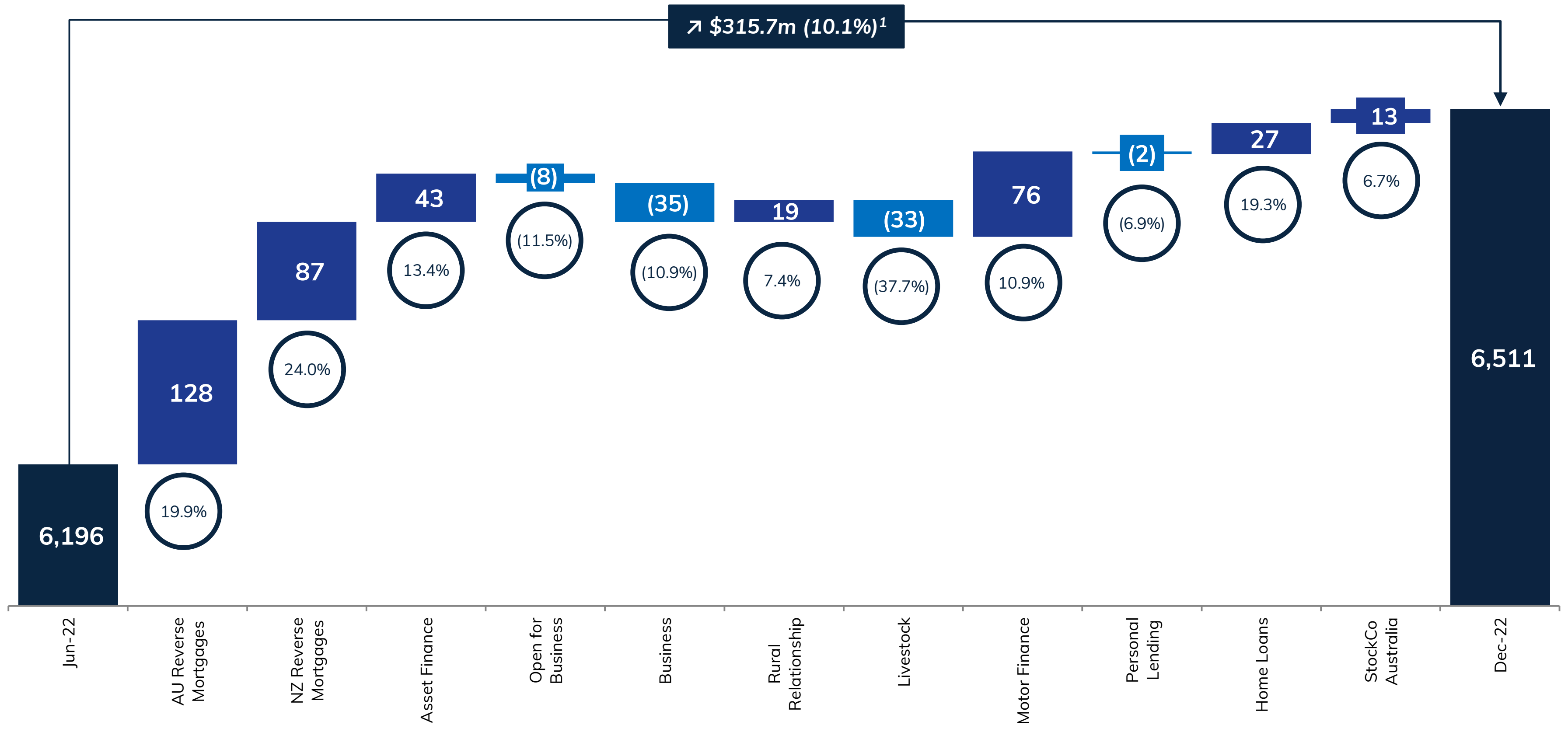
Reverse Mortgages have remained resilient to economic conditions, particularly to changes in house prices and rising interest rates, with conservative loan-to-value ratios (**LVRs**). Reverse Mortgage weighted average LVRs as at 31 December 2022 were 19.7% in NZ and 20.0% in AU.

The percentage of the Motor book in arrears increased from 3.17% at 30 June 2022 to 3.99% at 31 October 2022. However, this has since moderated with the percentage of the Motor book arrears falling to 3.73% by 31 December 2022, reflecting the return to pre-COVID-19 levels of arrears at this point in the financial year for the portfolio. The subsequent seasonal increase in January 2023 was at a similar level to January 2022.

Heartland intentionally delayed passing the full impact of rising cash rate increases onto some borrower customers, and, in the case of Reverse Mortgages, did not pass on the full increases. With depositors, Heartland was quick to pass on the benefits of the rising cash rate.

Heartland's Economic Overlay of $8.0 million taken in the financial year ended 30 June 2022 (**FY2022**) remains unchanged at 31 December 2022. The Economic Overlay is considered a sufficient buffer against the potential impacts of a future deterioration in the economic environment.

The banking industry has yet to harness the full benefit of technology. Heartland's objective is to differentiate through a continuous focus on reducing its cost of onboarding and customer service via automation and self-service. This will drive an easier and faster customer experience, and contribute to reductions in the CTI ratio.



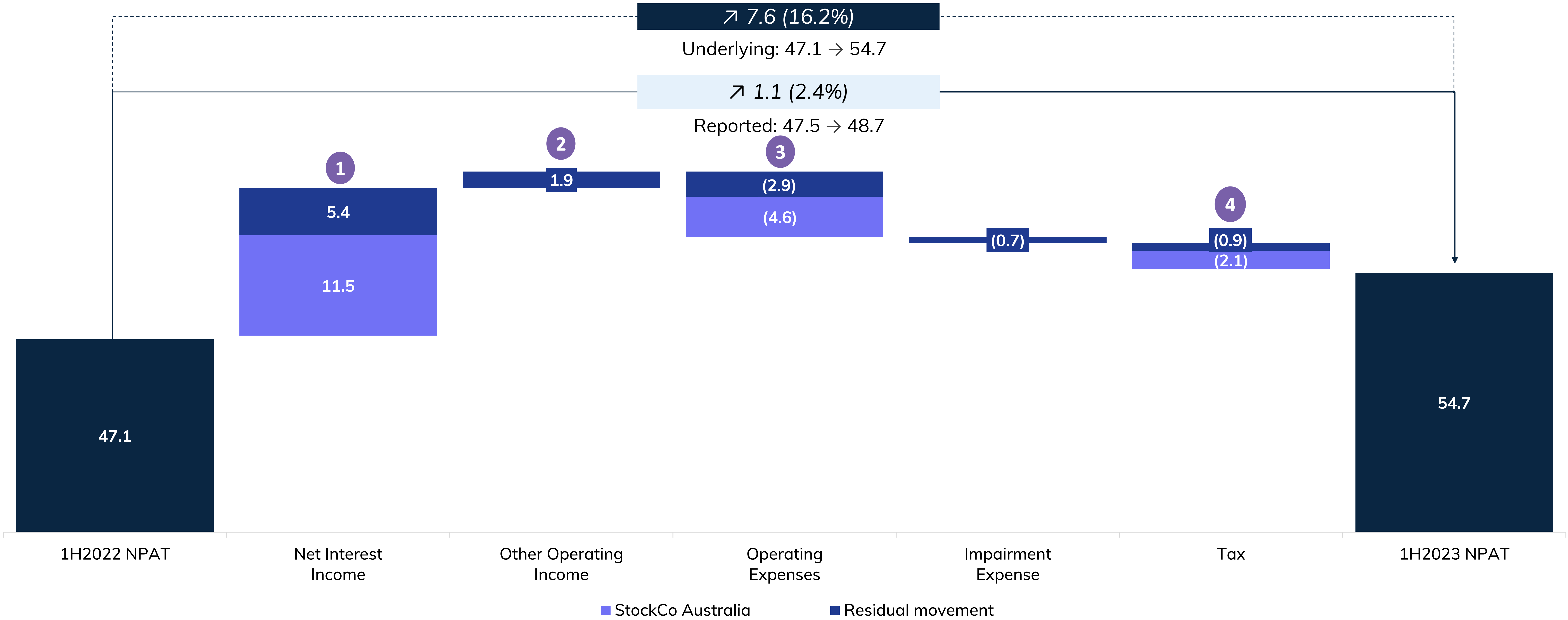
[1] Annualised 1H2023 growth excluding the impact of changes in FX rates.

Note: The graph shows 1H2023 growth in Receivables by portfolio excluding the impact of changes in FX rates. All figures in NZ$m.

Financial results

Andrew Dixson
Chief Financial Officer
Heartland Group

Growth in profitability

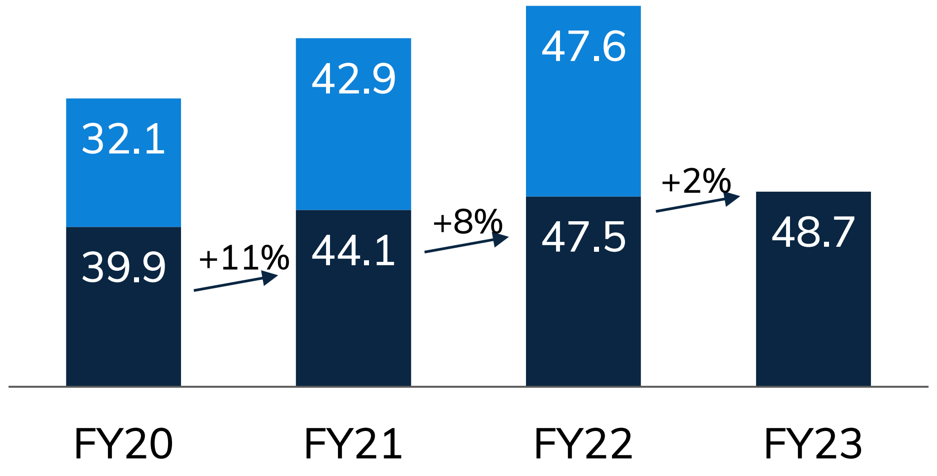


1 1H2023 one-offs: $1.9 million interest expense on bridging loan to acquire StockCo Australia.
2 1H2022 one-offs: ($0.1 million) net fair value gain on equity investments. 1H2023 one-offs: (i) $3.6 million hedge accounting impacts, (ii) $2.4 million net fair value loss on equity investments.
3 1H2022 one-offs: $0.9 million other non-recurring items. 1H2023 one-offs: ($0.5 million) other non-recurring items.
4 1H2022 one-offs: (i) $1.2 million non-recurring adjustments, (ii) $0.2 million tax impact on one-offs. 1H2023 one-offs: $1.4 million tax impact on one-offs.

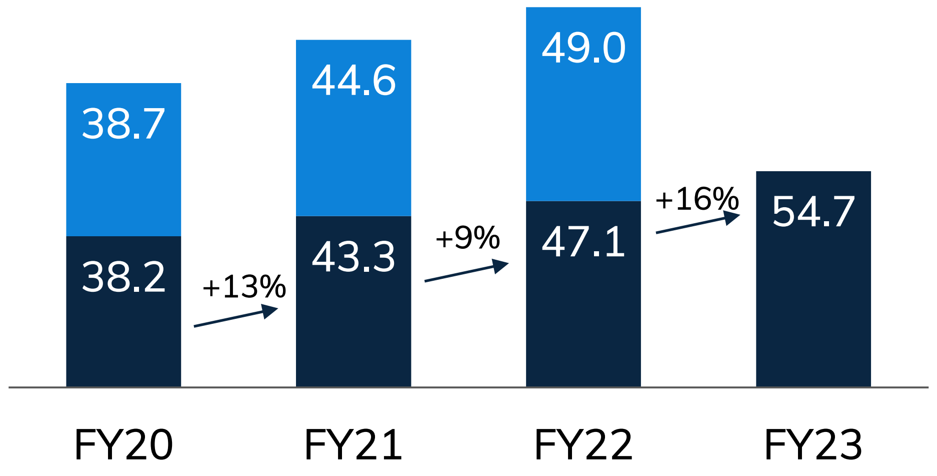
Note: All figures in NZ$m. Refer to Appendix 3 for a reconciliation between reported and underlying NPAT result. Chart is not to scale.

Key performance measures

NPAT ($ million)

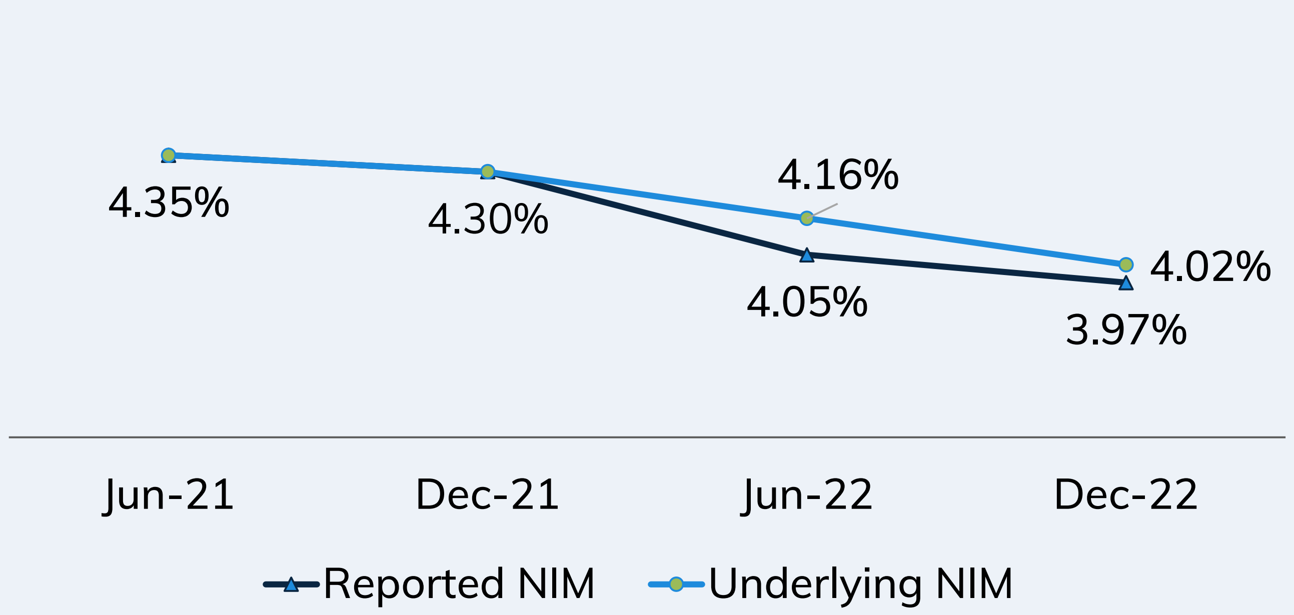


Underlying NPAT ($ million)

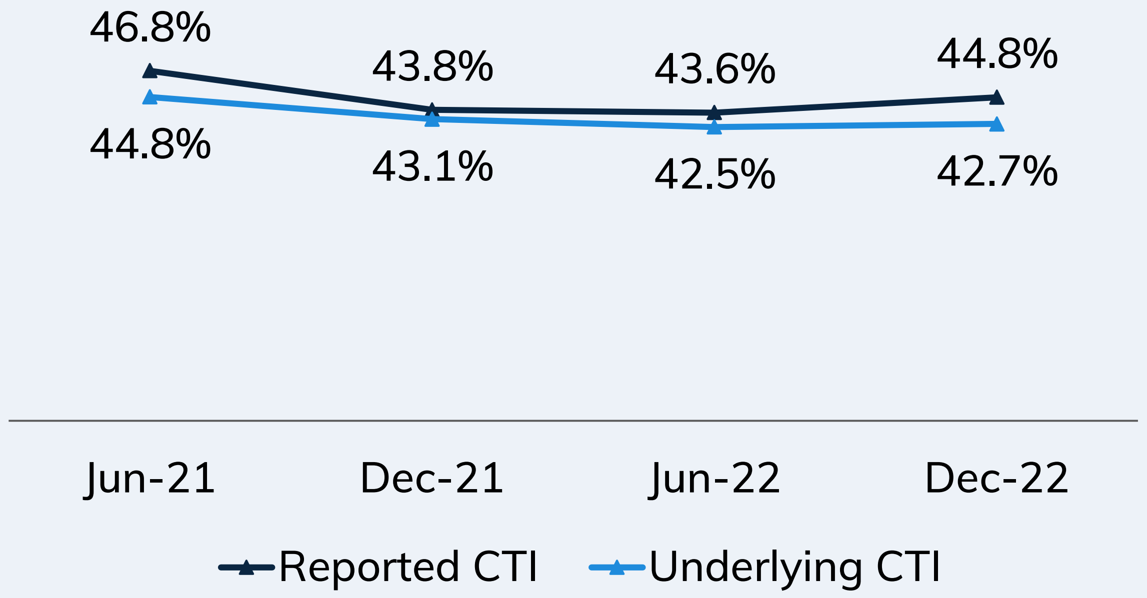


Note:
- NIM is calculated as net interest income/average gross interest earning assets.
- Impairment expense ratio is calculated as impairment expense/average gross finance receivables.
- Underlying CTI ratio and impairment expense ratio exclude one-off impacts. Refer to Appendix 3 for a reconciliation between reported and underlying result.

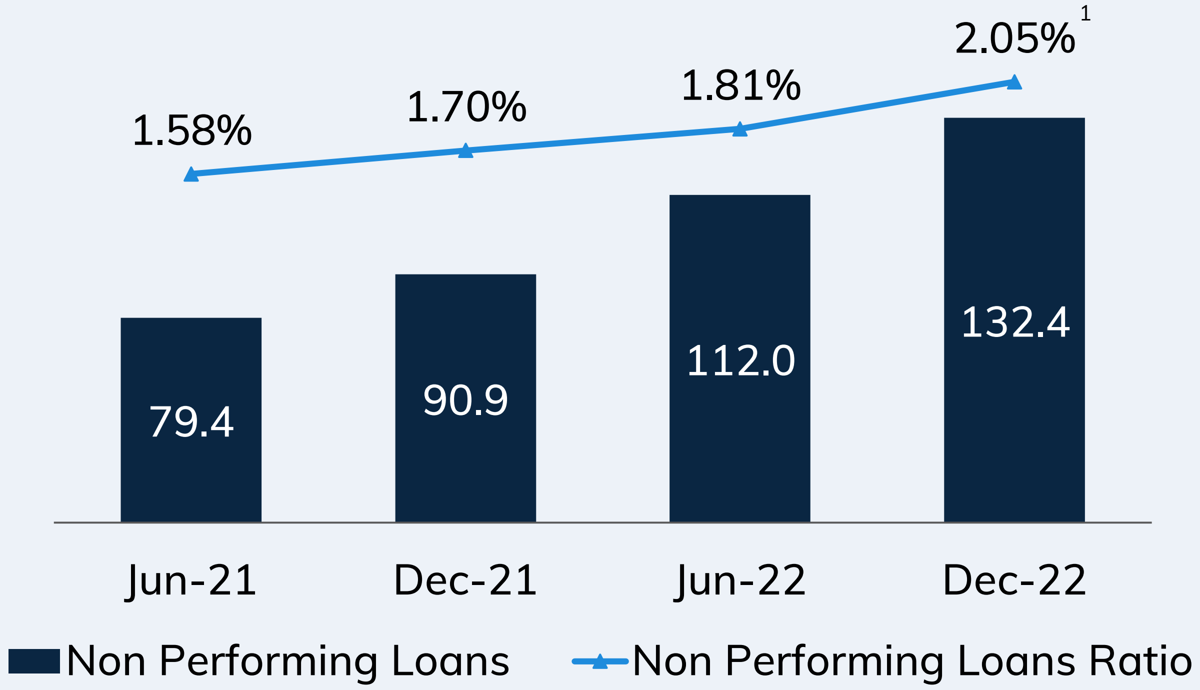
NIM



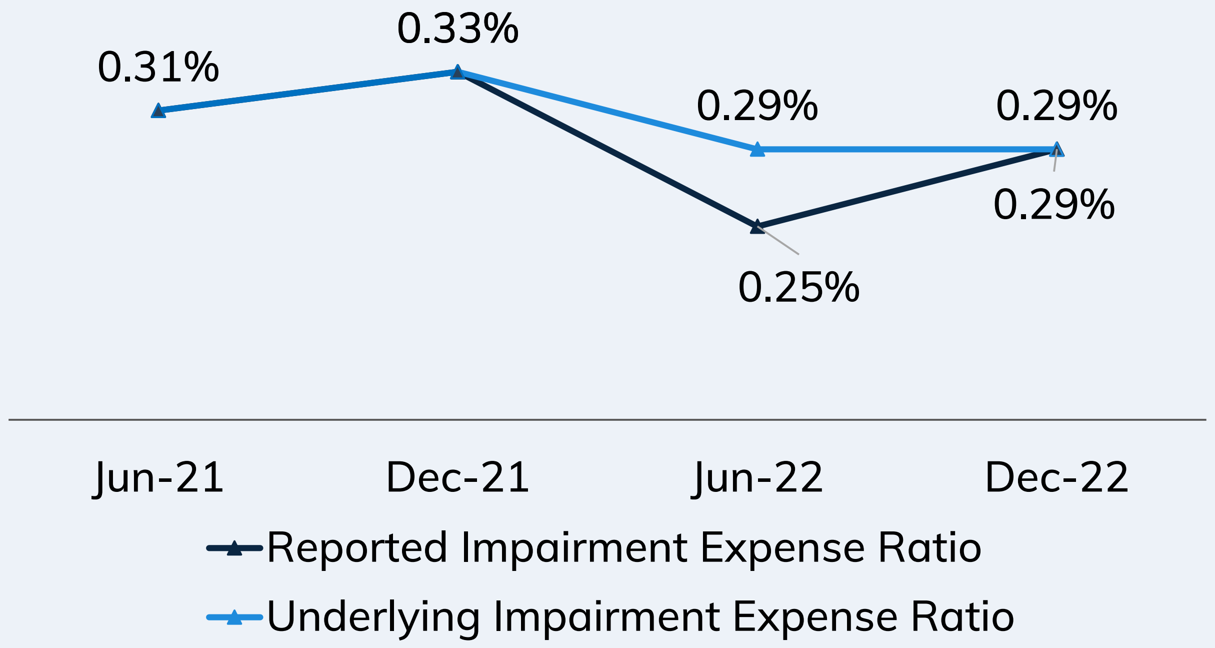
CTI



Non Performing Loans



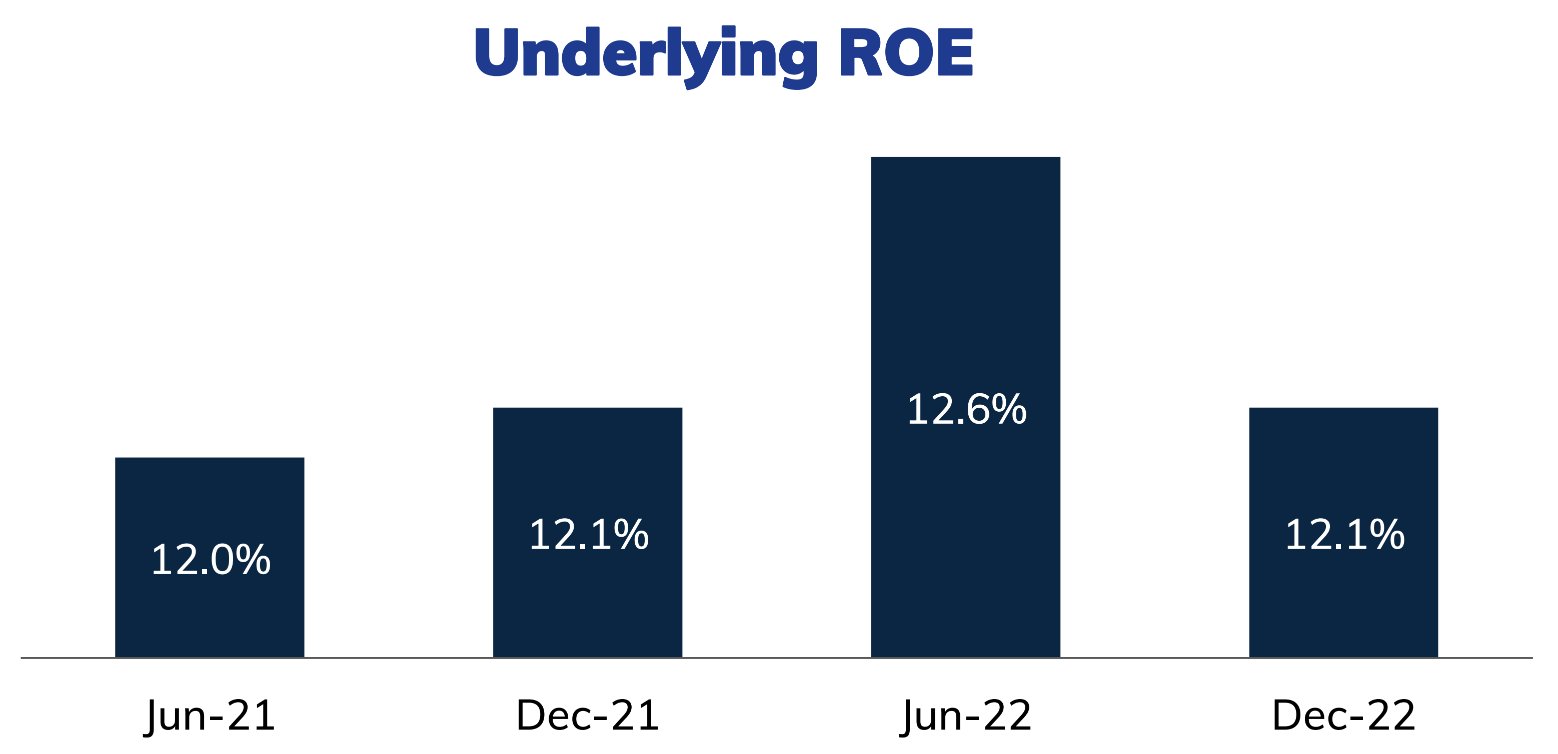
Impairment Expense Ratio

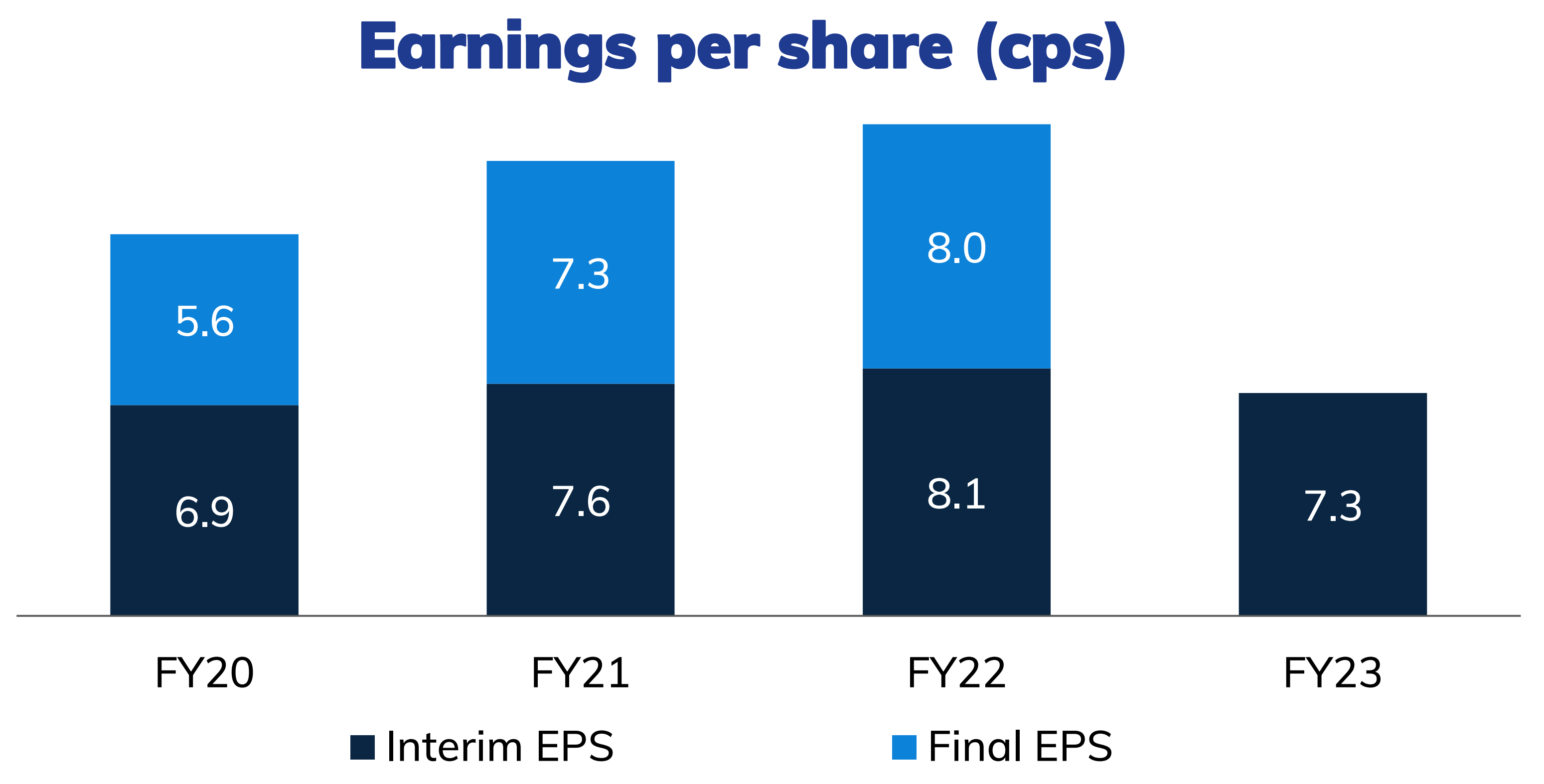


[1] Increase in non performing loans is primarily driven by Business and Motor. In Business, the increase was driven by several large exposures with strong security and longer-term remediation plans in place. In Motor, the increase reflects the impact rising costs have had on customers' household budgets. However, this has since moderated with arrears falling to 3.73% in December 2022 (from 3.99% at 31 October 2022), reflecting the return to pre-COVID-19 levels of arrears at this point in the financial year for the portfolio.

Shareholder return

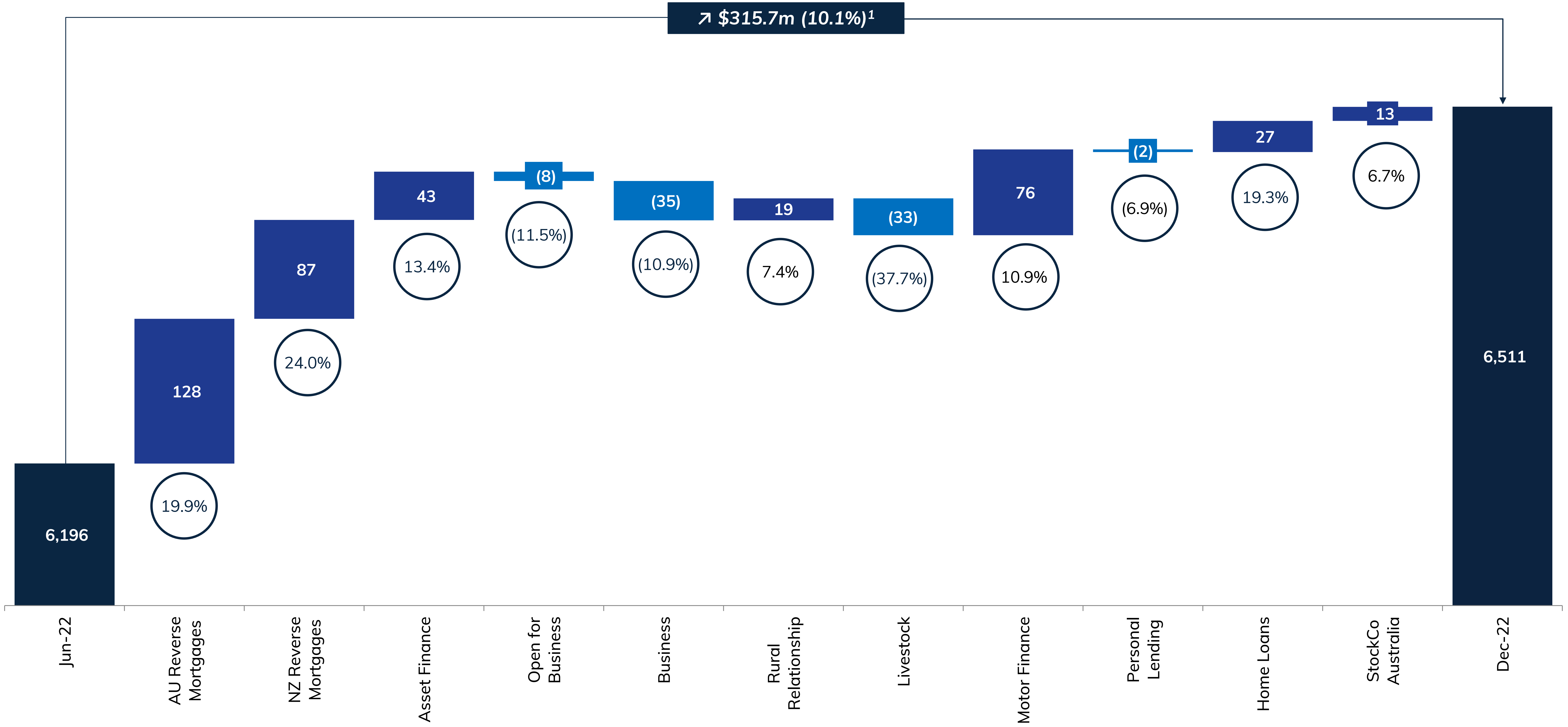
- Underlying return on equity (**ROE**) 12.1% (down 7 bps vs 1H2022).[1]
- Earnings per share (**EPS**) of 7.3 cps, down 0.8 cps compared with 1H2022.
- Underlying EPS of 8.2 cps (up 0.2 cps vs 1H2022).
- Interim dividend of 5.5 cps, flat on 1H2022.
- Dividend yield of 8.7%[2] (1H2022: 7.4%[3]).
- Heartland's Dividend Reinvestment Plan (**DRP**) will apply to the interim dividend with a 2.0% discount.[4]





[1] Underlying ROE refers to ROE calculated using underlying results. When calculated using reported results, ROE was 10.6%, down 166 bps. See page 5 for more information about the use of ROE, a supplementary, non-GAAP measure. [2] Total fully imputed dividends for 1H2023 (interim) and 2H2022 (final) divided by the closing share price as at 24 February 2023 of $1.75. [3] Total fully imputed dividends for 1H2022 (interim) and 2H2021 (final) divided by the closing share price as at 14 February 2022 of $2.35. [4] That is, the strike price under the DRP will be 98.0% of the volume weighted average sale price of Heartland shares over the five trading days following the Record Date. For the full details of the DRP and the Strike Price calculation, refer to the Heartland DRP offer document dated 10 December 2018.

Growth in Receivables



Note: The graph shows 1H2023 growth in Receivables by portfolio excluding the impact of changes in FX rates. All figures in NZ$m.
[1] Annualised 1H2023 growth excluding the impact of changes in FX rates.

Strategic update

Jeff Greenslade
Chief Executive Officer
Heartland Group

Strategic progress

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

Business as usual growth

Heartland Bank experienced the **highest growth rate in retail deposits of all main and domestic banks in NZ for Q1 of FY2023.**[1]

Heartland Bank awarded **Canstar NZ's Bank of the Year – Savings** for fifth consecutive year.[2]

Expanded Online Home Loans criteria to permit lending against terraced homes and townhouses.

Introduced a **Guaranteed Future Value product across the Opel vehicle range.**

Frictionless service at the lowest cost

Heartland Bank Mobile App users up 46% from July 2022.

Calls per customer to Motor, Deposits and Business teams reduced by 7% from July to December 2022.

Underlying CTI ratio reduced from 43.1% in 1H2022 to 42.7% in 1H2023.[3]

Core banking system upgrade almost complete.

Expansion in Australia

$198.6 million raised through 2022 equity raise to retire bridge debt and fund growth ambitions for existing businesses.

AU Reverse Mortgage **market share of 35.9%** at 30 September 2022.[4]

Substantially completed the **integration of StockCo Australia** into Heartland.

Acquisitions

Repaid A$158 million StockCo Australia acquisition finance facility using proceeds from the equity raise.

Signed a conditional **share purchase agreement for the purchase of Challenger Bank Limited** (Challenger Bank).

[1] Based on balance sheet data from the RBNZ for the first quarter (**Q1**) of FY2023. [2] Awarded July 2022. [3] Underlying CTI ratio refers to the CTI ratio calculated using underlying results. When calculated using reported results, the CTI ratio was 44.8%, up 94 bps. See page 5 for more information about the use of the CTI ratio, a supplementary, non-GAAP measure. [4] Based on APRA ADI Property Exposure and Heartland Finance data as at 31 March 2022.

Challenger Bank acquisition

On 20 October 2022, Heartland announced it had signed a conditional share purchase agreement for the purchase of Challenger Bank, an established ADI, from Challenger Limited (**ASX: CGF**). Completion under the share purchase agreement remains subject to obtaining the requisite regulatory approvals.

The benefits of this acquisition include:

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

Heartland's vision is to create a sustainable and profitable digital bank serving sectors of the Australian market which Heartland considers are under-serviced by major banks (including older Australians, rural Australia and small businesses). Heartland already holds strong positions in Australia with Reverse Mortgages and Livestock Finance. Further expansion is intended by leveraging Heartland's experience and expertise in New Zealand to offer additional products in the Australian market (including Auto Finance, Asset Finance and Online Home Loans).

- Additional transaction costs are expected in 2H2023 in relation to obtaining an ADI licence, including for the completion of the Challenger Bank acquisition.
- Heartland will provide further information to the market on the Challenger Bank acquisition as updates become available.

challenger

Sustainability

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

Environmental Conservation

FY2022 emissions show a 56% absolute reduction in Greenhouse Gas emissions from FY2019 baseline.[1]

Lending to new generation vehicles comprised 14% of all vehicle lending in 1H2023.

Launched a green vehicle lending rate in December 2022.

Undertook ANZSIC[2] code analysis to understand Heartland's exposure to customers in high emitting industries, and industries susceptible to governmental regulations in NZ's journey to carbon-zero by 2050.

Social equity

Rainbow Tick accreditation renewed and several LGBTTQIA+ education workshops delivered across NZ.

The Manawa Ako internship welcomed 25 Māori and Pasifika interns in its sixth intake.

Celebrated the diversity of Heartland's people through various events, including Te Wiki o Te Reo Māori (Māori Language Week), Diwali and several Pasifika language weeks.

Economic prosperity

Heartland Bank consistently offered market leading and competitive deposit rates, **enabling New Zealanders to grow their savings in a high cost of living environment**.

Developed a refix comparison calculator for Online Home Loans, allowing potential applicants to see how much could be saved by refinancing with Heartland Bank.

Delivered **shareholder return** as described on page 11.

[1] Unaudited, and partially referable to COVID-19.
[2] Australian and New Zealand Standard Industrial Classification (**ANZSIC**).

NZ divisional summary

Leanne Lazarus
Chief Executive Officer
Heartland Bank

NZ Reverse Mortgages

- New Zealand Reverse Mortgages net operating income (**NOI**) was up 33.4% from 1H2022.
- Receivables increased $87.4 million (24.0%) to $808.7 million.
- Strong demand and growth continues due to:
  - a reverse mortgage being a solution to the ongoing strain placed on older home owners by cost of living pressures
  - increased awareness and acceptance of reverse mortgages
  - nurturing of a lead pool which has been built over a decade
  - Heartland being recognised as New Zealand's leading reverse mortgage provider.

$20.5m

NET OPERATING INCOME

As at 31 December 2022

+33.4%

increase since 1H2022

$808.7m

RECEIVABLES

As at 31 December 2022

+24.0%

annualised growth since June 2022

NZ Reverse Mortgages portfolio analytics

Average loan size	**$122,751**
Weighted average borrowers' age	**78**
Average origination LVR	**10.0%**
Weighted average LVR	**19.7%**
Proportion of the loan book over 75% LVR	**0.0%**
Number of loans in the book over 75% LVR	**0**
1H2023 origination	**$109m** (+$33m vs 1H2022)
Total repayments in 1H2023	**$51m** (+$5m vs 1H2022)
1H2023 repayment rate	**14.0%** (vs 15.2% in 1H2022)
Compounded annual growth rate[1]	**13.4%**
Repayments from vintage loans (+11 years)	**31.4%** (vs 36.0% in 1H2022)

$809m

NZ Reverse Mortgages

+$87m (24.0%)[2]

vs June 2022

[1] Compounded annual growth rate for the period 1 January 2018 – 31 December 2022.
[2] Annualised growth.

Asset Finance[1]

- Asset Finance NOI was down 4.8% from 1H2022.
- Receivables increased $42.7 million (13.4%) to $676.3 million.
- NIM deteriorated due to the impact of interest rate changes required to maintain competitive pricing in an aggressive market, and the lag in time taken to fully reprice fixed rate loans. NOI is expected to improve once market rates stabilise.
- Sustained growth stemmed from demand in core asset segments: trucks, trailers and yellow goods.
- Weaker demand from the logging sector offset by strong activity in logistics and further expansion of intermediary partnership model.

$14.9m **-4.8%**

NET OPERATING INCOME — decrease since 1H2022

As at 31 December 2022

$676.3m **+13.4%**

RECEIVABLES — annualised growth since June 2022

As at 31 December 2022

[1] Previously referred to as Business Intermediated.

Business

- Business includes floorplan lending to vehicle retailers and wholesale facilities to other lenders. The portfolio includes what was previously known as Business Relationship.
- Receivables decreased $34.7 million (10.9%) to $595.5 million.
- Negative movement driven by lower floorplan utilisation as stock inventory levels remained impacted by global supply chain and erratic shipping conditions.
- This position is expected to improve in 2H2023 as stock arrivals continue through 2023.
- The portfolio is also expected to benefit as larger legacy loans run down, contributing to a book that is lower risk, with low cost origination and superior margins.

$15.8m **+1.6%**

NET OPERATING INCOME | increase since 1H2022

As at 31 December 2022

$595.5m **-10.9%**

RECEIVABLES | annualised decrease since June 2022

As at 31 December 2022

Open for Business

- 1H2023 saw a decrease of $0.5 million (6.8%) in O4B NOI.
- Receivables decreased $8.2 million (11.5%)[1] to $133.0 million.
- A strategy reset occurred in Q2 following a change in the demand profile through COVID-19, and the sensitivities that small-to-medium enterprises are experiencing due to changing macro-economic conditions.
- Amortisation is expected to outperform growth for the remainder of FY2023.

$6.7m NET OPERATING INCOME

As at 31 December 2022

-6.8% decrease since 1H2022

$133.0m RECEIVABLES

As at 31 December2022

-11.5%[1] annualised decrease since June 2022

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

Motor Finance

- Motor Finance NOI was down 9.9% from 1H2022.
- Receivables increased $75.9 million (10.9%) to $1.46 billion as early repayments slowed.
- NIM was impacted by competitor activity, and by the change in portfolio mix of business, where 75% of business came from the quality end of the market. This is expected to have a positive impact on impairments in 2H2023.
- Motor arrears, while increasing in the first four months of 1H2023, have returned to pre-COVID-19 levels of arrears at this point in the financial year for the portfolio.
- Growth has been a product of market share gains at the higher quality end of the market.
- Total new and used car sales in the New Zealand market declined by 8.6%[1] compared with 1H2022. Motor is expected to continue to outperform the market in 2H2023.
- Increased lending to new generation vehicles (comprising 14% of all vehicle lending in 1H2023) and launched a green vehicle lending rate in December 2022.
- Ongoing development and enhancements to the Motor digital platforms are expected to contribute to improved efficiency, customer experience and growth for the portfolio in 2H2023.

$32.7m — NET OPERATING INCOME

As at 31 December 2022

-9.9% — decrease since 1H2022

$1.46b — RECEIVABLES

As at 31 December 2022

+10.9% — annualised growth since June 2022

[1] Based on data from the Motor Industry Association of New Zealand on new and used vehicle sales from motor vehicle dealers.

Personal Lending

- Personal Lending includes loans originated directly through Heartland Bank, and those originated by Harmoney Corp Limited (**Harmoney**) in New Zealand and Australia.
- Heartland personal loans have increased $9.1 million (52.9%) to $43.4 million.
- Heartland's Harmoney personal loans channel is closed to new business and running down.
- The **New Zealand Harmoney channel** decreased $6.8 million (73.6%) to $11.6 million.
- The **Australian Harmoney channel** decreased by $4.6 million (72.8%)[1] to $7.9 million.

$3.4m

NET OPERATING INCOME

As at 31 December 2022

-35.4%

decrease since 1H2022

$62.8m

RECEIVABLES

As at 31 December 2022

-6.9%[1]

annualised decrease since June 2022

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

Online Home Loans[1]

- Online Home Loans[1] Receivables increased $27.6 million (19.9%) in 1H2023 to $302.3 million.
- The reduction in the rate of book growth was driven by the sharp decline in property sales and new mortgage volumes in New Zealand.[2]
- Conversion rates improved towards the end of 1H2023 due to platform updates made off the back of the CCCFA amendments which came into effect in July 2022. These updates have increased approval automation and reduced the friction involved in verifying approvals.
- Online Home Loans criteria was expanded to permit lending against terraced homes and townhouses. This change is expected to support a 10% uplift in lending volumes compared with the previous restriction to standalone homes only.

$2.1m

NET OPERATING INCOME

As at 31 December 2022

+267.2%

increase since 1H2022

$302.3m

RECEIVABLES

As at 31 December 2022

+19.9%

annualised increase since June 2022

[1] Excludes legacy Retail Mortgages.
[2] Based on data from the Real Estate Institute of New Zealand, and on RBNZ data on new residential mortgage lending by borrower type.

Rural

- Overall **Rural portfolio** Receivables decreased by $13.3 million (3.8%) to $675.8 million. Driven from the normal seasonal fluctuations in **Livestock** Receivables which decreased by $32.6 million (37.7%) to $139.0 million, offset in part by **Rural** Receivables increasing by $19.4 million (7.4%) to $536.8 million.
- Strong pasture growth late in the season is expected to support cattle restocking, and additional intermediary partnerships will push utilisation up into 2H2023.
- Activity in Rural Receivables continues to be mainly targeted to Heartland's niche Rural Direct segments (providing finance specifically for sheep, beef and dairy farmers).

$16.9m — NET OPERATING INCOME

As at 31 December 2022

+9.2% — increase since 1H2022

$675.8m — RECEIVABLES

As at 31 December 2022

-3.8% — annualised decrease since June 2022

AU divisional summary

Chris Flood
Deputy Chief Executive Officer
Heartland Group

AU Reverse Mortgages

- Receivables increased by $128.0 million (19.9%)[1] to $1.40 billion.
- Growth was driven by:
  - increased debt consolidation and cost of living requests
  - customers looking to enjoy retirement with modest lifestyle spending following the relaxation of COVID-19 lockdowns
  - growing acceptance of use of reverse mortgages to support ageing in place
  - targeted marketing to new and existing customers to increase uptake and interest, leading to record settlements in key months.
- Growth is expected to continue in 2H2023 as ongoing improvements and efficiencies are made to the application, approval and loan maintenance process.

$23.1m — NET OPERATING INCOME — As at 31 December 2022

+21.5% — increase since 1H2022

$1.40b — RECEIVABLES — As at 31 December 2022

+19.9%[1] — annualised growth since June 2022

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

AU Reverse Mortgages portfolio analytics

Average loan size	A$156,497
Weighted average borrowers' age	77
Average origination LVR	11.7%
Weighted average LVR	20.0%
Proportion of the loan book over 75% LVR	0.1%
Number of loans in the book over 75% LVR	3
1H2023 origination	$169m (+$58m vs 1H2022)
Total repayments in 1H2023	A$97m (+A$21m vs 1H2022)
1H2023 repayment rate	16.7% (vs 15.1% in 1H2022)
Compounded annual growth rate[1]	18.5%
Repayments from vintage loans (+11 years)	17.2% (vs 18.5% in 1H2022)

A$1,269m

AU Reverse Mortgages

+A$116m (20.0%)[2]

vs June 2022

[1] Compounded annual growth rate for the period 1 January 2018 – 31 December 2022.
[2] Annualised growth.

StockCo AU

- StockCo Australia Receivables increased $12.5 million (6.7%) in 1H2023 to $385.6 million.
- Growth was supported by strong onboarding of new clients, and increased facility limit requirements and usage.
- Growth slowed due to adverse weather conditions, the rising interest rate environment, and stock value.
  - Weather conditions across eastern Australia impacted on livestock movement and activity in 1H2023.
  - Rising interest rates contributed to a reduction in profitability as rates were managed to ensure competitiveness.
  - The value of livestock softened during late 2022, resulting in lower dollars per head on the balance sheet. While stock value was offset by higher unit numbers, this had an impact on growth expectations. However, as experienced in the past, these temporary market price volatilities are not expected to have a material impact on the quality of the book.
- Low export demand, driven by COVID-19 lockdowns across China, is expected to ease and result in strong demand for protein.
- Work is underway to develop a white label offering to complement StockCo Australia's existing distribution strategy and support ongoing growth through 2H2023.

$13.4m

NET OPERATING INCOME

As at 31 December 2022

$385.6m **+6.7%**

RECEIVABLES | annualised increase since June 2022

As at 31 December 2022

Funding, liquidity, capital & regulatory update

Andrew Dixson
Chief Financial Officer
Heartland Group

NZ funding and liquidity

Heartland Group

Heartland increased borrowings by $158.3 million (2.6%) to $6,329.1 million.

New Zealand

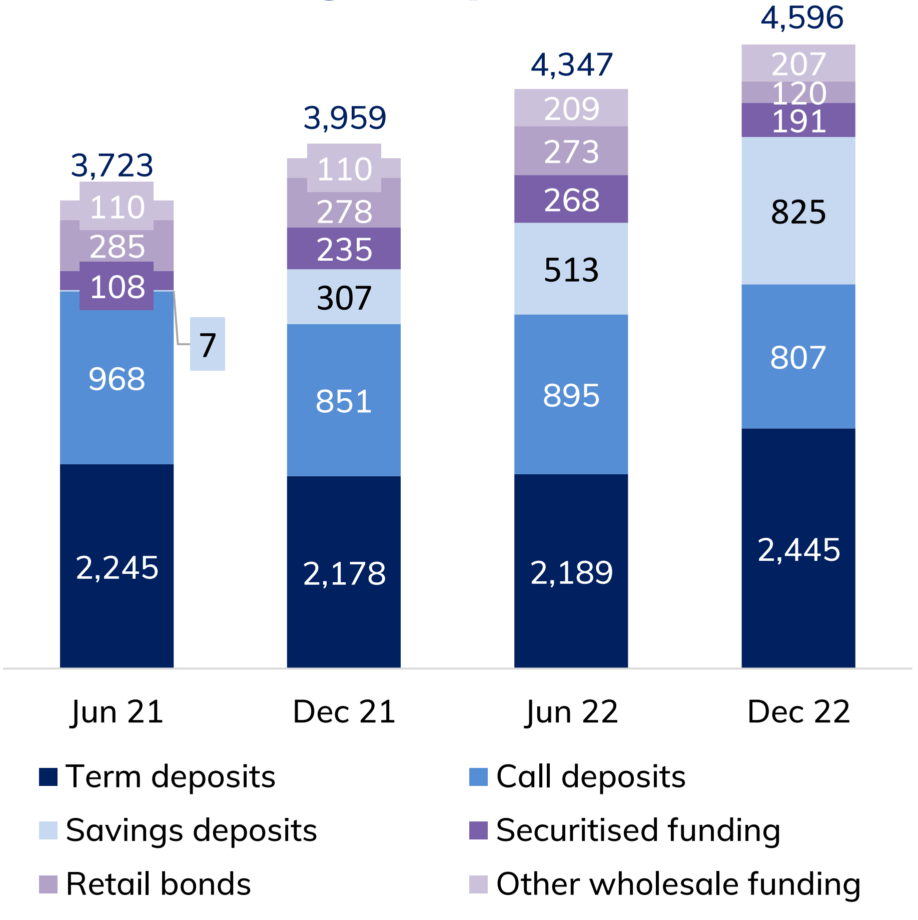
- Heartland Bank increased borrowings by $249.7 million (5.7%) to $4,596.3 million.
  - Deposits grew $480.5 million (13.4%) to $4,077.7 million, driven by competitive pricing on targeted products, including Heartland's Notice Saver offerings which both received Canstar New Zealand recognition in the half.[2]
  - In Q1 of FY2023, Heartland Bank experienced the highest growth rate in retail deposits of all main and domestic banks in NZ.[1]
  - Other borrowings decreased by $230.8 million (30.8%), largely due to the maturity of $150 million retail bond, as well as the amount drawn down in Heartland Bank's committed auto warehouse facility decreasing by $76.6 million.
- Total liquidity strengthened, increasing by $146.9 million (23.4%) to $774.8 million.
- Heartland Bank holds liquidity well in excess of regulatory minimums and maintains strong regulatory liquidity ratios.

Core funding ratio
91.2%
as at Dec 22
vs 75% regulatory minimum
↑ 1.0 pps vs Jun 22

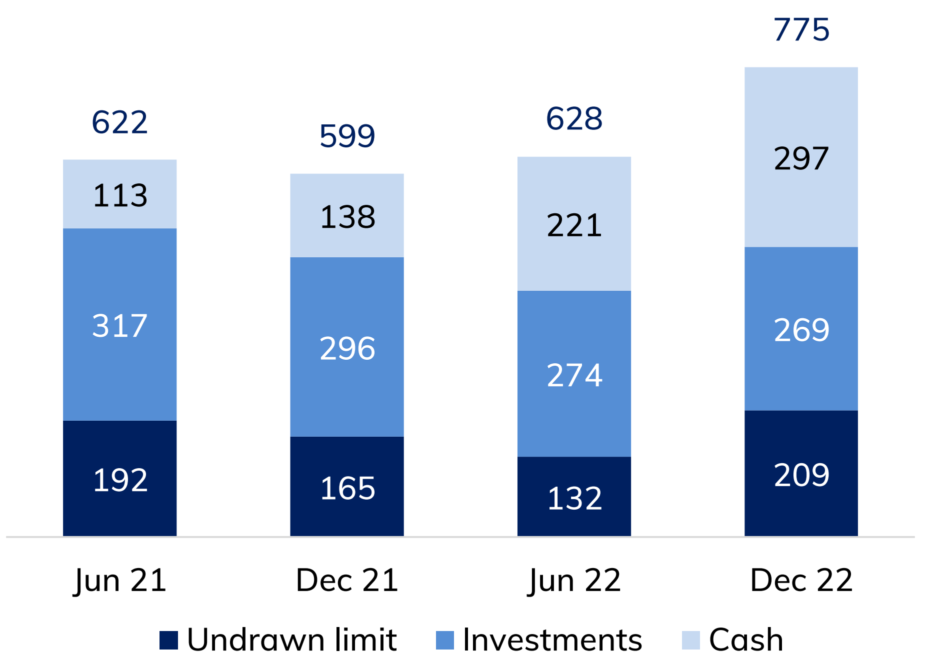
1-week mismatch
10.22%
as at Dec 22
vs 0% regulatory minimum
↑ 3.1 pps vs Jun 22

1-month mismatch
9.82%
as at Dec 22
vs 0% regulatory minimum
↓ 2.9 pps vs Jun 22

Heartland Bank
Funding Composition[3] $m



Heartland Bank
Liquidity Composition $m



[1] Based on balance sheet data from the RBNZ.
[2] Awarded July 2022. [3] Includes intercompany deposits.

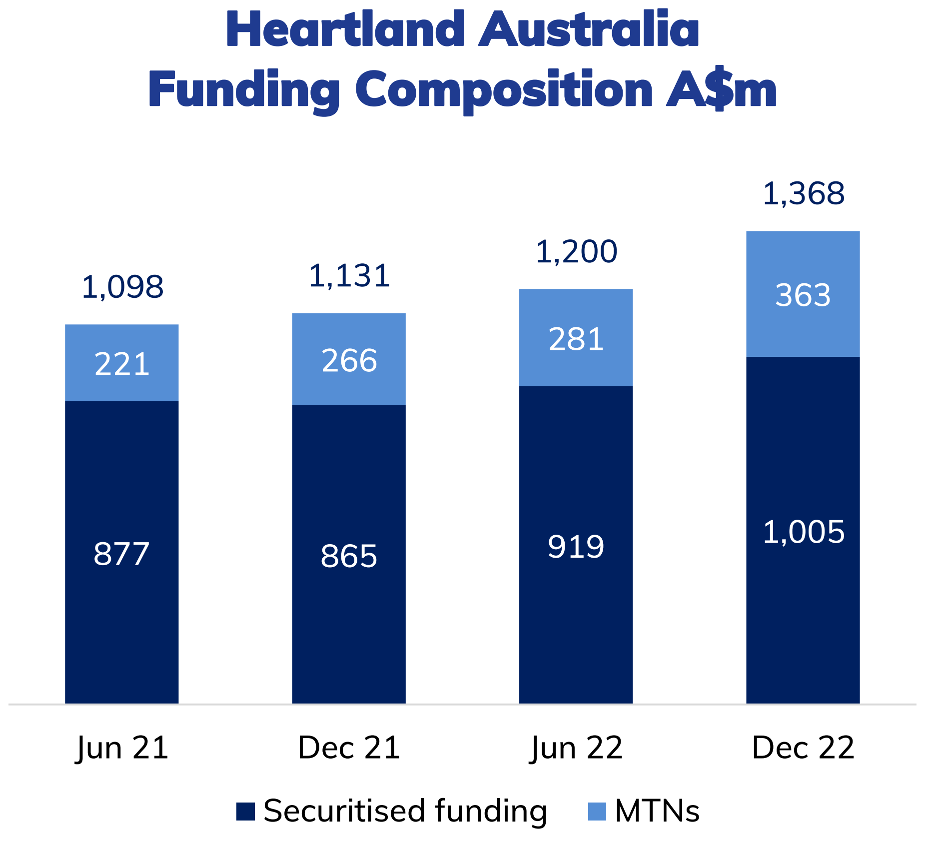
AU funding and liquidity

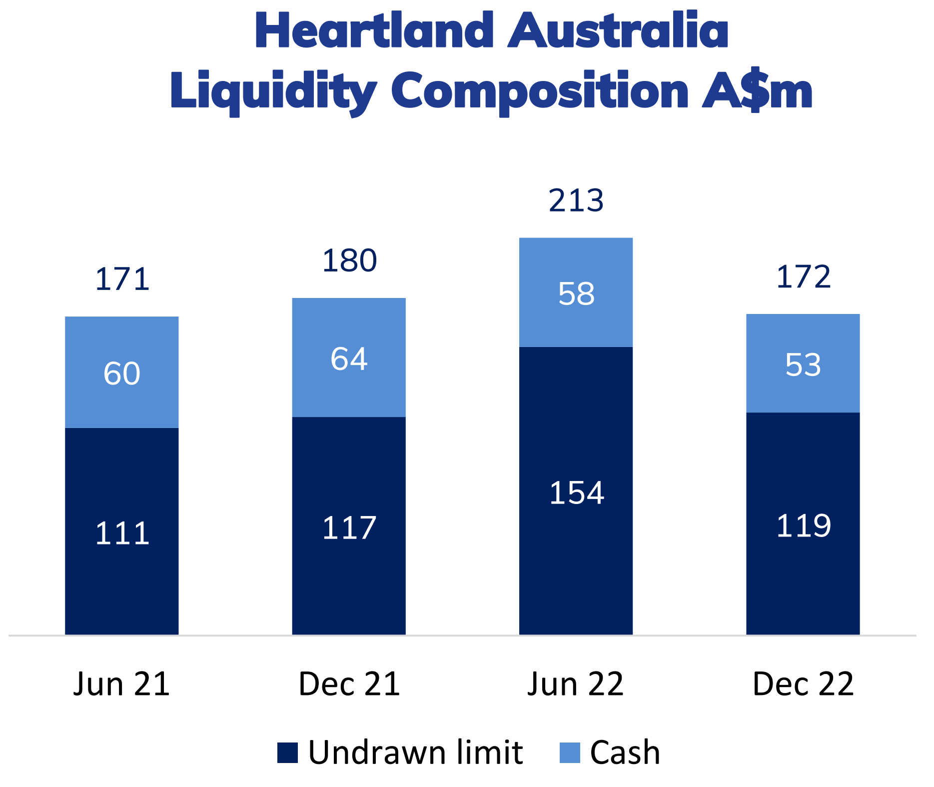
Heartland Australia[1]

- Heartland Australia increased borrowings by A$167.8 million (14.0%) to A$1,368.0 million.
- Heartland Australia continues to successfully execute on its strategic funding programme to cater for strong growth in its portfolios.
- A A$30 million tap issue was completed in August 2022 and a further A$50 million Medium Term Note (**MTN**) was issued in October 2022, taking the aggregate outstanding issuance under Heartland Australia's MTN programme to A$360 million as at 31 December 2022.
- Maturity of Reverse Mortgage securitisation warehouses were extended by two and three years, and aggregate senior limits were expanded by A$50 million, providing additional headroom to fund future growth in the portfolio. This provides Heartland Australia with access to A$1.49 billion of committed funding in aggregate.

StockCo Australia[2]

- StockCo Australia increased borrowings by A$15.0 million (4.6%) to A$344.2 million.





[1] Comprised of Heartland Australia Holdings Pty Ltd and its subsidiaries.
[2] Comprised of StockCo Australia Management Pty Ltd, StockCo Holdings 2 Pty Ltd and their subsidiaries.

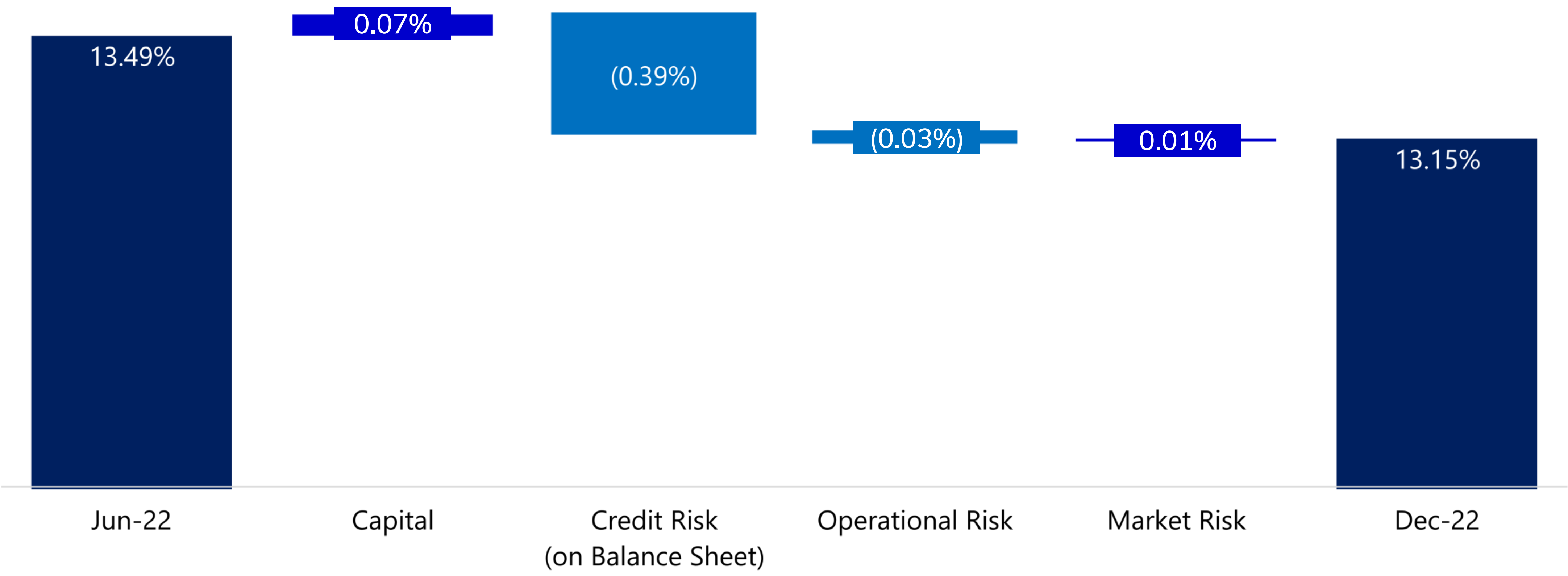
Capital

- Heartland Bank's regulatory capital ratio reduced to 13.15% as at 31 December 2022 (30 June 2022: 13.49%) following the removal of any bank dividend restrictions by the RBNZ on 1 July 2022. Heartland Bank continues to operate significantly in excess of regulatory minimums and is well positioned to meet the RBNZ's future higher capital requirements.
- The RBNZ future capital requirements are for a core capital ratio of 11.50% and a total capital ratio of 16.00% by 1 July 2028.
- In order to accelerate this journey, diversify its capital base and accommodate future projected growth, Heartland Bank is considering an offer of Tier 2 Capital notes.

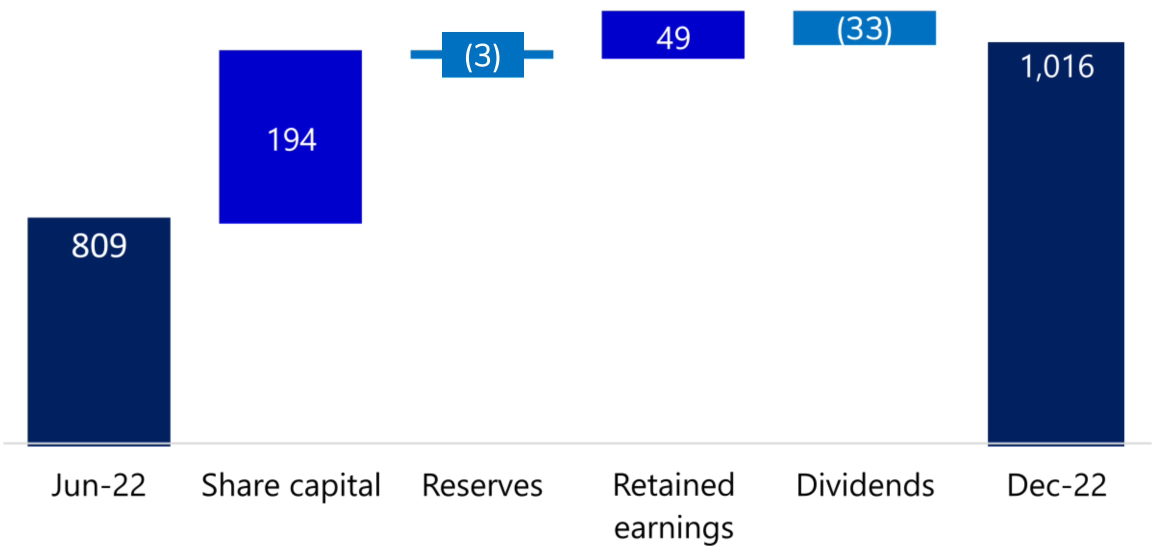
Heartland Bank considers offer of subordinated notes

- Heartland Bank is considering making an offer of up to $75 million (with the right to accept oversubscriptions of up to an additional $50 million at Heartland Bank's discretion) of unsecured subordinated notes (**Notes**) to New Zealand investors and certain overseas institutional investors. See the accompanying 1H2023 results announcement for more detail.
- No money is currently being sought and applications for the Notes cannot currently be made. If Heartland Bank offers the Notes, the offer will be made in accordance with the Financial Markets Conduct Act 2013.

Heartland Bank Capital Ratio

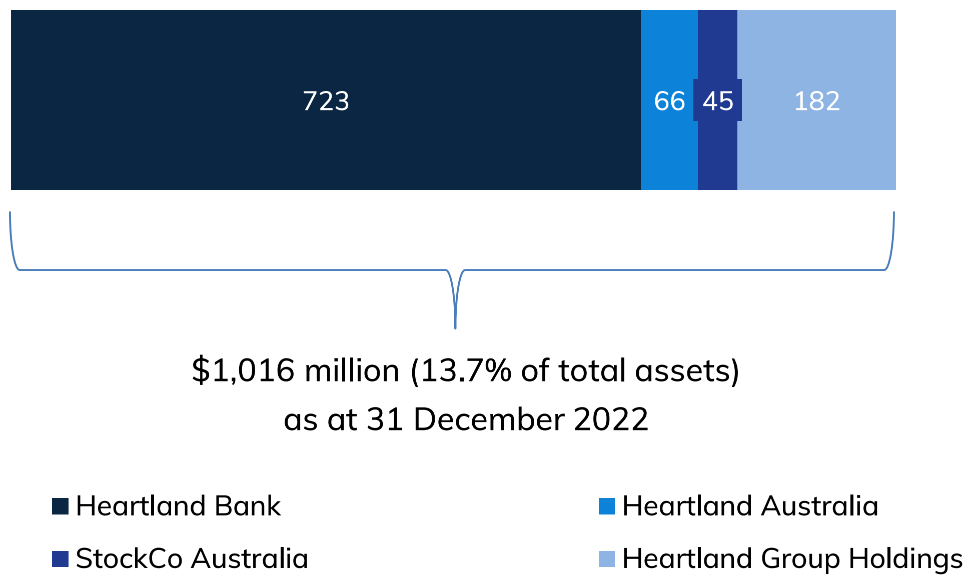


Heartland Capital Movement $m



Note: 1. Increase in share capital is primarily as a result of a $198.7 million equity raise completed in September 2022. 2. Retained earnings includes current NPAT.

Heartland Capital Allocation $m



Regulatory update

Heartland continues to monitor the significant volume of regulatory change.

Key changes include:

- changes to the New Zealand Credit Contracts and Consumer Finance Act 2003 and the Credit Contracts and Consumer Finance Regulations 2004
- the Financial Markets (Conduct of Financial Institutions) Amendment Act 2022, which comes into force in early 2025
- the Deposit Takers Bill, including the introduction of a depositor compensation scheme, was introduced to Parliament on 22 September 2022
- the New Zealand government's work to implement a legislative framework for a new consumer data right, with a decision announced in November 2022 to designate banks into the new regime first
- the implementation of mandatory climate related disclosures, with Heartland's first reporting period being its financial year ending 30 June 2024.

See the accompanying 1H2023 results announcement for further detail about upcoming regulatory change.

Outlook

Jeff Greenslade
Chief Executive Officer
Heartland Group

Looking forward

- The pleasing result in 1H2023 highlights the resilience of Heartland's product portfolios despite the ongoing current economic challenges in New Zealand and Australia. Strong growth continued in core portfolios, though softened elsewhere due to suppressed credit demand.
- It is currently anticipated that 2H2023 will deliver a similar result to 1H2023 on an underlying basis. In particular, continued growth is expected in Motor and Asset Finance. Usual seasonal fluctuations are expected to contribute to a better half for StockCo Australia and Heartland Bank's Rural portfolio in New Zealand. Increased demand is expected for Reverse Mortgages in both countries where the product has proven to offer a good solution for many seniors wanting to live a more comfortable retirement, especially as the cost of living rises.
- Heartland's NIM is expected to stabilise at its current level as Heartland continues to proactively manage portfolio pricing and margin in competitive markets.
- Efficiencies through digitalisation and the upgrade of Heartland Bank's core banking system are critical pathways to a lower CTI ratio. As the results demonstrate, Heartland continues to grow its revenue line, contributing favourably to its CTI ratio. However, ultimate efficiency requires that costs are also addressed. This will remain a focus of Heartland's through 2H2023.
- The remainder of the 2023 calendar year will be significant for Heartland as it progresses towards the completion of the acquisition of Challenger Bank, therefore becoming an ADI in Australia, and realises the benefits this will provide its existing Australian businesses Heartland Finance and StockCo Australia – as well as future product opportunities.

NPAT for FY2023

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

Appendices

Appendix 1: Financial performance

	Reported				Underlying			
$m	**1H2023**	**1H2022**	**Change ($)**	**Change (%)**	**1H2023**	**1H2022**	**Change ($)**	**Change (%)**
Net Operating Income[1]	141.7	130.7	11.0	8.4%	149.6	130.8	18.8	14.4%
Operating Expenses	63.4	57.3	6.2	10.8%	63.9	56.4	7.5	13.3%
Impairment Expense	9.2	8.5	0.7	8.3%	9.2	8.5	0.7	8.3%
Profit Before Tax	**69.0**	**64.9**	**4.1**	**6.4%**	**76.5**	**65.9**	**10.6**	**16.1%**
Tax Expense	20.4	17.4	3.0	17.3%	21.8	18.8	3.0	15.8%
Net Profit After Tax	**48.7**	**47.5**	**1.1**	**2.4%**	**54.7**	**47.1**	**7.6**	**16.2%**
Net Interest Margin	3.97%	4.30%	(34 bps)		4.02%	4.30%	(29 bps)	
Cost to Income Ratio	44.8%	43.8%	94 bps		42.7%	43.1%	(40 bps)	
Impairment Expense Ratio[2]	0.29%	0.33%	(4 bps)		0.29%	0.33%	(4 bps)	
Return on Equity	10.6%	12.2%	(166 bps)		12.1%	12.1%	(7 bps)	
Earnings per Share	7.3 cps	8.1 cps	(0.8 cps)		8.2 cps	8.0 cps	0.2 cps	

[1] Includes fair value movements.
[2] Impaired asset expense as a percentage of average Receivables.

Appendix 2: Financial position

$m	**31 December 2022**	**30 June 2022**	**Movement ($m)**	**Movement (%)**
Liquid Assets	655	585	70	11.9%
Gross Finance Receivables	6,460	6,196	264	4.3%
Provisions	(54)	(52)	(2)	(3.2%)
Other Assets	377	362	15	4.2%
Total Assets	**7,438**	**7,090**	**348**	**4.9%**
Retail Deposits	4,071	3,593	478	13.3%
Other Borrowings	2,259	2,578	(320)	(12.4%)
Total Funding	6,329	6,171	158	2.6%
Other Liabilities	93	111	(18)	(16.1%)
Equity	1,016	809	207	25.6%
Total Equity & Liabilities	**7,438**	**7,090**	**348**	**4.9%**

Appendix 3: Reconciliation of reported with underlying results

1H2023 one-offs included in the reported result:

- *Hedging*: a $3.6 million loss was recognised in relation to derivatives that were de-designated from prior hedge accounting relationships in FY2022.
- *Valuation of equity investment in Harmoney*: a $2.4 million fair value loss was recognised on investment in *Harmoney*.
- *Bridging loan:* a $1.9 million interest expense was recognised for a A$158m bridging loan taken by Heartland to acquire StockCo Australia, which was fully repaid in September 2022.
- *Other non-recurring expenses:* ($0.5 million).

1H2022 one-offs included in the reported result:

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

$m	1H2023	1H2022	Movement ($m)	Movement (%)
Reported NOI	**141.7**	**130.7**	**11.0**	**8.4%**
Less:				
Hedge accounting impacts	(3.6)	-	(3.6)	
Net fair value gain/(loss) on investments	(2.4)	(0.1)	(2.4)	
StockCo Australia acquisition bridging loan	(1.9)	-	(1.9)	
Underlying NOI	**149.6**	**130.8**	**18.8**	**14.4%**
Reported OPEX	**63.4**	**57.3**	**6.2**	**10.8%**
Less:				
Other non-recurring items	(0.5)	0.9	(1.4)	
Underlying OPEX	**63.9**	**56.4**	**7.5**	**13.3%**
Reported impairment expense	**9.2**	**8.5**	**0.7**	**8.3%**
Reported NPAT	**48.7**	**47.5**	**1.1**	**2.4%**
Less:				
Post-tax impact of one-offs	(6.0)	(0.7)	(5.3)	
Tax adjustments relating to prior periods	-	1.2	(1.2)	
Underlying NPAT	**54.7**	**47.1**	**7.6**	**16.2%**
Less:				
StockCo Australia NPAT	4.8	-	4.8	
Underlying NPAT excluding StockCo Australia	**49.9**	**47.1**	**2.8**	**5.9%**
Reported NIM	3.97%	4.30%	(34 bps)	
Underlying NIM	**4.02%**	**4.30%**	**(29 bps)**	
Reported CTI	44.8%	43.8%	94 bps	
Underlying CTI	**42.7%**	**43.1%**	**(40 bps)**	
Reported ROE	10.6%	12.2%	(166 bps)	
Underlying ROE	**12.1%**	**12.1%**	**(7 bps)**	

Thank you

For Heartland's 1H2023 results announcement, please see **heartlandgroup.info**

HEARTLAND GROUP

HEARTLAND GROUP

Results announcement

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

Results for announcement to the market		
Name of issuer	Heartland Group Holdings Limited	
Reporting Period	6 months to 31 December 2022	
Previous Reporting Period	6 months to 31 December 2021	
Currency	NZD	
	Amount (000s)	**Percentage change**
Revenue from continuing operations	$141,719	8.4%
Total Revenue	$141,719	8.4%
Net profit/(loss) from continuing operations	$48,663	2.4%
Total net profit/(loss)	$48,663	2.4%
Interim/Final Dividend		
Amount per Quoted Equity Security	$0.05500000	
Imputed amount per Quoted Equity Security	$0.02138889	
Record Date	07/03/2023	
Dividend Payment Date	22/03/2023	
	Current period	**Prior comparable period**
Net tangible assets per Quoted Equity Security	$1.09	$1.17
A brief explanation of any of the figures above necessary to enable the figures to be understood		
Authority for this announcement		
Name of person authorised to make this announcement	Andrew Dixson, Chief Financial Officer	
Contact person for this announcement	Nicola Foley, Group Head of Communications	
Contact phone number	027 345 6809	
Contact email address	Nicola.Foley@heartland.co.nz	
Date of release through MAP	28/02/2023	

Unaudited financial statements accompany this announcement.

HEARTLAND GROUP

Distribution Notice

Section 1: Issuer information				
Name of issuer	Heartland Group Holdings Limited			
Financial product name/description	Ordinary shares			
NZX ticker code	HGH			
ISIN (If unknown, check on NZX website)	NZHGHE0007S9			
Type of distribution (Please mark with an X in the relevant box/es)	Full Year		Quarterly	
	Half Year	X	Special	
	DRP applies	X		
Record date	08/03/2023			
Ex-Date (one business day before the Record Date)	07/03/2023			
Payment date (and allotment date for DRP)	22/03/2023			
Total monies associated with the distribution[1]	$38,792,676.34			
Source of distribution (for example, retained earnings)	Retained earnings			
Currency	NZD			
Section 2: Distribution amounts per financial product				
Gross distribution[2]	$0.07638889			
Gross taxable amount [3]	$0.07638889			
Total cash distribution[4]	$0.05500000			
Excluded amount (applicable to listed PIEs)	NIL			
Supplementary distribution amount	$ 0.00970588			
Section 3: Imputation credits and Resident Withholding Tax[5]				
Is the distribution imputed	Fully imputed – YES			
	~~Partial imputation~~			
	~~No imputation~~			

[1] Continuous issuers should indicate that this is based on the number of units on issue at the date of the form
[2] "Gross distribution" is the total cash distribution plus the amount of imputation credits, per financial product, before the deduction of Resident Withholding Tax (**RWT**).
[3] "Gross taxable amount" is the gross distribution minus any excluded income.
[4] "Total cash distribution" is the cash distribution excluding imputation credits, per financial product, before the deduction of RWT. This should *include* any excluded amounts, where applicable to listed PIEs.
[5] The imputation credits plus the RWT amount is 33% of the gross taxable amount for the purposes of this form. If the distribution is fully imputed the imputation credits will be 28% of the gross taxable amount with remaining 5% being RWT. This does not constitute advice as to whether or not RWT needs to be withheld.

If fully or partially imputed, please state imputation rate as % applied[6]	28%	
Imputation tax credits per financial product	$0.02138889	
Resident Withholding Tax per financial product	$0.00381944	
Section 4: Distribution re-investment plan (if applicable)		
DRP % discount (if any)	2.0%	
Start date and end date for determining market price for DRP	09/03/2023	15/03/2023
Date strike price to be announced (if not available at this time)	16/03/2023	
Specify source of financial products to be issued under DRP programme (new issue or to be bought on market)	New issue	
DRP strike price per financial product	$	
Last date to submit a participation notice for this distribution in accordance with DRP participation terms	09/03/2023, 5:00pm NZT	
Section 5: Authority for this announcement		
Name of person authorised to make this announcement	Andrew Dixson, Chief Financial Officer	
Contact person for this announcement	Nicola Foley, Group Head of Communications	
Contact phone number	027 345 6809	
Contact email address	Nicola.Foley@heartland.co.nz	
Date of release through MAP	28/02/2023	

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

Interim Financial Statements

For the six months ended 31 December 2022

HEARTLAND
GROUP

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General Information

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

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

Directors

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

On 20 February 2023 Geoff Ricketts has stepped down as Chairperson of HGH and remains as a director of HGH. The Board has resolved on 23 February 2023 for Greg Tomlinson to assume the role of Chairperson.

There have been no other changes in the composition of the Board of Directors of HGH since 30 June 2022 to the six months ended 31 December 2022.

Auditor

PricewaterhouseCoopers
PwC Tower, Level 27
15 Customs Street West
Auckland 1010

Directors' Statements

The consolidated interim financial statements for HGH and its subsidiaries (together the **Group**) are dated 27 February 2023 and have been signed by a majority of the Directors.

G R Tomlinson (Chair)

E F Comerford

J K Greenslade

K Mitchell

G E Summerhayes

Consolidated Interim Statement of Comprehensive Income

For the six months ended 31 December 2022

$000's	Note	Unaudited 6 Months to December 2022	Unaudited 6 Months to December 2021	Audited 12 Months to June 2022
Interest income	3	240,716	163,586	342,101
Interest expense	3	101,813	39,683	91,959
Net interest income		**138,903**	**123,903**	**250,142**
Operating lease income		2,696	2,588	5,284
Operating lease expense		1,862	1,545	3,383
Net operating lease income		**834**	**1,043**	**1,901**
Lending and credit fee income		6,397	4,565	9,639
Other (expense)/income		(1,966)	1,295	18,933
Net operating income		**144,168**	**130,806**	**280,615**
Operating expenses	4	63,450	57,292	116,753
Profit before impaired asset expense and income tax		**80,718**	**73,514**	**163,862**
Fair value (loss) on investments		(2,449)	(93)	(12,998)
Impaired asset expense	6	9,240	8,535	13,823
Profit before income tax		**69,029**	**64,886**	**137,041**
Income tax expense		20,367	17,370	41,916
Profit for the period		**48,662**	**47,516**	**95,125**
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 for cash flow hedging instruments		8,536	6,739	7,041
Movement in fair value reserve		(752)	(6,356)	(712)
Movement in foreign currency translation reserve		(9,736)	(25)	2,340
Items that will not be reclassified to profit or loss, net of income tax:				
Movement in defined benefit reserve		-	-	(171)
Net loss due to wind-up of superannuation scheme		-	-	(473)
Other comprehensive income for the period, net of income tax		**(1,952)**	**358**	**8,025**
Total comprehensive income for the period		**46,710**	**47,874**	**103,150**
Earnings per share				
Basic earnings per share	7	7.30c	8.08c	16.13c
Diluted earnings per share	7	7.30c	8.08c	16.13c

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

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

Consolidated Interim Statement of Changes in Equity

For the six months ended 31 December 2022

$000's	Note	Share Capital	Employee Benefit Reserve	Foreign Currency Translation Reserve	Fair Value Reserve	Defined Benefit Reserve	Cash Flow Hedge Reserve	Retained Earnings	Total Equity
Unaudited - December 2022									
Balance as at 1 July 2022		**599,185**	**4,646**	**(1,635)**	**(1,034)**	**-**	**7,959**	**199,586**	**808,707**
Total comprehensive income for the period									
Profit for the period		-	-	-	-	-	-	48,662	48,662
Other comprehensive (loss)/gain, net of income tax		-	-	(9,736)	(752)	-	8,536	-	(1,952)
Total comprehensive (loss)/ income for the period		**-**	**-**	**(9,736)**	**(752)**	**-**	**8,536**	**48,662**	**46,710**
Contributions by and distributions to owners									
Dividends paid	10	-	-	-	-	-	-	(32,610)	(32,610)
Share based payments		-	(263)	-	-	-	-	-	(263)
Vesting of share based payments		1,170	(1,170)	-	-	-	-	-	-
Share issuance		197,006	-	-	-	-	-	-	197,006
Transaction costs associated with share issuance		(3,695)	-	-	-	-	-	-	(3,695)
Total transactions with owners		**194,481**	**(1,433)**	**-**	**-**	**-**	**-**	**(32,610)**	**160,438**
Balance as at 31 December 2022		**793,666**	**3,213**	**(11,371)**	**(1,786)**	**-**	**16,495**	**215,638**	**1,015,855**
Unaudited - December 2021									
Balance as at 1 July 2021		**583,781**	**2,731**	**(3,975)**	**(322)**	**171**	**918**	**178,388**	**761,692**
Total comprehensive income for the period									
Profit for the period		-	-	-	-	-	-	47,516	47,516
Other comprehensive (loss)/gain, net of income tax		-	-	(25)	(6,356)	-	6,739	-	358
Total comprehensive (loss)/ income for the period		**-**	**-**	**(25)**	**(6,356)**	**-**	**6,739**	**47,516**	**47,874**
Contributions by and distributions to owners									
Dividends paid	10	-	-	-	-	-	-	(41,013)	(41,013)
Dividend reinvestment plan	10	8,926	-	-	-	-	-	-	8,926
Share based payments		-	698	-	-	-	-	-	698
Total transactions with owners		**8,926**	**698**	**-**	**-**	**-**	**-**	**(41,013)**	**(31,389)**
Balance as at 31 December 2021		**592,707**	**3,429**	**(4,000)**	**(6,678)**	**171**	**7,657**	**184,891**	**778,177**

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

Consolidated Interim Statement of Changes in Equity (Continued)

For the six months ended 31 December 2022

$000's	Note	Share Capital	Employee Benefit Reserve	Foreign Currency Translation Reserve	Fair Value Reserve	Defined Benefit Reserve	Cash Flow Hedge Reserve	Retained Earnings	Total Equity
Audited - June 2022									
Balance as at 1 July 2021		**583,781**	**2,731**	**(3,975)**	**(322)**	**171**	**918**	**178,388**	**761,692**
Total comprehensive income for the year									
Profit for the year		-	-	-	-	-	-	95,125	95,125
Other comprehensive gain/ (loss), net of income tax		-	-	2,340	(712)	(171)	7,041	(473)	8,025
Total comprehensive income/(loss) for the year		**-**	**-**	**2,340**	**(712)**	**(171)**	**7,041**	**94,652**	**103,150**
Contributions by and distributions to owners									
Dividends paid	10	-	-	-	-	-	-	(73,454)	(73,454)
Dividend reinvestment plan	10	15,404	-	-	-	-	-	-	15,404
Share based payments		-	1,915	-	-	-	-	-	1,915
Total transactions with owners		**15,404**	**1,915**	**-**	**-**	**-**	**-**	**(73,454)**	**(56,135)**
Balance as at 30 June 2022		**599,185**	**4,646**	**(1,635)**	**(1,034)**	**-**	**7,959**	**199,586**	**808,707**

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

Consolidated Interim Statement of Financial Position

As at 31 December 2022

$000's	Note	Unaudited December 2022	Unaudited December 2021	Audited June 2022
Assets				
Cash and cash equivalents		385,277	207,666	310,758
Investments	12	287,258	318,273	289,294
Derivative financial instruments	12	51,374	21,714	45,221
Finance receivables	8	4,234,966	3,526,234	4,146,821
Finance receivables - reverse mortgages	8	2,171,516	1,778,066	1,996,854
Investment properties	12	11,903	11,832	11,832
Operating lease vehicles		15,546	13,009	15,161
Right of use assets		12,775	14,843	14,145
Other assets		23,694	16,444	18,229
Intangible assets		223,061	74,531	218,874
Deferred tax asset		20,504	16,288	23,074
Total assets		**7,437,874**	**5,998,900**	**7,090,263**
Liabilities				
Deposits	9	4,070,558	3,332,409	3,592,508
Other borrowings	9	2,258,511	1,822,465	2,578,213
Lease liabilities		14,798	16,980	16,240
Tax liabilities		3,308	5,619	22,044
Derivative financial instruments	12	10,406	3,548	6,341
Trade and other payables		64,438	39,702	66,210
Total liabilities		**6,422,019**	**5,220,723**	**6,281,556**
Equity				
Share capital	10	793,666	592,707	599,185
Retained earnings and other reserves		222,189	185,470	209,522
Total equity		**1,015,855**	**778,177**	**808,707**
Total equity and liabilities		**7,437,874**	**5,998,900**	**7,090,263**

Total interest earning and discount bearing assets		6,982,869	5,735,324	6,667,260
Total interest and discount bearing liabilities		6,283,731	5,138,333	6,131,593

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

Consolidated Interim Statement of Cash Flows

For the six months ended 31 December 2022

$000's	Note	Unaudited 6 Months to December 2022	Unaudited 6 Months to December 2021	Audited 12 Months to June 2022
Cash flows from operating activities				
Interest received		155,508	116,664	222,894
Operating lease income received		2,197	1,807	3,913
Lending, credit fees and other income received		1,516	2,920	6,101
Operating inflows		**159,221**	**121,391**	**232,908**
Interest paid		(88,759)	(51,000)	(100,467)
Payments to suppliers and employees		(58,118)	(38,641)	(69,463)
Taxation paid		(38,505)	(20,988)	(32,987)
Operating outflows		**(185,382)**	**(110,629)**	**(202,917)**
Net cash flows from operating activities before changes in operating assets and liabilities		**(26,161)**	**10,762**	**29,991**
Proceeds from sale of operating lease vehicles		1,643	3,023	4,481
Purchase of operating lease vehicles		(3,245)	(6,016)	(10,758)
Net movement in finance receivables		(182,656)	(299,163)	(693,512)
Net movement in deposits		472,606	149,107	407,484
Net cash flows from/(applied to) operating activities[1]		**262,187**	**(142,287)**	**(262,314)**
Cash flows from investing activities				
Purchase of property, plant and equipment and intangible assets		(7,744)	(8,578)	(9,809)
Decrease in investments		4,919	53,101	75,531
Deposit paid for the conditional acquisition of Challenger Bank Limited		(3,936)	-	-
Purchase of equity investment		(5,667)	-	-
Net movement of investment property		(71)	-	-
Purchase of subsidiary, net of cash acquired		(3,047)	-	(159,919)
Total cash (applied to)/from investing activities		**(15,546)**	**44,523**	**(94,197)**
Net cash flows (applied to)/from investing activities		**(15,546)**	**44,523**	**(94,197)**
Cash flows from financing activities				
Net movement in wholesale funding		-	111,117	468,139
Net movement from issue of unsubordinated notes		-	45,265	77,243
Net issue of share capital		197,006	-	-
Total cash provided from financing activities		**197,006**	**156,382**	**545,382**
Net decrease in wholesale funding		(205,556)	-	-
Repayment of unsubordinated notes		(125,577)	-	-
Dividends paid	10	(32,610)	(32,087)	(58,050)
Payment of lease liabilities		(1,692)	(1,198)	(2,396)
Transaction costs associated with capital raising		(3,693)	-	-
Total cash (applied to) financing activities		**(369,128)**	**(33,285)**	**(60,446)**
Net cash flows (applied to)/from financing activities		**(172,122)**	**123,097**	**484,936**
Net increase in cash held		**74,519**	**25,333**	**128,425**
Opening cash and cash equivalents		310,758	182,333	182,333
Closing cash and cash equivalents		**385,277**	**207,666**	**310,758**

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

Consolidated Interim Statement of Cash Flows (Continued)

For the six months ended 31 December 2022

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

$000's	Note	Unaudited 6 Months to December 2022	Unaudited 6 Months to December 2021	Audited 12 Months to June 2022
Profit for the period		**48,662**	**47,516**	**95,125**
Add/(less) non-cash items:				
Depreciation and amortisation expense		5,177	5,624	10,691
Depreciation on lease vehicles		1,692	1,429	3,104
Capitalised net interest income and fee income		(81,311)	(53,178)	(95,271)
Impaired asset expense	6	9,240	8,535	13,823
Investment fair value unrealised movement		2,449	93	12,998
Other non-cash items		1,325	(6,662)	(30,408)
Total non-cash items		**(61,428)**	**(44,159)**	**(85,063)**
Add/(less) movements in operating assets and liabilities:				
Finance receivables		(182,656)	(299,163)	(693,512)
Operating lease vehicles		(1,602)	(2,993)	(6,277)
Other assets		(3,440)	(191)	(207)
Current tax		(18,736)	(1,821)	14,604
Derivative financial instruments		5,696	(2,090)	(23,214)
Deferred tax		2,570	(2,171)	(8,957)
Deposits		472,606	149,107	407,484
Other liabilities		515	13,678	37,703
Total movements in operating assets and liabilities		**274,953**	**(145,644)**	**(272,376)**
Net cash flows from/(applied to) operating activities[1]		**262,187**	**(142,287)**	**(262,314)**

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

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

Notes to the Interim Financial Statements

For the six months ended 31 December 2022

1 Interim financial statements preparation

Basis of preparation

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

The consolidated interim financial statements do not include all notes of the type normally included in an annual financial report. Accordingly this report is to be read in conjunction with the consolidated financial statements for the year ended 30 June 2022.

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

- 6 month period ended 31 December 2022 – Unaudited
- 6 month period ended 31 December 2021 – Unaudited
- 12 month period ended 30 June 2022 – Audited

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

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

Estimates and judgements

There have been no material changes to the use of estimates and judgements for the preparation of the interim financial statements since the reporting date of the previous financial statements. The Group's financial statements for the year ended 30 June 2022 contain detail on the estimates and judgements used.

In respect of the provision for expected credit loss on finance receivables, the Group has previously created an economic overlay of $8.0 million as at 30 June 2022 to address economic uncertainty. The economic overlay of $8.0 million remains appropriate at 31 December 2022.

Significant events and transactions

On 20 October 2022 Heartland Group Holdings Limited entered into a conditional share purchase agreement for the purchase of Challenger Bank Limited (**Challenger Bank**) from Challenger Limited for a consideration of approximately AU $36 million, subject to adjustments for net assets delivered at completion. The share purchase agreement is subject to obtaining the requisite regulatory approvals. A 10% deposit was paid to Challenger Limited on execution of the conditional share purchase agreement.

During the period Heartland Group Holdings Limited settled deferred consideration and payments relating to adjustments for net assets delivered at completion in relation to the acquisition of StockCo Holdings 2 Pty Ltd (**StockCo Australia**) which amounted to AU $2.85 million. A revised provisional goodwill of AU $126.94 million (NZ $136.08 million) was recognised (2022: AU $124.91 million (NZ $137.58 million)).

Performance

2 Segmental analysis

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

Operating segments

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

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

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

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

2 Segmental analysis (continued)

$000's	Motor	Reverse Mortgages	Personal Lending	Business	Rural	StockCo Australia	Australia	Other	Total
Unaudited - December 2022									
Net interest income	30,936	19,058	5,284	35,843	16,612	13,413	20,526	(2,769)	138,903
Net other income/(expense)	1,734	1,444	594	1,542	336	2	2,594	(2,981)	5,265
Net operating income/(expense)	**32,670**	**20,502**	**5,878**	**37,385**	**16,948**	**13,415**	**23,120**	**(5,750)**	**144,168**
Operating expenses	2,055	2,585	3,344	4,867	1,628	4,566	6,473	37,932	63,450
Profit/(loss) before impaired asset expense and income tax	**30,615**	**17,917**	**2,534**	**32,518**	**15,320**	**8,849**	**16,647**	**(43,682)**	**80,718**
Fair value (loss) on investments	-	-	-	-	-	-	-	(2,449)	(2,449)
Impaired asset expense	3,341	-	1,580	4,092	162	39	26	-	9,240
Profit/(loss) before income tax	**27,274**	**17,917**	**954**	**28,426**	**15,158**	**8,810**	**16,621**	**(46,131)**	**69,029**
Income tax (benefit)/expense	-	-	-	-	-	(11)	-	20,378	20,367
Profit/(loss) for the period	**27,274**	**17,917**	**954**	**28,426**	**15,158**	**8,821**	**16,621**	**(66,509)**	**48,662**
Total assets	**1,457,970**	**808,701**	**361,870**	**1,386,602**	**674,009**	**374,484**	**1,370,816**	**1,003,422**	**7,437,874**
Total liabilities									**6,422,019**

2 Segmental analysis (continued)

$000's	Motor	Reverse Mortgages	Personal Lending	Business	Rural	StockCo Australia	Australia	Other	Total
Unaudited - December 2021									
Net interest income	34,687	14,000	4,529	35,888	15,138	-	19,881	(220)	123,903
Net other income	1,703	1,289	726	1,408	365	-	1,143	269	6,903
Net operating income	**36,390**	**15,289**	**5,255**	**37,296**	**15,503**	**-**	**21,024**	**49**	**130,806**
Operating expenses	1,975	2,354	3,268	4,756	1,531		5,507	37,901	57,292
Profit/(loss) before impaired asset expense and income tax	**34,415**	**12,935**	**1,987**	**32,540**	**13,972**	**-**	**15,517**	**(37,852)**	**73,514**
Fair value (loss) on investments	-	-	-	-	-	-	-	(93)	(93)
Impaired asset expense/(benefit)	2,518	-	902	4,210	909	-	(5)	1	8,535
Profit/(loss) before income tax	**31,897**	**12,935**	**1,085**	**28,330**	**13,063**	**-**	**15,522**	**(37,946)**	**64,886**
Income tax expense	-	-	-	-	-	-	-	17,370	17,370
Profit/(loss) for the period	**31,897**	**12,935**	**1,085**	**28,330**	**13,063**	**-**	**15,522**	**(55,316)**	**47,516**
Total assets	**1,344,866**	**648,865**	**272,803**	**1,294,601**	**583,026**	**-**	**1,185,598**	**669,141**	**5,998,900**
Total liabilities									**5,220,723**
Audited - 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/(loss) 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 period	**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**

3 Net interest income

$000's	Unaudited 6 Months to December 2022	Unaudited 6 Months to December 2021	Audited 12 Months to June 2022
Interest income			
Cash and cash equivalents	3,525	149	811
Investments	2,399	2,782	5,156
Finance receivables	156,707	113,863	236,916
Finance receivables - reverse mortgages	78,085	46,792	99,218
Total interest income	**240,716**	**163,586**	**342,101**
Interest expense			
Deposits	58,667	18,708	45,717
Other borrowings	50,374	20,524	46,110
Net interest (income)/expense on derivative financial instruments	(7,228)	451	132
Total interest expense	**101,813**	**39,683**	**91,959**
Net interest income	**138,903**	**123,903**	**250,142**

4 Operating expenses

$000's	Unaudited 6 Months to December 2022	Unaudited 6 Months to December 2021	Audited 12 Months to June 2022
Personnel expenses	33,682	30,884	61,152
Directors' fees	574	563	1,149
Superannuation	952	768	1,530
Depreciation - property, plant and equipment	948	1,388	2,459
Legal and professional fees	1,876	903	3,112
Advertising and public relations	1,785	2,185	4,510
Depreciation - right of use asset	1,278	1,154	2,310
Technology services	4,940	4,785	9,374
Telecommunications, stationery and postage	1,011	842	1,723
Customer acquisition costs	3,693	2,888	5,974
Amortisation of intangible assets	2,951	3,082	5,922
Other operating expenses[1]	9,760	7,850	17,538
Total operating expenses	**63,450**	**57,292**	**116,753**

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

5 Compensation of auditor

$000's	Unaudited 6 Months to December 2022	Unaudited 6 Months to December 2021	Audited 12 Months to June 2022
Fees paid to current auditor - PricewaterhouseCoopers			
Audit and review of financial statements[1]	275	-	-
Other non-assurance services paid to auditor[2]	111	-	-
Total compensation paid to PricewaterhouseCoopers	**386**	-	-

[1] These relates to fees paid for both the audit of the annual financial statements and review of the interim financial statements.

[2] Other non-assurance services paid to PricewaterhouseCoopers relates to actuarial services for reverse mortgages for the Group and tax compliance services for a subsidiary of the Group.

5 Compensation of auditor (continued)

$000's	Unaudited 6 Months to December 2022	Unaudited 6 Months to December 2021	Audited 12 Months to June 2022
Fees paid to predecessor auditor - KPMG			
Audit and review of financial statements[1]	40	386	879
Other assurance services paid to auditor[2]	-	51	103
Total compensation paid to KPMG	**40**	**437**	**982**

[1] These relates to fees paid for both the audit of the annual financial statements and review of the interim financial statements for the comparative periods.

[2] Other assurance related services paid to KPMG comprise regulatory assurance services, trust deed reporting and registry audits.

6 Impaired asset expense

At each reporting date, the Group applies a three stage approach to measuring expected credit loss to finance receivables carried at amortised cost. The following table details impairment charges of those finance receivables for the six months ended 31 December 2022.

$000's	Unaudited 6 Months to December 2022	Unaudited 6 Months to December 2021	Audited 12 Months to June 2022
Non-securitised			
Individually impaired asset expense	5,292	6,266	10,783
Collectively impaired asset expense	5,421	3,300	6,466
Total non-securitised impaired asset expense	**10,713**	**9,566**	**17,249**
Securitised			
Individually impaired asset expense	155	-	-
Collectively impaired asset expense	(311)	392	(70)
Total securitised impaired asset expense	**(156)**	**392**	**(70)**
Total			
Individually impaired asset expense	5,447	6,266	10,783
Collectively impaired asset expense	5,110	3,692	6,396
Total impaired asset expense excluding recovery amounts previously written off to the income statement	**10,557**	**9,958**	**17,179**
Recovery of amounts previously written off to the income statement	(1,317)	(1,423)	(3,356)
Total impaired asset expense	**9,240**	**8,535**	**13,823**

7 Earnings per share

	Earnings Per Share Cents	Net Profit After Tax $000's	Weighted Average No. of Shares 000's
Unaudited - December 2022			
Basic earnings	7.30	48,662	666,186
Diluted earnings	7.30	48,662	666,186
Unaudited - December 2021			
Basic earnings	8.08	47,516	588,190
Diluted earnings	8.08	47,516	588,190
Audited - June 2022			
Basic earnings	16.13	95,125	589,771
Diluted earnings	16.13	95,125	589,771

Financial Position

8 Finance receivables

(a) Finance receivables held at amortised cost

$000's	Unaudited December 2022	Unaudited December 2021	Audited June 2022
Non-securitised			
Neither at least 90 days past due nor impaired	3,570,689	3,203,046	3,404,451
At least 90 days past due	59,274	38,593	41,768
Individually impaired	69,000	63,965	66,183
Gross finance receivables	**3,698,963**	**3,305,604**	**3,512,402**
Less provision for impairment	(52,440)	(52,651)	(50,629)
Total non-securitised finance receivables	**3,646,523**	**3,252,953**	**3,461,773**
Securitised			
Neither at least 90 days past due nor impaired	589,320	273,650	686,236
At least 90 days past due	-	263	-
Individually impaired	343	-	188
Gross finance receivables	**589,663**	**273,913**	**686,424**
Less provision for impairment	(1,220)	(632)	(1,376)
Total securitised finance receivables	**588,443**	**273,281**	**685,048**
Total			
Neither at least 90 days past due nor impaired	4,160,009	3,476,696	4,090,687
At least 90 days past due	59,274	38,856	41,768
Individually impaired	69,343	63,965	66,371
Gross finance receivables	**4,288,626**	**3,579,517**	**4,198,826**
Less provision for impairment	(53,660)	(53,283)	(52,005)
Total finance receivables	**4,234,966**	**3,526,234**	**4,146,821**

8 Finance receivables (continued)

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

Movement in provision for impairment losses

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

$000's	**12 - Month ECL**	**Lifetime ECL Not Credit Impaired**	**Lifetime ECL Credit Impaired**	**Specific Provision**	**Total**
Unaudited - December 2022					
Non-securitised					
Impairment allowance as at 30 June 2022	**19,068**	**1,959**	**14,601**	**15,001**	**50,629**
Changes in loss allowance					
Transfer between stages	(3,946)	(1,976)	1,964	3,958	-
New and increased provision (net of provision releases)	2,828	2,314	4,237	1,334	10,713
Credit impairment charge	**(1,118)**	**338**	**6,201**	**5,292**	**10,713**
Write-offs	-	-	(6,782)	(2,071)	(8,853)
Effect of changes in foreign exchange rate	(33)	-	(16)	-	(49)
Impairment allowance as at 31 December 2022	**17,917**	**2,297**	**14,004**	**18,222**	**52,440**
Securitised					
Impairment allowance as at 30 June 2022	**1,188**	**(1)**	**1**	**188**	**1,376**
Changes in loss allowance					
Transfer between stages	(156)	1	-	155	-
New and increased provision (net of provision releases)	(169)	13	-	-	(156)
Credit impairment charge	**(325)**	**14**	**-**	**155**	**(156)**
Write-offs	-	-	-	-	-
Effect of changes in foreign exchange rate	-	-	-	-	-
Impairment allowance as at 31 December 2022	**863**	**13**	**1**	**343**	**1,220**
Total					
Impairment allowance as at 30 June 2022	**20,256**	**1,958**	**14,602**	**15,189**	**52,005**
Changes in loss allowance					
Transfer between stages	(4,102)	(1,975)	1,964	4,113	-
New and increased provision (net of provision releases)	2,659	2,327	4,237	1,334	10,557
Credit impairment charge	**(1,443)**	**352**	**6,201**	**5,447**	**10,557**
Write-offs	-	-	(6,782)	(2,071)	(8,853)
Effect of changes in foreign exchange rate	(33)	-	(16)	-	(49)
Impairment allowance as at 31 December 2022	**18,780**	**2,310**	**14,005**	**18,565**	**53,660**

8 Finance receivables (continued)

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

Movement in provision for impairment losses (continued)

$000's	12 - Month ECL	Lifetime ECL Not Credit Impaired	Lifetime ECL Credit Impaired	Specific Provision	Total
Unaudited - December 2021					
Non-securitised					
Impairment allowance as at 30 June 2021	**26,591**	**2,405**	**16,823**	**7,629**	**53,448**
Changes in loss allowance					
Transfer between stages	(2,323)	(1,102)	714	2,711	-
New and increased provision (net of provision releases)	(1,149)	391	6,769	3,555	9,566
Credit impairment charge	**(3,472)**	**(711)**	**7,483**	**6,266**	**9,566**
Write-offs	-	-	(9,109)	(1,219)	(10,328)
Effect of changes in foreign exchange rate	(35)	-	-	-	(35)
Impairment allowance as at 31 December 2021	**23,084**	**1,694**	**15,197**	**12,676**	**52,651**
Securitised					
Impairment allowance as at 30 June 2021	**216**	**22**	**1**	**-**	**239**
Changes in loss allowance					
Transfer between stages	(2)	(27)	29	-	-
New and increased provision (net of provision releases)	231	77	84	-	392
Credit impairment charge	**229**	**50**	**113**	**-**	**392**
Write-offs	-	-	-	-	-
Effect of changes in foreign exchange rate	-	1	-	-	1
Impairment allowance as at 31 December 2021	**445**	**73**	**114**	**-**	**632**
Total					
Impairment allowance as at 30 June 2021	**26,807**	**2,427**	**16,824**	**7,629**	**53,687**
Changes in loss allowance					
Transfer between stages	(2,325)	(1,129)	743	2,711	-
New and increased provision (net of provision releases)	(918)	468	6,853	3,555	9,958
Credit impairment charge	**(3,243)**	**(661)**	**7,596**	**6,266**	**9,958**
Write-offs	-	-	(9,109)	(1,219)	(10,328)
Effect of changes in foreign exchange rate	(35)	1	-	-	(34)
Impairment allowance as at 31 December 2021	**23,529**	**1,767**	**15,311**	**12,676**	**53,283**

8 Finance receivables (continued)

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

Movement in provision for impairment losses (continued)

$000's	**12 - Month ECL**	**Lifetime ECL Not Credit Impaired**	**Lifetime ECL Credit Impaired**	**Specific Provision**	**Total**
Audited - 30 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 provision releases)	(3,652)	1,998	13,396	5,507	17,249
Credit impairment charge	**(7,555)**	**(449)**	**14,470**	**10,783**	**17,249**
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 provision releases)	(14)	85	(141)	-	(70)
Credit impairment charge	**(20)**	**(24)**	**(26)**	**-**	**(70)**
Write-offs	-	-	26	-	26
Effect of changes in foreign exchange rate	-	1	-	-	1
Acquisition of portfolio	992	-	-	188	1,180
Impairment allowance as at 30 June 2022	**1,188**	**(1)**	**1**	**188**	**1,376**
Total					
Impairment allowance as at 30 June 2021	**26,807**	**2,427**	**16,824**	**7,629**	**53,687**
Changes in loss allowance					
Transfer between stages	(3,909)	(2,556)	1,189	5,276	-
New and increased provision (net of provision releases)	(3,666)	2,083	13,255	5,507	17,179
Credit impairment charge	**(7,575)**	**(473)**	**14,444**	**10,783**	**17,179**
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**

8 Finance receivables (continued)

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

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

$000's	12 - Month ECL	Lifetime ECL Not Credit Impaired	Lifetime ECL Credit Impaired	Specific Provision	Total
Unaudited - December 2022					
Gross finance receivables as at 30 June 2022	**3,967,917**	**118,424**	**46,114**	**66,371**	**4,198,826**
Transfer between stages	(106,785)	63,057	34,341	9,387	-
Additions	718,239	-	-	7,928	726,167
Deletions	(556,132)	(47,720)	(11,235)	(12,427)	(627,514)
Write-offs	-	-	(6,782)	(2,071)	(8,853)
Gross finance receivables as at 31 December 2022	**4,023,239**	**133,761**	**62,438**	**69,188**	**4,288,626**
Unaudited - December 2021					
Gross finance receivables as at 30 June 2021	**3,092,653**	**165,793**	**45,564**	**38,143**	**3,342,153**
Transfer between stages	(48,097)	(11,584)	20,313	39,368	-
Additions	897,124	-	-	906	898,030
Deletions	(594,443)	(34,662)	(8,000)	(13,233)	(650,338)
Write-offs	-	-	(9,109)	(1,219)	(10,328)
Gross finance receivables as at 31 December 2021	**3,347,237**	**119,547**	**48,768**	**63,965**	**3,579,517**
Audited - 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)	(14,037)	(26,945)	(1,559,993)
Write-offs	-	-	(16,666)	(3,411)	(20,077)
Gross finance receivables as at 30 June 2022	**3,967,917**	**118,424**	**46,114**	**66,371**	**4,198,826**

(b) Finance receivables held at fair value

$000's	Unaudited December 2022	Unaudited December 2021	Audited June 2022
Finance receivables - reverse mortgages	2,171,516	1,778,066	1,996,854
Total finance receivables - reverse mortgages	**2,171,516**	**1,778,066**	**1,996,854**

9 Borrowings

$000's	Unaudited December 2022	Unaudited December 2021	Audited June 2022
Deposits	4,070,558	3,332,409	3,592,508
Total deposits	**4,070,558**	**3,332,409**	**3,592,508**
Unsubordinated notes	510,169	560,307	636,407
Securitised borrowings	1,541,163	1,152,521	1,559,108
Certificate of deposit	207,179	109,637	198,715
Bank borrowings	-	-	173,982
Money market borrowings	-	-	10,001
Total other borrowings	**2,258,511**	**1,822,465**	**2,578,213**

9 Borrowings (continued)

Deposits and unsubordinated notes rank equally and are unsecured.

Unsubordinated notes

The Group has the following unsubordinated notes on issue at 31 December 2022. Australian (**AU**) borrowings are stated in AU dollars.

Principal	Valuation	Issue Date	Maturity Date	Frequency of Interest Repayment
AU $75 million	Amortised cost	21 January 2021	21 April 2023	Quarterly
AU $45 million	Amortised cost	8 March 2021	21 April 2023	Quarterly
NZ $125 million	Amortised cost	12 April 2019	12 April 2024	Semi-annually
AU $45 million	Amortised cost	9 July 2021	9 July 2024	Quarterly
AU $30 million	Amortised cost	16 August 2022	9 July 2024	Quarterly
AU $115 million	Amortised cost	12 May 2022	13 May 2025	Quarterly
AU $50 million	Amortised cost	5 October 2022	5 October 2027	Quarterly

Securitised borrowings

At 31 December 2022 the Group had the following securitised borrowings outstanding:

- Heartland Auto Receivables Warehouse Trust 2018 - 1 securitisation facility $400 million, drawn $191 million (December 2021: $400 million, drawn $235 million; June 2022: $400 million, drawn $268 million). Securitised borrowings held by investors are secured over the assets of the Heartland Auto Receivables Warehouse Trust 2018-1 (predominantly motor loans). The facility has a maturity date of 26 August 2024.

- Seniors Warehouse Trust securitisation facility AU $600 million, drawn AU $563 million (December 2021: AU $600 million, drawn AU $552 million; June 2022: AU $600 million, drawn AU $585 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.

- Seniors Warehouse Trust No.2 securitisation facility AU $400 million, drawn AU $313 million (December 2021: AU $250 million, drawn AU $180 million; June 2022: AU $350 million, drawn AU $210 million). Notes issued to investors are secured over the assets of Seniors Warehouse Trust No.2 (predominantly reverse mortgage loans). The facility has a maturity date of 1 July 2024.

- Atlas 2020-1 Trust securitisation facility AU $127 million, drawn AU $127 million (December 2021: AU $136 million, drawn AU $136 million; June 2022: AU $127 million, drawn AU $127 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 $253 million (December 2021: n/a; June 2022: AU $300 million, drawn AU $249 million). 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.

10 Share capital and dividends

000's	Unaudited December 2022 Number of Shares	Unaudited December 2021 Number of Shares	Audited June 2022 Number of Shares
Issued shares			
Opening balance	592,904	585,904	585,904
Net shares issued during the period	112,417	-	-
Dividend reinvestment plan	-	3,930	7,000
Closing balance	**705,321**	**589,834**	**592,904**

HGH completed a capital raise during the six months to 31 December 2022, which comprised a share placement (**Placement**) and a Share Purchase Plan (**SPP**). HGH issued 72,222,222 shares on 26 August 2022 under the Placement and 38,822,458 new shares on 9 September 2022 under the SPP.

On 19 September 2022, HGH issued a further 2,250,625 shares under the Long Term Incentive Scheme of HGH (**LTI Scheme**), of which 877,777 shares were acquired by HGH pursuant to a buyback offer to the participants to fund the tax liability arising for those participants upon receipt of shares under the LTI Scheme.

The dividend reinvestment plan (**DRP**) was suspended during the period of the capital raise, consequently no new shares were issued in relation to the DRP (2022: 3,930,116 new shares on 15 September 2021 and 3,069,339 new shares on 16 March 2022).

Dividends paid

	6 Months to December 2022			12 Months to June 2022		
	Date Declared	Cents Per Share	$000's	Date Declared	Cents Per Share	$000's
Final dividend	26 August 2022	5.5	32,610	24 August 2021	7.0	41,013
Interim dividend	-	-	-	22 February 2022	5.5	32,441
Total dividends paid			**32,610**			**73,454**

11 Related party transactions and balances

(a) Transactions with key management personnel

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

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

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

$000's	Unaudited 6 Months to December 2022	Unaudited 6 Months to December 2021	Audited 12 Months to June 2022
Transactions with key management personnel			
Interest income	11	15	26
Interest expense	(15)	(24)	(24)
Net transactions with key management personnel	**(4)**	**(9)**	**2**
Due from/(to) key management personnel			
Lending	831	296	229
Deposits	(1,325)	(1,425)	(508)
Net due (to) key management personnel	**(494)**	**(1,129)**	**(279)**

11 Related party transactions and balances (continued)

(b) Transactions with related parties

HGH is the ultimate parent company of the Group.

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

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

$000's	Unaudited 6 Months to December 2022	Unaudited 6 Months to December 2021	Audited 12 Months to June 2022
Southern Cross Building Society Staff Superannuation (SCBS)			
Interest expense payable to SCBS	1	4	6
Management fees receivable from SCBS	-	5	10
Cash received from SCBS	-	-	350
ASF Custodians Pty Limited			
Audit fees	4	4	7
Heartland Trust (HT)			
Dividend paid to HT	356	453	809

(c) Other balances with related parties

$000's	Unaudited December 2022	Unaudited December 2021	Audited June 2022
Southern Cross Building Society Staff Superannuation			
Deposits owing to SCBS	1	1,704	35

12 Fair value

(a) Financial instruments measured at fair value

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

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

Investments in debt securities

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

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

Investments in equity securities

Investments in equity securities are classified as fair value through profit or loss (**FVTPL**) unless an irrevocable election is made by the Group to measure at FVOCI. Investment in equity 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.

Investment properties

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

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

12 Fair value (continued)

(a) Financial instruments measured at fair value

Finance receivables - reverse mortgages

Reverse mortgage loans are classified as 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 reverse mortgage loans 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 31 December 2022, the Group does not consider any of the above expectations to have moved outside of the original expectation range. Therefore, the Group has continued to estimate the fair value of the portfolio at transaction price. There has been no fair value movement recognised in profit or loss during the period. Fair value is not highly sensitive to the above assumptions in the longer term due to the nature of the 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 continues to assess 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 (Level 1 under the fair value hierarchy), discounted cash flow models or option pricing models as appropriate (Level 2 under the fair value hierarchy).

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

12 Fair value (continued)

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

$000's	Level 1	Level 2	Level 3	Total
Unaudited - December 2022				
Assets				
Investments	269,293	5,602	12,363	287,258
Investment properties	-	-	11,903	11,903
Derivative financial instruments	-	51,374	-	51,374
Finance receivables - reverse mortgages	-	-	2,171,516	2,171,516
Total financial assets measured at fair value	**269,293**	**56,976**	**2,195,782**	**2,522,051**
Liabilities				
Derivative financial instruments	-	10,406	-	10,406
Total financial liabilities measured at fair value	**-**	**10,406**	**-**	**10,406**
Unaudited - December 2021				
Assets				
Investments	229,453	61,745	22,459	313,657
Investment properties	-	-	11,832	11,832
Derivative financial instruments	-	21,714	-	21,714
Finance receivables - reverse mortgages	-	-	1,778,066	1,778,066
Total financial assets measured at fair value	**229,453**	**83,459**	**1,812,357**	**2,125,269**
Liabilities				
Derivative financial instruments	-	3,548	-	3,548
Total financial liabilities measured at fair value	**-**	**3,548**	**-**	**3,548**
Audited - 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**

There were no executed trades on Harmoney Corp Limited (ASX:HMY) on the last business day of the financial period. In the absence of a traded closing price a mid-point of the bid-ask spread was used to fair value the Group's equity investment in HMY.

Equity investment in HMY amounting to $5.6 million was transferred out from Level 1 into Level 2 during the six months ended 31 December 2022. There were no other transfers between levels in the fair value hierarchy for the period (December 2021: nil; June 2022: $8.1 million of equity investments transferred out of Level 3 to Level 1).

12 Fair value (continued)

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

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

$000's	Finance Receivables - Reverse Mortgages	Investments	Investment Properties	Total
Unaudited - December 2022				
As at 30 June 2022	1,996,854	7,032	11,832	2,015,718
New loans	285,356	-	-	285,356
Repayments	(154,651)	-	-	(154,651)
Capitalised Interest and fees	81,311	-	-	81,311
Purchase of investments	-	5,494	-	5,494
Other[1]	(37,354)	(163)	71	(37,446)
As at 31 December 2022	**2,171,516**	**12,363**	**11,903**	**2,195,782**
Unaudited - December 2021				
As at 30 June 2021	1,676,073	20,667	11,832	1,708,572
New loans	190,734	-	-	190,734
Repayments	(127,057)	-	-	(127,057)
Capitalised Interest and fees	49,718	-	-	49,718
Purchase of investments	-	1,885	-	1,885
Fair value (loss) on investment	-	(93)	-	(93)
Other[1]	(11,402)	-	-	(11,402)
As at 31 December 2021	**1,778,066**	**22,459**	**11,832**	**1,812,357**
Audited - 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) on investment	-	(12,998)	-	(12,998)
Other[1]	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**

[1] This relates to foreign currency translation differences for the assets.

12 Fair value (continued)

(b) Financial instruments not measured at fair value

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

		Unaudited December 2022		Unaudited December 2021		Audited June 2022	
$000's	**Fair Value Hierarchy**	**Total Fair Value**	**Total Carrying Value**	**Total Fair Value**	**Total Carrying Value**	**Total Fair Value**	**Total Carrying Value**
Assets							
Cash and cash equivalents	Level 1	385,277	385,277	207,666	207,666	310,758	310,758
Investments[1]	Level 2	-	-	4,615	4,616	2,418	2,421
Finance receivables	Level 3	4,166,431	4,234,966	3,563,778	3,526,234	4,073,977	4,146,821
Other financial assets	Level 3	2,261	2,261	2,322	2,322	273	273
Total financial assets		**4,553,969**	**4,622,504**	**3,778,381**	**3,740,838**	**4,387,426**	**4,460,273**
Liabilities							
Deposits	Level 2	4,068,973	4,070,558	3,334,667	3,332,409	3,590,918	3,592,508
Other borrowings	Level 2	2,258,511	2,258,511	1,822,465	1,822,465	2,578,213	2,578,213
Other financial liabilities[2]	Level 3	53,016	53,016	30,690	30,690	55,538	55,538
Total financial liabilities		**6,380,500**	**6,382,085**	**5,187,822**	**5,185,564**	**6,224,669**	**6,226,259**

[1] Included within Investments at 31 December 2021 and 30 June 2022 are bank deposits which are held to support the Group's contractual cash flows. Such Investments are measured at amortised cost. There were no bank deposits within Investments at 31 December 2022.

[2] Included within Other financial liabilities are $36.76 million of cash collateral received (December 2021: $16.32 million; June 2022: $32.34 million) against derivative assets as per credit support annexes (**CSAs**) agreements.

Risk Management

13 Enterprise risk management program

There have been no material changes in the Group's policies for managing risk, or material exposures to any new types of risk since the reporting date of the previous statement.

14 Credit risk exposure

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

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

$000's	Unaudited December 2022	Unaudited December 2021	Audited June 2022
On balance sheet:			
Cash and cash equivalents	385,277	207,666	310,758
Investments	269,293	295,814	274,212
Finance receivables	4,234,966	3,526,234	4,146,821
Finance receivables - reverse mortgages	2,171,516	1,778,066	1,996,854
Derivative financial assets	51,374	21,714	45,221
Other financial assets	2,261	2,322	273
Total on balance sheet credit exposures	**7,114,687**	**5,831,816**	**6,774,139**
Off balance sheet:			
Letters of credit, guarantee commitments and performance bonds	5,931	7,217	8,969
Undrawn facilities available to customers	457,195	365,623	416,561
Conditional commitments to fund at future dates	25,007	21,646	34,791
Total off balance sheet credit exposures	**488,133**	**394,486**	**460,321**
Total credit exposures	**7,602,820**	**6,226,302**	**7,234,460**

As at 31 December 2022 there were no undrawn lending commitments available to counterparties for whom drawn balances are classified as individually impaired (December 2021: nil, June 2022: $0.003 million).

(b) Concentration of credit risk by geographic region

$000's	Unaudited December 2022	Unaudited December 2021	Audited June 2022
New Zealand	5,470,334	4,749,474	5,264,609
Australia	1,977,798	1,299,626	1,809,104
Rest of the world [1]	208,348	230,485	212,752
	7,656,480	**6,279,585**	**7,286,465**
Provision for impairment	(53,660)	(53,283)	(52,005)
Total credit exposures	**7,602,820**	**6,226,302**	**7,234,460**

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

14 Credit risk exposure (continued)

(c) Concentration of credit risk by industry sector

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

$000's	Unaudited December 2022	Unaudited December 2021	Audited June 2022
Agriculture	1,130,473	667,835	1,120,678
Forestry and fishing	143,883	149,561	148,797
Mining	10,200	14,217	12,524
Manufacturing	80,501	85,737	78,432
Finance and insurance	875,385	701,269	784,948
Wholesale trade	42,665	35,543	41,986
Retail trade and accommodation	415,300	338,163	423,975
Households	3,786,246	3,233,026	3,555,566
Other business services	202,182	172,647	189,860
Construction	320,431	304,593	291,971
Rental, hiring and real estate services	211,581	180,689	199,388
Transport and storage	339,182	311,068	323,732
Other	98,451	85,237	114,608
	7,656,480	**6,279,585**	**7,286,465**
Provision for impairment	(53,660)	(53,283)	(52,005)
Total credit exposures	**7,602,820**	**6,226,302**	**7,234,460**

15 Liquidity risk

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

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

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

$000's	Unaudited December 2022	Unaudited December 2021	Audited June 2022
Cash and cash equivalents	385,277	207,666	310,758
Investments	269,293	295,814	274,212
Undrawn committed bank facilities	380,319	290,774	360,859
Total liquid assets and committed undrawn funding	**1,034,889**	**794,254**	**945,829**

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 interim statement of financial position.

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

15 Liquidity risk (continued)

Contractual liquidity profile of financial liabilities (continued)

$000's	On Demand	0-6 Months	6-12 Months	1-2 Years	2-5 Years	5+ Years	Total
Unaudited - December 2022							
Non-derivative financial liabilities							
Deposits	800,321	2,369,117	837,546	86,351	35,931	-	4,129,266
Other borrowings	-	374,628	34,242	1,046,738	911,570	150,405	2,517,583
Lease liabilities	-	1,550	1,357	2,669	6,862	3,827	16,265
Other financial liabilities	-	53,016	-	-	-	-	53,016
Total non-derivative financial liabilities	**800,321**	**2,798,311**	**873,145**	**1,135,758**	**954,363**	**154,232**	**6,716,130**
Derivative financial liabilities							
Inflows from derivatives	-	2,121	2,268	3,221	1,965	-	9,575
Outflows from derivatives	-	3,751	4,687	5,509	2,577	-	16,524
Total derivative financial liabilities	**-**	**1,630**	**2,419**	**2,288**	**612**	**-**	**6,949**
Undrawn facilities available to customers	457,195	-	-	-	-	-	457,195
Unaudited - December 2021							
Non-derivative financial liabilities							
Deposits	847,180	1,776,648	568,895	105,741	54,417	-	3,352,881
Other borrowings	-	231,215	938,328	384,597	158,088	172,881	1,885,109
Lease liabilities	-	1,432	1,441	2,742	7,320	5,990	18,925
Other financial liabilities	-	30,690	-	-	-	-	30,690
Total non-derivative financial liabilities	**847,180**	**2,039,985**	**1,508,664**	**493,080**	**219,825**	**178,871**	**5,287,605**
Derivative financial liabilities							
Inflows from derivatives	-	13,951	4,065	6,936	5,303	-	30,255
Outflows from derivatives	-	16,113	4,222	7,396	5,107	-	32,838
Total derivative financial liabilities	**-**	**2,162**	**157**	**460**	**(196)**	**-**	**2,583**
Undrawn facilities available to customers	365,623	-	-	-	-	-	365,623
Audited - 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

16 Interest rate risk

Contractual repricing analysis

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

$000's	0-3 Months	3-6 Months	6-12 Months	1-2 Years	2+ Years	Non-Interest Bearing	Total
Unaudited - December 2022							
Financial assets							
Cash and cash equivalents	380,787	-	-	-	-	4,490	385,277
Investments	30,308	20,862	53,883	56,209	108,031	17,965	287,258
Finance receivables	1,850,327	283,962	452,114	682,875	891,995	73,693	4,234,966
Finance receivables - reverse mortgages	2,171,516	-	-	-	-	-	2,171,516
Derivative financial assets	-	-	-	-	-	51,374	51,374
Other financial assets	-	-	-	-	-	2,261	2,261
Total financial assets	**4,432,938**	**304,824**	**505,997**	**739,084**	**1,000,026**	**149,783**	**7,132,652**
Financial liabilities							
Deposits	2,374,631	743,604	805,089	81,738	31,887	33,609	4,070,558
Other borrowings	1,982,576	107,343	-	120,374	36,489	11,729	2,258,511
Derivative financial liabilities	-	-	-	-	-	10,406	10,406
Lease liabilities	-	-	-	-	-	14,798	14,798
Other financial liabilities	-	-	-	-	-	53,016	53,016
Total financial liabilities	**4,357,207**	**850,947**	**805,089**	**202,112**	**68,376**	**123,558**	**6,407,289**
Effect of derivatives held for risk management	1,027,804	(49,932)	(176,843)	(354,844)	(446,185)	-	-
Net financial assets/(liabilities)	**1,103,535**	**(596,055)**	**(475,935)**	**182,128**	**485,465**	**26,225**	**725,363**
Unaudited - December 2021							
Financial assets							
Cash and cash equivalents	207,665	-	-	-	-	1	207,666
Investments	22,884	1,101	-	120,826	151,003	22,459	318,273
Finance receivables	1,623,877	166,312	312,265	503,151	848,174	72,455	3,526,234
Finance receivables - reverse mortgages	1,778,066	-	-	-	-	-	1,778,066
Derivative financial assets	-	-	-	-	-	21,714	21,714
Other financial assets	-	-	-	-	-	2,322	2,322
Total financial assets	**3,632,492**	**167,413**	**312,265**	**623,977**	**999,177**	**118,951**	**5,854,275**
Financial liabilities							
Deposits	1,870,753	730,076	561,848	102,537	50,654	16,541	3,332,409
Other borrowings	1,486,681	60,714	151,260	-	123,810	-	1,822,465
Derivative financial liabilities	-	-	-	-	-	3,548	3,548
Lease liabilities	-	-	-	-	-	16,980	16,980
Other financial liabilities	-	-	-	-	-	30,690	30,690
Total financial liabilities	**3,357,434**	**790,790**	**713,108**	**102,537**	**174,464**	**67,759**	**5,206,092**
Effect of derivatives held for risk management	669,798	(67,794)	(8,974)	(295,757)	(297,273)	-	-
Net financial assets/(liabilities)	**944,856**	**(691,171)**	**(409,817)**	**225,683**	**527,440**	**51,192**	**648,183**

16 Interest rate risk (continued)

Contractual repricing analysis (continued)

$000's	0-3 Months	3-6 Months	6-12 Months	1-2 Years	2+ Years	Non-Interest Bearing	Total
Audited - June 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**

Other Disclosures

17 Structured entities

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

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

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

$000's	Unaudited December 2022	Unaudited December 2021	Audited June 2022
Deposits	188,421	151,830	149,824

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

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

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

$000's	Unaudited December 2022	Unaudited December 2021	Audited June 2022
Cash and cash equivalents	14,229	19,840	20,197
Finance receivables	213,958	273,289	312,239
Other borrowings	(217,634)	(275,787)	(315,308)

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

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

$000's	Unaudited December 2022	Unaudited December 2021	Audited June 2022
Cash and cash equivalents	27,120	29,509	26,003
Finance receivables - reverse mortgages	1,226,343	992,664	1,136,644
Other borrowings	(979,331)	(798,735)	(902,155)

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

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

$000's	Unaudited December 2022	Unaudited December 2021	Audited June 2022
Cash and cash equivalents	16,142	18,118	15,774
Finance receivables - reverse mortgages	136,535	136,537	138,950
Other borrowings	(141,561)	(148,453)	(145,219)

17 Structured entities (continued)

(e) StockCo Securitisation Trust 2022-1

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

$000's	Unaudited December 2022	Unaudited December 2021	Audited June 2022
Cash and cash equivalents	20,620	-	15,007
Finance receivables	353,708	-	354,901
Other borrowings	(305,994)	-	(311,415)

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

Insurance business

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.

The Group's aggregate amount of insurance business comprises the total consolidated assets of MIL of $7.3 million (December 2021: $8.3 million; June 2022: $7.4 million), which represents 0.10% of the total consolidated assets of the Group (December 2021: 0.14%; June 2022: 0.11%).

Securitisation, funds management and other fiduciary activities

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

Risk management

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

Provision of financial services and asset purchases

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

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

19 Contingent liabilities and commitments

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

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

$000's	**Unaudited December 2022**	**Unaudited December 2021**	**Audited June 2022**
Letters of credit, guarantee commitments and performance bonds	5,931	7,217	8,969
Total contingent liabilities	**5,931**	**7,217**	**8,969**
Undrawn facilities available to customers	457,195	365,623	416,561
Conditional commitments to fund at future dates	25,007	21,646	34,791
Total commitments	**482,202**	**387,269**	**451,352**

20 Events after reporting date

Severe weather events across the North Island of New Zealand

Subsequent to the reporting period, severe weather events, including flooding in Auckland and Cyclone Gabrielle, have impacted regions across the North Island of New Zealand. These events have had a devastating effect on individuals and businesses, particularly in Northland, Auckland, Hawke's Bay and Tairawhiti regions.

In both events, HBL implemented a targeted call programme to customers in affected areas, or areas of high risk. This is an ongoing process as the situation evolves and the nature and extent of the damage is understood by customers. HBL has been working with customers to provide support as they need it. Support has included deferred loan repayments, interest only payments, additional funding or other solutions determined on a case-by-case basis.

Fortunately, HBL's exposure to flooded properties in Auckland, and to the areas most heavily impacted by Cyclone Gabrielle is limited. HBL will continue to support its Auckland-based customers, as well as its rural, livestock, forestry and transportation customers on the East Coast, and in the months ahead. However, at the date the consolidated financial statements were signed, the Group does not consider there to be a material risk to the business from either event.

Proposed unsecured notes issuance

HBL is considering making an offer of up to $75 million (with the right to accept oversubscriptions of up to an additional $50 million at the HBL's discretion) of unsecured notes to New Zealand investors and certain overseas institutional investors. The unsecured notes are expected to constitute Tier 2 Capital for HBL's regulatory capital requirements.

Dividends

The Group approved a fully imputed final dividend of 5.5 cents per share on 27 February 2023.

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

Independent auditor's review report

To the shareholders of Heartland Group Holdings Limited

Report on the consolidated interim financial statements

Our conclusion

We have reviewed the consolidated interim financial statements of Heartland Group Holdings Limited (the "Company") and its controlled entities (the "Group"), which comprise the consolidated interim statement of financial position as at 31 December 2022, and the consolidated interim statement of comprehensive income, the consolidated interim statement of changes in equity and the consolidated interim statement of cash flows for the six months ended on that date, and other explanatory information.

Based on our review, nothing has come to our attention that causes us to believe that these accompanying consolidated interim financial statements of the Group do not present fairly, in all material respects, the financial position of the Group as at 31 December 2022, and its financial performance and cash flows for the period ended 31 December 2022 then ended, in accordance with International Accounting Standard 34 *Interim Financial Reporting* ("IAS 34") and New Zealand Equivalent to International Accounting Standard 34 *Interim Financial Reporting* ("NZ IAS 34").

Basis for conclusion

We conducted our review in accordance with the New Zealand Standard on Review Engagements 2410 (Revised) *Review of Financial Statements Performed by the Independent Auditor of the Entity* ("NZ SRE 2410 (Revised)"). Our responsibilities are further described in the *Auditor's responsibilities for the review of the consolidated interim financial statements* section of our report.

We are independent of the Group in accordance with the relevant ethical requirements in New Zealand relating to the audit of the annual financial statements, and we have fulfilled our other ethical responsibilities in accordance with these ethical requirements. In addition to our role as auditor, our firm carries out other services for the Group. These services are actuarial services for reverse mortgages for the Group and tax compliance services for a subsidiary of the Group. In addition, certain partners and employees of our firm may deal with the Group on normal terms within the ordinary course of trading activities of the Group. These matters have not impaired our independence.

Responsibilities of Directors for the consolidated interim financial statements

The Directors of the Company are responsible, on behalf of the Company, for the preparation and fair presentation of these consolidated interim financial statements in accordance with IAS 34 and NZ IAS 34 and for such internal control as the Directors determine is necessary to enable the preparation and fair presentation of the consolidated interim financial statements that are free from material misstatement, whether due to fraud or error.

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

Our responsibility is to express a conclusion on the consolidated interim financial statements based on our review. NZ SRE 2410 (Revised) requires us to conclude whether anything has come to our attention that causes us to believe that the consolidated interim financial statements, taken as a whole, are not prepared in all material respects, in accordance with IAS 34 and NZ IAS 34.

A review of consolidated interim financial statements in accordance with NZ SRE 2410 (Revised) is a limited assurance engagement. We perform procedures, primarily consisting of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. The procedures performed in a review are substantially less than those performed in an audit conducted in accordance with International Standards on Auditing (New Zealand) and International Standards on Auditing and consequently does not enable us to obtain assurance that we might identify in an audit. Accordingly, we do not express an audit opinion on these consolidated interim financial statements.

Who we report to

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

The engagement partner on the review resulting in this independent auditor's review report is Karen Shires.

For and on behalf of:

PricewaterhouseCoopers

Chartered Accountants	Auckland
27 February 2023

Disclosure Statement

For the six months ended 31 December 2022

HEARTLAND
BANK

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General Information

This Disclosure Statement has been issued by Heartland Bank Limited (the **Bank** or **HBL**) and its subsidiaries (the **Banking Group**) for the six months ended 31 December 2022 in accordance with the Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order 2014 (as amended) (the **Order**). The financial statements of the Bank for the six months ended 31 December 2022 form part of, and should be read in conjunction with, this Disclosure Statement.

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

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

Priority of Creditors' Claims

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

Guarantee Arrangements

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

Auditor

PricewaterhouseCoopers
PwC Tower, Level 27
15 Customs Street West
Auckland 1010

Directors

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

On 8 November 2022, Simon Tyler was appointed as Director.

There have been no other changes in the composition of the Board of Directors of the Bank since 30 June 2022 to the six months ended 31 December 2022.

Directors' Statements

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

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

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

    b) the Disclosure Statement is not false or misleading.

2. During the six months ended 31 December 2022:

    a) the Bank has complied in all material respects with each Condition of Registration applicable during the period;

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

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

This Disclosure Statement is dated 27 February 2023 and has been signed by a majority of the Directors.

B R Irvine (Chair)

S M Ruha

J K Greenslade

K Mitchell

E J Harvey

S Tyler

Consolidated Interim Statement of Comprehensive Income

For the six months ended 31 December 2022

$000's	Note	Unaudited 6 Months to December 2022	Unaudited 6 Months to December 2021	Audited 12 Months to June 2022
Interest income	3	170,581	132,072	275,770
Interest expense	3	63,118	28,057	66,205
Net interest income		**107,463**	**104,015**	**209,565**
Operating lease income		2,696	2,588	5,284
Operating lease expense		1,862	1,545	3,383
Net operating lease income		**834**	**1,043**	**1,901**
Lending and credit fee income		3,803	3,416	6,943
Other income		2,376	3,967	24,860
Net operating income		**114,476**	**112,441**	**243,269**
Operating expenses	4	53,126	48,154	96,203
Profit before impaired asset expense and income tax		**61,350**	**64,287**	**147,066**
Fair value (loss) on investment		-	(315)	(315)
Impaired asset expense	6	9,175	8,540	14,692
Profit before income tax		**52,175**	**55,432**	**132,059**
Income tax expense		14,689	14,449	36,068
Profit for the period		**37,486**	**40,983**	**95,991**
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 for cash flow hedging instruments		8,678	6,619	6,540
Movement in fair value reserve		(579)	(6,356)	(712)
Items that will not be reclassified to profit or loss, net of income tax:				
Movement in defined benefit reserve		-	-	(171)
Net loss due to wind-up of superannuation scheme		-	-	(473)
Other comprehensive income for the period, net of income tax		**8,099**	**263**	**5,184**
Total comprehensive income for the period		**45,585**	**41,246**	**101,175**

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

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

Consolidated Interim Statement of Changes in Equity

For the six months ended 31 December 2022

$000's	Note	Share Capital	Fair Value Reserve	Defined Benefit Reserve	Cash Flow Hedge Reserve	Retained Earnings	Total Equity
Unaudited - December 2022							
Balance as at 1 July 2022		**553,239**	**(1,034)**	**-**	**7,446**	**147,852**	**707,503**
Total comprehensive income for the period							
Profit for the period		-	-	-	-	37,486	37,486
Other comprehensive (loss)/ income, net of income tax		-	(579)	-	8,678	-	8,099
Total comprehensive (loss)/ income for the period		**-**	**(579)**	**-**	**8,678**	**37,486**	**45,585**
Contributions by and distributions to owner							
Dividend to Heartland Group Holdings Limited	9	-	-	-	-	(30,000)	(30,000)
Total transactions with owner		**-**	**-**	**-**	**-**	**(30,000)**	**(30,000)**
Balance as at 31 December 2022		**553,239**	**(1,613)**	**-**	**16,124**	**155,338**	**723,088**
Unaudited - December 2021							
Balance as at 1 July 2021		**553,239**	**(322)**	**171**	**906**	**87,834**	**641,828**
Total comprehensive income for the period							
Profit for the period		-	-	-	-	40,983	40,983
Other comprehensive (loss)/ income, net of income tax		-	(6,356)	-	6,619	-	263
Total comprehensive (loss)/ income for the period		**-**	**(6,356)**	**-**	**6,619**	**40,983**	**41,246**
Contributions by and distributions to owner							
Dividend to Heartland Group Holdings Limited	9	-	-	-	-	-	-
Total transactions with owner		**-**	**-**	**-**	**-**	**-**	**-**
Balance as at 31 December 2021		**553,239**	**(6,678)**	**171**	**7,525**	**128,817**	**683,074**

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

Consolidated Interim Statement of Changes in Equity (Continued)

For the six months ended 31 December 2022

$000's	Note	Share Capital	Fair Value Reserve	Defined Benefit Reserve	Cash Flow Hedge Reserve	Retained Earnings	Total Equity
Audited - June 2022							
Balance as at 1 July 2021		**553,239**	**(322)**	**171**	**906**	**87,834**	**641,828**
Total comprehensive income for the year							
Profit for the year		-	-	-	-	95,991	95,991
Other comprehensive (loss)/ income, net of income tax		-	(712)	(171)	6,540	(473)	5,184
Total comprehensive (loss)/ income for the year		**-**	**(712)**	**(171)**	**6,540**	**95,518**	**101,175**
Contributions by and distributions to owner							
Dividend to Heartland Group Holdings Limited	9	-	-	-	-	(35,500)	(35,500)
Total transactions with owner		**-**	**-**	**-**	**-**	**(35,500)**	**(35,500)**
Balance as at 30 June 2022		**553,239**	**(1,034)**	**-**	**7,446**	**147,852**	**707,503**

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

Consolidated Interim Statement of Financial Position

As at 31 December 2022

$000's	Note	Unaudited December 2022	Unaudited December 2021	Audited June 2022
Assets				
Cash and cash equivalents		296,551	137,937	221,469
Investments	11	270,923	297,316	275,714
Derivative financial instruments	11	50,729	21,540	44,487
Due from related parties	10	548	1,345	1,540
Finance receivables	7	3,852,536	3,470,003	3,762,231
Finance receivables - reverse mortgages	7	808,701	648,865	721,264
Investment properties	11	11,903	11,832	11,832
Operating lease vehicles		15,546	13,009	15,161
Right of use assets		12,602	14,609	13,660
Other assets		11,929	14,536	13,338
Intangible assets		61,704	57,353	58,418
Deferred tax asset		15,648	14,595	15,538
Total assets		**5,409,320**	**4,702,940**	**5,154,652**
Liabilities				
Deposits	8	4,077,665	3,336,509	3,597,144
Other borrowings	8	518,644	622,336	749,478
Due to related parties	10	-	688	1,535
Lease liabilities		14,615	16,703	15,726
Tax liabilities		5,246	6,211	22,479
Derivative financial instruments	11	10,403	3,400	6,335
Trade and other payables		59,659	34,019	54,452
Total liabilities		**4,686,232**	**4,019,866**	**4,447,149**
Equity				
Share capital	9	553,239	553,239	553,239
Retained earnings and other reserves		169,849	129,835	154,264
Total equity		**723,088**	**683,074**	**707,503**
Total equity and liabilities		**5,409,320**	**4,702,940**	**5,154,652**

Total interest earning and discount bearing assets		5,153,687	4,481,311	4,918,261
Total interest and discount bearing liabilities		4,561,011	3,942,304	4,312,180

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

Consolidated Interim Statement of Cash Flows

For the six months ended 31 December 2022

$000's	Note	Unaudited 6 Months to December 2022	Unaudited 6 Months to December 2021	Audited 12 Months to June 2022
Cash flows from operating activities				
Interest received		135,934	113,807	232,601
Operating lease income received		2,197	1,807	3,913
Lending, credit fees and other income received		6,989	4,881	11,740
Operating inflows		**145,120**	**120,495**	**248,254**
Interest paid		(55,018)	(36,697)	(87,131)
Payments to suppliers and employees		(40,384)	(30,021)	(47,169)
Taxation paid		(34,571)	(18,283)	(26,616)
Operating outflows		**(129,973)**	**(85,001)**	**(160,916)**
Net cash flows from operating activities before changes in operating assets and liabilities		**15,147**	**35,494**	**87,338**
Proceeds from sale of operating lease vehicles		1,642	3,023	4,482
Purchase of operating lease vehicles		(3,245)	(6,016)	(10,758)
Net movement in finance receivables		(150,835)	(292,843)	(636,981)
Net movement in deposits		475,077	117,139	376,052
Net movement in related party balances		(543)	(3,721)	(3,069)
Net cash flows from/(applied to) operating activities[1]		**337,243**	**(146,924)**	**(182,936)**
Cash flows from investing activities				
Purchase of property, plant and equipment and intangible assets		(6,539)	(7,676)	(11,889)
Net decrease in investments		4,791	54,988	82,946
Net movement of investment property		(71)	-	-
Total cash (applied to)/from investing activities		**(1,819)**	**47,312**	**71,057**
Net cash flows (applied to)/from investing activities		**(1,819)**	**47,312**	**71,057**
Cash flows from financing activities				
Net increase in wholesale funding		-	125,740	258,127
Total cash provided from financing activities		**-**	**125,740**	**258,127**
Net decrease in wholesale funding		(79,006)	-	-
Repayment of unsubordinated notes		(150,000)	-	-
Dividends paid	9	(30,000)	-	(35,500)
Payment of lease liabilities		(1,336)	(1,094)	(2,182)
Total cash (applied to) financing activities		**(260,342)**	**(1,094)**	**(37,682)**
Net cash flows (applied to)/from financing activities		**(260,342)**	**124,646**	**220,445**
Net increase in cash held		**75,082**	**25,034**	**108,566**
Opening cash and cash equivalents		221,469	112,903	112,903
Closing cash and cash equivalents		**296,551**	**137,937**	**221,469**

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

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

Consolidated Interim Statement of Cash Flows (Continued)

For the six months ended 31 December 2022

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

$000's	Note	Unaudited 6 Months to December 2022	Unaudited 6 Months to December 2021	Audited 12 Months to June 2022
Profit for the period		**37,486**	**40,983**	**95,991**
Add/(less) non-cash items:				
Depreciation and amortisation expense		4,722	5,429	10,294
Depreciation on lease vehicles		1,692	1,429	3,103
Capitalised net interest income and fee income		(31,231)	(19,149)	(41,863)
Impaired asset expense	6	9,175	8,540	14,692
Investment fair value unrealised movement		-	315	315
Other non-cash items		(2,040)	(8,242)	(17,490)
Total non-cash items		**(17,682)**	**(11,678)**	**(30,949)**
Add/(less) movements in operating assets and liabilities:				
Finance receivables		(150,835)	(292,843)	(636,981)
Operating lease vehicles		(1,602)	(2,993)	(6,276)
Other assets		1,991	(2,126)	(1,780)
Current tax		(17,233)	(1,345)	14,923
Derivative financial instruments		5,926	(2,199)	(23,002)
Deferred tax		(110)	(2,344)	(3,287)
Deposits		475,077	117,139	376,052
Other liabilities		4,225	10,482	32,373
Total movements in operating assets and liabilities		**317,439**	**(176,229)**	**(247,978)**
Net cash flows from/(applied to) operating activities[1]		**337,243**	**(146,924)**	**(182,936)**

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

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

Notes to the Interim Financial Statements

For the six months ended 31 December 2022

1 Interim financial statements preparation

Basis of preparation

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

The Disclosure Statement does not include all notes of the type normally included in an annual financial report. Accordingly this report is to be read in conjunction with the Disclosure Statement for the year ended 30 June 2022.

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

- 6 month period ended 31 December 2022 – Unaudited
- 6 month period ended 31 December 2021 – Unaudited
- 12 month period ended 30 June 2022 – Audited

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

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

Estimates and judgements

There have been no material changes to the use of estimates and judgements for the preparation of the interim financial statements since the reporting date of the previous financial statements. The Banking Group's Disclosure Statement for the year ended 30 June 2022 contains detail on the estimates and judgements used.

In respect of the provision for expected credit loss on finance receivables, the Banking Group has previously created an economic overlay of $8.0 million as at 30 June 2022 to address economic uncertainty. The economic overlay of $8.0 million remains appropriate at 31 December 2022.

Performance

2 Segmental analysis

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

Operating segments

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

Motor Motor vehicle finance.

Reverse mortgages Reverse mortgage lending in New Zealand.

Personal Lending Transactional, home loans and personal loans to individuals.

Business Term debt, plant and equipment finance, commercial mortgage lending and working capital solutions for small-to-medium sized businesses.

Rural Specialist financial services to the farming sector primarily offering livestock finance, rural mortgage lending, seasonal and working capital financing, as well as leasing solutions to farmers in New Zealand.

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

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

$000's	Motor	Reverse Mortgages	Personal Lending	Business	Rural	Other	Total
Unaudited - December 2022							
Net interest income	30,936	19,058	5,213	35,843	16,612	(199)	107,463
Net other income	1,734	1,444	594	1,542	336	1,363	7,013
Net operating income	**32,670**	**20,502**	**5,807**	**37,385**	**16,948**	**1,164**	**114,476**
Operating expenses	2,055	2,585	3,344	4,867	1,628	38,647	53,126
Profit/(loss) before impaired asset expense and income tax	**30,615**	**17,917**	**2,463**	**32,518**	**15,320**	**(37,483)**	**61,350**
Impaired asset expense	3,341	-	1,580	4,092	162	-	9,175
Profit/(loss) before income tax	**27,274**	**17,917**	**883**	**28,426**	**15,158**	**(37,483)**	**52,175**
Income tax expense	-	-	-	-	-	14,689	14,689
Profit/(loss) for the period	**27,274**	**17,917**	**883**	**28,426**	**15,158**	**(52,172)**	**37,486**
Total assets	**1,457,970**	**808,701**	**361,870**	**1,386,602**	**674,009**	**720,168**	**5,409,320**
Total liabilities							**4,686,232**

2 Segmental analysis (continued)

$000's	Motor	Reverse Mortgages	Personal Lending	Business	Rural	Other	Total
Unaudited - December 2021							
Net interest income	34,687	14,000	4,496	35,888	15,138	(195)	104,014
Net other income	1,703	1,289	726	1,408	365	2,936	8,427
Net operating income	**36,390**	**15,289**	**5,222**	**37,296**	**15,503**	**2,741**	**112,441**
Operating expenses	1,975	2,354	3,268	4,756	1,531	34,270	48,154
Profit/(loss) before impaired asset	**34,415**	**12,935**	**1,954**	**32,540**	**13,972**	**(31,529)**	**64,287**
Fair value (loss) on investment	-	-	-	-	-	(315)	(315)
Impaired asset expense/(benefit)	2,518	-	902	4,210	909	1	8,540
Profit/(loss) before income tax	**31,897**	**12,935**	**1,052**	**28,330**	**13,063**	**(31,845)**	**55,432**
Income tax expense	-	-	-	-	-	14,449	14,449
Profit/(loss) for the period	**31,897**	**12,935**	**1,052**	**28,330**	**13,063**	**(46,294)**	**40,983**
Total assets	**1,344,865**	**648,865**	**272,803**	**1,294,601**	**583,026**	**558,780**	**4,702,940**
Total liabilities							**4,019,866**
Audited - June 2022							
Net interest income	69,730	29,957	10,218	70,602	29,460	(402)	209,565
Net other income	3,326	2,583	1,562	2,679	739	22,815	33,704
Net operating income	**73,056**	**32,540**	**11,780**	**73,281**	**30,199**	**22,413**	**243,269**
Operating expenses	3,792	4,485	6,417	9,358	3,038	69,113	96,203
Profit/(loss) before impaired asset	**69,264**	**28,055**	**5,363**	**63,923**	**27,161**	**(46,700)**	**147,066**
Fair value (loss) on investment	-	-	-	-	-	(315)	(315)
Impaired asset expense/(benefit)	1,481	-	(877)	11,831	2,257	-	14,692
Profit/(loss) before income tax	**67,783**	**28,055**	**6,240**	**52,092**	**24,904**	**(47,015)**	**132,059**
Income tax expense	-	-	-	-	-	36,068	36,068
Profit/(loss) for the year	**67,783**	**28,055**	**6,240**	**52,092**	**24,904**	**(83,083)**	**95,991**
Total assets	**1,382,367**	**721,264**	**332,783**	**1,387,352**	**687,232**	**643,654**	**5,154,652**
Total liabilities							**4,447,149**

3 Net interest income

$000's	Unaudited 6 Months to December 2022	Unaudited 6 Months to December 2021	Audited 12 Months to June 2022
Interest income			
Cash and cash equivalents	3,043	149	805
Investments	2,399	2,782	5,156
Finance receivables	135,407	111,277	230,514
Finance receivables - reverse mortgages	29,732	17,864	39,295
Total interest income	**170,581**	**132,072**	**275,770**
Interest expense			
Deposits	56,864	18,741	45,387
Other borrowings	13,297	8,890	20,727
Net interest expense/(income) on derivative financial instruments	(7,043)	426	91
Total interest expense	**63,118**	**28,057**	**66,205**
Net interest income	**107,463**	**104,015**	**209,565**

4 Operating expenses

$000's	Unaudited 6 Months to December 2022	Unaudited 6 Months to December 2021	Audited 12 Months to June 2022
Personnel expenses	31,983	27,375	53,826
Directors' fees	282	288	542
Superannuation	654	517	1,045
Depreciation - property, plant and equipment	871	1,331	2,342
Legal and professional fees	1,124	709	1,697
Advertising and public relations	1,081	1,596	2,814
Depreciation - right of use asset	1,059	1,062	2,122
Technology services	4,625	4,597	9,014
Telecommunications, stationery and postage	867	722	1,492
Customer acquisition costs	1,325	1,212	2,419
Amortisation of intangible assets	2,792	3,036	5,830
Other operating expenses[1]	6,463	5,709	13,060
Total operating expenses	**53,126**	**48,154**	**96,203**

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

5 Compensation of auditor

$000's	Unaudited 6 Months to December 2022	Unaudited 6 Months to December 2021	Audited 12 Months to June 2022
Fees paid to current auditor - PricewaterhouseCoopers			
Audit and review of financial statements[1]	180	-	-
Other non-assurance services paid to auditor[2]	15	-	-
Total compensation to PricewaterhouseCoopers	**195**	**-**	**-**
Fees paid to predecessor auditor - KPMG			
Audit and review of financial statements[1]	26	295	593
Other assurance services paid to auditor[3]	-	10	20
Total compensation to KPMG	**26**	**305**	**613**

[1] These relates to fees paid for both the audit of the annual financial statements and review of the interim financial statements.

[2] Other non-assurance services paid to PricewaterhouseCoopers relates to actuarial services for reverse mortgages for the Banking Group.

[3] Other assurance related services paid to KPMG comprise regulatory assurance services, trust deed reporting and registry audits.

6 Impaired asset expense

At each reporting date, the Banking Group applies a three stage approach to measuring expected credit loss (**ECL**) to finance receivables carried at amortised cost. The following table details impairment charges of those finance receivables for the six months ended 31 December 2022.

$000's	Unaudited 6 Months to December 2022	Unaudited 6 Months to December 2021	Audited 12 Months to June 2022
Non-securitised			
Individually impaired asset expense	5,292	6,266	10,782
Collectively impaired asset expense	5,016	3,147	6,735
Total non-securitised impaired asset expense	**10,308**	**9,413**	**17,517**
Securitised			
Collectively impaired asset expense	(154)	392	(70)
Total securitised impaired asset expense	**(154)**	**392**	**(70)**
Total			
Individually impaired asset expense	5,292	6,266	10,782
Collectively impaired asset expense	4,862	3,539	6,665
Total impaired asset expense excluding recovery of amounts previously written off	**10,154**	**9,805**	**17,447**
Recovery of amounts previously written off to the income statement	(979)	(1,265)	(2,755)
Total impaired asset expense	**9,175**	**8,540**	**14,692**

Financial Position

7 Finance receivables

(a) Finance receivables held at amortised cost

$000's	Unaudited December 2022	Unaudited December 2021	Audited June 2022
Non-securitised			
Neither at least 90 days past due nor impaired	3,562,670	3,145,180	3,391,832
At least 90 days past due	58,975	38,158	41,279
Individually impaired	69,000	63,965	66,183
Gross finance receivables	**3,690,645**	**3,247,303**	**3,499,294**
Less provision for impairment	(52,354)	(50,582)	(50,232)
Total non-securitised finance receivables	**3,638,291**	**3,196,721**	**3,449,062**
Securitised			
Neither at least 90 days past due nor impaired	214,286	273,650	313,364
At least 90 days past due	-	263	-
Gross finance receivables	**214,286**	**273,913**	**313,364**
Less provision for impairment	(41)	(631)	(195)
Total securitised finance receivables	**214,245**	**273,282**	**313,169**
Total			
Neither at least 90 days past due nor impaired	3,776,956	3,418,830	3,705,196
At least 90 days past due	58,975	38,421	41,279
Individually impaired	69,000	63,965	66,183
Gross finance receivables	**3,904,931**	**3,521,216**	**3,812,658**
Less provision for impairment	(52,395)	(51,213)	(50,427)
Total finance receivables	**3,852,536**	**3,470,003**	**3,762,231**

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

7 Finance receivables (continued)

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

Movement in provision for impairment losses

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

$000's	**12 - Month ECL**	**Lifetime ECL Not Credit Impaired**	**Lifetime ECL Credit Impaired**	**Specific Provision**	**Total**
Unaudited - December 2022					
Non-securitised					
Impairment allowance as at 30 June 2022	**19,005**	**1,865**	**14,361**	**15,001**	**50,232**
Changes in loss allowance					
Transfer between stages	(3,933)	(1,946)	1,921	3,958	-
New and increased provision (net of provision releases)	2,917	2,313	3,744	1,334	10,308
Credit impairment charge	**(1,016)**	**367**	**5,665**	**5,292**	**10,308**
Write-offs	-	-	(6,115)	(2,071)	(8,186)
Impairment allowance as at 31 December 2022	**17,989**	**2,232**	**13,911**	**18,222**	**52,354**
Securitised					
Impairment allowance as at 30 June 2022	**196**	**(2)**	**1**	**-**	**195**
Changes in loss allowance					
Transfer between stages	(1)	1	-	-	-
New and increased provision (net of provision releases)	(167)	13	-	-	(154)
Credit impairment charge	**(168)**	**14**	**-**	**-**	**(154)**
Write-offs	-	-	-	-	-
Impairment allowance as at 31 December 2022	**28**	**12**	**1**	**-**	**41**
Total					
Impairment allowance as at 30 June 2022	**19,201**	**1,863**	**14,362**	**15,001**	**50,427**
Changes in loss allowance					
Transfer between stages	(3,934)	(1,945)	1,921	3,958	-
New and increased provision (net of provision releases)	2,750	2,326	3,744	1,334	10,154
Credit impairment charge	**(1,184)**	**381**	**5,665**	**5,292**	**10,154**
Write-offs	-	-	(6,115)	(2,071)	(8,186)
Impairment allowance as at 31 December 2022	**18,017**	**2,244**	**13,912**	**18,222**	**52,395**

7 Finance receivables (continued)

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

Movement in provision for impairment losses (continued)

$000's	12 - Month ECL	Lifetime ECL Not Credit Impaired	Lifetime ECL Credit Impaired	Specific Provision	Total
Unaudited - December 2021					
Non-securitised					
Impairment allowance as at 30 June 2021	**24,216**	**2,334**	**16,630**	**7,629**	**50,809**
Changes in loss allowance					
Transfer between stages	(2,278)	(1,086)	653	2,711	-
New and increased provision (net of provision releases)	(623)	360	6,121	3,555	9,413
Credit impairment charge	**(2,901)**	**(726)**	**6,774**	**6,266**	**9,413**
Write-offs	-	-	(8,421)	(1,219)	(9,640)
Impairment allowance as at 31 December 2021	**21,315**	**1,608**	**14,983**	**12,676**	**50,582**
Securitised					
Impairment allowance as at 30 June 2021	**216**	**22**	**1**	**-**	**239**
Changes in loss allowance					
Transfer between stages	(2)	(27)	29	-	-
New and increased provision (net of provision releases)	231	77	84	-	392
Credit impairment charge	**229**	**50**	**113**	**-**	**392**
Write-offs	-	-	-	-	-
Impairment allowance as at 31 December 2021	**445**	**72**	**114**	**-**	**631**
Total					
Impairment allowance as at 30 June 2021	**24,432**	**2,356**	**16,631**	**7,629**	**51,048**
Changes in loss allowance					
Transfer between stages	(2,280)	(1,113)	682	2,711	-
New and increased provision (net of provision releases)	(392)	437	6,205	3,555	9,805
Credit impairment charge	**(2,672)**	**(676)**	**6,887**	**6,266**	**9,805**
Write-offs	-	-	(8,421)	(1,219)	(9,640)
Impairment allowance as at 31 December 2021	**21,760**	**1,680**	**15,097**	**12,676**	**51,213**

7 Finance receivables (continued)

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

Movement in provision for impairment losses (continued)

$000's	**12 - Month ECL**	**Lifetime ECL Not Credit Impaired**	**Lifetime ECL Credit Impaired**	**Specific Provision**	**Total**
Audited - 30 June 2022					
Non-securitised					
Impairment allowance as at 30 June 2021	**24,216**	**2,334**	**16,630**	**7,629**	**50,809**
Changes in loss allowance					
Transfer between stages	(3,800)	(2,391)	916	5,275	-
New and increased provision (net of provision releases)	(1,411)	1,922	11,499	5,507	17,517
Credit impairment charge	**(5,211)**	**(469)**	**12,415**	**10,782**	**17,517**
Write-offs	-	-	(14,684)	(3,410)	(18,094)
Impairment allowance as at 30 June 2022	**19,005**	**1,865**	**14,361**	**15,001**	**50,232**
Securitised					
Impairment allowance as at 30 June 2021	**216**	**22**	**1**	**-**	**239**
Changes in loss allowance					
Transfer between stages	(6)	(109)	115	-	-
New and increased provision (net of provision releases)	(14)	85	(141)	-	(70)
Credit impairment charge	**(20)**	**(24)**	**(26)**	**-**	**(70)**
Write-offs	-	-	26	-	26
Impairment allowance as at 30 June 2022	**196**	**(2)**	**1**	**-**	**195**
Total					
Impairment allowance as at 30 June 2021	**24,432**	**2,356**	**16,631**	**7,629**	**51,048**
Changes in loss allowance					
Transfer between stages	(3,806)	(2,500)	1,031	5,275	-
New and increased provision (net of provision releases)	(1,425)	2,007	11,358	5,507	17,447
Credit impairment charge	**(5,231)**	**(493)**	**12,389**	**10,782**	**17,447**
Write-offs	-	-	(14,658)	(3,410)	(18,068)
Impairment allowance as at 30 June 2022	**19,201**	**1,863**	**14,362**	**15,001**	**50,427**

7 Finance receivables (continued)

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

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

$000's	12 - Month ECL	Lifetime ECL Not Credit Impaired	Lifetime ECL Credit Impaired	Specific Provision	Total
Unaudited - December 2022					
Gross finance receivables as at 30 June 2022	**3,583,335**	**117,515**	**45,625**	**66,183**	**3,812,658**
Transfer between stages	(106,391)	63,271	33,733	9,387	-
Additions	715,969	-	-	7,928	723,897
Deletions	(552,790)	(47,544)	(10,677)	(12,427)	(623,438)
Write-offs	-	-	(6,115)	(2,071)	(8,186)
Gross finance receivables as at 31 December 2022	**3,640,123**	**133,242**	**62,566**	**69,000**	**3,904,931**
Unaudited - December 2021					
Gross finance receivables as at 30 June 2021	**3,016,571**	**164,728**	**45,199**	**38,143**	**3,264,641**
Transfer between stages	(46,346)	(12,348)	19,326	39,368	-
Additions	896,211	-	-	906	897,117
Deletions	(575,509)	(34,581)	(7,579)	(13,233)	(630,902)
Write-offs	-	-	(8,421)	(1,219)	(9,640)
Gross finance receivables as at 31 December 2021	**3,290,927**	**117,799**	**48,525**	**63,965**	**3,521,216**
Audited - June 2022					
Gross finance receivables as at 30 June 2021	**3,016,571**	**164,728**	**45,199**	**38,143**	**3,264,641**
Transfer between stages	(109,051)	24,871	28,786	55,394	-
Additions	2,059,181	-	-	3,002	2,062,183
Deletions	(1,383,366)	(72,084)	(13,702)	(26,946)	(1,496,098)
Write-offs	-	-	(14,658)	(3,410)	(18,068)
Gross finance receivables as at 30 June 2022	**3,583,335**	**117,515**	**45,625**	**66,183**	**3,812,658**

(b) Finance receivables held at fair value

$000's	Unaudited December 2022	Unaudited December 2021	Audited June 2022
Finance receivables - reverse mortgages	808,701	648,865	721,264
Total finance receivables - reverse mortgages	**808,701**	**648,865**	**721,264**

8 Borrowings

$000's	Unaudited December 2022	Unaudited December 2021	Audited June 2022
Deposits	4,077,665	3,336,509	3,597,144
Total borrowings related to deposits	**4,077,665**	**3,336,509**	**3,597,144**
Unsubordinated notes	120,374	277,959	272,983
Securitised borrowings	191,091	234,739	267,779
Certificate of deposit	207,179	109,638	198,715
Money market borrowings	-	-	10,001
Total other borrowings	**518,644**	**622,336**	**749,478**

Deposits and unsubordinated notes rank equally and are unsecured.

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

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

At 31 December 2022 the Banking Group had the following securitised borrowings outstanding:

- Heartland Auto Receivables Warehouse Trust 2018 - 1 securitisation facility $400 million, drawn $191 million (December 2021: $400 million, drawn $235 million; June 2022: $400 million, drawn $268 million). Securitised borrowings held by investors are secured over the motor loan assets of the Heartland Auto Receivables Warehouse Trust 2018-1. The facility has a maturity date of 26 August 2024.

9 Share capital and dividends

000's	Unaudited December 2022 Number of Shares	Unaudited December 2021 Number of Shares	Audited June 2022 Number of Shares
Issued shares			
Opening balance	565,430	565,430	565,430
Closing balance	**565,430**	**565,430**	**565,430**

There were no new shares issued during the period (December 2021: nil; June 2022: nil).

Dividends paid

	6 Months to December 2022			12 Months to June 2022		
	Date Declared	Cents Per Share	$000's	Date Declared	Cents Per Share	$000's
Dividend to Heartland Group Holdings Limited (**HGH**)	22 August 2022	-	30,000	21 February 2022	-	35,500
Total dividends paid			**30,000**			**35,500**

10 Related party transactions and balances

(a) Transactions with key management personnel

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

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

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

$000's	**Unaudited 6 Months to December 2022**	**Unaudited 6 Months to December 2021**	**Audited 12 Months to June 2022**
Transactions with key management personnel			
Interest income	11	15	26
Interest expense	(15)	(24)	(24)
Net transactions with key management personnel	**(4)**	**(9)**	**2**
Due from/(to) key management personnel			
Lending	831	296	229
Deposits	(1,325)	(1,425)	(508)
Net due (to) key management personnel	**(494)**	**(1,129)**	**(279)**

(b) Transactions with related parties

The Banking Group's ultimate parent company is HGH.

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

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

$000's	**Unaudited 6 Months to December 2022**	**Unaudited 6 Months to December 2021**	**Audited 12 Months to June 2022**
Heartland Group Holdings Limited			
Interest expense	71	32	68
Deposits/(withdrawals)	2,400	(32,000)	(31,500)
Dividends paid to HGH	30,000	-	35,500
Management fees to HGH	5,361	4,298	8,327
Management fees from HGH	2,271	1,153	2,164

10 Related party transactions and balances (continued)

(b) Transactions with related parties (continued)

$000's	Unaudited 6 Months to December 2022	Unaudited 6 Months to December 2021	Audited 12 Months to June 2022
Australian Seniors Finance Pty Limited (ASF)			
Management fees to ASF	2	-	-
Management fees from ASF	2,369	1,614	2,752
Southern Cross Building Society Staff Superannuation (SCBS)			
Interest expense	1	4	6
Management fees from SCBS	-	5	10
Cash received from SCBS	-	-	350

(c) Due from/to related parties

$000's	Unaudited December 2022	Unaudited December 2021	Audited June 2022
Due from			
Australian Seniors Finance Pty Limited	491	1,334	1,540
Heartland Group Holdings Limited	57	11	-
Total due from related parties	**548**	**1,345**	**1,540**
Due to			
Heartland Group Holdings Limited	-	688	1,535
Total due to related parties	**-**	**688**	**1,535**

(d) Other balances with related parties

$000's	Unaudited December 2022	Unaudited December 2021	Audited June 2022
Heartland Group Holdings Limited			
Deposits owing to HGH	7,108	4,100	4,636
Southern Cross Building Society Staff Superannuation			
Deposits owing to SCBS	1	1,704	35

11 Fair value

(a) Financial instruments measured at fair value

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

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

Investments in debt securities

Investments in public sector securities and corporate bonds are classified 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).

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

Investments in equity securities

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

Investment properties

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

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

Finance receivables - reverse mortgages

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

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

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

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

11 Fair value (continued)

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

Finance receivables - reverse mortgages (continued)

At 31 December 2022 the Banking Group does not consider any of the above expectations to have moved outside of the original expectation range. Therefore, the Banking Group has continued to estimate the fair value of the portfolio at transaction price. There has been no fair value movement recognised in profit or loss during the period. Fair value is not highly sensitive to the above assumptions in the longer term due to the nature and term of the 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 Banking Group continues to reassess the existence of a relevant active market and movements in expectations on an on-going basis.

Derivative financial instruments

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

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

11 Fair value (continued)

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

$000's	**Level 1**	**Level 2**	**Level 3**	**Total**
Unaudited - December 2022				
Assets				
Investments	269,293	-	1,630	270,923
Investment properties	-	-	11,903	11,903
Derivative financial instruments	-	50,729	-	50,729
Finance receivables - reverse mortgages	-	-	808,701	808,701
Total financial assets measured at fair value	**269,293**	**50,729**	**822,234**	**1,142,256**
Liabilities				
Derivative financial instruments	-	10,403	-	10,403
Total financial liabilities measured at fair value	**-**	**10,403**	**-**	**10,403**
Unaudited - December 2021				
Assets				
Investments	229,452	61,745	1,503	292,700
Investment properties	-	-	11,832	11,832
Derivative financial instruments	-	21,540	-	21,540
Finance receivables - reverse mortgages	-	-	648,865	648,865
Total financial assets measured at fair value	**229,452**	**83,285**	**662,200**	**974,937**
Liabilities				
Derivative financial instruments	-	3,400	-	3,400
Total financial liabilities measured at fair value	**-**	**3,400**	**-**	**3,400**
Audited - June 2022				
Assets				
Investments	271,790	-	1,503	273,293
Investment properties	-	-	11,832	11,832
Derivative financial instruments	-	44,487	-	44,487
Finance receivables - reverse mortgages	-	-	721,264	721,264
Total financial assets measured at fair value	**271,790**	**44,487**	**734,599**	**1,050,876**
Liabilities				
Derivative financial instruments	-	6,335	-	6,335
Total financial liabilities measured at fair value	**-**	**6,335**	**-**	**6,335**

There were no transfers between any fair value hierarchy levels in the six months ended 31 December 2022 (December 2021: nil; June 2022: nil).

11 Fair value (continued)

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

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

$000's	**Finance Receivables - Reverse Mortgages**	**Investments**	**Investment Properties**	**Total**
Unaudited - December 2022				
As at 30 June 2022	721,264	1,503	11,832	734,599
New loans	107,071	-	-	107,071
Repayments	(50,884)	-	-	(50,884)
Capitalised interest and fees	31,231	-	-	31,231
Purchase of investments	-	127	-	127
Fair value gain/(loss) on investments	-	-	-	-
Other	19	-	71	90
As at 31 December 2022	**808,701**	**1,630**	**11,903**	**822,234**
Unaudited - December 2021				
As at 30 June 2021	601,505	1,818	11,832	615,155
New loans	74,530	-	-	74,530
Repayments	(46,330)	-	-	(46,330)
Capitalised interest and fees	19,149	-	-	19,149
Purchase of investments	-	-	-	-
Fair value (loss) on investments	-	(315)	-	(315)
Other	11	-	-	11
As at 31 December 2021	**648,865**	**1,503**	**11,832**	**662,200**
Audited - June 2022				
As at 30 June 2021	601,505	1,818	11,832	615,155
New loans	162,166	-	-	162,166
Repayments	(83,629)	-	-	(83,629)
Capitalised interest and fees	41,864	-	-	41,864
Purchase of investments	-	-	-	-
Fair value (loss) on investments	-	(315)	-	(315)
Other	(642)	-	-	(642)
As at 30 June 2022	**721,264**	**1,503**	**11,832**	**734,599**

11 Fair value (continued)

(b) Financial instruments not measured at fair value

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

		Unaudited December 2022		Unaudited December 2021		Audited June 2022	
$000's	**Fair Value Hierarchy**	**Total Fair Value**	**Total Carrying Value**	**Total Fair Value**	**Total Carrying Value**	**Total Fair Value**	**Total Carrying Value**
Assets							
Cash and cash equivalents	Level 1	296,551	296,551	137,937	137,937	221,469	221,469
Investments[1]	Level 2	-	-	4,615	4,616	2,418	2,421
Finance receivables	Level 3	3,776,898	3,852,536	3,506,207	3,470,003	3,701,694	3,762,231
Due from related parties	Level 3	548	548	1,345	1,345	1,540	1,540
Other financial assets	Level 3	1,606	1,606	2,282	2,282	175	175
Total financial assets		**4,075,603**	**4,151,241**	**3,652,386**	**3,616,183**	**3,927,296**	**3,987,836**
Liabilities							
Deposits	Level 2	4,076,080	4,077,665	3,338,767	3,336,509	3,595,554	3,597,144
Other borrowings	Level 2	518,644	518,644	622,336	622,336	749,478	749,478
Due to related parties	Level 3	-	-	688	688	1,535	1,535
Other financial liabilities[2]	Level 3	51,299	51,299	27,670	27,670	47,510	47,510
Total financial liabilities		**4,646,023**	**4,647,608**	**3,989,461**	**3,987,203**	**4,394,077**	**4,395,667**

[1] Included within Investments at 31 December 2021 and 30 June 2022 are bank deposits which are held to support the Banking Group's contractual cash flows. Such Investments are measured at amortised cost. There were no bank deposits within Investments at 31 December 2022.

[2] Included within Other financial liabilities are $36.76 million of cash collateral received (December 2021: $16.32 million; June 2022: $32.34 million) against derivative assets as per the requirement of credit support annexes (**CSAs**) agreements.

Risk Management

12 Enterprise risk management program

There have been no material changes in the Banking Group's policies for managing risk, or material exposures to any new types of risk since the reporting date of the previous Disclosure Statement.

13 Credit risk exposure

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

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

$000's	Unaudited December 2022	Unaudited December 2021	Audited June 2022
On balance sheet:			
Cash and cash equivalents	296,551	137,937	221,469
Investments	269,293	295,813	274,211
Finance receivables	3,852,536	3,470,003	3,762,231
Finance receivables - reverse mortgages	808,701	648,865	721,264
Derivative financial assets	50,729	21,540	44,487
Due from related parties	548	1,345	1,540
Other financial assets	1,606	2,282	175
Total on balance sheet credit exposures	**5,279,964**	**4,577,785**	**5,025,377**
Off balance sheet:			
Letters of credit, guarantee commitments and performance bonds	5,931	7,217	8,969
Undrawn facilities available to customers	310,389	254,174	272,735
Conditional commitments to fund at future dates	25,007	21,646	34,791
Total off balance sheet credit exposures	**341,327**	**283,037**	**316,495**
Total credit exposures	**5,621,291**	**4,860,822**	**5,341,872**

As at 31 December 2022 there were no undrawn lending commitments available to counterparties for whom drawn balances are classified as individually impaired (December 2021: nil; June 2022: $0.003 million).

(b) Concentration of credit risk by geographic region

$000's	Unaudited December 2022	Unaudited December 2021	Audited June 2022
New Zealand	5,464,699	4,680,875	5,176,026
Australia	639	675	3,520
Rest of the world [1]	208,348	230,485	212,753
	5,673,686	**4,912,035**	**5,392,299**
Provision for impairment	(52,395)	(51,213)	(50,427)
Total credit exposures	**5,621,291**	**4,860,822**	**5,341,872**

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

13 Credit risk exposure (continued)

(c) Concentration of credit risk by industry sector

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

$000's	Unaudited December 2022	Unaudited December 2021	Audited June 2022
Agriculture	755,096	667,835	747,618
Forestry and fishing	143,883	149,561	148,797
Mining	10,200	14,217	12,524
Manufacturing	80,501	85,737	78,432
Finance and insurance	786,562	594,370	685,938
Wholesale trade	42,665	35,543	41,986
Retail trade and accommodation	415,303	338,163	423,975
Households	2,268,703	1,972,869	2,134,097
Other business services	202,182	172,647	189,860
Construction	320,431	304,593	291,971
Rental, hiring and real estate services	211,581	180,689	199,388
Transport and storage	339,182	311,068	323,732
Other	97,397	84,743	113,981
	5,673,686	**4,912,035**	**5,392,299**
Provision for impairment	(52,395)	(51,213)	(50,427)
Total credit exposures	**5,621,291**	**4,860,822**	**5,341,872**

(d) Credit exposure to individual counterparties

The Banking Group's aggregate concentration of credit exposure to individual counterparties is calculated based on the actual credit exposure. Credit exposures to connected persons, the central government or central bank of any country with a long term credit rating of A- or A3 or above, or its equivalent, and any supranational or quasi-sovereign agency with a long-term credit rating of A- or A3 or above, or its equivalent are excluded.

The peak end-of-day aggregate concentration of credit exposure to individual counterparties has been calculated by determining the maximum end-of-day aggregate amount of credit exposure over the relevant six-month period and then dividing the amount by the Banking Group's common equity tier one capital as at 31 December 2022.

	Unaudited Number of Exposures As at December 2022	Unaudited Number of Exposures Peak End-of-Day over 6 Months to December 2022
Exposures to banks		
With a long-term credit rating of A- or A3 or above, or its equivalent:		
10% to less than 15% of CET1 capital	1	1
15% to less than 20% of CET1 capital	-	-
20% to less than 25% of CET1 capital	1	1
25% to less than 30% of CET1 capital	1	1
With a long-term credit rating of at least BBB- or Baa3, or its equivalent, and at most BBB+ or Baa1, or its equivalent	-	-
Exposures to non-banks		
Total number of exposures to non-banks that are greater than 10% to less than 15% of CET1 capital that do not have a long-term credit rating.	1	1

14 Asset quality

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

Corporate Business lending including rural lending.

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

All Other This relates primarily to consumer lending to individuals.

(a) Finance receivables by credit risk concentration

$000's	**Corporate**	**Residential**	**All Other**	**Total**
Unaudited - December 2022				
Neither at least 90 days past due nor impaired	2,420,633	1,120,175	1,044,849	4,585,657
At least 90 days past due	27,564	350	31,061	58,975
Individually impaired	68,646	-	354	69,000
Gross finance receivables	**2,516,843**	**1,120,525**	**1,076,264**	**4,713,632**
Provision for impairment	(42,093)	(123)	(10,179)	(52,395)
Total net finance receivables	**2,474,750**	**1,120,402**	**1,066,085**	**4,661,237**
Unaudited - December 2021				
Neither at least 90 days past due nor impaired	2,115,876	874,682	1,077,137	4,067,695
At least 90 days past due	15,321	135	22,965	38,421
Individually impaired	63,757	9	199	63,965
Gross finance receivables	**2,194,954**	**874,826**	**1,100,301**	**4,170,081**
Provision for impairment	(32,511)	(88)	(18,614)	(51,213)
Total net finance receivables	**2,162,443**	**874,738**	**1,081,687**	**4,118,868**
Audited - June 2022				
Neither at least 90 days past due nor impaired	2,377,755	1,006,977	1,041,728	4,426,460
At least 90 days past due	15,276	131	25,872	41,279
Individually impaired	65,970	-	213	66,183
Gross finance receivables	**2,459,001**	**1,007,108**	**1,067,813**	**4,533,922**
Provision for impairment	(40,196)	(115)	(10,116)	(50,427)
Total net finance receivables	**2,418,805**	**1,006,993**	**1,057,697**	**4,483,495**

14 Asset quality (continued)

(b) Past due but not individually impaired

$000's	Corporate	Residential	All Other	Total
Unaudited - December 2022				
Less than 30 days past due	3,515	164	1,956	5,635
At least 30 but less than 60 days past due	9,268	386	11,035	20,689
At least 60 but less than 90 days past due	6,231	-	5,842	12,073
At least 90 days past due	27,564	350	31,061	58,975
Total past due but not individually impaired	**46,578**	**900**	**49,894**	**97,372**
Unaudited - December 2021				
Less than 30 days past due	6,120	356	5,365	11,841
At least 30 but less than 60 days past due	7,077	207	9,022	16,306
At least 60 but less than 90 days past due	2,999	-	4,455	7,454
At least 90 days past due	15,321	135	22,965	38,421
Total past due but not individually impaired	**31,517**	**698**	**41,807**	**74,022**
Audited - June 2022				
Less than 30 days past due	4,147	171	3,249	7,567
At least 30 but less than 60 days past due	15,320	263	10,751	26,334
At least 60 but less than 90 days past due	4,621	85	5,071	9,777
At least 90 days past due	15,276	131	25,872	41,279
Total past due but not individually impaired	**39,364**	**650**	**44,943**	**84,957**

14 Asset quality (continued)

(c) Individually impaired assets

$000's	Corporate	Residential	All Other	Total
Unaudited - December 2022				
Opening	65,970	-	213	66,183
Additions	17,174	-	141	17,315
Deletions	(12,427)	-	-	(12,427)
Write-offs	(2,071)	-	-	(2,071)
Closing gross individually impaired assets	**68,646**	**-**	**354**	**69,000**
Less: provision for individually impaired assets	18,222	-	-	18,222
Total net individually impaired assets	**50,424**	**-**	**354**	**50,778**
Unaudited - December 2021				
Opening	37,561	9	573	38,143
Additions	40,274	-	-	40,274
Deletions	(12,717)	-	(374)	(13,091)
Write-offs	(1,361)	-	-	(1,361)
Closing gross individually impaired assets	**63,757**	**9**	**199**	**63,965**
Less: provision for individually impaired assets	12,675	-	1	12,676
Total net individually impaired assets	**51,082**	**9**	**198**	**51,289**
Audited - June 2022				
Opening	37,561	9	573	38,143
Additions	58,396	-	-	58,396
Deletions	(26,577)	(9)	(360)	(26,946)
Write-offs	(3,410)	-	-	(3,410)
Closing gross individually impaired assets	**65,970**	**-**	**213**	**66,183**
Less: provision for individually impaired assets	15,001	-	-	15,001
Total net individually impaired assets	**50,969**	**-**	**213**	**51,182**

14 Asset quality (continued)

(d) Provision for impairment

$000's	12 Months ECL	Lifetime ECL Not Credit Impaired	Lifetime ECL Credit Impaired	Specific Provision	Total
Unaudited - December 2022					
Corporate					
Impairment allowance as at 30 June 2022	**19,353**	**897**	**4,945**	**15,001**	**40,196**
Changes in loss allowance					
Transfer between stages	(3,700)	(995)	737	3,958	-
New and increased provision (net of provision releases)	1,363	1,267	1,469	1,334	5,433
Credit impairment charge	**(2,337)**	**272**	**2,206**	**5,292**	**5,433**
Write-offs	-	-	(1,465)	(2,071)	(3,536)
Impairment allowance as at 31 December 2022	**17,016**	**1,169**	**5,686**	**18,222**	**42,093**
Residential					
Impairment allowance as at 30 June 2022	**115**	**-**	**-**	**-**	**115**
Changes in loss allowance					
Transfer between stages	-	-	-	-	-
New and increased provision (net of provision releases)	8	-	-	-	8
Credit impairment charge	**8**	**-**	**-**	**-**	**8**
Write-offs	-	-	-	-	-
Impairment allowance as at 31 December 2022	**123**	**-**	**-**	**-**	**123**
All Other					
Impairment allowance as at 30 June 2022	**(267)**	**966**	**9,417**	**-**	**10,116**
Changes in loss allowance					
Transfer between stages	(234)	(950)	1,184	-	-
New and increased provision (net of provision releases)	1,379	1,059	2,275	-	4,713
Credit impairment charge	**1,145**	**109**	**3,459**	**-**	**4,713**
Write-offs	-	-	(4,650)	-	(4,650)
Impairment allowance as at 31 December 2022	**878**	**1,075**	**8,226**	**-**	**10,179**

14 Asset quality (continued)

(d) Provision for impairment (continued)

$000's	12 Months ECL	Lifetime ECL Not Credit Impaired	Lifetime ECL Credit Impaired	Specific Provision	Total
Unaudited - December 2022					
Total					
Impairment allowance as at 30 June 2022	**19,201**	**1,863**	**14,362**	**15,001**	**50,427**
Changes in loss allowance					
Transfer between stages	(3,934)	(1,945)	1,921	3,958	-
New and increased provision (net of provision releases)	2,750	2,326	3,744	1,334	10,154
Credit impairment charge	**(1,184)**	**381**	**5,665**	**5,292**	**10,154**
Write-offs	-	-	(6,115)	(2,071)	(8,186)
Impairment allowance as at 31 December 2022	**18,017**	**2,244**	**13,912**	**18,222**	**52,395**

$000's	12 Months ECL	Lifetime ECL Not Credit Impaired	Lifetime ECL Credit Impaired	Specific Provision	Total
Unaudited - December 2021					
Corporate					
Impairment allowance as at 30 June 2021	**16,586**	**1,218**	**4,844**	**7,629**	**30,277**
Changes in loss allowance					
Transfer between stages	(2,196)	(454)	(60)	2,710	-
New and increased provision (net of provision releases)	(137)	90	2,021	3,555	5,529
Credit impairment charge	**(2,333)**	**(364)**	**1,961**	**6,265**	**5,529**
Write-offs	-	-	(2,076)	(1,219)	(3,295)
Impairment allowance as at 31 December 2021	**14,253**	**854**	**4,729**	**12,675**	**32,511**
Residential					
Impairment allowance as at 30 June 2021	**88**	**-**	**-**	**-**	**88**
Changes in loss allowance					
Transfer between stages	-	-	-	-	-
New and increased provision (net of provision releases)	-	-	-	-	-
Credit impairment charge	**-**	**-**	**-**	**-**	**-**
Write-offs	-	-	-	-	-
Impairment allowance as at 31 December 2021	**88**	**-**	**-**	**-**	**88**

14 Asset quality (continued)

(d) Provision for impairment (continued)

$000's	12 Months ECL	Lifetime ECL Not Credit Impaired	Lifetime ECL Credit Impaired	Specific Provision	Total
Unaudited - December 2021					
All Other					
Impairment allowance as at 30 June 2021	**7,758**	**1,138**	**11,787**	**-**	**20,683**
Changes in loss allowance					
Transfer between stages	(84)	(659)	742	1	-
New and increased provision (net of provision releases)	(256)	348	4,184	-	4,276
Credit impairment charge	**(340)**	**(311)**	**4,926**	**1**	**4,276**
Write-offs	-	-	(6,345)	-	(6,345)
Impairment allowance as at 31 December 2021	**7,418**	**827**	**10,368**	**1**	**18,614**
Total					
Impairment allowance as at 30 June 2021	**24,432**	**2,356**	**16,631**	**7,629**	**51,048**
Changes in loss allowance					
Transfer between stages	(2,280)	(1,113)	682	2,711	-
New and increased provision (net of provision releases)	(392)	437	6,205	3,555	9,805
Credit impairment charge	**(2,672)**	**(676)**	**6,887**	**6,266**	**9,805**
Write-offs	-	-	(8,421)	(1,219)	(9,640)
Impairment allowance as at 31 December 2021	**21,760**	**1,680**	**15,097**	**12,676**	**51,213**

$000's	12 Months ECL	Lifetime ECL Not Credit Impaired	Lifetime ECL Credit Impaired	Specific Provision	Total
Audited - June 2022					
Corporate					
Impairment allowance as at 30 June 2021	**16,586**	**1,218**	**4,844**	**7,629**	**30,277**
Changes in loss allowance					
Transfer between stages	(3,614)	(1,060)	(601)	5,275	-
New and increased provision (net of provision releases)	6,381	739	4,164	5,507	16,791
Credit impairment charge	**2,767**	**(321)**	**3,563**	**10,782**	**16,791**
Write-offs	-	-	(3,462)	(3,410)	(6,872)
Impairment allowance as at 30 June 2022	**19,353**	**897**	**4,945**	**15,001**	**40,196**

14 Asset quality (continued)

(d) Provision for impairment (continued)

$000's	12 Months ECL	Lifetime ECL Not Credit Impaired	Lifetime ECL Credit Impaired	Specific Provision	Total
Audited - June 2022					
Residential					
Impairment allowance as at 30 June 2021	**88**	**-**	**-**	**-**	**88**
Changes in loss allowance					
Transfer between stages	-	-	-	-	-
New and increased provision (net of provision releases)	27	-	-	-	27
Credit impairment charge	**27**	**-**	**-**	**-**	**27**
Write-offs	-	-	-	-	-
Impairment allowance as at 30 June 2022	**115**	**-**	**-**	-	**115**
All Other					
Impairment allowance as at 30 June 2021	**7,758**	**1,138**	**11,787**	**-**	**20,683**
Changes in loss allowance					
Transfer between stages	(192)	(1,440)	1,632	-	-
New and increased provision (net of provision releases)	(7,833)	1,268	7,194	-	629
Credit impairment charge	**(8,025)**	**(172)**	**8,826**	**-**	**629**
Recovery of amounts previously written off	-	-	-	-	-
Write-offs	-	-	(11,196)	-	(11,196)
Impairment allowance as at 30 June 2022	**(267)**	**966**	**9,417**	**-**	**10,116**
Total					
Impairment allowance as at 30 June 2021	**24,432**	**2,356**	**16,631**	**7,629**	**51,048**
Changes in loss allowance					
Transfer between stages	(3,806)	(2,500)	1,031	5,275	-
New and increased provision (net of provision releases)	(1,425)	2,007	11,358	5,507	17,447
Credit impairment charge	**(5,231)**	**(493)**	**12,389**	**10,782**	**17,447**
Write-offs	-	-	(14,658)	(3,410)	(18,068)
Impairment allowance as at 30 June 2022	**19,201**	**1,863**	**14,362**	**15,001**	**50,427**

14 Asset quality (continued)

(e) Other assets under administration

Other assets under administration are any loans, not being individually impaired or 90 days or more past due, where the customer is in any form of voluntary or involuntary administration, including receivership, liquidation, bankruptcy or statutory management. As at 31 December 2022, the Banking Group had $2.3 million assets under administration (December 2021: $1.0 million, June 2022: $1.0 million).

15 Liquidity risk

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

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

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

$000's	Unaudited December 2022	Unaudited December 2021	Audited June 2022
Cash and cash equivalents	296,551	137,937	221,469
Investments	269,293	295,813	274,211
Undrawn committed bank facilities	208,909	165,261	132,221
Total liquid assets and committed undrawn bank facilities	**774,753**	**599,011**	**627,901**

Contractual liquidity profile of financial liabilities

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

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

15 Liquidity risk (continued)

Contractual liquidity profile of financial liabilities (continued)

$000's	On Demand	0-6 Months	6-12 Months	1-2 Years	2-5 Years	5+ Years	Total
Unaudited - December 2022							
Non-derivative financial liabilities							
Deposits	807,429	2,369,117	837,546	86,351	35,931	-	4,136,374
Other borrowings	-	217,913	7,998	324,826	-	-	550,737
Lease liabilities	-	1,346	1,356	2,669	6,862	3,827	16,060
Other financial liabilities	-	51,299	-	-	-	-	51,299
Total non-derivative financial liabilities	**807,429**	**2,639,675**	**846,900**	**413,846**	**42,793**	**3,827**	**4,754,470**
Derivative financial liabilities							
Inflows from derivatives	-	2,121	2,268	3,221	1,965	-	9,575
Outflows from derivatives	-	3,751	4,687	5,509	2,577	-	16,524
Total derivative financial liabilities	**-**	**1,630**	**2,419**	**2,288**	**612**	**-**	**6,949**
Undrawn facilities available to customers	310,389	-	-	-	-	-	310,389
Unaudited - December 2021							
Non-derivative financial liabilities							
Deposits	851,280	1,776,648	568,895	105,741	54,417	-	3,356,981
Other borrowings	-	118,017	156,616	242,902	126,252	-	643,787
Due to related parties	-	688	-	-	-	-	688
Lease liabilities	-	1,320	1,327	2,685	7,320	5,990	18,642
Other financial liabilities	-	27,670	-	-	-	-	27,670
Total non-derivative financial liabilities	**851,280**	**1,924,343**	**726,838**	**351,328**	**187,989**	**5,990**	**4,047,768**
Derivative financial liabilities							
Inflows from derivatives	-	3,277	4,065	6,936	5,303	-	19,581
Outflows from derivatives	-	5,206	4,222	7,396	5,107	-	21,931
Total derivative financial liabilities	**-**	**1,929**	**157**	**460**	**(196)**	**-**	**2,350**
Undrawn facilities available to customers	254,174	-	-	-	-	-	254,174

15 Liquidity risk (continued)

Contractual liquidity profile of financial liabilities (continued)

$000's	On Demand	0-6 Months	6-12 Months	1-2 Years	2-5 Years	5+ Years	Total
Audited - June 2022							
Non-derivative financial liabilities							
Deposits	892,612	2,028,225	561,468	103,192	41,655	-	3,627,152
Other borrowings	-	368,926	7,251	397,859	-	-	774,036
Due to related parties	-	1,535	-	-	-	-	1,535
Lease liabilities	-	1,282	1,292	2,615	6,985	4,911	17,085
Other financial liabilities	-	47,510	-	-	-	-	47,510
Total non-derivatives financial liabilities	**892,612**	**2,447,478**	**570,011**	**503,666**	**48,640**	**4,911**	**4,467,318**
Derivative financial liabilities							
Inflows from derivatives	-	5,007	1,759	3,505	813	-	11,084
Outflows from derivatives	-	3,893	3,227	6,621	839	-	14,580
Total derivative financial liabilities	**-**	**(1,114)**	**1,468**	**3,116**	**26**	**-**	**3,496**
Undrawn facilities available to customers	272,735	-	-	-	-	-	272,735

16 Interest rate risk

Contractual repricing analysis

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

$000's	0-3 Months	3-6 Months	6-12 Months	1-2 Years	2+ Years	Non-Interest Bearing	Total
Unaudited - December 2022							
Financial assets							
Cash and cash equivalents	296,541	-	-	-	-	10	296,551
Investments	30,308	20,862	53,883	56,209	108,031	1,630	270,923
Finance receivables	1,655,587	180,941	371,333	680,717	890,574	73,384	3,852,536
Finance receivables - reverse mortgages	808,701	-	-	-	-	-	808,701
Due from related parties	-	-	-	-	-	548	548
Derivative financial assets	-	-	-	-	-	50,729	50,729
Other financial assets	-	-	-	-	-	1,606	1,606
Total financial assets	**2,791,137**	**201,803**	**425,216**	**736,926**	**998,605**	**127,907**	**5,281,594**
Financial liabilities							
Deposits	2,381,738	743,604	805,089	81,738	31,887	33,609	4,077,665
Other borrowings	98,147	107,343	-	120,374	-	1,689	327,553
Securitised borrowings	191,091	-	-	-	-	-	191,091
Derivative financial liabilities	-	-	-	-	-	10,403	10,403
Lease liabilities	-	-	-	-	-	14,615	14,615
Other financial liabilities	-	-	-	-	-	51,299	51,299
Total financial liabilities	**2,670,976**	**850,947**	**805,089**	**202,112**	**31,887**	**111,615**	**4,672,626**
Effect of derivatives held for risk management	1,011,804	(41,932)	(176,843)	(349,844)	(443,185)	-	-
Net financial assets/(liabilities)	**1,131,965**	**(691,076)**	**(556,716)**	**184,970**	**523,533**	**16,292**	**608,968**
Unaudited - December 2021							
Financial assets							
Cash and cash equivalents	137,936	-	-	-	-	1	137,937
Investments	22,884	1,101	-	120,826	151,003	1,502	297,316
Finance receivables	1,592,561	163,419	307,064	495,447	840,205	71,307	3,470,003
Finance receivables - reverse mortgages	648,865	-	-	-	-	-	648,865
Due from related parties	-	-	-	-	-	1,345	1,345
Derivative financial assets	-	-	-	-	-	21,540	21,540
Other financial assets	-	-	-	-	-	2,282	2,282
Total financial assets	**2,402,246**	**164,520**	**307,064**	**616,273**	**991,208**	**97,977**	**4,579,288**
Financial liabilities							
Deposits	1,874,853	730,076	561,848	102,537	50,654	16,541	3,336,509
Other borrowings	286,552	60,714	151,260	-	123,810	-	622,336
Derivative financial liabilities	-	-	-	-	-	3,400	3,400
Due to related parties	-	-	-	-	-	688	688
Lease liabilities	-	-	-	-	-	16,703	16,703
Other financial liabilities	-	-	-	-	-	27,670	27,670
Total financial liabilities	**2,161,405**	**790,790**	**713,108**	**102,537**	**174,464**	**65,002**	**4,007,306**
Effect of derivatives held for risk management	669,798	(67,794)	(8,974)	(295,757)	(297,273)	-	-
Net financial assets/(liabilities)	**910,639**	**(694,064)**	**(415,018)**	**217,979**	**519,471**	**32,975**	**571,982**

16 Interest rate risk (continued)

Contractual repricing analysis (continued)

$000's	0-3 Months	3-6 Months	6-12 Months	1-2 Years	2+ Years	Non-Interest Bearing	Total
Audited - June 2022							
Financial assets							
Cash and cash equivalents	221,460	-	-	-	-	9	221,469
Investments	1,568	854	51,144	91,974	128,672	1,502	275,714
Finance receivables	1,730,148	178,756	323,766	558,256	910,399	60,906	3,762,231
Finance receivables - reverse mortgages	721,264	-	-	-	-	-	721,264
Due from related parties	-	-	-	-	-	1,540	1,540
Derivative financial assets	-	-	-	-	-	44,487	44,487
Other financial assets	-	-	-	-	-	175	175
Total financial assets	**2,674,440**	**179,610**	**374,910**	**650,230**	**1,039,071**	**108,619**	**5,026,880**
Financial liabilities							
Deposits	2,194,973	684,378	546,718	99,196	38,325	33,554	3,597,144
Other borrowings	548,488	78,911	-	121,191	-	888	749,478
Derivative financial liabilities	-	-	-	-	-	6,335	6,335
Due to related parties	-	-	-	-	-	1,535	1,535
Lease liabilities	-	-	-	-	-	15,726	15,726
Other financial liabilities	-	-	-	-	-	47,510	47,510
Total financial liabilities	**2,743,461**	**763,289**	**546,718**	**220,387**	**38,325**	**105,548**	**4,417,728**
Effect of derivatives held for risk management	986,194	(76,349)	(127,004)	(309,781)	(473,060)	-	-
Net financial assets/(liabilities)	**917,173**	**(660,028)**	**(298,812)**	**120,062**	**527,686**	**3,071**	**609,152**

17 Concentrations of funding

(a) Regulatory liquidity ratios

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

RBNZ requires banks to hold a minimum amount of funding from stable sources called core funding. The minimum amount of core funding is 75% of a bank's total loans. The Banking Group must maintain its core funding ratio above the regulatory minimum on a daily basis. The below measure of the core funding ratio is averaged over the quarter.

	Unaudited Average for the 3 Months Ended 31 December 2022	Unaudited Average for the 3 Months Ended 30 September 2022
One-week mismatch ratio	7.97	8.29
One-month mismatch ratio	7.56	7.04
Core funding ratio	90.36	89.12

(b) Concentration of funding by industry

$000's	Unaudited December 2022	Unaudited December 2021	Audited June 2022
Agriculture	120,145	102,123	113,848
Forestry and fishing	13,670	18,182	14,391
Mining	368	119	1,524
Manufacturing	18,105	14,645	18,643
Finance and insurance	927,300	842,073	960,175
Wholesale trade	6,281	10,354	5,854
Retail trade and accommodation	23,596	24,204	19,491
Households	3,142,298	2,474,259	2,754,452
Rental, hiring and real estate services	64,848	57,392	43,797
Construction	37,511	25,959	28,449
Other business services	76,177	61,446	66,731
Transport and storage	5,061	4,713	4,598
Other	40,575	45,417	41,686
	4,475,935	**3,680,886**	**4,073,639**
Unsubordinated Notes	120,374	277,959	272,983
Total borrowings	**4,596,309**	**3,958,845**	**4,346,622**

(c) Concentration of funding by geographical area

$000's	Unaudited December 2022	Unaudited December 2021	Audited June 2022
New Zealand	4,463,943	3,866,286	4,241,026
Overseas	132,366	92,559	105,596
Total borrowings	**4,596,309**	**3,958,845**	**4,346,622**

Other Disclosures

18 Structured entities

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

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

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

$000's	Unaudited December 2022	Unaudited December 2021	Audited June 2022
Deposits	188,421	151,830	149,824

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

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

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

$000's	Unaudited December 2022	Unaudited December 2021	Audited June 2022
Cash and cash equivalents	14,229	19,840	20,197
Finance receivables - motor	213,958	273,289	312,239
Other borrowings	(217,634)	(275,787)	(315,308)

19 Capital adequacy

The capital adequacy tables set out on the following pages summarise the composition of regulatory capital and the capital adequacy ratios for the Banking Group as at 31 December 2022.

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

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

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

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

19 Capital adequacy (continued)

(a) Capital

$000's	Unaudited December 2022
Tier 1 Capital	
CET1 capital	
Paid-up ordinary shares issued by the Banking Group plus related share premium	553,239
Retained earnings (net of appropriations)	155,338
Accumulated other comprehensive income and other disclosed reserves	14,511
Less deductions from CET1 capital	
Intangible assets	(61,719)
Deferred tax asset	(15,648)
Cash flow hedge reserve	(16,124)
Total CET1 capital	**629,597**
AT1 capital	-
Total Tier 1 capital	**629,597**
Tier 2 capital	-
Total Tier 2 capital	-
Total capital	**629,597**

(b) Capital structure

The following details summarise each instrument included within Total Capital. None of these instruments are subject to phase-out from eligibility as capital under the RBNZ's BPR110 Capital Definitions transitional arrangements.

Ordinary shares

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

Retained earnings

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

Reserves classified as CET1 capital

Fair value reserve	The debt instrument fair value reserve comprises the changes in the fair value of investments, net of tax.
Cash flow hedge reserve	The hedging reserve comprises the fair value gains and losses associated with the effective portion of designated cash flow hedging instruments.

19 Capital adequacy (continued)

(c) Credit risk

On balance sheet exposures

	Total Exposure After Credit Risk Mitigation $000's	Risk Weight %	Risk Weighted Exposure $000's	Minimum Pillar 1 Capital Requirement $000's
Unaudited - December 2022				
Multilateral development banks	113,419	0%	-	-
Multilateral development banks	92,881	20%	18,576	1,486
Banks - Short term - Tier 1	-	20%	-	-
Banks - Short term - Tier 2	296,551	20%	59,310	4,745
Banks - Short term - Tier 3	-	20%	-	-
Banks - Long term - Tier 1	-	20%	-	-
Banks - Long term - Tier 2	48,329	50%	24,164	1,933
Banks - Long term - Tier 3	1	50%	-	-
Public sector entity (AA- and above)	14,665	20%	2,933	235
Public sector entity (A- and above)	-	50%	-	-
Public sector entity (BBB+, BBB, BBB-)	-	100%	-	-
Corporates (AA- and above)	-	20%	-	-
Corporates (A- and above)	-	50%	-	-
Corporates (BBB- and above)	-	100%	-	-
Corporate Exposures - BFGS	48,458	20%	9,692	775
Corporate Exposures - unrated	2,036,664	100%	2,036,664	162,933
Welcome Home Loans - loan to value ratio (LVR) <= 80%[1]	1,387	35%	485	39
Welcome Home Loans - loan to value ratio (LVR) <= 90%[1]	-	35%	-	-
Welcome Home Loans - LVR 90% >= 100%[1]	-	50%	-	-
Welcome Home Loans - LVR > 100%[1]	-	100%	-	-
Reverse Residential mortgages <= 60% LVR	805,100	50%	402,550	32,204
Reverse Residential mortgages 60 <= 80% LVR	3,601	80%	2,880	230
Reverse Residential mortgages > 80% LVR	-	100%	-	-
Reverse Residential mortgages > 100% LVR	-	100%	-	-
Non Property Investment Mortgage Loan <=80% LVR	307,740	35%	107,709	8,617
Non Property Investment Mortgage Loan 80 <= 90% LVR	-	50%	-	-
Non Property Investment Mortgage Loan 90 <= 100% LVR	538	75%	404	32
Non Property Investment Mortgage Loan > 100% LVR	-	100%	-	-
Property Investment Mortgage Loan <= 80% LVR	1,686	40%	674	54
Property Investment Mortgage Loan 80 <= 90% LVR	-	70%	-	-
Property Investment Mortgage Loan 90 <= 100% LVR	-	90%	-	-
Property Investment Mortgage Loan < 100% LVR	-	100%	-	-
Past due residential mortgages	350	100%	350	28
Other past due assets - provision >= 20%	42,548	100%	42,548	3,404
Other past due assets - provision < 20%	46,761	150%	70,141	5,611
Equity holdings	-	300%	-	-
All other equity holdings	1,615	400%	6,460	517
Fixed Assets	6,551	100%	6,551	524
Leased Assets	12,602	100%	12,602	1,008
Other assets	1,399,918	100%	1,399,918	111,993
Not risk weighted assets	77,367	0%	-	-
Total on balance sheet exposures	**5,358,732**		**4,204,611**	**336,368**

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

19 Capital adequacy (continued)

(c) Credit risk (continued)

Off balance sheet exposures

	Total Exposure $000's	Credit Conversion Factor %	Credit Equivalent Amount $000's	Average Risk Weight %	Risk Weighted Exposure $000's	Minimum Pillar 1 Capital Requirement $000's
Unaudited - December 2022						
Direct credit substitute	942	100%	942	100%	942	75
Performance-related contingency	4,988	50%	2,494	100%	2,494	200
Other commitments where original maturity is more than one year	196,858	50%	98,429	100%	98,429	7,874
Other commitments where original maturity is more than one year	33,189	50%	16,595	35%	5,808	465
Other commitments where original maturity is less than or equal to one year	60,005	20%	12,001	100%	12,001	960
Other commitments where original maturity is less than or equal to one year	44,918	20%	8,984	50%	4,492	359
Other commitments where original maturity is less than or equal to one year	426	20%	85	35%	30	2
Counterparty credit risk[1]						
Interest rate contracts	1,335,876	n/a	45,566	33%	14,839	1,187
FX forward contracts	-	n/a	-	0%	-	-
Credit valuation adjustment	-		-		13,724	1,098
Total off balance sheet exposures	**1,677,202**		**185,096**		**152,759**	**12,220**

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

(d) Additional mortgage information – LVR range

$000's	On Balance Sheet Exposures	Off Balance Sheet Exposures[1]	Total Exposures
Unaudited - December 2022			
Does not exceed 80%	1,119,514	78,533	1,198,047
Exceeds 80% and not 90%	-	-	-
Exceeds 90%	888	-	888
Total exposures	**1,120,402**	**78,533**	**1,198,935**

[1] Off balance sheet exposures means unutilised limits.

At 31 December 2022, there were no Welcome Home loans whose credit risk is mitigated by the Crown included in "Exceeds 90% residential mortgages". Other loans in the exceeds 90% LVR range is primarily business and rural lending where residential mortgage security is only a part of the total security. For capital adequacy calculations only the value of the first mortgages over residential property is included in the LVR calculation, in accordance with BPR131. All new residential mortgages in respect of non-property investments lending have a loan-to-valuation ratio of less than or equal to 80%.

19 Capital adequacy (continued)

(e) Reconciliation of mortgage related amounts

$000's	Note	Unaudited December 2022
Gross finance receivables - reverse mortgages	7(b)	808,701
Loans and advances - loans with residential mortgages		311,824
On balance sheet residential mortgage exposures subject to the standardised approach	14(a)	**1,120,525**
Less: collective provision for impairment	14(a)	(123)
On balance sheet residential mortgage exposures after collective provision	19(d)	**1,120,402**
Off balance sheet mortgage exposures subject to the standardised approach	19(d)	78,533
Total residential exposures subject to the standardised approach	19(d)	**1,198,935**

(f) Credit risk mitigation

As at 31 December 2022 the Banking Group had $1.4 million of Welcome Home Loans, whose credit risk was mitigated by the Crown. Other than this the Banking Group does not have any exposures covered by eligible collateral, guarantees and credit derivatives.

(g) Operational risk

$000's	Implied Risk Weight Exposure	Total Operational Risk Capital Requirement
Unaudited - December 2022		
Operational risk	288,949	23,116

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

(h) Market risk

$000's	Implied Risk Weighted Exposure	Aggregate Capital Charge
Unaudited - December 2022		
Market risk end-of-period capital charge		
Equity risk	1,615	129
Interest rate risk	140,542	11,243
Foreign currency risk	128	10
Market risk peak end-of-period capital charge		
Equity risk	1,615	129
Interest rate risk	159,841	12,787
Foreign currency risk	292	23

The Banking Group’s aggregate market exposure is derived in accordance with BPR140. Peak end-of-day capital charge disclosure is derived by taking the highest month end market exposure over the six months ended 31 December 2022. Interest rate risk, foreign exchange risk and equity risk are calculated monthly using the month end position. While the Banking Group views this methodology as being materially correct, it is currently investigating the impact a daily aggregate market risk exposure would have for future reporting periods.

19 Capital adequacy (continued)

(i) Total capital requirement

$000's	Total Exposure After Credit Risk Mitigation	Risk Weighted Exposure or Implied Risk Weighted Exposure	Total Capital Requirement
Unaudited - December 2022			
Total credit risk			
On balance sheet	5,358,732	4,204,611	336,368
Off balance sheet	1,677,202	152,759	12,220
Operational risk	n/a	288,949	23,116
Market risk	n/a	142,285	11,382
Total	**7,035,934**	**4,788,604**	**383,086**

(j) Capital ratios

%	Unaudited December 2022	Unaudited December 2021
Capital ratios compared to minimum ratio requirements		
Common Equity Tier 1 Capital expressed as a percentage of total risk weighted exposures	13.15%	13.98%
Minimum Common Equity Tier 1 Capital as per Conditions of Registration	4.50%	4.50%
Tier 1 Capital expressed as a percentage of total risk weighted exposures	13.15%	13.98%
Minimum Tier 1 Capital as per Conditions of Registration	6.00%	6.00%
Total Capital expressed as a percentage of total risk weighted exposures	13.15%	13.98%
Minimum Total Capital as per Conditions of Registration	8.00%	8.00%
Buffer ratio		
Buffer ratio	5.15%	5.98%
Buffer trigger ratio	2.50%	2.50%

(k) Solo capital adequacy

%	Unaudited December 2022	Unaudited December 2021
Capital ratios compared to minimum ratio requirements		
Common Equity Tier 1 Capital expressed as a percentage of total risk weighted exposures	13.72%	14.80%
Tier 1 Capital expressed as a percentage of total risk weighted exposures	13.72%	14.80%
Total Capital expressed as a percentage of total risk weighted exposures	13.72%	14.80%

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

(l) Capital for other material risks

In addition to the material risks included in the calculation of the capital ratios, the Banking Group has identified other material risks to be included in the capital allocation (being strategic/business risk, regulatory and additional credit risk). As at 31 December 2022, the Banking Group has made an internal capital allocation of $9.4 million to cover these risks (December 2021: $9.1 million; June 2022: $8.4 million).

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

Insurance business

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

The Banking Group's aggregate amount of insurance business comprises the total consolidated assets of MIL of $7.3 million (December 2021: $8.3 million; June 2022: $7.4 million), which represents 0.14% of the total consolidated assets of the Banking Group (December 2021: 0.18%; June 2022: 0.14%).

Securitisation, funds management and other fiduciary activities

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

Risk management

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

Provision of financial services and asset purchases

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

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

21 Contingent liabilities and commitments

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

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

$000's	**Unaudited December 2022**	**Unaudited December 2021**	**Audited June 2022**
Letters of credit, guarantee commitments and performance bonds	5,931	7,217	8,969
Total contingent liabilities	**5,931**	**7,217**	**8,969**
Undrawn facilities available to customers	310,389	254,174	272,735
Conditional commitments to fund at future dates	25,007	21,646	34,791
Total commitments	**335,396**	**275,820**	**307,526**

22 Events after reporting date

Severe weather events across the North Island of New Zealand

Subsequent to the reporting period, severe weather events, including flooding in Auckland and Cyclone Gabrielle, have impacted regions across the North Island of New Zealand. These events have had a devastating effect on individuals and businesses, particularly in Northland, Auckland, Hawke's Bay and Tairawhiti regions.

In both events, the Bank implemented a targeted call programme to customers in affected areas, or areas of high risk. This is an ongoing process as the situation evolves and the nature and extent of the damage is understood by customers. The Bank has been working with customers to provide support as they need it. Support has included deferred loan repayments, interest only payments, additional funding or other solutions determined on a case-by-case basis.

Fortunately, the Banking Group's exposure to flooded properties in Auckland, and to the areas most heavily impacted by Cyclone Gabrielle is limited. The Bank will continue to support its Auckland-based customers, as well as its rural, livestock, forestry and transportation customers on the East Coast, and in the months ahead. However, at the date the consolidated financial statements were signed, the Bank does not consider there to be a material risk to the business from either event.

Proposed unsecured notes issuance

The Bank is considering making an offer of up to $75 million (with the right to accept oversubscriptions of up to an additional $50 million at the Bank's discretion) of unsecured notes to New Zealand investors and certain overseas institutional investors. The unsecured notes are expected to constitute Tier 2 Capital for the Bank's regulatory capital requirements.

Dividends

The Bank resolved to pay a cash dividend to its parent company HGH of $30 million on its ordinary shares on 27 February 2023.

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

Conditions of Registration

As at 31 December 2022, there have been no changes to the Conditions of Registration.

Other Material Matters

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

Independent auditor's review report

To the shareholder of Heartland Bank Limited

Report on the Consolidated Interim Financial Statements and the Supplementary Information (excluding the information relating to capital adequacy and regulatory liquidity requirements disclosed in accordance with Schedule 9)

Our conclusion

We have reviewed the consolidated interim financial statements (the "Financial Statements") for the six month period ended 31 December 2022 of Heartland Bank Limited (the "Bank") and the entities it controlled at 31 December 2022 or from time to time during the period (together, the "Banking Group") as required by clause 25 of the Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order 2014 (as amended) (the "Order") and the supplementary information disclosed in accordance with Schedules 5, 7, 13, 16 and 18 of the Order (the "Supplementary Information"), excluding the information relating to capital adequacy and regulatory liquidity requirements disclosed in accordance with Schedule 9 of the Order contained in the half year disclosure statement (the "Disclosure Statement").

The Financial Statements comprise the consolidated interim statement of financial position as at 31 December 2022, the related consolidated interim statement of comprehensive income, consolidated interim statement of changes in equity and consolidated interim statement of cash flows for the six month period then ended and explanatory notes.

Based on our review, nothing has come to our attention that causes us to believe that the accompanying:

- Financial Statements have not been prepared, in all material respects, in accordance with New Zealand Equivalent to International Accounting Standard 34 *Interim Financial Reporting* ("NZ IAS 34") and International Accounting Standard 34 *Interim Financial Reporting* ("IAS 34"); and
- Supplementary Information that is required to be disclosed in accordance with Schedules 5, 7, 13, 16 and 18 of the Order:
  - does not present fairly, in all material respects, the matters to which it relates; or
  - is not disclosed, in all material respects, in accordance with those schedules; or
  - has not been prepared, in all material respects, in accordance with any conditions of registration relating to disclosure requirements imposed under section 74(4)(c) of the Banking (Prudential Supervision) Act 1989.

Basis for conclusion

We conducted our review in accordance with the New Zealand Standard on Review Engagements 2410 (Revised) *Review of Financial Statements Performed by the Independent Auditor of the Entity* ("NZ SRE 2410 (Revised)"). Our responsibilities are further described in the *Auditor's responsibilities for the review of the Financial Statements and Supplementary Information* section of our report.

We are independent of the Banking Group in accordance with the relevant ethical requirements in New Zealand relating to the audit of the annual financial statements, and we have fulfilled our other ethical responsibilities in accordance with these ethical requirements. In addition to our role as auditor, our firm carried out an actuarial service in respect of reverse mortgages for the Banking Group. In addition, certain partners and employees of our firm may deal with the Banking Group on normal terms within the ordinary course of trading activities of the Banking Group. These matters have not impaired our independence.

Responsibilities of the Directors for the Disclosure Statement

The Directors are responsible, on behalf of the Bank, for the preparation and fair presentation of the Financial Statements in accordance with clause 25 of the Order, NZ IAS 34 and IAS 34 and for such internal control as the Directors determine is necessary to enable the preparation of the Financial Statements that are free from material misstatement, whether due to fraud or error.

In addition, the Directors are responsible, on behalf of the Bank, for the preparation and fair presentation of the Disclosure Statement which includes:

- all of the information prescribed in Schedule 3 of the Order; and
- the information prescribed in Schedules 5, 7, 13, 16 and 18 of the Order.

Auditor’s responsibilities for the review of the Financial Statements and Supplementary Information

Our responsibility is to express a conclusion on the Financial Statements and Supplementary Information based on our review. NZ SRE 2410 (Revised) requires us to conclude whether anything has come to our attention that causes us to believe that the:

- Financial Statements, taken as a whole, have not been prepared, in all material respects, in accordance with NZ IAS 34 and IAS 34; and
- Supplementary Information that is required to be disclosed in accordance with Schedules 5, 7, 13, 16 and 18 of the Order:
  - does not present fairly, in all material respects, the matters to which it relates; or
  - is not disclosed, in all material respects, in accordance with those schedules; or
  - has not been prepared, in all material respects, in accordance with any conditions of registration relating to disclosure requirements imposed under section 74(4)(c) of the Banking (Prudential Supervision) Act 1989.

A review in accordance with NZ SRE 2410 (Revised) is a limited assurance engagement. We perform procedures, consisting of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. The procedures performed in a review are substantially less than those performed in an audit conducted in accordance with International Standards on Auditing (New Zealand) and International Standards on Auditing and consequently do not enable us to obtain assurance that we might identify in an audit. Accordingly, we do not express an audit opinion on the Financial Statements and Supplementary Information.

Who we report to

This report is made solely to the Bank’s shareholder. Our review work has been undertaken so that we might state those matters which we are required to state to them in our review report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Bank’s shareholder for our review procedures, for this report, or for the conclusions we have formed.

The engagement partner on the review resulting in this independent auditor’s review report is Karen Shires.

For and on behalf of:

PricewaterhouseCoopers

Chartered Accountants
27 February 2023

Auckland

Independent Assurance Report

To the shareholder of Heartland Bank Limited

Limited assurance report on compliance with the information required on capital adequacy and regulatory liquidity requirements

Our conclusion

We have undertaken a limited assurance engagement on Heartland Bank Limited's (the "Bank") compliance, in all material respects, with clause 22 of the Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order 2014 (as amended) (the "Order") which requires information prescribed in Schedule 9 of the Order relating to capital adequacy and regulatory liquidity requirements to be disclosed in its half year Disclosure Statement for the six month period ended 31 December 2022 (the "Disclosure Statement").

Based on the procedures we have performed and the evidence we have obtained, nothing has come to our attention that causes us to believe that the Bank's information relating to capital adequacy and regulatory liquidity requirements, included in the Disclosure Statement in compliance with clause 22 of the Order and disclosed in notes 17(a) and 19, is not, in all material respects, disclosed in accordance with Schedule 9 of the Order.

Basis for conclusion

We have conducted our engagement in accordance with Standard on Assurance Engagements (SAE) 3100 (Revised) *Compliance Engagements* ("SAE 3100 (Revised)") issued by the New Zealand Auditing and Assurance Standards Board.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our conclusion.

Directors' responsibilities

The Directors are responsible on behalf of the Bank for compliance with the Order, including clause 22 of the Order which requires information relating to capital adequacy and regulatory liquidity requirements prescribed in Schedule 9 of the Order to be included in the Disclosure Statement, for the identification of risks that may threaten compliance with that clause, controls that would mitigate those risks and monitoring ongoing compliance.

Our independence and quality management

We have complied with the independence and other ethical requirements of 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, which is founded on the fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

We apply Professional and Ethical Standard 3 *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*, which requires our firm to design, implement and operate a system of quality management including policies or procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

We are independent of the Bank and the entities it controlled at 31 December 2022 or from time to time during the period (together, the "Banking Group"). Our firm carried out an actuarial service in respect of reverse mortgages for the Banking Group. In addition, certain partners and employees of our firm may deal with the Banking Group on normal terms within the ordinary course of trading activities of the Banking Group. These matters have not impaired our independence.

Assurance practitioner's responsibilities

Our responsibility is to express a limited assurance conclusion on whether the Bank's information relating to capital adequacy and regulatory liquidity requirements, included in the Disclosure Statement in compliance with clause 22 of the Order is not, in all material respects, disclosed in accordance with Schedule 9 of the Order. SAE 3100 (Revised) requires that we plan and perform our procedures to obtain limited assurance about whether anything has come to our attention that causes us to believe that the Bank's information relating to capital adequacy and regulatory liquidity requirements, included in the Disclosure Statement in compliance with clause 22 of the Order, is not, in all material respects, disclosed in accordance with Schedule 9 of the Order.

In a limited assurance engagement, the assurance practitioner performs procedures, primarily consisting of discussion and enquiries of management and others within the entity, as appropriate, and observation and walk-throughs, and evaluates the evidence obtained. The procedures selected depend on our judgement, including identifying areas where the risk of material non-compliance with clause 22 of the Order in respect of the information relating to capital adequacy and regulatory liquidity requirements is likely to arise.

Given the circumstances of the engagement we:

- obtained an understanding of the process, models, data and internal controls implemented over the preparation of the information relating to capital adequacy and regulatory liquidity requirements;
- obtained an understanding of the Bank's compliance framework and internal control environment to ensure the information relating to capital adequacy and regulatory liquidity requirements is in compliance with the Reserve Bank of New Zealand's (the "RBNZ") prudential requirements for banks;
- obtained an understanding and assessed the impact of any matters of non-compliance with the RBNZ's prudential requirements for banks that relate to capital adequacy and regulatory liquidity requirements and inspected relevant correspondence with the RBNZ;
- performed analytical and other procedures on the information relating to capital adequacy and regulatory liquidity requirements disclosed in accordance with Schedule 9 of the Order, and considered its consistency with the interim consolidated financial statements; and
- agreed the information relating to capital adequacy and regulatory liquidity requirements disclosed in accordance with Schedule 9 of the Order to information extracted from the Bank's models, accounting records or other supporting documentation.

The procedures performed in a limited assurance engagement vary in nature and timing from, and are less in extent than for, a reasonable assurance engagement and consequently the level of assurance obtained in a limited assurance engagement is substantially lower than the assurance that would have been obtained had a reasonable assurance engagement been performed. Accordingly, we do not express a reasonable assurance opinion on compliance with the compliance requirements.

Inherent limitations

Because of the inherent limitations of an assurance engagement, together with the internal control structure, it is possible that fraud, error or non-compliance with the compliance requirements may occur and not be detected.

A limited assurance engagement on the Bank's information relating to capital adequacy and regulatory liquidity requirements prescribed in Schedule 9 of the Order to be included in the Disclosure Statement in compliance with clause 22 of the Order does not provide assurance on whether compliance will continue in the future.

Use of report

This report has been prepared for use by the Bank's shareholder for the purpose of establishing that these compliance requirements have been met.

Our report should not be used for any other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility for any reliance on this report to anyone other than the Bank's shareholder, or for any purpose other than that for which it was prepared.

The engagement partner on the engagement resulting in this independent assurance report is Karen Shires.

PricewaterhouseCoopers

Chartered Accountants
27 February 2023

Auckland