NZX/ASX release
29 September 2023

Heartland publishes Annual Report and announces change to senior manager

Heartland Group Holdings Limited (**Heartland**) (**NZX/ASX: HGH**) has today published its Annual Report for the year ended 30 June 2023 (**FY2023**).

Heartland is pleased to release its Annual Report for FY2023. The Annual Report is available electronically from heartlandgroup.info, and will be sent to shareholders if requested. A copy is attached to this announcement.

Heartland announces new Chief Compliance & Sustainability Officer role

Heartland is also pleased to announce the appointment of Michael Drumm (currently Group Chief Operating Officer) to the new role of Chief Compliance & Sustainability Officer of Heartland Bank Limited (**Heartland Bank**) (**NZX: HBL**), with effect from 1 October 2023 (subject to Reserve Bank of New Zealand non-objection). Michael will cease to be a senior manager of Heartland on this date.

In this role, Michael will have responsibility for creating a dedicated regulatory affairs and compliance function within Heartland Bank, in recognition of the growing size and complexity of Heartland Bank's business and the regulatory environment in which it operates. He will also have responsibility for progressing the various initiatives within Heartland's sustainability framework – including embedding the incoming Climate-Related Disclosures regime.

– ENDS –

The person who authorised this announcement:

Leanne Lazarus
Chief Executive Officer, Heartland Bank

For further information and media enquiries, please contact:

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

Te Pūrongo ā-Tau
Annual Report 2023

HEARTLAND
GROUP

Te Rārangi Upoko
Contents

This Annual Report of Heartland Group Holdings Limited (**Heartland**) is dated 29 September 2023 and is signed on behalf of the Board of Directors by:

Gregory Tomlinson
Chair and Non-Executive Director

Jeffrey Greenslade
Chief Executive Officer (**CEO**) and Executive Director

01
YEAR IN REVIEW

He Hokinga Mahara ki a Geoff Ricketts

Remembering Geoff Ricketts

In March 2023, Heartland was deeply saddened by the passing of Geoff Ricketts, an esteemed leader who left behind an incredible legacy. As a founding Director, Geoff was pivotal in bringing Heartland together and guiding the business to become what it is today.

In a 2019 Heartland-recorded interview, Geoff described the formation of Heartland with his business partner Sir Christopher Mace. In 2007, before the global financial crisis (**GFC**), they took a shareholding in Southern Cross Building Society (**SCBS**) and Geoff soon became Chair.

"We saw an opportunity to establish a bank in New Zealand." While the building societies had lots of deposits, the banks were leading the market in forward mortgages. To establish a bank, they needed to identify a market in which they could compete for lending. "So, we looked at other alternatives."

As the GFC began to hit through 2007, a majority shareholder in Canterbury Building Society (**CBS**) put their shares (approximately 11%) on the market. These were purchased by SCBS, creating a relationship between the South Island and North Island building societies.

At that time, Jeff Greenslade, now CEO of Heartland, had become CEO of MARAC Finance. Geoff took the opportunity to suggest to Jeff that lending from deposits would be more sustainable than the wholesale funding MARAC Finance was leveraging. In 2011, CBS, SCBS and MARAC Finance merged to become Heartland New Zealand Limited (**HNZ**), and subsequently acquired PGG Wrightson Finance.

"It was difficult times in the GFC. In many ways the three parties were a coalition of the willing because they knew they were stronger together, and the best chance to get a banking licence was to put it all together and create the merger."

Geoff described the opportunity for Heartland was to not have a big branch network, to lend through intermediaries, offer products through digital platforms, and operate in markets not serviced by the big banks.

"And it worked." Heartland listed on the NZX and became a registered bank in 2012.

Geoff was appointed Chair of Heartland's Board in August 2013 and stood down as Chair on 20 February 2023 due to illness. He remained a valued Director until his passing on 10 March 2023.

In his time as Chair, HNZ evolved to become the Heartland it is today, now a trans-Tasman, dual-listed financial services company providing banking and financial services to more than 130,000 customers, with a market cap in excess of $1 billion.

Through his experience as Chair of Lion Nathan, Geoff was a strong advocate for Heartland's expansion into Australia. Since the 2014 acquisition of its reverse mortgage business, the Australian market has served Heartland well and continues to present significant opportunity for growth.

Geoff's contribution to Heartland extended well beyond strategic leadership and governance of the commercial business. A strong supporter of community and philanthropic activities, Geoff also chaired the Heartland Trust and was passionate about the opportunity to give back to the communities in which Heartland operated.

Geoff described Heartland's future as "strong and bright". "We will continue to operate in the asset space and differentiated markets from the [major] banks. We will continue to attract deposits readily... and we're becoming a digital bank, which is where the future is."

Jeff Greenslade, CEO, recalls Geoff's commitment to that future. "On multiple occasions he told me he would remain as Chair until Heartland's profit reached $100 million. He very nearly saw that transpire, and I think he would be proud of the growth we have achieved."

Geoff's legacy and vision for Heartland continues as a source of influence as the company embarks on the next phase of its growth journey. Watch the full interview with Geoff about the origins of Heartland and his vision for the future:

The Origins of Heartland, with Geoff Ricketts

(click or scan the code)

Te pūrongo a te kaiwhakahaere poari
Chair's report

Greg Tomlinson
Chair and Non-Executive Director

After the very sad passing of Geoff Ricketts, I am honoured to chair Heartland's Board. Heartland's performance for the financial year ended 30 June 2023 (FY2023) is one we believe Geoff would have been proud of.

On behalf of the Board, I am pleased to report that Heartland and its subsidiaries (the Group) achieved a net profit after tax (NPAT) of $95.9 million[1] for FY2023. This was an increase of $0.7 million (0.8%) compared with the financial year ended 30 June 2022 (FY2022)[2]. On an underlying[3] basis, FY2023 NPAT was $110.2 million, an increase of $14.1 million (14.6%) compared with the FY2022 underlying NPAT.

1 All figures in this Annual Report are in NZD unless otherwise stated.
2 All comparative results are based on the audited full year consolidated financial statements of the Group for FY2022.
3 Financial results are presented on a reported and underlying basis. Reported results are prepared in accordance with NZ GAAP and include the impacts of positive and negative one-offs, which can make it difficult to compare performance. Underlying results (which are non-GAAP financial information) exclude impacts of certain one-offs. This is intended to allow for easier comparability between periods, and is used internally by management for this purpose. Refer to '*Financial commentary*' on page 72 of this Annual Report for a summary of reported and underlying results. A detailed reconciliation between reported and underlying financial information, including details about FY2023 one-offs, is set out on page 42 of Heartland's FY2023 investor presentation available at heartlandgroup.info. General information about the use of non-GAAP financial measures is set out on page 4 and 38 of the FY2023 investor presentation.

Heartland's underlying results exclude the impacts of one-off and technical non-cash items such as fair value changes on equity investments, and the de-designation of derivatives. This is intended to allow for easier comparability between periods as these items are not considered part of business as usual activity and therefore are not representative of Heartland's core earnings.

Board and management updates

Sadly, in March 2023 Heartland mourned the loss of Geoff Ricketts, an exceptional Director and Chair. Geoff was a strong contributor, mentor and friend to the Heartland family. He was a truly remarkable leader, generous with his time and wisdom, and always leading from the front. As a founding director, Geoff's outstanding commitment to Heartland enabled the business to become the trans-Tasman financial services organisation it is today.

Previously Deputy Chair, I was appointed Chair by the Board when Geoff stood down as Chair on 20 February 2023 due to ill health.

On 1 August 2022, Leanne Lazarus joined Heartland Bank Limited (**Heartland Bank**) as CEO. Leanne joined Heartland from her role as CEO and Executive Director of Westpac Life Limited, Westpac New Zealand Limited's (**Westpac NZ**) insurance entity. Leanne has 30 years of global experience in banking and financial services, including having held a range of executive positions across Westpac NZ and the ANZ Banking Group.

Leanne's extensive experience in operations and technology has already made a positive contribution to advancing Heartland Bank's digitalisation strategy and commitment to enhancing frictionless service for customers.

Previous Heartland Bank CEO, Chris Flood, moved to the role of Deputy CEO of Heartland, taking responsibility for Heartland's growth across Australia, applying Heartland Bank's successful growth model to Heartland's Australian entities. In this position, Chris has played a key role in the proposed acquisition of Challenger Bank Limited (**Challenger Bank**) in Australia.[4]

During the year, Keira Billot moved from the role of Chief People & Brand Experience Officer, Heartland Bank, to the role of General Manager – Retail & Reverse Mortgages. Lana West's role of Group Chief People & Culture Officer, Heartland, expanded to include people and culture responsibilities across the Group. Heartland also recently welcomed to its management team, Phoebe Gibbons, General Counsel, Heartland.

I am pleased to announce two new roles: Chief Performance Officer and Chief Compliance & Sustainability Officer.

Aleisha Langdale, previously Head of Strategic Analysis & Execution has been appointed to the role of Chief Performance Officer, Heartland. In this role, Aleisha has responsibility for ensuring Heartland's product distribution and features are aligned to Heartland's strategic vision across New Zealand and Australia. This includes ensuring the effective execution of strategic initiatives to reduce friction for customers through automation.

Michael Drumm, currently Group Chief Operating Officer, Heartland, will be appointed to the role of Chief Compliance & Sustainability Officer, Heartland Bank, with effect from 1 October 2023.[5] Michael will have responsibility for creating a dedicated regulatory affairs and compliance function within Heartland Bank, in recognition of the growing size and complexity of Heartland's business and the regulatory environment in which it operates. He will also have responsibility for progressing the various initiatives within Heartland's sustainability framework – including embedding the incoming Climate-Related Disclosures regime.

Sustainability

Heartland's sustainability strategy continues to evolve as it matures. Its sustainability framework is built on three pillars: environment, people and financial wellbeing.

4 Subject to obtaining the requisite regulatory approvals.
5 Subject to Reserve Bank of New Zealand (**RBNZ**) approval.

Significant progress continued against each of these pillars in FY2023. Regarding environmental sustainability, Heartland developed an environmental risk screening tool to understand the sustainability of its larger business and rural borrowers in the credit decisioning process, which has now been embedded into operation with frontline employees.

Heartland was proud to continue its Manawa Ako internship programme. Since the programme began in 2017, more than 110 Māori and Pasifika interns have participated and provided valuable insight to enable Heartland to become a welcoming work environment to all cultures and ethnicities.

Funded through Heartland dividends, the Heartland Trust[6], was able to give more than $710,000 back to the New Zealand community through various community groups and organisations in FY2023.

Meanwhile, Heartland continued to offer competitive and flexible products to meet the needs of its customers – including enabling more than 48,000 New Zealanders and Australians to live a more comfortable life by releasing equity from their homes through a reverse mortgage.

Read more in the *Sustainability* section on page 29.

Regulatory update

Heartland continues to monitor and prepare for the significant volume of regulatory change in New Zealand.

In June 2023, it was announced that the Commerce Commission (**ComCom**) would conduct a market study into any factors that may affect competition for the supply or acquisition of personal banking services. A draft Preliminary Issues Paper for the market study was published on 10 August 2023 which sets out the context and proposed focus areas of the study. It is currently proposed that the study will focus on deposit accounts (transaction, savings, and term deposits, including overdraft facilities) and home loans. The ComCom is engaging with stakeholders and conducting information gathering, with a final report on its findings due 20 August 2024 which will include recommendations that identify ways to improve competition in the sector. Heartland Bank welcomes the opportunity to participate in the market study.

The Financial Markets (Conduct of Institutions) Amendment Act 2022 (**Conduct Act**) will come into force on 31 March 2025, following a transitional period. The Conduct Act applies to registered banks, licensed insurers and licensed non-bank deposit takers. 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 (including the prohibition of sales incentives based on volume or value targets). Heartland Bank is preparing for licensing and compliance with the Conduct Act.

The Deposit Takers Act (**DT Act**) received royal assent (and became law) on 6 July 2023. The DT Act strengthens the regulatory framework for all institutions that take deposits (including Heartland Bank) and introduces a new depositor compensation scheme (**DCS**), overseen by the RBNZ. Very little of the DT Act comes into force immediately, but Heartland Bank has begun considering the impact of the DT Act on its operations and is actively participating in submissions on the DCS and other regulations, guidance and prudential standards relating to the DT Act. The DT Act is expected to be fully in force by around 2028.

Initial changes to the Credit Contracts and Consumer Finance Act 2003 (**CCCFA**) came into force on 1 December 2021, with additional changes effective 7 July 2022. Heartland Bank implemented new processes and technologies to enable it to comply with these changes. Following the completion of the New Zealand Government's investigation into the impact of the December 2021

6 Heartland's registered charitable trust that is independent from, but closely supported by, Heartland.

changes, more amendments to the CCCFA came into force in May 2023. Heartland Bank has further amended its processes to reflect these most recent amendments. On 8 August 2023, the Government announced further changes to the CCCFA, including a wider review of the CCCFA with terms of reference to be announced in due course.

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. The Ministry of Business, Innovation and Employment recently consulted on an exposure draft of the Customer and Product Data Bill. A CDR in the banking sector (in other words, 'open banking') would allow customers to consent to share their banking data with third parties.

Continued preparation is underway to meet the Climate-Related Disclosures obligations introduced through the Financial Sector (Climate-Related Disclosures and Other Matters) Amendment Act 2021, with Heartland's first climate statement required as part of reporting for the financial year ending 30 June 2024 (**FY2024**).

In Australia, Heartland continues to monitor changes to Australian regulatory requirements for its existing businesses, and is preparing for the acquisition of Challenger Bank (subject to the requisite regulatory approvals), which is an Australian Prudential Regulation Authority (**APRA**) regulated authorised deposit-taking institution (**ADI**).

Dividend

The Board resolved to pay a fully imputed final dividend of 6.0 cents per share (**cps**) on Wednesday 20 September 2023 to all shareholders on Heartland's register at 5.00pm NZST on Wednesday 6 September 2023. Together with the interim dividend, the total FY2023 dividend was 11.5 cps (up 0.5 cps on FY2022). This represents a full year payout ratio of 85% which compares to the average over the last three years of 76%.

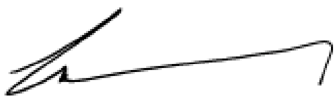
Outlook

The year ahead will be significant for Heartland as it seeks to complete the acquisition of Challenger Bank, subject to regulatory approval, and continues its commitment to digitalisation and frictionless service for customers.

FY2023 proved the resilience of Heartland's lending portfolio. With significant ambitions for the year ahead, the Board is confident in Heartland's ability to generate strong growth and profitability as it continues to deliver against its strategy to provide best or only products through scalable digital platforms.

Heartland expects NPAT for FY2024 to be within the guidance range of $116 million to $122 million, excluding any impacts of fair value changes on equity investments held, the impact of the de-designation of derivatives, and any costs related to the acquisition of Challenger Bank, which remains subject to regulatory approval. As the acquisition nears completion, guidance will be updated to reflect the impact of Challenger Bank becoming part of Heartland.

On behalf of the Board, I would like to take this opportunity to acknowledge the continued support of our shareholders. I would also like to thank Heartland's management team and its people for their resilience and customer commitment through another challenging year.



Greg Tomlinson
Chair of the Board

Te pūrongo a te kaiwhakahaere matua

CEO's report

Jeff Greenslade
CEO

FY2023 was marked with sadness for Heartland as we mourned the loss of our Chair, Geoff Ricketts, in March 2023. Geoff was a founding director of Heartland and played a significant role in shaping the organisation we have become. Geoff's strategic leadership, governance experience and wise advice to the Board and management are sorely missed.

E tohua ana te FY2023 hei tau hinapōuri i Heartland i te ngarohanga atu o tō tātou kaiwhakahaere matua, o Geoff Ricketts, i te Māehe 2023. Ko Geoff tētahi o ngā toihau nō te tīmatanga o Heartland, ka mutu, i tāpua tana mahi e hua mai ai te whakahaere e mōhiotia nei e tātou i ēnei rā nei. E ongeonge katoa ana i a Geoff me tana hautū whai rautaki, i ana wheako whakahaere, i ana kupu ārahi matatau anō hoki ki te Poari me ngā kaiwhakahaere.

1 Receivables include Reverse Mortgages.
2 Excludes the impact of changes in foreign currency exchange (**FX**) rates.
3 Underlying CTI ratio refers to the CTI ratio calculated using underlying results. When calculated using reported results, the CTI ratio was 44.9%, up 126 bps compared with FY2022. For more information, see page 4 of Heartland's FY2023 full year results investor presentation available at heartlandgroup.info.

Amidst a challenging economic background in New Zealand and Australia, Heartland achieved a pleasing result in FY2023. The FY2023 result was driven by growth in gross finance receivables (Receivables)[1] of 10.1% ($625.5 million)[2] on FY2022, to reach $6.8 billion. This demonstrated the resilience of our 'best or only' product strategy and continued our track record of strong growth in core lending portfolios.

Strategic vision

Sustainable growth through differentiation based on a 'best or only' product strategy, delivered through scalable digital platforms, continues to be Heartland's guiding vision.

Since forming, Heartland's NPAT has more than tripled, from $23.6 million at 30 June 2012 to $95.9 million ($110.2 million on an underlying basis) at 30 June 2023. This momentum continues, underpinned by three drivers:

1. **Business as Usual Growth** – a 10.1% increase in underlying balance sheet growth was achieved
2. **Frictionless Service at the Lowest Cost** – continued reduction in underlying cost to income (**CTI**) ratio, down 53 basis points (**bps**) to 42.0%[3]
3. **Expansion in Australia** – signed a share purchase agreement for the acquisition of Challenger Bank, conditional on regulatory approvals.

Business as Usual Growth

Strong growth continued for New Zealand and Australian Reverse Mortgages, with compound annual growth rates for the five-year period from 1 July 2018 to 30 June 2023 of 16.4% and 22.8% respectively. Conservative loan-to-value ratios (**LVR**s) have enabled Reverse Mortgage customers in both countries to weather the challenging combination of falling house prices and higher interest rates over the last year. As at 30 June 2023, the average weighted LVR for New Zealand and Australian Reverse Mortgages respectively were 21.3% (up from 18.4% at 30 June 2022) and 21.5% (up from 20.5% at 30 June 2022).

I waenga i te horopaki ōhanga uaua i Aotearoa me Ahitereiria, i eke a Heartland ki tētahi taumata waingōhia i te FY2023. He mea kōkiri ngā hua o te FY2023 nā te tipuranga o te tapeke o ngā moni kua tau mai (**Receivables**)[1], arā, te 10.1% (ko te $625.5 miriona)[2] i te FY2022, e eke ai ki te $6.8 piriona. Nā konei, i whakatinanahia ai te manawaroa o tā tātou rautaki huataonga o 'te mea pai katoa, te mea kotahi rānei', me te haerenga tonutanga o tō tātou hītori o te marohi o te tupu i ngā kōpaki moni taurewa matua.

Te tirohanga ā-rautaki

Ko te tipuranga toitūtanga mā roto i ngā ara tītore e hāngai ana ki te rautaki huataonga o 'te mea pai katoa, te mea kotahi rānei', i kōkiritia ai mā roto i ngā pae matihiko e taea ana te whakawhānui, koia te tirohanga e ārahi nei i a Heartland.

Nō tōna pūaotanga, kua reatoru te NPAT a Heartland, i te $23.6 miriona i te 30 o Hune 2012 ki te $95.9 miriona (ki te $110.2 miriona nā runga i ngā matapae ā-roto) i te 30 o Hune 2023. E rere pēnei tonu ana, nā runga i te tūāpapa o ngā kaikōkiri e toru:

1. **Te Tipuranga ā-Pakihi o Ia Rā** – i 10.1% te pikinga o te tapeke pūtea nā runga i ngā matapae ā-roto
2. **Te Ratonga Waku-kore e Māmā ake nei te Utu** – i heke tonu te ōwehenga o ngā utu ā-roto ki ngā moni whiwhi (**CTI**), i 53 piro tūāpapa (**bps**) ki te 42.0%[3]
3. **Te Whakawhānuitanga i Ahitereiria** – he kirimana hoko pānga kua waitohua mō te hononga o Challenger Bank, ki te whakaaetia ngā waeture.

Te Tipuranga ā-Pakihi o Ia Rā

I rere tonu taua tipuranga i ngā Reverse Mortgages i Aotearoa me Ahitereiria, e hua nei ngā pāpātanga o te huamoni whakaputu i ngā tau e rima i te 1 o Hūrae 2018 ki te 30 o Hune 2023, o te 16.4% me te 22.8%. Mā roto i

1 E whai wāhi ana ki ngā moni kua tau mai ngā Reverse Mortgages.
2 Kāore e whai wāhi ana te pānga o ngā panonitanga ki te pāpātanga o te whakawhiti moni rāwaho (**FX**).
3 E hāngai ana te ōwehenga CTI ā-roto ki te ōwehenga CTI ka tātaihia mā roto i hua ā-roto. I te tātaihanga nā runga i ngā hua o ngā pūrongo, ko te 44.9% te ōwehenga CTI, 126 bps te pikinga tērā i te FY2022. E whai pārongo anō ai, tirohia te whārangi 4 o tā Heartland whakapuakanga FY2023 mō ngā hua o te katoa o te tau e kitea nei i **heartlandgroup.info**.

Heartland Bank's Motor Finance book is sensitive to economic conditions regarding arrears, but is more correlated to unemployment with respect to losses. Consequently, while arrears trended upward across the year to 3.95% as at 30 June 2023, the level of losses remained within cyclical norms and the portfolio performed as expected.

Pleasingly, as the New Zealand vehicle market experienced a 6.2% decrease in total new and used car sales in the period[4], Heartland's Motor Finance new business volumes increased by 11.6% from FY2022, with overall growth in FY2023 of 13.5% due to lower early repayments than expected.

Market share gains and a shift towards higher quality loans resulted in net interest margin (**NIM**) compression. Heartland's reduction in risk appetite for unsecured personal and unsecured business lending also contributed to this. Business and Rural Relationship lending also experienced larger repayments of higher risk loans. NIM is expected to be subject to similar conditions including the potential of increased deposit rates. However, it is anticipated that NIM will stabilise in the financial year ending 30 June 2025 (**FY2025**) as lower margin loans are repaid and replaced in Asset Finance and Motor Finance.

Further information about the financial performance of Heartland's lending portfolios and funding activity is set out in '*Financial commentary*' on page 72.

Frictionless Service at the Lowest Cost

Differentiation through digitalisation has been a key part of Heartland's strategy for several years now. The aim is to remove friction for customers, while creating scale and efficiencies by reducing the CTI ratio – which can be used to measure the effectiveness of digitalisation.

Through technology, Heartland has replicated the scale of big banks. This is evidenced by the CTI ratio, which improved by 53 bps on FY2022 to 42.0% on an underlying basis[3] in

te ōwehenga o te taurewa ki te uara (**LVR**) e pai ana, i puta ai ngā ihu o ngā kiritaki e whai Reverse Mortgages ana i te karapipititanga o te hekenga o ngā utu o ngā whare, me ngā pāpātanga huamoni e nui ake ana, tēnā i te tau kua hori. I te 30 o Hune 2023, ko te 21.3% (he pikinga i te 18.4% i te 30 o Hune 2022) me te 21.5% (he pikinga i te 20.5% i te 30 o Hune) te LVR toharite mō ngā Reverse Mortgages i Aotearoa me Ahitereiria.

E mārama ana tā Heartland Bank puka mō te Motor Finance ki ngā āhuatanga o te ōhanga me ngā utu tōmuri, engari e hāngai kē ana ki te koremahi mō te taha ki ngā moningaro. Me te aha, ahakoa i 3.95% te piki haeretanga o ngā utu tōmuri puta noa i te tau i te 30 o Hune 2023, kāore i tawhiti atu ngā utunga i ngā hurihanga māori, ka mutu, i eke ngā hua o ngā kōpaki ki tērā i matapaetia ai.

E waingōhia ana, i tā te mākete waka o Aotearoa whānui rongo i te 6.2% o te hekenga o te hoko atu i ngā waka hou me ngā waka oruoru i taua wā[4], i 11.6% te pikinga o te nui o ngā mahi tauhokohoko hou a Heartland's Motor Finance i te FY2022, i 13.5% ai te tipuranga whānui i te FY2023 nā te iti iho o ngā utunga tōmua i tēnā i matapaetia ai.

Nā ngā pikinga ki ngā hea o te mākete me te nekehanga e kounga ake ai ngā moni, i whakakōpiritia ai te paenga o te tapeke huamoni (**NIM**). Ko te hekenga o tō Heartland taumata o te pai ki te tūraru mō ngā moni taurewa herekore whaiaro, pakihi hoki tētahi āhuatanga kua whai wāhi atu ki tēnei. I nui ake hoki ngā whakahokinga moni mō ngā moni taurewa o te Business and Rural Relationship e kaha ake nei te tūraru. E ai ki ngā matapae, ka pā mai ngā āhuatanga ōrite ki te NIM tae ana ki te pikinga pea o ngā pāpātanga kuhumoni. Heoi anō, ko te tikanga ka tau te puehu ā te remu o FY2024 me te tau ahumoni ka pau ā te 30 o Hune 2025 (**FY2025**), nā runga i ngā whakahokinga moni ki ngā moni taurewa e iti iho nei ngā pae me te whakakapinga hoki o aua moni taurewa puta noa i te Asset Finance me te Motor Finance.

4 Based on data from the Motor Industry Association of New Zealand on new and used vehicle sales from motor vehicle dealers.
5 The average CTI ratio of New Zealand's main domestic non-major banks excluding Heartland (The Co-operative Bank, Kiwibank, SBS and TSB) was 69.2% for the 12 months to 30 June 2023 (data from the RBNZ Financial Strength Dashboard, valid as at 27 September 2023). The average CTI ratio of Australia's major banks (ANZ, CBA, NAB and Westpac) was 45.2% for their most recent respective annual reporting periods.
6 Excluding the impact of changes in FX rates.

FY2023 – much lower than the average CTI ratio of New Zealand's main domestic non-major banks and more comparable to the average CTI ratio of Australia's major banks.[5]

Digitalisation of Heartland's products and platforms continued through FY2023. Achievements included a 65% uplift in Heartland Bank mobile app users from 1 July 2022, and the rollout of the Heartland Finance Mobile App to Australian Reverse Mortgage customers, with good rates of adoption within a short timeframe (10% of customers had access within one month).

Heartland's ambition now is to achieve an underlying CTI ratio of less than 35% by the financial year ending 30 June 2028 (**FY2028**) through revenue growth and ongoing automation and digitalisation.

Read '*Creating efficiency through digitalisation*' on page 18 for more on Heartland's underlying CTI ratio ambition.

Expansion in Australia

FY2023 was StockCo Australia's first full year as part of the Group. Macroeconomic conditions resulted in lower dollars per head on the balance sheet and a contribution to FY2023 NPAT below the expected A$10-12 million (before any ongoing cost of acquisition debt funding). However, the outlook for FY2024 is positive as global demand for Australian meat, mainly beef, increases.

Meanwhile, Heartland's Australian Reverse Mortgages continued to perform well, with Receivables up 20.7%[6] on FY2022. Heartland has now supported more than 26,000 Australians to live a more comfortable retirement with its Reverse Mortgages, and maintained its position as the leading active provider in Australia.

We remain focused on our ambitions for growth in Australia through the acquisition of an ADI. In FY2023, Heartland signed a share purchase agreement for the acquisition of Challenger Bank from Challenger Group, and began engagement with the RBNZ and APRA on seeking the requisite regulatory approvals to complete the acquisition.

E takoto ana ētahi pārongo atu anō mō ngā whakatutukihanga ā-ahumoni a ngā kōpaki moni taurewa a Heartland me ngā mahi pūtea ki te *'He kōrero ahumoni'* i te whārangi 72.

Te Ratonga Waku-kore e Māmā ake nei te Utu

Mō te hia tau, ko te tītoretanga mā roto i te whakamatihikotanga tētahi o ngā wāhanga matua o te rautaki a Heartland. E whai ana tēnei kia unuhia ngā wakuwakutanga ki ngā kiritaki, e whakawhānuitia ai ngā pānga, e whaihua ake ai hoki mā roto i te whakahekenga o te ōwehenga CTI – e whakamahia nei hei ine i te whaihua o te whakamatihikotanga.

Mā roto i te hangarau, Heartland kua toaitia te whakawhānuitanga a ngā pēke nui. E taunakitia ana tēnei ki te ōwehenga CTI, i 53 bps te pikinga i tēnā i te FY2022 kia eke ki te 42.0% nā runga i ngā matapae ā-roto[3] i te FY2023 – e tino iti iho nei te ōwehenga CTI toharite i tēnā o ngā pēke o Aotearoa ehara i ngā pēke matua, e āhua ōrite nei hoki ki ēnā o ngā pēke matua o Ahitereiria.[5]

I rere tonu te whakamatihikotanga o ngā huataonga me ngā pae a Heartland i te roanga o te FY2023. Ko ētahi o ngā whakatutukihanga, ko te 65% o te pikinga o te hunga e whakamahi ana i te Heartland Bank mobile app mai i te 1 o Hūrae 2022, me te horahanga o te Heartland Finance Mobile App ki ngā kiritaki e whai Australian Reverse Mortgage ana, e pai nei ngā pāpātanga o te hunga e whakamahi nei i roto i te wā poto (ko te 10% i whai wāhi atu i roto i tētahi marama).

Ko te wawata o Heartland ināianei, ko te 35% o te whakahekenga o te ōwehenga CTI o ngā hua ā-roto ā mua i te tau ahumoni ka pau ā te 30 o Hune 2028 (**FY2028**) mā roto i te tipuranga o ngā moniwhiwhi me te haeretanga tonutanga o te whakaaunoatanga me te whakamatihikotanga.

Pānuitia te *'Huanga mai o te whaihuatanga mā roto i te whakamatihikotanga'* kei te

4 E hāngai ana ki ngā raraunga a te Motor Industry Association of New Zealand mō te hokonga atu o ngā waka hou me ngā waka oruoru i ngā toa hoko waka.

5 I 69.2% te ōwehenga CTI toharite o ngā pēke o Aotearoa ehara i te pēke matua, hāunga rā a Heartland (ko The Co-operative Bank, ko Kiwibank, ko SBS, ko TSB hoki) mō te 12 marama ā te 31 o Māehe 2023 (nō te RBNZ Financial Strength Dashboard ngā raraunga, i tika i te 31 o Hūrae 2023). I 45.2% te ōwehenga CTI toharite o ngā pēke matua o Ahitereiria (ko ANZ, ko CBA, ko NAB, ko Westpac hoki) i ā rātou pūrongo ā-tau nō nā tata nei.

As we work through the regulatory approval process, which is time intensive, our sights are on the growth opportunities that will be possible upon completion. You can read more about the acquisition and our Australian growth aspirations in '*Becoming a bank in Australia*' on page 16.

Looking forward

The focus for the year ahead will be on growth across Heartland's core lending portfolios: Reverse Mortgages, Livestock Finance, Motor Finance and Asset Finance. As we continue to pursue our ambition of a reduced underlying CTI ratio, it is expected that growth will be assisted by increased digitalisation and automation.

We expect economic conditions to remain challenging throughout FY2024, with ongoing pressure on margins and impairments. In this environment, Heartland's risk appetite for higher yielding segments (such as unsecured lending) will be reduced. Changes in asset mix, including the ongoing growth in Reverse Mortgages and the replacement of lower margin Asset Finance and Motor Finance, is anticipated to strengthen credit quality and profitability prospects for FY2025.

Heartland has more than tripled its NPAT since 30 June 2012. Through a continued focus on the execution of Heartland's strategic vision and its underlying CTI ratio ambition, this remains the ambition.

After another challenging year, our Heartland people continued to show their resilience and commitment to our customers and shareholders. I would like to thank our Heartland whānau for living our mātāpono (values) throughout the year, and wish to thank our shareholders for their continued support.

Ngā mihi nui,

Jeff Greenslade
CEO

whārangi 18 e rongo kōrero atu anō ai mō te wawata ōwehenga tūāpapa CTI o Heartland.

Te Whakawhānuitanga i Ahitereiria

Ko te FY2023 tō StockCo Australia's tau tuatahi i roto i te Rōpū. Nā runga i ngā āhuatanga o te ōhanga whārahi i heke iho ai ngā tāra i ia tangata i te puka kaute, i heke ai hoki te NPAT o te FY2023 i tēnā i matapaetia ai, i te A$10-12 miriona (i mua i ngā pūtea taurewa e rere tonu ana ka ahu i te hokotanga). Heoi, e pai ana te tirohanga atu ki te FY2024 nā runga pikinga o te pīrangi o te ao ki ngā mīti, ā, ko te nuinga he mīti kau.

Manohi anō, i pai ngā hua o ngā Australian Reverse Mortgages a Heartland, i 20.7%[6] ngā pikinga i ō te FY2022. Ināianei, kua tautoko a Heartland i te 26,000 kainoho o Ahitereiria kia hāneanea ake ai te rītaiatanga nā runga i ana Reverse Mortgages, e toitū tonu nei tana tūnga hei kaituku moni taurewa whakaihuwaka i Ahitereiria.

E pūmau tonu ana tō mātou aro ki te pīrangi kia tipu tonu i roto o Ahitereiria mā roto mai i te hokotanga o ADI. I te FY2023, i waitohu a Heartland i te kirimana hoko pānga kia hokona ai a Challenger Bank i te Challenger Group, i tīmata ai hoki te toro atu ki te RBNZ me APRA e kimihia ai ngā whakaaetanga ā-waeture e tutuki ai te hokotanga.

I a tātou e whai nei i te tukanga waeture, e nui nei te kaikai i te wā, e ahu ana te titiro ki ngā ara wātea kia tipu ai ka hua mai ā te taunga o te hokotanga. Kia pānuitia te roanga ake o ngā kōrero mō te hokotanga me ō mātou wawata tipuranga i Ahitereiria, tirohia te *'Huanga mai hei pēke i Ahitereiria'* kei te whārangi 16.

Te anga whakamua

Ko te arotahi mō te tau e tū mai nei ko te tipuranga puta i ngā kōpaki moni taurewa matua a Heartland: ko ngā Reverse Mortgages, ko te Livestock Finance, ko te Motor Finance me te Asset Finance. I a tātou

6 Hāunga rā te pānga o ngā panonitanga ki ngā pāpātanga FX.

e whai tonu nei ki te whakaheke i te ōwehenga CTI ā-roto, e matapaetia ana ka hāpaitia te tipuranga mā te whakakahatanga o te whakamatihikotanga me te whakaaunoatanga.

E matapaetia ana ka uaua tonu ngā āhuatanga ā-ōhanga puta no ai FY2024, ka mau tonu hoki ngā pēhanga ki ngā pae me te hekenga wawe o te wāriu. I tēnei taiao, ka noho mū tonu tō Heartland taumata o te pai ki ngā tūraru tapahanga huatuku nui (pēnei i ngā moni taurewa herekore). I tōna tikanga, mā ngā panonitanga ki ngā hanumi rawa, tae ana ki te tipu tonutanga i ngā Reverse Mortgages me te whakakapinga o ngā pae iti iho o te Asset Finance me Motor Finance, e pakari ake ai te kounga o te moni taurewa me te whai monihua ā te FY2025.

Nā runga i te aro tonu ki te whakatinanatanga o te tirohanga ā-rautaki, me ōna wawata mō te ōwehenga CTI ā-roto, kei kō atu i te reatoru ngā hua o te NPAT i te 30 o Hune 2012, ā, e pēnei tonu ana te wawata.

I muri iho i tētahi tau wero anō, i whakatinana tonu ō tātou tāngata i te manawaroa me te ū ki ā tātou kiritaki me te hunga whaipānga. E mihi ana ki te whānau o Heartland e whakatinana nei i ō tātou mātāpono i te roanga o te tau, me ngā mihi hoki ki te hunga whaipānga e tautoko tonu mai nei.

Ngā mihi nui, nā

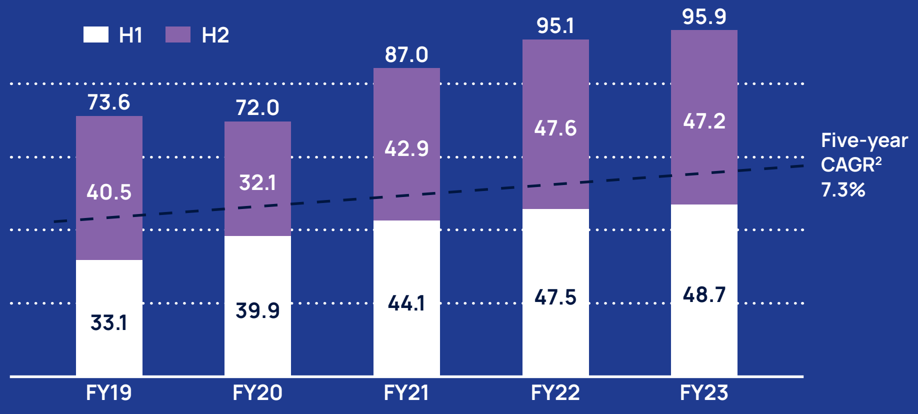
Jeff Greenslade
Te Kaiwhakahaere Matua

Ngā hua whānui o te FY2023
FY2023 results at a glance

NET PROFIT AFTER TAX

FY23 $95.9m
underlying NPAT $110.2m

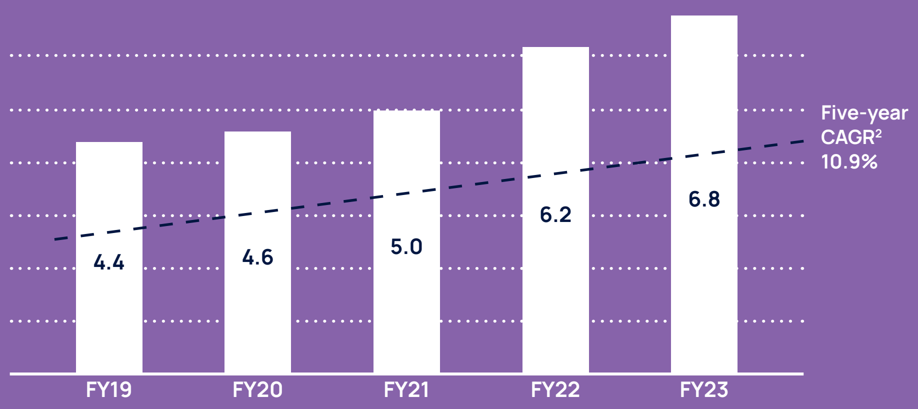
FY22 $95.1m
FY22 underlying NPAT $96.1m



GROSS FINANCE RECEIVABLES[1]

FY23 $6.8b

FY22 $6.2b



Note: Financial results are presented on a reported and underlying basis. Reported results are prepared in accordance with NZ GAAP and include the impacts of positive and negative one-offs, which can make it difficult to compare performance. Underlying results (which are non-GAAP financial information) exclude impacts of certain one-offs. This is intended to allow for easier comparability between periods, and is used internally by management for this purpose. A detailed reconciliation between reported and underlying financial information, including details about FY2023 and FY2022 one-offs, is set out in Heartland's FY2023 full year results investor presentation available at heartlandgroup.info. General information about the use of non-GAAP financial measures is also available in that presentation.

GROSS FINANCE RECEIVABLES GROWTH[1]

FY23 10.1%

FY22[3] 15.3%

NET INTEREST MARGIN

Consistently higher than banking peers[4]

FY23 3.97%

underlying net interest margin 4.00%

FY22 4.05%

underlying net interest margin 4.16%

EARNINGS PER SHARE

FY23 14.0cps

underlying earnings per share 16.0cps

FY22 16.1cps

underlying earnings per share 16.3cps

COST TO INCOME RATIO

FY23 44.9%

underlying cost to income ratio 42.0%

FY22 43.6%

underlying cost to income ratio 42.5%

TOTAL DIVIDEND FOR THE YEAR

FY23 11.5cps

FY22 11.0cps

RETURN ON EQUITY

FY23 10.4%

underlying return on equity 11.9%

FY22 12.1%

underlying return on equity 12.6%

1 Excludes the impact of changes in FX rates.
2 Compound annual growth rate (**CAGR**) for the five years to (and inclusive of) FY2023.
3 Excludes the impact of StockCo Australia and changes in FX rates.
4 KPMG FIPS Report June 2023.

Te huanga mai hei pēke i Āhitereiria

Becoming a bank in Australia

An established Australian finance provider

Heartland has always maintained big aspirations. It began in 2011 through the joining together of regional New Zealand financial services businesses – one of which had origins stretching back to 1875. Through acquisitions and launching 'best or only' products, Heartland has expanded and established a track record of strong growth. Since forming in 2011, Heartland's Receivables and NPAT have more than tripled from $2,105.7 million and $23.6 million at 30 June 2012 to $6,791.3 million and $95.9 million at 30 June 2023, respectively.

Today, Heartland's business extends beyond New Zealand, and is firmly established in Australia. In 2014 Heartland acquired its Australian Reverse Mortgage business, now operating under the brand Heartland Finance.

More recently, Heartland's Australian Livestock Finance business was acquired through the purchase of StockCo Australia at the end of May 2022.

Heartland's Australian Reverse Mortgage business continues to perform very strongly. In FY2023, Heartland Finance cemented its position as the largest active provider of reverse mortgages, and increased its market share to 39.9% (up from 34.7%)[1]. With the Australian Government's Home Equity Access Scheme and other financial services providers entering the market, awareness and interest in reverse mortgages continues to grow. Heartland is well placed to benefit from these structural tailwinds.

Meanwhile, StockCo Australia has performed well in a challenging environment. StockCo Australia has been operating in Australia since

1 Based on APRA ADI Property Exposure and Heartland Finance data as at 30 June 2022 and 30 June 2023.

2014 and is a leading specialist livestock financier with established direct and distributor networks. While dollar growth for StockCo Australia was subdued in FY2023 due to market price volatilities for livestock and adverse weather conditions, the business experienced direct client growth of 11%. Pleasingly, the volume of livestock financed (a measure of underlying growth in the business) increased, with cattle transactions up 25% from 30 June 2022.

The outlook for both businesses is positive. Demand for reverse mortgages continues to be driven by Australia's ageing population, while livestock finance is projected to experience increased demand as global consumption of beef, veal and sheep increases.

Significant potential exists to extend Heartland's 'best or only' product strategy, delivered via scalable digital platforms, into the Australian market. Heartland's ability to compete in the New Zealand residential mortgage market through Online Home Loans demonstrates the efficiency of digital platforms. Low-cost online origination is a major point of competitive differentiation and is a key component of Heartland's 'best or only' product strategy.

The areas in focus for expansion in Australia, subject to completion of the Challenger Bank acquisition, are motor and truck finance, where success has been experienced in New Zealand through Heartland Bank's established Motor Finance and Asset Finance portfolios. In order to expand in the Australian market, it is vital to have access to well-priced funding, hence Heartland's strategic desire to acquire an ADI in Australia.

Acquiring Challenger Bank

Heartland's Australian businesses are currently funded through wholesale facilities. By acquiring an ADI in Australia, access to a deeper and more efficient pool of funding through retail deposits will be available. This is expected to reduce the need for wholesale funding and support expansion into new sectors in Australia. As retail funding is usually cheaper than wholesale rates, an additional benefit is the potential for an uplift in margin.

The acquisition of the Heartland Finance reverse mortgage business in 2014 is a good example of what is possible. At the time of purchase, the loan book was approximately A$377 million. Nine years on, it is just over A$1.4 billion (as at 30 June 2023), with an impressive compound annual growth rate of 22.8% for the five-year period from 1 July 2018 to 30 June 2023.

Challenger Bank is an established ADI and has recently undertaken a programme of significant investment to build out its digital capability. Its current place in the market as a small, digitally focused bank fits well with Heartland's long-term strategy of digitalisation on both sides of the Tasman.

The acquisition of Challenger Bank remains subject to regulatory approvals. Part of this involves determining the most appropriate group structure to accommodate the Challenger Bank acquisition. The final group structure is now expected to include Heartland Bank acquiring Challenger Bank. If this occurs, Heartland Banking Group's business would be carried out in both New Zealand and Australia.

Heartland's future in Australia

Heartland Bank has achieved significant success in New Zealand since becoming a registered bank in December 2012. It has been awarded Canstar New Zealand's Savings Bank of the Year for six consecutive years (2018-2023) and received the award for Outstanding Value Home Lender in 2023. In the first and second quarters of FY2023, Heartland Bank also experienced the highest growth rate in retail deposits of all main and domestic banks in New Zealand.[2] It is this expertise that Heartland intends to leverage to extend its 'best or only' product offering into new sectors in Australia.

The opportunity that the Challenger Bank acquisition presents is considerable. With an ADI licence, growth will be possible through various avenues, positioning Heartland well to provide increased financial services to markets that are underserved by traditional financial institutions.

2 Based on balance sheet data from the RBNZ.

Te huanga mai o te whaihuatanga mā roto i te whakamatihikotanga

Creating efficiency through digitalisation

Frictionless service at the lowest cost

Consistent with Heartland's strategy is its commitment to differentiation. One of the ways in which Heartland does this is through providing customers with frictionless service at the lowest cost. This means delivering customers with an exceptional user experience through digital platforms that are cost-efficient for Heartland to operate. In many cases, the cost savings can then be passed on to customers in the form of attractive savings or lending interest rates.

This is achieved through the ongoing digitalisation and automation of services, with a particular focus on Heartland Bank in New Zealand.

Leanne Lazarus, Heartland Bank CEO said, **"We know customers would much rather spend their time on the things they enjoy than wait in a queue or on the phone to speak with their bank. We want to enable our customers to help themselves by providing self-service functionality".**

Using the CTI ratio as a measure of the efficiency of digitalisation, Heartland has an ambition to reduce its underlying CTI ratio to less than 35% by FY2028. In FY2023, it sat at 42.0%,[1] much lower than the average CTI ratio of non-major New Zealand banks and more comparable to the major Australian banks.[2] Heartland achieved this through a commitment to digitalisation and technology. With several initiatives underway across Heartland Bank, there are further improvements that can be made to help achieve Heartland's underlying CTI ratio reduction ambition.

Core banking system upgrade

Heartland Bank's core banking system provides the platform for many of the services received by customers. Upgrading this system presents an opportunity to more effectively reduce friction for customers in the way they interact with Heartland.

The upgrade is a significant programme of work and investment which has been underway since the financial year ended 30 June 2021 (**FY2021**). It is now nearing completion and due to go live within this calendar year. The upgraded platform will position Heartland for increased scalability in the future. It will provide a platform on which to deliver increased levels of automation and digitalisation, which will allow the following initiatives to be rolled out – with many more expected in the years to come.

Ease and convenience

Many of Heartland Bank's inbound customer calls relate to basic banking requests, such as requests for statements or balances. The process of having to make a call during set hours to access this information is irksome for customers.

Heartland is using technology solutions to enable increased self-service via the Heartland Mobile App. By digitalising the most common reasons for customer inbound calls, Heartland aims to create a more seamless customer experience. This will allow customers more ease and convenience in managing their Heartland Bank loans, savings and deposits. It also allows Heartland's team to focus on more complex customer requests.

Increased flexibility

Offering customers the flexibility to self-manage loan repayments enables customers more control over how they manage their finances – especially for those who may be experiencing temporary cashflow challenges.

Increased flexibility will be offered to Motor Finance customers, including those in

1 Underlying CTI ratio refers to the CTI ratio calculated using underlying results. When calculated using reported results, the CTI ratio was 44.9%, up 126 bps compared with FY2022. For more information, see page 4 of Heartland's FY2023 full year results investor presentation available at heartlandgroup.info.

2 The average CTI ratio of New Zealand's main domestic non-major banks excluding Heartland (The Co-operative Bank, Kiwibank, SBS and TSB) was 69.2% for the 12 months to 30 June 2023 (data from the RBNZ Financial Strength Dashboard, valid as at 27 September 2023). The average CTI ratio of Australia's major banks (ANZ, CBA, NAB and Westpac) was 45.2% for their most recent respective annual reporting periods.

arrears, to allow them to self-manage their loan repayments digitally via the Heartland Mobile App. Various new features are being developed specifically to reduce the need for these customers to have to contact Heartland Bank to manage repayments. These features are expected to include functionality to make short term payment deferrals, clear arrears, and allow the customer to update their direct debit information.

Process automation

Increasing efficiency for Heartland's people by automating manual processes is an important step in Heartland's overall digitalisation. One of the behind-the-scenes changes planned is an upgrade to the existing back-end technology which will allow scalable solutions to optimise back-end processes. By reducing manual effort and friction for employees, this will also improve customer experience.

Motor digitalisation

Heartland will continue to roll out enhancements to digital capabilities across its Motor Finance white label brands and dealer partners to offer New Zealanders faster and easier access to vehicle finance. Heartland has an ambition to launch seven branded online origination platforms to dealer partners by 30 June 2024.

These online origination platforms are already in use by several of Heartland's branded and dealer partners, and offer customers a vehicle finance decision in minutes from their laptop, computer or mobile device.

Customer adoption

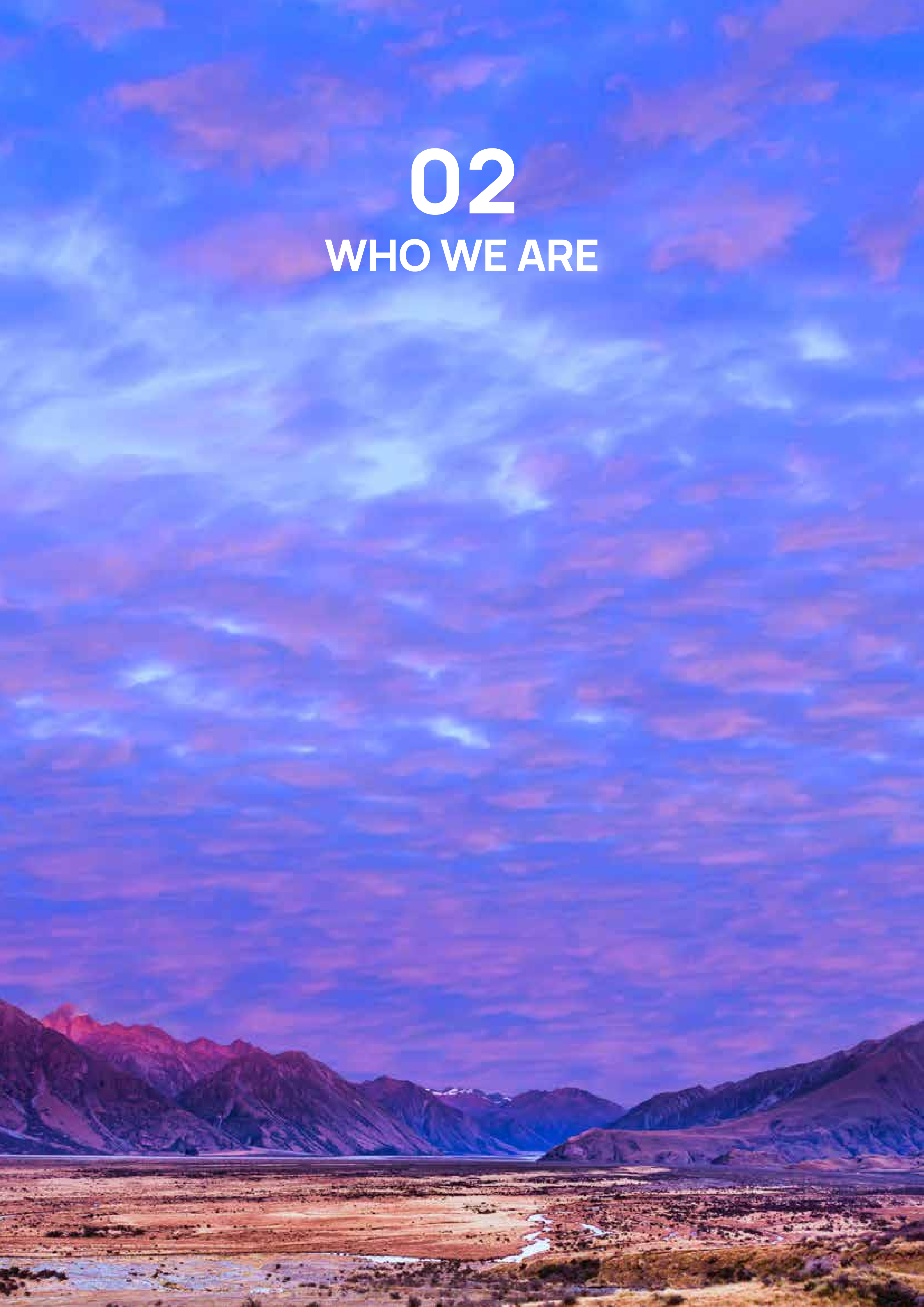
All improvements begin by ensuring customers' needs are front of mind. Behaviour change can take time. The service that Heartland provides cannot be a casualty of the digitalisation process.

To implement these changes and support customers' adaptations to them, Heartland has developed a specific strategy to drive awareness and education of features and encourage customers from reverting to traditional channels. Along the way, Heartland will continue to monitor, evaluate and adapt its approach as customer needs and adoption to new technologies evolve.

Pleasingly, the use of digital channels continues to increase. The percentage of Heartland Bank's Reverse Mortgage website visitors who used mobile devices increased from 51% at 30 June 2022 to 54% at 30 June 2023. This reflects the inroads mobile phone technology is making with older demographics and supports Heartland's digital distribution strategy and lower cost servicing.

Achieving an underlying CTI ratio of less than 35% by FY2028 requires change and will take time. However, with the initiatives underway to increase self-service, reduce telephony and increase automation, Heartland is determined to achieve its underlying CTI ratio reduction ambition – providing a frictionless service for customers, at a low cost to the business.

02
WHO WE ARE



Tā mātou pakihi
Our business

Our people

535 employees

492 New Zealand

43 Australia

15 locations

female 52%

male 47%

gender diverse 1%

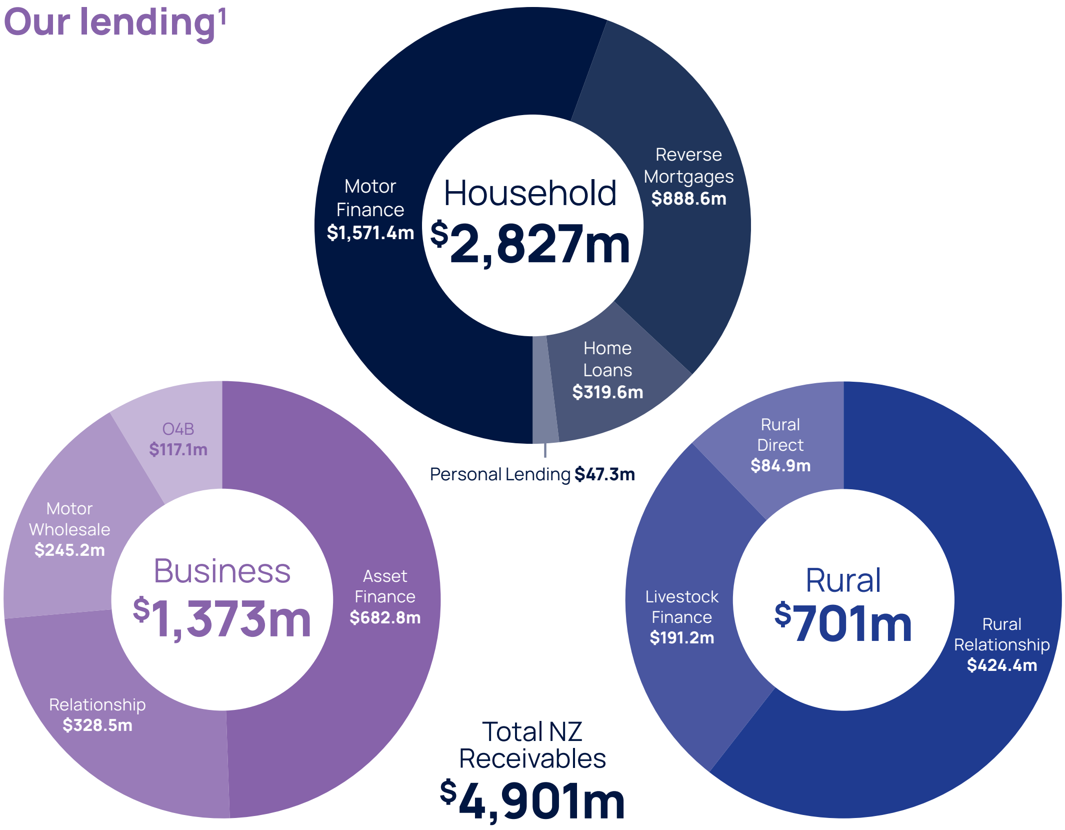
13,000+ shareholders

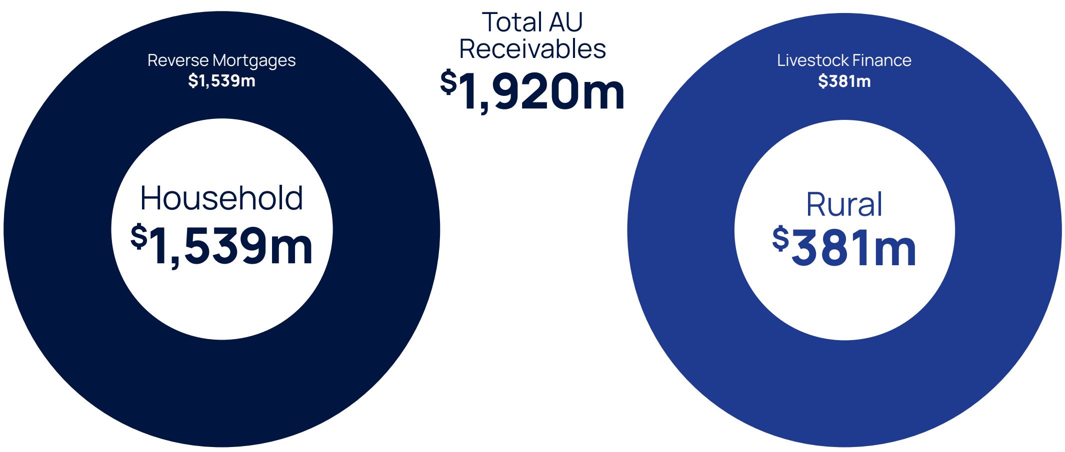
customers ^ **7.8%**

Our funding

$4.1b	$1.7b	$0.5b	$0.3b
Retail deposits	Securitisation facilities	Bonds and notes	Other borrowings

Our lending[1]





1 All lending portfolio figures exclude FX impact.

Te Poari o Heartland Group
Heartland Group Board

Members from left to right:

Geoff Summerhayes
Independent
Non-Executive Director
Appointed 1 October 2021

Gregory Tomlinson
Chair and Non-Executive Director
Appointed 31 October 2018

Committee memberships:
Heartland Corporate Governance, People, Remuneration and Nominations Committee (Acting Chair), Heartland Audit and Risk Committee

Ellen Comerford
Independent
Non-Executive Director
Appointed 31 October 2018

Committee memberships:
Heartland Audit and Risk Committee (Chair)

Kathryn Mitchell
Independent
Non-Executive Director
Appointed 1 October 2021

Committee memberships:
Heartland Audit and Risk Committee

Jeff Greenslade
CEO and Executive Director
Appointed 19 July 2018

As at the date of this Annual Report.
For full profiles, visit **heartlandgroup.info**

Te Poari o Heartland Bank
Heartland Bank Board

Edward John Harvey
Independent
Non-Executive Director
Appointed 31 December 2015

Committee memberships:
Heartland Bank Audit Committee (Chair), Heartland Bank Risk Committee

Kathryn Mitchell
Non-Independent
Non-Executive Director
Appointed 29 March 2019

Committee memberships:
Heartland Bank Risk Committee

Shelley Ruha
Independent
Non-Executive Director
Appointed 1 January 2020

Committee memberships:
Heartland Bank Risk Committee (Chair), Heartland Bank Audit Committee

As at the date of this Annual Report.
For full profiles, visit **heartlandgroup.info**

Bruce Irvine
Chair and Independent
Non-Executive Director
Appointed 31 December 2015

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

Jeff Greenslade
Non-Independent
Non-Executive Director
Appointed 31 December 2015

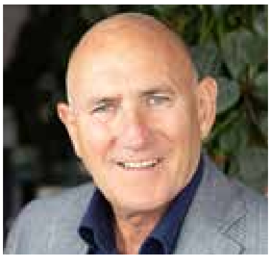
Simon Tyler
Independent
Non-Executive Director
Appointed 8 November 2022

Committee memberships:
Heartland Bank Audit Committee,
Heartland Bank Risk Committee

Te tira whakahaere
Management

Jeff Greenslade
CEO,
Heartland Group

Chris Flood
Deputy CEO,
Heartland Group



Leanne Lazarus
CEO,
Heartland Bank

Andrew Dixson
Chief Financial Officer,
Heartland Group

Michael Drumm
Group Chief
Operating Officer,
Heartland Group

Phoebe Gibbons
General Counsel,
Heartland Group

Aleisha Langdale
Chief Performance Officer,
Heartland Group

Doug Snell
CEO,
StockCo Australia

Lana West
Group Chief People
& Culture Officer,
Heartland Group

Andy Wood
Chief Risk Officer,
Heartland Bank

As at the date of this Annual Report.
For full profiles, visit heartlandgroup.info

03
SUSTAINABILITY

Heartland is dedicated to sustainable practices which minimise its environmental impact, positively contribute to its communities and enhance the lives of its people and customers.

Heartland's sustainability strategy is built on the following three key pillars:

Environment

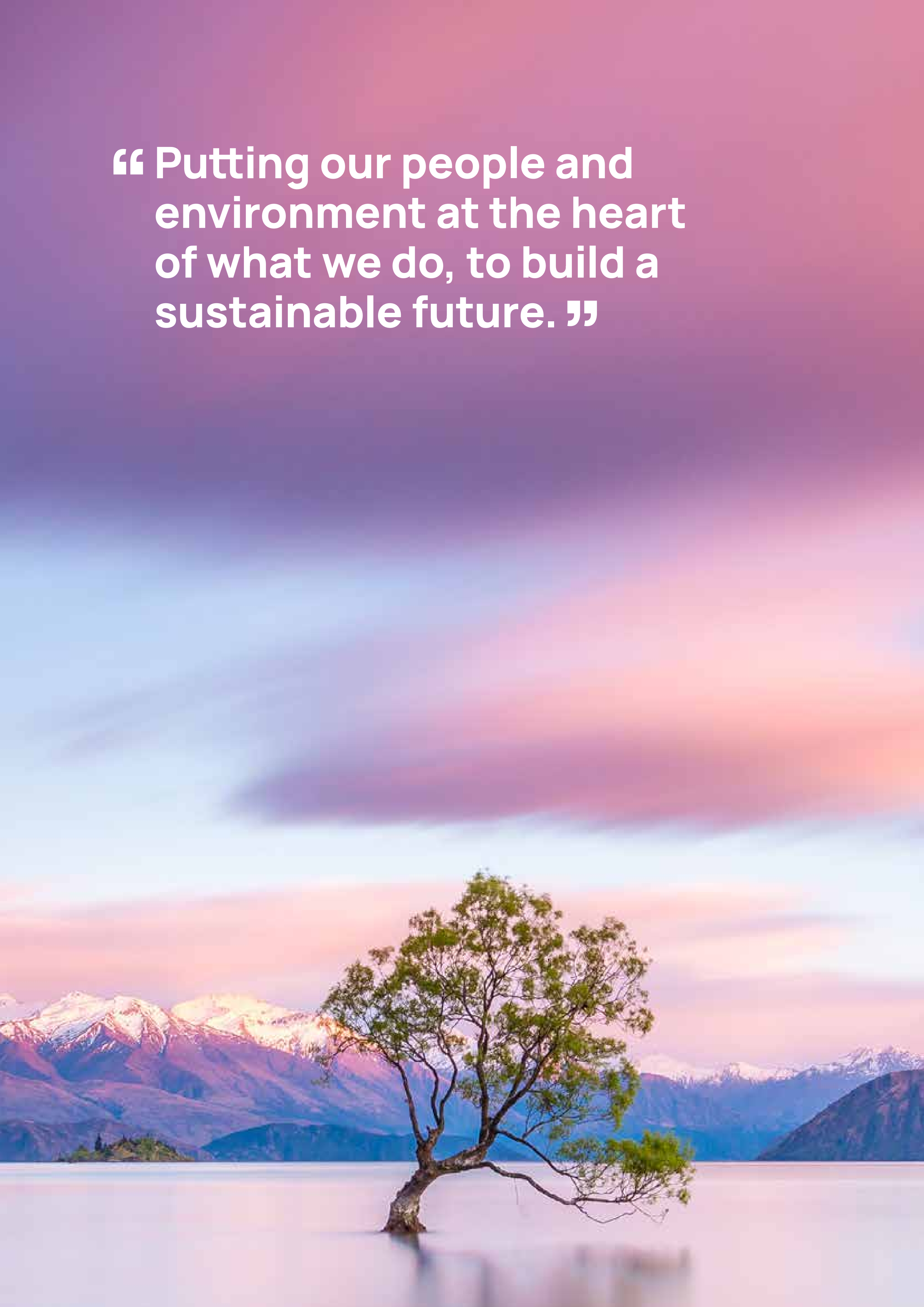
- Support the just transition to a net-zero economy.

People

- Create a pathway and place for Heartland's people to grow, thrive and be empowered to achieve Heartland's goals as one team.
- Care for the communities Heartland operates in.
- Care for Heartland's customers.

Financial wellbeing

- Support the financial wellbeing of Heartland's customers and communities.



“Putting our people and environment at the heart of what we do, to build a sustainable future.”

Te taiao
Environment

Heartland's commitment: Support the just transition to a net-zero economy.

How: Build the capability to appropriately take climate change risks into consideration when making lending decisions.

FY2023 ACHIEVEMENTS

Environmental risk screening

Heartland developed an environmental risk screening tool to be used in the credit decisioning process to understand the sustainability of its larger business and rural borrowers by reference to environmental, climate, reputational and regulatory factors (and mitigating actions being employed by borrowers). The tool is now in operation with frontline employees and enables a rating to be provided for each of those factors, which is then considered in the initial credit decisioning process, and as part of the ongoing credit review process.

Understanding emissions exposure

Heartland undertook Australian and New Zealand Standard Industrial Classification (**ANZSIC**) code analysis to understand its exposures to customers in high energy use, fossil fuel and extractive industries[1] which are subject to a heightened degree of transitional risk as a result of climate factors.

That analysis disclosed that Heartland has a low exposure to customers in those industries.

FY2024 TARGETS

Implementation of a climate risk tool

Heartland intends to implement a climate risk tool to enable it to assess the potential climate related risks and natural hazards associated with residential property in New Zealand and Australia. Once implemented, Heartland will use this tool as part of its credit decisioning process for reverse and standard residential mortgages in both New Zealand and Australia, and to monitor the climate related risk status of those portfolios over time.

Calculating financed emissions

In FY2023, Heartland developed its methodology for calculating the financed emissions attributable to its Motor Finance portfolio. Heartland is currently implementing tools to enable it to more accurately calculate financed emissions attributable to its Reverse Mortgages, Online Home Loans, Business and Rural portfolios in New Zealand and Australia.

Once these tools are implemented, Heartland intends to set risk appetite metrics and targets for climate related risk in all of its lending portfolios.

Climate related risk analysis

Heartland is currently undertaking scenario analysis to better understand the resilience of its business strategy in light of possible climate related risks.

Establish a Sustainability Committee

Heartland's Board expects to shortly establish a Sustainability Committee to oversee Heartland's sustainability strategy and implementation plans.

1 Those industries are high energy use industries (heavy manufacturing and metal forging and smelting) and fossil fuels and extractive industries (lime quarrying, fuel retailing, coal mining blasting, oil and gas extraction and ore mining).

How: Fund Heartland's borrowers' transition to a net-zero economy.

FY2023 ACHIEVEMENTS

Funding new generation vehicles

Heartland more than doubled the proportion of new generation vehicles funded through its Motor Finance portfolio in FY2023.

Of all vehicles funded in FY2023, more than 10% were new generation vehicles, compared with 5% in FY2022. The target for FY2023 was 15%. Heartland was well positioned to meet that target in the first half of FY2023, however supply chain issues meant fewer new generation vehicles were available in the second half of FY2023.

iOwn GFV product launched

Heartland launched an "iOwn" guaranteed future value (**GFV**) product across the Peugeot, Citroen and Opel range of vehicles, which includes a range of new generation vehicles.

This product enables a borrower to purchase a new generation vehicle with ease through lower weekly repayments with no deposit and a minimum GFV (de-risking new generation vehicle ownership).

Phasing out diesel passenger vehicle lending

Heartland is phasing out lending on diesel passenger vehicles.

FY2024 TARGETS

Increase lending to new generation vehicle

Heartland intends to increase the proportion of new generation vehicles financed through its Motor Finance portfolio.

Identifying climate related opportunities

Heartland is currently undertaking scenario analysis to better understand the strengthened resilience of its business strategy in light of climate related risks, and also in light of climate related opportunities. This exercise will help inform further sustainable lending initiatives.

Baseline carbon footprint analysis for Australian Livestock Finance

Heartland is working with a third party to enable its Australian Livestock Finance clients to understand their baseline carbon footprint. In addition to helping to educate its customers on sustainability issues, Heartland's intention is to use that tool to develop a livestock lending product in Australia which rewards borrowers for undertaking environmentally friendly pastoral practices which reduce their carbon footprint.

Funding low emission assets

Heartland is committed to funding low emission assets in the Asset Finance area (i.e. new generation trucks and yellow goods). This has led to engagement with vendor partners whose sustainability initiatives fit well with Heartland's. Demand for these assets is already ahead of their development, requiring further trial runs for suitability in New Zealand. Heartland has partnered with two national distributors of new generation trucks and yellow goods, and will continue to expand its footprint regarding green asset funding as new electric technology enters the market.

Heartland more than doubled the proportion of new generation vehicles funded through its Motor Finance portfolio in FY2023.

How: Embed sustainability into what Heartland does.

FY2023 ACHIEVEMENTS

Significant reduction in GHG emissions

Heartland's unaudited operational greenhouse gas (**GHG**) emissions for FY2023 saw a 17% reduction on the FY2019 base year. This comprised strong reductions in Scope 1 and Scope 2 emissions, but an increase in travel-related emissions as a result of business travel requirements between New Zealand and Australia.

Heartland's Green Team

Heartland's Green Team is a committee of environmentally conscious employees who have organised various environmental initiatives across FY2023 to educate and promote good sustainability practice. This has included an environmental themed quiz night promoting Earth Week, a volunteer day planting trees at the Whau River Trust in West Auckland, organising an audit of waste generated at Heartland's Auckland offices (and raising awareness of ways to reduce that waste) and arranging the installation of LED lighting at Heartland's Auckland offices.

FY2024 TARGETS

Replace remaining vehicle fleet

Heartland intends to replace its remaining New Zealand fleet with new generation vehicles in FY2024.

Set long-term GHG targets

Heartland intends to set a long-term GHG emission reduction target and plan, including Scope 3 financed emissions.

Engagement with Rural borrowers

Heartland is surveying its New Zealand Rural borrowers to understand their emissions profiles and environmental sustainability practices, in order to better target sustainability offerings to those customers.

Ngā tāngata
People

Heartland's commitment: Create a pathway and place for Heartland's people to grow, thrive and be empowered to achieve Heartland's goals as one team.

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

FY2023 ACHIEVEMENTS

Manawa Ako

Māori and Pasifika communities are under-represented in the banking industry in New Zealand. Manawa Ako is Heartland's internship programme which has been specifically created for Māori and Pasifika rangatahi (youth). Heartland's Manawa Ako programme provides opportunities for participants to learn, lead and succeed in a corporate environment, and gain a greater understanding of working in the financial sector. The programme is based on the Māori concept of "ako", which means to learn and to teach. As such, Heartland also gains from the cultural perspectives the interns bring to the workplace from their close connection to their identity.

- Māori and Pasifika people represent approximately 2% of employees in the banking industry in New Zealand, however represent 7% of Heartland's employees. Manawa Ako has helped Heartland to access a significant pool of talent which was previously unavailable to it.
- More than 110 rangatahi have participated in the programme since inception in 2017.
- 25 interns were welcomed in FY2023.
- Over the last six years, many interns have continued on to permanent or fixed term employment after their internship. At 30 June 2023, eight former Manawa Ako interns were employed by Heartland.
- Along with the value that the participants gain through this programme, Heartland's tuakana (buddies) also derive the benefit of the experience of mentoring these young people during the programme.

FY2024 TARGETS

Extend community engagement

In FY2024, Heartland intends to engage an even wider network of community groups to seek expressions of interest for the Manawa Ako programme, including reaching out to more iwi and additional schools in Auckland.

How: Establish Heartland as a recognisable and desirable employer of choice to attract, develop and enable exceptional talent.

FY2023 ACHIEVEMENTS

Investing in emerging talent

Heartland invests in attracting and developing talent with a particular focus on the younger demographic. This is important given that 49% of Heartland's people are under 35 years old.

Rangatahi (Youth) Advisory Board
This Board is made up of a select group of employees aged 35 and under from across Heartland. It provides an opportunity for rangatahi at Heartland to learn, develop and be exposed to executives and directors, and likewise for executives and directors to obtain the insights of Heartland's younger people. In FY2023, the Board had 10 members (5 male, 5 female) from across Heartland. The Board focused on strategic projects including social sustainability, employee wellbeing, digital strategy and financial literacy for young people, with recommendations presented to the executive team and considered for implementation.

Rotary Young-Person Leadership Awards (RYLA) youth programme
RYLA is a leadership development programme for 20-28-year olds, hosted and sponsored by New Zealand Rotary Clubs. The week-long, live-in programme involves presentations, workshops and activities designed to help young people develop their teamwork and communication skills, and fulfil their potential as leaders. Heartland nominates and pays for selected Heartland employees to participate in the programme. Five Heartland employees participated in FY2023.

Maintained Living Wage accreditation

Heartland has been an accredited Living Wage employer since 2020 and maintained this accreditation in FY2023. The Living Wage is calculated by the New Zealand Family Centre Social Policy Unit (as an independent party) and is considered the minimum rate for an employee to be able to earn enough money to live with dignity.

Recognising those who live our mātāpono (values)

Each quarter, through its Mātāpono Awards, Heartland recognises its people who consistently demonstrate Heartland's mātāpono. Since 2019, more than 65 people from teams in New Zealand and Australia have received a Mātāpono Award.

FY2024 TARGETS

Seek employee insight

Heartland intends to seek insight from its people on how it can become a more recognisable and desirable employer.

Continue to offer successful initiatives

Heartland intends to continue offering the initiatives it had success with in FY2023, including:
- offering positions for young people who aspire to leadership to participate in the RYLA programme
- facilitating the Rangatahi Advisory Board programme
- continuing to grant Mātāpono Awards (and ensuring that awards recognise employees who are non-leaders and in more junior positions, while seeking to achieve gender balance in award nominations and recipients).

How: Create an inclusive, engaging environment for employees where gender balance and diverse ethnic representation is achieved at all levels of the organisation, leading to exceptional experiences for Heartland's people and customers.

FY2023 ACHIEVEMENTS

Pay gap reporting[2]

FY2023 was Heartland's second year of reporting pay gap information for gender, Māori and Pasifika. As a median comparison, change for this measure takes time. Heartland remains committed to ensuring it monitors recruitment, pay levels and remuneration to ensure it is fair, and unconscious bias is checked. We will continue to report on these metrics annually.

Gap between median pay of men and women across all NZ roles: 28%

Gap between median pay of non-Māori and Māori across all NZ roles: 28%

Gap between median pay of non-Pasifika and Pasifika across all NZ roles: 27%

Maintained gender balance across the organisation

Heartland's gender split of 52% female and male 47% remains reflective of New Zealand and Australia's total population by gender respectively. At all levels, females reflect 30%+ in Heartland's leadership groupings. While this is not insignificant, Heartland remains focused on consciously supporting women in leadership through the RYLA programme, Kia Eke (see below) and ensuring gender balance in opportunities such as Rangatahi Advisory Board participation, employee group involvement, and in striving to ensure gender balance in recruitment.

The table below shows the gender diversity of directors and employees of Heartland in New Zealand and Australia.

	As at 30 June 2023					As at 30 June 2022			
Positions	**Female**	**Male**	**Gender Diverse**	**Not Stated**	**Total**	**Female**	**Male**	**Not Stated**	**Total**
Board - Heartland Group Holdings	2 (40%)	3 (60%)	0	0	**5**	2 (33%)	4 (67%)	0	**6**
Board - Heartland Bank	2 (33%)	4 (67%)	0	0	**6**	2 (33%)	4 (67%)	0	**6**
Management	3 (30%)	7 (70%)	0	0	**10**	3 (30%)	7 (70%)	0	**10**
All People Leaders (excl Management)	48 (46%)	56 (54%)	0	0	**104**	47 (44%)	60 (56%)	0	**107**
All staff (excl Board)	279 (52%)	251 (47%)	3 (0.6%)	2 (0.4%)	**535**	284 (51%)	266 (48%)	3 (0.5%)	**553**

Kia Eke employee group

In FY2023, Heartland reinvigorated Kia Eke, an employee-led group that focuses on supporting women in leadership and creating greater gender balance within the senior leadership group and more broadly within Heartland.

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

FY2023 ACHIEVEMENTS (CONT)

Growing Families employee group

Growing Families is one of Heartland's newest employee groups which works in collaboration with Kia Eke to look at ways to support employees while they manage family commitments – whether they are first time parents, providing elder care, or supporting their community.

Received Rainbow Tick reaccreditation

Heartland received Rainbow Tick accreditation in November 2021 and was reassessed for reaccreditation in FY2023. The three key standards measured were leadership, organisational development and external engagement.

Creation of Accessibility employee group

Heartland's Accessibility employee group was formed to champion accessibility within Heartland, with the goal of achieving the NZ Accessibility Tick.

Heartland's Head of People & Culture participated in a panel discussion to shine a light on accessibility for deaf or hard of hearing employees and customers. Panellists talked about how their organisations are leading the way in accessibility and making accessibility a priority.

Hearing Accredited Workplace

In FY2023, Heartland was pleased to maintain its status as a Hearing Accredited Workplace through the National Foundation for Deaf and Hard of Hearing.

The Accessibility employee group has taken ownership of ensuring Heartland's workplace is accessible, and its Hearing Accreditation is maintained.

FY2024 TARGETS

Reduce pay gaps

Heartland intends to progress towards further reducing gender and ethnicity pay gaps. Remuneration and recruitment are key to this work, including ensuring remuneration is aligned to the role and the person's skills and experience. A gender review is completed for end of year remuneration reviews and external benchmarking provides remuneration guidance to negate the potential for unconscious bias.

Increase gender balance

Heartland intends to continue to focus on achieving gender balance in all levels at Heartland, including by leveraging its Growing Families and Kia Eke employee groups.

Improve accessibility

Heartland is researching Australian-based organisations which work in accessibility, to improve accessibility across both sides of the Tasman.

Heartland's commitment: Heartland cares for our communities.

How: Heartland gives back to the community through grants, sponsorships and active volunteering.

FY2023 ACHIEVEMENTS

More than $710,000 funded through the Heartland Trust

The Heartland Trust is Heartland's registered charitable trust that is independent from, but closely supported by, Heartland. The Heartland Trust provides grants and donations to various community groups and organisations across New Zealand in the areas of education and learning, the arts and wellbeing, with a focus on enhancing outcomes of youth. Grants are funded through dividends paid on Heartland shares held by the Heartland Trust.

Grants from the Heartland Trust for FY2023 totalled $716,015 - a 28% increase from FY2022.

Education and learning

The Trust supports a number of organisations focused on enhancing education and learning opportunities for rangatahi (youth).

Heartland has been an InZone Education Foundation (**InZone**) cornerstone funder since 2017. InZone is a charitable trust that aims to inspire and support Māori and Pasifika youth to take their place in the cultural, economic and civic leadership of Aotearoa New Zealand. It does this by providing kāinga (hostels) which are "InZone" for high performing schools, and partnering with the schools to ensure students achieve top educational outcomes. Its kāinga enable students to live and learn in a supportive whānau environment with a Māori kaupapa, supporting, inspiring and empowering rangatahi to achieve to their full potential.

The Trust has been a proud sponsor of The University of Auckland's Kupe Leadership Scholarship (**Kupe**) since 2019. Kupe offers a unique experience that develops a cohort of future leaders intended to create a dynamic and successful future for Aotearoa, New Zealand. Each year, funding from the Trust supports a Kupe Scholar, and operational costs related to the delivery of the programme. In FY2023, Heartland's Kupe Scholars have set up initiatives to improve access to higher education (in New Zealand and abroad), contributed to local government, represented New Zealand at the coronation of King Charles III, and completed degrees with the aim of improving sectors such as public housing and Corrections.

The Trust maintained its commitment to funding various high school rugby teams across the country. Studies have shown that more involvement in sports can lead to better academic and social achievements, positively impacting students, schools, and the community.

The Trust also contributed towards the costs of Heartland Bank's Manawa Ako internship programme, described on page 36.

Arts and culture

In FY2023, arts and culture grants included the WORD Christchurch Festival, Te Matatini Herenga Waka Herenga Tangata National Kapa Haka Festival (**Te Matatini**), and Ashburton Schools' Music Festival.

The Trust's grant to WORD Christchurch Festival sponsored Dr. Melani Anae's session at the event. Dr Anae is a Marsden Award recipient, and expert on ethics and Pasifika identity – aligning to Heartland's values, and diversity and inclusion commitments. The Trust was proud to be a Strategic Partner of Te Matatini, the pinnacle cultural event for Māori performing arts. This was the second year Heartland has supported Te Matatini – this year's event going ahead after being postponed due to COVID-19 restrictions.

The Ashburton Schools' Music Festival is a special event for Heartland, given its close connection to the Ashburton community – where Heartland began life as the Ashburton Permanent Building & Investment Society in 1875. Heartland was pleased to once again sponsor the event, providing Ashburton primary school students an opportunity to perform and sing on stage in a choir.

Wellbeing

Following the devastating impacts of the Auckland floods and Cyclone Gabrielle in New Zealand in early 2023, the Trust was pleased to support disaster recovery efforts with donations totalling $45,000. Donations included $30,000 to the Hawke's Bay Disaster Relief Trust and $10,000 to the Auckland Council Emergency Relief Fund. In support of its long-standing relationship through Heartland Bank's New Zealand Reverse Mortgage product, $5,000 was donated to Age Concern in Wairoa.

In FY2023, the Trust increased its commitment to health and wellbeing through two new grants, one each to the Tania Dalton Foundation's Resilience Project and the Canterbury Sports Development Academy's Tātai Whetū Waitaha Athlete Support Programme (**TWW**).

Funds granted by the Trust enabled Heartland Bank to provide The Resilience Project an electric car, allowing them to more sustainably visit more schools and deliver practical, evidence-based mental health strategies to build resilience and happiness among students. TWW is a holistic programme that aims to assist athletes to achieve their goals, without social restraint, while ensuring they are thriving in sport and life. Funding provided by the Trust enables TWW to create support opportunities (such as psychology, medical, physiotherapy, strength and conditioning, nutrition, leadership, funding and communications) and connections to networks for aspiring Canterbury athletes with potential to represent New Zealand on the world stage.

The Trust also continued its long-term support of the Auckland City Mission.

FY2023 ACHIEVEMENTS (CONT)

Heartland Bank continued supporting its annual Freemasons scholarship programme

The Heartland Freemasons Scholarships assist family members of Freemasons who are Year 13 students and are active in their communities. In FY2023, three scholarships of $6,000 each were available. Applicants must demonstrate how the scholarship would assist them in achieving their academic goals.

Partnering with Dementia Australia

Heartland Finance has partnered with Dementia Australia since 2018 and currently sponsors the Melbourne 'Memory Walk and Jog' event to support the great work they do in promoting healthy ageing. Dementia Australia is the national peak body for people living with dementia, including their families and carers. They work tirelessly to bring notice to this important health issue – especially as Australia's ageing population increases.

Paid volunteer days

COVID-19 lockdowns saw a reduction in Heartland employees' ability to volunteer in the community. Despite this challenge, volunteer days in FY2023 included supporting Eat My Lunch, the Cyclone Gabrielle disaster recovery efforts, and planting trees for the Whau River Trust.

FY2024 TARGETS

Increasing commitment to wellbeing

In FY2024, the Heartland Trust's commitment to wellbeing has been increased through a renewed partnership with Lifeline Aotearoa.

Continue to give back through the Heartland Trust

The Heartland Trust will continue to give back to worthwhile causes in the communities in which Heartland operates, and in areas that support a thriving New Zealand.

Increase volunteer day participation

Heartland intends to promote volunteer days as a benefit for its employees, with a view to increasing utilisation in FY2024.

Heartland's commitment: Heartland cares for our customers.

How: Heartland provides competitive and flexible products that aim to improve the lives of our customers.

FY2023 ACHIEVEMENTS

Supporting people to live a more comfortable retirement

Heartland's Reverse Mortgage enables New Zealanders and Australians to have more choice in retirement. Rather than needing to sell their homes to consolidate or refinance debt or meet the costs of living, a reverse mortgage gives customers the ability to access the equity in their home without being forced to leave.

Between June 2018 and June 2023, the number of New Zealanders retiring with mortgage debt increased by 15%.[3] As the cost-of-living rises, Heartland has seen an increase in the proportion of Reverse Mortgages being used to repay debt in New Zealand. Similarly, providing extra income was an increasingly common reason to take out a reverse mortgage in Australia in FY2023. Use of a Heartland Reverse Mortgage for debt consolidation has increased year-on-year since FY2021, with more than 50% of new Australian customers using their reverse mortgage for this purpose.

The ability to age in place (that is, for a person to remain in their home as they age) is extremely desirable for many. Of Heartland's Reverse Mortgage customers in Australia, 80% stated that retiring and living in their own home was the most important benefit of a reverse mortgage. This aligns with a study by RMIT University, supported by Heartland, which found that 90% of Australians wish to retire and live in their own home. However, 36% of older Australians live in a home that may be unsuitable for ageing in place without upgrades or renovations – and approximately 29% will not be able to afford the changes required to make their home age-friendly.

Funding home improvements continues to be a key reason for customers to take out a Reverse Mortgage in both countries.

The table below shows the way in which Heartland's Australian and New Zealand Reverse Mortgage customers have chosen to use their Reverse Mortgage.

Reverse Mortgage uses (proportion of new customers)[4]

Australia	New Zealand
Home improvements (55%)	Home improvements (57%)
Debt consolidation (51%)	Debt consolidation (42%)
Income (38%)	Everyday expenses (32%)
Vehicle upgrade (28%)	Medical and healthcare (27%)
Travel (24%)	Travel (26%)
Medical and healthcare (14%)	Vehicle upgrade (24%)

3 According to data from Centrix.
4 Reverse Mortgages are often used for more than one purpose.

Savings Bank of the Year

Heartland Bank was proudly awarded Canstar NZ's 2023 Bank of the Year – Savings for the sixth year running.[5] Heartland Bank also received 5-Star ratings for its Direct Call Account, for the eighth year in a row, its 32-day Notice Saver Account for the second year in a row, and, for the first time, its newest 90-day Notice Saver Account. These products were recognised for their competitive rates and flexibility.

Outstanding Value Home Lender

Heartland Bank was awarded Canstar NZ's Outstanding Value Home Lender Award. Heartland achieved 5-Star Outstanding Value ratings across the three residential home loan product categories: Fixed Home Loans, Floating Home Loans and Line of Credit Home Loans.

Recognised for innovation and excellence

Heartland Finance was a finalist for Best Banking Innovation at the Australian Finder Innovation Awards 2022 and the winner of the Excellence Award for Non-Bank of the Year at the Australian Mortgage Awards 2022.

FY2024 TARGETS

Continue to be recognised for exceptional value and innovation

Heartland intends to continue to provide customers with exceptional value and banking innovation. In doing so, its aims to maintain its streak of Canstar NZ recognition, and recognition in the Australian market for its Reverse Mortgage product.

Commission research to better understand the needs of older New Zealanders and Australians

Heartland is exploring a partnership with organisations such as RMIT University to undertake further research to better understand the needs of older New Zealanders and Australians. This is intended to contribute to greater education and awareness of reverse mortgages as a solution in retirement.

Improve customer feedback collection and evaluation

Heartland aims to improve its customer feedback collection and evaluation processes to ensure its products and distribution channels continue to serve its customers' needs.

5 Awarded July 2023.

Making a **dream home reality**

Melbourne couple James and Mary dreamed of retiring to coastal New South Wales. They wanted to live in their own home, close to the beach.

When it came time to move, there were complications. The Melbourne house didn't sell for as much as they'd hoped and they'd underestimated the costs to move interstate. To live out their dream, they would have had to spend most of their existing resources, including their superannuation.

James had previously looked into getting a reverse mortgage. He dug out the information he'd gathered and got in touch with Heartland to see if we could help. After speaking with our team, they felt confident that with the support of Heartland, they could continue with their dream plans.

When James and Mary found their dream home, it was about $100,000 over their budget. They decided to go ahead with a Heartland Reverse Mortgage to cover the extra cost, top up their income and keep funds aside in a cash reserve facility for future needs.

James said, "Without Heartland we would have purchased a lower priced property. Yes, we wouldn't have any 'loans' with the lower priced option, but we would have much less equity wealth and wouldn't have the pleasure of living in our nicer home for the past five years.

We now find ourselves with increased equity, living in a lovely home of our choice and having the confidence that our Heartland Reverse Mortgage will continue to support our lifestyle.... Without Heartland none of this would have been possible."

James has the following message for anyone considering taking out a reverse mortgage.

"Consider your lifestyle, and your home equity. It's all good and well having a million-dollar home, but not when you are living off the pension where you can only just get by. Your home equity is yours to spend, you can control where you want to live and use a reverse mortgage to live a better retirement."

Names changed for privacy purposes.

Te oranga ā-ahumoni
Financial wellbeing

Heartland's commitment: Support the financial wellbeing of Heartland's customers and communities.

How: Enhance economic outcomes for customers through digitalisation.

FY2023 ACHIEVEMENTS

Providing repayment relief

The current economic environment and cost of living has left more New Zealanders experiencing financial difficulties. Heartland is providing a range of services to its customers to support them during these difficult times.

This included continuing to offer the Heartland Extend product which enabled customers to make their existing loan repayments more manageable.

Reducing customer friction

Throughout FY2023, Heartland continued to improve the Heartland Mobile App to support in addressing customers' most pressing needs – controlling their own finances, opening accounts, and trusting Heartland with their hard-earned money.

Ongoing digitalisation enhancements in FY2023 included expanding the secure automatic approval capabilities of Asset Finance and New Zealand Livestock Finance application processes, reducing customer friction and the need for manual assessment.

Automating term deposit onboarding

Heartland seeks to offer a frictionless onboarding process to save customers time. In FY2023, Heartland developed automation to provide term deposit applicants a more streamlined account opening process.

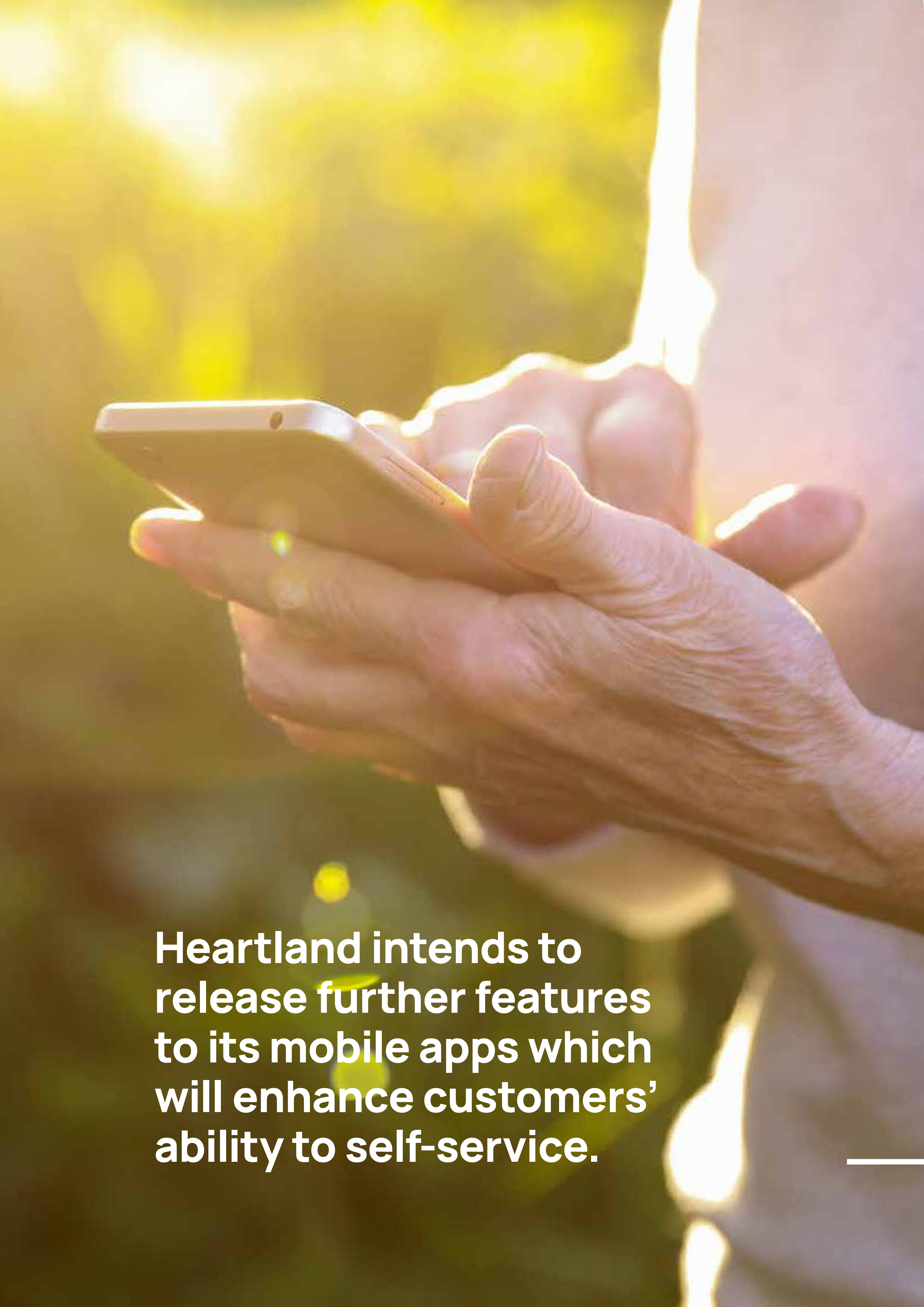
FY2024 TARGETS

Support borrowers to manage their repayments, avoiding arrears

One-Click Deferral will offer borrowers the flexibility to self-manage their vehicle loan repayments digitally via the Heartland Mobile App. Several mobile app features are currently being developed to provide borrowers the ability to pre-emptively manage their loan repayments to avoid falling into arrears, and to assist customers who are in arrears with getting their repayments back on track.

Continue to increase digital self-service functionality

One of Heartland's priorities in FY2023 has been Heartland Bank's core banking system upgrade, the development of which is nearing completion. Implementation is expected to be completed by the end of December 2023. Once implemented, Heartland intends to release further features to its mobile apps which will enhance customers' ability to self-service, reducing the dependency customers have on telephony.



Heartland intends to release further features to its mobile apps which will enhance customers' ability to self-service.

How: Ensure customers can benefit from Heartland's digitalisation journey.

FY2023 ACHIEVEMENTS

Extending digital access to Australian Reverse Mortgage customers

Heartland has released a mobile app for its Reverse Mortgage customers in Australia, allowing them to begin to manage their loan from their mobile device. Customers can now view their loan balance and request additional drawdowns in a frictionless manner from the Heartland Finance Mobile App. Within one month of rolling the app out to Australian Reverse Mortgage customers, more than 10% of customers had gained access. It is intended that the app will save customers time by reducing the need for them to call Heartland for these simple requests.

Improving mobile app literacy

Heartland has published "how to" guides on its websites to provide mobile app customers with detailed information on how to complete banking requests themselves. This minimises friction in service requests and reduces the need for customers to call Heartland's contact centre.

Protecting customers from scams and fraud

Heartland took part in an industry wide anti-scam campaign organised by the New Zealand Banking Association to raise awareness and educate people on how to stay safe from scams. Alongside other New Zealand banks, Heartland also supported the production of an educational documentary series organised by New Zealand's Banking Ombudsman Scheme with the same purpose. The documentary series aired in July 2023.

FY2024 TARGETS

Provide digital access to New Zealand Reverse Mortgage customers

Heartland intends to provide its New Zealand Reverse Mortgage customers with app access to view their reverse mortgage balance, interest rate, loan number, transactions, and allow customers to request a cash reserve/redraw from their mobile device.

Deliver educational events to improve digital capability

Heartland intends to host a series of events to educate Heartland's customers on how to use mobile devices and applications, including the Heartland Mobile App, in order to improve their confidence and capability using digital tools.

How: Ensure Heartland's values and commitments are shared by its suppliers.

FY2024 TARGETS

Set supplier sustainability targets

A focus area in FY2024 will be to set a strategy and targets to enhance sustainability and ensure Heartland's values and commitments are shared by its suppliers.

04
DISCLOSURES

This corporate governance statement describes Heartland's corporate governance policies and practices as at 30 June 2023, and has been approved by the Board.

On 1 April 2023, the NZX published a revised NZX Corporate Governance Code. Issuers are only required to report against the revised NZX Corporate Governance Code for their first full financial year commencing on or after 1 April 2023. As Heartland's balance date is 30 June 2023, Heartland has chosen to report against the previous version of the NZX Corporate Governance Code dated 17 June 2022 in this Annual Report and will commence reporting against the revised NZX Corporate Governance Code in its FY2024 Annual Report for the financial year commencing 1 July 2023.

Heartland, as the parent company of the Group, is committed to ensuring that Heartland's policies and practices reflect current best practice, in the interests of Heartland's shareholders and other stakeholders. In addition to information about Heartland's corporate governance policies and practices, this section also includes information about Heartland Bank's corporate governance policies and practices. Heartland Bank has its own Board and Board Committees, and makes independent decisions (including on corporate governance matters). Heartland and Heartland Bank Board and Committee meetings are usually held consecutively and members of both Boards or Committees (as applicable) attend both meetings. However, from November 2023, Heartland and Heartland Bank Board and Committee meetings will be held separately with only the respective Chairs as attendees at both meetings. Heartland's important corporate governance policies and practices either apply to, or have been adopted by, Heartland Bank.

Heartland is pleased to report that, other than in respect of the matters explained in the "Principle 3 – Board Committees" section below, it was fully compliant with the corporate governance recommendations contained in the NZX Corporate Governance Code as at 30 June 2023.

Principle 1 – Code of Ethical Behaviour

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

Codes of Conduct – Recommendation 1.1

Heartland's Code of Conduct and Directors' Code of Conduct set out the ethical and behavioural standards expected of Group directors, employees and intermediaries. The Codes of Conduct are available on Heartland's website, **heartlandgroup.info**.

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

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

Every new director and employee is provided with a copy of the Code of Conduct (and Directors' Code of Conduct in the case of directors) and is required to read it. Each new employee is also required to attest to their understanding of the Code of Conduct. Employees are also required to annually review and attest to their understanding of the Code of Conduct. Each director and employee has an obligation, at all times, to comply with the spirit as well as the letter of the law, and to comply with the principles of the Code of Conduct, including exhibiting a high standard of ethical behaviour. The Codes of Conduct are subject to annual review. Various Heartland policies, frameworks and standards expand upon the topics in the Code of Conduct, for example, Heartland's Conduct Management Framework, Employee Whistleblowing Policy, and Gift and Hospitality Policy.

Insider Trading Policy – Recommendation 1.2

Heartland has an Insider Trading Policy which applies to all directors, employees and contractors of Heartland and its subsidiaries. In addition to the prohibition on insider trading, directors, employees and contractors are prohibited from buying or selling the Group's quoted financial products during 'blackout periods'. These are periods that commence 30 days prior to the end of the half-year and the full-year and generally end once the financial results from the half-year or the full-year have been released to the market, and 30 days prior to the release of a product disclosure statement, prospectus and/or investment statement for a general public offer of any quoted financial products, and generally end once the disclosure document has been released to the market. Additional blackout periods may also be notified from time to time. In addition, all of the Group's directors, senior officers and certain other designated persons are required to obtain consent before buying or selling the Group's quoted financial products outside of blackout periods, and to certify that their decision to buy or sell has not been made on the basis of inside information.

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

The Insider Trading Policy is available on Heartland's website, **heartlandgroup.info**. Through Heartland's share registrar, Link Market Services, Heartland actively monitors trading in Heartland shares by directors, officers and certain other designated persons.

Principle 2 – Board Composition and Performance

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

Role of the Board – Recommendation 2.1

The Board is responsible for corporate governance and setting the Group's overall strategic direction. The Board charter regulates Board procedure and describes the Board's role and responsibilities in detail and the role of management. The Board Charter is available on Heartland's website, **heartlandgroup.info**

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

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

Director appointment – Recommendations 2.2 and 2.3

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

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

Director attendance at Board and Committee meetings – Recommendation 2.4

The Board held 10 meetings, and the Heartland Bank Board held 11 meetings, during FY2023. The following table shows attendance by each director at the meetings of the Heartland and Heartland Bank Boards and Heartland Board Committees of which he or she was a member.

All of the then serving members of the Board, and Heartland Bank Board, attended the Annual General Meeting held on 8 November 2022.

	Heartland Board		Heartland Bank Board	
	Attended as Director	Attended as Observer	Attended as Director	Attended as Observer
J K Greenslade	10	-	10	-
E F Comerford	10	-	-	10
E J Harvey	-	10	11	-
B R Irvine	-	10	11	-
K Mitchell	10	-	11	-
G T Ricketts[1]	4	-	4	-
G R Tomlinson	9	-	-	8
S M Ruha	-	9	10	-
G E Summerhayes	10	-	-	10
S R Tyler[2]	-	7	8	-

	Heartland directorships		Heartland Bank directorships	
	Audit & Risk Committee	Corporate Governance, People, Remuneration and Nominations Committee	Audit Committee	Risk Committee
J K Greenslade	6*	5*	6*	-
E F Comerford	7	-	7*	5*
E J Harvey	6*	-	6	7
B R Irvine	6*	5	6	2*
K Mitchell	7	-	7*	7
G T Ricketts[1]	3	3	3	1*
G R Tomlinson	1**	5	1	-
S M Ruha	6*	-	6	7
G E Summerhayes	1*	-	1*	1*
S R Tyler***	3*	-	3	4****

* These meetings were attended by the director as an observer rather than as a member.
** G R Tomlinson was appointed to the Heartland Audit & Risk Committee on 10 March 2023 and attended all committee meetings following his appointment.
*** S Tyler was appointed to the Heartland Bank Audit Committee on 19 January 2023 and Heartland Bank Risk Committee on 5 April 2023 and attended all Committee meetings following this appointment.
**** The first two meetings were attended as an observer and the subsequent two as a member.

1 G T Ricketts sadly passed away on 10 March 2023 and ceased to be a director of Heartland and Heartland Bank on 10 March 2023.
2 S R Tyler joined the Heartland Bank Board on 8 November 2022.

A profile of each director's experience is available on Heartland's website, heartlandgroup.info. The Directors' disclosures section of this report also includes information on each director's independence status, Heartland share dealings and relevant interests and disclosure of interests. A description of each director's length of service is included on pages 24-27 of this Annual Report.

Diversity and inclusion – Recommendation 2.5

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

Heartland's diversity and inclusion objectives align to its social sustainability targets. A commentary on achievements and activity in FY2023 is included on pages 36-39 of this Annual Report.

Board training and performance assessment – Recommendations 2.6 and 2.7

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

The Corporate Governance, People, Remuneration and Nominations Committee reviews Board composition and skills. The Chairs of Heartland and Heartland Bank each undertake an annual review of their respective Board's performance, the performance of each applicable Committee and applicable individual director performance. This is to ensure that they each have a range of complementary skills, knowledge and experience in order to effectively govern Heartland and Heartland Bank (as applicable), to monitor its performance, and to support the implementation of its strategic priorities – in the interests of its shareholder(s) and other stakeholders.

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

Board membership, size and composition – Recommendations 2.8 and 2.9

The NZX Listing Rules provide that the number of directors must be at least three, at least two directors must be ordinarily resident in New Zealand and at least two directors must be independent directors. Subject to these requirements, the size of the Board is determined from time to time by the Board.

As at 30 June 2023, the Board comprised five directors, being the non-executive Chair, the CEO and three independent, non-executive directors. Three of Heartland's directors are ordinarily resident in New Zealand, and a majority of the Board is independent. The Board encourages rigorous discussion and analysis when making decisions.

On 20 February 2023, G T Ricketts stepped down as Chair of Heartland with immediate effect due to ill heath and G R Tomlinson, Heartland's Deputy Chair, assumed the role of Chair. The Board is of the view that although G R Tomlinson is not independent, it is appropriate for G R Tomlinson to be Heartland's Chair given he has been a non-executive director of Heartland since 2018,[3] Deputy Chair for a number of years and has a deep understanding of Heartland, its business and its shareholders. In addition, he is not an executive of Heartland which ensures that there is continued, appropriate separation between the Chair and CEO of Heartland to ensure that a conflict of interest does not arise.

As a result, while Heartland's Chair is not independent, the Chair and the CEO are different people, as required by Recommendation 2.9 of the NZX Corporate Governance Code.

Principle 3 – Board Committees

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

As at 30 June 2023, Heartland had two permanently constituted Board Committees: the Audit & Risk Committee and the Corporate Governance, People Recommendations and Nominations Committee. Each of these Committees is tasked with working with management in its specific area of responsibility and reporting its findings and recommendations to the Board. Management attend Committee meetings as required at the invitation of the relevant Committee.

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

Audit & Risk Committee – Recommendations 3.1 and 3.2

Membership is restricted to non-executive directors, with at least three members, the majority of whom must be independent. The Chair of the Audit & Risk Committee must be an independent director who is not the Chair of the Board. As discussed above, the Audit & Risk Committee operates under a written charter and employees attend meetings only at the invitation of the Audit & Risk Committee.

As at 30 June 2023, the members of the Audit & Risk Committee were E F Comerford (Chair), K Mitchell and G R Tomlinson.[4] The role of the Audit & Risk Committee is to advise and provide assurance to the Board in order to enable the Board to discharge its responsibilities in relation to the oversight of:

- the integrity of financial control, financial management and external financial reporting;
- the internal audit function;
- the independent audit process; and
- the formulation of its risk appetite.

The Audit & Risk Committee also provides the Board with assurance that all risks within the key risk categories which are relevant to the Group have been appropriately identified, managed and reported to the Board.

The Audit & Risk Committee works closely with the Heartland Bank Audit Committee and the Heartland Bank Risk Committee, which have similar responsibilities in relation to Heartland Bank, and their meetings occur consecutively. However, as discussed earlier, from November 2023 Heartland and Heartland Bank Committee meetings will be held separately with only the respective Chairs as attendees at the other meetings. As at 30 June 2023, the Board determined that all Committee members had a recognised form of financial expertise in accordance with the Audit & Risk Committee's charter.

Corporate Governance, People, Remuneration and Nominations Committee – Recommendations 3.3 and 3.4

The Corporate Governance, People, Remuneration and Nominations Committee is required to have, unless otherwise agreed by the Board, at least three directors as members, the majority of whom must be independent. As discussed above, the Committee operates under a written charter and management attends Committee meetings only at the invitation of the Committee.

3 G R Tomlinson was also a director of Heartland Bank Limited, Heartland's predecessor entity, before the corporate restructure of the Heartland group on 31 October 2018. On that date he ceased to be a director of Heartland Bank Limited and began his appointment on the Heartland Board.
4 G T Ricketts sadly passed away on 10 March 2023 and ceased to be a member of the Committee and G R Tomlinson was appointed to the Committee with effect from this date.

As at 30 June 2023, the members of the Corporate Governance, People, Remuneration and Nominations Committee were G R Tomlinson (Acting Chair) and B R Irvine.[5]

Although B R Irvine is an independent director of Heartland Bank and not Heartland, the Board is of the view that a director of Heartland Bank should be a member of the Corporate Governance, People, Remuneration and Nominations Committee given that the majority of employees of the Group are employed by Heartland Bank. B R Irvine, as Chair of Heartland Bank, represents Heartland Bank's position in that regard. In addition, following G T Ricketts sad passing on 10 March 2023, the Board determined to appoint G R Tomlinson as Acting Chair and to maintain Corporate Governance, People, Remuneration and Nominations Committee membership at two directors until such time as the most appropriate group structure to accommodate the Challenger Bank acquisition is determined. Accordingly, Heartland has not strictly complied with Recommendation 3.3 of the NZX Corporate Governance Code as the majority of the Corporate Governance, People, Remuneration and Nominations Committee are not independent directors of Heartland. Instead, the Corporate Governance, People, Remuneration and Nominations Committee has one independent director of Heartland Bank and one non-independent non-executive director of Heartland but, as described above, the Board considers this appropriate for Heartland.

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

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

Other Committees – Recommendation 3.5

The Board expects to shortly establish a Sustainability Committee to oversee Heartland's sustainability strategy and implementation plans. The Board is otherwise comfortable that no other standing Committees are necessary at this stage; however other ad hoc Committees are established for specific purposes from time to time.

As at 30 June 2023, Heartland Bank had a permanently constituted Risk Committee and Audit Committee which are tasked with working with management and reporting their findings and recommendations to the Heartland Bank Board.

Takeovers Response Manual – Recommendation 3.6

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

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

Principle 4 – Reporting and disclosures

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

Heartland appreciates that its investors and other stakeholders value both financial

5 G T Ricketts sadly passed away on 10 March 2023 and ceased to be a member of the Committee.

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

Disclosure Policy – Recommendation 4.1

Heartland's Disclosure Policy sets out procedures that are in place to make sure all material information is identified and disclosed in a timely manner, and to prevent the selective disclosure of material non-public information. Under the Policy, potentially 'material information' is required to be brought to the attention of the Heartland General Counsel and/or Group Chief Operating Officer who are responsible for making a recommendation to the 'Decision Makers', being the CEO and/or representatives from the Heartland and/or Heartland Bank Boards (as applicable), who are ultimately responsible for determining whether information is material, and approving the form and content of material information that is disclosed. Heartland also monitors information in the market about itself and will release information to the extent necessary to prevent development of a false market for the Group's quoted financial products.

Availability of key documents – Recommendation 4.2

Heartland's Code of Conduct, Board and Committee Charters and the policies recommended in the NZX Corporate Governance Code, including the Disclosure Policy, are available on Heartland's website, **heartlandgroup.info**. Heartland also maintains copies of its stock exchange announcements, full-year reports, investor presentations and details of Annual General Meetings, on its website.

Financial reporting and non-financial disclosure – Recommendation 4.3

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

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

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

Heartland is committed to delivering value for its customers, shareholders, employees, communities, partners and intermediaries. This is the fifth year that Heartland has reported against a Sustainability Framework (previously known as the Corporate Social Responsibility Framework) in order to provide more detailed information on the value created for Heartland's stakeholders. Refer to the Sustainability section on page 29 of this Annual Report for detailed information on Heartland's environmental, social and economic impact across New Zealand and Australia.

Principle 5 – Remuneration

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

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

Director remuneration – Recommendation 5.1

Actual director remuneration for FY2023 is disclosed in the Directors' remuneration section on page 64 of this report.

Remuneration Policy – Recommendation 5.2

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

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

The full Remuneration Policy is available on Heartland's website, **heartlandgroup.info**.

Heartland's Corporate Governance, People, Remuneration and Nominations Committee is kept up to date with relevant market information and best practice, obtaining advice from external advisors when necessary.

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

Non-executive directors' remuneration

Total remuneration available to the Group's non-executive directors is determined by Heartland's shareholders. The current aggregate approved amount by shareholders is $1,600,000 per annum or A$1,400,000 (whichever is the greater amount from time-to-time).

Heartland's policy is to pay directors' fees in cash. There is no requirement for directors to take a portion of their remuneration in shares, nor is there a requirement for directors to hold shares in Heartland. However, as at 30 June 2023, a number of the directors held shares, or a beneficial interest in shares, in Heartland (see the Directors' disclosures section on page 60 of this Annual Report for further details).

Senior executive remuneration

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

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

CEO remuneration – Recommendation 5.3

Disclosure of the CEO's remuneration is included in the Directors' disclosures section on page 66 of this Annual Report.

Principle 6 – Risk Management

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

Risk management – Recommendation 6.1

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

Health and safety – Recommendation 6.2

Heartland promotes a working environment where it engages with all its people, so that it can maintain a workplace that is mentally and physically safe and healthy; and to promote a positive health and safety culture. Heartland engages with its people to identify, assess, control and review risk, with a focus on continuous improvement of health and safety. In FY2023, Heartland expanded its Health and Safety Policy to encompass wellbeing and substantially progressed initiatives identified to further enhance processes in this regard.

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

In the year ended 30 June 2023, there were no notifiable events to report to WorkSafe New Zealand.

Principle 7 – Auditors

External auditor relationship framework and independence – Recommendation 7.1

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

On 16 December 2022, Heartland announced the Board had resolved to appoint PricewaterhouseCoopers (**PwC**) as Heartland's new external auditor, having accepted the resignation of KPMG. After a long period of KPMG as Heartland's external auditor, the Board determined it was good governance practice to change auditor.

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

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

The external auditor monitors its independence and reports to the Audit & Risk Committee bi-annually to confirm that it has remained independent in the previous six months, in accordance with Heartland's External Auditor Independence Policy and the external auditor's policies and professional requirements. There have been no threats to auditor independence identified during FY2023.

AGM attendance – Recommendation 7.2

Heartland's external auditor attends its Annual General Meeting to answer questions from shareholders in relation to the audit.

Internal Audit – Recommendation 7.3

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

Principle 8 – Shareholder rights and relations

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

Shareholder information and communication – Recommendations 8.1 and 8.2

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

- periodic and continuous disclosure to NZX and ASX;
- information provided to analysts and media during briefings;
- Heartland's website (heartlandgroup.info) where shareholders can access financial, operational and key corporate governance information;
- the Annual General Meeting, at which shareholders' have the opportunity to ask questions; and
- annual reports.

The Board encourages full participation of shareholders at the Annual General Meeting to ensure a high level of accountability.

Heartland's website has a clear "Contact us" page that provides contact details for Heartland's share registrar and shareholder enquiries, and provides the option to receive communications from Heartland electronically.

Major decisions – Recommendation 8.3

Where shareholders are required to vote on a matter concerning Heartland, the Board encourages shareholders to attend the Annual General Meeting or to cast a postal vote or appoint a proxy. All voting at the Heartland's Annual General Meeting is conducted by way of poll on the basis of one share, one vote.

Heartland equity raise – August 2022 – Recommendation 8.4

On 23 August 2022, Heartland announced a $200 million equity raise via a fully underwritten $130 million placement of new shares (**Placement**) and a non-underwritten share purchase plan offer (**SPP**) of up to $70 million. The Placement was fully subscribed and the SPP had applications totalling approximately $68.8 million. For the purposes of Recommendation 8.4 of the NZX Corporate Governance Code, below is an explanation of why this capital raising method was preferred. Heartland elected to undertake this offer structure having regard to the volatile market conditions preceding the offer and its objective to further diversify its share register to promote increased liquidity on both the NZX and ASX.[6]

Heartland endeavoured to treat existing shareholders in eligible jurisdictions fairly through the Placement via an allocation policy that sought, to the extent possible, to provide pro-rata allocations to existing shareholders that bid for at least such quantum into the Placement. To further enhance fairness for retail shareholders who participated in the SPP offer (which allowed applications up to $50,000), downside pricing protection was provided (but was ultimately not required).[7] This was intended to reduce market risk for retail shareholders during the offer period, which is not available under a rights offer.

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

Publication of notice of meeting – Recommendation 8.5

Heartland's notice of meeting will be available at least 20 working days prior to its Annual General Meeting at heartlandgroup.info.

6 Heartland's trading liquidity is lower than other NZX50 companies of similar size. Increasing liquidity is expected to attract further institutional investors which is positive for Heartland and all shareholders.
7 The final price was the lower of the Placement price ($1.80) or a 2.5% discount to the 5-day volume-weighted average price (**VWAP**) prior to, and including, the closing date for the SPP Offer. Shares were allocated under the SPP Offer at $1.80.

Ngā whākitanga a te toihau
Directors' disclosures

Directors

The following persons were directors of the Group during FY2023.

Company	Directors	Status
Heartland Group Holdings Limited	Geoffrey Thomas Ricketts Gregory Raymond Tomlinson Ellen Frances Comerford Jeffrey Kenneth Greenslade Kathryn Mitchell Geoffrey Edward Summerhayes	Independent Non-Executive Director (Chair) (ceased directorship on 10 March 2023)[1] Non-Independent Non-Executive Director (Chair)[2] Independent Non-Executive Director Non-Independent Executive Director Independent Non-Executive Director Independent Non-Executive Director
Heartland Bank Limited	Bruce Robertson Irvine Jeffrey Kenneth Greenslade Edward John Harvey Shelley Maree Ruha Kathryn Mitchell Geoffrey Thomas Ricketts Simon Ross Tyler	Independent Non-Executive Director (Chair) Non-Independent Non-Executive Director Independent Non-Executive Director Independent Non-Executive Director Non-Independent Non-Executive Director Non-Independent Non-Executive Director (ceased directorship on 10 March 2023) Independent Non-Executive Director (appointed 8 November 2022)
ASF Custodians Pty Limited	Richard Glenn Udovenya Jeffrey Kenneth Greenslade	
Australian Seniors Finance Pty Limited	Jeffrey Kenneth Greenslade Christopher David Andrew Cowell Andrew Peter Dixson Sharon Susan Yardley Geoffrey Edward Summerhayes Christopher Patrick Francis Flood	 Ceased 9 May 2023 Ceased 9 May 2023 Ceased 9 May 2023 Appointed 9 May 2023 Appointed 9 May 2023
Heartland Australia Holdings Pty Ltd	Jeffrey Kenneth Greenslade Geoffrey Edward Summerhayes Christopher David Andrew Cowell Andrew Peter Dixson Sharon Susan Yardley Christopher Patrick Francis Flood	 Ceased 16 February 2023 Ceased 16 February 2023 Ceased 16 February 2023 Appointed 16 February 2023
Heartland Australia Group Pty Ltd	Jeffrey Kenneth Greenslade Christopher David Andrew Cowell Andrew Peter Dixson Sharon Susan Yardley Geoffrey Edward Summerhayes Christopher Patrick Francis Flood	 Ceased 9 May 2023 Ceased 9 May 2023 Ceased 9 May 2023 Appointed 9 May 2023 Appointed 9 May 2023
Heartland NZ Trustee Limited	Philippa Rosemary Drury Christopher Patrick Francis Flood	Resigned 31 August 2022
Heartland PIE Fund Limited	Jeffrey Kenneth Greenslade Bruce Robertson Irvine Leanne Gloria Lazarus	Ceased 18 November 2022 Appointed 18 November 2022

1 Geoff Ricketts stepped down as Chair on 20 February 2023. On 10 March 2023, Geoff Ricketts sadly passed away and ceased to be a director of Heartland.
2 Greg Tomlinson assumed the role of Chair on 20 February 2023.

Company	Directors	Status
MARAC Insurance Limited	Andrew James Aitken Christopher Patrick Francis Flood Christopher Robert Mace	
VPS Properties Limited	Christopher Patrick Francis Flood	
Fuelled Limited	Christopher Patrick Francis Flood	
StockCo Holdings 2 Pty Limited	Jeffrey Kenneth Greenslade Douglas Robert Snell Andrew Peter Dixson Geoffrey Edward Summerhayes	
StockCo Holdings Pty Limited	Jeffrey Kenneth Greenslade Douglas Robert Snell Andrew Peter Dixson	
StockCo AgriCapital Pty Ltd	Jeffrey Kenneth Greenslade Douglas Robert Snell Andrew Peter Dixson	
StockCo Feedlot Holdings Pty Limited	Jeffrey Kenneth Greenslade Douglas Robert Snell	
StockCo Feedlot Capital Pty Limited	Jeffrey Kenneth Greenslade Douglas Robert Snell	
StockCo Australia Management Pty Ltd	Jeffrey Kenneth Greenslade Douglas Robert Snell Andrew Peter Dixson	

When determining whether a director of Heartland is independent, the factors described in the NZX Corporate Governance Code as possibly impacting a director's independence were considered and it was determined that none of those factors applied to the directors noted above as independent in such a way that those factors might interfere, or might reasonably be seen to interfere, with the director's capacity to bring an independent judgment to bear on issues before the Board, to act in the best interests of Heartland and to represent the interests of its shareholders generally.

Interests Register

The following are the entries in the Interests Register of the Group made during FY2023.

Indemnification and insurance of directors

Heartland has given indemnities to, and has effected insurance for, directors of the Group to indemnify and insure them in respect of any liability for, or costs incurred in relation to, any act or omission in their capacity as directors, to the extent permitted by the Companies Act 1993. The cost of the insurance premiums to the Group for FY2023 was $383,250 (excluding GST).

Share dealings by directors

Details of individual directors' share dealings as entered in the Interests Register of Heartland and Heartland Bank under Section 148(2) of the Companies Act 1993 during the year ended 30 June 2023 are as follows (all dealings are in ordinary shares unless otherwise specified):

J K Greenslade

Date of acquisition/ disposal	Nature of relevant interest	Acquisition / disposal	No. of shares	Consideration
29 August 2022	Acquisition of shares under Heartland's $130 million placement	Acquisition	27,777	$49,998.60
16 September 2022	Acquisition of shares pursuant to vesting of performance rights plan	Acquisition	1,064,774	Nil
16 September 2022	A proportion of the shares issued pursuant to vesting of the performance rights were immediately acquired by Heartland in order to fund the tax liability arising for the recipients upon the issue of shares under the performance rights plan	Disposal	415,261	$761,126.59
16 September 2022	Off market transfer of shares	Disposal	194,854	Nil
25 November 2022	Off market transfer of shares	Disposal	75,000	Nil

E J Harvey

Date of acquisition/ disposal	Nature of relevant interest	Acquisition / disposal	No. of shares	Consideration
9 September 2022	Acquisition of shares under Heartland's $70 million share purchase plan	Acquisition	10,184	$17,999.20
22 March 2023	Allotment under DRP	Acquisition	4,939	$8,085.13

B R Irvine

Date of acquisition/ disposal	Nature of relevant interest	Acquisition / disposal	No. of shares	Consideration
29 August 2022	Acquisition of shares under Heartland's $130 million placement	Acquisition	25,000	$45,000.00
9 September 2022	Acquisition of shares under Heartland's $70 million share purchase plan	Acquisition	28,290	$49,999.75
9 September 2022	Acquisition of shares under Heartland's $70 million share purchase plan	Acquisition	28,290	$49,999.75

K Mitchell

Date of acquisition/ disposal	Nature of relevant interest	Acquisition / disposal	No. of shares	Consideration
29 August 2022	Acquisition of shares under Heartland's $130 million placement	Acquisition	55,000	$99,000.00

G T Ricketts

Date of acquisition/ disposal	Nature of relevant interest	Acquisition / disposal	No. of shares	Consideration
29 August 2022	Acquisition of shares under Heartland's $130 million placement	Acquisition	1,666,666	$2,999,998.80

G E Summerhayes

Date of acquisition/ disposal	Nature of relevant interest	Acquisition / disposal	No. of shares	Consideration
27 October 2022	Acquisition	Acquisition	5,000	A$7,618.51
28 October 2022	Acquisition	Acquisition	5,000	A$7,750.00
31 October 2022	Acquisition	Acquisition	5,000	A$7,900.00
1 November 2022	Acquisition	Acquisition	5,000	A$7,900.00

G R Tomlinson

Date of acquisition/ disposal	Nature of relevant interest	Acquisition / disposal	No. of shares	Consideration
29 August 2022	Acquisition of shares under Heartland's $130 million placement	Acquisition	10,942,939	$19,697,290.20

General notice of disclosure of interests in the interests register

Details of any changes to Heartland and Heartland Bank directors' general disclosures entered in the relevant interests register under Section 140 of the Companies Act 1993 during FY2023 are as follows:

E J Comerford	Appointed director to IVM InterSurer B.V., Hollard Investments B.V., Hollard Investments II BV and Greenstone Holdco Pty Ltd from 1 November 2022. Ceased directorships of Hollard Holdings Australia Pty Ltd and The Hollard Insurance Company Pty Ltd from 1 October 2022.
E J Harvey	Ceased directorship of KMD Brands Limited from 1 December 2022.
B R Irvine	No amendments for the year ended 30 June 2023.
K Mitchell	Appointed director to The A2 Milk Company Limited from 1 June 2023.
G T Ricketts[3]	No amendments for the year ended 30 June 2023.
S M Ruha	No amendments for the year ended 30 June 2023.
G R Tomlinson	No amendments for the year ended 30 June 2023.
J K Greenslade	No amendments for the year ended 30 June 2023.
G Summerhayes	Appointed director of Heartland Australia Group Pty Limited and Australian Seniors Finance Pty Limited from 9 May 2023.
S R Tyler	No amendments for the year ended 30 June 2023.

Details of Heartland and Heartland Bank directors' general disclosures entered in the relevant interest register under Section 140 of the Companies Act 1993 prior to 1 July 2022 can be found in earlier Annual Reports.

Specific disclosures of interest in the interests register

There were no specific disclosures of interests in transactions entered into by the Group (including Heartland Bank) during the period 1 July 2022 to 30 June 2023.

Information used by directors

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

3 No amendments were noted before Geoff Ricketts ceased being a director on 10 March 2023.

Heartland and Heartland Bank directors' relevant interests

As at 30 June 2023.

Director	Number of ordinary shares – beneficial	Number of ordinary shares – non-beneficial[4]	Number of options
J K Greenslade	2,400,514	Nil	Nil
E J Harvey	162,910	6,504,266	Nil
B R Irvine	699,402	6,504,266	Nil
K Mitchell	108,088	Nil	Nil
S M Ruha	158,536	Nil	Nil
G E Summerhayes	20,000	Nil	Nil
G R Tomlinson	69,335,936	Nil	Nil

Directors' remuneration

The current total fee pool for the non-executive directors of the Group approved by shareholders at the Annual General Meeting of Heartland held on 8 November 2022 is NZ$1,600,000 per annum or A$1,400,000 (whichever is the greater amount from time-to-time) effective for FY2023 and onwards.

The table below sets out the fees payable to the non-executive directors of Heartland for FY2023 based on the position(s) held.

Board/Committee[5]	Position	Fees (per annum)
Board of Directors	Chair Member	$150,000 $100,000
Heartland Audit & Risk Committee	Chair Member	$15,000 Nil
Heartland Bank Audit Committee	Chair Member	$15,000 Nil
Heartland Bank Risk Committee	Chair Member	$15,000 Nil
Corporate Governance, People, Remuneration and Nominations Committee	Chair Member	$15,000 Nil

The total remuneration and value of other benefits[6] received by each non-executive director who held office in Heartland and/or any of its subsidiaries during the year ended 30 June 2023 is set out in the table below. Directors' fees exclude GST where appropriate.

Director	**Board Fees**	**Heartland Audit & Risk Committee**	**Heartland Bank Audit Committee**	**Heartland Bank Risk Committee**	**Heartland Corporate Governance, People, Remuneration and Nominations Committee**	**Other**	**Total Remuneration[7]**
Heartland and Heartland Bank directorships							
E F Comerford	$100,000	$15,000	-	-	-	-	$115,000
E J Harvey	$100,000	-	$15,000	-	-	-	$115,000

4 The non-beneficial interest in the 6,504,266 shares arises from those directors being a trustee of the Heartland Trust, which held 6,504,266 shares in Heartland as at 30 June 2023.
5 If a director sits on both the Heartland and Heartland Bank Boards, they are only entitled to receive one fee.
6 In addition to these amounts, Heartland meets costs incurred by directors, which are incidental to the performance of their duties. This includes providing directors with telephone concessions and paying the cost of directors' travel. As these costs are incurred by Heartland to enable directors to perform their duties, no value is attributable to them as benefits to directors for the purposes of the tables included in this report.
7 For the purposes of the total remuneration column in this table, A$ fees have been converted to NZ$ using an exchange rate of $1.0928 and then rounded.

Director	Board Fees	Heartland Audit & Risk Committee	Heartland Bank Audit Committee	Heartland Bank Risk Committee	Heartland Corporate Governance, People, Remuneration and Nominations Committee	Other	Total Remuneration[7]
			Heartland and Heartland Bank directorships				
B R Irvine	$150,000	-	-	-	-	-	$150,000
K Mitchell	$100,000	-	-	-	-	-	$100,000
G T Ricketts	$112,500[8]	-	-	-	$11,250	-	$123,750
S M Ruha	$100,000	-	-	$15,000	-	-	$115,000
G R Tomlinson	$100,000[9]	-	-	-	-	-	$100,000
G E Summerhayes	$100,000	-	-	-	-	-	$100,000
S R Tyler	$64,673.91[10]	-	-	-	-	-	$64,673.91
			Subsidiary directorships				
A J Aitken	$32,000[11]	-	-	-	-	-	$32,000
E F Comerford	A$55,250[12]	-	-	-	-	-	$60,385
P Drury	$3,333[13]	-	-	-	-	-	$3,333
C R Mace	$15,000[14]	-	-	-	-	-	$15,000
R G Udovenya	A$30,000[15]	-	-	-	-	-	$32,800
G E Summerhayes[16]	A$250,390	-	-	-	-	-	$273,650
	Total						$1,400,862.24

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

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

8 Fees paid until 31 March 2023.
9 G Tomlinson elected not to receive the Chair fee component for the financial year ended 30 June 2023.
10 Fees paid from S Tyler's commencement as a director on 8 November 2022.
11 Fees paid to A J Aitken as a director of MARAC Insurance Limited.
12 Fees paid to E F Comerford by Heartland Australia Group Pty Limited and Heartland Australia Holdings Pty Limited (E F Comerford resigned as a director from 26 July 2019 but still receives fees in return for consultancy services provided to these companies).
13 Fees paid to P Drury as a director of Heartland NZ Trustee Limited until her resignation effective 31 August 2022.
14 Fees paid to C R Mace as Chair of MARAC Insurance Limited.
15 Fees paid to R G Udovenya as a director of ASF Custodians Pty Limited.
16 Fees paid to G E Summerhayes as a director of Heartland Australia Holdings Pty Limited, Heartland Australia Group Pty Limited and Australian Seniors Finance Pty Limited. Includes deferred payment of FY2022 directors fees of A$21,390 so as not to exceed the directors' fee cap for FY2022 prior to shareholder approval at the 2022 Annual Meeting to increase the total fee pool for non-executive directors. G E Summerhayes is the Chair of Heartland Australia Holdings Pty Ltd, the parent company of Heartland's Australian group and (subject to the completion of the Challenger Bank acquisition, which remains subject to regulatory approvals) would ultimately chair Heartland's banking business in Australia. In setting G E Summerhayes' remuneration, Heartland took into account independent advice about market rates, having identified the need in FY2022 to engage the assistance of an Australian-based independent non-executive director who knows the Australian ADI sector well.

CEO remuneration

In FY2023, the CEO received a fixed salary, a variable remuneration component comprising STI, and other benefits as detailed in the below tables. The tables also show a comparison between FY2022 and FY2023 and a summary of the CEO's total remuneration over the last five financial years.

Consistent with the approach taken last year, Heartland has presented the summary below using the cost to Heartland (being the accounting cost) of all current LTI grants made to the CEO. The accounting cost of all current LTI grants differs from the value of the awards which actually vested, noting that no awards vested in respect of which the final financial year for performance measured was FY2023. This is because the accounting cost of a grant reflects the uncertainty around whether the relevant performance criteria will be met, and is spread over the entire performance period of that grant.

CEO remuneration (FY2023 and FY2022)

Financial year ended	Salary	Benefits[17]	STI (At Risk Pay)	Total Salary, Benefits and STI	LTI[18] (At Risk Pay) - Accounting cost to Heartland*	
30 June 2023	$1,089,200	$10,800	$990,000	$2,090,000	FY2023	$466,901[19]
30 June 2022	$1,089,200	$10,800	$975,000	$2,075,000	FY2022	$651,294[20]

* This is the accounting cost of all current LTI grants made to the CEO, which differs from the value of awards which actually vested. No LTI awards vested to the CEO in respect of which the final financial year for performance measured was FY2023.

Five-year summary of total CEO remuneration

This year, Heartland has presented the below summary using the value of the awards which actually vested during the relevant financial year.

Financial year ended	Percentage STI against maximum	Value of LTI awards vested in that financial year	Percentage LTI vesting against maximum[21]	Span of relevant LTI performance period
30 June 2023	90%	N/A	N/A	N/A
30 June 2022	89%	$2,000,000	100%	5 years
30 June 2021	100%	N/A	N/A	N/A
30 June 2020	96%	N/A	N/A	N/A
30 June 2019	45%	$1,379,161	100%	FY2019[22]

Breakdown of CEO At Risk Pay (FY2023)

	Description	Performance measures	Percentage achieved
STI	Up to 100% of base salary based on the achievement of financial and non-financial performance expectations.	Based on achievement of financial and non-financial performance expectations.[23]	90%
LTI	N/A. No awards vested to the CEO in respect of which the final financial year for performance measured was FY2023.		

STI Scheme

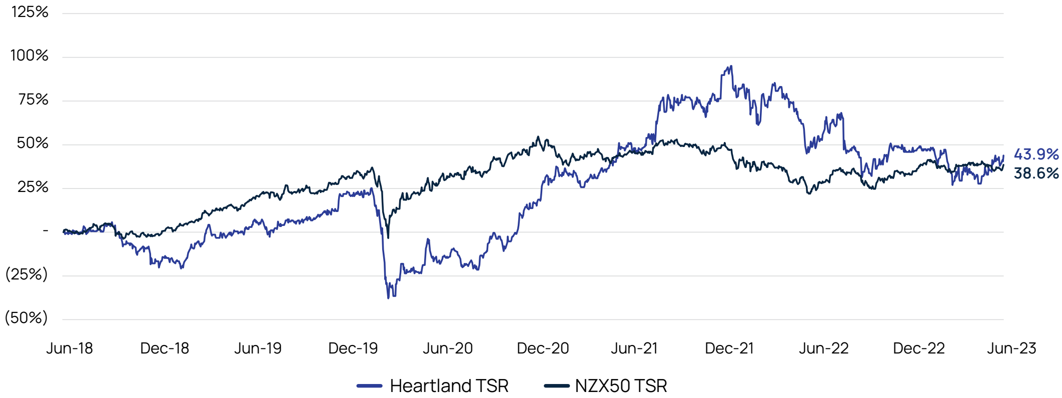
The CEO is entitled to receive STIs which are cash payments, determined by the Board, and paid at the end of a financial year for exceeding performance expectations in the relevant financial year. Ultimately, STI payments are entirely discretionary, and entitlement is not guaranteed even if performance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

17 Motor vehicle.
18 LTI plan valuation was updated during the year to provide for market performance conditions and a revised number of Performance Rights expected to be vested. The updated valuation resulted in a lower accounting cost of LTI grants on issue compared to the previous valuation.
19 Accounting cost of FY2021 and FY2022 grants at updated valuation, spread over their respective 4-year service periods (noting that FY2021 grant was amended to extend its service period from the original 3 to 4 years).

CEO Grant under Performance Rights Scheme (FY2023 Grant)

Note that the FY2023 Grant under Heartland's Performance Rights Scheme has not yet been made to participants, but the details of the grant made to the CEO will be disclosed at the time the grant is made.

Five-year summary of Heartland's TSR performance (30 June 2018 – 30 June 2023)



The above five-year total shareholder return (**TSR**) performance graph is provided to aid comparability between Heartland's performance and the remuneration information provided in this section. TSR has been calculated as at the end of the five-year period to 30 June 2023, including the benefit of imputation credits. A comparison is shown against the NZX50 Index which measures the performance of the 50 largest eligible stocks listed on the NZX Main Board by float-adjusted market capitalisation.

CEO remuneration as a multiple of employee remuneration

The CEO's salary as a multiple of the employee average is 10.41 times (FY2022: 11.08 times), and his total remuneration as a multiple of the employee average is 19.22 times (FY2022: 23.17 times).

20 In the FY2022 annual report, it was noted that the cost to Heartland for FY2022 was $990,103. The figure included in this table reflects the accounting cost of the FY2018/2019 grant at updated valuation, spread over its modified 3-year service period (noting that this grant vested in September 2022, and the benefit on its revaluation was recognised in full in FY2023). Also includes accounting cost of FY2021 and FY2022 grants at updated valuation, spread over their respective 4-year service periods.

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

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

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

Ngā utu ā-tumu whakarae
Executive remuneration

The number of Heartland employees (including former employees, and excluding directors) who received remuneration (including non-cash benefits) in excess of $100,000 during FY2023 is detailed in the remuneration bands below.

Remuneration	Number of employees
$100,000 - $109,999	27
$110,000 - $119,999	18
$120,000 - $129,999	25
$130,000 - $139,999	29
$140,000 - $149,999	27
$150,000 - $159,999	13
$160,000 - $169,999	11
$170,000 - $179,999	11
$180,000 - $189,999	6
$190,000 - $199,999	3
$200,000 - $209,999	1
$210,000 - $219,999	3
$220,000 - $229,999	2
$240,000 - $249,999	5
$250,000 - $259,999	1
$260,000 - $269,999	1
$270,000 - $279,999	1
$280,000 - $289,999	2

Remuneration	Number of employees
$290,000 - $299,999	1
$300,000 - $309,999	3
$310,000 - $319,999	2
$340,000 - $349,999	3
$350,000 - $359,999	1
$360,000 - $369,999	3
$400,000 - $409,999	1
$410,000 - $419,999	1
$440,000 - $449,999	1
$480,000 - $489,999	1
$510,000 - $519,999	1
$540,000 - $549,999	1
$560,000 - $569,999	1
$640,000 - $649,999	1
$910,000 - $919,999	1
$1,000,000 - $1,019,999	1
$1,030,000 - $1,039,999	1
Grand total	**210**

Ngā pārongo mō te hunga whaipānga
Shareholder information

Spread of shares

Set out below are details of the spread of shareholders of Heartland as at 1 August 2023 (being a date not more than two months prior to the date of this Annual Report).

Size of holding	Number of shareholders	Total shares	% of issued shares
1 - 1,000 shares	1,480	780,700	0.11
1,001 - 5,000 shares	3,239	9,257,753	1.30
5,001 - 10,000 shares	2,309	17,088,169	2.40
10,001 - 50,000 shares	4,719	107,723,449	15.16
50,001 - 100,000 shares	940	65,286,483	9.20
100,001 shares and over	646	510,399,383	71.83
TOTAL	**13,333**	**710,535,937**	**100.00**

Twenty largest shareholders

Set out below are details of the 20 largest shareholders of Heartland as at 1 August 2023 (being a date not more than two months prior to the date of this Annual Report).

Rank	Shareholder	Total shares	% of issued shares
1	Harrogate Trustee Limited	69,335,936	9.76
2	FNZ Custodians Limited	53,659,684	7.55
3	Bnp Paribas Nominees NZ Limited	22,802,718	3.21
4	New Zealand Depository Nominee	20,422,362	2.87
5	Custodial Services Limited	17,929,361	2.52
6	Oceania & Eastern Limited	14,933,951	2.10
7	Hobson Wealth Custodian Limited	14,875,025	2.09
8	Citibank Nominees (NZ) Limited	14,128,548	1.99
9	JPMORGAN Chase Bank	12,951,578	1.82
10	Philip Maurice Carter	12,016,647	1.69
11	Accident Compensation Corporation	10,420,218	1.47
12	HSBC Nominees (New Zealand) Limited <040-016842-230>	9,295,615	1.31
13	HSBC Nominees (New Zealand) Limited	8,770,441	1.23
14	Tea Custodians Limited	7,834,745	1.10
15	Heartland Trust	6,504,266	0.92
16	Public Trust	6,425,187	0.90
17	Pt Booster Investments Nominees Limited	6,411,156	0.90
18	Forsyth Barr Custodians Limited	6,340,321	0.89
19	FNZ Custodians Limited	6,195,679	0.87
20	Jarden Custodians Limited	5,000,000	0.70
Total		**326,253,438**	**45.89**

Substantial product holders

As at 30 June 2023, Heartland had 709,658,200 ordinary shares on issue and, according to Heartland's records and disclosure notices provided to Heartland, the following persons were substantial product holders of Heartland.

Name	Number of shares	Class of shares	% of total number of shares in class
Harrogate Trustee Limited and Gregory Raymond Tomlinson	69,335,936	Ordinary	9.76
Jarden Securities Limited and Harbour Asset Management Limited[1]	35,313,655	Ordinary	5.01

1 Details as per the *'Disclosure of beginning to have substantial holding'* released by these entities to Heartland and the NZX Limited on 19 December 2022.

He pārongo atu anō
Other information

Auditors' fees

PricewaterhouseCoopers (**PwC**) were appointed as auditors of Heartland and its subsidiaries on 16 December 2022, taking over from KPMG. After a long period with KPMG as Heartland's external auditor, the Board determined it was good governance practice to change auditor. The amount payable by Heartland and its subsidiaries to PwC as audit fees during FY2023 was $1,046,000. The amount of fees payable to PwC for non-audit work during FY2023 was $176,000. These non-audit fees were primarily for regulatory assurance services, agreed upon procedures engagements, supervisor reporting, tax work and other non-assurance work. PwC was engaged to carry out the tax work prior to the appointment as external auditor. PwC carried out other non-assurance work prior to the appointment of PwC as external auditor.

The amount payable to KPMG as audit fees, prior to the appointment of PwC, in FY2023 was $40,000.

Credit rating

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

Donations

The total amount of donations made by Heartland during FY2023 was $5,870. No political donations were made during FY2023.

Exercise of NZX disciplinary powers

NZX Limited did not exercise any of its powers under Listing Rule 9.9.3 in relation to the Group during FY2023.

NZX waivers

Below is a summary of the waivers granted by NZ RegCo to Heartland on 22 August 2022 relating to Heartland's $200 million equity raise via a fully underwritten $130 million placement of new shares and a non-underwritten SPP offer of up to $70 million which was announced on 23 August 2022 (**Offer**) as well as Heartland's LTI Scheme:

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

For further information about the equity raise refer to page 58 in the Corporate Governance section of the FY2022 Annual Report, and page 59 in the Corporate Governance section of this Annual Report.

No other waivers were granted to Heartland or relied on by Heartland during FY2023.

05
FINANCIAL RESULTS
For the year ended 30 June 2023

Heartland was pleased to announce an NPAT of $95.9 million for FY2023. On an underlying[1] basis, FY2023 NPAT was $110.2 million. NPAT increased $0.7 million (0.8%), and on an underlying basis, $14.1 million (14.6%), compared with FY2022.[2]

Financial position

Total assets increased by $657.1 million (9.3%) during FY2023, driven by a $625.5 million (10.1%)[3] increase in gross finance receivables (**Receivables**)[4] and a $41.7 million (7.1%) increase in liquid assets from FY2022.

Receivables growth was experienced across Heartland's core portfolios of Australian Reverse Mortgages, New Zealand Reverse Mortgages, Motor Finance, Asset Finance and Online Home Loans, partly offset by decreases in Business, Rural Relationship, Open for Business (**O4B**) and Personal Lending.

Borrowings[5] increased by $456.7 million (7.4%) compared with FY2022. Deposits increased by $538.5 million (15.0%) from FY2022, partially offset by a decrease in other borrowings of $81.8 million (3.2%) during FY2023.

Net assets increased by $222.3 million to $1,031.0 million. Net tangible assets (**NTA**) increased by $207.4 million to $774.2 million, primarily as a result of a $199 million equity raise completed in September 2022, resulting in an NTA per share of $1.09 (30 June 2022: $0.96).

Profitability

FY2023 reported results have been normalised to exclude one-off or non-cash technical items, including the following.[6]

1. Legacy hedge accounting impacts:
   a $9.1 million loss contributed by the derivatives that were de-designated from their prior hedge accounting relationships in FY2022. The de-designation resulted in a $16.7 million 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. The remaining $7.7 million will unwind across FY2024 and FY2025.
2. Fair value loss on equity investment in Harmoney Corp Limited (**Harmoney**):
   a $4.5 million fair value loss was recognised on investment in Harmoney shares during FY2023. The fair value as at 30 June 2023 was determined based on the closing last traded price of Harmoney shares on the ASX of A$0.32 per share.
3. Interest expense on the bridging loan for the acquisition of StockCo Australia:
   a $1.9 million interest expense was recognised in relation to a $174 million (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 2022 equity raise.

1 Financial results are presented on a reported and underlying basis. Reported results are prepared in accordance with NZ GAAP and include the impacts of positive and negative one-offs, which can make it difficult to compare performance. Underlying results (which are non-GAAP financial information) exclude any impacts of one-offs. This is intended to allow for easier comparability between periods, and is used internally by management for this purpose. Refer to Profitability for a summary of reported and underlying results. A detailed reconciliation between reported and underlying financial information, including details about FY2023 one-offs, is set out on page 42 of Heartland's FY2023 investor presentation (**IP**) available at **heartlandgroup.info**. General information about the use of non-GAAP financial measures is set out on page 4 and 38 of the FY2023 IP.

4. Australia Bank Programme costs:
   $2.2 million of transaction and other costs in relation to acquiring an ADI in Australia. In addition, $6.4 million of costs directly attributable to applying to become an ADI have been capitalised as an intangible asset.

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

	Reported			Underlying		
	FY2023	FY2022	Movement	FY2023	FY2022	Movement
Net operating income (**NOI**)[7] ($m)	285.3	267.6	17.7	300.7	262.0	38.7
Operating expenses (**OPEX**) ($m)	128.1	116.8	11.3	126.2	111.4	14.9
NPAT ($m)	95.9	95.1	0.7	110.2	96.1	14.1
Net interest margin (**NIM**)	3.97%	4.05%	(8 bps)	4.00%	4.16%	(16 bps)
Cost to income (**CTI**) ratio	44.9%	43.6%	126 bps	42.0%	42.5%	(53 bps)
Impairment expense ratio	0.36%	0.25%	11 bps	0.36%	0.29%	7 bps
Return on equity (**ROE**)	10.4%	12.1%	(169 bps)	11.9%	12.6%	(68 bps)
Earnings per share (**EPS**)	14.0 cps	16.1 cps	(2.1 cps)	16.0 cps	16.3 cps	(0.3 cps)

NOI

Total NOI was $285.3 million, an increase of $17.7 million (6.6%) from FY2022.

Underlying NOI was $300.7 million, $38.7 million (14.8%) higher than in FY2022, $21.8 million of which was contributed by StockCo Australia. This was largely due to a $35.6 million (14.3%) increase in net interest income, driven by $1,127.5 million (18.9%) higher average interest earning assets in FY2023 than in FY2022, and a 16 bps decrease in underlying NIM compared with FY2022.

Underlying other operating income increased by $3.1 million (22.7%) from FY2022, mainly driven by increases in upfront Reverse Mortgage income and fee income.

NIM

After recording an 8 bps contraction in underlying NIM in the six months to 31 December 2022 (**1H2023**) compared with the six months to 30 June 2022 (**2H2022**), this trend stabilised in the six months to 30 June 2023 (**2H2023**) through proactive portfolio pricing and margin management. Underlying NIM for FY2023 decreased only 2 bps compared with 1H2023.

The cash rates in New Zealand and Australia have seen a rapid and sharp increase, rising from 2.00% and 0.85% as at June 2022, to 5.50% and 4.10% as at June 2023 respectively. This has created a difficult environment in which 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.

NIM compressions were also due to the continued shift in portfolio composition towards lower risk exposures. Personal lending and unsecured small-to-medium enterprise (**SME**) lending continued to reduce, while Business and Rural Relationship lending experienced larger repayments of higher risk loans. At the same time, there was growth in

2 All comparative results are based on the audited full year consolidated financial statements of the Group for FY2022.
3 Excluding the impact of changes in FX rates.
4 Receivables includes Reverse Mortgages.
5 Includes retail deposits and other borrowings.
6 Refer to page 42 of the FY2023 IP for an exhaustive list of FY2023 one-offs and a detailed reconciliation between reported and underlying financial information.
7 Net operating income (**NOI**) includes fair value gains/losses on investments.

higher quality portfolios, such as Reverse Mortgages and Online Home Loans. Motor Finance experienced market share gains at the expense of margin, alongside general margin compression due to a shift in asset quality and competitive pressures. The impacts of this compression were partly offset following the acquisition of StockCo Australia, a higher NIM portfolio.

Through FY2024, NIM will be assisted by older Asset Finance and Motor Finance loans at lower rates continuing to be repaid.

OPEX

OPEX was $128.1 million, an increase of $11.3 million (9.7%) on FY2022. Underlying OPEX was $14.9 million (13.4%) higher compared with FY2022.

Higher underlying OPEX was primarily due to the acquisition of StockCo Australia which contributed $8.9 million to FY2023 OPEX. The remaining underlying OPEX increase is $6.0 million (5.4%), which was mainly driven by a 4.6% increase in staff expenses, an 18.6% increase in upfront Reverse Mortgage expenses (noting this is completely offset by an increase in upfront Reverse Mortgage income), and the balance from increased travel and administration costs.

CTI ratio

The underlying CTI ratio further improved by 53 bps on FY2022 to 42.0%.[8]

Heartland's commitment to efficiencies through technology and digitalisation are anticipated to provide ongoing benefits in the form of a reduced CTI ratio. The CTI ratio is expected to remain stable while investment in and delivery of digitalisation initiatives is underway, with CTI benefits to start materialising from late FY2024.

Impairment expense

Impairment expense was $23.2 million, $9.4 million (68.1%) up on FY2022. On an underlying basis, impairment expense was $7.5 million (47.9%) up on FY2022, including an allowance for the potential impact of rising unemployment on the Motor Finance portfolio. The residual increase in underlying impairment expense was mainly contributed to by the Harmoney book amortising at a slower rate in FY2023 compared with FY2022 and, to a lesser extent, by deterioration in the quality of unsecured Personal Lending which is no longer being actively originated in order to manage risk in the current environment. Underlying impairment expense ratio increased to 0.36% in FY2023, up 7 bps compared with FY2022.

As at 30 June 2023, the balance of Heartland's Economic Overlay of $8.0 million taken in FY2022 was $2.4 million. The Economic Overlay has been allocated to specifically provision for Business Relationship lending and Asset Finance loans that have been impacted by low economic growth, and remained in place at 30 June 2023.

ROE

Underlying ROE was 11.9%, down 68 bps compared with FY2022.[9] The result reflects a strengthened capital position following Heartland's equity raise in 1H2023, positioning it well for future growth opportunities.

Business performance

New Zealand

Asset Finance

Asset Finance Receivables increased $49.2 million (7.8%) from FY2022 to $682.8 million. Asset Finance NOI was $30.3 million, a decrease of $0.2 million (0.5%) compared with FY2022.

Heartland's focus remains on freight transport and yellow goods sectors. NIM has been affected by a change in the mix of new business weighted toward an improved credit profile. Lower margin loans are being repaid and replaced, and are expected to have a positive contribution to margin in late FY2024.

Business

Overall Business NOI was $31.7 million, an

8 Underlying CTI ratio refers to the CTI ratio calculated using underlying results. When calculated using reported results, the CTI ratio was 44.9%, up 126 bps compared with FY2022. See page 4 of the FY2023 IP for more information about the use of the CTI ratio, a supplementary, non-GAAP measure.

9 Underlying ROE refers to ROE calculated using underlying results. When calculated using reported results, ROE was 10.4%, down 169 bps compared with FY2022. For more information, see page 4 of the FY2023 IP.

increase of $1.1 million (3.6%) compared with FY2022. Business Receivables decreased $56.6 million (9.0%) to $573.7 million. This was made up of Wholesale Lending and Business Relationship.

Wholesale Lending includes floorplan lending to vehicle retailers and wholesale facilities to other lenders, including for medium enterprises that on-lend to their own customers in the consumer motor and business sectors. Wholesale Lending Receivables decreased $27.1 million (9.9%) from FY2022 to $245.2 million, reflecting lower utilisation of limits as a result of unpredictable inventory conditions continuing into 2H2023.

Business Relationship Receivables decreased $29.5 million (8.2%) from FY2022 to $328.5 million, as this portfolio continues to transition away from legacy business to loans which present lower risk and are more cost efficient to transact.

Open for Business

O4B NOI was $12.9 million, a decrease of $0.8 million (5.7%) compared with FY2022. O4B Receivables decreased $24.1 million (17.1%)[10] to $117.1 million.

Heartland stopped actively originating O4B lending in the second quarter of FY2023 (**Q2**) to manage risk due to the macro-economic challenges for the SME sector. This has resulted in an amortising loan book pending improved conditions.

Motor

Motor Finance NOI was $64.2 million, a decrease of $8.7 million (11.9%) compared with FY2022. Motor Finance Receivables increased $186.8 million (13.5%) to $1.57 billion.

Motor Finance has experienced market share gains at the expense of margin, alongside general margin compression due to a shift in asset quality and competitive pressures. While total new and used car sales in the New Zealand market were down by 6.2% in the period[11], Heartland's new business volumes increased by 11.6% from FY2022, with overall growth in FY2023 of 13.5% due to lower early repayments than expected.

Heartland's broad distribution network of dealers and partnerships with key distributors and large dealer franchise groups, along with its digital innovation, have been key contributing factors in achieving growth in a difficult market.

Heartland intends to expand its branded online origination platforms to other dealer partners in FY2024 so they can provide customers with swift digital options to apply for vehicle finance and receive a decision in minutes.

Personal lending

Personal Lending includes loans originated directly through Heartland Bank, and legacy portfolios originated by Harmoney in New Zealand and Australia. To manage risk in the current environment, this portfolio is not actively originating. In addition, Heartland's Harmoney personal loans channel is closed to new business and running down.

Personal Lending NOI was $6.6 million, a decrease of $3.1 million (32.2%) compared with FY2022. Personal Lending Receivables decreased by $17.8 million (27.3%)[10] to $47.3 million. Harmoney Receivables decreased by

10 Excluding the impact of changes in FX rates.
11 Based on data from the Motor Industry Association of New Zealand on new and used vehicle sales from motor vehicle dealers.

$20.3 million (65.7%), made up of a decrease in the New Zealand Harmoney channel of $12.9 million (70.4%) to $5.5 million, and a decrease in the Australian Harmoney channel of $7.3 million (58.9%)[10] to $5.1 million. This is partially offset by Heartland originated personal lending which increased by $2.5 million (7.3%) to $36.7 million in FY2023.

Online Home Loans[12]

Online Home Loans NOI was $3.8 million, an increase of $1.7 million (80.2%) compared with FY2022. Online Home Loans Receivables increased $38.7 million (14.1%) to $313.4 million.

While subdued compared to FY2022, Online Home Loans experienced good growth in a challenging economic environment. This was moderated by a sharp decline in property sales and new mortgage volumes in New Zealand. The number of properties sold in the 12 months to February 2023 was the lowest observed since 1983.[13] Similarly, the monthly level of new mortgages issued has been at or near the lowest levels observed since at least 2014 (when the RBNZ began collating this data).[14]

Competitive pressures in the refinance market remain intense, with competitors generally offering large cash-backs and negotiating on rates. Heartland has remained disciplined in respect of its pricing strategy. Heartland's low-cost digital origination platform has enabled it to consistently offer competitive or market-leading rates. Customer retention remained strong, with retention exceeding 90% for customers whose fixed rates came up for renewal over the course of FY2023.

New Zealand Reverse Mortgages

New Zealand Reverse Mortgages NOI was $42.4 million, an increase of $9.9 million (30.3%) compared with FY2022. Receivables increased $167.3 million (23.2%) to $888.6 million.

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

- cost of living and cashflow pressures faced by older homeowners, with a reverse mortgage providing an option to fund desired lifestyle enhancements
- increased education, awareness and acceptance of reverse mortgages.

Over the last decade, Heartland has helped more than 22,000 New Zealanders to enjoy a more comfortable retirement by releasing equity from their homes. The outlook for New Zealand Reverse Mortgages remains positive, with additional demand from cost of living pressures driving growth. Website improvements will be released making it easier for mobile users, and streamlining the application process.

Rural

Overall Rural lending NOI was $34.2 million, an increase of $4.1 million (13.5%) compared with FY2022. Overall Rural portfolio Receivables increased by $11.4 million (1.7%) to $700.5 million. This was made up of Livestock Finance, Rural Relationship and Rural Direct.

Livestock Finance Receivables increased by $19.9 million (11.6%) from FY2022 to $191.2 million in a market impacted by falling commodity prices, difficult climatic conditions and Cyclone Gabrielle in the Hawke's Bay and Tairāwhiti regions. Of this growth, 6% originated from the addition of key intermediary partnerships, with the balance from existing customers.

Rural Relationship Receivables decreased by $17.1 million (3.9%) from FY2022 to $424.4 million, due to the continued transition of the book away from large, complex, low margin lending. Heartland's exposure to the dairy sector reduced to 32.8% of the total Rural book.

Rural Direct includes Heartland's Sheep & Beef Direct and Dairy Direct digital platforms which provide online finance to sheep, beef and dairy farmers. Rural Direct Receivables increased by $8.6 million (11.2%) from FY2022 to $84.9 million.

12 Excludes legacy Retail Mortgages.
13 Based on data from CoreLogic's February 2023 Housing Chart Pack.
14 Based on RBNZ data on new residential mortgage lending by borrower type.

Over the last decade, Heartland has helped more than 22,000 New Zealanders to enjoy a more comfortable retirement by releasing equity from their homes.

Australia

Australian Reverse Mortgages

Australian Reverse Mortgages NOI was $47.3 million, an increase of $8.2 million (20.9%) compared with FY2022.

Australian Reverse Mortgages Receivables increased by $263.5 million (20.7%)[10] to $1.54 billion, driven primarily by:

- increased debt consolidation and cost of living requests due to the current economic environment
- customers seeking funds for home improvements to ensure ageing well in place (for a person to remain in their home and make it more retirement-friendly as they age)
- customers looking to enjoy retirement with modest lifestyle spending (such as holidays or a new car)
- 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.

Heartland has now helped more than 26,000 Australians to live a more comfortable retirement since 2004. Growth is expected to remain strong in FY2024 as ongoing improvements and efficiencies are made to the loan application, approval and maintenance process.

Australian Livestock Finance

Australian Livestock Finance NOI was $31.9 million. Receivables increased $7.7 million (2.1%)[10] from FY2022 to $380.8 million. Subdued growth was due to macroeconomic events affecting livestock prices and demand, including adverse weather conditions, the rising interest rate environment, and low export demand with the USA drought and China's COVID-19 response contributing to freezers being full around the world. This resulted in lower dollars per head on the balance sheet.

Despite this, the volume of livestock financed by StockCo has increased. As at 30 June 2023, cattle transactions were up 25% compared with 30 June 2022. Sheep transactions were flat. This growth was supported by increasing distribution partner networks with consistent onboarding of new clients and increased facility limit usage.

Demand for Australian protein, mainly beef, is expected to increase and have a positive effect on livestock value in FY2024 as the USA drought breaks and their herd rebuild begins, coupled with the Chinese Government looking to stimulate the Chinese economy as people return to pre-COVID-19 activities.

Processor capacity has been strained due to a lack of skilled workers, the ongoing impacts of COVID-19 and adverse weather conditions. Slaughter production in 2022 was down approximately 27% from 2021 volumes. This is expected to improve in the first half of FY2024 and have a positive effect on livestock demand and value, and therefore demand for livestock financing, as processors work through their backlog.

Digitalisation of the direct channel application is underway to improve efficiency in the application process. A white label offering is also in development to strengthen and expand the existing distribution network, supporting ongoing growth through FY2024.

Funding and liquidity

Heartland increased borrowings by $456.7 million (7.4%) from FY2022 to $6,627.4 million.

New Zealand

Heartland Bank increased borrowings by $399.5 million (9.2%) from FY2022 to $4,746.2 million.

Deposits[15] grew $533.9 million (14.8%) during FY2023 to $4,131.0 million, which was driven by competitive pricing on targeted products, including Heartland's Notice Saver offerings which both received Canstar New Zealand recognition in FY2023. 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. In July 2023, Heartland Bank was awarded Canstar New Zealand's Bank of the Year – Savings for the sixth year in a row. In the first and second quarters of FY2023, Heartland Bank experienced the highest growth rate in retail deposits of all main and domestic banks in New Zealand.[16]

Notice Saver increased by $206.1 million (40.1%) from FY2022. Term deposits increased by $439.6 million (20.1%), while call deposits decreased by $111.8 million (12.5%) during FY2023. The call to total deposit ratio decreased to 19% as at 30 June 2023 (30 June 2022: 25%).

Other borrowings decreased by $134.4 million (17.9%) from FY2022, 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 $40.7 million. This was partially offset by Heartland Bank's issuance of $100 million of unsecured subordinated notes to the retail market in 2H2023, which qualify as Tier 2 capital for regulatory purposes, further solidifying Heartland Bank's regulatory capital position.

Heartland Bank's total liquidity (including liquid assets and available committed lines) strengthened further in FY2023, increasing by $76.3 million (12.1%) to $704.2 million, well in excess of regulatory minimums.

Heartland Bank's regulatory capital ratio increased to 14.69% as at 30 June 2023 (30 June 2022: 13.49%). 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 common equity tier 1 ratio of 11.50% and a total capital ratio of 16.00% by 1 July 2028.

Australia

Heartland Australia (comprising Heartland Australia Holdings Pty Ltd and its subsidiaries) increased borrowings by A$282.0 million (23.5%) from FY2022 to A$1,482.2 million.

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. Heartland Australia's April 2023 A$120 million MTN maturity was refinanced. The aggregate outstanding issuance under Heartland Australia's MTN programme was A$240 million as at 30 June 2023 (30 June 2022: A$280 million).

The maturities of the two Reverse Mortgage securitisation warehouses were extended by two and three years respectively, and aggregate senior limits were expanded by A$100 million, providing Heartland Australia with access to A$1.54 billion of committed funding in aggregate. Conversations are underway with securitisation lenders to increase headroom in both facilities to support continued growth experienced in the portfolio.

StockCo Australia (comprising StockCo Australia Management Pty Ltd, StockCo Holdings 2 Pty Ltd and their subsidiaries) increased borrowings by A$17.2 million (5.2%) from FY2022 to A$346.4 million. StockCo Australia was transferred from Heartland to Heartland Australia Holdings Pty Ltd on 1 August 2023.

15 Includes intercompany deposits received by Heartland Bank (30 June 2023: nil; 30 June 2022: $4.6 million).
16 Based on balance sheet data from the RBNZ.

01 02 03 04 05 06

Contents

General Information

These financial statements are issued by Heartland Group Holdings Limited (**HGH**) and its subsidiaries (the **Group**) for the year ended 30 June 2023.

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

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

Auditor

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

Other Material Matters

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

Directors

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

On 20 February 2023, Geoffrey Ricketts stepped down as Chairperson of Heartland Group Holdings Limited and ceased directorship of Heartland Group Holdings Limited on 10 March 2023.

The Board resolved on 23 February 2023 for Greg Tomlinson to assume the role of Chairperson.

There have been no other changes to the composition of the Board of Directors of the Group for the year ended 30 June 2023.

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

Chair - Board of Directors

Gregory Raymond Tomlinson

Qualifications: AME
Type of Director: Non-Independent Non-Executive Director
Occupation: Company Director
External Directorships: Alta Cable Holdings Limited, Chippies Vineyard Limited, Indevin Group Limited, Mountbatten Trustee Limited, Nearco Stud Limited, Oceania Healthcare Limited, Pelorus Finance Limited, St Leonards Limited, Tomlinson Group Argenta GP Limited, Tomlinson Group NZ Limited, Tomlinson Holdings Limited, Tomlinson Group Investments Limited, Tomlinson Ventures Limited, Terra Vitae Vineyards Limited, Villa Maria Estate Limited.

Ellen Frances Comerford

Qualifications: BEc
Type of Director: Independent Non-Executive Director
Occupation: Company Director
External Directorships: Airtasker Limited, Comerford Gohl Holdings Pty Limited, Lendi Group Pty Ltd, IVM InterSurer B.V, Hollard Investments B.V, Hollard Investments II BV, Greenstone Holdco Pty Ltd.

Jeffrey Kenneth Greenslade

Qualifications: LLB
Type of Director: Non-Independent Executive Director
Occupation: Chief Executive Officer of Heartland Group Holdings
External Directorships: Henley Family Investments Limited.

Kathryn Mitchell

Qualifications: BA, CMInstD
Type of Director: Independent Non-Executive Director
Occupation: Company Director
External Directorships: Chambers@151 Limited, Christchurch International Airport Limited, Farmright Limited, Firsttrax Limited, Helpings Hands Holdings Limited, Link Engine Management Limited, Morrison Horgan Limited, The New Zealand Merino Company Limited, The A2 Milk Company Limited.

Geoffrey Edward Summerhayes

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

Directors' Statements

The consolidated financial statements are dated 28 August 2023 and have been signed by all Directors.

G R Tomlinson (Chair)

E F Comerford

J K Greenslade

G E Summerhayes

K Mitchell

Consolidated Statement of Comprehensive Income

For the year ended 30 June 2023

$000's	Note	June 2023	June 2022
Interest income	3	527,710	342,101
Interest expense	3	245,721	91,959
Net interest income		**281,989**	**250,142**
Operating lease income	4	5,631	5,284
Operating lease expenses	4	3,827	3,383
Net operating lease income		**1,804**	**1,901**
Lending and credit fee income		11,753	9,639
Other (expense)/income	5	(5,742)	18,933
Net operating income		**289,804**	**280,615**
Operating expenses	6	128,079	116,753
Profit before impaired asset expense and income tax		**161,725**	**163,862**
Fair value (loss) on investments		(4,488)	(12,998)
Impaired asset expense	8	23,244	13,823
Profit before income tax		**133,993**	**137,041**
Income tax expense	9	38,125	41,916
Profit for the year		**95,868**	**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		7,116	7,041
Movement in fair value reserve		(533)	(712)
Movement in foreign currency translation reserve		(6,803)	2,340
Items that will not be reclassified to profit or loss, net of income tax:			
Movement in fair value of equity investments at fair value through other comprehensive income		(2,411)	-
Movement in defined benefit reserve		-	(171)
Net loss due to wind-up of superannuation scheme		-	(473)
Other comprehensive income for the year, net of income tax		**(2,631)**	**8,025**
Total comprehensive income for the year		**93,237**	**103,150**
Earnings per share			
Basic earnings per share	10	13.96c	16.13c
Diluted earnings per share	10	13.96c	16.13c

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

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

Consolidated Statement of Changes in Equity

For the year ended 30 June 2023

		June 2023				June 2022			
$000's	Note	Share Capital	Reserves	Retained Earnings	Total Equity	Share Capital	Reserves	Retained Earnings	Total Equity
Balance at beginning of year		**599,185**	**9,936**	**199,586**	**808,707**	**583,781**	**(477)**	**178,388**	**761,692**
Total comprehensive income for the year									
Profit for the year		-	-	95,868	95,868	-	-	95,125	95,125
Other comprehensive (loss)/income, net of income tax	17	-	(2,631)	-	(2,631)	-	8,498	(473)	8,025
Total comprehensive income for the year		**-**	**(2,631)**	**95,868**	**93,237**	**-**	**8,498**	**94,652**	**103,150**
Contributions by and distributions to owners									
Dividends paid	16	-	-	(71,402)	(71,402)	-	-	(73,454)	(73,454)
Dividend reinvestment plan	16	7,100	-	-	7,100	15,404	-	-	15,404
Transaction costs associated with capital raising		(3,749)	-	-	(3,749)	-	-	-	-
Share based payments		-	105	-	105	-	1,915	-	1,915
Share issuance	16	197,006	-	-	197,006				
Vesting of share based payments		1,170	(1,170)	-	-	-	-	-	-
Total transactions with owners		**201,527**	**(1,065)**	**(71,402)**	**129,060**	**15,404**	**1,915**	**(73,454)**	**(56,135)**
Balance at end of the year		**800,712**	**6,240**	**224,052**	**1,031,004**	**599,185**	**9,936**	**199,586**	**808,707**

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

Consolidated Statement of Financial Position

As at 30 June 2023

$000's	Note	June 2023	June 2022
Assets			
Cash and cash equivalents		311,503	310,758
Investments	11	330,240	289,294
Derivative financial instruments	12	36,983	45,221
Finance receivables	13	4,334,214	4,146,821
Finance receivables - reverse mortgages	21	2,403,810	1,996,854
Investment properties		11,903	11,832
Operating lease vehicles	14	16,966	15,161
Right of use assets	18	12,318	14,145
Other assets	18	27,990	18,229
Current tax asset		1,960	-
Intangible assets	18	235,733	218,874
Deferred tax asset	9	21,105	23,074
Total assets		**7,744,725**	**7,090,263**
Liabilities			
Deposits	15	4,131,025	3,592,508
Other borrowings	15	2,496,375	2,578,213
Derivative financial instruments	12	7,624	6,341
Lease liabilities	18	14,287	16,240
Tax liabilities		6,112	22,044
Trade and other payables	18	58,298	66,210
Total liabilities		**6,713,721**	**6,281,556**
Net assets		**1,031,004**	**808,707**
Equity			
Share capital	16	800,712	599,185
Retained earnings and other reserves	17	230,292	209,522
Total equity		**1,031,004**	**808,707**

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

Consolidated Statement of Cash Flows

For the year ended 30 June 2023

$000's	Note	June 2023	June 2022
Cash flows from operating activities			
Interest received		333,874	222,894
Operating lease income received		4,571	3,913
Lending, credit fees and other income received		6,292	6,101
Operating inflows		**344,737**	**232,908**
Interest paid		(193,679)	(100,467)
Payments to suppliers and employees		(128,195)	(69,463)
Taxation paid		(54,629)	(32,987)
Operating outflows		**(376,503)**	**(202,917)**
Net cash flows (applied to)/from operating activities before changes in operating assets and liabilities		**(31,766)**	**29,991**
Proceeds from sale of operating lease vehicles		4,492	4,481
Purchase of operating lease vehicles		(8,766)	(10,758)
Net movement in finance receivables		(448,210)	(693,512)
Net movement in deposits		526,939	407,484
Net cash flows from/(applied to) operating activities[1]		**42,689**	**(262,314)**
Cash flows from investing activities			
Purchase of property, plant and equipment and intangible assets		(24,669)	(9,809)
Proceeds from investment securities		55,443	82,945
Purchase of investment securities		(95,000)	-
Deposit paid for the conditional acquisition of Challenger Bank Limited		(3,936)	-
Purchase of equity investment		(6,952)	(7,414)
Purchase of investment property		(71)	-
Purchase of subsidiary, net of cash acquired		(3,047)	(159,919)
Net cash flows (applied to) investing activities		**(78,232)**	**(94,197)**
Cash flows from financing activities			
Proceeds from wholesale funding		1,264,359	1,103,510
Repayment of wholesale borrowings		(1,208,292)	(635,371)
Proceeds from issue of unsubordinated notes		87,589	77,243
Repayment of unsubordinated notes		(330,300)	-
Proceeds from issue of subordinated notes		97,934	-
Dividends paid		(64,303)	(58,050)
Payment of lease liabilities		(2,656)	(2,396)
Net issue of share capital	16	193,364	-
Total cash provided from financing activities		**37,695**	**484,936**
Net increase in cash held		**2,152**	**128,425**
Effect of exchange rates on cash and cash equivalents		(1,407)	-
Opening cash and cash equivalents		310,758	182,333
Closing cash and cash equivalents[2]		**311,503**	**310,758**

1 Cash flows from operating activities do not include cash flows from wholesale funding which are included as part of financing activities.
2 At 30 June 2023, the Group has $97.0 million (2022: $76.7 million) of cash held by the Trusts which may only be used for the purposes defined in the underlying Trust documents. Refer to Note 27 - Structured entities for definition of Trusts and further details.

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

Consolidated Statement of Cash Flows (continued)

For the year ended 30 June 2023

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

$000's	Note	June 2023	June 2022
Profit for the year		**95,868**	**95,125**
Add/(less) non-cash items:			
Depreciation and amortisation expense		10,124	10,691
Depreciation on lease vehicles	14	3,461	3,103
Capitalised net interest income and fee income		(154,706)	(113,368)
Impaired asset expense	8	23,244	13,823
Investment fair value movement		6,899	12,998
Deferred tax		1,969	(8,957)
Other non-cash items		2,097	(12,310)
Total non-cash items		**(106,912)**	**(94,020)**
Add/(less) movements in operating assets and liabilities:			
Finance receivables		(448,210)	(693,512)
Operating lease vehicles		(5,266)	(6,277)
Other assets		(2,856)	(207)
Current tax		(17,892)	14,604
Derivative financial instruments		9,521	(23,214)
Deposits		526,939	407,484
Other liabilities		(8,503)	37,703
Total movements in operating assets and liabilities		**53,733**	**(263,419)**
Net cash flows from/(applied to) operating activities[1]		**42,689**	**(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 financial statements form an integral part of, and should be read in conjunction with, these consolidated financial statements.

Consolidated Statement of Cash Flows (continued)

For the year ended 30 June 2023

Net debt reconciliation

The below table sets out net cash flow and non-cash changes in liabilities arising from financing activities.

$000's	Note	June 2023	June 2022
Balance as at beginning of year[1]		**2,594,453**	**1,693,299**
Proceeds from wholesale funding		1,264,359	1,103,510
Repayment of wholesale borrowings		(1,208,292)	(635,371)
Proceeds from issue of unsubordinated notes		87,589	77,243
Repayment of unsubordinated notes		(330,300)	-
Proceeds from issue of subordinated debt		97,934	-
Payment of lease liabilities		(2,656)	(2,396)
Total cash movements		**(91,366)**	**542,986**
Acquisition of debt from purchase of subsidiary		-	358,942
Capitalised interest and fee expense		34,809	12,630
Fair value movements		(473)	(11,534)
Foreign exchange and other movements		(26,761)	(1,870)
Total non-cash movements		**7,575**	**358,168**
Balance as at the end of year		**2,510,662**	**2,594,453**

1 Includes lease liabilities and other borrowings.

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

Notes to the Financial Statements

For the year ended 30 June 2023

1 Financial statements preparation

Reporting entity

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

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

Basis of preparation

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

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

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

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

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

Basis of measurement

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

Principles of consolidation

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

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

1 Financial statements preparation (continued)

Changes in accounting standards

Accounting standards issued and effective

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

Accounting standards issued not yet effective

Disclosure of fees for audit firms' services (Amendments to FRS-44)

Amendments were issued to FRS-44 New Zealand Additional Disclosures (**Amendments to FRS-44**) that require an entity to describe the services provided by its audit or review firm and to disclose the fees incurred by the entity for those services using prescribed categories. These amendments apply to accounting periods beginning on or after 1 January 2024. Earlier application is permitted for accounting periods that begin before 1 January 2024 but have not ended or do not end before 15 June 2023. The Group has early adopted the Amendments to FRS-44 from 1 July 2022. Refer to Note 7 - Compensation of auditor for further details.

Climate-related standards

Climate-related disclosure standards were issued in December 2022, and took effect on 1 January 2023. These include the Climate-related Disclosures (CS 1), Adoption of Aotearoa New Zealand Climate Standards (CS 2) and General Requirements for Climate-related Disclosures (CS 3). The Group is a designated climate reporting entity under the climate related disclosure regime and is required to meet its requirements effective from the financial reporting period commencing 1 July 2023.

Other new accounting standards, amendments to accounting standards and interpretations have been published that are not mandatory for the 30 June 2023 reporting periods and have not been early adopted by the Group. These standards, amendments or interpretations are not expected to have a material impact on the current or future reporting periods.

Critical accounting estimates and judgements

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

- Provisions for impairment - The effect of credit risk is quantified based on the Group's best estimate of future cash repayments and proceeds from any security held or by reference to risk profile groupings, historical loss data and forward-looking information. Refer to Note 8 - Impaired asset expense and Note 13 - Finance receivables for further details.
- Recognition of Banking Licence intangible asset - The recognition of Banking Licence intangible asset required judgement in determining external and internal costs directly attributable to the Group's joint application for an Australian Authorised Deposit-Taking Institution Licence with Challenger Bank Limited (**CBL**). Judgement is also required to determine whether such costs fulfil the definition and recognition criteria of an intangible asset. Such costs include professional fees and costs of employee benefits arising directly from the application. Refer to Note 18 - Other balance sheet items for further details.
- Fair value of reverse mortgages - Fair value is quantified by the transaction price. Management judgement is applied in determining the appropriateness of the transaction price as fair value. Refer to Note 21 - Fair value for further details.
- Goodwill - The Group carries out impairment testing annually over the carrying value of goodwill of its cash generating units (**CGUs**). Uncertainty is involved in estimating fair value less cost to sell and judgement is applied in assumptions used to determine the recoverable amount of CGU for impairment testing. Refer to Note 18 – Other balance sheet items for further details.

1 Financial statements preparation (continued)

Critical accounting estimates and judgements (continued)

Assumptions made at each reporting date (e.g. the calculation of the provision for impairment and fair value adjustments) are based on best estimates as at that date. Although the Group has internal controls in place to ensure that estimates can be reliably measured, actual amounts may differ from these estimates. The estimates and judgements used in the preparation of the Group's financial statements are continually evaluated.

They are based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity. Revisions to accounting estimates are recognised in the reporting period in which the estimates are revised and in any future periods affected.

Significant events

On 20 October 2022 Heartland Group Holdings Limited entered into a conditional share purchase agreement for the purchase of CBL 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 and is recorded within other assets in the consolidated statement of financial position.

Financial assets and liabilities

Financial Assets

Financial assets are classified based on:

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

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

Financial assets are classified into the following measurement categories:

Financial Assets	Measurement Category	Note
Bank bonds and floating rate notes	Fair value through other comprehensive income (**FVOCI**)	11
Public sector securities and corporate bonds	FVOCI	11
Equity investments	Fair value through profit or loss (**FVTPL**) and FVOCI	11
Finance receivables – Reverse mortgages	FVTPL	21
Finance receivables	Amortised cost	13
Derivative financial instruments	FVTPL	12

Financial assets measured at amortised cost

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

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

1 Financial statements preparation (continued)

Financial assets and liabilities (continued)

Financial Assets (continued)

Financial assets measured at FVOCI

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

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

Financial assets measured at FVTPL

Financial assets are measured at FVTPL if:

- they are held within a business model whose objective is achieved through selling or repurchasing the financial asset in the near term, or forms part of a portfolio of financial instruments that are managed together and for which there is evidence of short-term profit taking; or
- the contractual cash flows of the financial asset do not represent SPPI on the principal balance outstanding; or
- they are designated at FVTPL upon initial recognition to eliminate or reduce an accounting mismatch.

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

Financial Liabilities

Financial liabilities are classified into the following measurement categories:

- those to be measured at amortised cost;
- those to be measured at FVTPL.

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

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

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

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

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

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

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

1 Financial statements preparation (continued)

Financial assets and liabilities (continued)

Financial liabilities (continued)

Recognition

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

Derecognition

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

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

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

Performance

2 Segmental analysis

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

An operating segment is a component of an entity engaging in business activities and whose operating results are regularly reviewed by the Group's chief operating decision maker (**CODM**). The CODM, who is responsible for allocating resources and assessing performance of the Group, has been identified as the Group's Chief Executive Officer (**CEO**) and direct reports.

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

Operating segments – New Zealand

Motor	Motor vehicle finance.
Reverse mortgages	Reverse mortgage lending.
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.

Operating segments - Australia

StockCo Australia	Specialising in livestock finance within Australia. This segment was acquired through the acquisition of StockCo Holdings 2 Pty Ltd and StockCo Australia Management Pty Ltd on 31 May 2022. One month of income and expenses are recognised in this segment for the year ended 30 June 2022.
Australia	Reverse mortgage lending and other financial services within Australia.

Certain operating expenses, such as premises, IT and support centre costs are not allocated to operating segments and are included in Other. Finance receivables are allocated across the operating segments. Other assets and liabilities are managed centrally and therefore are not allocated across the operating segments. The Group does not rely on any single major customer for its revenue base.

2 Segmental analysis (continued)

$000's	Motor	Reverse Mortgages	Personal Lending	Business	Rural	StockCo Australia	Australia	Other	Total
June 2023									
Net interest income	60,681	39,696	9,548	71,630	33,522	31,873	43,411	(8,372)	281,989
Lending and credit fee income	2,034	2,671	447	2,278	292	-	4,031	-	11,753
Net other income/ (expense)	1,485	-	935	991	398	2	(42)	(7,707)	(3,938)
Net operating income/ (expense)	**64,200**	**42,367**	**10,930**	**74,899**	**34,212**	**31,875**	**47,400**	**(16,079)**	**289,804**
Operating expenses	4,140	4,929	6,461	9,387	3,068	8,909	13,043	78,142	128,079
Profit/(loss) before impaired asset expense and income tax	**60,060**	**37,438**	**4,469**	**65,512**	**31,144**	**22,966**	**34,357**	**(94,221)**	**161,725**
Fair value (loss) on investments	-	-	-	-	-	-	-	(4,488)	(4,488)
Impaired asset expense	10,911	-	3,195	8,156	630	103	249	-	23,244
Profit/(loss) before income tax	**49,149**	**37,438**	**1,274**	**57,356**	**30,514**	**22,863**	**34,108**	**(98,709)**	**133,993**
Income tax expense	-	-	-	-	-	-	-	38,125	38,125
Profit/(loss) for the year	**49,149**	**37,438**	**1,274**	**57,356**	**30,514**	**22,863**	**34,108**	**(136,834)**	**95,868**
Total assets	**1,563,939**	**888,600**	**358,572**	**1,356,913**	**712,596**	**374,193**	**1,520,437**	**969,475**	**7,744,725**
Total liabilities									**6,713,721**
June 2022									
Net interest income	69,730	29,957	10,287	70,602	29,460	1,889	38,662	(445)	250,142
Lending and credit fee income	1,582	2,583	364	2,145	269	-	2,583	113	9,639
Net other income	1,744	-	1,198	534	472	3	107	16,776	20,834
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 year	**67,783**	**28,055**	**6,307**	**52,092**	**24,907**	**491**	**30,643**	**(115,153)**	**95,125**
Total assets	**1,382,367**	**721,264**	**332,783**	**1,387,352**	**687,232**	**372,172**	**1,288,494**	**918,599**	**7,090,263**
Total liabilities									**6,281,556**

3 Net interest income

Policy

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

Interest income is calculated based on the gross carrying amount of financial assets in stages 1 and 2 of the Group's expected credit losses (**ECL**) model and on the carrying amount net of the provision for ECL for financial assets in stage 3. For financial instruments measured at FVTPL, interest is not calculated under the effective interest rate method.

$000's	June 2023	June 2022
Interest income		
Cash and cash equivalents	10,906	811
Investments	5,081	5,156
Finance receivables	335,070	236,916
Finance receivables - reverse mortgages	176,653	99,218
Total interest income[1]	**527,710**	**342,101**
Interest expense		
Deposits	148,054	45,717
Other borrowings	117,774	46,110
Net interest (income)/expense on derivative financial instruments	(20,107)	132
Total interest expense[2]	**245,721**	91,959
Net interest income	**281,989**	250,142

1 Cash and cash equivalents and Finance receivables are measured at amortised cost. Investments are measured at FVOCI. Total interest income derived from these financial assets is calculated using the effective interest rate method. Finance receivables - reverse mortgages are measured at FVTPL.
2 Deposits and Other borrowings are measured at amortised cost, therefore interest expense incurred on these financial liabilities is calculated using the effective interest rate method. Net interest expense on derivative financial instruments is not calculated using the effective interest rate method as they are measured at FVTPL.

4 Net operating lease income

Policy

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

$000's	June 2023	June 2022
Operating lease income		
Lease income	4,639	4,161
Gain on disposal of lease assets	992	1,123
Total operating lease income	**5,631**	**5,284**
Operating lease expense		
Depreciation on lease assets	3,461	3,103
Direct lease costs	366	280
Total operating lease expense	**3,827**	**3,383**
Net operating lease income	**1,804**	**1,901**

5 Other income

Policy

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

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

Fair value gain or loss on derivative financial instruments
A fair value gain or loss associated with the effective portion of a derivative designated as a cash flow hedge is recognised initially in the hedging reserve. The ineffective portion of a fair value gain or loss and changes in the fair value of any derivatives not designated in a hedge relationship are recognised immediately in the consolidated statement of comprehensive income and disclosed within Other income. Refer to Note 12 - Derivative financial instruments for further details.

$000's	June 2023	June 2022
Rental income from investment properties	1,064	833
Insurance income[1]	756	664
Other income	624	703
Fair value (loss)/gain on derivative financial instruments	(8,237)	16,723
Foreign exchange gain	51	10
Total other income	**(5,742)**	**18,933**

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

6 Operating expenses

Policy

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

$000's	June 2023	June 2022
Personnel expenses[1]	66,989	61,152
Directors' fees	1,451	1,149
Superannuation	1,772	1,530
Depreciation - property, plant and equipment	1,904	2,459
Legal and professional fees[2]	4,642	4,094
Advertising and public relations	3,089	4,510
Depreciation - right of use asset	2,539	2,310
Technology services	10,296	9,374
Telecommunications, stationery and postage	1,948	1,723
Customer administration costs	9,814	7,058
Customer onboarding costs	2,765	2,533
Occupancy costs	1,741	1,476
Amortisation of intangible assets	5,681	5,922
Other operating expenses	13,448	11,463
Total operating expenses	**128,079**	**116,753**

1 Excludes certain personnel expenses directly incurred in acquiring and developing software and capitalised as part of specific application software.
2 Legal and professional fees include compensation of auditor which is disclosed in Note 7 - Compensation of auditor.

7 Compensation of auditor

In accordance with the Amendments to FRS-44, adopted by the Group from 1 July 2022, the Group is required to disclose the fees incurred for services received from its audit or review firm, with a description of each service, including audit or review of the financial statements. Other services performed during the reporting period are required to be disclosed using the following categories:

- audit or review related services;
- other assurance services and other agreed-upon procedures engagements;
- taxation services and;
- other services.

In accordance with the Group's external auditor independence policy, it is prohibited for the external auditor's firm to perform tax compliance work. It is also the Group's policy to engage the external auditor's firm on assignments additional to its statutory audit duties only if they are not perceived to be in conflict with the role of external auditor. All services are pre-approved by the Board Audit and Risk Committee.

The fees payable to the current auditor, PricewaterhouseCoopers New Zealand (**PwC NZ**) and to the predecessor auditor, KPMG are outlined in the below table:

7 Compensation of auditor (continued)

$000's	June 2023	June 2022
Fees paid to current auditor - PwC NZ		
Audit and review of financial statements[1]	1,046	-
Other assurance and agreed-upon procedure services paid to auditor[2]	89	
Taxation services paid to auditor[3]	54	
Other services paid to auditor[4]	33	-
Total compensation paid to PwC NZ	**1,222**	**-**
Fees paid to predecessor auditor - KPMG		
Audit and review of financial statements[1]	40	879
Other assurance and agreed upon-procedure services paid to auditor[2]	-	103
Total compensation paid to KPMG	**40**	**982**
Total compensation of auditor	**1,262**	**982**

1 Audit and review of the financial statements includes fees paid for both the audit of the annual financial statements and review of interim financial statements.
2 Other assurance related services paid to the auditor comprise reasonable assurance engagement for insurance solvency return, trust deed reporting, supervisor and registry audits, Economic and Financial Statistics (**EFS**) regulatory reporting engagement, Australian Financial Service Licence (**AFSL**) assurance engagement and agreed-upon procedures.
3 PwC Australia was engaged to carry out tax work in respect of Stockco Australia's 30 June 2022 tax returns prior to the appointment of PwC NZ.
4 Other non-assurance services paid to PwC relates to actuarial services for reverse mortgages for HBL carried out by PwC NZ prior to the appointment as external auditors and fees for executive reward survey report.

8 Impaired asset expense

$000's	June 2023	June 2022
Individually impaired asset expense	13,010	10,783
Collectively impaired asset expense	12,794	6,396
Total impaired asset expense excluding recovery of amounts previously written off	**25,804**	**17,179**
Recovery of amounts previously written off to the income statement	(2,560)	(3,356)
Total impaired asset expense	**23,244**	**13,823**

Refer to Note – 13 Finance receivables for provision for impairment details.

9 Taxation

Policy

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

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

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

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

Income tax expense

$000's	June 2023	June 2022
Income tax recognised in profit or loss		
Current tax		
Current year	37,159	46,239
Adjustments for prior year	(1,556)	(760)
Tax at other rates	554	486
Deferred tax		
Current year	1,457	(3,750)
Adjustments for prior year	304	(282)
Tax at other rates	207	(17)
Total income tax expense recognised in profit or loss	**38,125**	**41,916**
Income tax recognised in other comprehensive income		
Current tax		
Investment securities at fair value in fair value reserve	(246)	(5,271)
Fair value movements in derivatives held in cash flow hedge reserve	2,418	7,743
Total income tax expense recognised in other comprehensive income	**2,172**	**2,472**
Reconciliation of effective tax rate		
Profit before income tax	**133,993**	**137,041**
Tax at the local income tax rate (NZ: 28%, Australia: 30%)	38,175	38,841
Adjusted tax effect of items not deductible	1,202	4,117
Adjustments for prior year	(1,252)	(1,042)
Total income tax expense	**38,125**	**41,916**

9 Taxation (continued)

Deferred tax assets comprise the following temporary differences:

$000's	June 2023	June 2022
Employee expenses	2,516	2,169
Share Based payment	1,069	1,039
Provision for impairment	14,958	14,649
Intangibles and property plant and equipment	(1,529)	(2,968)
Deferred acquisition costs	(55)	(196)
Operating lease vehicles	451	680
Deferred income	(6,938)	(4,786)
Prior year tax loss	8,540	9,362
Deductible prior year expense	593	603
Other temporary differences	1,500	2,522
Total deferred tax assets	**21,105**	**23,074**
Opening balance of deferred tax assets	**23,074**	**14,117**
Movement recognised in profit or loss	(1,969)	4,084
Transfer on acquisition of business	-	4,873
Closing balance of deferred tax assets	**21,105**	**23,074**

Imputation credit account

$000's	June 2023	June 2022
Imputation credits available for use in subsequent reporting periods	37,785	19,114

10 Earnings Per Share

	June 2023			June 2022		
	Earnings Per Share Cents	Net Profit After Tax $000's	Weighted Average No. of Shares 000's	Earnings Per Share Cents	Net Profit After Tax $000's	Weighted Average No. of Shares 000's
Basic earnings	13.96	95,868	686,781	16.13	95,125	589,771
Diluted earnings	13.96	95,868	686,781	16.13	95,125	589,771

Financial Position

11 Investments

Policy

Investments are classified into one of the following categories:

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

Fair value through other comprehensive income
Investments under this category include bank bonds, floating rate notes, public securities, corporate bonds and equity investments where the Group have irrevocably elected at initial recognition to measure at FVOCI. These are initially measured at fair value, including transaction costs, and subsequently carried at fair value. Changes in fair value of these investments are recognised in other comprehensive income and presented within the fair value reserve.

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

$000's	June 2023	June 2022
Bank deposits, bank bonds and floating rate notes	305,310	261,259
Public sector securities and corporate bonds	9,882	12,953
Equity investments	15,048	15,082
Total investments	**330,240**	**289,294**

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

12 Derivative financial instruments

Policy

The Group uses derivatives for risk management purposes. Derivatives held for risk management purposes are placed into hedges that either meet hedge accounting requirements, or economic hedges not placed into an accounting hedge relationship.

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

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

Derivative instruments that do not qualify for hedge accounting are held as economic hedges. Changes in the fair value of any derivative instrument that does not qualify for hedge accounting are recognised immediately in the consolidated statement of comprehensive income and disclosed within Other income.

Fair value hedge accounting

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

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

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

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

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

Cash flow hedge accounting

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

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

12 Derivative financial instruments (continued)

Cash flow hedge accounting (continued)

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

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

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

Net investment hedge

The Group held investments in foreign operations, where changes in net assets resulting from changes in foreign currency rate were recognised in the foreign currency translation reserve.

Where the Group hedges the currency translation risk arising from net investments in foreign operations, the gains and losses on the hedging instruments are also reflected in other comprehensive income to the extent the hedge is effective. When all or part of a foreign operation is disposed, the cumulative value of the exchange differences is recognised in profit or loss.

The Group actively manages interest rate risk by entering into derivative contracts to hedge against movements in interest rates. As permitted by NZ IFRS 9, the Group has elected to continue to apply the hedge accounting requirements of NZ IAS 39.

The Group's approach to managing market risk, including interest rate risk, is disclosed in Note 25 – Interest rate risk. The Group actively manages residual interest rate risk from the net exposure of its underlying assets and liabilities, associated with the mismatch of the interest rate repricing profiles of its interest earning assets and interest bearing liabilities, by entering into interest rate swaps to hedge against movements in interest rates.

Interest rate swaps are bilateral derivative contracts with commitments to exchange one set of cash flows for another resulting in an economic exchange of interest rates (for example, fixed rate for floating rate) without exchange of principal. Interest rate swap notional values indicate the volume of transactions outstanding at the end of the financial year and provide basis for comparison with instruments recognised on the balance sheet but do not necessarily indicate the amounts of future cash flows involved, therefore don't indicate the Group's exposure to credit or market risks. The fair values of derivative instruments and their notional values are set out in the below table.

12 Derivative financial instruments (continued)

$000's	June 2023 Notional Principal	June 2023 Fair Value Assets	June 2023 Fair Value Liabilities	June 2022 Notional Principal	June 2022 Fair Value Assets	June 2022 Fair Value Liabilities
Interest rate related contracts						
Held as economic hedges	260,650	6,539	-	619,005	17,847	1,543
Designated as cash flow hedges	850,068	15,398	941	327,636	8,678	-
Designated as fair value hedges	543,200	15,045	6,683	549,200	18,696	4,798
Interest rate swaps	**1,653,918**	**36,982**	**7,624**	**1,495,841**	**45,221**	**6,341**
Foreign currency related contracts						
Held as economic hedges	168	1	-	786	-	-
FX Forwards	168	1	-	786	-	-
Total derivative financial instruments	**1,654,086**	**36,983**	**7,624**	**1,496,627**	**45,221**	**6,341**

Micro cash flow hedge accounting is applied to interest rate swaps designated as hedges of the Group's floating rate domestic borrowings and deposits by using 'receive floating / pay fixed' interest rate swaps to fix the cost of floating interest rate borrowings and deposits.

Micro fair value hedge accounting is applied to receive fixed interest rate swaps designated as hedges of interest rate risk arising from fixed-rate subordinated notes and retail bond, and to pay fixed interest rate swaps designated as hedges of interest rate risk arising from fixed-rate investment securities.

The Group determines whether an economic relationship between the hedged item and the hedging instrument exists based on an assessment of the qualitative characteristics of this hedged item and the hedged risk, supported by quantitative analysis. Close alignment of the critical terms of the hedged item and hedging instrument is also considered a strong indication of the presence of an economic relationship by the Group.

The Group establishes a hedge ratio by aligning the par amount of the exposure to be hedged and the notional amount of the interest rate swap designated as a hedging instrument.

Retrospective testing for each reporting period uses a regression model, which compares the change in the fair value of the hedged item and the change in the fair value of the hedging instrument. For a hedge to be deemed effective, the change in fair values should be within 80% and 125% of each other. Should the result fall outside this range the hedge would be deemed ineffective and recognised immediately through the income statement in line with each hedge relationship policy above.

12 Derivative financial instruments (continued)

The hedge relationship is reviewed on a monthly basis and the hedging instruments and hedged items are de-designated and re-designated, if necessary, based on the effectiveness test results and changes in the hedged exposure.

Hedge ineffectiveness may arise from timing difference on repricing between the hedged item and the hedging instrument, difference in timing of their cash flows, or due to changes in the counterparties' credit risk affecting the fair value of hedging instruments.

The following table shows the maturity and interest rate risk profiles of the interest rate swaps as hedging instruments in continuing fair value and cash flow hedge relationships.

$000's	0-6 Months	6-12 Months	1-2 Years	2-5 Years	5+ Years	Total
June 2023						
Interest rate risk						
Cash flow hedge relationships						
Pay fixed						
Nominal amounts	-	20,000	295,000	535,068	-	850,068
Average interest rate	-	4.22%	3.78%	4.00%	-	
Fair value hedge relationships						
Pay fixed						
Nominal amounts	54,700	38,000	60,000	160,400	5,100	318,200
Average interest rate	1.17%	0.77%	0.88%	3.06%	1.51%	
Receive fixed						
Nominal amounts	-	125,000	-	100,000	-	225,000
Average interest rate	-	1.78%	-	4.30%	-	
Total interest rate risk nominal amount	**54,700**	**183,000**	**355,000**	**795,468**	**5,100**	**1,393,268**

12 Derivative financial instruments (continued)

$000's	0-6 Months	6-12 Months	1-2 Years	2-5 Years	5+ Years	Total
June 2022						
Interest rate risk						
Cash flow hedge relationships						
Pay fixed						
Nominal amounts	-	8,845	5,528	313,263	-	327,636
Average interest rate	-	0.20%	0.37%	2.47%	-	
Fair value hedge relationships						
Pay fixed						
Nominal amounts	20,000	31,000	92,700	115,400	15,100	274,200
Average interest rate	1.20%	0.81%	1.00%	0.84%	1.45%	
Receive fixed						
Nominal amounts	150,000	-	125,000	-	-	275,000
Average interest rate	4.50%	-	1.78%	-	-	
Total interest rate risk nominal amount	**170,000**	**39,845**	**223,228**	**428,663**	**15,100**	**876,836**

The following table sets out the accumulated fair value adjustments arising from the corresponding fair value hedge relationships and the outcome of the changes in fair value of the hedged item as well as the hedging instruments used as the basis for recognising effectiveness.

	As at 30 June 2023		For the year ended 30 June 2023
$000's	Carrying value	Accumulated amount of fair value hedge adjustment	Hedge ineffectiveness gain/(loss) recognised in income statement
Interest rate risk			
Investments	290,723	(14,893)	2,620
Other borrowings	(219,959)	5,331	473
Total	**70,764**	**(9,562)**	**3,093**
Interest rate swaps	**8,362**	**8,362**	**(3,133)**
Hedge ineffectiveness of financial instruments recognised in other income			**(40)**

12 Derivative financial instruments (continued)

$000's	As at 30 June 2022 Carrying value	Accumulated amount of fair value hedge adjustment	For the year ended 30 June 2022 Hedge ineffectiveness gain/(loss) recognised in income statement
Interest rate risk			
Investments	262,314	(16,914)	(14,793)
Other borrowings	(272,983)	4,858	11,543
Total	**(10,669)**	**(12,056)**	**(3,250)**
Interest rate swaps	**13,898**	**13,898**	**3,295**
Hedge ineffectiveness of financial instruments recognised in other income			**45**

The accumulated amount of fair value hedge adjustments included in the carrying amount of hedged items that have ceased to be adjusted for hedging gains and losses is nil (2022: nil).

The balance of the cash flow hedge reserve, amounts recognised in the reserve, and amounts transferred out of the reserve are shown in the following table.

	June 2023		June 2022	
$000's	Cash flow hedge reserve	FCTR[1]	Cash flow hedge reserve	FCTR[1]
Cash flow hedges				
Balance at beginning of year	7,959	-	918	-
Transferred to the income statement	(1,771)	-	(641)	-
Net gains from change in fair value	11,305	-	10,743	-
Net movement before tax	**9,534**	**-**	**10,102**	**-**
Tax on net movement in cash flow hedge reserve	(2,418)	-	(3,061)	-
Balance at end of year	**15,075**	**-**	**7,959**	**-**
Net investment hedge	**-**	**2,537**	**-**	**-**

1 Represents the accumulated effective amount of the hedging instrument deferred to Foreign currency translation reserve (**FCTR**) and is related to hedge relationship for which hedge accounting is no longer applied.

During the year ended 30 June 2023, a gain of $0.7 million was recognised in fair value gain on derivative financial instruments in the consolidated statement of comprehensive income related to hedge ineffectiveness from cash flow hedge relationships (2022: nil).

There were no transactions for which cash flow hedge accounting had to be ceased as a result of the highly probable cash flows no longer being expected to occur (2022: nil).

There are $10.1 million (2022: $1.6 million) of balances recognised in the cash flow hedge reserve for which hedge accounting is no longer applied on the basis that the associated variable cash flows are still expected to occur over the lifetime of the original hedge relationships. The associated cash flow hedge reserve is being released over the period of the original hedge relationship which has since been de-designated.

13 Finance receivables

Policy

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

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

$000's	June 2023	June 2022
Gross finance receivables at amortised cost	4,387,480	4,198,826
Less provision for impairment	(53,266)	(52,005)
Net finance receivables at amortised cost	**4,334,214**	**4,146,821**

13 Finance receivables (continued)

Policy

Impairment of finance receivables

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

Exposures are assessed on a collective basis in each stage unless there is sufficient evidence that one or more events associated with an exposure could have a detrimental impact on estimated future cash flows. Where such evidence exists, the exposure is assessed on an individual basis.

For the purposes of a collective evaluation of impairment, finance receivables are grouped based on shared credit risk characteristics, credit risk ratings, contractual term, date of initial recognition, remaining term to maturity, customer type and other relevant factors.

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

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

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

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

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

Credit quality of financial assets

The Group internally computes probability of default using historical default data, to assess the potential risk of default of the lending, or other financial services products, provided to counterparties or customers. The Group has defined counterparty probabilities of default across consumer, retail, business and rural portfolios.

The Group considers a receivable to be in default when contractual payments are 90 days or more past due, or when it is considered unlikely that the credit obligation to the Group will be paid in full without recourse to actions, such as realisation of security.

Finance receivables are written off against the related impairment allowance when there is no reasonable expectation of recovery. Any recoveries of amounts previously written off are credited to credit impairment expense in profit or loss.

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

13 Finance receivables (continued)

Policy (continued)

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

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

Modification of contractual cash flows
The Group sometimes modifies the terms of loans provided to customers due to commercial renegotiations, or for distressed loans, with a view to maximising recovery.

Such restructuring activities include extended payment term arrangements, payment holidays and payment forgiveness. Restructuring policies and practices are based on indicators or criteria which, in the judgement of management, indicate that payment will most likely continue. These policies are kept under continuous review. Restructuring is most commonly applied to term loans.

Information is not presented in respect of other financial assets or credit related contingent liabilities as the related allowances for ECL are not material to the Group.

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

The most significant and judgemental provision for impairment is on motor vehicle lending with a collective ECL of $15.1 million at 30 June 2023 (2022: $9.5 million). There are fewer judgements on the other remaining lending portfolios.

The motor vehicle lending impairment allowance is sensitive to changes in the level of unemployment. The modelled provision for motor vehicle lending is a probability weighted estimate based on three scenarios. The forecast of unemployment across all three scenarios uses consensus external data obtained from external economic experts.

The forecast assumes the following for unemployment for all three scenarios:

	2024	2025	2026
Upside	4.00%	4.80%	4.40%
Central	4.60%	5.20%	5.00%
Downside	5.96%	6.13%	5.70%

The probability weights assigned to each scenario are based on management's estimate of their relative likelihood. The following table indicates the weightings applied by the Group as at 30 June 2023:

Upside	15%
Central	50%
Downside	35%

The following sensitivity table shows the provision for impairment based on the probability weighted scenarios and what the impairment allowance for motor vehicle lending would be assuming a 100% weighting is applied to the three scenarios with all other assumptions held constant.

Reported probability weighted impairment allowance	$15.1 million
100% Upside	$9.7 million
100% Central	$12.4 million
100% Downside	$21.2 million

13 Finance receivables (continued)

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

$000's	Collectively Assessed Stage 1	Stage 2	Stage 3	Individually Assessed	Total
June 2023					
Impairment allowance as at 30 June 2022	**20,256**	**1,958**	**14,602**	**15,189**	**52,005**
Changes in loss allowance					
Transfer between stages[1]	(8,226)	(3,864)	3,758	8,332	-
New and increased provision (net of provision releases)[1]	983	4,369	15,774	4,678	25,804
Credit impairment charge	**(7,243)**	**505**	**19,532**	**13,010**	**25,804**
Write-offs	-	-	(12,612)	(11,904)	(24,516)
Effect of changes in foreign exchange rate	(4)	-	(23)	-	(27)
Impairment allowance as at 30 June 2023	**13,009**	**2,463**	**21,499**	**16,295**	**53,266**
June 2022					
Impairment allowance as at 30 June 2021	**26,807**	**2,427**	**16,824**	**7,629**	**53,687**
Changes in loss allowance					
Transfer between stages[1]	(3,909)	(2,556)	1,189	5,276	-
New and increased provision (net of provision releases)[1]	(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**

1 The increase in provision when a loan moves to a higher stage is included in New and increased provision (net of provision releases) in the higher stage to which the loan moved. The decrease in provision when a loan moves to a lower stage is included in New and increased provision (net of provision releases) in the higher stage from which the loan moved.

13 Finance receivables (continued)

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

$000's	Collectively Assessed Stage 1	Stage 2	Stage 3	Individually Assessed	Total
30 June 2023					
Gross finance receivables as at 30 June 2022	3,967,917	118,424	46,114	66,371	4,198,826
Transfer between stages	(237,955)	161,605	64,627	11,723	-
Additions	1,412,648	-	-	9,326	1,421,974
Deletions	(1,072,012)	(97,559)	(17,068)	(15,194)	(1,201,833)
Write-offs	-	-	(12,379)	(19,108)	(31,487)
Gross finance receivables as at 30 June 2023	**4,070,598**	**182,470**	**81,294**	**53,118**	**4,387,480**
30 June 2022					
Gross finance receivables as at 30 June 2021	3,092,653	165,793	45,564	38,143	3,342,153
Transfer between stages	(112,179)	25,532	31,253	55,394	-
Additions	2,433,553	-	-	3,190	2,436,743
Deletions	(1,446,110)	(72,901)	(12,782)	(26,945)	(1,558,738)
Write-offs	-	-	(17,921)	(3,411)	(21,332)
Gross finance receivables as at 30 June 2022	**3,967,917**	**118,424**	**46,114**	**66,371**	**4,198,826**

Impact of changes in gross exposures on loss allowances

Overall credit impairment provisions increased by $1.3 million (2.4%) for the year ended 30 June 2023, mainly due to increase in gross receivables of $188.7 million (4.5%) and movement of exposures into more advanced stages. This is offset by the release of provisions previously held against assets written off during the year as well as reduction in loss given default from more effective arrears management.

As at 30 June 2023, there were nil undrawn lending commitments available to counterparties for whom drawn balances are classified as individually impaired (2022: $0.003 million).

(a) Assets under administration

As at 30 June 2023, the contractual amount outstanding on loans to customers written off during the year and are still subject to enforcement activity was nil (2022: nil).

14 Operating lease vehicles

Policy

Operating lease vehicles are stated at cost less accumulated depreciation.

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

$000's	June 2023	June 2022
Cost		
Opening balance	20,450	16,114
Additions	8,766	10,758
Disposals	(6,303)	(6,422)
Closing balance	**22,913**	**20,450**
Accumulated depreciation		
Opening balance	5,289	5,249
Depreciation charge for the year	3,461	3,103
Disposals	(2,803)	(3,063)
Closing balance	**5,947**	**5,289**
Opening net book value	15,161	10,865
Closing net book value	**16,966**	**15,161**

The future minimum lease payments receivable under operating leases not later than one year is $4.086 million (2022: $3.057 million), within one to five years is $7.598 million (2022: $6.465 million) and over five years is nil (2022: nil).

15 Borrowings

Policy

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

The Group hedges interest rate risk on certain debt issues. When fair value hedge accounting is applied to fixed rate debt issues, the carrying values are adjusted for changes in fair value related to the hedged risks.

$000's	June 2023	June 2022
Deposits	4,131,025	3,592,508
Total borrowings related to deposits	**4,131,025**	**3,592,508**
Unsubordinated notes	385,482	636,407
Subordinated notes	97,794	-
Securitised borrowings	1,713,737	1,559,108
Certificate of deposit	148,110	198,715
Bank borrowings	131,248	173,982
Money market borrowings	20,004	10,001
Total other borrowings	**2,496,375**	**2,578,213**
Total deposits and other borrowings	**6,627,400**	**6,170,721**
Due within one year	4,731,388	4,174,630
Due more than one year	1,896,012	1,996,091
Total deposits and other borrowings	**6,627,400**	**6,170,721**

Deposits and unsubordinated notes rank equally and are unsecured.

15 Borrowings (continued)

Unsubordinated notes

Unsubordinated notes include short and long-term retail bonds and medium term notes. Medium term notes are issued pursuant to the terms of the Guarantee Deed Poll dated 15 February 2019. Medium term notes are issued in Australian dollars to eligible non-retail investors in compliance with applicable law.

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

Retail bonds and medium term notes $000's	Frequency of interest repayment	June 2023	June 2022	Maturity Date
NZ$150 million	Semi-annually	-	145,142	21 September 2022
AU $47 million	Monthly	-	52,362	6 October 2022
AU $45 million	Quarterly	-	49,976	21 April 2023
AU $75 million	Quarterly	-	83,318	22 April 2023
NZ $125 million	Semi-annually	122,165	127,841	12 April 2024
AU $45 million	Quarterly	49,471	50,003	9 July 2024
AU $30 million	Quarterly	32,585	-	9 July 2024
AU $115 million	Quarterly	125,925	127,765	13 May 2025
AU $50 million	Quarterly	55,336	-	5 October 2027
Total retail bonds and medium term notes		**385,482**	**636,407**	

Subordinated notes

On 28 April 2023, HBL, a subsidiary of the Group, issued $100 million of subordinated unsecured notes (**Subordinated notes**) to New Zealand investors and certain overseas institutional investors pursuant to the terms of the Subordinated Unsecured Notes Deed Poll in accordance with the laws of New Zealand. Subordinated notes are treated as Tier 2 capital under HBL regulatory capital requirements and will mature on 28 April 2033.

Interest payable
The interest rate is a fixed rate of 7.51% for a period of 5 years until 28 April 2028, after which it will reset to quarterly floating rate equal to the sum of the applicable 3-month Bank Bill Rate plus 3.2% Issue Margin. The quarterly payment of interest in respect of the subordinated notes are subject to HBL being solvent at the time of, and immediately following the interest payment.

Early Redemption
HBL may choose to repay all or some of the subordinated notes for their face value together with accrued interest (if any) on 28 April 2028 or any interest payment date thereafter. Early redemption of all the subordinated notes for certain tax or regulatory events is permitted on an interest payment date. Early redemption is subject to certain conditions, including HBL obtaining the Reserve Bank of New Zealand (**RBNZ**) prior written approval and HBL being solvent at the time.

Ranking
The claims of the holders of the subordinated notes will rank:
- Behind the claims of all depositors and other creditors of HBL;
- equally with the claims of other holders of any other securities and obligations that rank equally with the subordinated notes and;
- ahead of the rights of the HBL's shareholders and holders of any other securities and obligations of HBL that rank behind the subordinated notes.

15 Borrowings (continued)

Securitised Borrowings

The Group had the following securitised borrowings outstanding as at 30 June 2023:

Securitisation facility		**June 2023**		**June 2022**		
$000's	**Currency**	**Limit**	**Drawn[1]**	**Limit**	**Drawn[1]**	**Maturity Date**
StockCo Securitisation Trust 2021-1 (**StockCo**)	AU	300,000	271,739	300,000	275,420	27 May 2024
Seniors Warehouse Trust No. 2 (**SWT2**)	AU	450,000	457,657	350,000	232,982	1 July 2024
Heartland Auto Receivable Warehouse (**HARWT**)	NZD	400,000	227,054	400,000	267,779	26 August 2024
Seniors Warehouse Trust (**SWT**)	AU	600,000	622,344	600,000	646,744	30 September 2025
Atlas 2020-1 Trust (**Atlas**)	AU	127,462	134,943	127,462	136,183	24 September 2050
Total securitised borrowings			**1,713,737**		**1,559,108**	

1 Facility limit is stated in functional currency, drawn balance is stated in NZD.

- HARWT notes issued to investors are secured over motor vehicle loans.
- StockCo notes issued to investors are secured over livestock loans.
- SWT, SWT2 and Atlas notes issued to investors are secured over reverse mortgage loans.

The Group actively engages facility providers in commercial negotiations including tenor extensions, increase in facility limits, refinancing arrangements, and other commercial terms. The Group has a track record of extending or refinancing funding arrangements as they fall due and does not anticipate any difficultly in doing so when the facilities above expire.

16 Share capital and dividends

Policy

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

$000's	**June 2023 Number of Shares**	**June 2022 Number of Shares**
Issued shares		
Opening balance	592,904	585,904
Shares issued during the year	112,417	-
Shares issued - dividend reinvestment plan	4,337	7,000
Closing balance	**709,658**	**592,904**

HGH completed a capital raise during the year which comprised a share placement (**Placement**) and a Share Purchase Plan (**SPP**). HGH issued 72,222,222 shares at $1.8000 per share on 26 August 2022 under the Placement and 38,822,458 new shares at $1.7674 per share on 9 September 2022 under the SPP. The total value of shares issued was $198.6 million with $3.7 million of transaction costs recognised in relation to this share issuance.

On 19 September 2022, HGH issued a further 2,250,625 shares at $0.5200 per share ($1.2 million) under the Long Term Incentive Scheme of HGH (**LTI Scheme**), of which 877,777 shares at $1.8329 per share ($1.6 million) were acquired by HGH pursuant to the buyback offer to the participants to fund the tax liability arising for those participants upon receipt of shares under the LTI Scheme.

The Group issued 4,336,812 new shares at $1.6370 per share ($7.1 million) on 23 March 2023 under a dividend reinvestment plan (**DRP**) for the period (2022: 3,930,116 new shares at $2.2713 per share ($8.9 million) on 15 September 2021 and 3,069,339 new shares at $2.1105 per share ($6.5 million) on 16 March 2022 under the DRP for the period).

The ordinary shares have no par value. Each ordinary share of HGH carries the right to vote on a poll at meetings of shareholders, the right to an equal share in dividends and the right to an equal share in the distribution of the surplus assets of HGH in the event of liquidation.

16 Share capital and dividends (continued)

Dividends paid

	June 2023			June 2022		
$000's	Date Declared	Cents Per Share	$000's	Date Declared	Cents Per Share	$000's
Final dividend	24 August 2022	5.5	32,609	24 August 2021	7.0	41,013
Interim dividend	28 February 2023	5.5	38,793	22 February 2022	5.5	32,441
Total dividends paid			**71,402**			**73,454**

17 Other reserves

$000's	Employee Benefit Reserve	Foreign Currency Translation Reserve (FCTR)	Fair Value Reserve	Defined Benefit Reserve	Cash Flow Hedge Reserve	Total
June 2023						
Balance as at 30 June 2022	4,646	(1,635)	(1,034)	-	7,959	9,936
Movements attributable to net investments in foreign operations and net investment hedges	-	(6,803)	-	-	-	(6,803)
Movements attributable to fair value hedges	-	-	(779)	-	-	(779)
Movements attributable to cash flow hedges	-	-	-	-	9,534	9,534
Equity securities at FVOCI	-	-	(2,411)	-	-	(2,411)
Share based payments	105	-	-	-	-	105
Vesting of share based payments	(1,170)	-	-	-	-	(1,170)
Income tax effect	-	-	246	-	(2,418)	(2,172)
Balance as at 30 June 2023	**3,581**	**(8,438)**	**(3,978)**	**-**	**15,075**	**6,240**
June 2022						
Balance as at 30 June 2021	2,731	(3,975)	(322)	171	918	(477)
Movements attributable to net investments in foreign operations	-	2,340	-	-	-	2,340
Movements attributable to fair value hedges	-	-	(1,301)	-	-	(1,301)
Movements attributable to cash flow hedges	-	-	-	-	10,102	10,102
Equity securities at FVOCI	-	-	-	(171)	-	(171)
Share based payments	1,915	-	-	-	-	1,915
Income tax effect	-	-	589	-	(3,061)	(2,472)
Balance as at 30 June 2022	**4,646**	**(1,635)**	**(1,034)**	**-**	**7,959**	**9,936**

Employee benefit reserve

Includes amounts which arise on the recognition of the Group's fair value estimate of equity instruments expected to vest under share-based compensation plan.

FCTR

Exchange differences arising on translation of the Group's foreign operations are accumulated in the Foreign currency translation reserve and recognised in other comprehensive income. The cumulative amount is reclassified to profit or loss when a foreign operation is disposed of.

17 Other reserves (continued)

Fair value reserve

Includes changes in the fair value of investment securities measured at fair value through other comprehensive income, net of tax. For debt securities, these changes are reclassified to the profit or loss when the asset is disposed. For equity securities, these changes are not reclassified to the profit or loss when the asset is disposed.

Defined benefit reserve

Includes predetermined retirement benefits calculated for employees of a historical amalgamated entity which was wound up during the prior financial year.

Cash flow hedge reserve

This includes fair value gains and losses associated with the effective portion of the designated cash flow hedging instruments, net of tax.

18 Other balance sheet items

Policy

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

$000's	June 2023	June 2022
Other assets		
Trade receivables	430	-
GST receivables	562	2,946
Prepayments[1]	11,931	7,674
Property, plant and equipment[2]	14,241	7,336
Other receivables	826	273
Total other assets	**27,990**	**18,229**

1 Prepayments include deposit paid for the conditional acquisition of CBL of $3.9 million.
2 Property, plant and equipment include rural property worth $7.8 million acquired during the year.

Policy

Intangible assets

Intangible assets with finite useful lives
Software acquired or internally developed by the Group is stated at cost less accumulated amortisation and any accumulated impairment losses. Expenditure on software assets is capitalised only when it increases the future economic value of that asset. Certain internal and external costs directly incurred in acquiring and developing software are capitalised when specific criteria are met. Costs incurred on planning or evaluating software proposals during the research phase or on maintaining systems after implementation are not capitalised. Amortisation of software is on a straight line basis, at rates which will write off the cost over the assets' estimated useful lives. The expected useful life of the software has been determined to be ten years.

Software-as-a-Service (SaaS) arrangements
SaaS arrangements are service agreements that grant the Group the right to access the cloud provider's application software over the contract period. Costs associated with configuring or customising the software, along with ongoing fees for accessing the cloud provider's application, are recognised as operating expenses when the services are received.

Some of these costs pertain to developing software code that enhances or modifies, or creates additional capability to, existing on-premise systems and qualifies as an intangible asset based on its definition and recognition criteria.

18 Other balance sheet items (continued)

Policy (continued)

Intangible assets (continued)

Software-as-a-Service (SaaS) arrangements (continued)
The Group capitalises costs incurred in configuring or customising certain suppliers' application software within specific cloud computing arrangements as intangible assets as the Group considers that it would benefit from those costs to implement the cloud-based software over the expected terms of the cloud computing arrangements. However, such capitalisation occurs only if the activities result in creating an intangible asset that the Group has control over and meets the necessary recognition criteria. Costs that do not meet the criteria for capitalisation as intangible assets are expensed as incurred unless they are paid to the suppliers (or subcontractors of the supplier) of the cloud-based software to significantly customise the cloud-based software for the Group (i.e. such services are not distinct from the Group's right to receive access to the supplier's cloud-based software). In the latter case, the upfront costs are recorded as prepayments for services and amortised over the expected terms of the cloud computing arrangements.

Goodwill

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

$000's	June 2023	June 2022
Computer software		
Software - cost	48,513	45,091
Software under development	28,391	16,196
Accumulated amortisation	31,944	26,275
Net carrying value of computer software	**44,960**	**35,012**
Goodwill	184,422	183,235
Net carrying value of goodwill	**184,422**	**183,235**
Other intangible assets[1]	6,351	627
Total intangible assets	**235,733**	**218,874**

1 Other intangible assets include capitalised banking licence costs of $6.4 million (2022: $0.6 million)

Banking Licence
On 20 October 2022 Heartland Group Holdings Limited entered into a conditional share sale agreement with Challenger Limited to acquire 100% of the shares of CBL, holder of a full Australian Authorised Deposit-Taking Institution (**ADI**) Licence. HGH and CBL have jointly applied to the Australian Prudential Regulatory Authority (**APRA**) for approval to expand the range of products CBL offers and to amend CBL's APRA approved business plan to integrate with HGH's existing Australian based financial services business.

Costs directly attributable to the application are recognised as Banking licence intangible asset. On completion the Banking Licence is expected to have an indefinite life as there is no foreseeable limit to the period over which the asset is expected to generate benefits for the business.

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

- Heartland Australia Holdings Pty Limited: $15.3 million (2022: $15.3 million).
- Heartland Bank Limited: $29.8 million (2022: $29.8 million).
- StockCo AU Group: $139.3 million (2022: $138.1 million).

18 Other balance sheet items (continued)

Impairment testing of goodwill
The Group has performed impairment tests for CGUs with goodwill. Further information about impairment tests performed for CGUs with goodwill is provided below.

Heartland Bank Limited (**HBL**) and Heartland Australia Holdings Pty Limited (**HAH**)

The recoverable amount of the businesses was determined on a value in use basis using a discounted cash flow methodology. The model uses a five-year cash flow forecast based on the latest budget approved by the Board and extended out based on long term growth rates. The long-term growth rate applied to the future cash flows after year five of the forecast was 2.0% and 2.5% for HBL and HAH respectively (2022: 2.0% and 2.0%), and a discount rate of 10.0% (2022: 10.0%) was applied which reflect both past experience and external sources of information. The goodwill impairment assessment indicates significant headroom, and that no foreseeable adjustments to key assumptions such as growth rate or discount rate would lead to impairment.

There was no indication of impairment and no impairment losses have been recognised against the carrying amount of goodwill for the year ended 30 June 2023 (2022: nil).

StockCo AU Group
The recoverable amount of the business was determined on a fair value less cost to sell basis using a discounted cash flow methodology. The model uses a four-year cash flow forecast based on the latest growth target approved by the Board and extended out based on growth expectations for the business. This valuation methodology uses level three inputs in terms of the fair value hierarchy in NZ IFRS 13. The following drivers and key assumptions are used in the model:

- Annual lending growth which has been forecasted based on management's current expectations of growth in the specialist livestock financing portfolio. In forming these expectations management has referenced the current and expected outlook in the overall Australian cattle and lamb markets and factored in pricing and growth strategies relative to market outlook. This includes targeting new customer segments and distribution channels to broaden reach.
- Gross interest income (including interest yield) which represents the pricing of the products which factors in market outlook and new customer segments and are estimated based on management's past experience.
- Cost of funds which was projected based on the forward curve for bank bill rate plus a margin at the date of assessment, representing the expected funding structure of an analogous Australian ADI noting that the Group is working towards obtaining an Australian ADI licence.
- Terminal growth rate of 2.4% after year five of the forecast and discount rate of 12.0%, which reflects external sources of information.

The recoverable amount of the business exceeds its carrying amount by $30.4 million (A$28.0 million). The discount rate would need to rise above 13.5% and the terminal growth rate will need to be below 2.0% in combination to result in an impairment.

The forecast cash flow drivers are outlined in the following table. For each driver management has identified what a reasonable possible change, based on the expected range which would impact the recoverable amount. The expected impact on the CGU recoverable amount from the sensitivities below do not capture any interrelationships between funding costs, gross interest income and annual lending growth.

Sensitivity of key driver	**Expected impact on CGU recoverable amount**	
$000's	**Upside**	**Downside**
+/- 10% in annual lending growth	2,639	(2,687)
+/- 3% in gross interest income (including interest yield)	15,741	(14,731)
+/- 3% in funding cost	4,771	(4,708)

18 Other balance sheet items (continued)

Policy

Employee benefits

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

$000's	June 2023	June 2022
Trade and other payables		
Trade payables	14,731	21,358
Insurance liability	914	1,838
Employee benefits	11,224	9,548
Other tax payables	3,820	1,124
Collateral received on derivatives[1]	27,609	32,342
Total trade and other payables	**58,298**	**66,210**

1 The Group has accepted collateral arising from derivative transactions, included in Cash and cash equivalents.

Policy

Leases

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

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

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

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

$000's	June 2023	June 2022
Right of use assets		
Balance at beginning of year	14,145	15,985
Depreciation charge for the year, included within depreciation expense in the income statement	(2,539)	(2,310)
Additions to right of use assets	712	470
Total right of use assets	**12,318**	**14,145**
Lease liability		
Current	3,166	3,674
Non-current	11,121	12,566
Total lease liability	**14,287**	**16,240**
Interest expense relating to lease liability	**488**	**479**

19 Acquisition

Policy

Business combination

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

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

On 31 May 2022, the Group acquired 100% of the shares in StockCo Holdings 2 Pty Ltd and StockCo Australia Management Pty Ltd (collectively **StockCo Australia**). The consideration paid was subject to a completion adjustment based on the net asset movements since the determination date. The final purchase consideration with respect to this acquisition was A$157.40 million or NZ$173.31 million at exchange rate of the dates of the acquisition and the completion adjustment.

During the year ended 30 June 2023, the purchase price adjustments were finalised and an adjustment of NZ$1.73 million was made to the final purchase consideration. The fair value of consideration increased from NZ$171.58 million to NZ$173.31 million. There was new information relating to the facts and circumstances prevailing at completion date that resulted in fair value adjustments to livestock receivables and trade and other payables. Goodwill increased from NZ$137.58 million to NZ$141.16 million.

19 Acquisition (continued)

Details of the fair value of the assets and liabilities acquired and the final goodwill arising from the acquisition of StockCo Australia are set out as follows:

$000's	Fair value recognised on acquisition
Assets	
Cash and cash equivalents	9,564
Livestock receivables	372,991
Right of use assets	354
Deferred tax asset	5,285
Other assets	4,713
Total assets	**392,907**
Liabilities	
Other borrowings	358,942
Lease liabilities	354
Trade and other payables	1,456
Total liabilities	**360,752**
Net assets acquired	**32,155**
Final goodwill arising on acquisition	141,155
Fair value of consideration	**171,578**
Purchase price adjustment	1,732
Total cash consideration transferred	**173,310**

20 Related party transactions and balances

Policy

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

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

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

(a) Transactions with key management personnel

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

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

All other transactions with KMPs and their related parties are conducted in the ordinary course of business on commercial terms and conditions.

$000's	June 2023	June 2022
Transactions with key management personnel		
Interest income	123	26
Interest expense	(43)	(24)
Key management personnel compensation		
Short-term employee benefits	(8,083)	(8,790)
Share-based plan benefit/(expense)	14	(1,915)
Total transactions with key management personnel	**(7,989)**	**(10,703)**
Due from/(to) key management personnel		
Lending	4,428	229
Borrowings - deposits	(855)	(508)
Total due from/(to) key management personnel	**3,573**	**(279)**

20 Related party transactions and balances

(b) Transactions with related parties

HGH is the ultimate parent company of the Group.

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

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

$000's	June 2023	June 2022
ASF Custodians Pty Limited		
Audit fees	4	7
Heartland Trust (HT)		
Dividends paid	714	809

HT held 6,504,266 shares in HGH (2022: 6,475,976 shares).

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

21 Fair value

Policy

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

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

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

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

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

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

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

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

(a) Financial instruments measured at fair value

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

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

Investment in debt securities

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

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 FVTPL unless an irrevocable election is made by the Group to measure at FVOCI. Investment in listed securities traded in liquid, active markets where prices are readily observable are measured under Level 1 of the fair value hierarchy with no modelling or assumptions used in the valuation.

21 Fair value (continued)

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

Investments in equity securities (continued)

Equity securities are measured at FVOCI where they are not held for trading, the Group doesn't have control or significant influence over the investee and where an irrevocable election is made to measure them at FVOCI. These securities are measured at fair value with unrealised gains and losses recognised in other comprehensive income except for dividend income which is recognised in profit or loss. 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.

The Group has irrevocably elected to account for certain equity investments at fair value through other comprehensive income. These are Level 3 investments and were valued using outcomes from capital raises completed most recently, calibrated against market multiples as at 30 June 2023.

Finance receivables - reverse mortgages

The reverse mortgage portfolio is classified and measured at FVTPL under NZ IFRS 9 Financial instruments (**NZ IFRS 9**). NZ IFRS 4 Insurance contracts (**NZ IFRS 4**) requires entities to account for insurance components of lifetime mortgage contracts. The review of the reverse mortgage portfolio valuation determined that the terms and conditions of these loan contracts do not contain a component of significant insurance risk, therefore they continue to be treated under NZ IFRS 9 Financial Instruments classified at FVTPL under NZ IFRS. Application of NZ IFRS 17 going forward will have a policy choice to continue applying NZ IFRS 9 for these instruments.

On initial recognition the Group considers the transaction price to represent the fair value of the loan, on the basis that no reliable fair value can be estimated as there is no relevant active market and fair value cannot be reliably measured using other valuation techniques under NZ IFRS 13 Fair value measurement.

For subsequent measurement, and at balance date, the Group considered whether the fair value can be determined by reference to a relevant active market or using a valuation technique that incorporates observable inputs but has concluded relevant support is not currently available. In the absence of such market evidence the Group has used an actuarial valuation to determine a proxy for the fair value that incorporates changes in the portfolio risk and expectations of the portfolio performance. The actuarial valuation includes inputs such as mortality and potential move into care, voluntary exits, house price changes, interest rate margin and the no equity guarantee. This estimate is highly subjective and a wide range of plausible values are possible. The estimate provides an indication of whether the transaction value is overstated.

The Group does not consider that the actuarial estimate has moved outside of the original expectation range on initial recognition. There has been no fair value movement recognised in profit or loss during the period (2022: nil). Fair value is not sensitive to the above assumptions due to the nature of reverse mortgage loans. In particular, given conservative origination loan-to-value ratio and security criteria, a material deterioration in house prices combined with a material increase in interest rates over a sustained period of time would likely need to occur before any potential impact to fair value.

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

21 Fair value (continued)

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

Derivative financial instruments

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

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

$000's	Level 1	Level 2	Level 3	Total
June 2023				
Assets				
Investments	318,756	-	11,484	330,240
Derivative financial instruments	-	36,983	-	36,983
Finance receivables - reverse mortgages	-	-	2,403,810	2,403,810
Total financial assets measured at fair value	**318,756**	**36,983**	**2,415,294**	**2,771,033**
Liabilities				
Derivative financial instruments	-	7,624	-	7,624
Total financial liabilities measured at fair value	**-**	**7,624**	**-**	**7,624**
June 2022				
Assets				
Investments	279,841	-	7,032	286,873
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**	**2,003,886**	**2,328,948**
Liabilities				
Derivative financial instruments	-	6,341	-	6,341
Total financial liabilities measured at fair value	**-**	**6,341**	**-**	**6,341**

There were no transfers between levels in the fair value hierarchy in the year ended 30 June 2023 (2022: $8.1 million of equity investments transferred out of Level 3 to Level 1).

21 Fair value (continued)

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

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

$000's	Finance Receivables - Reverse Mortgage	Investments	Total
June 2023			
As at 30 June 2022	1,996,854	7,032	2,003,886
New loans	543,248	-	543,248
Repayments	(297,066)	-	(297,066)
Capitalised Interest and fees	183,458	-	183,458
Purchase of investments	-	6,952	6,952
Fair value (loss) on investment	-	(2,411)	(2,411)
Other[1]	(22,684)	(89)	(22,773)
As at 30 June 2023	**2,403,810**	**11,484**	**2,415,294**
June 2022			
As at 30 June 2021	1,676,073	20,667	1,696,740
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**	**2,003,886**

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

(b) Financial instruments not measured at fair value

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

Cash and cash equivalents

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

Finance receivables

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

The current weighted average lending rate used to fair value finance receivables with a fixed interest rate was 10.25% (2022: 7.77%). Finance receivables with a floating interest rate are deemed to be at current market rates. The current amount of credit provisioning has been deducted from the fair value calculation of finance receivables as a proxy for future losses.

21 Fair value (continued)

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

Borrowings

The fair value of deposits, bank borrowings and other borrowings is the present value of future cash flows and is based on the current market interest rates payable by the Group for debt of similar maturities. The average current market rate used to fair value other borrowings was 6.66% (2022: 3.57%).

Other financial assets and financial liabilities

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

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

	June 2023			June 2022		
$000's	**Fair Value Hierarchy**	**Total Fair Value**	**Total Carrying Value**	**Fair Value Hierarchy**	**Total Fair Value**	**Total Carrying Value**
Assets						
Investments[1]	Level 2	-	-	Level 2	2,418	2,421
Finance receivables	Level 3	4,102,591	4,334,214	Level 3	4,073,977	4,146,821
Total financial assets		**4,102,591**	**4,334,214**		**4,076,395**	**4,149,242**
Liabilities						
Deposits	Level 2	4,130,326	4,131,025	Level 2	3,590,918	3,592,508
Other borrowings	Level 2	2,496,310	2,496,375	Level 2	2,578,213	2,578,213
Total financial liabilities		**6,626,636**	**6,627,400**		**6,169,131**	**6,170,721**

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

21 Fair value (continued)

(c) Classification of financial instruments

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

$000's	FVOCI Equity	FVOCI Debt Securities	FVTPL	Amortised Cost	Total Carrying Value
June 2023					
Assets					
Cash and cash equivalents	-	-	-	311,503	311,503
Investments	9,665	315,192	5,383	-	330,240
Finance receivables	-	-	-	4,334,214	4,334,214
Finance receivables - reverse mortgages	-	-	2,403,810	-	2,403,810
Derivative financial instruments	-	-	36,983	-	36,983
Other financial assets	-	-	-	1,256	1,256
Total financial assets	**9,665**	**315,192**	**2,446,176**	**4,646,973**	**7,418,006**
Liabilities					
Deposits	-	-	-	4,131,025	4,131,025
Other borrowings	-	-	-	2,496,375	2,496,375
Derivative financial instruments	-	-	7,624	-	7,624
Other financial liabilities	-	-	-	43,254	43,254
Total financial liabilities	**-**	**-**	**7,624**	**6,670,654**	**6,678,278**
June 2022					
Assets					
Cash and cash equivalents	-	-	-	310,758	310,758
Investments	5,528	271,790	9,555	2,421	289,294
Finance receivables	-	-	-	4,146,821	4,146,821
Finance receivables - reverse mortgages	-	-	1,996,854	-	1,996,854
Derivative financial instruments	-	-	45,221	-	45,221
Other financial assets	-	-	-	273	273
Total financial assets	**5,528**	**271,790**	**2,051,630**	**4,460,273**	**6,789,221**
Liabilities					
Deposits	-	-	-	3,592,508	3,592,508
Other borrowings	-	-	-	2,578,213	2,578,213
Derivative financial instruments	-	-	6,341	-	6,341
Other financial liabilities	-	-	-	55,538	55,538
Total financial liabilities	**-**	**-**	**6,341**	**6,226,259**	**6,232,600**

Risk Management

22 Enterprise risk management program

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

Role of the Board and the Board Audit and Risk Committee

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

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

The BARC consists of three non-executive directors. The Chair of the Heartland Bank Limited (**HBL**) Audit Committee and the Chair of the HBL Risk Committee, as well as the HGH CEO, the HBL CEO, the Head of Internal Audit and the HGH CFO, each attend BARC meetings. The BARC undertakes its responsibilities with the assistance of subsidiary Boards and subsidiary Board Committees.

Internal Audit

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

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

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

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

22 Enterprise risk management program (continued)

Internal Audit (continued)

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

Executive Risk Committee (ERC)

The ERC comprises the CEO of HBL, CRO of HBL, CFO of HGH, Financial Controller of HBL and Head of Internal Audit. The ERC has responsibility for overseeing risk aspects including internal control environment to ensure that residual risk is consistent with the Group's risk appetite. The ERC generally meets monthly and minutes are made available to the BARC. ERC's specific responsibilities include decision making and oversight of operational risk, compliance risk and credit risk.

Asset and Liability Committee (ALCO)

The ALCO is a group management committee comprising the CEO of HBL, CFO of HGH, CRO of HBL, Head of Retail and Financial Controller of HBL. The ALCO generally meets monthly, and provides reports made available to HBL Audit and Risk Committees and to the BARC. ALCO's specific responsibilities include decision making and oversight of risk matters in relation to:

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

Climate-related risks

Climate change risks are managed in accordance with the Group's RMP and supported by the environmental sustainability framework.

The Group considers the impact of climate-related risks on its financial position and performance (and in this regard, the Board is currently in the process of establishing a new Board Committee to assist it in managing its climate related risks). While the effects of climate change represent a source of uncertainty, the Group has concluded that climate-related risks do not have a material impact on the judgements, assumptions and estimates for the year ended 30 June 2023.

22 Enterprise risk management program (continued)

Operational and compliance risk

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

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

- The first line of defence is the business line management of the identification, management and mitigation of the risks associated with the products and processes of the business. This accountability includes regular testing and attestation of the adequacy and effectiveness of controls and compliance with the Group's policies.
- The second line of defence is the Risk and Compliance function, responsible for the design and ownership of the Operational Risk Management Framework. It incorporates key processes including Risk and Control Self-Assessment (**RCSA**), incident management, independent evaluation of the adequacy and effectiveness of the internal control framework, and the attestation process.
- The third line of defence is Internal Audit which is responsible for independently assessing how effectively the Group is managing its risk according to its stated risk appetite.

Market risk

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

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

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

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

22 Enterprise risk management program (continued)

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

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

Counterparty Credit Risk

The Group has on-going credit exposure associated with:

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

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

23 Credit risk exposure

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

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

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

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

The BARC (with the assistance of the HBL Board Risk Committee for New Zealand and the Heartland Australia Group Board for Australia) also oversees the Group's credit risk exposures to monitor overall risk metrics having regard to risk appetite set by the Board.

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

Heartland Australia Group Board has authority for approval for all credit exposures for Australia.

Reverse mortgage loans and negative equity risk

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

The Group's exposure to negative equity risk is managed via lending standards specific for this product. In addition to usual criteria regarding the type, and location, of security property that the Group will accept for reverse mortgage lending, a key aspect of the Group's policy is that a borrower's age on origination of the reverse mortgage loan will dictate the loan-to-value ratio of the reverse mortgage on origination. New Zealand and Australia reverse mortgage lending standards and operations are well aligned.

23 Credit risk exposure (continued)

Business Finance Guarantee Scheme

In April 2020, HBL along with other registered banks in New Zealand, entered into a Deed of Indemnity with the New Zealand Government to implement the New Zealand Government's Business Finance Guarantee Scheme (the "**Scheme**"). The purpose of the Scheme was to provide short term credit to eligible small and medium size businesses, who had been impacted by the economic effects of COVID-19. The Scheme allowed banks to lend to a maximum of $5 million for a five-year term. The New Zealand Government guaranteed 80% of any loss incurred (credit risk) with the Bank holding the remaining 20%. The Scheme concluded on 30 June 2021. As at 30 June 2023 the Bank had a total exposure of $54.8 million (2022: $64.8 million) to its customers under this Scheme.

Maximum exposure to credit risk at the relevant reporting dates

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

$000's	June 2023	June 2022
On balance sheet:		
Cash and cash equivalents	311,503	310,758
Investments	315,192	274,212
Finance receivables	4,334,214	4,146,821
Finance receivables - reverse mortgages	2,403,810	1,996,854
Derivative financial assets	36,983	45,221
Other financial assets	1,256	273
Total on balance sheet credit exposures	**7,402,958**	**6,774,139**
Off balance sheet:		
Letters of credit, guarantee commitments and performance bonds	7,378	8,969
Undrawn facilities available to customers	435,314	416,561
Conditional commitments to fund at future dates	24,873	34,791
Total off balance sheet credit exposures	**467,565**	**460,321**
Total credit exposures	**7,870,523**	**7,234,460**

Concentration of credit risk by geographic region

$000's	June 2023	June 2022
New Zealand	5,540,453	5,264,609
Australia	2,115,332	1,809,104
Rest of the world[1]	268,004	212,752
	7,923,789	7,286,465
Provision for impairment	(53,266)	(52,005)
Total credit exposures	**7,870,523**	**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 ("Kauri Bonds").

23 Credit risk exposure (continued)

Concentration of credit risk by industry sector

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

$000's	June 2023	June 2022
Agriculture	1,156,042	1,120,678
Forestry and fishing	130,055	148,797
Mining	8,266	12,524
Manufacturing	80,729	78,432
Finance and insurance	817,864	784,948
Wholesale trade	46,053	41,986
Retail trade and accommodation	402,146	423,975
Households	4,078,270	3,555,566
Other business services	198,377	189,860
Construction	336,333	291,971
Rental, hiring and real estate services	205,079	199,388
Transport and storage	359,865	323,732
Other	104,710	114,608
	7,923,789	**7,286,465**
Provision for impairment	(53,266)	(52,005)
Total credit exposures	**7,870,523**	**7,234,460**

Credit risk grading

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

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

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

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

All loans past due but not impaired have been categorised into three impairments stages (see Note 13 – Finance receivables) which are in most cases based on arrears status. If a Judgemental loan is risk graded 6 or above it will be classified as stage 2 as a minimum and carry a provision based on lifetime ECL.

23 Credit risk exposure (continued)

Credit risk grading (continued)

$000's	Collectively Assessed Stage 1	Stage 2	Stage 3	Individually Assessed	Total
June 2023					
Judgemental portfolio					
Grade 1 - Very Strong	25	-	-	-	25
Grade 2 - Strong	3,658	-	-	-	3,658
Grade 3 - Sound	41,887	477	-	-	42,364
Grade 4 - Adequate	637,993	9,975	3,477	-	651,445
Grade 5 - Acceptable	1,390,926	5,492	602	-	1,397,020
Grade 6 - Monitor	-	64,946	6,763	-	71,709
Grade 7 - Substandard	-	76,955	13,725	-	90,680
Grade 8 - Doubtful	-	-	-	51,447	51,447
Grade 9 - At risk of loss	-	-	-	1,671	1,671
Total Judgemental portfolio	2,074,489	157,845	24,567	53,118	2,310,019
Total Behavioural portfolio	1,996,109	24,625	56,727	-	2,077,461
Gross finance receivables	**4,070,598**	**182,470**	**81,294**	**53,118**	**4,387,480**
Provision for impairment	(13,009)	(2,463)	(21,499)	(16,295)	(53,266)
Total finance receivables	**4,057,589**	**180,007**	**59,795**	**36,823**	**4,334,214**
Undrawn facilities available to customers	57,471	77,150	123,248	-	257,869
June 2022					
Judgemental portfolio					
Grade 1 - Very Strong	26	-	-	-	26
Grade 2 - Strong	10,859	-	-	-	10,859
Grade 3 - Sound	53,756	-	-	-	53,756
Grade 4 - Adequate	697,590	5,382	1,052	-	704,024
Grade 5 - Acceptable	1,366,680	1,823	53	-	1,368,556
Grade 6 - Monitor	-	25,106	2,308	-	27,414
Grade 7 - Substandard	-	64,203	4,998	-	69,201
Grade 8 - Doubtful	-	-	-	62,860	62,860
Grade 9 - At risk of loss	-	-	-	3,511	3,511
Total Judgemental portfolio	2,128,911	96,514	8,411	66,371	2,300,207
Total Behavioural portfolio	1,839,006	21,910	37,703	-	1,898,619
Gross finance receivables	**3,967,917**	**118,424**	**46,114**	**66,371**	**4,198,826**
Provision for impairment	(20,256)	(1,958)	(14,602)	(15,189)	(52,005)
Total finance receivables	**3,947,661**	**116,466**	**31,512**	**51,182**	**4,146,821**
Undrawn facilities available to customers	63,475	73,175	110,495	-	247,145

23 Credit risk exposure (continued)

Collateral held

The Group employs a range of policies and practices to mitigate credit risk and has internal policies on the acceptability of specific classes of collateral. Collateral is held as security to support credit risk on finance receivables and enforced in satisfying the debt in the event contractual repayment obligations are not met. The collateral held for mitigating credit risk for the Group's lending portfolios is outlined below.

Reverse mortgage and Residential mortgage loans
Reverse mortgage loans are secured by a first mortgage over a residential property which is typically a customer's primary residential dwelling, residential investment property or holiday home. Residential mortgage loans are secured by a residential mortgage over an owner-occupied property located in an approved urban area.

Corporate lending
Business lending including rural lending is typically secured by way of a charge over property and/or specific security agreement over relevant business assets, and, where considered appropriate, a general security agreement to provide the ability to control cash flows.

Other lending
Other lending comprises personal loans, primarily motor loans, which are secured by a motor vehicle or a boat; and other shorter term smaller personal loans which are predominantly unsecured.

The Group analyses the coverage of the loan portfolio which is secured by the collateral it holds.

Coverage is measured by the value of security as a proportion of loan balance outstanding and classified as follows:

Fully secured Greater or equal to 100%
Partially secured 1% - 99.9%
Unsecured No security held

The Group's loan portfolio have the following coverage from collateral held:

	Corporate	Residential	All other
June 2023			
Fully secured	91%	100%	73%
Partially secured	4%	-	12%
Unsecured	5%	-	15%
Total	**100%**	**100%**	**100%**
June 2022			
Fully secured	92%	100%	71%
Partially secured	6%	-	14%
Unsecured	2%	-	15%
Total	**100%**	**100%**	**100%**

24 Liquidity risk

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

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

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

RBNZ facilities

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

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

$000's	June 2023	June 2022
Cash and cash equivalents	311,503	310,758
Investments in debt securities	315,192	274,212
Total liquid assets	**626,695**	**584,970**
Undrawn committed bank facilities	294,042	360,859
Total liquid assets and committed undrawn funding	**920,737**	**945,829**

24 Liquidity risk (continued)

Contractual liquidity profile of financial liabilities

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

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

$000's	On Demand	0-6 Months	6-12 Months	1-2 Years	2-5 Years	5+ Years	Total
June 2023							
Non-derivative financial liabilities							
Deposits	782,771	2,313,983	1,015,525	62,618	42,186	-	4,217,083
Other borrowings	-	220,675	575,087	918,506	822,614	330,353	2,867,235
Lease liabilities	-	1,489	1,501	2,875	7,046	2,731	15,642
Other financial liabilities	-	43,254	-	-	-	-	43,254
Total non-derivative financial liabilities	**782,771**	**2,579,401**	**1,592,113**	**983,999**	**871,846**	**333,084**	**7,143,214**
Derivative financial liabilities							
Inflows from derivatives	-	3,583	3,552	4,799	13,469	-	25,403
Outflows from derivatives	-	6,644	6,796	5,773	13,125	-	32,338
Total derivative financial liabilities	**-**	**3,061**	**3,244**	**974**	**(344)**	**-**	**6,935**
Undrawn facilities available to customers	435,314	-	-	-	-	-	435,314
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

25 Interest rate risk

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

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

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

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

An analysis of the Group's sensitivity to an increase (+) or decrease (-) in market interest rates by 100 basis points (**BP**) is as follows.

An (+)/(-) to market interest rates of 100 BP would result in a $0.12 million (+)/(-) to NPAT (2022: $0.67 million (+)/(-)) with a corresponding impact to equity.

The Group also manages interest rate risk by:

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

25 Interest rate risk (continued)

Contractual repricing analysis

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

$000's	0-3 Months	3-6 Months	6-12 Months	1-2 Years	2+ Years	Non-Interest Bearing	Total
June 2023							
Financial assets							
Cash and cash equivalents	303,811	-	7,688	-	-	4	311,503
Investments	29,828	24,963	37,767	55,460	167,174	15,048	330,240
Derivative financial assets	-	-	-	-	-	36,983	36,983
Finance receivables	1,891,666	382,923	601,344	767,933	690,348	-	4,334,214
Finance receivables - reverse mortgages	2,403,810	-	-	-	-	-	2,403,810
Other financial assets	-	-	-	-	-	1,256	1,256
Total financial assets	**4,629,115**	**407,886**	**646,799**	**823,393**	**857,522**	**53,291**	**7,418,006**
Financial liabilities							
Deposits	2,259,254	795,536	962,205	59,026	35,216	19,788	4,131,025
Other borrowings	1,918,311	49,598	393,072	-	135,394	-	2,496,375
Derivative financial liabilities	-	-	-	-	-	7,624	7,624
Lease liabilities	-	-	-	-	-	14,287	14,287
Other financial liabilities	-	-	-	-	-	43,254	43,254
Total financial liabilities	**4,177,565**	**845,134**	**1,355,277**	**59,026**	**170,610**	**84,953**	**6,692,565**
Effect of derivatives held for risk management	1,084,971	(66,798)	(41,181)	(556,676)	(420,316)	-	-
Net financial assets/(liabilities)	**1,536,521**	**(504,046)**	**(749,659)**	**207,691**	**266,596**	**(31,662)**	**725,441**

25 Interest rate risk (continued)

Contractual repricing analysis (continued)

$000's	0-3 Months	3-6 Months	6-12 Months	1-2 Years	2+ Years	Non-Interest Bearing	Total
June 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
Derivative financial assets	-	-	-	-	-	45,221	45,221
Finance receivables	1,913,425	284,993	437,200	579,417	931,786	-	4,146,821
Finance receivables - reverse mortgages	1,996,854	-	-	-	-	-	1,996,854
Other financial assets	-	-	-	-	-	273	273
Total financial assets	**4,222,596**	**285,847**	**488,344**	**671,391**	**1,060,458**	**60,585**	**6,789,221**
Financial liabilities							
Deposits	2,197,104	684,378	546,718	99,196	38,325	26,787	3,592,508
Other borrowings	2,325,261	130,873	-	121,191	-	888	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	**4,522,365**	**815,251**	**546,718**	**220,387**	**38,325**	**105,794**	**6,248,840**
Effect of derivatives held for risk management	986,194	(76,349)	(127,004)	(309,781)	(473,060)	-	-
Net financial assets/(liabilities)	**686,425**	**(605,753)**	**(185,378)**	**141,223**	**549,073**	**(45,209)**	**540,381**

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

Other Disclosures

26 Significant subsidiaries

Significant Subsidiaries	Country of incorporation and place of business	Nature of business	Proportion of ownership and voting power held June 2023	June 2022
Heartland Bank Limited	New Zealand	Bank	100%	100%
VPS Properties Limited	New Zealand	Investment property holding company	100%	100%
Marac Insurance Limited	New Zealand	Insurance services	100%	100%
Heartland Australia Holdings Pty Limited	Australia	Financial services	100%	100%
Heartland Australia Group Pty Limited	Australia	Financial services	100%	100%
Australian Seniors Finance Pty Limited	Australia	Management services	100%	100%
StockCo Holdings 2 Pty Limited	Australia	Financial services	100%	100%
StockCo Australia Management Pty Limited	Australia	Management services	100%	100%

27 Structured entities

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

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

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

$000's	June 2023	June 2022
Deposits	244,258	149,824

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

HARWT securitises motor vehicle loan receivables as a source of funding.

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

$000's	June 2023	June 2022
Cash and cash equivalents	16,874	20,197
Finance receivables	254,735	312,239
Other borrowings	(258,256)	(315,308)

27 Structured entities (continued)

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

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

$000's	June 2023	June 2022
Cash and cash equivalents	29,392	26,003
Finance receivables - reverse mortgages	1,371,110	1,136,644
Other borrowings	(1,124,835)	(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	June 2023	June 2022
Cash and cash equivalents	11,684	15,774
Finance receivables - reverse mortgages	144,099	138,950
Other borrowings	(143,353)	(145,219)

(e) StockCo Securitisation Trust 2022-1

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	June 2023	June 2022
Cash and cash equivalents	39,089	15,007
Finance receivables	365,130	354,901
Other borrowings	(365,823)	(311,415)

28 Staff share ownership arrangements

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

(a) Share-based compensation plan details

Heartland performance rights plan (PR plan)

The PR plan was established to enhance the alignment of participants' interests with those of the Group's shareholders. Under the PR plan participants are issued performance rights which will entitle them to receive shares in the Group. As at June 2023, there were 5 active tranches being 2023, 2024 (CEOs), 2024 (non-CEOs), 2025 (CEOs) and 2025 (non-CEOs). All tranches are subject to the existing rules of the PR plan.

PR Plan 2017 Tranche and PR Plan 2018 Tranche (collectively the Legacy Tranches) and PR Plan 2022 Tranche (PR plan 2022) fully vested in September 2022 as per the original expectation and on the basis that the Group achieved its financial measures, strategic objectives and culture and conduct objectives over the period commencing 1 July 2019 and ending on 30 June 2022. On vesting, 2,250,625 performance rights were converted into ordinary shares, contributing a $1,170,325 decrease in the Employee benefits reserve.

PR Plan 2023 Tranche (PR plan 2023) and PR Plan 2024 (CEOs) Tranche (PR plan 2024 (CEOs))

The performance rights were issued subject to the participants' continued employment with the Group until the measurement date and the Group achieving its financial measures, strategic objectives and culture and conduct objectives, over the period commencing 1 July 2020 and ending on 30 June 2023. The targets are dynamic and may be adjusted by the Board from time to time in order to account for unanticipated capital changes during the performance period. The measurement date is the business day following the date on which the Group announces its full year results for the financial year ended 2023.

PR plan 2024 (CEOs) includes the performance rights originally issued to the CEOs under the PR plan 2023 but whose measurement period was subsequently modified to be from 1 July 2020 to 30 June 2024. There have been no other changes in plan terms or rules.

PR Plan 2024 (non-CEOs) Tranche (PR plan 2024 (non-CEOs)) and PR Plan 2025 (CEOs) Tranche (PR plan 2025 (CEOs))

PR plan 2024 (non-CEOs) and PR plan 2025 (CEOs) were issued for period commencing 1 July 2021 and ending on 30 June 2024 and 30 June 2025 respectively. The tranche rules have been aligned with PR plan 2023 and PR plan 2024 (CEOs). Measures are tested on the business day after the announcement of full year results for the financial years ended 30 June 2024 and 30 June 2025 respectively.

PR Plan 2025 (non-CEOs) Tranche (PR plan 2025 (non-CEOs))

PR plan 2025 (non-CEOs) was issued for the period commencing 1 July 2022 and ending on 30 June 2025. The tranche rules have been aligned with PR plan 2023 and PR plan 2024 (non-CEOs). Measures are tested on the business day after the announcement of full year results for the financial year ended 30 June 2025.

28 Staff share ownership arrangements (continued)

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

	June 2023 PR Plan Number of Rights	June 2022 PR Plan Number of Rights
Opening balance	8,801,096	7,742,276
Vested	(2,250,625)	-
Issued	1,717,909	2,454,395
Forfeited	(414,740)	(1,395,575)
Closing balance	**7,853,640**	**8,801,096**

(b) Effect of share-based payment transactions

$000's	June 2023	June 2022
Award of Shares		
PR Plan	105	1,915
Total expense recognised	**105**	**1,915**

As at 30 June 2023, $2.2 million of the share scheme awards remain unvested and not expensed (2022: $3.1 million). This expense will be recognised over the performance period of the awards.

(c) Number of rights outstanding

	June 2023		June 2022	
000's	Rights Outstanding	Remaining Years	Rights Outstanding	Remaining Years
PR Plan - 2017	-	-	1,543	-
PR Plan - 2018	-	-	139	-
PR Plan - 2022	-	-	568	-
PR Plan - 2023	1,275	-	4,096	1
PR Plan - 2024	3,548	1	922	2
PR Plan - 2025	3,031	2	1,533	3
Total	**7,854**		**8,801**	

29 Securitisation, funds management and other fiduciary activities

Funds management and other fiduciary activities

The Group, through Heartland PIE Fund Limited, controls, manages and administers the Heartland PIE Fund and its products (Heartland Call PIE and Heartland Term Deposit PIE). Refer to Note 27 - Structured entities for further details. The Heartland PIE Fund deals with HBL in the normal course of business, in the HBL's capacity as Registrar of the Fund and also invests in HBL's deposits. The Group is considered to control the Heartland PIE Fund, and as such the Heartland PIE Fund is consolidated within the financial statements of the Group.

30 Concentrations of funding

(a) Concentration of funding by industry

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

$000's	June 2023	June 2022
Agriculture	113,341	113,848
Forestry and fishing	21,944	14,391
Mining	291	1,524
Manufacturing	19,185	18,643
Finance and insurance	2,627,218	2,420,850
Wholesale trade	7,634	5,854
Retail trade and accommodation	25,136	19,491
Households	3,215,828	2,754,452
Rental, hiring and real estate services	59,720	43,797
Construction	36,868	28,449
Other business services	66,763	66,731
Transport and storage	7,807	4,598
Other	40,183	41,686
Total	**6,241,918**	**5,534,314**
Unsubordinated notes	385,482	636,407
Total borrowings	**6,627,400**	**6,170,721**

(b) Concentration of funding by geographical area

$000's	June 2023	June 2022
New Zealand	4,634,934	4,410,372
Overseas	1,992,466	1,760,349
Total borrowings	**6,627,400**	**6,170,721**

31 Offsetting financial instruments

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

The Group enters into contractual arrangements with counterparties to manage the credit risks associated primarily with over-the-counter derivatives. The Group has entered into credit support annexes (**CSAs**) which form a part of International Swaps and Derivatives Association (**ISDA**) Master Agreement, in respect of certain exposures relating to derivative transactions. As per these CSAs, the Group or the counterparty needs to collateralise the market value of outstanding derivative transactions. As at 30 June 2023, the Group has received $27.61 million of cash collateral (2022: $32.34 million) against derivative assets. Cash collateral includes amounts of cash obtained to cover the net exposure between the counterparty in the event of default or insolvency. The cash collateral received is not netted off against the balance of derivative assets disclosed in the consolidated statement of financial position; and is disclosed within trade and other payables.

The following table sets out financial assets and financial liabilities which have not been offset but are subject to enforceable master netting agreements (or similar arrangements) and the related amounts not offset in the balance sheet. Financial instruments refer to amounts that are subject to relevant close out netting arrangements under a relevant ISDA agreement. ISDA and similar master netting arrangements do not meet the criteria for offsetting in the statement of financial position because under such agreements the counterparties typically have the right to offset only following an event of default, insolvency or bankruptcy or following other pre-determined events.

	Effects of offsetting on the balance sheet			Related amounts not offset		
$000's	Gross amounts	Gross amount set off in balance sheet	Net amounts reported in the balance sheet	Financial instruments	Cash collateral received	Net amount
June 2023						
Derivative financial assets	36,983	-	36,983	(7,624)	(27,609)	1,750
Total financial assets	**36,983**	**-**	**36,983**	**(7,624)**	**(27,609)**	**1,750**
Derivative financial liabilities	7,624	-	7,624	(7,624)	-	-
Total financial liabilities	**7,624**	**-**	**7,624**	**(7,624)**	**-**	**-**
June 2022						
Derivative financial assets	45,221	-	45,221	(6,341)	(32,342)	6,538
Total financial assets	**45,221**	**-**	**45,221**	**(6,341)**	**(32,342)**	**6,538**
Derivative financial liabilities	6,341	-	6,341	(6,341)	-	-
Total financial liabilities	**6,341**	**-**	**6,341**	**(6,341)**	**-**	**-**

32 Contingent liabilities and commitments

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

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

$000's	June 2023	June 2022
Letters of credit, guarantee commitments and performance bonds	7,378	8,969
Total contingent liabilities	**7,378**	**8,969**
Undrawn facilities available to customers	435,314	416,561
Conditional commitments to fund at future dates	24,873	34,791
Total commitments	**460,187**	**451,352**

33 Events after reporting date

The Group approved a fully imputed final dividend of 6 cents per share on 28 August 2023.

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

Independent auditor's report

To the shareholders of Heartland Group Holdings Limited

Our opinion

In our opinion, the accompanying financial statements of Heartland Group Holdings Limited (the Company), including its subsidiaries (the Group), present fairly, in all material respects, the financial position of the Group as at 30 June 2023, its financial performance and its cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) and International Financial Reporting Standards (IFRS).

What we have audited

The Group's financial statements comprise:

- the consolidated statement of financial position as at 30 June 2023;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand) (ISAs (NZ)) and International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report.

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

Independence

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

Our firm carries out other services for the Group. These services are audit and assurance related services comprising: assurance over financial service license compliance, insurance solvency, trust deed reporting, supervisor reporting and registry audits, regulatory reporting, agreed upon procedures and other services. Other services are actuarial services for reverse mortgages for the Group (completed prior to our appointment as auditor), tax compliance services for a subsidiary of the Group and the provision of an executive reward survey report. 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. The provision of these other services and relationships have not impaired our independence as auditor of the Group.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current year. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

PricewaterhouseCoopers, PwC Tower, 15 Customs Street West, Private Bag 92162, Auckland 1142 New Zealand
T: +64 9 355 8000, www.pwc.co.nz

Description of the key audit matter	How our audit addressed the key audit matter
Provision for impairment of finance receivables As disclosed in note 13 of the financial statements, the impairment allowance totalled $53.3 million at 30 June 2023. For the determination of the collectively assessed impairment allowance, this requires the use of credit risk methodologies that are applied in models using the Group's historical experience of the correlations between defaults and losses, borrower creditworthiness, segmentation of customers or portfolios and economic conditions. The assumptions we focused our audit on included those with greater levels of management judgement and for which variations have the most significant impact on the impairment allowance. For finance receivables that meet specific risk based criteria, the impairment allowance is individually assessed by the Group. These allowances are measured using probability weighted scenarios which are intended to reflect a range of reasonably possible outcomes, and incorporate assumptions such as estimated future cash proceeds expected to be recovered from the realisation of security held as collateral by the Group. We considered this a key audit matter due to the significant audit effort required and the inherent estimation uncertainty present in its determination, which is due to the subjectivity and extent of judgement used by the Group in the impairment allowance recognition and measurement.	We obtained an understanding of control activities over the Group's impairment allowance, and for relevant control activities assessed whether they are appropriately designed. For controls relevant to our planned audit approach we tested, on a sample basis, whether they operated effectively, throughout the financial year. In addition, we, along with our credit risk modelling expert, performed the following procedures, amongst others, on a targeted or sample basis, to assess the reasonableness of the Group's collective allowance for impairment: ● Assessed the appropriateness of the methodology inherent in the models used against the requirements of NZ IFRS 9 *Financial Instruments*; ● Challenged and assessed the appropriateness of the collective allowance for impairment inclusive of the impacts of any post model adjustments; ● We challenged management's modelling outcomes using a range of what we consider reasonably possible assumptions to assess the collective impairment allowance; and ● Tested the completeness and accuracy of critical data elements used in the calculations. With respect to individually assessed allowances we: ● For a sample of business and rural loans not identified as impaired, considered the borrowers latest financial information provided to the Group to assess the credit risk grade rating allocated to the borrower to assess whether the borrower has had a significant increase in credit risk, a critical data element which involves significant management judgement; ● For loans where an impairment was individually assessed, we considered the borrower's latest financial information, value of security held as collateral and probability weighted scenario outcomes (where applicable) to test the basis of measuring the impairment allowance. We also considered the impacts of events occurring subsequent to balance date on the impairment allowances. Where applicable, we considered the competency, capabilities, objectivity and nature of the work of certain experts used by the Group to assist in determining the individual impairment allowance.

Description of the key audit matter	How our audit addressed the key audit matter
	We also assessed the reasonableness of the disclosures against the requirements of the accounting standards.
Fair value of finance receivables - reverse mortgages The Group's fair value of finance receivables – reverse mortgages ("Reverse mortgages") totalled $2.4 billion at 30 June 2023 as disclosed in note 21 of the financial statements. Reverse mortgages are held at fair value through profit or loss. The fair value of reverse mortgages is subject to significant judgement and is highly complex. In addition, the current impacts of rising interest rates and declining house prices, combined with the economic outlook, increases the possibility of increasing outflows under the no negative equity guarantee provided by the Group to the borrower. Accordingly, we consider this to be a key audit matter. The Group records the estimated fair value of the reverse mortgages at transaction price on the basis no reliable fair value can be estimated as there is no relevant active market and fair value cannot be reliably estimated using other valuation techniques under NZ IFRS 13 *Fair Value Measurement (NZ IFRS 13)*. To assess whether the transaction price remains an appropriate proxy for fair value, the Group considers the impact on future discounted cash flows of changes in the risk profile and expectations of performance since loan origination. Specifically considering changes in mortality and potential move into care, voluntary exits, house prices, likelihood of cash outflows under the no negative equity guarantee and interest rate margins.	Our audit procedures included assessing the design and implementation of controls relating to the Group's assessment of the fair value of reverse mortgages. In addition, our audit procedures included: • Assessing the reasonableness of the Group's approach to estimating the fair value based on the transaction cost against the requirements of NZ IFRS 13; • Assessing whether there was evidence of a relevant active market or observable inputs in which to establish fair value using a market approach; • Engaging our internal actuarial experts to independently estimate the value of discounted future cash flows from the reverse mortgages, including any expected outflows under the no negative equity guarantee and comparing this to the transaction cost of reverse mortgages (carrying value) to assess any potential shortfall (a shortfall would indicate the transaction value was overstated); • Tested the completeness and accuracy of a sample of critical data elements used as inputs to our internal actuarial expert assessment of the value of discounted future cash flows; • Assessed the reasonableness of key assumptions (such as future house prices, voluntary exits, interest rate margins, future interest rates) used by our internal actuarial expert in their assessment of the value of discounted future cash flows; and • Considered the appropriateness of the disclosures in note 21 of the financial statements against the requirements of the accounting standards.

Description of the key audit matter	How our audit addressed the key audit matter
StockCo AU Group goodwill impairment assessment The carrying amount of the StockCo AU Group cash generating unit goodwill as at 30 June 2023 as disclosed in note 18 of the financial statements amounted to $139.3 million. The carrying value of goodwill is a key audit matter as it is a significant amount in the Group's consolidated statement of financial position and the estimate of the recoverable amount is dependent on future cash flows. The Group used the Fair Value Less Costs of Disposal (FVLCD) methodology to determine the recoverable amount of the StockCo AU Group cash generating unit. The forecasts in the impairment model prepared by the Group are based on the Group's strategy, some elements of which would be excluded under a Value In Use (VIU) methodology under NZ IAS 36 *Impairment of assets (NZ IAS 36).* The future cash flows in the FVLCD model were prepared based on the Board approved four year forecast cash flows. The key drivers and assumptions used in the impairment model are the following: • Annual lending growth; • Gross interest income (including interest yield); • Cost of funds; • Discount rate; and • Terminal growth rate. Reasonably possible changes in key assumptions that could result in an impairment are disclosed in note 18 of the financial statements.	We obtained the impairment assessment prepared by management which had been independently reviewed by management's external experts. We held discussions with management to understand the assumptions used in the goodwill impairment assessment. We gained an understanding of the current and forecast outlook and the strategic direction of the business. Our audit procedures also included the following: • Obtaining an understanding of the business processes and controls applied by management in performing the impairment assessment; • Assessing the appropriateness of using a FVLCD approach against the requirements of NZ IAS 36; • Understanding key changes in the forecasts used in the impairment assessment compared to the forecasts used in the acquisition model when the business was acquired in the prior year; • Challenging management on the reasonableness of key cash flow assumptions, including movements in annual lending growth, gross interest income (including interest yield) and cost of funds; • Testing the mathematical accuracy of the impairment assessment; • Engaging our internal valuation expert to assess management's valuation methodology and key assumptions, including the discount rate, terminal growth rate and reasonableness of the costs of disposal; • Obtained and evaluated management's sensitivity analyses to ascertain the impact of reasonably possible changes; and • Considered the appropriateness of the disclosures in note 18 of the financial statements against the requirements of the accounting standards.

Description of the key audit matter	How our audit addressed the key audit matter
Operation of financial reporting information technology (IT) systems and controls The Group's operations and financial reporting processes are heavily dependent on IT systems for the capture, processing, storage and extraction of significant volumes of transactions which is critical to the recording of financial information and the preparation of the Group's financial statements. Accordingly, we consider this to be a key audit matter. In common with all other groups with a banking subsidiary, access management controls are important to ensure both access and changes made to applications and data are appropriate. Ensuring that only appropriate staff have access to IT systems, that the level of access itself is appropriate, and that access is periodically monitored, are key controls in mitigating the potential for fraud or error as a result of a change to an application or underlying data. The Group's controls over IT systems are intended to ensure that: ● changes to existing systems operate as intended and are authorised; ● access to process transactions or change data is appropriate and maintains an intended segregation of duties; ● the use of privileged access to systems and data is restricted and monitored; and ● IT processing is approved and where issues arise they are resolved.	For material financial statement transactions and balances, our procedures included obtaining an understanding of the business processes, IT systems used to generate and support those transactions and balances, associated IT application controls, and IT dependencies in manual controls. This involved assessing, where relevant to the audit: ● change management: the processes and controls used to develop, test and authorise changes to the functionality and configurations within systems; ● security: the access controls designed to enforce segregation of duties, govern the use of generic and privileged accounts, or ensure that data is only changed through authorised means; and ● IT operations: the controls over certain IT batch processes used to ensure that any issues that arise are managed appropriately. Where relevant to our planned audit approach, we, along with our IT specialists, evaluated and tested the design and operating effectiveness of certain controls over the continued integrity of IT systems that are relevant to financial reporting. We also carried out tests, on a sample basis, of IT application controls that were key to our audit testing strategy in order to assess the accuracy of relevant system calculations, automated controls and the operation of certain system enforced access controls. Where we identified design or operating effectiveness matters relating to IT systems and application controls relevant to our audit, we performed alternative or additional audit procedures.

Our audit approach

Overview

	Overall group materiality: $6.6 million, which represents approximately 5% of profit before tax. We chose profit before tax as the benchmark because, in our view, it is the benchmark against which the performance of the Group is most commonly measured by users, and is a generally accepted benchmark.
	Following our assessment of the risk of material misstatement, full scope audits were conducted over the most financially significant operations, being the Heartland Bank Limited Banking Group and Heartland Australia Holdings Pty Limited. Specified audit and analytical review procedures were performed over the remaining operations.
	As reported above, we have four key audit matters, being: ● Provision for impairment of finance receivables ● Fair value of finance receivables - reverse mortgages ● StockCo AU Group goodwill impairment assessment ● Operation of financial reporting information technology (IT) systems and controls

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance about whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall Group materiality for the financial statements as a whole as set out above. These, together with qualitative considerations, helped us to determine the scope of our audit, the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate, on the financial statements as a whole.

How we tailored our group audit scope

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

The scope of our audit and the nature, timing and extent of audit procedures performed were determined by our risk assessment, the financial significance of components and other qualitative factors (including history of misstatement through fraud or error).

We performed audit procedures over components considered financially significant in the context of the Group (full scope audit) or in the context of individual primary statement account balances (audit of specific account balances). We performed other procedures including testing entity level controls, audit of specific financially significant financial statement line items and analytical review procedures to address the risk of material misstatement in the residual components.

Other information

The Directors are responsible for the other information. The other information comprises the information included in the Annual Report, but does not include the financial statements and our auditor's report thereon. The Annual Report is expected to be made available to us after the date of this auditor's report.

Our opinion on the financial statements does not cover the other information and we will not express any form of audit opinion or assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

When we read the other information not yet received, if we conclude that there is a material misstatement therein, we are required to communicate the matter to the Directors and use our professional judgement to determine the appropriate action to take.

Responsibilities of the Directors for the financial statements

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

In preparing the financial statements, the Directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements, as a whole, are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (NZ) and ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located at the External Reporting Board's website at:

https://www.xrb.govt.nz/assurance-standards/auditors-responsibilities/audit-report-1/

This description forms part of our auditor's report.

Who we report to

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

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

For and on behalf of:

Chartered Accountants
28 August 2023

Auckland

Te rēhita
Directory

Directors

Heartland Group Board

Gregory Tomlinson
Chair and Non-Executive Director

Jeff Greenslade
CEO and Executive Director

Ellen Comerford
Independent Non-Executive Director

Kathryn Mitchell
Independent Non-Executive Director

Geoff Summerhayes
Independent Non-Executive Director

Heartland Bank Board

Bruce Irvine
Chair and Independent Non-Executive Director

Jeff Greenslade
Executive Director

Edward John Harvey
Independent Non-Executive Director

Kathryn Mitchell
Non-Independent Non-Executive Director

Shelley Ruha
Independent Non-Executive Director

Simon Tyler
Independent Non-Executive Director

Management

Jeff Greenslade
CEO,
Heartland Group

Chris Flood
Deputy CEO,
Heartland Group

Leanne Lazarus
CEO,
Heartland Bank

Andrew Dixson
Chief Financial Officer,
Heartland Group

Michael Drumm
Group Chief Operating Officer,
Heartland Group

Phoebe Gibbons
General Counsel,
Heartland Group

Aleisha Langdale
Chief Performance Officer,
Heartland Group

Doug Snell
CEO,
StockCo Australia

Lana West
Group Chief People & Culture Officer,
Heartland Group

Andy Wood
Chief Risk Officer,
Heartland Bank

As at the date of this Annual Report.

Registered office

35 Teed Street
Newmarket, Auckland 1023
PO Box 9919
Newmarket, Auckland 1149
T 0508 432 785
E shareholders@heartland.co.nz
W heartlandgroup.info

Auditor

PwC
Level 27, PwC Tower
15 Customs Street West
Auckland 1010
T 09 355 8000

Share registry

Link Market Services Limited
Level 30, PwC Tower
15 Customs Street West
Auckland 1010
T 09 375 5998
F 09 375 5990
E enquiries@linkmarketservices.co.nz
W linkmarketservices.co.nz

HEARTLAND

GROUP

heartlandgroup.info