Disclosure Statement

For the six months ended 31 December 2022

HEARTLAND BANK

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General Information

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

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

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

Priority of Creditors' Claims

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

Guarantee Arrangements

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

Auditor

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

Directors

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

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

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

Directors' Statements

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

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

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

   b) the Disclosure Statement is not false or misleading.

2. During the six months ended 31 December 2022:

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

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

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

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

B R Irvine (Chair)

S M Ruha

J K Greenslade

K Mitchell

E J Harvey

S Tyler

Consolidated Interim Statement of Comprehensive Income

For the six months ended 31 December 2022

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

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

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

Consolidated Interim Statement of Changes in Equity

For the six months ended 31 December 2022

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

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

Consolidated Interim Statement of Changes in Equity (Continued)

For the six months ended 31 December 2022

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

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

Consolidated Interim Statement of Financial Position

As at 31 December 2022

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

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

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

Consolidated Interim Statement of Cash Flows

For the six months ended 31 December 2022

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

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

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

Consolidated Interim Statement of Cash Flows (Continued)

For the six months ended 31 December 2022

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

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

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

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

Notes to the Interim Financial Statements

For the six months ended 31 December 2022

1 Interim financial statements preparation

Basis of preparation

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

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

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

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

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

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

Estimates and judgements

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

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

Performance

2 Segmental analysis

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

Operating segments

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

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

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

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

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

2 Segmental analysis (continued)

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

3 Net interest income

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

4 Operating expenses

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

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

5 Compensation of auditor

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

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

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

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

6 Impaired asset expense

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

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

Financial Position

7 Finance receivables

(a) Finance receivables held at amortised cost

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

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

7 Finance receivables (continued)

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

Movement in provision for impairment losses

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

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

7 Finance receivables (continued)

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

Movement in provision for impairment losses (continued)

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

7 Finance receivables (continued)

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

Movement in provision for impairment losses (continued)

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

7 Finance receivables (continued)

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

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

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

(b) Finance receivables held at fair value

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

8 Borrowings

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

Deposits and unsubordinated notes rank equally and are unsecured.

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

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

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

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

9 Share capital and dividends

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

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

Dividends paid

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

10 Related party transactions and balances

(a) Transactions with key management personnel

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

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

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

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

(b) Transactions with related parties

The Banking Group's ultimate parent company is HGH.

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

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

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

10 Related party transactions and balances (continued)

(b) Transactions with related parties (continued)

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

(c) Due from/to related parties

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

(d) Other balances with related parties

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

11 Fair value

(a) Financial instruments measured at fair value

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

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

Investments in debt securities

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

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

Investments in equity securities

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

Investment properties

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

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

Finance receivables - reverse mortgages

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

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

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

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

11 Fair value (continued)

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

Finance receivables - reverse mortgages (continued)

At 31 December 2022 the Banking Group does not consider any of the above expectations to have moved outside of the original expectation range. Therefore, the Banking Group has continued to estimate the fair value of the portfolio at transaction price. There has been no fair value movement recognised in profit or loss during the period. Fair value is not highly sensitive to the above assumptions in the longer term due to the nature and term of the reverse mortgage loans. In particular, given conservative origination loan-to-value ratio criteria, a material deterioration in house prices combined with a material increase in interest rates over a sustained period of time would likely need to occur before any potential impact to fair value.

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

Derivative financial instruments

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

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

11 Fair value (continued)

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

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

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

11 Fair value (continued)

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

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

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

11 Fair value (continued)

(b) Financial instruments not measured at fair value

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

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

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

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

Risk Management

12 Enterprise risk management program

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

13 Credit risk exposure

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

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

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

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

(b) Concentration of credit risk by geographic region

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

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

13 Credit risk exposure (continued)

(c) Concentration of credit risk by industry sector

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

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

(d) Credit exposure to individual counterparties

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

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

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

14 Asset quality

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

Corporate Business lending including rural lending.

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

All Other This relates primarily to consumer lending to individuals.

(a) Finance receivables by credit risk concentration

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

14 Asset quality (continued)

(b) Past due but not individually impaired

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

14 Asset quality (continued)

(c) Individually impaired assets

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

14 Asset quality (continued)

(d) Provision for impairment

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

14 Asset quality (continued)

(d) Provision for impairment (continued)

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

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

14 Asset quality (continued)

(d) Provision for impairment (continued)

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

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

14 Asset quality (continued)

(d) Provision for impairment (continued)

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

14 Asset quality (continued)

(e) Other assets under administration

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

15 Liquidity risk

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

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

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

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

Contractual liquidity profile of financial liabilities

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

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

15 Liquidity risk (continued)

Contractual liquidity profile of financial liabilities (continued)

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

15 Liquidity risk (continued)

Contractual liquidity profile of financial liabilities (continued)

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

16 Interest rate risk

Contractual repricing analysis

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

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

16 Interest rate risk (continued)

Contractual repricing analysis (continued)

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

17 Concentrations of funding

(a) Regulatory liquidity ratios

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

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

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

(b) Concentration of funding by industry

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

(c) Concentration of funding by geographical area

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

Other Disclosures

18 Structured entities

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

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

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

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

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

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

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

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

19 Capital adequacy

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

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

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

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

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

19 Capital adequacy (continued)

(a) Capital

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

(b) Capital structure

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

Ordinary shares

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

Retained earnings

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

Reserves classified as CET1 capital

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

19 Capital adequacy (continued)

(c) Credit risk

On balance sheet exposures

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

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

19 Capital adequacy (continued)

(c) Credit risk (continued)

Off balance sheet exposures

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

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

(d) Additional mortgage information – LVR range

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

[1] Off balance sheet exposures means unutilised limits.

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

19 Capital adequacy (continued)

(e) Reconciliation of mortgage related amounts

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

(f) Credit risk mitigation

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

(g) Operational risk

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

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

(h) Market risk

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

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

19 Capital adequacy (continued)

(i) Total capital requirement

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

(j) Capital ratios

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

(k) Solo capital adequacy

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

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

(l) Capital for other material risks

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

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

Insurance business

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

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

Securitisation, funds management and other fiduciary activities

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

Risk management

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

Provision of financial services and asset purchases

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

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

21 Contingent liabilities and commitments

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

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

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

22 Events after reporting date

Severe weather events across the North Island of New Zealand

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

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

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

Proposed unsecured notes issuance

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

Dividends

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

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

Conditions of Registration

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

Other Material Matters

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

Independent auditor's review report

To the shareholder of Heartland Bank Limited

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

Our conclusion

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

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

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

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

Basis for conclusion

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

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

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

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

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

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

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

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

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

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

For and on behalf of:

PricewaterhouseCoopers

Chartered Accountants
27 February 2023

Auckland

Independent Assurance Report

To the shareholder of Heartland Bank Limited

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

Our conclusion

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

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

Basis for conclusion

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

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

Directors' responsibilities

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

Our independence and quality management

We have complied with the independence and other ethical requirements of Professional and Ethical Standard 1 *International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)* issued by the New Zealand Auditing and Assurance Standards Board, which is founded on the fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

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

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

Assurance practitioner's responsibilities

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

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

Given the circumstances of the engagement we:

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

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

Inherent limitations

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

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

Use of report

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

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

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

PricewaterhouseCoopers

Chartered Accountants — Auckland

27 February 2023