Disclosure Statement

For the six months
ended 31 December 2021

HEARTLAND
BANK

Contents

General Information

This Disclosure Statement has been issued by Heartland Bank Limited (the **Bank** or **HBL**) and its subsidiaries (the **Banking Group**) for the year ended 31 December 2021 in accordance with the Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order 2014 (as amended) (the **Order**). The financial statements of the Bank for the six months ended 31 December 2021 form part of, and should be read in conjunction with, this Disclosure Statement.

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

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

Priority of Creditors' Claims

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

Guarantee Arrangements

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

Auditor

KPMG
KPMG Centre
18 Viaduct Harbour Avenue
Auckland

Directors

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

There have been no changes in the composition of the Board of Directors of the Bank since 30 June 2021 to the six months ended 31 December 2021.

Directors' Statements

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

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

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

    b) the Disclosure Statement is not false or misleading.

2. During the six months ended 31 December 2021:

    a) the Bank complied with all Conditions of Registration applicable during the period;

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

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

This Disclosure Statement is dated 21 February 2022 and has been signed by all the Directors.

B R Irvine (Chair)

G T Ricketts

J K Greenslade

K Mitchell

E J Harvey

S M Ruha

Consolidated Interim Statement of Comprehensive Income

For the six months ended 31 December 2021

$000's	Note	Unaudited 6 Months to December 2021	Unaudited 6 Months to December 2020	Audited 12 Months to June 2021
Interest income	3	132,072	139,875	272,562
Interest expense	3	28,057	43,642	73,753
Net interest income		**104,015**	**96,233**	**198,809**
Operating lease income		2,588	2,579	5,004
Operating lease expense		1,545	1,598	3,149
Net operating lease income		**1,043**	**981**	**1,855**
Lending and credit fee income		3,416	3,224	6,455
Other income		3,967	3,309	6,696
Net operating income		**112,441**	**103,747**	**213,815**
Operating expenses	4	48,154	53,256	100,852
Profit before impaired asset expense and income tax		**64,287**	**50,491**	**112,963**
Fair value (loss)/gain on investments		(315)	-	215
Impaired asset expense	6	8,540	4,538	14,579
Profit before income tax		**55,432**	**45,953**	**98,599**
Income tax expense		14,449	12,939	27,090
Profit for the period		**40,983**	**33,014**	**71,509**
Other comprehensive income				
Items that are or may be reclassified subsequently to profit or loss, net of income tax:				
Effective portion of change in fair value of derivative financial instruments		6,619	4,580	8,928
Movement in fair value reserve		(6,356)	(1,038)	(5,646)
Other comprehensive income for the period, net of income tax		**263**	**3,542**	**3,282**
Total comprehensive income for the period		**41,246**	**36,556**	**74,791**

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

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

KPMG

Consolidated Interim Statement of Changes in Equity

For the six months ended 31 December 2021

$000's	Note	Share Capital	Fair Value Reserve	Defined Benefit Reserve	Cash Flow Hedge Reserve	Retained Earnings	Total Equity
Unaudited - December 2021							
Balance as at 1 July 2021		**553,239**	**(322)**	**171**	**906**	**87,834**	**641,828**
Total comprehensive income for the period							
Profit for the period		-	-	-	-	40,983	40,983
Other comprehensive (loss)/ income, net of income tax		-	(6,356)	-	6,619	-	263
Total comprehensive (loss)/ income for the period		**-**	**(6,356)**	**-**	**6,619**	**40,983**	**41,246**
Contributions by and distributions to owner							
Dividend to Heartland Group Holdings Limited	9	-	-	-	-	-	-
Total transactions with owner		-	-	-	-	-	-
Balance as at 31 December 2021		**553,239**	**(6,678)**	**171**	**7,525**	**128,817**	**683,074**
Unaudited - December 2020							
Balance as at 1 July 2020		**553,239**	**5,324**	**171**	**(8,022)**	**46,325**	**597,037**
Total comprehensive income for the period							
Profit for the period		-	-	-	-	33,014	33,014
Other comprehensive (loss)/ income, net of income tax		-	(1,038)	-	4,580	-	3,542
Total comprehensive (loss)/ income for the period		**-**	**(1,038)**	**-**	**4,580**	**33,014**	**36,556**
Contributions by and distributions to owner							
Dividend to Heartland Group Holdings Limited	9	-	-	-	-	-	-
Total transactions with owner		-	-	-	-	-	-
Balance as at 31 December 2020		**553,239**	**4,286**	**171**	**(3,442)**	**79,339**	**633,593**

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

Consolidated Interim Statement of Changes in Equity (Continued)

For the six months ended 31 December 2021

$000's	Note	Share Capital	Fair Value Reserve	Defined Benefit Reserve	Cash Flow Hedge Reserve	Retained Earnings	Total Equity
Audited - June 2021							
Balance as at 1 July 2020		**553,239**	**5,324**	**171**	**(8,022)**	**46,325**	**597,037**
Total comprehensive income for the year							
Profit for the year		-	-	-	-	71,509	71,509
Other comprehensive (loss)/ income, net of income tax		-	(5,646)	-	8,928	-	3,282
Total comprehensive (loss)/ income for the year		**-**	**(5,646)**	**-**	**8,928**	**71,509**	**74,791**
Contributions by and distributions to owner							
Dividend to Heartland Group Holdings Limited	9	-	-	-	-	(30,000)	(30,000)
Total transactions with owner		**-**	**-**	**-**	**-**	**(30,000)**	**(30,000)**
Balance as at 30 June 2021		**553,239**	**(322)**	**171**	**906**	**87,834**	**641,828**

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

Consolidated Interim Statement of Financial Position

As at 31 December 2021

$000's	Note	Unaudited December 2021	Unaudited December 2020	Audited June 2021
Assets				
Cash and cash equivalents		137,937	104,965	112,903
Investments		297,316	451,159	358,975
Investment properties		11,832	11,132	11,832
Derivative financial instruments		21,540	15,023	14,111
Due from related parties	10	1,345	259	146
Finance receivables	7	3,470,003	3,042,378	3,213,593
Finance receivables - reverse mortgages	7	648,865	622,137	601,505
Operating lease vehicles		13,009	12,712	10,865
Right of use assets		14,609	16,779	15,654
Other assets		14,536	14,257	14,822
Intangible assets		57,353	52,181	52,831
Deferred tax asset		14,595	14,890	12,251
Total assets		**4,702,940**	**4,357,872**	**4,419,488**
Liabilities				
Retail deposits	8	3,336,509	3,271,109	3,219,522
Other borrowings	8	622,336	389,589	502,885
Due to related parties	10	688	9,399	3,210
Lease liabilities		16,703	18,878	17,780
Tax liabilities		6,211	5,341	7,556
Derivative financial instruments		3,400	12,390	4,789
Trade and other payables		34,019	17,573	21,918
Total liabilities		**4,019,866**	**3,724,279**	**3,777,660**
Equity				
Share capital	9	553,239	553,239	553,239
Retained earnings and other reserves		129,835	80,354	88,589
Total equity		**683,074**	**633,593**	**641,828**
Total equity and liabilities		**4,702,940**	**4,357,872**	**4,419,488**
Total interest earning and discount bearing assets		4,481,311	4,204,727	4,215,116
Total interest and discount bearing liabilities		3,942,304	3,641,406	3,704,130

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

Consolidated Interim Statement of Cash Flows

For the six months ended 31 December 2021

$000's	Note	Unaudited 6 Months to December 2021	Unaudited 6 Months to December 2020	Audited 12 Months to June 2021
Cash flows from operating activities				
Interest received		113,807	122,874	236,081
Operating lease income received		1,807	1,480	5,046
Lending, credit fees and other income received		4,881	6,914	8,431
Operating inflows		**120,495**	**131,268**	**249,558**
Interest paid		(36,697)	(46,659)	(88,635)
Payments to suppliers and employees		(30,021)	(48,024)	(86,261)
Taxation paid		(18,283)	(19,759)	(27,518)
Operating outflows		**(85,001)**	**(114,442)**	**(202,414)**
Net cash flows from operating activities before changes in operating assets and liabilities		**35,494**	**16,826**	**47,144**
Proceeds from sale of operating lease vehicles		3,023	5,584	6,821
Purchase of operating lease vehicles		(6,016)	(1,594)	(1,788)
Net movement in finance receivables		(292,843)	3,840	(136,202)
Net movement in deposits		117,139	5,071	(43,587)
Net movement in related party balances		(3,721)	2,677	(3,399)
Net cash flows (applied to)/from operating activities[1]		**(146,924)**	**32,404**	**(131,011)**
Cash flows from investing activities				
Purchase of property, plant and equipment and intangible assets		(7,676)	(3,954)	(6,520)
Net decrease/(increase) in investments		54,988	(62,876)	24,215
Total cash from/(applied to) investing activities		**47,312**	**(66,830)**	**17,695**
Net cash flows from/(applied to) investing activities		**47,312**	**(66,830)**	**17,695**
Cash flows from financing activities				
Net increase in wholesale funding		125,740	34,219	152,783
Total cash provided from financing activities		**125,740**	**34,219**	**152,783**
Dividends paid	9	-	-	(30,000)
Payment of lease liabilities		(1,094)	(291)	(2,027)
Total cash (applied to) financing activities		**(1,094)**	**(291)**	**(32,027)**
Net cash flows from financing activities		**124,646**	**33,928**	**120,756**
Net increase in cash held		**25,034**	**(498)**	**7,440**
Opening cash and cash equivalents		112,903	105,463	105,463
Closing cash and cash equivalents		**137,937**	**104,965**	**112,903**

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

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

Consolidated Interim Statement of Cash Flows (Continued)

For the six months ended 31 December 2021

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

$000's	Note	Unaudited 6 Months to December 2021	Unaudited 6 Months to December 2020	Audited 12 Months to June 2021
Profit for the period		**40,983**	**33,014**	**71,509**
Add / (less) non-cash items:				
Depreciation and amortisation expense		5,429	9,311	14,293
Depreciation on lease vehicles		1,429	1,436	2,801
Capitalised net interest income and fee income		(19,149)	(18,481)	(34,555)
Impaired asset expense	6	8,540	4,538	14,579
Investment fair value movement		315	-	(215)
Other non-cash items		(8,242)	(7,205)	(23,210)
Total non-cash items		**(11,678)**	**(10,401)**	**(26,307)**
Add / (less) movements in operating assets and liabilities:				
Finance receivables		(292,843)	3,840	(136,202)
Operating lease vehicles		(2,993)	3,990	5,033
Other assets		(2,126)	2,914	2,884
Current tax		(1,345)	(5,930)	(3,715)
Derivative financial instruments		(2,199)	2,219	(122)
Deferred tax		(2,344)	437	3,076
Deposits		117,139	5,071	(43,587)
Other liabilities		10,482	(2,750)	(3,580)
Total movements in operating assets and liabilities		**(176,229)**	**9,791**	**(176,213)**
Net cash flows applied to operating activities[1]		**(146,924)**	**32,404**	**(131,011)**

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

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

Notes to the Interim Financial Statements

For the six months ended 31 December 2021

1 Interim financial statements preparation

Basis of preparation

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

The Disclosure Statement does not include all notes of the type normally included in an annual financial report. Accordingly this report is to be read in conjunction with the Disclosure Statement for the year ended 30 June 2021 and any public announcements made by the Bank during the interim reporting period.

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

- 6 month period ended 31 December 2021 – Unaudited
- 6 month period ended 31 December 2020 – Unaudited
- 12 month period ended 30 June 2021 – Audited

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

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

Change in accounting policy

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

Accounting standards issued not yet effective

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

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

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

1 Interim financial statements preparation (continued)

Estimates and judgements

There have been no material changes to the use of estimates and judgements for the preparation of the interim financial statements since the reporting date of the previous financial statements. The Banking Group's Disclosure Statement for the year ended 30 June 2021 contain detail on the estimates and judgements used.

Covid-19 pandemic - impact on estimates and judgements

The COVID-19 pandemic resulted in the Banking Group adopting an economic overlay for expected credit losses (**ECL**) to its portfolios as at 30 June 2020 of pre-tax $9.6 million in response to the uncertain but potential economic impact of COVID-19 on HBL's borrowers (COVID Overlay). The COVID Overlay was sized based on a range of techniques including stress testing, benchmarking, scenario analysis and expert judgement.

To date, the impact of COVID-19 on HBL's borrowers has been more benign than was initially forecast, and the COVID Overlay has not been utilised. However, the continued prevalence of COVID-19 and other countries (including the emergence of new variants), together with vaccination rates and border closures provides an ongoing risk of further economic disruption in New Zealand. This may impact borrowers with the potential for further inflationary pressures, increased interest rates and expected higher employment costs resulting from a restricted supply of labour.

With the uncertainties associated to the ongoing economic impacts of COVID-19, the COVID Overlay has been retained in full at this stage.

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

Performance

2 Segmental analysis

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

Operating segments

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

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

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

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

$000's	Motor	Reverse Mortgages	Personal Lending	Business	Rural	Other	Total
Unaudited - December 2021							
Net interest income	34,687	14,000	4,496	35,888	15,138	(195)	104,015
Net other income	1,703	1,289	726	1,408	365	2,936	8,426
Net operating income	**36,390**	**15,289**	**5,222**	**37,296**	**15,503**	**2,741**	**112,441**
Operating expenses	1,975	2,354	3,268	4,756	1,531	34,270	48,154
Profit/(loss) before impaired asset expense and income tax	**34,415**	**12,935**	**1,954**	**32,540**	**13,972**	**(31,529)**	**64,287**
Fair value (loss) on investment	-	-	-	-	-	(315)	(315)
Impaired asset expense	2,518	-	902	4,210	909	1	8,540
Profit/(loss) before income tax	**31,897**	**12,935**	**1,052**	**28,330**	**13,063**	**(31,845)**	**55,432**
Income tax expense	-	-	-	-	-	14,449	14,449
Profit/(loss) for the period	**31,897**	**12,935**	**1,052**	**28,330**	**13,063**	**(46,294)**	**40,983**
Total assets	**1,344,865**	**648,865**	**272,803**	**1,294,601**	**583,026**	**558,780**	**4,702,940**
Total liabilities							**4,019,866**

2 Segmental analysis (continued)

$000's	Motor	Reverse Mortgages	Personal Lending	Business	Rural	Other	Total
Unaudited - December 2020							
Net interest income	31,255	10,175	7,625	31,659	15,071	448	96,233
Net other income	1,717	1,018	1,137	1,343	460	1,839	7,514
Net operating income	**32,972**	**11,193**	**8,762**	**33,002**	**15,531**	**2,287**	**103,747**
Operating expenses	1,843	1,986	3,151	5,896	1,172	39,208	53,256
Profit/(loss) before impaired asset expense and income tax	**31,129**	**9,207**	**5,611**	**27,106**	**14,359**	**(36,921)**	**50,491**
Fair value gain on investments	-	-	-	-	-	-	-
Impaired asset expense/(benefit)	2,266	-	(793)	2,674	391	-	4,538
Profit/(loss) before income tax	**28,863**	**9,207**	**6,404**	**24,432**	**13,968**	**(36,921)**	**45,953**
Income tax expense	-	-	-	-	-	12,939	12,939
Profit/(loss) for the period	**28,863**	**9,207**	**6,404**	**24,432**	**13,968**	**(49,860)**	**33,014**
Total assets	**1,200,349**	**576,579**	**163,519**	**1,133,767**	**569,676**	**713,982**	**4,357,872**
Total liabilities							**3,724,279**
Audited - June 2021							
Net interest income	65,829	23,098	13,648	66,112	30,579	(457)	198,809
Net other income	3,343	2,369	2,767	2,963	1,581	1,983	15,006
Net operating income	**69,172**	**25,467**	**16,415**	**69,075**	**32,160**	**1,526**	**213,815**
Operating expenses	3,787	4,397	6,241	11,340	2,124	72,963	100,852
Profit/(loss) before impaired asset expense and income tax	**65,385**	**21,070**	**10,174**	**57,735**	**30,036**	**(71,437)**	**112,963**
Fair value gain on investments	-	-	-	-	-	215	215
Impaired asset expense	5,298	-	1,977	5,655	1,649	-	14,579
Profit/(loss) before income tax	**60,087**	**21,070**	**8,197**	**52,080**	**28,387**	**(71,222)**	**98,599**
Income tax expense	-	-	-	-	-	27,090	27,090
Profit/(loss) for the year	**60,087**	**21,070**	**8,197**	**52,080**	**28,387**	**(98,312)**	**71,509**
Total assets	**1,287,978**	**601,505**	**137,910**	**1,225,710**	**586,318**	**580,067**	**4,419,488**
Total liabilities							**3,777,660**

3 Net interest income

$000's	Unaudited 6 Months to December 2021	Unaudited 6 Months to December 2020	Audited 12 Months to June 2021
Interest income			
Cash and cash equivalents	149	45	117
Investments	2,782	3,635	6,979
Finance receivables	111,277	118,737	231,659
Finance receivables - reverse mortgages	17,864	17,458	33,807
Total interest income	**132,072**	**139,875**	**272,562**
Interest expense			
Retail deposits	18,741	33,495	55,295
Other borrowings	8,890	7,524	14,935
Net interest expense on derivative financial instruments	426	2,623	3,523
Total interest expense	**28,057**	**43,642**	**73,753**
Net interest income	**104,015**	**96,233**	**198,809**

4 Operating expenses

$000's	Unaudited 6 Months to December 2021	Unaudited 6 Months to December 2020	Audited 12 Months to June 2021
Personnel expenses	27,375	28,454	57,036
Directors' fees	288	338	676
Superannuation	517	467	979
Depreciation - property, plant and equipment	1,331	1,417	2,883
Legal and professional fees	709	941	2,110
Advertising and public relations	1,596	1,714	3,972
Depreciation - right of use asset	1,062	1,064	2,123
Technology services	4,597	3,256	6,908
Telecommunications, stationery and postage	722	799	1,610
Customer acquisition costs	1,212	961	2,123
Amortisation of intangible assets	3,036	6,830	9,285
Other operating expenses[1]	5,709	7,015	11,147
Total operating expenses	**48,154**	**53,256**	**100,852**

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

5 Compensation of auditor

$000's	Unaudited 6 Months to December 2021	Unaudited 6 Months to December 2020	Audited 12 Months to June 2021
Audit and review of the financial statements[1]	295	374	599
Other assurance services paid to auditor [2]	10	10	20
Total compensation of auditor	**305**	**384**	**619**

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

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

6 Impaired asset expense

At each reporting date, the Banking Group applies a three stage approach to measuring expected credit loss (**ECL**) to finance receivables not carried at fair value. The following table details impairment charges of those finance receivables for the six months ended 31 December 2021.

$000's	Unaudited 6 Months to December 2021	Unaudited 6 Months to December 2020	Audited 12 Months to June 2021
Non-securitised			
Individually impaired asset expense	6,266	3,414	9,131
Collectively impaired asset expense	1,882	1,099	5,606
Total non-securitised impaired asset expense	**8,148**	**4,513**	**14,737**
Securitised			
Collectively impaired asset expense	392	25	(158)
Total securitised impaired asset expense	**392**	**25**	**(158)**
Total			
Individually impaired asset expense	6,266	3,414	9,131
Collectively impaired asset expense	2,274	1,124	5,448
Total impaired asset expense	**8,540**	**4,538**	**14,579**

Financial Position

7 Finance receivables

(a) Finance receivables held at amortised cost

$000's	Unaudited December 2021	Unaudited December 2020	Audited June 2021
Non-securitised			
Neither at least 90 days past due nor impaired - at amortised cost	3,145,180	2,938,694	3,063,258
At least 90 days past due - at amortised cost	38,158	45,761	36,602
Individually impaired - at amortised cost	63,965	33,667	38,143
Gross finance receivables	**3,247,303**	**3,018,122**	**3,138,003**
Less provision for impairment	(50,582)	(55,415)	(50,809)
Total non-securitised finance receivables	**3,196,721**	**2,962,707**	**3,087,194**
Securitised			
Neither at least 90 days past due nor impaired - at amortised cost	273,650	79,645	126,638
At least 90 days past due - at amortised cost	263	448	-
Gross finance receivables	**273,913**	**80,093**	**126,638**
Less provision for impairment	(631)	(422)	(239)
Total securitised finance receivables	**273,282**	**79,671**	**126,399**
Total			
Neither at least 90 days past due nor impaired - at amortised cost	3,418,830	3,018,339	3,189,896
At least 90 days past due - at amortised cost	38,421	46,209	36,602
Individually impaired - at amortised cost	63,965	33,667	38,143
Gross finance receivables	**3,521,216**	**3,098,215**	**3,264,641**
Less provision for impairment	(51,213)	(55,837)	(51,048)
Total finance receivables	**3,470,003**	**3,042,378**	**3,213,593**

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

Movement in provision

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

7 Finance receivables (continued)

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

Movement in provision (continued)

$000's	12 - Month ECL	Lifetime ECL Not Credit Impaired	Lifetime ECL Credit Impaired	Specific Provision	Total
Unaudited - December 2021					
Non-securitised					
Impairment allowance as at 30 June 2021	**24,216**	**2,334**	**16,630**	**7,629**	**50,809**
Changes in loss allowance					
Transfer between stages	(2,278)	(1,086)	653	2,711	-
New and increased provision (net of collective provision releases)	(623)	360	6,121	3,555	9,413
Recovery of amounts written off	-	-	(1,265)	-	(1,265)
Credit impairment charge	**(2,901)**	**(726)**	**5,509**	**6,266**	**8,148**
Recovery of amounts previously written off	-	-	1,265	-	1,265
Write offs	-	-	(8,421)	(1,219)	(9,640)
Effect of changes in foreign exchange rate	-	-	-	-	-
Acquisition of portfolio	-	-	-	-	-
Sale of portfolio	-	-	-	-	-
Impairment allowance as at 31 December 2021	**21,315**	**1,608**	**14,983**	**12,676**	**50,582**
Securitised					
Impairment allowance as at 30 June 2021	**216**	**22**	**1**	**-**	**239**
Changes in loss allowance					
Transfer between stages	(2)	(27)	29	-	-
New and increased provision (net of collective provision releases)	231	77	84	-	392
Recovery of amounts written off	-	-	-	-	-
Credit impairment charge	**229**	**50**	**113**	**-**	**392**
Recovery of amounts previously written off	-	-	-	-	-
Write offs	-	-	-	-	-
Effect of changes in foreign exchange rate	-	-	-	-	-
Acquisition of portfolio	-	-	-	-	-
Sale of portfolio	-	-	-	-	-
Impairment allowance as at 31 December 2021	**445**	**72**	**114**	**-**	**631**
Total					
Impairment allowance as at 30 June 2021	**24,432**	**2,356**	**16,631**	**7,629**	**51,048**
Changes in loss allowance					
Transfer between stages	(2,280)	(1,113)	682	2,711	-
New and increased provision (net of collective provision releases)	(392)	437	6,205	3,555	9,805
Recovery of amounts written off	-	-	(1,265)	-	(1,265)
Credit impairment charge	**(2,672)**	**(676)**	**5,622**	**6,266**	**8,540**
Recovery of amounts previously written off	-	-	1,265	-	1,265
Write offs	-	-	(8,421)	(1,219)	(9,640)
Effect of changes in foreign exchange rate	-	-	-	-	-
Acquisition of portfolio	-	-	-	-	-
Sale of portfolio	-	-	-	-	-
Impairment allowance as at 31 December 2021	**21,760**	**1,680**	**15,097**	**12,676**	**51,213**

7 Finance receivables (continued)

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

Movement in provision (continued)

$000's	12 - Month ECL	Lifetime ECL Not Credit Impaired	Lifetime ECL Credit Impaired	Specific Provision	Total
Unaudited - December 2020					
Non-securitised					
Impairment allowance as at 30 June 2020	**32,160**	**2,144**	**22,667**	**5,301**	**62,272**
Changes in loss allowance					
Transfer between stages	(860)	(395)	153	1,102	-
New and increased provision (net of collective provision releases)	(1,197)	102	4,605	2,312	5,822
Recovery of amounts written off	-	-	(1,309)	-	(1,309)
Credit impairment charge	**(2,057)**	**(293)**	**3,449**	**3,414**	**4,513**
Recovery of amounts previously written off	-	-	1,309	-	1,309
Write offs	-	-	(10,199)	(2,481)	(12,680)
Effect of changes in foreign exchange rate	(1)	1	1	-	1
Acquisition of portfolio	-	-	-	-	-
Sale of portfolio	-	-	-	-	-
Impairment allowance as at 31 December 2020	**30,102**	**1,852**	**17,227**	**6,234**	**55,415**
Securitised					
Impairment allowance as at 30 June 2020	**260**	**23**	**114**	**-**	**397**
Changes in loss allowance					
Transfer between stages	23	1	(24)	-	-
New and increased provision (net of collective provision releases)	(33)	(10)	68	-	25
Recovery of amounts written off	-	-	-	-	-
Credit impairment charge	**(10)**	**(9)**	**44**	**-**	**25**
Recovery of amounts previously written off	-	-	-	-	-
Write offs	-	-	-	-	-
Effect of changes in foreign exchange rate	-	-	-	-	-
Acquisition of portfolio	-	-	-	-	-
Sale of portfolio	-	-	-	-	-
Impairment allowance as at 31 December 2020	**250**	**14**	**158**	**-**	**422**
Total					
Impairment allowance as at 30 June 2020	**32,420**	**2,167**	**22,781**	**5,301**	**62,669**
Changes in loss allowance					
Transfer between stages	(837)	(394)	129	1,102	-
New and increased provision (net of collective provision releases)	(1,230)	92	4,673	2,312	5,847
Recovery of amounts written off	-	-	(1,309)	-	(1,309)
Credit impairment charge	**(2,067)**	**(302)**	**3,493**	**3,414**	**4,538**
Recovery of amounts previously written off	-	-	1,309	-	1,309
Write offs	-	-	(10,199)	(2,481)	(12,680)
Effect of changes in foreign exchange rate	(1)	1	1	-	1
Acquisition of portfolio	-	-	-	-	-
Sale of portfolio	-	-	-	-	-
Impairment allowance as at 31 December 2020	**30,352**	**1,866**	**17,385**	**6,234**	**55,837**

7 Finance receivables (continued)

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

Movement in provision (continued)

$000's	12 - Month ECL	Lifetime ECL Not Credit Impaired	Lifetime ECL Credit Impaired	Specific Provision	Total
Audited - 30 June 2021					
Non-securitised					
Impairment allowance as at 30 June 2020	**32,160**	**2,144**	**22,667**	**5,301**	**62,272**
Changes in loss allowance					
Transfer between stages	(2,466)	(1,081)	(50)	3,597	-
New and increased provision (net of collective provision releases)	(3,495)	1,309	13,295	6,034	17,143
Recovery of amounts written off	-	-	(2,406)	-	(2,406)
Credit impairment charge	**(5,961)**	**228**	**10,839**	**9,631**	**14,737**
Recovery of amounts previously written off	-	-	2,406	-	2,406
Write offs	-	-	(19,291)	(7,303)	(26,594)
Effect of changes in foreign exchange rate	(33)	2	6	-	(25)
Acquisition of portfolio	133	22	188	-	343
Sale of portfolio	(2,083)	(62)	(185)	-	(2,330)
Impairment allowance as at 30 June 2021	**24,216**	**2,334**	**16,630**	**7,629**	**50,809**
Securitised					
Impairment allowance as at 30 June 2020	**260**	**23**	**114**	**-**	**397**
Changes in loss allowance					
Transfer between stages	(4)	(3)	7	-	-
New and increased provision (net of collective provision releases)	(40)	2	(120)	-	(158)
Recovery of amounts written off	-	-	-	-	-
Credit impairment charge	**(44)**	**(1)**	**(113)**	**-**	**(158)**
Recovery of amounts previously written off	-	-	-	-	-
Write offs	-	-	-	-	-
Effect of changes in foreign exchange rate	-	-	-	-	-
Acquisition of portfolio	-	-	-	-	-
Sale of portfolio	-	-	-	-	-
Impairment allowance as at 30 June 2021	**216**	**22**	**1**	**-**	**239**
Total					
Impairment allowance as at 30 June 2020	**32,420**	**2,167**	**22,781**	**5,301**	**62,669**
Changes in loss allowance					
Transfer between stages	(2,470)	(1,084)	(43)	3,597	-
New and increased provision (net of collective provision releases)	(3,535)	1,311	13,175	6,034	16,985
Recovery of amounts written off	-	-	(2,406)	-	(2,406)
Credit impairment charge	**(6,005)**	**227**	**10,726**	**9,631**	**14,579**
Recovery of amounts previously written off	-	-	2,406	-	2,406
Write offs	-	-	(19,291)	(7,303)	(26,594)
Effect of changes in foreign exchange rate	(33)	2	6	-	(25)
Acquisition of portfolio	133	22	188	-	343
Sale of portfolio	(2,083)	(62)	(185)	-	(2,330)
Impairment allowance as at 30 June 2021	**24,432**	**2,356**	**16,631**	**7,629**	**51,048**

7 Finance receivables (continued)

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

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

$000's	12 - Month ECL	Lifetime ECL Not Credit Impaired	Lifetime ECL Credit Impaired	Specific Provision	Total
Unaudited - December 2021					
Gross finance receivables as at 30 June 2021	**3,016,571**	**164,728**	**45,199**	**38,143**	**3,264,641**
Transfer between stages	(46,346)	(12,348)	19,326	39,368	-
Additions	896,211	-	-	906	897,117
Deletions	(575,509)	(34,581)	(8,083)	(13,091)	(631,264)
Write offs	-	-	(7,917)	(1,361)	(9,278)
Gross finance receivables as at 31 December 2021	**3,290,927**	**117,799**	**48,525**	**63,965**	**3,521,216**
Unaudited - December 2020					
Gross finance receivables as at 30 June 2020	**2,825,973**	**183,260**	**73,729**	**24,667**	**3,107,629**
Transfer between stages	(50,423)	31,814	3,841	14,768	-
Additions	796,845	-	-	-	796,845
Deletions	(733,321)	(36,470)	(19,081)	(3,233)	(792,105)
Write offs	-	-	(11,619)	(2,535)	(14,154)
Gross finance receivables as at 31 December 2020	**2,839,074**	**178,604**	**46,870**	**33,667**	**3,098,215**
Audited - June 2021					
Gross finance receivables as at 30 June 2020	**2,825,973**	**183,260**	**73,729**	**24,667**	**3,107,629**
Transfer between stages	(102,624)	67,219	12,906	22,499	-
Additions	1,421,835	-	-	955	1,422,790
Deletions	(1,128,613)	(85,751)	(20,815)	(466)	(1,235,645)
Write offs	-	-	(20,621)	(9,512)	(30,133)
Gross finance receivables as at 30 June 2021	**3,016,571**	**164,728**	**45,199**	**38,143**	**3,264,641**

(b) Finance receivables held at fair value

$000's	Unaudited December 2021	Unaudited December 2020	Audited June 2021
Finance receivables - reverse mortgages	648,865	622,137	601,505
Total finance receivables - reverse mortgages	648,865	622,137	601,505

8 Borrowings

$000's	Unaudited December 2021	Unaudited December 2020	Audited June 2021
Deposits	3,336,509	3,271,109	3,219,522
Total borrowings related to deposits	**3,336,509**	**3,271,109**	**3,219,522**
Unsubordinated notes	277,959	289,786	284,517
Securitised borrowings	234,739	31,889	108,150
Certificate of deposit	109,638	-	69,853
Repurchase agreement	-	67,914	40,365
Total other borrowings	**622,336**	**389,589**	**502,885**

8 Borrowings (continued)

Deposits and unsubordinated notes rank equally and are unsecured.

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

Principal	Valuation	Issue Date	Maturity Date	Frequency of Interest Repayment
$125 million	Amortised cost	12 April 2019	12 April 2024	Half yearly
$150 million	Amortised cost	21 September 2017	21 September 2022	Half yearly

At 31 December 2021 the Banking Group had the following securitised borrowings outstanding:

- Heartland Auto Receivables Warehouse Trust 2018 - 1 securitisation facility $400 million, drawn $235 million (December 2020: limit $300 million, drawn $68 million; June 2021: limit $300 million, drawn $108 million). Securitised borrowings held by investors are secured over the motor loan assets of the Heartland Auto Receivables Warehouse Trust 2018-1. The facility has a maturity date of 29 August 2023.

9 Share capital and dividends

000's	Unaudited December 2021 Number of Shares	Unaudited December 2020 Number of Shares	Audited June 2021 Number of Shares
Issued shares			
Opening balance	565,430	565,430	565,430
Closing balance	**565,430**	**565,430**	**565,430**

There were no new shares issued during the period (December 2020: nil; June 2021: nil).

Dividends paid

	6 Months to December 2021			12 Months to June 2021		
	Date Declared	Cents Per Share	$000's	Date Declared	Cents Per Share	$000's
Dividend to Heartland Group Holdings Limited (**HGH**)	-	-	-	18 June 2021	-	30,000
Total dividends paid			**-**			**30,000**

10 Related party transactions and balances

(a) Transactions with key management personnel

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

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

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

$000's	Unaudited 6 Months to December 2021	Unaudited 6 Months to December 2020	Audited 12 Months to June 2021
Transactions with key management personnel			
Interest income	15	26	39
Interest expense	(24)	(8)	(22)
Net transactions with key management personnel	**(9)**	**18**	**17**
Due from/(to) key management personnel			
Lending	296	574	415
Borrowings - deposits	(1,425)	(1,778)	(23,409)
Net due (to) key management personnel	**(1,129)**	**(1,204)**	**(22,994)**

(b) Transactions with related parties

The Banking Group's ultimate parent company is HGH.

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

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

$000's	Unaudited 6 Months to December 2021	Unaudited 6 Months to December 2020	Audited 12 Months to June 2021
Heartland Group Holdings Limited			
Interest expense	32	8	21
Deposits/(withdrawals)	(32,000)	(2,500)	31,000
Dividends paid to HGH	-	-	30,000
Management fees to HGH	4,298	8,817	15,785
Management fees from HGH	1,153	601	1,149
Heartland Australia Group Pty Limited (HAG)			
Sale of Spotcap facility	-	-	28,049
Sale of Harmoney Australia Fund	-	-	40,996

10 Related party transactions and balances (continued)

(b) Transactions with related parties (continued)

$000's	Unaudited 6 Months to December 2021	Unaudited 6 Months to December 2020	Audited 12 Months to June 2021
Australian Seniors Finance Pty Limited (ASF)			
Management fees to ASF	-	3	4
Management fees from ASF	1,614	680	1,707
ASF Settlement Trust			
Sale of Australian dollar reverse mortgage loan book	-	-	45,971
Southern Cross Building Society Staff Superannuation (SCBS)			
Interest expense	4	8	12
Management fees from SCBS	5	5	10

(c) Due from/to related parties

$000's	Unaudited December 2021	Unaudited December 2020	Audited June 2021
Due from			
Australian Seniors Finance Pty Limited	1,334	254	146
ASF Settlement Trust	-	5	-
Heartland Australia Group Pty Limited	11	-	-
Total due from related parties	**1,345**	**259**	**146**
Due to			
Heartland Group Holdings Limited	688	7,487	3,210
ASF Settlement Trust	-	-	197
Heartland Australia Group Pty Ltd	-	1,912	1,959
Total due to related parties	**688**	**9,399**	**3,210**

(d) Other balances with related parties

$000's	Unaudited December 2021	Unaudited December 2020	Audited June 2021
Heartland Group Holdings Limited			
Retail deposits owing to HGH	4,100	2,555	36,068
Southern Cross Building Society Staff Superannuation			
Retail deposits owing to SCBS	1,704	1,871	1,760

11 Fair value

(a) Financial instruments measured at fair value

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

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

Investments

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

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

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

Finance receivables - reverse mortgages

Reverse mortgage loans are classified at fair value through profit or loss (**FVTPL**). On initial recognition the Banking Group considers the transaction price to represent the fair value of the loan.

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

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

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

11 Fair value (continued)

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

Finance receivables - reverse mortgages (continued)

At balance date the Banking Group does not consider any of the above expectations to have moved outside of the original expectation range. Therefore, the Banking Group has continued to estimate the fair value of the portfolio at transaction price. There has been no fair value movement recognised in profit or loss during the period. Fair value is not highly sensitive to the above assumptions due to the nature of reverse mortgage loans. In particular, given conservative origination loan-to-value ratio criteria, a material deterioration in house prices combined with a material increase in interest rates over a sustained period of time would likely need to occur before any potential impact to fair value. While noting the significant uncertainty around future economic conditions, based on current judgment there is no evidence that COVID-19 has impacted or will have a long-term adverse impact on market conditions, particularly regarding the key elements of house prices or interest rates, that would materially influence the fair value of the reverse mortgage portfolio at balance date.

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

Derivative financial instruments

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

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

11 Fair value (continued)

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

$000's	Level 1	Level 2	Level 3	Total
Unaudited - December 2021				
Assets				
Investments	229,452	61,745	1,503	292,700
Investment properties	-	-	11,832	11,832
Derivative financial instruments	-	21,540	-	21,540
Finance receivables - reverse mortgages	-	-	648,865	648,865
Total financial assets measured at fair value	**229,452**	**83,285**	**662,200**	**974,937**
Liabilities				
Derivative financial instruments	-	3,400	-	3,400
Total financial liabilities measured at fair value	**-**	**3,400**	**-**	**3,400**
Unaudited - December 2020				
Assets				
Investments	328,620	112,831	2,303	443,754
Investment properties	-	-	11,132	11,132
Derivative financial instruments	-	15,023	-	15,023
Finance receivables - reverse mortgages	-	-	622,137	622,137
Total financial assets measured at fair value	**328,620**	**127,854**	**635,572**	**1,092,046**
Liabilities				
Derivative financial instruments	-	12,390	-	12,390
Total financial liabilities measured at fair value	**-**	**12,390**	**-**	**12,390**
Audited - June 2021				
Assets				
Investments	259,041	92,476	1,818	353,335
Investment properties	-	-	11,832	11,832
Derivative financial instruments	-	14,111	-	14,111
Finance receivables - reverse mortgages	-	-	601,505	601,505
Total financial assets measured at fair value	**259,041**	**106,587**	**615,155**	**980,783**
Liabilities				
Derivative financial instruments	-	4,789	-	4,789
Total financial liabilities measured at fair value	**-**	**4,789**	**-**	**4,789**

There were no transfers between any fair value hierarchy levels in the six months ended 31 December 2021 (December 2020: nil; June 2021: nil).

11 Fair value (continued)

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

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

$000's	Finance Receivables - Reverse Mortgage	Investments	Investment Properties	Total
Unaudited - December 2021				
As at 30 June 2021	601,505	1,818	11,832	615,155
New loans	74,530	-	-	74,530
Repayments	(46,330)	-	-	(46,330)
Capitalised interest and fees	19,149	-	-	19,149
Fair value (loss) on investments	-	(315)	-	(315)
Other	11	-	-	11
As at 31 December 2021	**648,865**	**1,503**	**11,832**	**662,200**
Unaudited - December 2020				
As at 30 June 2020	609,346	2,303	11,132	622,781
New loans	43,840	-	-	43,840
Repayments	(49,461)	-	-	(49,461)
Capitalised interest and fees	18,481	-	-	18,481
Fair value (loss) on investments	-	-	-	-
Other	(69)	-	-	(69)
As at 31 December 2020	**622,137**	**2,303**	**11,132**	**635,572**
Audited - June 2021				
As at 30 June 2020	609,346	2,303	11,132	622,781
New loans	99,510	-	-	99,510
Repayments	(97,577)	-	-	(97,577)
Capitalised interest and fees	35,775	-	-	35,775
Fair value (loss)/gain on investments	-	(485)	700	215
Disposal	(45,650)	-	-	(45,650)
Other	101	-	-	101
As at 30 June 2021	**601,505**	**1,818**	**11,832**	**615,155**

11 Fair value (continued)

(b) Financial instruments not measured at fair value

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

$000's	Fair Value Hierarchy	Unaudited December 2021 Total Fair Value	Unaudited December 2021 Total Carrying Value	Unaudited December 2020 Total Fair Value	Unaudited December 2020 Total Carrying Value	Audited June 2021 Total Fair Value	Audited June 2021 Total Carrying Value
Assets							
Cash and cash equivalents	Level 1	137,937	137,937	104,965	104,965	112,903	112,903
Investments[1]	Level 2	4,615	4,616	7,413	7,405	5,640	5,639
Finance receivables	Level 3	3,506,207	3,470,003	3,062,211	3,042,378	3,283,159	3,213,593
Due from related parties	Level 3	1,345	1,345	259	259	146	146
Other financial assets	Level 3	2,282	2,282	402	402	1,684	1,684
Total financial assets		**3,652,386**	**3,616,183**	**3,175,250**	**3,155,409**	**3,403,532**	**3,333,965**
Liabilities							
Retail deposits	Level 2	3,338,767	3,336,509	3,290,041	3,271,109	3,228,791	3,219,522
Borrowings - securitised	Level 2	234,739	234,739	67,914	67,914	108,150	108,150
Other borrowings	Level 2	387,597	387,597	321,675	321,675	394,735	394,735
Due to related parties	Level 3	688	688	9,399	9,399	3,210	3,210
Other financial liabilities	Level 3	27,670	27,670	11,749	11,749	16,663	16,663
Total financial liabilities		**3,989,461**	**3,987,203**	**3,700,778**	**3,681,846**	**3,751,549**	**3,742,280**

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

Risk Management

12 Enterprise risk management program

There have been no material changes in the Banking Group's policies for managing risk, or material exposures to any new types of risk since the reporting date of the previous Disclosure Statement. Refer to the Bank's Disclosure Statement for the year ended 30 June 2021 for the detailed policies.

13 Credit risk exposure

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

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

$000's	Unaudited December 2021	Unaudited December 2020	Audited June 2021
On balance sheet:			
Cash and cash equivalents	137,937	104,965	112,903
Investments	295,813	448,856	357,157
Finance receivables	3,470,003	3,042,378	3,213,593
Finance receivables - reverse mortgages	648,865	622,137	601,505
Derivative financial assets	21,540	15,023	14,111
Due from related parties	1,345	259	146
Other financial assets	2,282	402	1,684
Total on balance sheet credit exposures	**4,577,785**	**4,234,020**	**4,301,099**
Off balance sheet:			
Letters of credit, guarantee commitments and performance bonds	7,217	6,145	13,484
Undrawn facilities available to customers	254,174	186,602	208,855
Conditional commitments to fund at future dates	21,646	24,570	19,083
Total off balance sheet credit exposures	**283,037**	**217,317**	**241,422**
Total credit exposures	**4,860,822**	**4,451,337**	**4,542,521**

As at 31 December 2021 there were no undrawn lending commitments available to counterparties for whom drawn balances are classified as individually impaired (December 2020: nil; June 2021: $0.216 million).

(b) Concentration of credit risk by geographic region

$000's	Unaudited December 2021	Unaudited December 2020	Audited June 2021
New Zealand	4,680,875	4,050,276	4,332,737
Australia	675	117,235	753
Rest of the world [1]	230,485	339,663	260,079
	4,912,035	**4,507,174**	**4,593,569**
Provision for impairment	(51,213)	(55,837)	(51,048)
Total credit exposures	**4,860,822**	**4,451,337**	**4,542,521**

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

13 Credit risk exposure (continued)

(c) Concentration of credit risk by industry sector

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

$000's	**Unaudited December 2021**	**Unaudited December 2020**	**Audited June 2021**
Agriculture	667,835	663,982	670,428
Forestry and fishing	149,561	149,126	153,160
Mining	14,217	12,076	12,684
Manufacturing	85,737	77,108	76,951
Finance and insurance	594,370	651,013	577,486
Wholesale trade	35,543	45,734	56,522
Retail trade and accommodation	338,163	265,798	279,388
Households	1,972,869	1,725,138	1,780,799
Other business services	172,647	146,811	148,011
Construction	304,593	213,273	241,668
Rental, hiring and real estate services	180,689	169,253	185,320
Transport and storage	311,068	277,926	297,920
Other	84,743	109,936	113,232
	4,912,035	**4,507,174**	**4,593,569**
Provision for impairment	(51,213)	(55,837)	(51,048)
Total credit exposures	**4,860,822**	**4,451,337**	**4,542,521**

(d) Credit exposure to individual counterparties

As at 31 December 2021 the Banking Group had one counterparty whose period end or peak end-of-day over the relevant six month period credit exposures is over 10% of equity to individual counterparties (not being members of groups of closely related counterparties) or groups of closely related counterparties (excluding central government of any country with a long-term credit rating of A- or A3 or above, or its equivalent, or any bank with a long-term credit rating of A- or A3 or above, or its equivalent, and connected persons).

The exposure information in the table below excludes exposures to connected persons, the central government or central bank of any country with a long term credit rating of A- or A3 or above, or its equivalent and any supranational or quasi-sovereign agency with a long-term credit rating of A- or A3 or above, or its equivalent.

	Number of Exposures As at December 2021	**Number of Exposures Peak End-of-Day over 6 Months to December 2021**
Exposures to banks		
With a long-term credit rating of A- or A3 or above, or its equivalent:		
10% to less than 15% of CET1 capital	-	-
15% to less than 20% of CET1 capital	-	-
20% to less than 25% of CET1 capital	1	1
With a long-term credit rating of at least BBB- or Baa3, or its equivalent, and at most BBB+ or Baa1, or its equivalent	-	-
Exposures to non-banks		
Total number of exposures to non-banks that are greater than 10% of CET1 capital	1	1
With a long-term credit rating of A- or A3 or above, or its equivalent:	-	-
With a long-term credit rating of at least BBB- or Baa3, or its equivalent, and at most BBB+ or Baa1, or its equivalent	-	-

14 Asset quality

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

Corporate Business lending including rural lending.

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

All Other This relates primarily to consumer lending to individuals.

(a) Finance receivables by credit risk concentration

$000's	Corporate	Residential	All Other	Total
Unaudited - December 2021				
Neither at least 90 days past due nor impaired	2,115,876	874,682	1,077,137	4,067,695
At least 90 days past due	15,321	135	22,965	38,421
Individually impaired	63,757	9	199	63,965
Gross finance receivables	**2,194,954**	**874,826**	**1,100,301**	**4,170,081**
Provision for impairment	(32,511)	(88)	(18,614)	(51,213)
Total net finance receivables	**2,162,443**	**874,738**	**1,081,687**	**4,118,868**
Unaudited - December 2020				
Neither at least 90 days past due nor impaired	1,905,439	644,296	1,090,741	3,640,476
At least 90 days past due	22,087	138	23,984	46,209
Individually impaired	31,884	9	1,774	33,667
Gross finance receivables	**1,959,410**	**644,443**	**1,116,499**	**3,720,352**
Provision for impairment	(33,395)	(5)	(22,437)	(55,837)
Total net finance receivables	**1,926,015**	**644,438**	**1,094,062**	**3,664,515**
Audited - June 2021				
Neither at least 90 days past due nor impaired	2,054,020	663,891	1,073,490	3,791,401
At least 90 days past due	13,854	139	22,609	36,602
Individually impaired	37,561	9	573	38,143
Gross finance receivables	**2,105,435**	**664,039**	**1,096,672**	**3,866,146**
Provision for impairment	(30,277)	(88)	(20,683)	(51,048)
Total net finance receivables	**2,075,158**	**663,951**	**1,075,989**	**3,815,098**

14 Asset quality (continued)

(b) Past due but not impaired

$000's	Corporate	Residential	All Other	Total
Unaudited - December 2021				
Less than 30 days past due	6,120	356	5,365	11,841
At least 30 but less than 60 days past due	7,077	207	9,022	16,306
At least 60 but less than 90 days past due	2,999	-	4,455	7,454
At least 90 days past due	15,321	135	22,965	38,421
Total past due but not impaired	**31,517**	**698**	**41,807**	**74,022**
Unaudited - December 2020				
Less than 30 days past due	9,130	459	13,621	23,210
At least 30 but less than 60 days past due	12,102	380	9,805	22,287
At least 60 but less than 90 days past due	9,379	-	3,132	12,511
At least 90 days past due	22,087	138	23,984	46,209
Total past due but not impaired	**52,698**	**977**	**50,542**	**104,217**
Audited - June 2021				
Less than 30 days past due	6,882	357	8,330	15,569
At least 30 but less than 60 days past due	11,950	-	7,829	19,779
At least 60 but less than 90 days past due	4,429	-	3,798	8,227
At least 90 days past due	13,854	139	22,609	36,602
Total past due but not impaired	**37,115**	**496**	**42,566**	**80,177**

(c) Individually impaired assets

$000's	Corporate	Residential	All Other	Total
Unaudited - December 2021				
Opening	37,561	9	573	38,143
Additions	40,274	-	-	40,274
Deletions	(12,717)	-	(374)	(13,091)
Write offs	(1,361)	-	-	(1,361)
Closing gross individually impaired assets	**63,757**	**9**	**199**	**63,965**
Less: provision for individually impaired assets	12,675	-	1	12,676
Total net individually impaired assets	**51,082**	**9**	**198**	**51,289**
Unaudited - December 2020				
Opening	22,774	9	1,884	24,667
Additions	14,768	-	-	14,768
Deletions	(3,123)	-	(110)	(3,233)
Write offs	(2,535)	-	-	(2,535)
Closing gross individually impaired assets	**31,884**	**9**	**1,774**	**33,667**
Less: provision for individually impaired assets	6,234	-	-	6,234
Total net individually impaired assets	**25,650**	**9**	**1,774**	**39,901**
Audited - June 2021				
Opening	22,774	9	1,884	24,667
Additions	23,454	-	-	23,454
Deletions	-	-	(466)	(466)
Write offs	(8,667)	-	(845)	(9,512)
Closing gross individually impaired assets	**37,561**	**9**	**573**	**38,143**
Less: provision for individually impaired assets	7,629	-	-	7,629
Total net individually impaired assets	**29,932**	**9**	**573**	**30,514**

14 Asset quality (continued)

(d) Provision for impairment

$000's	12 Months ECL	Lifetime ECL Not Credit Impaired	Lifetime ECL Credit Impaired	Specific Provision	Total
Unaudited - December 2021					
Corporate					
Impairment allowance as at 30 June 2021	**16,586**	**1,214**	**4,848**	**7,629**	**30,277**
Changes in loss allowance					
Transfer between stages	(2,196)	(454)	(60)	2,710	-
New and increased provision (net of collective provision releases)	(137)	90	2,021	3,555	5,529
Recovery of amounts written off	-	-	(194)	-	(194)
Credit impairment charge	**(2,333)**	**(364)**	**1,767**	**6,265**	**5,335**
Recovery of amounts previously written off	-	-	194	-	194
Write offs	-	-	(2,076)	(1,219)	(3,295)
Impairment allowance as at 31 December 2021	**14,253**	**850**	**4,733**	**12,675**	**32,511**
Residential					
Impairment allowance as at 30 June 2021	**88**	**4**	**(4)**	**-**	**88**
Changes in loss allowance					
Transfer between stages	-	-	-	-	-
New and increased provision (net of collective provision releases)	1	(1)	-	-	-
Recovery of amounts written off	-	-	-	-	-
Credit impairment charge	**1**	**(1)**	**-**	**-**	**-**
Recovery of amounts previously written off	-	-	-	-	-
Write offs	-	-	-	-	-
Impairment allowance as at 31 December 2021	**89**	**3**	**(4)**	**-**	**88**
All Other					
Impairment allowance as at 30 June 2021	**7,758**	**1,138**	**11,787**	**-**	**20,683**
Changes in loss allowance					
Transfer between stages	(84)	(659)	742	1	-
New and increased provision (net of collective provision releases)	(256)	348	4,184	-	4,276
Recovery of amounts written off	-	-	(1,071)	-	(1,071)
Credit impairment charge	**(340)**	**(311)**	**3,855**	**1**	**3,205**
Recovery of amounts previously written off	-	-	1,071	-	1,071
Write offs	-	-	(6,345)	-	(6,345)
Impairment allowance as at 31 December 2021	**7,418**	**827**	**10,368**	**1**	**18,614**

14 Asset quality (continued)

(d) Provision for impairment (continued)

$000's	12 Months ECL	Lifetime ECL Not Credit Impaired	Lifetime ECL Credit Impaired	Specific Provision	Total
Unaudited - December 2021					
Total					
Impairment allowance as at 30 June 2021	**24,432**	**2,356**	**16,631**	**7,629**	**51,048**
Changes in loss allowance					
Transfer between stages	(2,280)	(1,113)	682	2,711	-
New and increased provision (net of collective provision releases)	(392)	437	6,205	3,555	9,805
Recovery of amounts written off	-	-	(1,265)	-	(1,265)
Credit impairment charge	**(2,672)**	**(676)**	**5,622**	**6,266**	**8,540**
Recovery of amounts previously written off	-	-	1,265	-	1,265
Write offs	-	-	(8,421)	(1,219)	(9,640)
Impairment allowance as at 31 December 2021	**21,760**	**1,680**	**15,097**	**12,676**	**51,213**

$000's	12 Months ECL	Lifetime ECL Not Credit Impaired	Lifetime ECL Credit Impaired	Specific Provision	Total
Unaudited - December 2020					
Corporate					
Impairment allowance as at 30 June 2020	**18,782**	**829**	**9,702**	**5,301**	**34,614**
Changes in loss allowance					
Transfer between stages	(671)	(232)	(199)	1,102	-
New and increased provision (net of collective provision releases)	963	923	208	2,312	4,406
Recovery of amounts written off	-	-	-	-	-
Credit impairment charge	**292**	**691**	**9**	**3,414**	**4,406**
Recovery of amounts previously written off	-	-	-	-	-
Write offs	-	-	(3,145)	(2,481)	(5,626)
Effect of changes in foreign exchange rate	-	1	-	-	1
Impairment allowance as at 31 December 2020	**19,074**	**1,521**	**6,566**	**6,234**	**33,395**
Residential					
Impairment allowance as at 30 June 2020	**10**	**1**	**(4)**	**-**	**7**
Changes in loss allowance					
Transfer between stages	1	-	(1)	-	-
New and increased provision (net of collective provision releases)	(3)	1	-	-	(2)
Recovery of amounts written off	-	-	-	-	-
Credit impairment charge	**(2)**	**1**	**(1)**	**-**	**(2)**
Recovery of amounts previously written off	-	-	-	-	-
Write offs	-	-	-	-	-
Effect of changes in foreign exchange rate	-	-	-	-	-
Impairment allowance as at 31 December 2020	**8**	**2**	**(5)**	**-**	**5**

14 Asset quality (continued)

(d) Provision for impairment (continued)

$000's	12 Months ECL	Lifetime ECL Not Credit Impaired	Lifetime ECL Credit Impaired	Specific Provision	Total
Unaudited - December 2020					
All Other					
Impairment allowance as at 30 June 2020	**13,628**	**1,337**	**13,083**	**-**	**28,048**
Changes in loss allowance					
Transfer between stages	(167)	(162)	329	-	-
New and increased provision (net of collective provision releases)	(2,190)	(832)	4,465	-	1,443
Recovery of amounts written off	-	-	(1,309)	-	(1,309)
Credit impairment charge	**(2,357)**	**(994)**	**3,485**	**-**	**134**
Recovery of amounts previously written off	-	-	1,309	-	1,309
Write offs	-	-	(7,054)	-	(7,054)
Effect of changes in foreign exchange rate	(1)	-	1	-	-
Impairment allowance as at 31 December 2020	**11,270**	**343**	**10,824**	**-**	**22,437**
Total					
Impairment allowance as at 30 June 2020	**32,420**	**2,167**	**22,781**	**5,301**	**62,669**
Changes in loss allowance					
Transfer between stages	(837)	(394)	129	1,102	-
New and increased provision (net of collective provision releases)	(1,230)	92	4,673	2,312	5,847
Recovery of amounts written off	-	-	(1,309)	-	(1,309)
Credit impairment charge	**(2,067)**	**(302)**	**3,493**	**3,414**	**4,538**
Recovery of amounts previously written off	-	-	1,309	-	1,309
Write offs	-	-	(10,199)	(2,481)	(12,680)
Effect of changes in foreign exchange rate	(1)	1	1	-	1
Impairment allowance as at 31 December 2020	**30,352**	**1,866**	**17,385**	**6,234**	**55,837**

$000's	12 Months ECL	Lifetime ECL Not Credit Impaired	Lifetime ECL Credit Impaired	Specific Provision	Total
Audited - June 2021					
Corporate					
Impairment allowance as at 30 June 2020	**18,782**	**829**	**9,702**	**5,301**	**34,614**
Changes in loss allowance					
Transfer between stages	(2,239)	(422)	(936)	3,597	-
New and increased provision (net of collective provision releases)	93	807	1,364	6,034	8,298
Recovery of amounts written off	-	-	(380)	-	(380)
Credit impairment charge	**(2,146)**	**385**	**48**	**9,631**	**7,918**
Recovery of amounts previously written off	-	-	380	-	380
Write offs	-	-	(5,282)	(7,303)	(12,585)
Effect of changes in foreign exchange rate	-	-	-	-	-
Acquisition of portfolio	-	-	-	-	-
Sale of portfolio	(50)	-	-	-	(50)
Impairment allowance as at 30 June 2021	**16,586**	**1,214**	**4,848**	**7,629**	**30,277**

14 Asset quality (continued)

(d) Provision for impairment (continued)

$000's	12 Months ECL	Lifetime ECL Not Credit Impaired	Lifetime ECL Credit Impaired	Specific Provision	Total
Audited - June 2021					
Residential					
Impairment allowance as at 30 June 2020	**10**	**1**	**(4)**	**-**	**7**
Changes in loss allowance					
Transfer between stages	(1)	1	-	-	-
New and increased provision (net of collective provision releases)	79	2	-	-	81
Recovery of amounts written off	-	-	-	-	-
Credit impairment charge	**78**	**3**	**-**	**-**	**81**
Recovery of amounts previously written off	-	-	-	-	-
Write offs	-	-	-	-	-
Effect of changes in foreign exchange rate	-	-	-	-	-
Acquisition of portfolio	-	-	-	-	-
Sale of portfolio	-	-	-	-	-
Impairment allowance as at 30 June 2021	**88**	**4**	**(4)**	-	**88**
All Other					
Impairment allowance as at 30 June 2020	**13,628**	**1,337**	**13,083**	**-**	**28,048**
Changes in loss allowance					
Transfer between stages	(230)	(663)	893	-	-
New and increased provision (net of collective provision releases)	(3,707)	502	11,811	-	8,606
Recovery of amounts written off	-	-	(2,026)	-	(2,026)
Credit impairment charge	**(3,937)**	**(161)**	**10,678**	**-**	**6,580**
Recovery of amounts previously written off	-	-	2,026	-	2,026
Write offs	-	-	(14,009)	-	(14,009)
Effect of changes in foreign exchange rate	(33)	2	6	-	(25)
Acquisition of portfolio	133	22	188	-	343
Sale of portfolio	(2,033)	(62)	(185)	-	(2,280)
Impairment allowance as at 30 June 2021	**7,758**	**1,138**	**11,787**	**-**	**20,683**
Total					
Impairment allowance as at 30 June 2020	**32,420**	**2,167**	**22,781**	**5,301**	**62,669**
Changes in loss allowance					
Transfer between stages	(2,470)	(1,084)	(43)	3,597	-
New and increased provision (net of collective provision releases)	(3,535)	1,311	13,175	6,034	16,985
Recovery of amounts written off	-	-	(2,406)	-	(2,406)
Credit impairment charge	**(6,005)**	**227**	**10,726**	**9,631**	**14,579**
Recovery of amounts previously written off	-	-	2,406	-	2,406
Write offs	-	-	(19,291)	(7,303)	(26,594)
Effect of changes in foreign exchange rate	(33)	2	6	-	(25)
Acquisition of portfolio	133	22	188	-	343
Sale of portfolio	(2,083)	(62)	(185)	-	(2,330)
Impairment allowance as at 30 June 2021	**24,432**	**2,356**	**16,631**	**7,629**	**51,048**

14 Asset quality (continued)

(e) Other assets under administration

Other assets under administration are any loans, not being individually impaired or 90 days or more past due, where the customer is in any form of voluntary or involuntary administration, including receivership, liquidation, bankruptcy or statutory management. As at 31 December 2021, the Banking Group had $1.0 million assets under administration (December 2020: $0.2 million, June 2021: $0.3 million).

15 Liquidity risk

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

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

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

Reserve Bank of New Zealand (RBNZ) facilities

In March 2020, the Bank 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 Banking Group if required.

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

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

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

$000's	Unaudited December 2021	Unaudited December 2020	Audited June 2021
Cash and cash equivalents	137,937	104,965	112,903
Investments	295,813	448,856	357,157
Undrawn committed bank facilities	165,261	232,086	191,850
Total liquidity	**599,011**	**785,907**	**661,910**

Contractual liquidity profile of financial liabilities

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

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

15 Liquidity risk (continued)

Contractual liquidity profile of financial liabilities (continued)

$000's	On Demand	0-6 Months	6-12 Months	1-2 Years	2-5 Years	5+ Years	Total
Unaudited - December 2021							
Non - derivative financial liabilities							
Retail deposits	851,280	1,776,648	568,895	105,741	54,417	-	3,356,981
Other borrowings	-	118,017	156,616	242,902	126,252	-	643,787
Due to related parties	-	688	-	-	-	-	688
Lease liabilities	-	1,320	1,327	2,685	7,320	5,990	18,642
Other financial liabilities	-	27,670	-	-	-	-	27,670
Total non - derivative financial liabilities	**851,280**	**1,924,343**	**726,838**	**351,328**	**187,989**	**5,990**	**4,047,768**
Derivative financial liabilities							
Inflows from derivatives	-	3,277	4,065	6,936	5,303	-	19,581
Outflows from derivatives	-	5,206	4,222	7,396	5,107	-	21,931
Total derivative financial liabilities	**-**	**1,929**	**157**	**460**	**(196)**	**-**	**2,350**
Undrawn facilities available to customers	254,174	-	-	-	-	-	254,174
Undrawn committed bank facilities	165,261	-	-	-	-	-	165,261
Unaudited - December 2020							
Non - derivative financial liabilities							
Retail deposits	997,322	1,382,593	554,159	275,364	94,526	-	3,303,964
Other borrowings	-	39,124	5,223	228,074	130,690	-	403,111
Due to related parties	-	9,399	-	-	-	-	9,399
Lease liabilities	-	1,304	1,319	2,668	7,928	8,139	21,358
Other financial liabilities	-	11,749	-	-	-	-	11,749
Total non - derivative financial liabilities	**997,322**	**1,444,169**	**560,701**	**506,106**	**233,144**	**8,139**	**3,749,581**
Derivative financial liabilities							
Inflows from derivatives	-	136,042	14,178	678	337	-	151,235
Outflows from derivatives	-	141,491	17,172	3,879	767	-	163,309
Total derivative financial liabilities	**-**	**5,449**	**2,994**	**3,201**	**430**	**-**	**12,074**
Undrawn facilities available to customers	186,602	-	-	-	-	-	186,602
Undrawn committed bank facilities	232,086	-	-	-	-	-	232,086
Audited - June 2021							
Financial liabilities							
Retail deposits	974,984	1,324,902	560,232	292,091	91,107	-	3,243,316
Other borrowings	-	116,944	6,468	264,639	128,489	-	516,540
Due to related parties	-	3,210	-	-	-	-	3,210
Lease liabilities	-	1,308	1,320	2,663	7,605	7,085	19,981
Other financial liabilities	-	16,663	-	-	-	-	16,663
Total financial liabilities	**974,984**	**1,463,027**	**568,020**	**559,393**	**227,201**	**7,085**	**3,799,710**
Derivative financial liabilities							
Inflows from derivatives	-	14,251	610	800	12	-	15,673
Outflows from derivatives	-	16,750	2,174	1,316	16	-	20,256
Total derivative financial liabilities	**-**	**2,499**	**1,564**	**516**	**4**	**-**	**4,583**
Undrawn facilities available to customers	208,855	-	-	-	-	-	208,855
Undrawn committed bank facilities	191,850	-	-	-	-	-	191,850

16 Interest rate risk

Contractual repricing analysis

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

$000's	0-3 Months	3-6 Months	6-12 Months	1-2 Years	2+ Years	Non-Interest Bearing	Total
Unaudited - December 2021							
Financial assets							
Cash and cash equivalents	137,936	-	-	-	-	1	137,937
Investments	22,884	1,101	-	120,826	151,003	1,502	297,316
Finance receivables	1,592,561	163,419	307,064	495,447	840,205	71,307	3,470,003
Finance receivables - reverse mortgages	648,865	-	-	-	-	-	648,865
Due from related parties	-	-	-	-	-	1,345	1,345
Derivative financial assets	-	-	-	-	-	21,540	21,540
Other financial assets	-	-	-	-	-	2,282	2,282
Total financial assets	**2,402,246**	**164,520**	**307,064**	**616,273**	**991,208**	**97,977**	**4,579,288**
Financial liabilities							
Retail deposits	1,874,853	730,076	561,848	102,537	50,654	16,541	3,336,509
Other borrowings	286,552	60,714	151,260	-	123,810	-	622,336
Derivative financial liabilities	-	-	-	-	-	3,400	3,400
Due to related parties	-	-	-	-	-	688	688
Lease liabilities	-	-	-	-	-	16,703	16,703
Other financial liabilities	-	-	-	-	-	27,670	27,670
Total financial liabilities	**2,161,405**	**790,790**	**713,108**	**102,537**	**174,464**	**65,002**	**4,007,306**
Effect of derivatives held for risk management	669,798	(67,794)	(8,974)	(295,757)	(297,273)	-	-
Net financial assets/(liabilities)	**910,639**	**(694,064)**	**(415,018)**	**217,979**	**519,471**	**32,975**	**571,982**
Unaudited - December 2020							
Financial assets							
Cash and cash equivalents	104,950	-	-	-	-	15	104,965
Investments	55,036	23,265	38,705	75,963	255,886	2,304	451,159
Finance receivables	1,481,401	134,370	286,777	469,999	656,238	13,593	3,042,378
Finance receivables - reverse mortgages	622,137	-	-	-	-	-	622,137
Due from related parties	-	-	-	-	-	259	259
Derivative financial assets	-	-	-	-	-	15,023	15,023
Other financial assets	-	-	-	-	-	402	402
Total financial assets	**2,263,524**	**157,635**	**325,482**	**545,962**	**912,124**	**31,596**	**4,236,323**
Financial liabilities							
Retail deposits	1,740,674	611,540	546,713	266,193	86,697	19,292	3,271,109
Other borrowings	101,694	987	-	156,063	130,845	-	389,589
Derivative financial liabilities	-	-	-	-	-	12,390	12,390
Due to related parties	-	-	-	-	-	9,399	9,399
Lease liabilities	-	-	-	-	-	18,878	18,878
Other financial liabilities	-	-	-	-	-	11,749	11,749
Total financial liabilities	**1,842,368**	**612,527**	**546,713**	**422,256**	**217,542**	**71,708**	**3,713,114**
Effect of derivatives held for risk management	463,422	(63,969)	(92,103)	(130,194)	(177,156)	-	-
Net financial assets/(liabilities)	**884,578**	**(518,861)**	**(313,334)**	**(6,488)**	**517,426**	**(40,112)**	**523,209**

16 Interest rate risk (continued)

Contractual repricing analysis (continued)

$000's	0-3 Months	3-6 Months	6-12 Months	1-2 Years	2+ Years	Non-Interest Bearing	Total
Audited - June 2021							
Financial assets							
Cash and cash equivalents	112,893	-	-	-	-	10	112,903
Investments	31,897	8,034	19,669	53,505	244,052	1,818	358,975
Due from related parties	-	-	-	-	-	146	146
Finance receivables	1,554,461	147,303	291,415	450,415	699,967	70,032	3,213,593
Finance receivables - reverse mortgages	601,505	-	-	-	-	-	601,505
Derivative financial assets	-	-	-	-	-	14,111	14,111
Other financial assets	-	-	-	-	-	1,068	1,068
Total financial assets	**2,300,756**	**155,337**	**311,084**	**503,920**	**944,019**	**87,185**	**4,302,301**
Financial liabilities							
Retail deposits	1,706,735	570,068	554,340	285,025	85,077	18,277	3,219,522
Other borrowings	170,364	50,837	-	153,751	127,933	-	502,885
Derivative financial liabilities	-	-	-	-	-	4,789	4,789
Due to related parties	-	-	-	-	-	3,210	3,210
Lease liabilities	-	-	-	-	-	17,780	17,780
Other financial liabilities	-	-	-	-	-	16,663	16,663
Total financial liabilities	**1,877,099**	**620,905**	**554,340**	**438,776**	**213,010**	**60,719**	**3,764,849**
Effect of derivatives held for risk management	474,010	(9,023)	(146,067)	(85,670)	(233,250)	-	-
Net financial assets/(liabilities)	**897,667**	**(474,591)**	**(389,323)**	**(20,526)**	**497,759**	**26,466**	**537,452**

17 Concentrations of funding

(a) Regulatory liquidity ratios

RBNZ requires banks to hold minimum amounts of liquid assets to help ensure that they are effectively managing their liquidity risks. The mismatch ratio is a measure of a bank's liquid assets, adjusted for contractual cash inflows and outflows during a 1-month or 1-week period of stress. It is expressed as a ratio over the bank's total funding. The Banking Group must maintain its 1-month and 1-week mismatch ratios above zero on a daily basis. The below 1-month and 1-week mismatch ratios are averaged over the quarter.

RBNZ requires banks to get a minimum amount of funding from stable sources called core funding. From 2 April 2020, the minimum amount of core funding was lowered from 75% to 50% of a bank's total loans. The Banking Group must maintain its core funding ratio above the regulatory minimum on a daily basis. The below measure of the core funding ratio is averaged over the quarter. The RBNZ intends to increase the minimum requirement back to 75% on 1 January 2022.

	Average for the 3 Months Ended 31 December 2021	**Average for the 3 Months Ended 30 September 2021**
One-week mismatch ratio	8.05	6.58
One-month mismatch ratio	9.07	7.60
Core funding ratio	91.66	92.38

(b) Concentration of funding by industry

$000's	**Unaudited December 2021**	**Unaudited December 2020**	**Audited June 2021**
Agriculture	102,123	100,885	102,107
Forestry and fishing	18,182	17,104	14,226
Mining	119	196	94
Manufacturing	14,645	9,046	11,592
Finance and insurance	842,073	631,235	769,757
Wholesale trade	10,354	18,463	11,218
Retail trade and accommodation	24,204	26,073	28,521
Households	2,474,259	2,362,870	2,322,514
Rental, hiring and real estate services	57,392	37,666	46,245
Construction	25,959	22,666	24,231
Other business services	61,446	64,029	58,334
Transport and storage	4,713	4,792	4,337
Other	45,417	75,887	44,714
	3,680,886	**3,370,912**	**3,437,890**
Unsubordinated Notes	277,959	289,786	284,517
Total borrowings	**3,958,845**	**3,660,698**	**3,722,407**

(c) Concentration of funding by geographical area

$000's	**Unaudited December 2021**	**Unaudited December 2020**	**Audited June 2021**
New Zealand	3,866,286	3,591,675	3,635,405
Overseas	92,559	69,023	87,002
Total borrowings	**3,958,845**	**3,660,698**	**3,722,407**

Other Disclosures

18 Structured entities

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

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

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

$000's	Unaudited December 2021	Unaudited December 2020	Audited June 2021
Deposits	151,830	167,147	153,244

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

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

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

$000's	Unaudited December 2021	Unaudited December 2020	Audited June 2021
Cash and cash equivalents	19,840	5,876	9,047
Finance receivables - motor	273,289	79,672	126,399
Other borrowings	(275,787)	(81,541)	(128,125)

19 Capital adequacy

The capital adequacy tables set out on the following pages summarise the composition of regulatory capital and the capital adequacy ratios for the Banking Group as at 31 December 2021.

Internal Capital Adequacy Assessment Process (ICAAP)

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

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

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

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

19 Capital adequacy (continued)

(a) Capital

$000's	**Unaudited December 2021**
Tier 1 Capital	
CET1 capital	
Paid-up ordinary shares issued by the Banking Group plus related share premium	553,239
Retained earnings (net of appropriations)	128,817
Accumulated other comprehensive income and other disclosed reserves	1,018
Less deductions from CET1 capital	
Intangible assets	(57,368)
Deferred tax assets	(14,595)
Hedging reserve	(7,525)
Defined benefit superannuation fund assets	(715)
Total CET1 capital	**602,871**
AT1 capital	-
Total Tier 1 capital	**602,871**
Tier 2 capital	**-**
Total Tier 2 capital	-
Total capital	**602,871**

(b) Capital structure

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

Ordinary shares

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

Retained earnings

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

Reserves classified as CET1 capital

Fair value reserve	The debt instrument fair value reserve comprises the changes in the fair value of investments, net of tax.
Defined benefit reserve	The defined benefit reserve represents the excess of the fair value of the assets of the defined benefit superannuation plan over the net present value of the defined benefit obligations.
Cash flow hedge reserve	The hedging reserve comprises the fair value gains and losses associated with the effective portion of designated cash flow hedging instruments.

19 Capital adequacy (continued)

(c) Credit risk

On balance sheet exposures

	Total Exposure After Credit Risk Mitigation $000's	Average Risk Weight %	Risk Weighted Exposure $000's	Minimum Pillar 1 Capital Requirement $000's
Unaudited - December 2021				
Sovereigns and central banks	667	0%	-	-
Multilateral development banks	163,344	0%	-	-
Multilateral development banks	66,108	20%	13,222	1,058
Banks - Short term - Tier 1	-	20%	-	-
Banks - Short term - Tier 2	139,148	20%	27,830	2,226
Banks - Short term - Tier 3	-	20%	-	-
Banks - Long term - Tier 1	-	20%	-	-
Banks - Long term - Tier 2	51,746	50%	25,873	2,070
Banks - Long term - Tier 3	1,704	50%	852	68
Public sector entity (AA- and above)	13,403	20%	2,681	214
Public sector entity (A- and above)	-	50%	-	-
Public sector entity (BBB+, BBB, BBB-)	-	100%	-	-
Corporates (AA- and above)	-	20%	-	-
Corporates (A- and above)	-	50%	-	-
Corporates (BBB- and above)	-	100%	-	-
Corporate Exposures - BFGS	58,896	20%	11,779	942
Corporate Exposures - unrated	1,755,689	100%	1,755,689	140,455
Welcome Home Loans - loan to value ratio (LVR) <= 80%[1]	1,772	35%	620	50
Welcome Home Loans - loan to value ratio (LVR) <= 90%[1]	-	35%	-	-
Welcome Home Loans - LVR 90% >= 100%[1]	-	50%	-	-
Welcome Home Loans - LVR > 100%[1]	-	100%	-	-
Reverse Residential mortgages <= 60% LVR	644,488	50%	322,244	25,780
Reverse Residential mortgages 60 <= 80% LVR	4,377	80%	3,502	280
Reverse Residential mortgages > 80% LVR	-	100%	-	-
Reverse Residential mortgages > 100% LVR	-	100%	-	-
Non Property Investment Mortgage Loan <=80% LVR	220,412	35%	77,144	6,172
Non Property Investment Mortgage Loan 80 <= 90% LVR	-	50%	-	-
Non Property Investment Mortgage Loan 90 <= 100% LVR	549	75%	412	33
Non Property Investment Mortgage Loan > 100% LVR	-	100%	-	-
Property Investment Mortgage Loan <= 80% LVR	2,992	40%	1,197	96
Property Investment Mortgage Loan 80 <= 90% LVR	-	70%	-	-
Property Investment Mortgage Loan 90 <= 100% LVR	-	90%	-	-
Property Investment Mortgage Loan < 100% LVR	-	100%	-	-
Past due residential mortgages	145	100%	145	12
Other past due assets - provision >= 20%	21,906	100%	21,906	1,752
Other past due assets - provision < 20%	42,569	150%	63,853	5,108
Equity holdings	-	300%	-	-
All other equity holdings	1,488	400%	5,950	476
Fixed Assets	7,617	100%	7,617	609
Leased Assets	14,609	100%	14,609	1,169
Other assets	1,396,798	100%	1,396,798	111,744
Not risk weighted assets	72,679	0%	-	-
Total on balance sheet exposures	**4,683,106**		**3,753,923**	**300,314**

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

19 Capital adequacy (continued)

(c) Credit risk (continued)

Off balance sheet exposures

	Total Exposure $000's	Credit Conversion Factor %	Credit Equivalent Amount $000's	Average Risk Weight %	Risk Weighted Exposure $000's	Minimum Pillar 1 Capital Requirement $000's
Unaudited - December 2021						
Direct credit substitute	2,336	100%	2,336	100%	2,336	187
Performance-related contingency	4,880	50%	2,440	100%	2,440	195
Other commitments where original maturity is more than one year	207,098	50%	103,549	100%	103,549	8,284
Other commitments where original maturity is more than one year	13,969	50%	6,985	35%	2,445	196
Other commitments where original maturity is less than or equal to one year	26,725	20%	5,345	100%	5,345	428
Other commitments where original maturity is less than or equal to one year	25,003	20%	5,001	50%	2,501	200
Other commitments where original maturity is less than or equal to one year	3,026	20%	605	35%	212	17
Market related contracts[1]						
Interest rate contracts	1,318,084	n/a	22,580	34%	7,632	611
Credit valuation adjustment	-		-		6,879	550
Total off balance sheet exposures	**1,601,121**		**148,841**		**133,339**	**10,668**

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

(d) Additional mortgage information – LVR range

$000's	On Balance Sheet Exposures	Off Balance Sheet Exposures[1]	Total Exposures
Unaudited - December 2021			
Does not exceed 80%	874,044	41,998	916,042
Exceeds 90%	694	-	694
Total exposures	**874,738**	**41,998**	**916,736**

[1] Off balance sheet exposures means unutilised limits.

At 31 December 2021, there were nil Welcome Home loans whose credit risk is mitigated by the Crown included in “Exceeds 90% residential mortgages”. Other loans in the exceeds 90% LVR range is primarily business and rural lending where residential mortgage security is only a part of the total security. For capital adequacy calculations only the value of the first mortgages over residential property is included in the LVR calculation, in accordance with BPR131. All new residential mortgages in respect of non-property investments lending have a loan-to-valuation ratio of less than or equal to 80%.

19 Capital adequacy (continued)

(e) Reconciliation of mortgage related amounts

$000's	Note	Unaudited December 2021
Gross finance receivables - reverse mortgages	7(b)	648,865
Loans and advances - loans with residential mortgages		225,961
On balance sheet residential mortgage exposures subject to the standardised approach	14(a)	**874,826**
Less: collective provision for impairment		(88)
Off balance sheet mortgage exposures subject to the standardised approach	19(d)	41,998
Total residential exposures subject to the standardised approach		**916,736**

(f) Credit risk mitigation

As at 31 December 2021 the Banking Group had $1.8 million of Welcome Home Loans, whose credit risk was mitigated by the Crown. Other than this the Banking Group does not have any exposures covered by eligible collateral, guarantees and credit derivatives.

(g) Operational risk

$000's	Implied Risk Weight Exposure	Total Operational Risk Capital Requirement
Unaudited - December 2021		
Operational risk	270,745	21,660

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

(h) Market risk

$000's		Implied Risk Weighted Exposure	Aggregate Capital Charge
Unaudited - December 2021			
Market risk end-of-period capital charge	Equity rate risk only	1,488	119
Market risk peak end-of-day capital charge	Equity rate risk only	1,488	119
Market risk end-of-period capital charge	Interest rate risk only	153,307	12,265
Market risk peak end-of-day capital charge	Interest rate risk only	153,307	12,265
Market risk end-of-period capital charge	Foreign currency risk only	10	1
Market risk peak end-of-day capital charge	Foreign currency risk only	522	42

The Banking Group’s aggregate market exposure is derived in accordance with BPR140. Peak end-of-day capital charge disclosure is derived by taking the highest month end market exposure over the six months ended 31 December 2021. Interest rate risk, foreign exchange risk and equity risk are calculated monthly using the month end position. While the Banking Group views this methodology as being materially correct, it is currently investigating the impact a daily aggregate market risk exposure would have for future reporting periods.

19 Capital adequacy (continued)

(i) Total capital requirement

$000's	**Total Exposure After Credit Risk Mitigation**	**Risk Weighted Exposure or Implied Risk Weighted Exposure**	**Total Capital Requirement**
Unaudited - December 2021			
Total credit risk			
On balance sheet	4,683,106	3,753,923	300,314
Off balance sheet	1,601,121	133,339	10,668
Operational risk	n/a	270,745	21,660
Market risk	n/a	155,317	12,425
Total	**6,284,227**	**4,313,324**	**345,067**

(j) Capital ratios

%	**Unaudited December 2021**	**Unaudited December 2020**
Capital ratios compared to minimum ratio requirements		
Common Equity Tier 1 Capital expressed as a percentage of total risk weighted exposures	13.98%	13.95%
Minimum Common Equity Tier 1 Capital as per Conditions of Registration	4.50%	4.50%
Tier 1 Capital expressed as a percentage of total risk weighted exposures	13.98%	13.95%
Minimum Tier 1 Capital as per Conditions of Registration	6.00%	6.00%
Total Capital expressed as a percentage of total risk weighted exposures	13.98%	13.95%
Minimum Total Capital as per Conditions of Registration	8.00%	8.00%
Buffer ratio		
Buffer ratio	5.98%	5.95%
Buffer ratio requirement	2.50%	2.50%

(k) Solo capital adequacy

%	**Unaudited December 2021**	**Unaudited December 2020**
Capital ratios compared to minimum ratio requirements		
Common Equity Tier 1 Capital expressed as a percentage of total risk weighted exposures	14.80%	14.15%
Tier 1 Capital expressed as a percentage of total risk weighted exposures	14.80%	14.15%
Total Capital expressed as a percentage of total risk weighted exposures	14.80%	14.15%

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

(l) Capital for other material risks

In addition to the material risks included in the calculation of the capital ratios, the Banking Group has identified other material risks to be included in the capital allocation (being strategic/business risk, regulatory and additional credit risk). As at 31 December 2021, the Banking Group has made an internal capital allocation of $9.1 million to cover these risks (December 2020: $8.9 million; June 2021: $8.9 million).

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

Insurance business

MIL, a subsidiary of HBL, ceased writing insurance policies in 2020 with the periodic policies expected to expire in 2025.

The Banking Group's aggregate amount of insurance business comprises the total consolidated assets of MIL of $8.3 million (December 2020: $10.9 million; June 2021: $8.5 million), which represents 0.18% of the total consolidated assets of the Banking Group (December 2020: 0.25%; June 2021: 0.19%).

Securitisation, funds management and other fiduciary activities

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

Risk management

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

Provision of financial services and asset purchases

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

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

21 Contingent liabilities and commitments

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

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

$000's	**Unaudited December 2021**	**Unaudited December 2020**	**Audited June 2021**
Letters of credit, guarantee commitments and performance bonds	7,217	6,145	13,484
Total contingent liabilities	**7,217**	**6,145**	**13,484**
Undrawn facilities available to customers	254,174	186,602	208,855
Conditional commitments to fund at future dates	21,646	24,570	19,083
Total commitments	**275,820**	**211,172**	**227,938**

22 Events after reporting date

The Bank resolved to pay a cash dividend to its parent company HGH of $35.5 million on its ordinary shares on 21 February 2022.

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

Conditions of Registration

Changes to Conditions of Registration

With effect from 1 July 2021:

- The Bank must not include the amount of an Additional Tier 1 capital instrument or Tier 2 capital instrument issued on or after 1 July 2021 in the calculation of its capital ratios unless it has completed the notification requirements.

- A Tier 2 capital instrument is an instrument that meets the requirements of subsection B3.2(2)(a) or (c) of Banking Prudential Regulations BPR110: Capital Definitions.

With effect from 1 October 2021:

- Capital instrument translations of the banking capital adequacy requirements were updated from the Capital Adequacy Framework (Standardised Approach) BS2A documentation to the new Banking Prudential Requirements documents.

- The Bank's earnings payable to holders of CET1 capital to the percentage limit on distributions that corresponds to the Banking Group's buffer PCB ratio where revised.

Banking Group's PCB Ratio	Revised - Banking Group's PCB Ratio	Percentage Limit on Distributions of the Bank's Earnings	Revised - Percentage Limit on Distributions of the Bank's Earnings
0% – 0.625%	0% – 0.5%	0%	0%
>0.625 – 1.25%	>0.5 – 1%	20%	30%
>1 – 2%	>1 – 2%	40%	50%
>2 – 2.5%	>2 – 2.5%	50%	50%

There are no other changes to conditions of registration since the reporting date for the previous Disclosure Statement.

Credit Ratings

As at the date of signing this Disclosure Statement, the Bank's credit rating issued by Fitch Australia Pty Ltd (Fitch Ratings) was BBB stable. This BBB credit rating was issued on 14 October 2015 and is applicable to long term unsecured obligations payable in New Zealand, in New Zealand dollars. This BBB stable credit rating was affirmed by Fitch Ratings on 05 October 2021.

The following is a summary of the descriptions of the ratings categories for rating agencies for the rating of long-term senior unsecured obligations:

Fitch Ratings	Standard & Poor's	Moody's Investors Service	Description of Grade
AAA	AAA	Aaa	Ability to repay principal and interest is extremely strong. This is the highest investment category.
AA	AA	Aa	Very strong ability to repay principal and interest in a timely manner.
A	A	A	Strong ability to repay principal and interest although somewhat susceptible to adverse changes in economic, business or financial conditions.
BBB	BBB	Baa	Adequate ability to repay principal and interest. More vulnerable to adverse changes.
BB	BB	Ba	Significant uncertainties exist which could affect the payment of principal and interest on a timely basis.
B	B	B	Greater vulnerability and therefore greater likelihood of default.
CCC	CCC	Caa	Likelihood of default considered high. Timely repayment of principal and interest is dependent on favourable financial conditions.
CC - C	CC - C	Ca – C	Highest risk of default.
RD to D	D	-	Obligations currently in default.

Credit ratings from Fitch Ratings and Standard & Poor’s may be modified by the addition of a plus or minus sign to show relative status within the major rating categories. Moody’s Investors Service apply numerical modifiers 1, 2, and 3 to show relative standing within the major rating categories, with 1 indicating the higher end and 3 the lower end of the rating category.

Other Material Matters

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

Independent Review Report

To the shareholder of Heartland Bank Limited

Report on the consolidated half year disclosure statement of Heartland Bank Limited (the "Bank") and its controlled entities (the "Banking Group")

Conclusion

We have completed a review of the accompanying consolidated half year disclosure statement which comprise:

- The consolidated interim financial statements formed of:
  - the consolidated interim statement of financial position as at 31 December 2021;
  - the consolidated interim statements of comprehensive income, changes in equity and cash flows for the 6 month period then ended; and
  - notes, including a summary of significant accounting policies and other explanatory information.
- the supplementary information prescribed in Schedules 5, 7, 9, 13, 16 and 18 of the Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order 2014 (as amended) (the "Order").

Based on our review of the consolidated interim financial statements and supplementary information of the Bank and the Banking Group on pages 5 to 51, nothing has come to our attention that causes us to believe that:

i. the consolidated interim financial statements do not present fairly in all material respects the Banking Group's financial position as at 31 December 2021 and its financial performance and cash flows for the 6 month period ended on that date;

ii. the consolidated interim financial statements (excluding the supplementary information disclosed in accordance with Schedules 5,7, 9, 13, 16 and 18 of the Order), have not been prepared, in all material respects, in accordance with NZ IAS 34 *Interim Financial Reporting* ("NZ IAS 34");

iii. the supplementary information, does not fairly state, in all material respects, the matters to which it relates in accordance with Schedules 5, 7, 9, 13, 16 and 18 of the Order; and

iv. the supplementary information relating to capital adequacy and regulatory liquidity requirements, has not been, in all material respects, disclosed in accordance with Schedule 9 of the Order.

Basis for conclusion

A review of the consolidated half year disclosure statement in accordance with NZ SRE 2410 *Review of Financial Statements Performed by the Independent Auditor of the Entity* ("NZ SRE 2410") is a limited assurance engagement. The auditor performs procedures, consisting of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures.

As the auditor of Heartland Bank Limited, NZ SRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial statements.

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

Use of this Independent Review Report

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

Responsibilities of the Directors for the interim company and group financial statements

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

- the preparation and fair presentation of the consolidated half year disclosure statement in accordance with NZ IAS 34 and Schedules 3, 5, 7 ,13 ,16 and 18 of the Order;
- the preparation and fair representation of the supplementary information in regards to capital adequacy and regulatory liquidity requirements in accordance with the Registered Banks conditions of registration, Capital Adequacy Framework (Standardised Approach) and Schedule 9 of the Order;
- implementing necessary internal control to enable the preparation of a consolidated half year disclosure statement that is fairly presented and free from material misstatement, whether due to fraud or error; and
- assessing the ability to continue as a going concern. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the review of the interim company and group financial statements

Our responsibility is to express a conclusion on the consolidated half year disclosure statement based on our review. We conducted our review in accordance with NZ SRE 2410. NZ SRE 2410 requires us to conclude whether anything has come to our attention that causes us to believe that:

- the consolidated interim financial statements do not present fairly in all material respects the Banking Group's financial position as at 31 December 2021 and its financial performance and cash flows for the 6 month period ended on that date;
- the consolidated interim financial statements do not, in all material respects, comply with NZ IAS 34;
- the supplementary information, does not fairly state, in all material respects, the matters to which it relates in accordance with Schedules 5, 7, 9, 13, 16 and 18 of the Order; and

- the supplementary information relating to capital adequacy and regulatory liquidity requirements, has not been prepared, in all material respects, in accordance with the Registered Banks conditions of registrations, Capital Adequacy Framework (Standardised Approach) and disclosed in accordance with Schedule 9 of the Order.

The procedures performed in a review are substantially less than those performed in an audit conducted in accordance with International Standards on Auditing (New Zealand). Accordingly, we do not express an audit opinion on these interim company and group financial statements.

KPMG

KPMG
Auckland

21 February 2022