

NZX/ASX release
29 August 2024

Heartland announces solid FY2024 result, sets foundation for continued growth

Heartland Group Holdings Limited (**Heartland**) (NZX/ASX: **HGH**) has announced a net profit after tax (**NPAT**) of \$74.5 million for the financial year ended 30 June 2024 (**FY2024**). On an underlying basis¹, FY2024 NPAT was \$102.7 million.

In a challenging economic environment, Heartland achieved solid gross finance receivables (**Receivables**)² growth, up 6.4%³ on the financial year ended 30 June 2023 (**FY2023**).⁴ While some volatility is expected to continue through the remainder of the 2024 calendar year, the longer-term outlook for Heartland is positive. Having executed significant strategic milestones in FY2024 (see page 5), further growth is anticipated in the financial year ending 30 June 2025 (**FY2025**) as Heartland continues towards its ambitions for the financial year ending 30 June 2028 (**FY2028**).

Heartland's FY2024 result was impacted by the rapidly deteriorating economic conditions in May and June 2024 which saw the emergence of additional provisions primarily in Heartland Bank Limited's (**Heartland Bank's**) Asset Finance, Motor Finance and Rural portfolios (see page 4). This resulted in a 4.9% shortfall to guidance. This late increase in provisions reflects (amongst other things) enhancements to Heartland Bank's Motor Finance provisioning model, a more conservative provisioning approach on certain Rural exposures, and the effect of the sustained inflationary environment on some consumer and business borrowers.

	NPAT	NIM ⁵	Cost-to-income (CTI) ratio	Receivables
Reported	\$74.5m ↓ 22.2% on FY2023	3.39% ↓ 58 basis points (bps) on FY2023	48.0% ↑ 311 bps on FY2023	\$7.2b ↑ 6.4% ³ on FY2023
Underlying ¹	\$102.7m ↓ 6.7% on FY2023	3.64% ↓ 36 bps on FY2023	41.9% ↑ 6 bps on FY2023	11.8% CAGR FY2020-FY2024 ⁶

Highlights

- Solid FY2024 result achieved in a challenging economic environment.
 - One-off or non-cash technical items had a \$28.2 million impact on NPAT.
 - The shortfall to guidance was largely due to the late increase of \$10.1 million of provisions, detailed on page 4, primarily in Heartland Bank's Asset Finance, Motor Finance and Rural portfolios (without which Heartland would have seen a result within guidance).
- Growth in Receivables of 6.4% (\$432.1 million)³ on FY2023 to \$7.2 billion in FY2024.
 - Reverse Mortgages up 20.2% in New Zealand and 19.7%³ in Australia.
 - Asset Finance up 8.0% in a market with difficult trading conditions.
 - Motor Finance up 3.8% in a market where total new and used car sales by dealers were down by 12.7%.⁷

Note: All figures in NZD unless otherwise stated. Endnotes are located at the end of this announcement.

- Significant strategic milestones set the foundation to achieve FY2028 growth ambitions.
 - Completed the acquisition of Challenger Bank Limited (**Challenger Bank**) and subsequently rebranded the authorised deposit taking institution (**ADI**) to Heartland Bank Australia Limited (**Heartland Bank Australia**).
 - Successfully completed a \$210 million equity raise to fund the acquisition, with strong investor support.
 - Heartland Bank’s core banking system was successfully upgraded, enabling increased digitalisation and automation.

FY2024 financial results

FY2024 reported results have been normalised to exclude one-off or non-cash technical items.⁸

	FY2024	FY2023
Reported NPAT	\$74.5m	\$95.9m
– De-designation of derivatives	\$4.7m	\$6.5m
– Fair value changes on equity investments held	\$0.3m	\$4.5m
– Bridging loan	n/a	\$1.3m
– Australia Bank Programme transaction costs	\$7.7m	\$2.2m
– Other provisions	n/a	(\$0.5m)
– Other	\$0.6m	\$0.2m
Adjusted NPAT¹	\$87.9m	n/a
– Provisions for a subset of legacy lending	\$11.5m	n/a
– Challenger Bank NPAT	\$3.3m	n/a
Underlying NPAT¹	\$102.7m	\$110.2m
Underlying NPAT guidance range	\$108-112m	\$109-114m

FY2024 financial performance

Growth

Consistent with the market, Heartland’s growth in FY2024 was impacted by the challenging economic environment. Despite this, Heartland grew Receivables by 6.4% (\$432.1 million)³ to \$7.2 billion.

Reverse Mortgages, Asset Finance and Motor Finance continued to perform well. Reverse Mortgage Receivables were up \$179.6 million (20.2%) to \$1.07 billion in New Zealand and \$298.3 million (19.7%)³ to \$1.81 billion in Australia. Asset Finance Receivables increased \$54.3 million (8.0%) to \$737.0 million in a market with difficult trading conditions. Motor Finance growth of \$59.0 million (3.8%) to \$1.63 billion was pleasing in a market where total new and used car sales by dealers in New Zealand were down 12.7% in FY2024.⁶

Heartland’s Australian Livestock Finance business was impacted largely by adverse weather and market conditions as Receivables decreased \$103.0 million (27.5%)³ to \$272.0 million. Receivables balances stabilised in the second half of FY2024 (**2H2024**) (down \$26.6 million in 2H2024 vs \$76.4 million in the first half of FY2024 (**1H2024**)), in line with lower volatility in cattle and lamb pricing, and improved trading conditions in New South Wales and Queensland. However, 2H2024 growth was negatively impacted compared to forecast growth by unseasonably dry conditions across South Australia and Victoria, presenting limited opportunity for customers to trade livestock and

accelerating repayments. Product development to meet the growing Australian feedlotting sector, in combination with new distribution partnerships, is expected to contribute to portfolio growth in FY2025.

NIM

Heartland's underlying NIM was 3.64%, a reduction of 36 bps from FY2023.⁹

Underlying NIM	FY2023	1H2024	2H2024	FY2024	FY2024 exit	FY2025 expectation
NZ Banking	4.11%	3.81%	3.79%	3.79%	3.92%	4.00%
AU Banking	3.62%	3.35%	3.22%	3.17%	3.19%	3.40%

NZ Banking

Underlying NIM for Heartland Bank was 3.79%, down 32 bps from FY2023 due to a higher cost of funds, the slower repayment of lower margin Asset Finance and Motor Finance loans as customers deferred asset upgrades, and a slower pass through of rate increases to Reverse Mortgage customers.

Underlying NIM stabilised during 2H2024 as cost of funds increases slowed and NIM improvement accelerated in Asset Finance and Motor Finance, assisted by the pass through of rate increases to New Zealand Reverse Mortgage customers late in the financial year. FY2024 exit underlying NIM was 3.92% and has improved early into FY2025.

Looking forward, underlying NIM expansion is expected to continue and is forecast to rise above 4% by the third quarter of FY2025 driven by:

- continued NIM improvement in fixed rate portfolios, primarily Motor Finance and Asset Finance
- a focus on core lending growth combined with active management of Non-Strategic Assets (see page 7)
- cost of funds benefits from a reducing rate environment.

AU Banking

Underlying NIM for Heartland Bank Australia was 3.17%, down 45 bps from FY2023 primarily due to the \$103.0 million reduction in Australian Livestock Finance Receivables, of which \$76.4 million occurred in 1H2024. This was compounded by the continued increase in wholesale cost of funding which was not passed onto Australian Livestock Finance customers. Australian Reverse Mortgage NIM was managed consistently to 3.00% across FY2024.

Base rate stability and an abatement in the retraction of Australian Livestock Finance saw underlying NIM stabilise across 2H2024. FY2024 exit underlying NIM was 3.19%.

Looking forward, underlying NIM expansion is expected and is forecast to rise above 3.40% for FY2025. An FY2025 exit underlying NIM above 4% is projected as:

- current excess liquidity in Heartland Bank Australia is consumed
- the transition from wholesale to retail funding largely concludes
- growth in Australian Livestock Finance is expected to return due to more favourable market conditions and the execution of product and distribution initiatives.

Credit quality

Reflecting the challenging economic conditions, Heartland's overall credit quality deteriorated year-on-year during FY2024. The underlying impairment expense ratio increased to 0.44% in FY2024, up 8 bps compared with FY2023.¹⁰

NZ Banking

Heartland Bank's non-performing loans ratio deteriorated from 2.56% to 3.66% in FY2024. Most of this deterioration occurred in 1H2024 which saw an increase of 104 bps. 2H2024 saw a relative stabilisation with only a 6 bps increase on 1H2024. The trend in total arrears showed a similar pattern with 1H2024 witnessing a 230 bps deterioration (to a peak of 7.6%) but an improvement of 70 bps in 2H2024 to 6.9%. This deterioration primarily originated from the Motor Finance and Asset Finance portfolios which remain under pressure.

In contrast, New Zealand's Reverse Mortgage credit quality continues to be strong, with a weighted average loan-to-value ratio (**LVR**) of 23.5%. Given house prices are expected to have troughed and interest rates are beginning to fall, this portfolio is expected to remain strong in FY2025 and beyond. Heartland Bank's Online Home Loans portfolio is similarly robust with a low arrears rate of 0.4%.

Nevertheless, due to the challenging economic conditions, provisions increased by \$22 million in FY2024. This included the \$16 million provision raised by Heartland Bank in December 2023 which was utilised to cover enhanced provision modelling outcomes and to write-off longer standing loans in Motor Finance and Business lending. As a result, Heartland Bank reduced the subset of longer standing Motor Finance arrears by 58% between December 2023 and June 2024.

The Reserve Bank of New Zealand's (**RBNZ**) August 2024 Monetary Policy Statement noted a significant deterioration in domestic economic conditions during May and June 2024. During this period, Heartland Bank witnessed the emergence of additional specific and collective provisions totalling \$10.1 million as follows.

- Specific provisions increased by \$7.3 million across the Asset Finance and Rural portfolios as the incidence of businesses that entered voluntary liquidation, receivership, or ceased to trade increased. Furthermore, recent reductions in land prices led to a more conservative provisioning approach on certain Rural exposures.
- Collective provisions increased by \$2.8 million, primarily across the Motor Finance and Open for Business portfolios as customer arrears spiked, and enhancements to the Motor Finance provisioning model (implemented in June 2024) took effect.

Heartland Bank remains committed to ongoing investment in operational process efficiency and systems automation within the Collections & Recoveries area, thereby maintaining the positive momentum evidenced in 2H2024. Heartland Bank will continue to closely manage Business and Rural loans, supporting creditworthy customers through the end of a challenging economic cycle. The recent reduction in the rate of inflation and the associated fall in the Official Cash Rate signals a positive change for the New Zealand economy. While this is encouraging, the projected unemployment rate and the lag between interest rates and business outcomes means Heartland Bank expects some volatility to continue through FY2025.

AU Banking

As farmers responded to extreme weather conditions, many held onto livestock for longer periods of time through FY2024 to gain weight and recoup value. Heartland expects these remaining livestock to be sold and replaced through the first half of FY2025. While conditions are improving, Heartland Bank Australia is continuing to work closely with customers who may be experiencing stress in the current market conditions. Despite the extreme market and seasonal conditions that Australian Livestock Finance customers have endured, the relatively low level of provisioning (A\$1.2 million) is an indication of the credit strength and resilience of the portfolio and more broadly the sector.

Whilst in Australia interest rate and cost of living pressures will likely remain until the second half of FY2025, Australian Reverse Mortgage credit quality is strong, with a weighted average LVR of 23.5% and only 0.6% of loans with an LVR over 50%.

Costs

While underlying costs in FY2024 were controlled (underlying OPEX decreased by \$1.3 million (1.0%)¹¹), the CTI ratio was flat year-on-year despite the reduction in net operating income which was largely due to NIM compression and is expected to correct during FY2025.

Staff expenses decreased by \$6.1 million due to lower discretionary payments following the shortfall to underlying NPAT guidance.

IT costs increased by \$1.9 million due to inflationary pressures influencing higher licensing and service charges, alongside increased investment in IT security.

Other operating expenses increased \$2.1 million due to a combination of higher legal and professional fees and occupancy expenses.

Heartland's underlying CTI ratio is expected to increase in FY2025 as the full cost base of the ADI is absorbed, and Heartland Bank's core banking system upgrade commences amortisation (adding approximately \$5.4 million of non-cash operating expenditure per annum over a seven-year period).

Despite this, Heartland remains committed to its ambition of an underlying CTI ratio of less than 35% by the end of FY2028. Several initiatives are underway to achieve this, including:

- a strategy to transition from wholesale to retail funding, particularly in Australia
- realising cost savings through digitalisation and automation
- creating structural efficiencies in New Zealand and Australia as the banking group matures to build the capacity for growth.

A year of significant strategic milestones

Heartland achieved significant strategic milestones in FY2024, positioning it well for continued growth as the economy improves. This includes:

- completing the Challenger Bank acquisition on 30 April 2024 and raising \$210 million to fund the acquisition through an equity raise in April 2024, with strong investor support
- subsequently rebranding the ADI to Heartland Bank Australia
- the successful pre-acquisition deposit raising campaign by Challenger Bank, accelerating Heartland Bank Australia's cost of funds reduction strategy
- completing the upgrade of Heartland Bank's core banking system in November 2023 and accelerating Heartland Bank's digital programme of work.

The achievement of these strategic milestones strengthens the foundation required for Heartland to achieve its FY2028 ambitions of an underlying NPAT of more than \$200 million, underlying CTI ratio of less than 35% and underlying return on equity (ROE) of 12-14%, to which Heartland remains committed.

Heartland's pathway to achieving these ambitions is driven by modest Receivables growth, NIM expansion, cost savings from automation, and an improvement in impairments. See page 18 of the FY2024 IP for more detail on Heartland's FY2028 ambitions.

Successful completion of Challenger Bank acquisition enabling expansion in Australia

A successful \$210 million equity raise in April 2024 enabled the completion of Heartland Bank's acquisition of Challenger Bank.

The acquisition made Heartland Bank the first New Zealand registered bank to acquire an Australian ADI. Importantly, it has created a pathway for further growth and product expansion in the Australian market.

Post-completion, Heartland transferred its existing Australian businesses (Heartland Finance and StockCo Australia) to the ADI and rebranded Challenger Bank to Heartland Bank Australia. It is now the only ADI to offer both reverse mortgages and specialist livestock finance (which it continues to provide under the StockCo brand).

Heartland Bank Australia has a highly experienced Board and management team to drive expansion within specialist banking markets. On 22 July 2024, Michelle Winzer commenced her appointment as Chief Executive Officer of Heartland Bank Australia. Michelle joined Heartland Bank Australia from her role as Chief Executive Banking of RACQ Bank in Queensland and brings more than 30 years' experience in banking and financial services, including as Chief Executive Officer of Bank of Melbourne, and senior roles at Bankwest, the Commonwealth Bank of Australia and Westpac.

With an ADI licence and access to retail deposits, Heartland Bank Australia can now more sustainably fund its Reverse Mortgage and Livestock Finance lending portfolios. This is expected to have a positive effect on NIM as Heartland Bank Australia transitions its funding base from 100% wholesale to a retail and wholesale funding mix, driving a reduction in Heartland Bank Australia's cost of funds.

Deposit raising campaign accelerating funding transition

Heartland Bank Australia's funding mix is expected to be predominantly retail deposits (circa 90%) by the end of FY2025, with wholesale funding sources maintained in the minority for diversification and additional liquidity support.

Heartland Bank Australia's transition to retail funding was accelerated in FY2024 by Challenger Bank's pre-completion deposit raising programme which enabled the full repayment of a CBA Reverse Mortgage facility prior to completion. From 1 January 2024 to 30 June 2024, the ADI achieved deposit growth of A\$1,147 million at a weighted average rate of 4.85%, 2.03% lower than Heartland Australia's (comprising Heartland Australia Holdings Pty Ltd and its subsidiaries) cost of funds across the same period.

Since completion, Heartland Bank Australia has been originating and funding all lending through deposits on its own balance sheet while its wholesale facilities continue to repay, including the repayment of Heartland Australia's A\$75 million Medium-Term Note on 9 July 2024.

To further diversify and strengthen its capital base, in June 2024, Heartland Bank Australia successfully completed an inaugural A\$50 million Tier 2 Subordinated Note transaction (**Subordinated Notes**). The transaction received strong support from a broad range of institutional investors, with demand for the offer nearly three times oversubscribed. The Subordinated Notes qualified as Tier 2 Capital under the Australian Prudential Regulation Authority's capital adequacy framework for ADIs, and were priced at 370 bps over the 3-month Bank Bill Swap Rate.

All of this leaves Heartland Bank Australia well capitalised, profitable and with strong access to retail deposits to fund its future growth expectations.

Heartland Bank core banking system upgrade accelerating digitalisation programme

The upgrade of Heartland Bank's core banking system was completed in November 2023. The upgrade positions Heartland Bank for increased scalability in the future by enabling greater levels of digitalisation and automation not possible in the previous version of the system.

Since completion of the upgrade, Heartland Bank has accelerated its digitalisation programme of work and expects to see the impact of this activity through FY2025. As part of this, several features have been released to the Heartland Bank Mobile App, including functionality to increase login security and risk detection, and features to enable increased customer self-service for many of the reasons for customer inbound calls. Digitalisation combined with employee training and customer awareness campaigns to increase adoption contributed to a 6% reduction in Retail calls and a 9% reduction in Customer Service calls in FY2024 compared with FY2023. In addition, most customer letters and statements will soon be available from the Heartland Bank Mobile App as the primary method of distribution – this is expected to deliver substantial cost benefit through the reduction of postage.

Non-Strategic Assets

Heartland Bank has a pool of assets it has accumulated through to its current state of maturity that are no longer a strategic fit for the organisation. These Non-Strategic Assets (**NSAs**) earn little or no income or are returning less than Heartland Bank's cost of capital.¹² See page 23 of the FY2024 IP for more detail.

NSAs will be managed and reported separately in FY2025 to provide greater transparency and enable more focused resolution strategies to be adopted. This will enable underlying capital to be redeployed to support Heartland Bank's growth ambitions. Heartland intends to rationalise these assets over a responsible period of time.

FY2025 outlook

While Heartland expects volatility to continue through the remainder of the 2024 calendar year, Heartland's long-term outlook is positive as it continues towards its ambition of an underlying NPAT of at least \$200 million by the end of FY2028.

Looking towards the end of FY2025, Heartland expects to realise the benefits from the significant strategic milestones achieved in FY2024. This includes from the acquisition of an ADI which provides a pathway for sustainable growth and increased profitability in Australia. In combination with that, contributors to growth are expected to include ongoing strong demographic demand for Reverse Mortgages in both countries and a turnaround in conditions for Australian Livestock Finance.

Heartland's growth in New Zealand and Australia continues to be driven by Reverse Mortgages, with CAGR for the period from 1 July 2020 to 30 June 2024 of 17.5% and 17.8% respectively. Ongoing demographic demand is expected to drive further expansion within each of these portfolios in FY2025.

Heartland Bank Australia is well positioned for growth beyond FY2025. While Australian Livestock Finance Receivables decreased in FY2024, a turnaround is expected in FY2025 as market confidence in the sector returns, supported by the execution of product development initiatives and distribution network expansion. Australian portfolio growth is expected to be coupled with improvements in underlying NIM through a combination of cost efficiencies and the conversion of Heartland Bank

Australia's funding base from its historic 100% wholesale to a predominantly (circa 90%) retail funding base.

In New Zealand, Heartland Bank's FY2025 focus is on simplification, including through the rationalisation of NSAs as described above. In doing so, Heartland Bank expects to improve its underlying NIM, leading to an increase in underlying ROE and underlying NPAT.

As Heartland Bank focuses on simplification and working towards its FY2028 ambitions, it remains cautious around growth expectations within Motor Finance and Asset Finance given the economic conditions and recent deterioration in credit quality. Overall growth in core lending is expected to be coupled with the realisation of cost efficiencies through automation and digitalisation initiatives, stabilisation of impairments over the period, and underlying NIM expansion.

Heartland expects further volatility in the markets within which it operates for the remainder of the 2024 calendar year as rate reductions bed in and the New Zealand and Australian economies recover. In Heartland's view, this creates too much uncertainty at this stage to provide an accurate underlying NPAT guidance range for FY2025. Heartland will revisit its ability to provide an underlying NPAT guidance range for FY2025 as the financial year progresses.

Final dividend

Heartland has declared a FY2024 final dividend of 3.0 cps, down 3.0 cps on FY2023. Heartland's final dividend yield of 8.7%¹³ compares with 9.3%¹⁴ in FY2023.

The total dividend payout ratio for FY2024 of 55% of underlying NPAT takes into consideration the recent \$210 million equity raise, acquisition of Challenger Bank and associated growth opportunities.

Having regard to Heartland's next stage of growth, the Board expects to target a total dividend payout ratio of at least 50% of underlying NPAT in FY2025. The Board will, as it has historically, actively manage dividend settings and carefully consider the declaration of any dividends based on Heartland's capital needs, ROE accretive growth opportunities, balance sheet flexibility and financial performance.

The final dividend will be paid on Friday 20 September 2024 (**Payment Date**) to shareholders on the company's register as at 5.00pm NZST on Friday 6 September 2024 (**Record Date**) and will be fully imputed.

Heartland has a Dividend Reinvestment Plan (**DRP**), giving eligible shareholders the opportunity to reinvest some or all of their dividend payments into new ordinary shares. The DRP will apply to the final dividend with a 2.0% discount.¹⁵ The DRP offer document and participation form is available on Heartland's website at heartlandgroup.info/investor-information/dividends.

– ENDS –

The persons who authorised this announcement:

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About Heartland

Heartland is a financial services group with operations in Australia and New Zealand. Heartland has a long history with roots stretching back to 1875 and is listed on the New Zealand and Australian stock exchanges (NZX/ASX: HGH).

Heartland's New Zealand business, [Heartland Bank](#), provides customers with savings and deposit products, reverse mortgages, online home loans, business loans, car loans and rural loans. In Australia, [Heartland Bank Australia](#) offers competitive term deposits, is Australia's leading provider of reverse mortgages and provides specialist livestock finance through the [StockCo](#) brand.

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

More: [heartlandgroup.info](#)

Endnotes

¹ Financial results are presented on a reported and underlying basis. Reported results are prepared in accordance with NZ GAAP and include the impacts of positive and negative one-offs, which can make it difficult to compare performance between periods. Underlying results (which are non-GAAP financial information) exclude the impact of the de-designation of derivatives, the fair value changes on equity investments held, the Australian Bank Programme costs, an increase in provisions for a subset of legacy lending, the Challenger Bank NPAT, and any other impacts of one-offs. Adjusted NPAT before excluding the increase in provisions for a subset of legacy lending and the Challenger Bank NPAT was \$87.9 million (**Adjusted NPAT**). The use of underlying results is intended to allow for easier comparability between periods and is used internally by management for this purpose. In the accompanying FY2024 investor presentation (**IP**), refer to page 7 for a summary of reported and underlying results, page 8 for details about FY2024 one-offs, and pages 35 and 36 for general information about the use of non-GAAP financial measures.

² Receivables includes Reverse Mortgages.

³ Excludes the impact of changes in foreign currency exchange (**FX**) rates.

⁴ All comparative results are based on the audited full year consolidated Financial Statements of Heartland and its subsidiaries (the **Group**) for FY2023.

⁵ Net interest margin (**NIM**) is calculated as net interest income over average gross interest earning assets.

⁶ Compound annual growth rate (**CAGR**) for the period 1 June 2019 to 30 June 2024.

⁷ Based on data from Turners, dated June 2024 (data sourced from Waka Kotahi NZ Transport Agency).

⁸ In the FY2024 IP, refer to page 7 for a detailed reconciliation between reported and underlying financial information, and page 8 for details about one-offs in the periods covered in this investor presentation.

⁹ Underlying NIM refers to NIM calculated using underlying results. When calculated using reported results, NIM was 3.39%, down 58 bps compared with FY2023. For more information, see page 35 of the FY2024 IP.

¹⁰ Underlying impairment expense ratio refers to the impairment expense ratio calculated using underlying results. When calculated using reported results, the impairment expense ratio was 0.66%, up 30 bps compared with FY2023. For more information, see page 35 of the FY2024 IP.

¹¹ Underlying OPEX refers to OPEX calculated using underlying results. When calculated using reported results, OPEX was \$139.4 million, up \$11.3 million compared with FY2023. For more information, see page 35 of the FY2024 IP.

¹² NSAs do not reflect a structural change to Heartland's operations.

¹³ FY2024 total fully imputed dividends divided by the closing share price as at 23 August 2024 of \$1.12.

¹⁴ FY2023 total fully imputed dividends divided by the closing share price as at 25 August 2023 of \$1.72.

¹⁵ That is, the strike price under the DRP will be 98.0% of the volume weighted average sale price of Heartland shares over the five trading days following the Record Date. For the full details of the DRP and the Strike Price calculation, refer to the Heartland DRP offer document dated 10 December 2018.

FY2024 Results Investor Presentation

For the year ended 30 June 2024

HEARTLAND
— GROUP —



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01 | Highlights

Jeff Greenslade

Chief Executive Officer

Heartland Group

Solid FY2024 result sets foundation for continued growth

Solid result achieved in a challenging economic environment

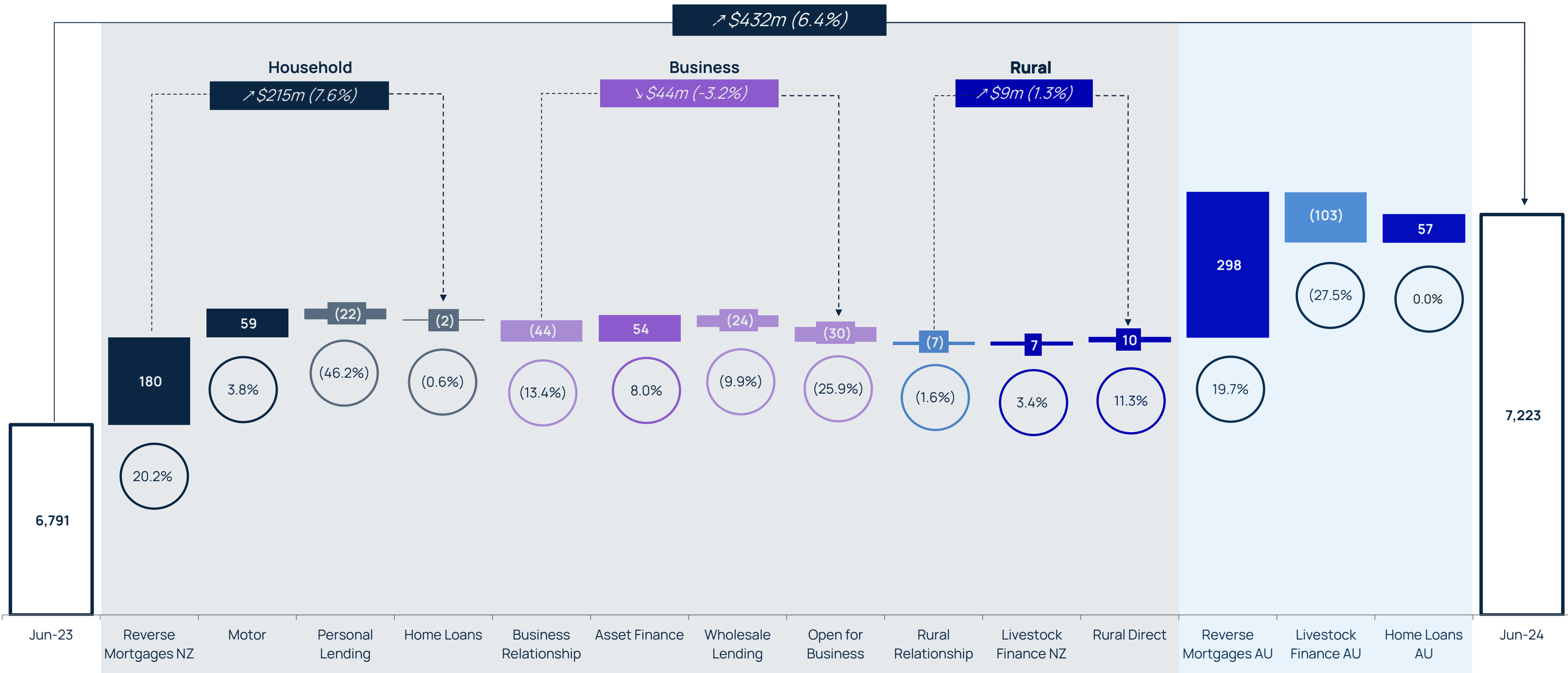
- **Growth in Receivables up 6.4%¹ on FY2023.**
 - Reverse Mortgages up **20.2%** in New Zealand and **19.7%¹** in Australia.
 - Asset Finance up **8.0%** in a market with difficult trading conditions.
 - Motor Finance up **3.8%** in a market where total new and used car sales by dealers were down by **12.7%.²**
- One-off or non-cash technical items had a \$28.2m impact on NPAT.
- The 4.9% shortfall to guidance was largely due to the late increase of \$10.1m of provisions (without which Heartland would have seen a result within guidance).

Significant strategic milestones set foundation to achieve growth ambitions

- **Completed Challenger Bank acquisition** and subsequently rebranded the ADI to Heartland Bank Australia.
- **Raised \$210m in April 2024 equity raise** to fund the acquisition, with strong investor support.
- **Pre-acquisition deposit raising** accelerated Heartland Bank Australia's cost of funds reduction strategy.
- **Completed Heartland Bank's core banking system upgrade**, accelerating digitalisation in New Zealand.

Growth achieved in a challenging economic environment

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Note: The graph shows FY2024 growth in Receivables by portfolio excluding the impact of changes in FX rates. All figures in NZ\$m.

02 | Financial results

Andrew Dixon
Chief Financial Officer
Heartland Group

Group financial results

		Reported					Underlying				
		FY2024	FY2023	Movement		FY2024	FY2023	Movement			
Financial performance	NII	\$277.6m	\$282.0m	↓	(\$4.3m)	(1.5%)	\$277.8m	\$283.9m	↓	(\$6.1m)	(2.1%)
	OOI ¹	\$12.7m	\$3.3m	↑	\$9.4m	282.0%	\$20.2m	\$16.9m	↑	\$3.4m	19.9%
	NOI	\$290.4m	\$285.3m	↑	\$5.0m	1.8%	\$298.0m	\$300.7m	↓	(\$2.7m)	(0.9%)
	OPEX	\$139.4m	\$128.1m	↑	\$11.3m	8.8%	\$124.9m	\$126.2m	↓	(\$1.3m)	(1.0%)
	Impairment Expense	\$46.4m	\$23.2m	↑	\$23.2m	99.7%	\$30.4m	\$23.2m	↑	\$7.2m	30.9%
	Tax Expense	\$30.0m	\$38.1m	↓	(\$8.1m)	(21.3%)	\$39.9m	\$41.1m	↓	\$1.1m	2.8%
	NPAT ²	\$74.5m	\$95.9m	↓	(\$21.3m)	(22.2%)	\$102.7m	\$110.2m	↓	(\$7.4m)	(6.7%)
	NIM	3.39%	3.97%	↓	(58 bps)		3.64%	4.00%	↓	(36 bps)	
	CTI	48.0%	44.9%	↑	311 bps		41.9%	42.0%	↓	(6 bps)	
	Impairment Expense Ratio ³	0.66%	0.36%	↑	30 bps		0.44%	0.36%	↑	8 bps	
	ROE	6.6%	10.4%	↓	(385 bps)		9.8%	11.9%	↓	(207 bps)	
	EPS	9.8 cps	14.0 cps	↓	(4.2 cps)		13.5 cps	16.0 cps	↓	(2.5 cps)	
Financial position	Liquid Assets	\$1,708m	\$627m	↑	\$1,082m	172.6%					
	Receivables ⁴	\$7,241m	\$6,791m	↑	\$432m ⁵	6.4% ⁵					
	Borrowings	\$7,994m	\$6,627m	↑	\$1,366m	20.6%					
	Equity	\$1,238m	\$1,031m	↑	\$207m	20.1%					
	Equity/Total Assets	13.3%	13.3%	↑	3 bps						

Reported vs underlying

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	FY2024	FY2023
Reported NPAT	\$74.5m	\$95.9m
- De-designation of derivatives	\$4.7m	\$6.5m
- Fair value changes on equity investments held	\$0.3m	\$4.5m
- Bridging loan	n/a	\$1.3m
- ABP transaction costs	\$7.7m	\$2.2m
- Other provisions	n/a	(\$0.5m)
- Other	\$0.6m	\$0.2m
Adjusted NPAT¹	\$87.9m	n/a
- Provisions for a subset of legacy lending	\$11.5m	n/a
- Challenger Bank NPAT	\$3.3m	n/a
Underlying NPAT¹	\$102.7m	\$110.2m
Underlying NPAT guidance range	\$108-112m	\$109-114m

FY2024 one-offs and non-cash technical items included in the reported result (pre-tax)

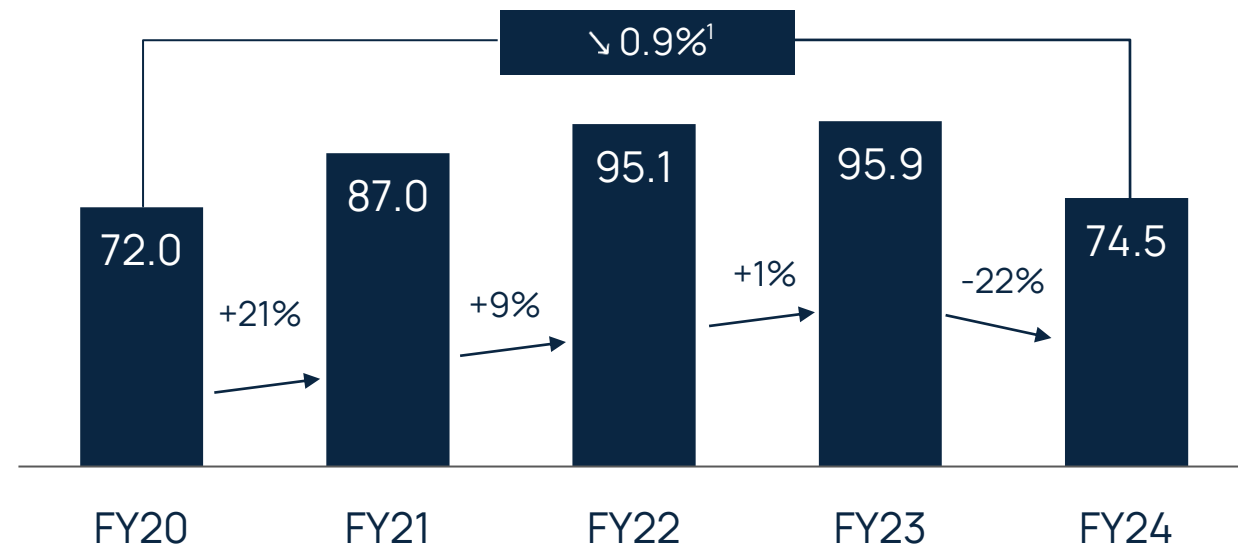
- **De-designation of derivatives:** a \$6.6m loss was recognised in relation to derivatives that were de-designated from prior hedge accounting relationships in FY2022.
- **Fair value changes on equity investments held:** a \$0.5m fair value gain was recognised on investment in Harmony shares and a \$0.8m fair value loss was recognised on investment properties.
- **ABP costs:** \$6.1m of transaction costs in relation to acquiring an ADI in Australia and \$3.7m of other costs related to integration of the ADI into Heartland. In addition, \$10.7m of costs directly attributable to applying to become an ADI have been capitalised as an intangible asset in FY2024.
- **Provisions for a subset of legacy lending:** a \$16.0m increase in provisions to respond to issues affecting a subset of legacy lending.
- **Other non-recurring expenses and other provisions:** \$0.7m of one-off staff expenses, \$0.5m of one-off legal and professional fees, and (\$0.3m) of other provision.

FY2023 one-offs and non-cash technical items included in the reported result (pre-tax)

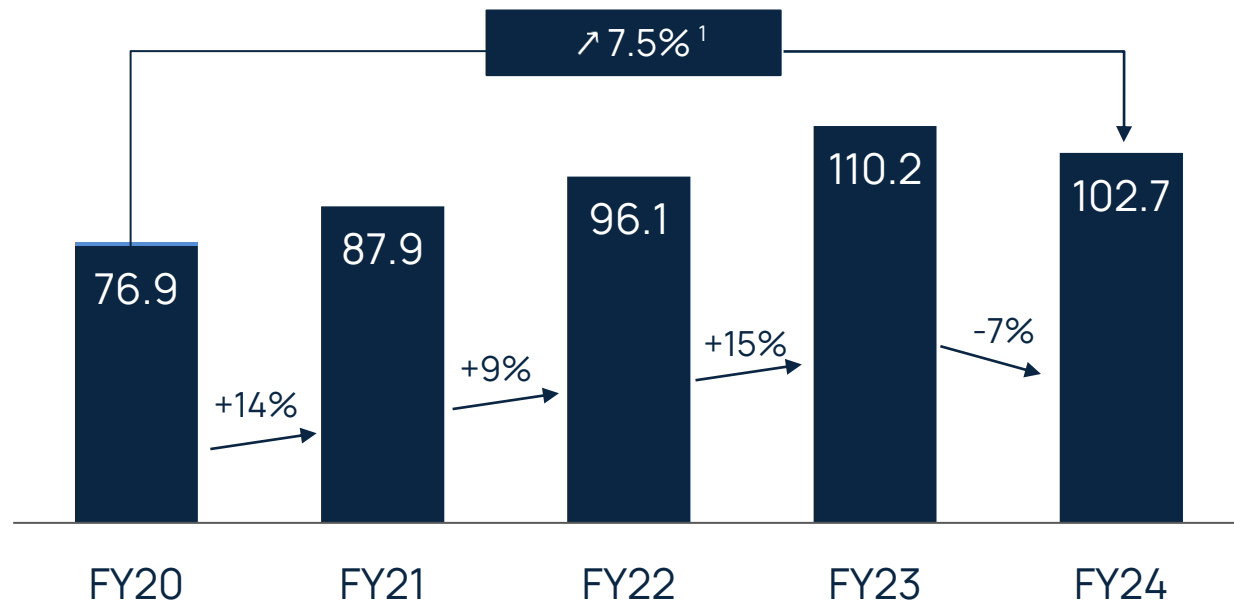
- **De-designation of derivatives:** a \$9.1m loss was recognised in relation to derivatives that were de-designated from prior hedge accounting relationships in FY2022.
- **Fair value changes on equity investments held:** a \$4.5m fair value loss was recognised on investment in Harmony shares.
- **Bridging loan:** a \$1.9m interest expense was recognised for a \$174m (A\$158m) bridging loan taken by Heartland to acquire StockCo Australia, which was fully repaid in September 2022.
- **ABP transaction costs:** \$2.2m of transaction and other costs in relation to becoming an ADI in Australia. In addition, \$6.4m of costs directly attributable to applying to become an ADI have been capitalised as an intangible asset.
- **Other provisions:** \$0.7m of unwarranted legacy provisions were released.
- **Other non-recurring expenses:** \$0.3m.

Profitability

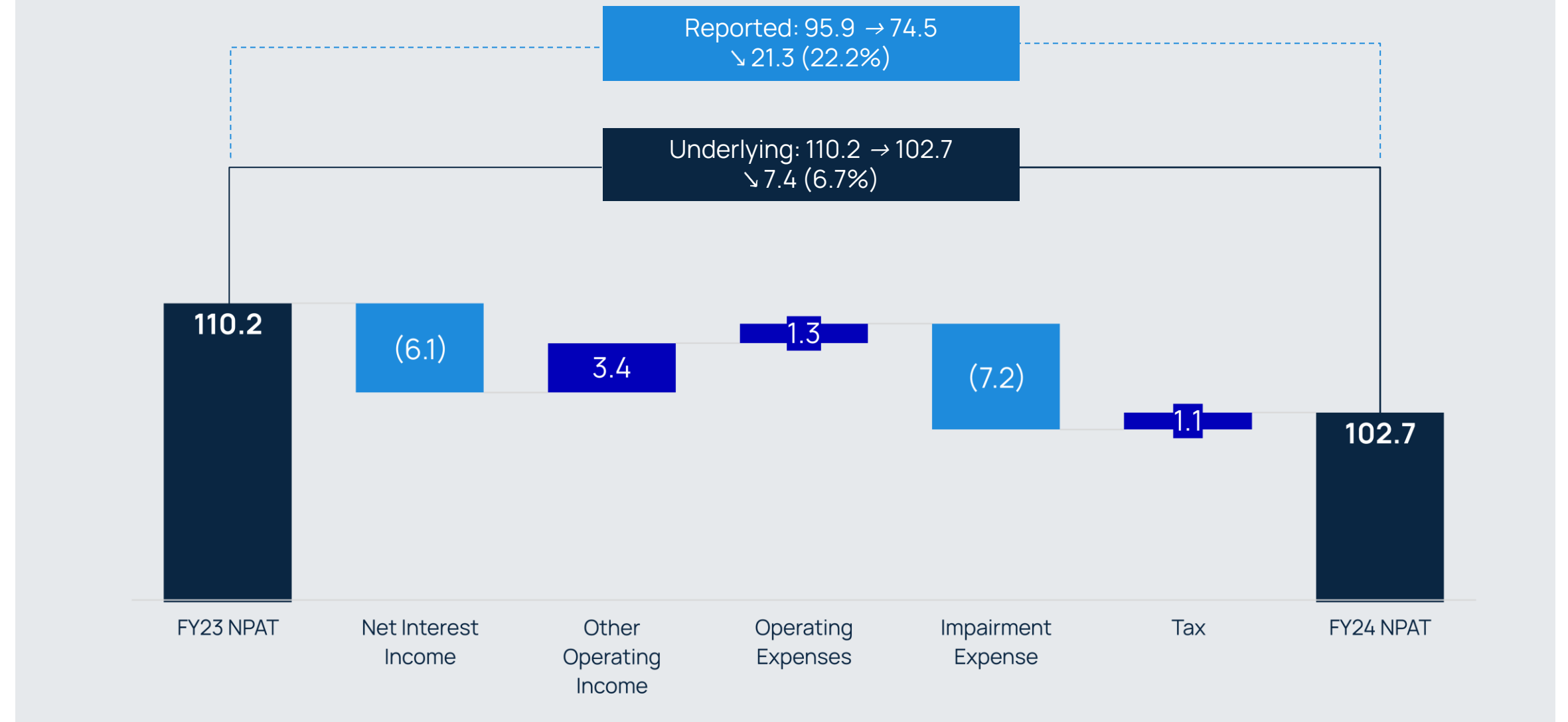
NPAT (\$ million)



Underlying NPAT (\$ million)



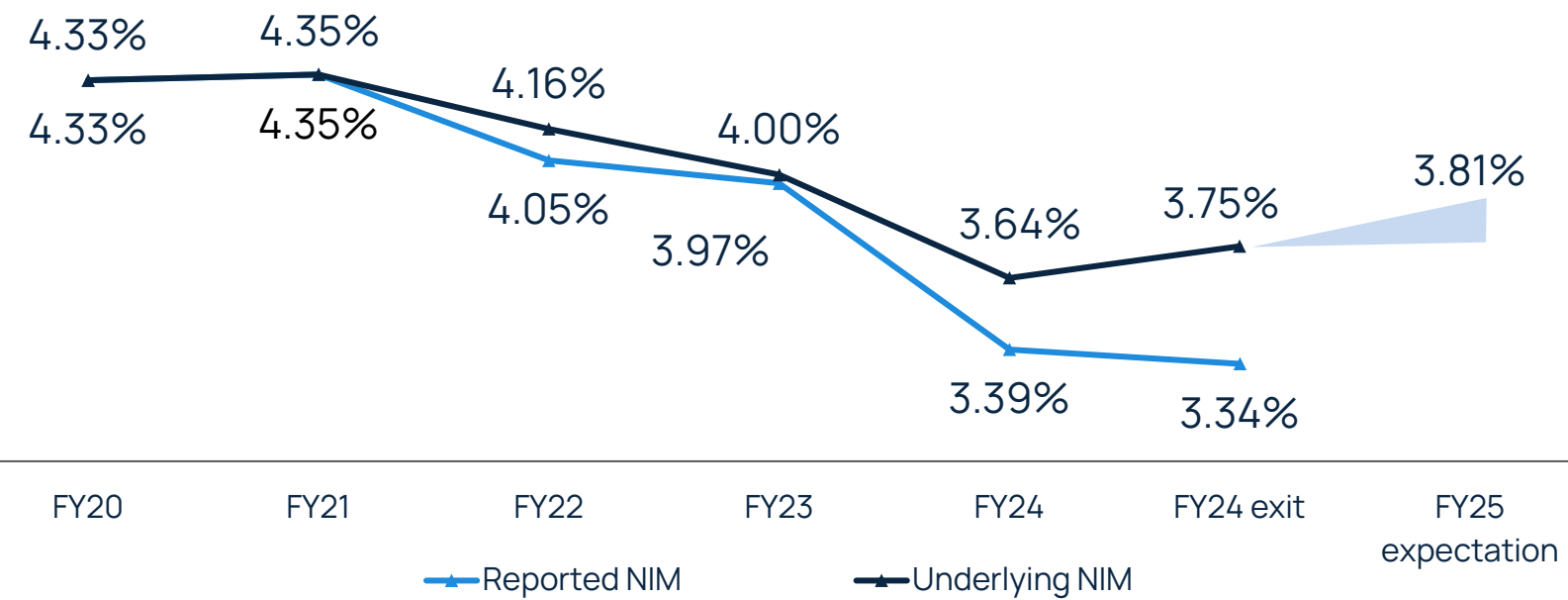
Heartland Group



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Net interest margin

NIM



Underlying NIM	FY2023	FY2024	FY2024 exit	FY2025 expectation
Heartland Bank	4.11%	3.79%	3.92%	4.00%
Heartland Bank Australia ¹	3.62%	3.17%	3.19%	3.40%

Underlying NIM expansion expected in FY2025

NZ Banking

- Underlying NIM forecast to rise above 4% by Q3, driven by:
 - continued Underlying NIM improvement in fixed rate portfolios, primarily Motor Finance and Asset Finance
 - a focus on core lending growth combined with active management of Non-Strategic Assets
 - cost of funds benefits from a reducing rate environment.

AU Banking

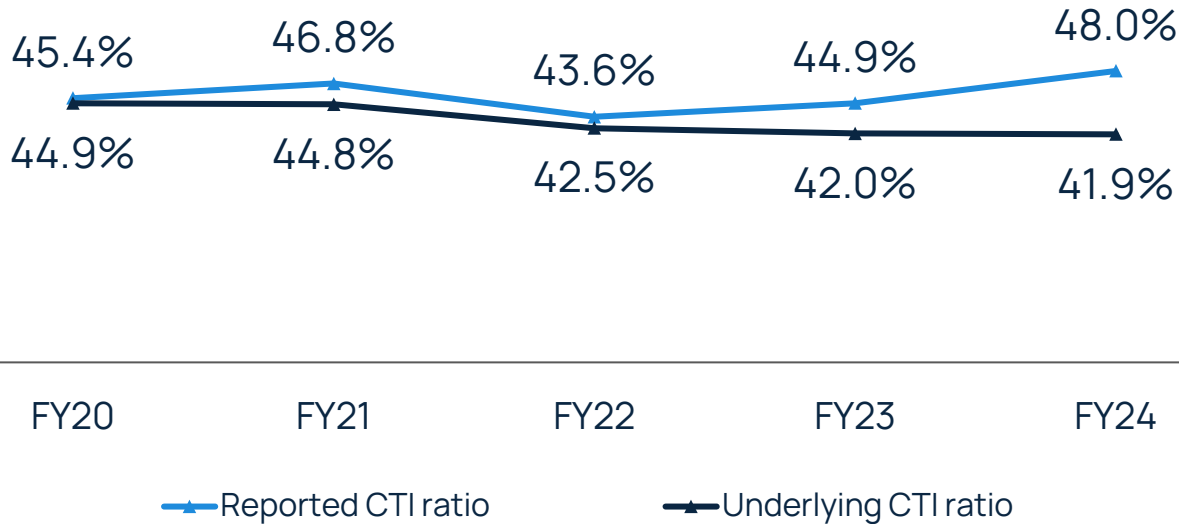
- Underlying NIM forecast to rise above 3.40% for FY2025. An exit underlying NIM above 4% is projected as:
 - current excess liquidity in Heartland Bank Australia is consumed
 - the transition from wholesale to retail funding largely concludes
 - growth in Australian Livestock Finance is expected to return due to favourable market conditions and the execution of product and distribution initiatives.

Note: NIM is calculated as net interest income/average gross interest earning assets. See pages 35 for definition of underlying financial metrics. Refer to page 7 for a detailed reconciliation between reported and underlying financial information and page 8 for details about one-offs in the periods covered in this investor presentation.

¹Heartland Bank acquired Challenger Bank (now Heartland Bank Australia) on 30 April 2024. Prior to that, Heartland's Australian businesses operated as Heartland Australia Group, which did not have an ADI licence or access to deposit funding in Australia.

Costs

CTI ratio



Underlying CTI ratio	FY2023	FY2024	FY2025 expectation
Heartland Bank	42.9%	43.2%	45.2%
Heartland Bank Australia ¹	45.8%	48.4%	45.4%

Committed to underlying CTI ratio of < 35% by FY2028

FY2025 to set foundation for underlying CTI ratio improvement in FY2026 and onwards

- Heartland’s underlying CTI ratio is expected to increase in FY2025 as the full cost base of the ADI is absorbed, and Heartland Bank’s core banking system upgrade commences amortisation.
- Heartland Bank Australia’s underlying CTI ratio is expected to reduce significantly in FY2025 as it completes its transition from wholesale to predominantly retail deposit funding.

Heartland remains committed to its ambition of an underlying CTI ratio of less than 35% by the end of FY2028

Several initiatives are underway to achieve this, including:

- a strategy to transition from wholesale to retail funding, particularly in Australia
- realising cost savings through digitalisation and automation
- creating structural efficiencies in New Zealand and Australia as the banking group matures to build the capacity for growth.

Note: CTI ratio is calculated as OPEX/NOI. Underlying CTI ratio excludes one-off impacts. See page 35 for definition of underlying financial metrics. Refer to page 7 for a detailed reconciliation between reported and underlying financial information and page 8 for details about one-offs in the periods covered in this investor presentation.

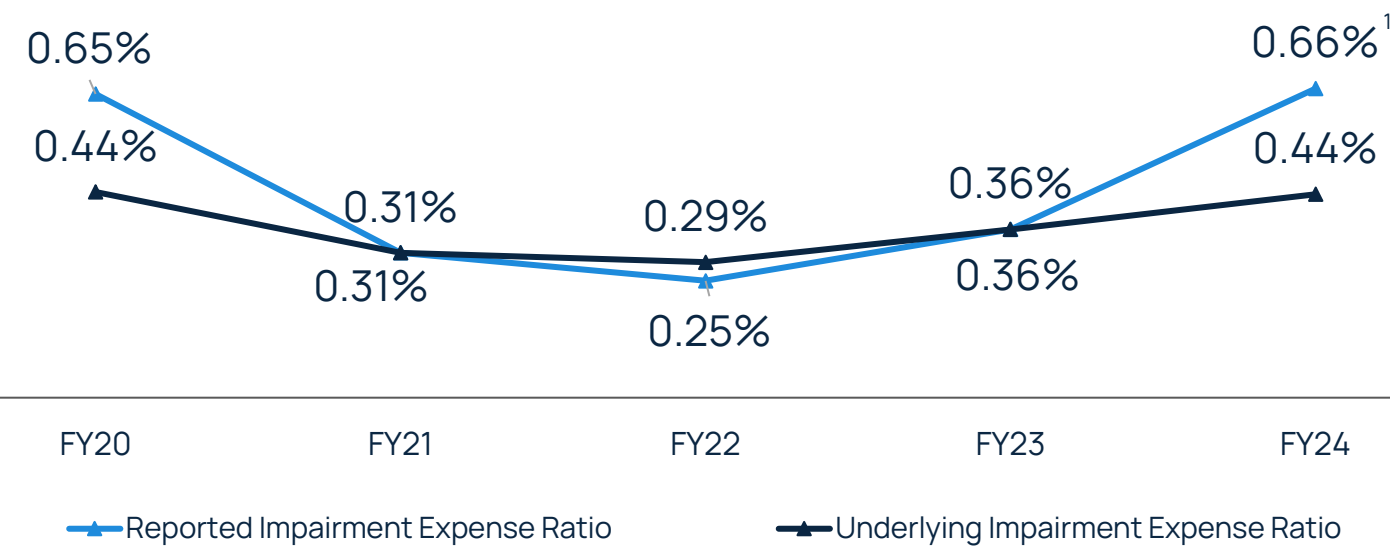
¹ Heartland Bank acquired Challenger Bank (now Heartland Bank Australia) on 30 April 2024. Prior to that, Heartland’s Australian businesses operated as Heartland Australia Group, which did not have an ADI licence or access to deposit funding in Australia.

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Impairments

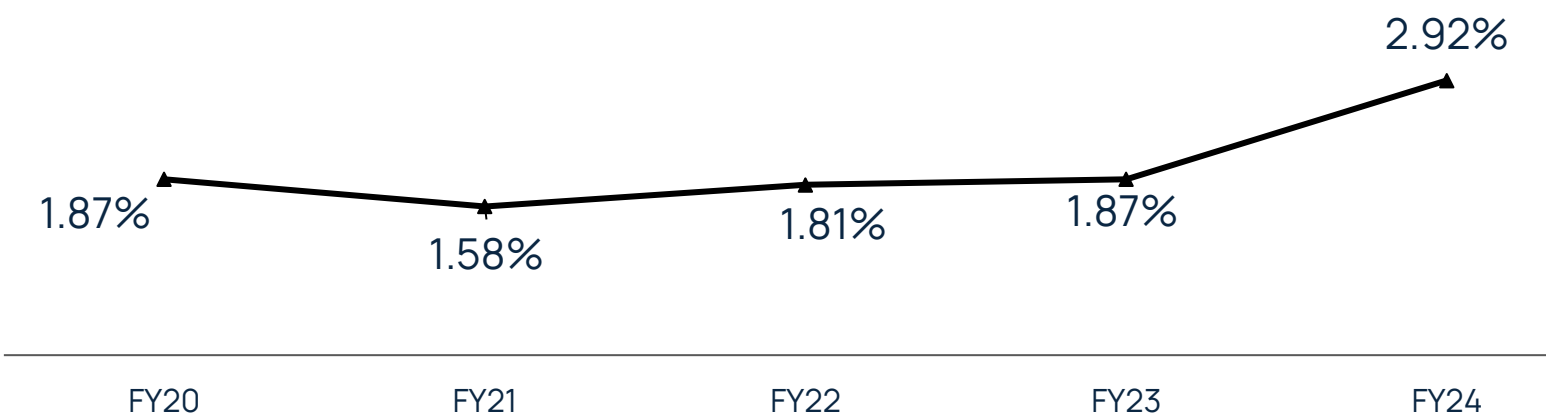
Impairment expense ratio

- Impairments are at elevated levels but not outside an expected band based on the economic environment.
- Heartland expects impairments to remain elevated in the short term.



Underlying impairment expense ratio	FY2023	FY2024
Heartland Bank	0.49%	0.60%
Heartland Bank Australia ²	0.02%	0.03%

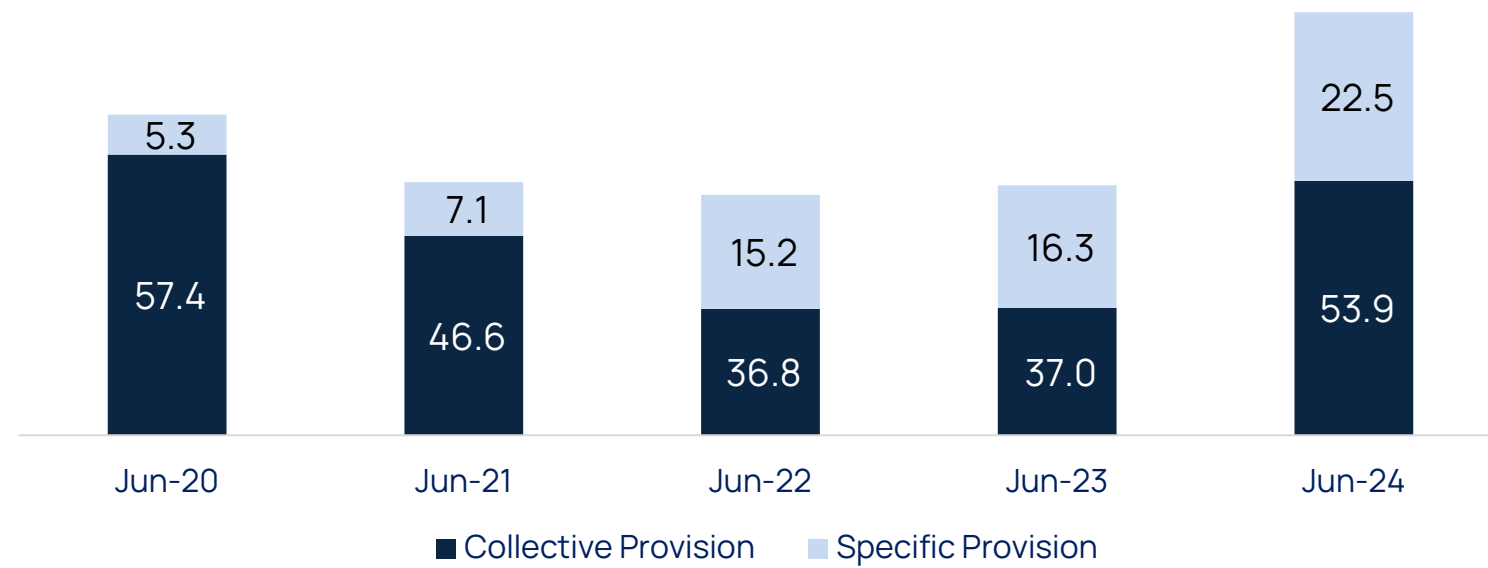
Non-performing loans ratio



Non-performing loans ratio	FY2023	FY2024
Heartland Bank	2.56%	3.66%
Heartland Bank Australia ²	0.0%	1.17%

Provisions

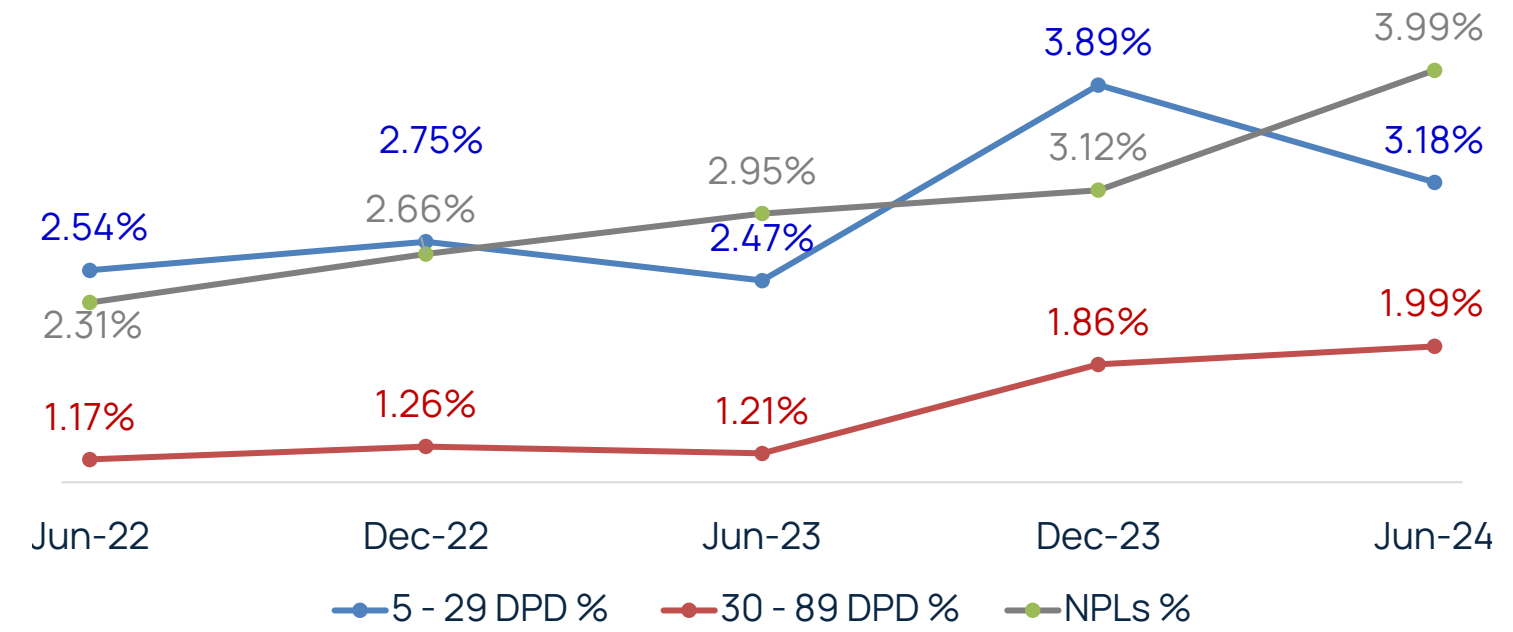
Total provisions



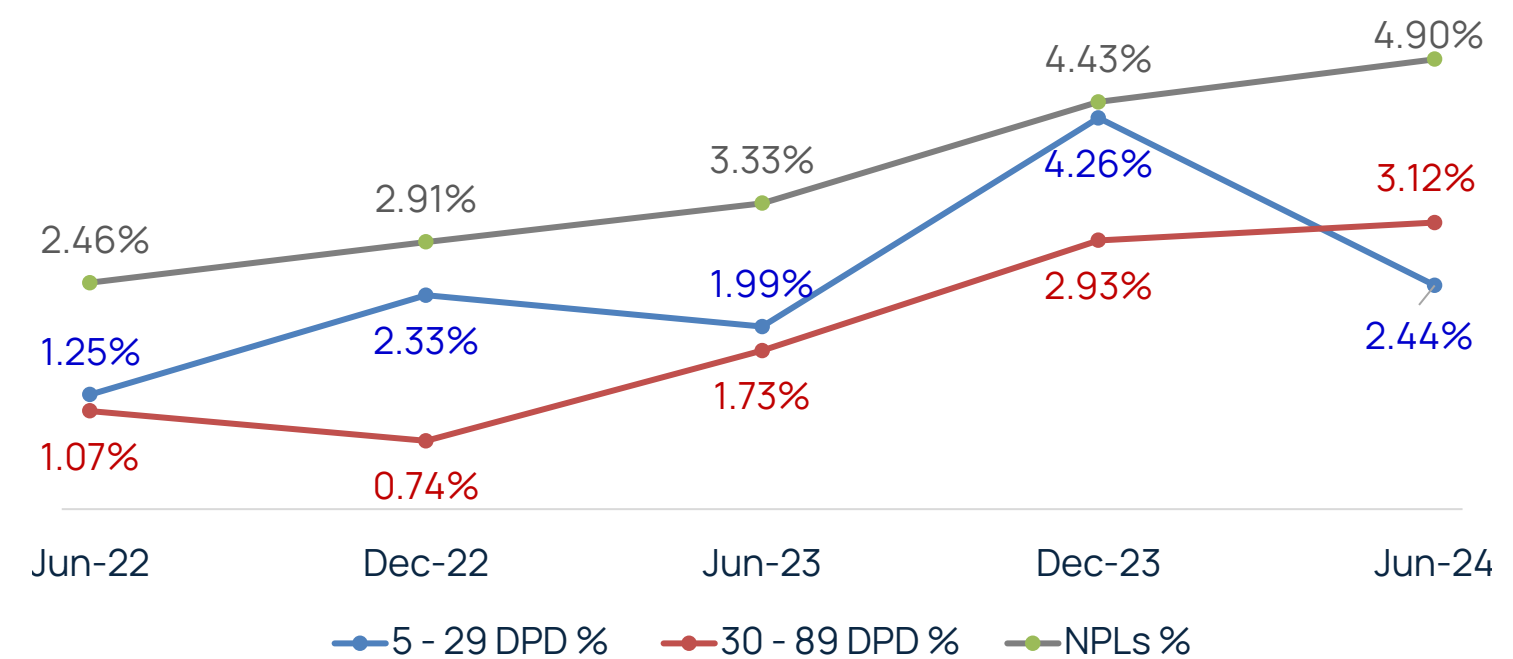
FY2024 increase in provisions includes:

- \$16m raised in December 2023 for a subset of legacy lending and longer standing Motor Finance loans
- \$10.1m increase in specific and collective provisions as a result of the impact of the significant deterioration in domestic economic conditions during May and June 2024, made up of:
 - \$7.3m increase in specific provisions across Asset Finance and Rural
 - \$2.8m increase in collective provisions primarily across Motor Finance and O4B.

Motor Finance arrears



Asset Finance arrears



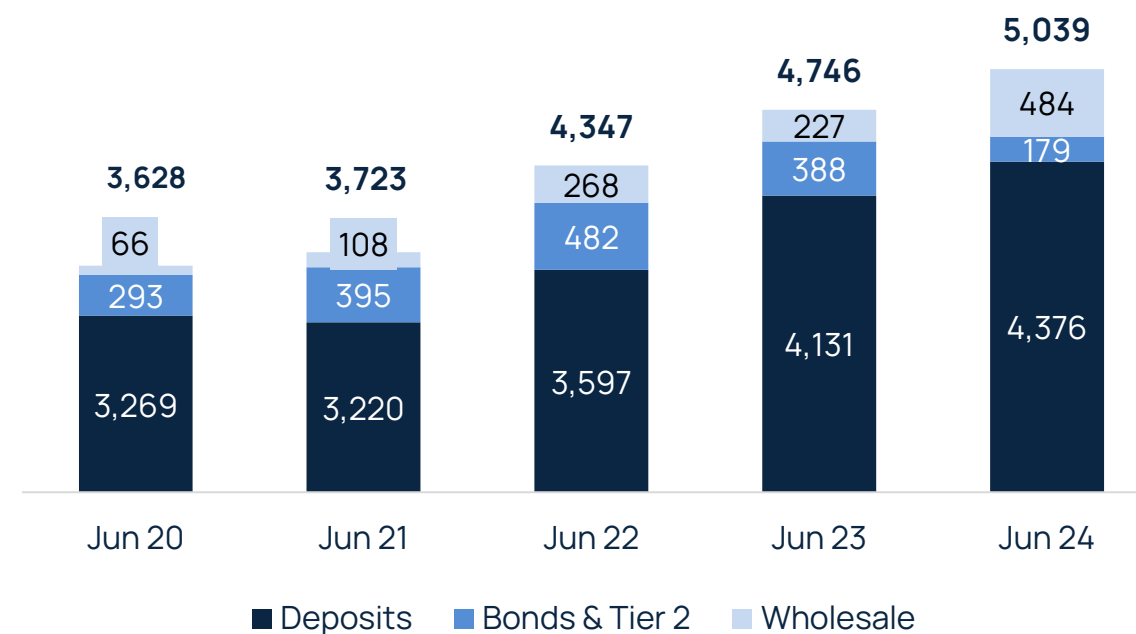
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NZ funding & liquidity

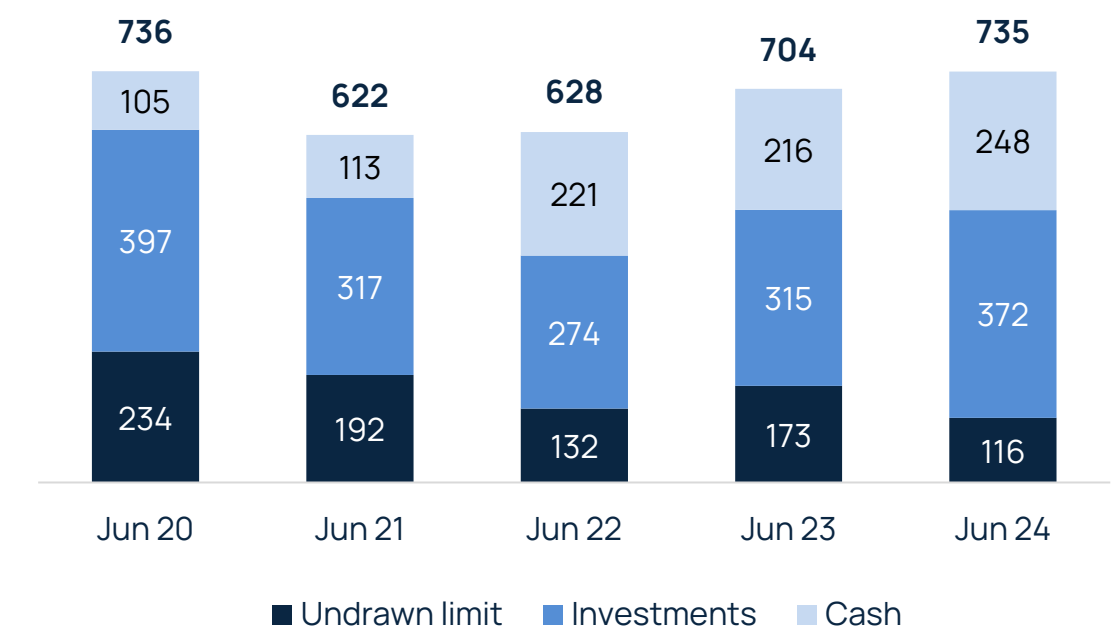
Solid retail deposit growth

- Heartland Bank achieved retail deposit growth of 5.9% compared to market growth of 5.8% in challenging market conditions.¹
- Market competition resulted in a higher cost of funds particularly as depositors favoured term deposits given the interest rate environment. This resulted in the call:term deposit funding ratio reducing to 32% (from 36% in FY2023).
- Awarded in July 2024, Heartland Bank received Canstar NZ's Savings Bank of the Year Award for the seventh consecutive year, and Outstanding Value Awards for its Direct Call Account, 32 Day Notice Saver and 90 Day Notice Saver.
- Heartland Bank continues to hold liquidity significantly above its regulatory minimums and maintains good access to committed facilities.
- Looking forward, Heartland Bank expects a lower costs of funds as interest rates fall and it reduces exposure to wholesale funding with a focus on growing call funding.

Heartland Bank
Funding Composition² \$m



Heartland Bank
Liquidity Composition \$m

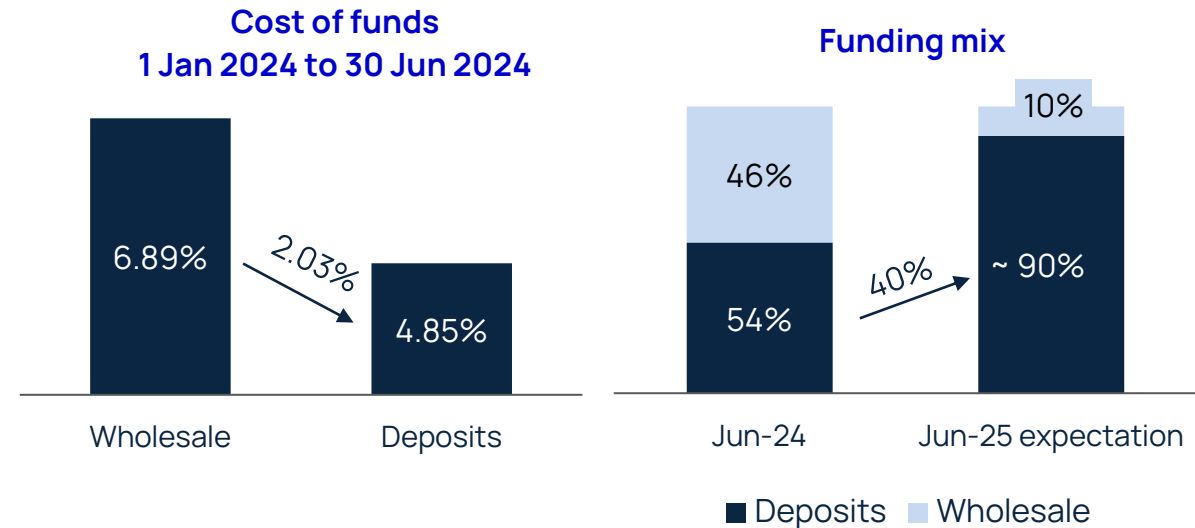


AU funding & liquidity

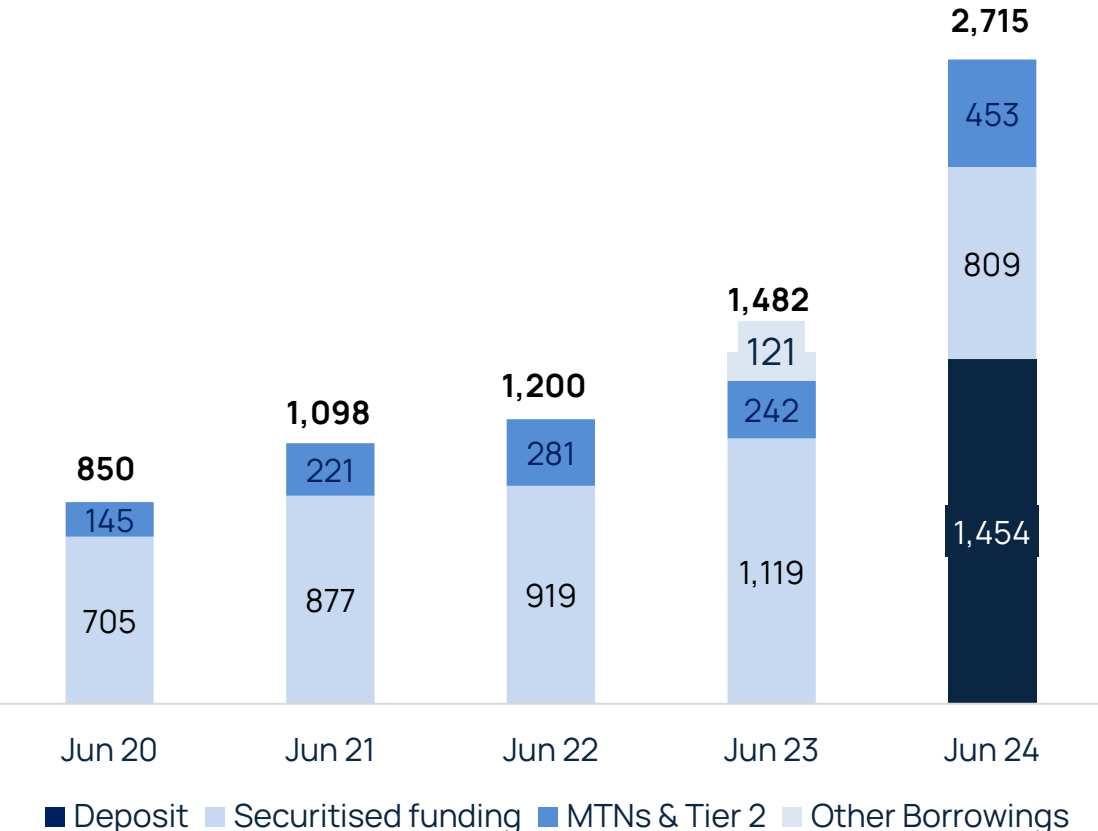
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Funding mix expected to be ~90% retail deposits by the end of FY2025

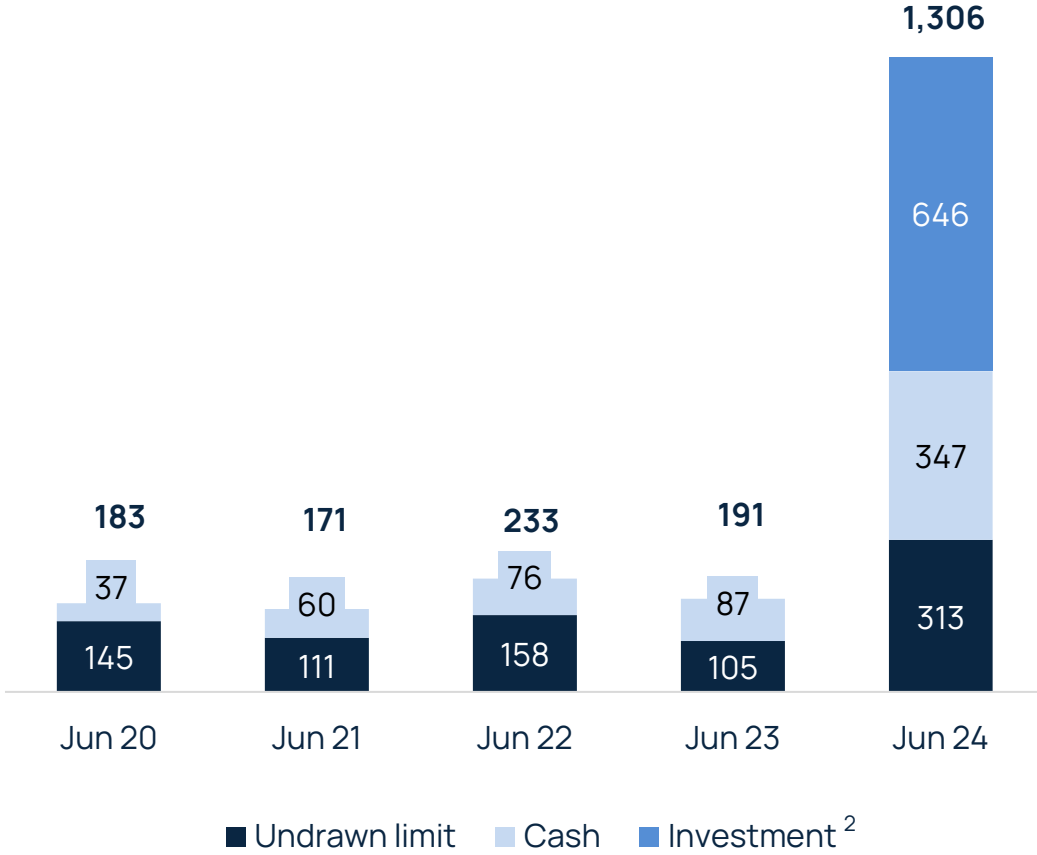
- Funding transition was accelerated by Challenger Bank’s pre-completion deposit raising programme which enabled full repayment of CBA Reverse Mortgage facility prior to completion.
- From 1 January 2024 to 30 June 2024, the ADI achieved deposit growth of A\$1,147m at a weighted average rate of 4.85%, 2.03% lower than Heartland Australia’s cost of funds across the same period.
- Completed an inaugural A\$50m Tier 2 Subordinated Note transaction in June 2024.



Heartland Bank Australia Funding Composition¹ A\$m



Heartland Bank Australia Liquidity Composition¹ A\$m



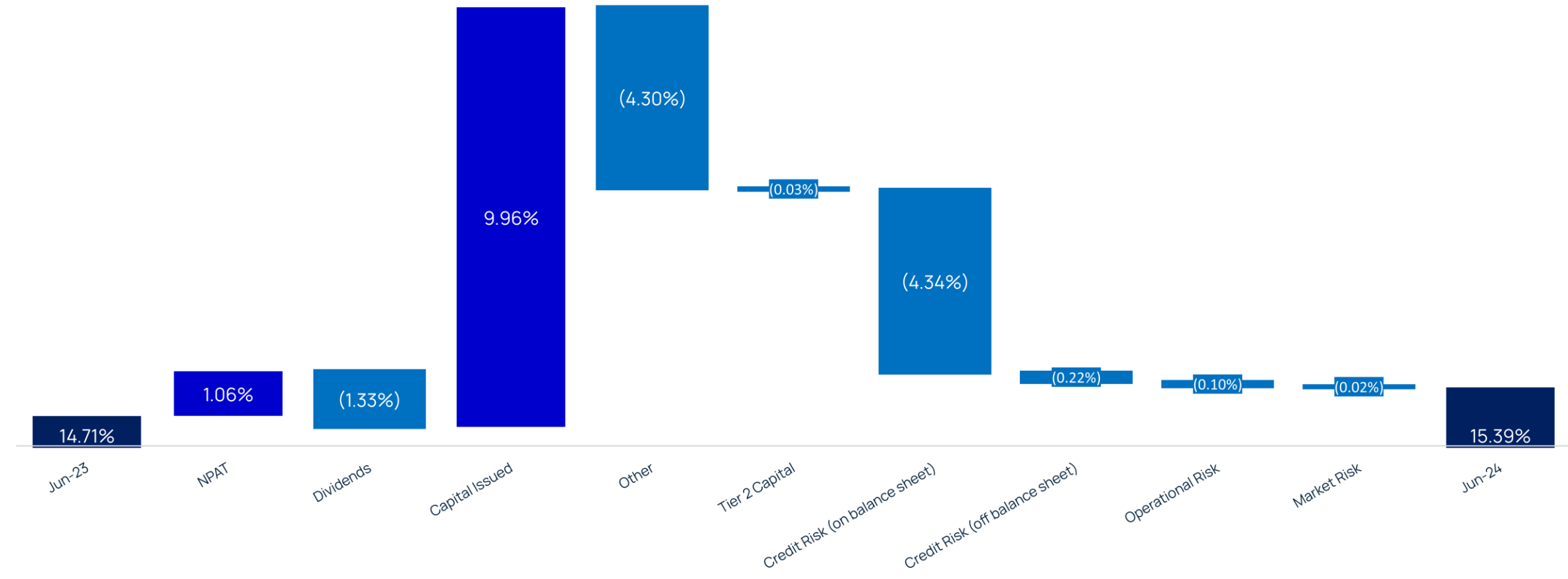
Note: Heartland Bank acquired Challenger Bank (now Heartland Bank Australia) on 30 April 2024. Prior to that, Heartland’s Australian businesses operated as Heartland Australia Group, which did not have an ADI licence or access to deposit funding in Australia.
¹Prior to 30 April 2024, Heartland did not have an ADI license or deposit funding in Australia. ²Predominantly Australian Government Securities.

Capital

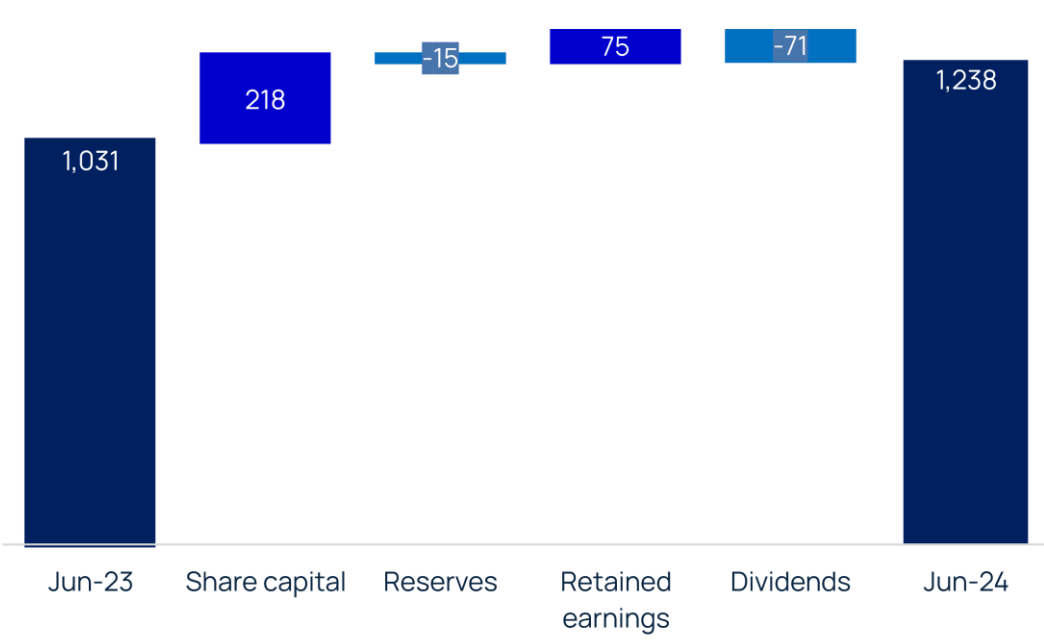
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	Banking Group	NZBG	HBA Level One	HBA Level Two
Equity	\$1,196m	\$1,200m	A\$399m	A\$395m
Deductions	\$(304m)	\$(584m)	A\$(273m)	A\$(149m)
CET1 Capital	\$892m	\$616m	A\$126m	A\$246m
Tier Two Capital	\$98m	\$100m	A\$50m	A\$50m
Total Regulatory Capital	\$990m	\$716m	A\$176m	A\$296m
Total Risk Weight Assets	\$6,436	\$4,973	A\$625m	A\$1,479m
Total Capital Ratio	15.39%	14.40%	28.11%	20.03%

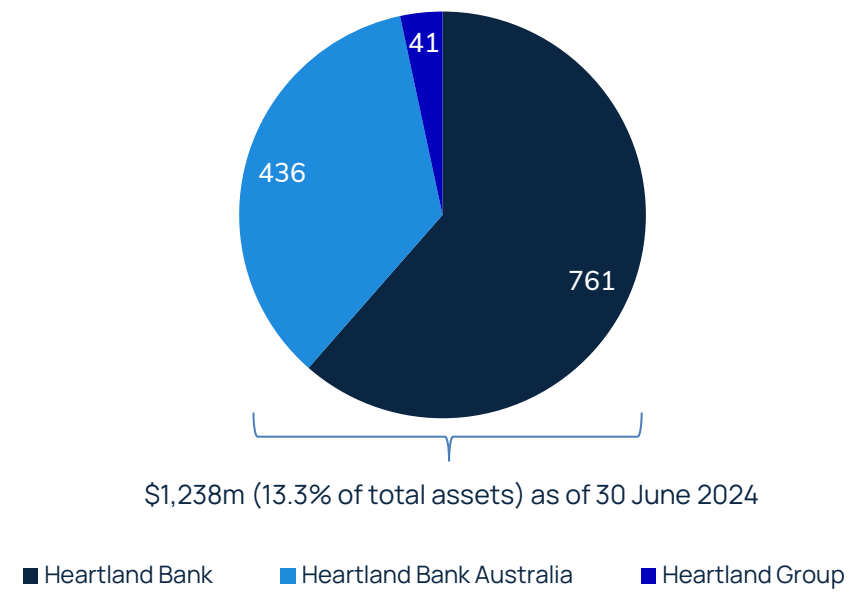
HBL Banking Group Total Capital Ratio



Heartland Capital Movement \$m



Heartland Capital Allocation \$m

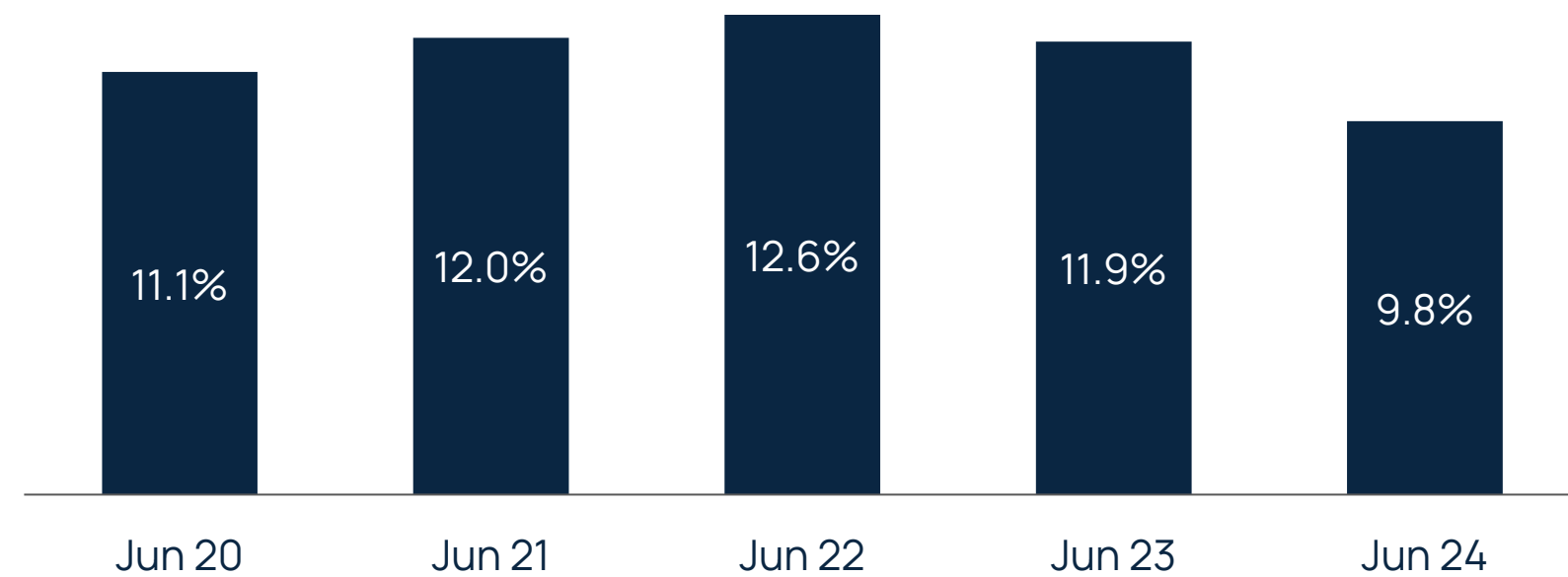


Shareholder return

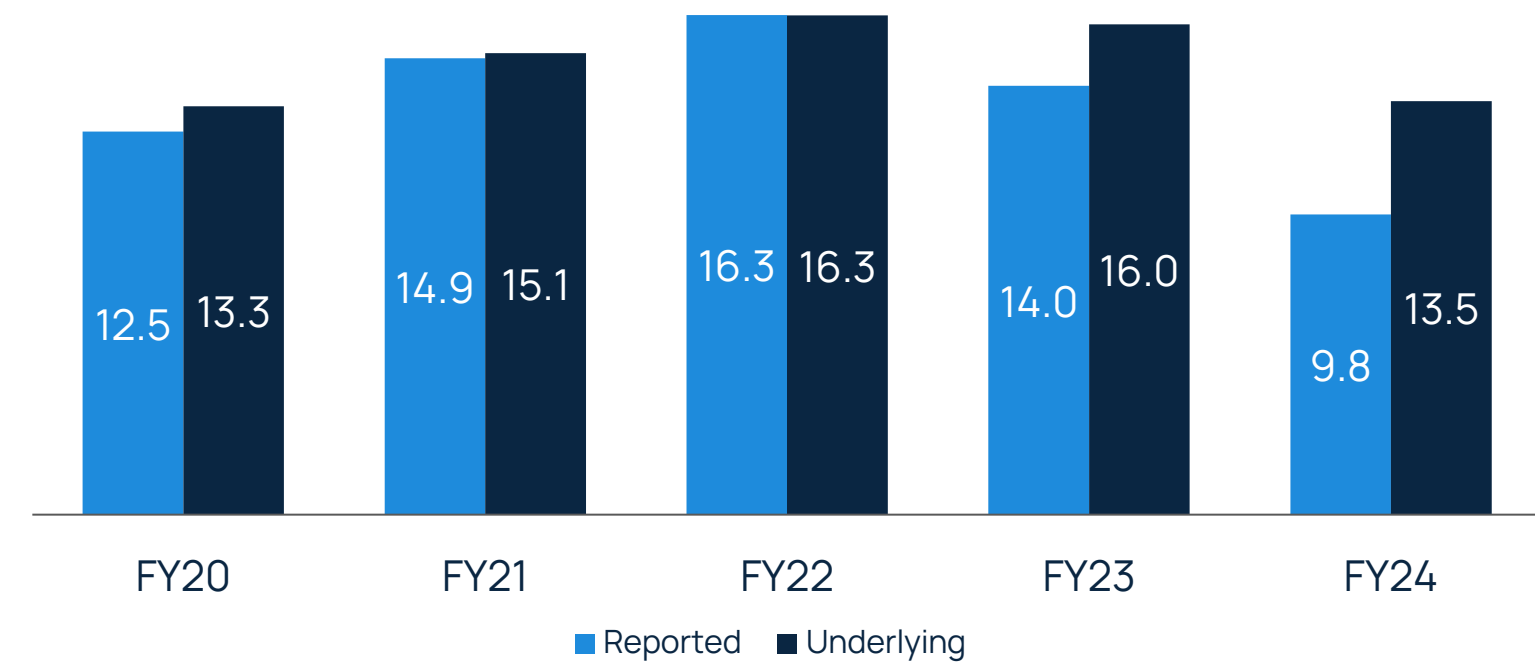
- Final dividend of 3.0 cps, down 3.0 cps on FY2023.
- Dividend yield of 8.7%¹ (FY2023: 9.3%²).
- The total dividend payout ratio for FY2024 of 55% of underlying NPAT takes into consideration the recent \$210m equity raise, acquisition of Challenger Bank (now Heartland Bank Australia) and associated growth opportunities.
- Heartland's DRP will apply to the final dividend with a 2.0% discount.³

- Having regard to Heartland's next stage of growth, the Board expects to target a total dividend payout ratio of at least 50% of underlying NPAT in FY2025. The Board will, as it has historically, actively manage dividend settings and carefully consider the declaration of any dividends based on Heartland's capital needs, ROE accretive growth opportunities, balance sheet flexibility and financial performance.

Underlying ROE⁴



EPS (cps)



FY2028 growth ambitions

FY2028 ambitions are driven by modest Receivables growth, NIM expansion, cost savings from automation, and an improvement in impairments.

Financial metric	FY2024	FY2028 ambition	Commentary
Receivables	\$7.2b	> 10% CAGR p.a.	<ul style="list-style-type: none"> Assumes modest Receivables growth below Heartland's track record of 11.8% over the last 4 years.¹ Organic growth in existing Australia and New Zealand portfolios which are aligned with Heartland's strategic ambitions. Increased competitiveness in Australian Reverse Mortgages and Livestock Finance through utilisation of bank cost of funds. Further upside from launch of Motor Finance and Asset Finance in Australia if it is ROE accretive.²
Underlying NIM ³	3.64%	> 4%	<ul style="list-style-type: none"> Continued shift of asset mix towards higher quality portfolios and focus on recycling capital related to Non-Strategic Assets. Transition of Australian funding base from 100% wholesale to a retail/wholesale funding mix to drive a reduction in the cost of funds in the Australian business through cheaper retail deposit costs relative to wholesale.
Underlying CTI ratio ³	41.9%	< 35%	<ul style="list-style-type: none"> Investing in digitalisation and automation in New Zealand with a focus on Heartland Bank's Collections & Recoveries area to improve internal workflows and reduce manual effort. Motor digitalisation through branded online origination platforms for Motor Finance dealer partners in New Zealand. Flow-on benefit of improved revenue margins.
Underlying impairment expense ratio ³	0.44%	< 0.30%	<ul style="list-style-type: none"> Heartland's long term underlying impairment expense has been 0.37%.⁴ FY2028 ambition of < 0.30% underlying impairment expense ratio through the cycle reflects portfolio mix transitioning towards higher quality assets (i.e. Reverse Mortgages and Livestock Finance).

\$200m+
FY2028 underlying NPAT³ ambition

12%-14%
FY2028 underlying ROE³ ambition

The ratios and growth rates provided for the financial metrics underlying the FY2028 ambitions are not targets. They represent an indication of how the financial metrics may work in combination to achieve the FY2028 underlying NPAT and ROE ambitions. The FY2028 ambitions and underlying key metrics assumes current growth in Receivables being maintained and no material deterioration in the economic environment.

03 | Australian banking

Michelle Winzer

Chief Executive Officer

Heartland Bank Australia

AU FY2025 focus

Heartland Bank Australia is well positioned for sustainable growth beyond FY2025 through its focus on business growth, operational efficiency, service excellence and risk management.

Business growth

Continue to focus on expansion within existing specialist lending portfolios: Reverse Mortgages and Livestock Finance.

- Leverage the strong ongoing demographic demand for Reverse Mortgages, providing older Australians with a solution to remaining in their home as they age.
- Execute on Livestock Finance product development initiatives, including meeting demand within the growing feedlotting sector.
- Expand distribution networks and strengthen partnerships to increase product reach.

Operational efficiency

Increase the capacity to do more through operational efficiencies as the ADI continues to establish itself as Heartland Bank Australia.

- Create structural efficiencies by removing duplication and identifying process improvement as the cultures of the three previous AU businesses (Heartland Finance, StockCo Australia and Challenger Bank) come together.
- Transition from historic 100% wholesale to predominantly (~90%) retail funding – the benefits of which are expected to flow through to improvements in the underlying CTI ratio and underlying NIM.

Service excellence

Through a commitment to strategy execution and discipline, deliver service excellence for customers while progressing towards FY2028 ambitions.

- Execute on strategic initiatives towards FY2028 ambitions.
- Focus on cost optimisation and discipline to realise underlying CTI ratio expectations.
- Review end-to-end processes and identify opportunities to streamline and deliver faster time to service for customers.
- Invest in digitalisation and automation to improve service delivery, and ultimately lead to enhanced customer experience.

04 | New Zealand banking

Leanne Lazarus
Chief Executive Officer
Heartland Bank

NZ FY2025 focus

In New Zealand, Heartland Bank aims to expand its margin and reduce costs to deliver better returns. These key strategic priorities will drive a strong contribution to the Group's FY2028 ambitions.

Margin expansion

NIM expansion > 4%

- Growth in Reverse Mortgages and Motor Finance.
- Proactive management of fixed back book portfolios in Asset Finance and Motor Finance.
- Actively increase mix of retail funding focused on growth in call deposits.

Cost reduction

Reduce costs by \$5m

- Cost savings through digitalisation and automation (\$3.8m).
 - Digitalise 58% of basic banking functions to enable customers to self-serve.
 - Mobile app customer usage uplift to 60% and reduction of customer calls by 35%.
 - Automate 35% of processes.
 - Offer customers flexibility to self manage loan repayments for Motor Finance (from October 2024).
- Cost savings through structural and supplier efficiency with disciplined cost management (\$1.2m).

Simplification and better returns

Accelerate growth in strategic portfolios

- Simplify the business through identifying lending that no longer aligns to Heartland Bank's strategy.
- Develop focused strategies to separately manage Non-Strategic Assets, within an appropriate time frame.

Non-Strategic Assets

Non-Strategic Assets includes assets that earn little or no income or are returning less than Heartland's cost of capital.¹

- Non-Strategic Assets will be managed and reported separately in FY2025 to provide greater transparency and enable more focused resolution strategies to be adopted. This will enable underlying capital to be redeployed to support Heartland Bank's growth ambitions.
- Heartland intends to rationalise these assets over a responsible period of time.

Non-Strategic Assets	June 2024
Equity investments	\$13.5m
Investment properties	\$3.7m
Property	\$12.6m
Receivables ²	
- Business	\$74.4m
- Rural	\$113.7m
Total	\$217.8m

05 | Closing remarks

Jeff Greenslade

Chief Executive Officer

Heartland Group

Looking forward

Long-term outlook remains positive towards FY2028 ambitions

- Long-term outlook is positive as Heartland expects to realise benefits from the significant strategic milestones achieved in FY2024.
- In Australia, Heartland Bank Australia is well positioned for growth beyond FY2025.
- In New Zealand, Heartland Bank's FY2025 focus is on simplification and strategic core lending.

Volatility to continue through the remainder of CY2024

- In Heartland's view, this creates too much uncertainty at this stage for Heartland to provide an accurate underlying NPAT guidance range for FY2025.
- Heartland will revisit its ability to provide an underlying NPAT guidance range for FY2025 as the financial year progresses.

06 | Additional information



NZ Reverse Mortgage portfolio analytics

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<p>\$1.07b</p> <p>NZ Reverse Mortgages +\$179.6m (20.2%) vs June 2023</p>	<p>\$141,183</p> <p>Average loan size</p>	<p>77</p> <p>Average age of youngest borrower on a loan</p>	<p>17.5%</p> <p>CAGR FY2020-FY2024¹</p>
<p>9.1%</p> <p>Average origination LVR</p>	<p>23.5%</p> <p>Weighted average LVR</p>	<p>0.1%</p> <p>Proportion of the loan book over 75% LVR</p>	<p>2</p> <p>Number of loans in the book over 75% LVR</p>
<p>\$197m</p> <p>(+\$0.6m vs FY2023)</p> <p>FY2024 origination</p>	<p>\$113m</p> <p>(+\$16.2m vs FY2023)</p> <p>Total repayments in FY2024</p>	<p>12.7%</p> <p>(vs 13.4% in FY2023)</p> <p>FY2024 repayment rate</p>	<p>24.8%</p> <p>(vs 31.8% in FY2023)</p> <p>Repayments from vintage loans (+11 years)</p>

AU Reverse Mortgage portfolio analytics

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<p>A\$1.67b</p> <p>AU Reverse Mortgages +A\$276m (19.6%) vs June 2023</p>	<p>A\$188,756</p> <p>Average loan size</p>	<p>76</p> <p>Average age of youngest borrower on a loan</p>	<p>17.8%</p> <p>CAGR FY2020-FY2024¹</p>
<p>11.5%</p> <p>Average origination LVR</p>	<p>23.5%</p> <p>Weighted average LVR</p>	<p>0.0%</p> <p>Proportion of the loan book over 75% LVR</p>	<p>2</p> <p>Number of loans in the book over 75% LVR</p>
<p>A\$331m</p> <p>(+A\$1.4m vs FY2023)</p> <p>FY2024 origination</p>	<p>A\$200m</p> <p>(+A\$15.5m vs FY2023)</p> <p>Total repayments in FY2024</p>	<p>14.3%</p> <p>(vs 16.0% in FY2023)</p> <p>FY2024 repayment rate</p>	<p>13.8%</p> <p>(vs 16.1% in FY2023)</p> <p>Repayments from vintage loans (+11 years)</p>

Sustainability strategy

As part of the new Climate-Related Disclosures obligations introduced through the Financial Sector (Climate-Related Disclosures and Other Matters) Amendment Act 2021, Heartland's first climate statement is required as part of its full year reporting for FY2024. Heartland's first climate statement will be published on 30 September 2024, alongside its Annual Report. Further detail can be found within the accompanying FY2024 Heartland Bank Limited Disclosure Statement.

Heartland's climate commitment is part of its broader sustainability strategy which is built on three pillars: **environment**, **people** and **financial wellbeing**.

Environment

Support the just transition to a net-zero economy.

- Build the capability to appropriately take climate change risks into consideration when making lending decisions.
- Fund Heartland's borrowers' transition to a net-zero economy.
- Embed sustainability into what Heartland does.

People

Caring for Heartland's people, customers and communities.

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

Financial wellbeing

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

- Enhancing economic outcomes for customers through digitalisation.
- Ensuring customers can benefit from Heartland's digitalisation journey.
- Ensuring Heartland's values and commitments are shared by its suppliers.

More: heartlandgroup.info/sustainability

Regulatory update

With the completion of the acquisition of (now) Heartland Bank Australia, the Heartland group now includes an APRA-regulated ADI which is subject to prudential regulation in Australia.

In New Zealand, Heartland Bank has recently updated its processes for assessing consumer loans in response to the revocation of the prescriptive affordability requirements from the Credit Contracts and Consumer Finance Regulations 2004. The Government is continuing to assess, amongst other matters, the disclosure obligations and liability settings for directors and senior managers under the Credit Contracts and Consumer Finance Act 2003, which Heartland is closely monitoring.

On 20 August 2024, the Commerce Commission published its final report into competition in the personal banking sector. Heartland Bank welcomes the review and broader mandate to introduce more competition in personal banking and is supportive of the Commerce Commission's recommendations.

In mid-June 2024, the Finance Minister announced a joint Select Committee inquiry into banking competition with a focus on rural banking. Terms of reference have now been released with submissions due to the Select Committee on 25 September 2024.

The Depositor Compensation Scheme under the Deposit Takers Act 2023 (**Act**) is expected to commence mid-2025. Heartland Bank is continuing to contribute to industry consultations that are underway.

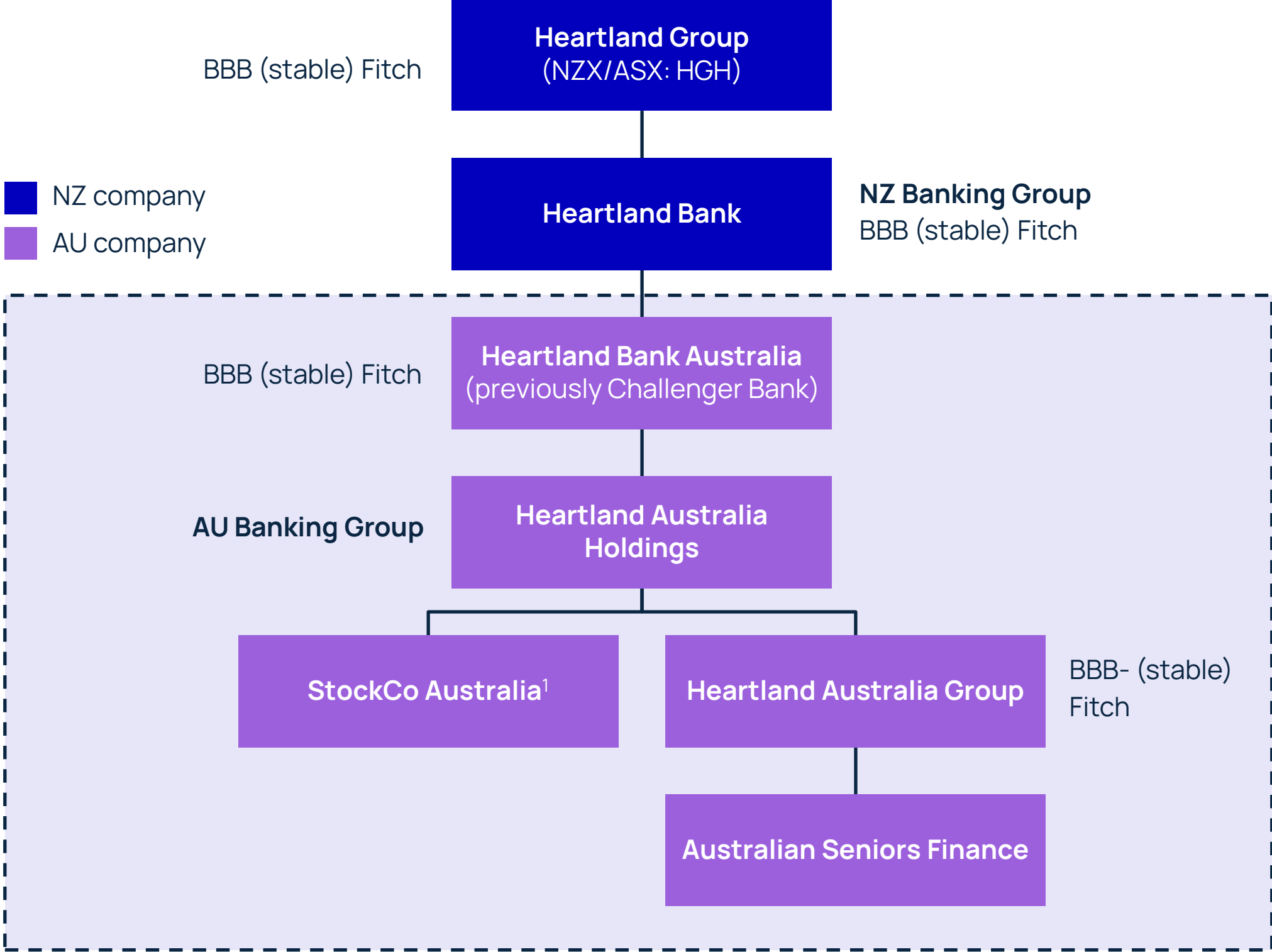
In May 2024, the Customer and Product Data Bill (**Bill**), known as 'open banking' was introduced to Parliament and the first sectors to be designated are banking and electricity. The Bill has been referred to the Select Committee with submissions due in September 2024.

Heartland Bank continues its preparations for the new conduct regime which comes into force from 31 March 2025, and expects to make its conduct licence application to the Financial Markets Authority by October 2024.

Corporate structure

Introducing Heartland Bank Australia

- On 30 April 2024, Heartland Bank completed the acquisition of Challenger Bank and became the first registered New Zealand bank to acquire an Australian ADI.
- The ADI was subsequently rebranded to Heartland Bank Australia.
- On 2 May 2024, Heartland Australia Holdings Pty Limited and its subsidiaries (which include Heartland Australia Group and StockCo Australia) were transferred to Heartland Bank Australia.
- With the inclusion of Heartland’s existing Australian businesses, Australian Seniors Finance (offering Reverse Mortgages under the Heartland Finance brand) and StockCo Australia as part of the regulated banking group (the “Australian Banking Group”), Heartland Bank Australia is now Australia’s only specialist provider of both reverse mortgages and livestock finance.
- Drawing on Heartland’s expertise in New Zealand, and its successful track record in Australia, Heartland Bank Australia will focus on providing Australians with specialist banking products that are the best or only of their kind, through digital channels.



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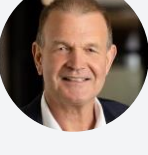
¹ StockCo Australia is a group of companies.

Board of Directors

Heartland Group

	Greg Tomlinson	Chair & Non-Independent Non-Executive Director Appointed in 2018 (2013 to Heartland NZ Ltd Board) ¹
	Jeff Greenslade	CEO & Non-Independent Executive Director Appointed in 2018 (2010 to Heartland NZ Ltd Board) ¹
	Kate Mitchell	Independent Non-Executive Director Appointed in 2021
	John Harvey	Independent Non-Executive Director Appointed in 2024
	Simon Beckett	Independent Non-Executive Director Appointed in 2024
	Rob Bell	Independent Non-Executive Director Appointed in 2024

Heartland Bank (New Zealand)





	Bruce Irvine	Chair & Independent Non-Executive Director Appointed in 2015 (2013 to Heartland NZ Ltd Board) ¹
	Jeff Greenslade	Non-Independent Non-Executive Director Appointed in 2015 (2010 to Heartland NZ Ltd Board) ¹
	John Harvey	Non-Independent Non-Executive Director Appointed in 2015 (2013 to Heartland NZ Ltd Board) ¹
	Kate Mitchell	Non-Independent Non-Executive Director Appointed in 2019
	Shelley Ruha	Independent Non-Executive Director Appointed in 2020
	Simon Tyler	Independent Non-Executive Director Appointed in 2022

Heartland Bank (Australia)

	Geoff Summerhayes	Chair & Independent Non-Executive Director Appointed in 2024
	Shane Buggle	Independent Non-Executive Director Appointed in 2024
	Lyn McGrath	Independent Non-Executive Director Appointed in 2024
	Vivienne Yu	Independent Non-Executive Director Appointed in 2024
	Leanne Lazarus	Non-Independent Non-Executive Director Appointed in 2024
	Jeff Greenslade	Non-Independent Non-Executive Director Appointed in 2024
	Bruce Irvine	Non-Independent Non-Executive Director Appointed in 2024

Management

Heartland Group

	Jeff Greenslade	Chief Executive Officer Joined in 2009
	Chris Flood	Deputy Chief Executive Officer Joined in 1997
	Andrew Dixon	Group Chief Financial Officer Joined in 2010
	Aleisha Langdale	Chief Performance Officer Joined in 2015

Heartland Bank (New Zealand)

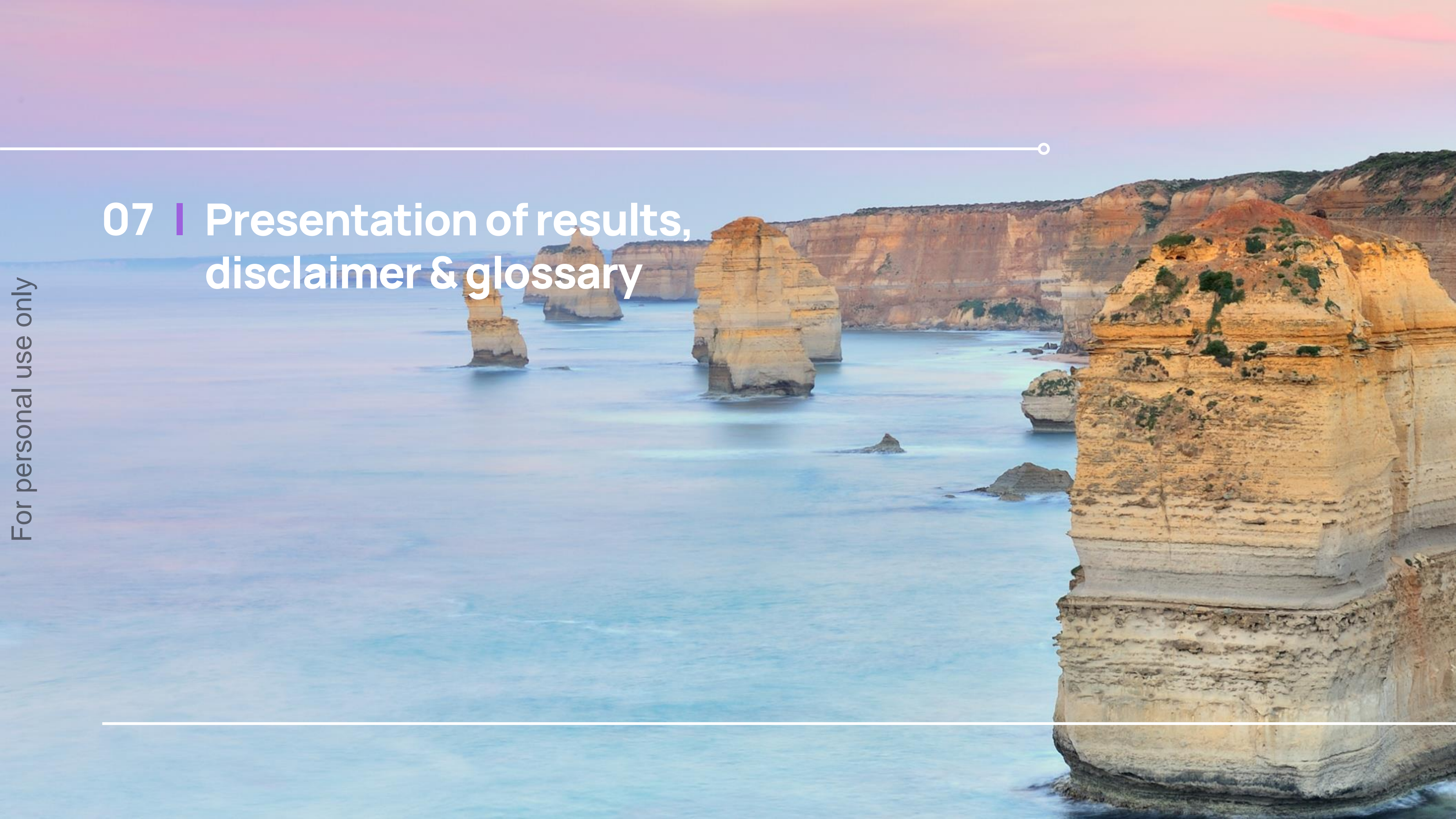
	Leanne Lazarus	Chief Executive Officer Joined in 2022
	Andy Wood	Chief Risk Officer Joined in 2022
	Kerry Conway	Chief Financial Officer Joined in 2024
	Michael Drumm	Chief Operating Officer Joined in 2015
	Phoebe Gibbons	General Counsel Joined in 2020
	Lana West	Chief People & Culture Officer Joined in 2021

Heartland Bank (Australia)

	Michelle Winzer	Chief Executive Officer Joined in 2024
	David Brown	Chief Risk Officer Joined Challenger Bank in 2021
	Sarah Burgemeister	General Counsel Joined Heartland Finance in 2023
	Medina Cicak	Chief Commercial Officer Joined in 2024
	Richard Collier	Chief Financial Officer Joined Challenger Bank in 2024
	Vaughan Dixon	Chief Technology & Operations Officer Joined in 2024
	Sharon Yardley	Chief Compliance & Sustainability Officer Joined Heartland Finance in 2004 ¹

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07 | Presentation of results, disclaimer & glossary



Presentation of results

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

- Reported results are prepared in accordance with NZ GAAP and include the impacts of one-offs, both positive and negative, which can make it difficult to compare performance between periods.
- Underlying results (which are non-GAAP financial information) exclude the impact of the de-designation of derivatives, the fair value changes on equity investments held, the Australian Bank Programme costs, an increase in provisions for a subset of legacy lending, the Challenger Bank NPAT, and other one-offs. This is intended to allow for easier comparability between periods and is used internally by management for this purpose.

Adjustments for underlying results impact NOI, OPEX, NPAT, NIM and EPS. Underlying ROE, underlying CTI ratio and underlying impairment expense ratio measures are supplementary, non-GAAP measures that may be used by investors, industry analysts and others in assessing and benchmarking profitability and performance against the industry and/or other companies. A GAAP and non-GAAP comparative is provided for each of these measures.

Refer to page 7 for a detailed reconciliation between reported and underlying financial information, and page 8 for details about one-offs in the periods covered in this investor presentation.

General information about the use of non-GAAP financial measures is set out on page 36 of this investor presentation.

Disclaimer

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

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

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

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

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

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

Non-GAAP measures

This presentation contains references to non-GAAP measures including underlying profit or loss, underlying ROE, underlying CTI ratios, underlying impairment expense ratios and underlying EPS. A reconciliation between reported and the non-GAAP measure of underlying financial information is included on page 7.

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

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

All amounts are in New Zealand dollars unless otherwise indicated. Financial data in this presentation is as at 30 June 2024 unless otherwise indicated. Any other financial information provided as at a date after 30 June 2024 has not been audited or reviewed by any independent registered public accounting firm.

Glossary

ABP	Australia Bank Programme	Heartland Australia Group	Heartland Australia Holdings Pty Ltd and its direct and indirect wholly-owned subsidiaries
ADI	Authorised deposit-taking institution	Heartland Bank	Heartland Bank Limited
APRA	Australian Prudential Regulation Authority	Heartland Bank Australia	Heartland Bank Australia Limited
bps	Basis points	LVR	Loan-to-value ratio
CAGR	Compound annual growth rate	NII	Net interest income
Challenger Bank	Challenger Bank Limited	NIM	Net interest margin
cps	Cents per share	NOI	Net operating income
CTI ratio	Cost to income ratio	NPAT	Net profit after tax
CY2024	The calendar year ending 31 December 2024	O4B	Open for Business
DRP	Dividend Reinvestment Plan	OOI	Other Operating Income
EPS	Earnings per share	OPEX	Operating expenses
FX	Foreign currency exchange	pps	Percentage points
FY2023	The financial year ended 30 June 2023	RBNZ	Reserve Bank of New Zealand
FY2024	The financial year ended 30 June 2024	Receivables	Gross Finance Receivables
FY2025	The financial year ending 30 June 2025	ROE	Return on Equity
FY2028	The financial year ending 30 June 2028	StockCo, StockCo Australia	Comprised of StockCo Australia Management Pty Ltd, StockCo Holdings 2 Pty Ltd and their subsidiaries
Harmony	Harmony Corp Limited	Q3	The third quarter of FY2025 (1 January to 31 March 2025)
Heartland	Heartland Group Holdings Limited or the Company	YoY	Year-on-year

Thank you

Investor & media relations

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nicola.foley@heartland.co.nz

Investor information

For more information, go to
heartlandgroup.info/investor-information

HEARTLAND
GROUP

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Results for announcement to the market		
Name of issuer	Heartland Group Holdings Limited	
Reporting Period	12 months to 30 June 2024	
Previous Reporting Period	12 months to 30 June 2023	
Currency	NZD	
	Amount (000s)	Percentage change
Revenue from continuing operations	\$290,354	1.8%
Total Revenue	\$290,354	1.8%
Net profit/(loss) from continuing operations	\$74,549	-22.2%
Total net profit/(loss)	\$74,549	-22.2%
Interim/Final Dividend		
Amount per Quoted Equity Security	\$ 0.03000000	
Imputed amount per Quoted Equity Security	\$ 0.01166667	
Record Date	06/09/2024	
Dividend Payment Date	20/09/2024	
	Current period	Prior comparable period
Net tangible assets per Quoted Equity Security	\$1.00	\$1.09
A brief explanation of any of the figures above necessary to enable the figures to be understood	Please refer to the audited financial statements that accompany this announcement for a further explanation of these figures.	
Authority for this announcement		
Name of person authorised to make this announcement	Andrew Dixson, Chief Financial Officer	
Contact person for this announcement	Nicola Foley, Group Head of Communications	
Contact phone number	027 345 6809	
Contact email address	nicola.foley@heartland.co.nz	
Date of release through MAP	29/08/2024	

Audited financial statements accompany this announcement.

Section 1: Issuer information				
Name of issuer	Heartland Group Holdings Limited			
Financial product name/description	Ordinary shares			
NZX ticker code	HGH			
ISIN (If unknown, check on NZX website)	NZHGHE0007S9			
Type of distribution (Please mark with an X in the relevant box/es)	Full Year	X	Quarterly	
	Half Year		Special	
	DRP applies	X		
Record date	06/09/2024			
Ex-Date (one business day before the Record Date)	05/09/2024			
Payment date (and allotment date for DRP)	20/09/2024			
Total monies associated with the distribution ¹	\$27,916,839.87			
Source of distribution (for example, retained earnings)	Retained earning			
Currency	NZD			
Section 2: Distribution amounts per financial product				
Gross distribution ²	\$ 0.04166667			
Gross taxable amount ³	\$ 0.04166667			
Total cash distribution ⁴	\$ 0.03000000			
Excluded amount (applicable to listed PIEs)	NIL			
Supplementary distribution amount	\$ 0.00529412			
Section 3: Imputation credits and Resident Withholding Tax ⁵				
Is the distribution imputed	Fully imputed – YES			
	Partial imputation			
	No imputation			

¹ Continuous issuers should indicate that this is based on the number of units on issue at the date of the form

² "Gross distribution" is the total cash distribution plus the amount of imputation credits, per financial product, before the deduction of Resident Withholding Tax (RWT).

³ "Gross taxable amount" is the gross distribution minus any excluded income.

⁴ "Total cash distribution" is the cash distribution excluding imputation credits, per financial product, before the deduction of RWT. This should include any excluded amounts, where applicable to listed PIEs.

⁵ The imputation credits plus the RWT amount is 33% of the gross taxable amount for the purposes of this form. If the distribution is fully imputed the imputation credits will be 28% of the gross taxable amount with remaining 5% being RWT. This does not constitute advice as to whether or not RWT needs to be withheld.

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If fully or partially imputed, please state imputation rate as % applied ⁶	28%	
Imputation tax credits per financial product	\$ 0.01166667	
Resident Withholding Tax per financial product	\$ 0.00208333	
Section 4: Distribution re-investment plan (if applicable)		
DRP % discount (if any)	2.0%	
Start date and end date for determining market price for DRP	09/09/2024	13/09/2024
Date strike price to be announced (if not available at this time)	16/09/2024	
Specify source of financial products to be issued under DRP programme (new issue or to be bought on market)	New Issue	
DRP strike price per financial product	\$	
Last date to submit a participation notice for this distribution in accordance with DRP participation terms	09/09/2024, 5:00pm NZT	
Section 5: Authority for this announcement		
Name of person authorised to make this announcement	Andrew Dixson, Chief Financial Officer	
Contact person for this announcement	Nicola Foley, Group Head of Communications	
Contact phone number	027 345 6809	
Contact email address	nicola.foley@heartland.co.nz	
Date of release through MAP	29/08/2024	

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

NZX/ASX release
29 August 2024

ASX Listing Rule 1.15.3 Statement

Heartland Group Holdings Limited's (**Heartland**) (NZX/ASX: HGH) (an ASX Foreign Exempt Listing) confirms, for the purposes of ASX Listing Rule 1.15.3, that it has complied with and continues to comply with the Listing Rules of NZX Limited, which is its overseas home exchange.

– ENDS –

The person(s) who authorised this announcement:

Jeff Greenslade
Chief Executive Officer

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Financial Statements

For the year ended 30 June 2024

HEARTLAND
GROUP

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General Information

These financial statements are issued by Heartland Group Holdings Limited (**HGH**) and its subsidiaries (the **Group**) for the year ended 30 June 2024.

Name and address for service

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

Details of incorporation

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

Auditor

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

Other Material Matters

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

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Directors

All Directors of HGH reside in New Zealand with the exception of Robert Bell and Simon Beckett who reside in Australia. Communications to the Directors can be sent to Heartland Group Holdings Limited, Level 3, 35 Teed Street, Newmarket, Auckland 1023.

Geoffrey Edward Summerhayes resigned as Independent Non-Executive Director of HGH, effective 30 April 2024.

Edward John Harvey was appointed as an Independent Non-Executive Director of HGH, effective 30 April 2024.

Ellen Frances Comerford resigned as Independent Non-Executive Director of HGH, effective 26 June 2024.

Robert Bell was appointed as an Independent Non-Executive Director of HGH, effective 27 June 2024.

Simon Beckett was appointed as an Independent Non-Executive Director of HGH, effective 27 June 2024.

There have been no other changes to the composition of the Board of Directors of the Group for the year ended 30 June 2024.

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

Chair – Board of Directors

Name: Gregory Raymond Tomlinson

Qualifications: AME

Type of Director: Non-Independent Non-Executive Director

Occupation: Company Director

External Directorships:

Alta Cable Holdings Limited, Chippies Vineyard Limited, Indevin Group Holdings Limited, Indevin Group Investments Limited, Indevin Group Limited, Mountbatten Trustee Limited, Nearco Stud Limited, Oceania Healthcare Limited, Pelorus Finance Limited, St Leonards Limited, Tomlinson Group Argenta GP Limited, Tomlinson Group NZ Limited, Tomlinson Holdings Limited, Tomlinson Group Investments Limited, Tomlinson Ventures Limited, Terra Vitae Vineyards Limited.

Name: Simon Beckett

Qualifications: BSc (Hons), GAICD

Type of Director: Independent Non-Executive Director

Occupation: Company Director

External Directorships:

ORDE Holdings Pty Ltd, ORDE Financial Pty Ltd, ORDE Capital Management Limited, ORDE Mortgage Custodian Pty Ltd, GeoSnapShot Pty Ltd, First Avenue Ventures Pty, First Avenue Capital Pty Ltd.

Name: Robert Bell

Qualifications: BBus

Type of Director: Independent Non-Executive Director

Occupation: Company Director

External Directorships:

Liveheats Pty Ltd, 86 Elwood Pty Ltd, Home Finance Company PTE Limited.

Name: Jeffrey Kenneth Greenslade

Qualifications: LLB

Type of Director: Non-Independent Executive Director

Occupation: Chief Executive Officer of Heartland Group Holdings

External Directorships (excluding HGH subsidiaries):

Henley Family Investments Limited.

Name: Edward John Harvey

Qualifications: BCom, CA, CFInstD

Type of Director: Independent Non-Executive Director

Occupation: Company Director

External Directorships (excluding HGH subsidiaries):

Napier Port Holdings Limited, Pomare Investments Limited, Port of Napier Limited.

Name: Kathryn Mitchell

Qualifications: BA, CMInstD

Type of Director: Independent Non-Executive Director

Occupation: Company Director

External Directorships (excluding HGH subsidiaries):

Chambers@151 Limited, Christchurch International Airport Limited, Firsttrax Approvals Limited, Link Engine Management Limited, Link Management International (NZ) Limited, Morrison Horgan Limited, The New Zealand Merino Company Limited, The A2 Milk Company Limited, Purepods Limited.

Directors' Statements

The financial statements are dated 28 August 2024 and have been signed by all Directors.



G. R. Tomlinson (Chair)



R. Bell



J. K. Greenslade



S. Beckett



K. Mitchell



E. J. Harvey

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Statement of Comprehensive Income

For the year ended 30 June 2024

\$000's	Note	June 2024	June 2023
Interest income	3	661,032	527,710
Interest expense	3	383,387	245,721
Net interest income		277,645	281,989
Operating lease income	4	6,058	5,631
Operating lease expenses	4	4,373	3,827
Net operating lease income		1,685	1,804
Lending and credit fee income		14,284	11,753
Other (expense)	5	(2,946)	(5,742)
Net operating income		290,668	289,804
Operating expenses	6	139,386	128,079
Profit before impaired asset expense and income tax		151,282	161,725
Fair value (loss) on investments and investment property		(314)	(4,488)
Impaired asset expense	8	46,423	23,244
Profit before income tax		104,545	133,993
Income tax expense	9	29,996	38,125
Profit for the year		74,549	95,868
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 in a cash flow hedge relationship		(10,701)	7,116
Movement in fair value reserve		925	(533)
Movement in foreign currency translation reserve		1,773	(6,803)
Items that will not be reclassified to profit or loss, net of income tax:			
Movement in fair value of equity investments at fair value through other comprehensive income		(3,152)	(2,411)
Other comprehensive income for the year, net of income tax		(11,155)	(2,631)
Total comprehensive income for the year		63,394	93,237
Earnings per share			
Basic earnings per share	10	9.85c	13.96c
Diluted earnings per share	10	9.85c	13.96c

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

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

Statement of Changes in Equity

For the year ended 30 June 2024

\$000's	Note	June 2024			June 2023			Total Equity	
		Share Capital	Reserves	Retained Earnings	Share Capital	Reserves	Retained Earnings		
Balance at beginning of year		800,712	6,240	224,052	1,031,004	599,185	9,936	199,586	808,707
Total comprehensive income for the year									
Profit for the year		-	-	74,549	74,549	-	-	95,868	95,868
Other comprehensive (loss)/ income, net of income tax	17	-	(11,155)	-	(11,155)	-	(2,631)	-	(2,631)
Total comprehensive income for the year		-	(11,155)	74,549	63,394	-	(2,631)	95,868	93,237
Transactions with owners									
Dividends paid	16	-	-	(71,190)	(71,190)	-	-	(71,402)	(71,402)
Dividend reinvestment plan	16	13,476	-	-	13,476	7,100	-	-	7,100
Transaction costs associated with capital raising	16	(6,254)	-	-	(6,254)	(3,749)	-	-	(3,749)
Share based payments	28	-	(2,816)	-	(2,816)	-	105	-	105
Share issuance	16	210,255	-	-	210,255	197,006	-	-	197,006
Vesting of share based payments	28	765	(765)	-	-	1,170	(1,170)	-	-
Total transactions with owners		218,242	(3,581)	(71,190)	143,471	201,527	(1,065)	(71,402)	129,060
Balance at end of the year		1,018,954	(8,496)	227,411	1,237,869	800,712	6,240	224,052	1,031,004

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

Statement of Financial Position

As at 30 June 2024

\$000's	Note	June 2024	June 2023
Assets			
Cash and cash equivalents		629,619	311,503
Investments	11	1,092,131	330,240
Derivative financial instruments	12	12,316	36,983
Finance receivables measured at amortised cost	13	4,266,946	4,334,214
Finance receivables - reverse mortgages	21	2,897,818	2,403,810
Investment properties		3,660	11,903
Operating lease vehicles	14	18,261	16,966
Right of use assets	18	15,519	12,318
Other assets	18	35,185	27,990
Current tax asset		16,767	1,960
Intangible assets	18	279,906	235,733
Deferred tax asset	9	23,727	21,105
Total assets		9,291,855	7,744,725
Liabilities			
Deposits	15	5,949,116	4,131,025
Other borrowings	15	2,040,763	2,496,375
Derivative financial instruments	12	9,017	7,624
Lease liabilities	18	17,776	14,287
Tax liabilities		-	6,112
Trade and other payables	18	37,314	58,298
Total liabilities		8,053,986	6,713,721
Net assets		1,237,869	1,031,004
Equity			
Share capital	16	1,018,954	800,712
Retained earnings and other reserves	17	218,915	230,292
Total equity		1,237,869	1,031,004

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

Statement of Cash Flows

For the year ended 30 June 2024

\$000's	Note	June 2024	June 2023
Cash flows from operating activities			
Interest received		433,047	333,874
Operating lease income received		5,288	4,571
Lending, credit fees and other income received		9,345	6,292
Operating inflows		447,680	344,737
Interest paid		(327,643)	(193,679)
Payments to suppliers and employees		(155,782)	(128,195)
Taxation paid		(46,842)	(54,629)
Operating outflows		(530,267)	(376,503)
Net cash flows applied to operating activities before changes in operating assets and liabilities		(82,587)	(31,766)
Proceeds from sale of operating lease vehicles		2,219	4,492
Purchase of operating lease vehicles		(6,732)	(8,766)
Net movement in finance receivables ¹		473,912	(448,210)
Net movement in deposits		541,541	526,939
Net cash flows from operating activities²		928,353	42,689
Cash flows from investing activities			
Purchase of property, plant and equipment and intangible assets		(28,091)	(24,669)
Proceeds from investment securities		246,490	55,443
Purchase of investment securities		(637,399)	(95,000)
Deposit paid for the conditional acquisition of Challenger Bank Limited		-	(3,936)
Purchase of equity investment		-	(6,952)
Purchase of investment property		-	(71)
Cash acquired on acquisition of subsidiary	19	165,620	-
Purchase of subsidiary, net of cash acquired		-	(3,047)
Net cash flows applied to investing activities		(253,380)	(78,232)
Cash flows from financing activities			
Proceeds from wholesale borrowings		1,743,510	1,264,359
Repayment of wholesale borrowings		(2,362,786)	(1,208,292)
Proceeds from issue of unsubordinated notes		189,588	87,589
Repayment of unsubordinated notes		(123,764)	(330,300)
Proceeds from issue of subordinated notes		51,572	97,934
Dividends paid	16	(57,714)	(64,303)
Payment of lease liabilities		(3,044)	(2,656)
Net issue of share capital	16	204,001	193,364
Net cashflows (applied to)/from financing activities		(358,637)	37,695
Net increase in cash held		316,336	2,152
Effect of exchange rates on cash and cash equivalents		1,780	(1,407)
Opening cash and cash equivalents		311,503	310,758
Closing cash and cash equivalents³		629,619	311,503

¹ Includes proceeds from sale of reverse mortgage portfolio from the Group to HBA prior to HBA's acquisition. Refer to Note 21 - Fair value for further details.

² Cash flows from operating activities do not include cash flows from wholesale borrowings which are included as part of financing activities.

³ At 30 June 2024, the Group has \$176.0 million (2023: \$97.0 million) of cash held by the Trusts which may only be used for the purposes defined in the underlying Trust documents. Refer to Note 27 - Structured entities for definition of Trusts and further details.

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

Statement of Cash Flows (continued)

For the year ended 30 June 2024

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

\$000's	Note	June 2024	June 2023
Profit for the year		74,549	95,868
Add/(less) non-cash items:			
Depreciation and amortisation expense		12,129	10,124
Depreciation on lease vehicles	14	3,902	3,461
Capitalised net interest income and fee income		(186,389)	(154,706)
Impaired asset expense	8	46,423	23,244
Fair value movements		(11,537)	6,899
Deferred tax		(2,622)	1,969
Other non-cash items		(3,110)	2,097
Total non-cash items		(141,204)	(106,912)
Add/(less) movements in operating assets and liabilities:			
Finance receivables		473,912	(448,210)
Operating lease vehicles		(5,197)	(5,266)
Other assets		595	(2,856)
Current tax		(20,919)	(17,892)
Derivative financial instruments		26,060	9,521
Deposits		541,541	526,939
Other liabilities		(20,984)	(8,503)
Total movements in operating assets and liabilities		995,008	53,733
Net cash flows from operating activities¹		928,353	42,689

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

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

Notes to the Financial Statements

For the year ended 30 June 2024

1 Financial statements preparation

Reporting entity

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

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

The Group is a designated climate reporting entity (**CRE**) under the climate-related disclosure regime and is required to meet its requirements effective from the financial reporting period commencing 1 July 2023. Refer to Note 22 - Enterprise risk management for further details.

Basis of preparation

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

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

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

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

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

Basis of measurement

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

Principles of consolidation

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

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

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1 Financial statements preparation (continued)

Changes in accounting standards

Accounting standards issued and effective

Disclosure of Accounting Policies - Amendments to NZ IAS 1 Presentation of Financial Statements

The Group adopted the amendments to *NZ IAS 1 Presentation of Financial Statements*. Effective 1 July 2023, these amendments require the disclosure of material accounting policy information instead of significant accounting policies. The amendments did not result in any changes to the accounting policies and did not impact the accounting policy information disclosed below.

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

Amendments were issued to FRS-44 New Zealand Additional Disclosures (**Amendments to FRS-44**) that require an entity to describe the services provided by its audit or review firm and to disclose the fees incurred by the entity for those services using prescribed categories.

The Group early adopted the Amendments to FRS-44 from 1 July 2022. Refer to Note 7 - Compensation of auditor for further details.

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

Accounting standards issued not yet effective

Presentation and Disclosure in Financial Statements (NZ IFRS 18)

IFRS 18 Presentation and Disclosure in Financial Statements (IFRS 18) was issued in April 2024 to replace *IAS 1 Presentation of Financial Statements (IAS 1)* when applied. New Zealand Equivalent to IFRS 18 (**NZ IFRS 18**) was issued on 23 May 2024. Most of the presentation and disclosure requirements will largely remain unchanged together with other disclosures carried forward from *IAS 1*. *NZ IFRS 18* primarily introduces the following:

- a defined structure for the statement of comprehensive income by classifying items into one of the five categories: operating, investing, financing, income taxes and discontinued operations. Entities will also present expenses in the operating category by nature, function, or a mix of both, based on facts and circumstances;
- disclosure of management-defined performance measures (a subset of alternative performance measures / non-GAAP measures) in a single note together with reconciliation requirements, and
- additional guidance on aggregation and disaggregation principles (applied to all primary financial statements and notes).

1 Financial statements preparation (continued)

Accounting standards issued not yet effective (continued)

Presentation and Disclosure in Financial Statements (NZ IFRS 18) (continued)

NZ IFRS 18 also made limited change to certain presentation and disclosure requirements in the financial statements, e.g., NZ IAS 7 Statement of Cash Flows; as well as consequential changes to various IFRS Accounting Standards.

NZ IFRS 18 will be effective for annual reporting periods beginning on or after 1 January 2027. The Group expects to adopt NZ IFRS 18 and relevant consequential changes of other accounting standards in the financial year beginning 1 July 2027. The Group is currently assessing the impact and will disclose more detailed assessments in the future.

Other new accounting standards, amendments to accounting standards and interpretations have been published that are not mandatory for the 30 June 2024 reporting periods and have not been early adopted by the Group. These standards, amendments or interpretations are not expected to have a material impact on the current or future reporting periods.

Critical accounting estimates and judgements

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

- Provisions for impairment - The effect of credit risk is quantified based on the Group's best estimate of future cash repayments and proceeds from any security held or by reference to risk profile groupings, historical loss data and forward-looking information. Refer to Note 8 - Impaired asset expense and Note 13 - Finance receivables measured at amortised cost for further details.
- Recognition of Banking Licence intangible asset - The recognition of Banking Licence intangible asset required judgement in determining external and internal costs directly attributable to the Group's joint application for an Australian Authorised Deposit-Taking Institution Licence with Challenger Bank Limited (now Heartland Bank Australia Limited). Judgement is also required to determine whether such costs fulfil the definition and recognition criteria of an intangible asset. Such costs include professional fees and costs of employee benefits arising directly from the application. Refer to Note 18 - Other balance sheet items for further details.
- Fair value of reverse mortgages - Fair value is quantified by the transaction price (cash advanced plus accrued capitalised interest). Judgement is applied in determining the appropriateness of the transaction price as fair value. Refer to Note 21 - Fair value for further details.
- Goodwill - The Group carries out impairment testing annually over the carrying value of goodwill of its cash generating units (CGUs). Uncertainty is involved in estimating fair value less cost to sell and judgement is applied in assumptions used to determine the recoverable amount of CGU or group of CGUs for impairment testing. Refer to Note 18 - Other balance sheet items for further details.
- Acquisition of Challenger Bank Limited (now Heartland Bank Australia Limited) – Fair value of the consideration transferred and fair value of the identifiable assets acquired and liabilities assumed, measured on a provisional basis. Judgement is applied in determining consideration and in the valuation of the acquiree's identifiable assets and liabilities assumed on the acquisition date. Refer to Note 19 – Acquisition for further details.

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

1 Financial statements preparation (continued)

Significant events

Heartland Bank Limited (**HBL**), subsidiary of HGH, completed the acquisition of Challenger Bank Limited (**CBL**) from Challenger Limited on 30 April 2024. Completing the acquisition makes HBL the first New Zealand registered bank to acquire an Australian authorised deposit-taking institution (**ADI**). From 1 May 2024, CBL began trading as Heartland Bank Australia.

As a result of the above transaction, the Group has obtained control over Heartland Bank Australia Limited (**HBA**) and has consolidated its results, assets and liabilities from the transaction date. Refer to Note 19 – Acquisition for further details.

Under the varied conditions of CBL's banking licence, all the Australian banking business and other Australian financial activities within HGH and its controlled entities are required to be conducted within CBL or as subsidiaries of CBL. On 2 May 2024, HGH transferred to CBL 100% shareholding of its Australian subsidiaries, being Heartland Australia Holdings Pty Limited (**HAH**) and its controlled entities. This resulted in CBL assuming ownership over HGH's Australian reverse mortgage lending, specialist livestock finance and other financial services businesses. Later in May 2024, the legal entity name for CBL officially changed to HBA.

Financial assets and liabilities

Financial Assets

Financial assets are classified based on:

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

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

Financial assets are classified into the following measurement categories:

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

Financial assets measured at amortised cost

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

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

Financial assets measured at FVOCI

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

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

1 Financial statements preparation (continued)

Financial assets and liabilities (continued)

Financial assets (continued)

Financial assets measured at FVTPL

Financial assets are measured at FVTPL if:

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

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

Financial Liabilities

Financial liabilities are classified into the following measurement categories:

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

Financial liabilities measured at amortised cost

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

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

Financial liabilities measured at FVTPL

Financial liabilities are measured at FVTPL if:

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

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

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

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

Recognition

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

Derecognition

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

1 Financial statements preparation (continued)

Financial assets and liabilities (continued)

Financial liabilities (continued)

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

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

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Performance

2 Segmental analysis

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

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

Operating Segments

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

Operating segments – New Zealand

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

Operating segments – Australia

During the year, the Group revised the composition of its reportable segments, following the acquisition of CBL by HBL on 30 April and transfer of HAH and its subsidiaries from HGH to HBA on 2 May 2024, with HBA assuming ownership over HGH's Australian reverse mortgage lending, specialist livestock finance and other financial services businesses (refer to Note 19 – Acquisition for further details). The Group has subsequently aggregated previously reported StockCo Australia and Australia segments into one reportable segment Australian Banking Group.

This change was made to align the presentation with the internal reporting provided to the Group's CODM where business performance of HBA and its subsidiaries is assessed as one single segment operating within Australia. Comparative information within this note has been adjusted to reflect the change in the Group's revised composition of reportable segments within Australian Banking Group.

Australian Banking Group	Australian Banking Group provides banking and financial services in Australia which consist of reverse mortgage lending, livestock finance and other financial services within Australia.
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All other segments

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

2 Segmental analysis (continued)

\$000's	Reverse Motor	Mortgages	Personal Lending	Business	Rural	Australian Banking Group	Other	Total
June 2024								
Net interest income	58,909	46,586	5,156	62,090	34,652	68,617	1,635	277,645
Lending and credit fee income	3,908	2,651	198	3,935	374	3,218	-	14,284
Net other income/(expense)	1,194	-	543	1,145	(443)	(839)	(2,861)	(1,261)
Net operating income	64,011	49,237	5,897	67,170	34,583	70,996	(1,226)	290,668
Operating expenses	4,628	5,366	6,825	9,113	3,181	41,778	68,495	139,386
Profit/(loss) before fair value (loss) on investments, impaired asset expense and income tax	59,383	43,871	(928)	58,057	31,402	29,218	(69,721)	151,282
Fair value (loss) on investments	-	-	-	-	-	-	(314)	(314)
Impaired asset expense	24,329	-	1,476	17,527	2,428	663	-	46,423
Profit/(loss) before income tax	35,054	43,871	(2,404)	40,530	28,974	28,555	(70,035)	104,545
Income tax expense	-	-	-	-	-	-	29,996	29,996
Profit/(loss) for the year	35,054	43,871	(2,404)	40,530	28,974	28,555	(100,031)	74,549
Total assets	1,608,282	1,068,154	339,110	1,306,689	720,339	3,415,495	833,786	9,291,855
Total liabilities								8,053,986
June 2023								
Net interest income	60,681	39,696	9,548	71,630	33,522	73,933	(7,021)	281,989
Lending and credit fee income	2,034	2,671	447	2,278	292	4,031	-	11,753
Net other income/(expense)	1,485	-	935	991	398	(130)	(7,617)	(3,938)
Net operating income/(expense)	64,200	42,367	10,930	74,899	34,212	77,834	(14,638)	289,804
Operating expenses	4,140	4,929	6,461	9,387	3,068	33,052	67,042	128,079
Profit/(loss) before fair value (loss) on investments, impaired asset expense and income tax	60,060	37,438	4,469	65,512	31,144	44,782	(81,680)	161,725
Fair value (loss) on investments	-	-	-	-	-	-	(4,488)	(4,488)
Impaired asset expense	10,911	-	3,195	8,156	630	352	-	23,244
Profit/(loss) before income tax	49,149	37,438	1,274	57,356	30,514	44,430	(86,168)	133,993
Income tax expense	-	-	-	-	-	-	38,125	38,125
Profit/(loss) for the year	49,149	37,438	1,274	57,356	30,514	44,430	(124,293)	95,868
Total assets	1,563,939	888,600	358,572	1,356,913	712,596	2,110,958	753,147	7,744,725
Total liabilities								6,713,721

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3 Net interest income

Policy

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

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

\$000's	June 2024	June 2023
Interest income		
Cash and cash equivalents	12,952	10,906
Investments measured at FVOCI	12,082	5,081
Investments measured at FVTPL	4,186	-
Finance receivables measured at amortised cost	380,055	335,070
Finance receivables - reverse mortgages	251,757	176,653
Total interest income¹	661,032	527,710
Interest expense		
Deposits	240,758	148,054
Other borrowings	167,796	117,774
Net interest (income) on derivative financial instruments	(25,167)	(20,107)
Total interest expense²	383,387	245,721
Net interest income	277,645	281,989

¹ Cash and cash equivalents and Finance receivables are measured at amortised cost. Investments are measured at FVOCI and FVTPL. Total interest income derived from financial assets measured at amortised cost or FVOCI is calculated using the effective interest rate method. Finance receivables - reverse mortgages are measured at FVTPL.

² Deposits and Other borrowings are measured at amortised cost, therefore interest expense incurred on these financial liabilities is calculated using the effective interest rate method. Net interest expense on derivative financial instruments is not calculated using the effective interest rate method as they are measured at FVTPL.

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4 Net operating lease income

Policy

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

\$000's	June 2024	June 2023
Operating lease income		
Lease income	5,374	4,639
Gain on disposal of lease assets	684	992
Total operating lease income	6,058	5,631
Operating lease expense		
Depreciation on lease assets	3,902	3,461
Direct lease costs	471	366
Total operating lease expense	4,373	3,827
Net operating lease income	1,685	1,804

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5 Other income

Policy

Rental income from investment properties

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

Insurance income

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

Fair value gain or loss on derivative financial instruments

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

Fair value gain or loss on non-derivative financial instruments

A fair value gain or loss on certain non-derivative financial instruments are recognised in the statement of comprehensive income for financial instruments held at fair value through profit or loss. Refer to Note 11 – Investments for further details.

\$000's	June 2024	June 2023
Rental income from investment properties	995	1,064
Insurance income ¹	209	756
Fair value (loss) on derivative instruments measured at fair value	(5,074)	(8,237)
Fair value (loss) on non-derivative financial instruments ²	(727)	-
Other income	4	624
Foreign exchange gain	1,647	51
Total other (expense)	(2,946)	(5,742)

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

²Includes realised and unrealised losses on HBA's government securities, bank bonds and floating rate notes measured at fair value through profit and loss. Refer to Note 11 - Investments for further details.

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6 Operating expenses

Policy

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

\$000's	June 2024	June 2023
Personnel expenses ¹	67,129	66,989
Directors' fees	1,507	1,451
Superannuation	2,088	1,772
Depreciation - property, plant and equipment	1,809	1,904
Legal and professional fees ²	6,240	4,642
Advertising and public relations	3,017	3,089
Depreciation - right of use asset	3,252	2,539
Technology services	13,619	10,296
Telecommunications, stationery and postage	2,103	1,948
Customer administration costs	10,958	9,814
Customer onboarding costs	2,717	2,765
Occupancy costs	2,588	1,741
Amortisation of intangible assets	5,516	5,681
Other operating expenses ³	16,843	13,448
Total operating expenses	139,386	128,079

¹Excludes certain personnel expenses directly incurred in acquiring and developing software and capitalised as part of specific application software.

²Legal and professional fees include compensation of auditor which is disclosed in Note 7 - Compensation of auditor.

³Other operating expenses mainly comprise non-recoverable proportion of goods and services tax (GST), travel, insurance and project expenses.

7 Compensation of auditor

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

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

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

7 Compensation of auditor (continued)

The fees payable to the auditors, PricewaterhouseCoopers (PwC), Ernst & Young (EY) and predecessor auditor, KPMG, are outlined in the below table:

\$000's	June 2024	June 2023
Fees paid to auditor - PwC		
Audit and review of financial statements ¹	1,388	1,046
Audit or review related services		
Assurance engagements ²	40	62
Agreed-upon procedures engagements ³	-	21
Other assurance services and other agreed-upon procedures engagements		
Assurance engagements ⁴	73	-
Agreed-upon procedures engagements	-	-
Taxation services ⁵	-	54
Other services ⁶	-	33
Total compensation paid to PwC	1,501	1,216
Fees paid to auditor - EY		
Audit and review of financial statements ¹	692	-
Audit or review related services		
Assurance engagements ⁷	119	-
Agreed-upon procedures engagements	-	-
Other assurance services and other agreed-upon procedures engagements		
Assurance engagements	-	-
Agreed-upon procedures engagements	-	-
Taxation services	-	-
Other services ⁸	332	-
Total compensation paid to EY	1,143	-
Fees paid to predecessor auditor - KPMG		
Audit and review of financial statements ¹	-	40
Total compensation paid to KPMG	-	40
Total compensation of auditor	2,644	1,256

¹Fees are for both the audit of the annual financial statements and review of the interim financial statements. This includes limited assurance on disclosures of capital adequacy and regulatory liquidity requirements.

²Fees in 2024 are for reasonable assurance engagement for insurance solvency return, reasonable assurance on registry and trust deed supervisor reporting. Fees in 2023 are for reasonable assurance engagement for insurance solvency return, reasonable assurance on registry, trust deed supervisor reporting, Economic and Financial Statistics (EFS) regulatory reporting and Australian Financial Services Licence (AFSL) assurance engagement.

³Fees in 2023 are for agreed upon procedures engagements in relation to Seniors Warehouse Trusts.

⁴Fees are for pre-conditions assessments and assurance relating to greenhouse gas emissions reporting.

⁵For 2023, PwC was engaged to carry out tax work in respect of Stockco Australia's 30 June 2023 tax returns prior to their appointment as external auditor.

⁶Other services paid to PwC in 2023 comprised actuarial services for reverse mortgages carried out prior to their appointment as external auditors

⁷Fees are for assurance services for APRA regulatory reporting and AFSL reporting.

⁸Other services paid to EY in 2024 comprised actuarial services for reverse mortgages, actuarial services for stress testing, directors remuneration review, executive reward survey report, executive remuneration review, CPS 234 information security plan review, hedge accounting and other accounting advisory services, review of Australian banking policies and periodic assessment of StockCo funding facilities and facilitation of strategy review workshop. Except for the actuarial services for reverse mortgages stress testing, all other services were carried out prior to their appointment as external auditor.

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8 Impaired asset expense

\$000's	June 2024	June 2023
Individually impaired asset expense	13,705	13,010
Collectively impaired asset expense	34,137	12,794
Total impaired asset expense excluding recovery of amounts previously written off to the income statement	47,842	25,804
Recovery of amounts previously written off to the income statement	(1,419)	(2,560)
Total impaired asset expense	46,423	23,244

Refer to Note – 13 Finance receivables measured at amortised cost for provision for impairment details.

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9 Taxation

Policy

Income tax

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

Current tax

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

Deferred tax

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

Goods and services tax (GST)

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

Income tax expense

\$000's	June 2024	June 2023
Income tax recognised in profit or loss		
Current tax		
Current year	35,997	37,159
Adjustments for prior year	(879)	(1,556)
Tax at other rates	590	554
Deferred tax		
Current year	(5,446)	1,457
Adjustments for prior year	(581)	304
Change in recognition of deferred tax asset	372	-
Tax at other rates	(57)	207
Total income tax expense recognised in profit or loss	29,996	38,125
Income tax recognised in other comprehensive income		
Current tax		
Investment securities at fair value in fair value reserve	357	(246)
Fair value movements in derivatives held in cash flow hedge reserve	(4,276)	2,418
Total income tax expense recognised in other comprehensive income	(3,919)	2,172
Reconciliation of effective tax rate		
Profit before income tax	104,545	133,993
Tax at the local income tax rate (NZ: 28%, Australia: 30%)	29,797	38,175
Adjusted tax effect of items not deductible	1,287	1,202
Adjustments for prior year	(1,460)	(1,252)
Change in recognition of deferred tax	372	-
Total income tax expense	29,996	38,125

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9 Taxation (continued)

Deferred tax assets comprise the following temporary differences:

\$000's	June 2024	June 2023
Employee expenses	2,636	2,516
Share Based payment	-	1,069
Provision for impairment	21,528	14,958
Intangibles and property plant and equipment	(1,465)	(1,529)
Deferred acquisition costs	(6)	(55)
Right of use assets	(4,180)	-
Lease liabilities	4,834	-
Operating lease vehicles	(594)	451
Deferred income	(6,522)	(6,938)
Prior year tax loss	4,911	8,540
Deductible prior year expense	421	593
Other temporary differences	2,164	1,500
Total deferred tax assets	23,727	21,105
Opening balance of deferred tax assets	21,105	23,074
Movement recognised in profit or loss	6,084	(1,969)
Transfer on acquisition of business	820	-
Utilisation of tax loss	(3,910)	-
Change in recognition of deferred tax asset	(372)	-
Closing balance of deferred tax assets	23,727	21,105
Imputation credit account		
\$000's	June 2024	June 2023
Imputation credits available for use in subsequent reporting periods	46,427	37,785

10 Earnings Per Share

	June 2024			June 2023		
	Earnings Per Share Cents	Net Profit After Tax \$000's	Weighted Average No. of Shares 000's	Earnings Per Share Cents	Net Profit After Tax \$000's	Weighted Average No. of Shares 000's
Basic earnings	9.85	74,549	757,046	13.96	95,868	686,781
Diluted earnings	9.85	74,549	757,046	13.96	95,868	686,781

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Financial Position

11 Investments

Policy

Investments are classified into one of the following categories:

Fair value through other comprehensive income

Investments under this category are held within a business model whose objective is achieved both through collecting contractual cash flows or selling the financial asset. These investments include bank bonds, floating rate notes, public sector securities, corporate bonds and equity investments where the Group has irrevocably elected at initial recognition to measure at FVOCI. These are initially measured at fair value, including transaction costs, and subsequently carried at fair value. Changes in fair value of these investments are recognised in other comprehensive income and presented within the fair value reserve.

Fair value through profit or loss

Investments under this category are held within a business model whose objective is achieved through selling the financial asset. These investments include government securities, bank bonds, floating rate notes and equity investments and are measured at fair value plus transaction costs. Changes in fair value of these investments are recognised in profit or loss in the period in which they occur.

\$000's	June 2024	June 2023
Investments measured at FVOCI		
Bank bonds and floating rate notes	270,581	305,310
Public sector securities and corporate bonds	101,235	9,882
Equity investments	7,575	9,665
Investments measured at FVTPL		
Government securities, bank bonds and floating rate notes ¹	706,840	-
Equity investments	5,900	5,383
Total investments	1,092,131	330,240

¹Includes HBA's investments measured at fair value through profit or loss. Refer to Note 21 - Fair value for further details.

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12 Derivative financial instruments

Policy

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

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

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

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

Fair value hedge accounting

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

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

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

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

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

Cash flow hedge accounting

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

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

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

12 Derivative financial instruments (continued)

Cash flow hedge accounting (continued)

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

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

Net Investment hedge

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

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

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

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

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

\$000's	June 2024			June 2023		
	Notional Principal	Fair Value Assets	Fair Value Liabilities	Notional Principal	Fair Value Assets	Fair Value Liabilities
<i>Interest rate related contracts</i>						
Held as economic hedges	344,598	293	782	260,650	6,539	-
Designated as cash flow hedges	885,903	4,658	4,609	850,068	15,398	941
Designated as fair value hedges	424,502	7,365	3,626	543,200	15,045	6,683
Interest rate swaps	1,655,003	12,316	9,017	1,653,918	36,982	7,624
<i>Foreign currency related contracts</i>						
Held as economic hedges	-	-	-	168	1	-
Foreign currency related contracts	-	-	-	168	1	-
Total derivative financial instruments	1,655,003	12,316	9,017	1,654,086	36,983	7,624

12 Derivative financial instruments (continued)

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

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

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

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

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

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

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

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

\$000's	0-6 Months	6-12 Months	1-2 Years	2-5 Years	5+ Years	Total
June 2024						
Interest rate risk						
Cash flow hedge relationships						
<i>Pay fixed</i>						
Nominal amounts	45,000	40,000	232,851	568,052	-	885,903
Average interest rate	5.20%	5.15%	4.71%	4.59%	-	-
Fair value hedge relationships						
<i>Pay fixed</i>						
Nominal amounts	10,002	50,000	55,400	209,100	-	324,502
Average interest rate	1.63%	0.73%	0.47%	4.59%	-	-
<i>Receive fixed</i>						
Nominal amounts	-	-	-	100,000	-	100,000
Average interest rate	-	-	-	4.30%	-	-
Total interest rate risk nominal amount	55,002	90,000	288,251	877,152	-	1,310,405

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12 Derivative financial instruments (continued)

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

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

\$000's	As at 30 June 2024		For the year ended 30 June 2024
	Carrying value	Accumulated amount of fair value hedge adjustment	Gain/(loss) recognised in income statement
Interest rate risk			
Investments	361,808	(4,390)	10,036
Other borrowings	(99,706)	721	(4,610)
Total	262,102	(3,669)	5,426
Interest rate swaps	3,739	3,739	(5,303)
Hedge ineffectiveness of financial instruments recognised in other income			123

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12 Derivative financial instruments (continued)

\$000's	As at 30 June 2023		For the year ended 30 June 2023
	Carrying value	Accumulated amount of fair value hedge adjustment	Gain/(loss) recognised in income statement
Interest rate risk			
Investments	290,723	(14,893)	2,620
Other borrowings	(221,956)	5,331	473
Total	68,767	(9,562)	3,093
Interest rate swaps	8,362	8,362	(3,133)
Hedge ineffectiveness of financial instruments recognised in other income			(40)

The accumulated amount of fair value hedge adjustments included in the carrying amount of hedged items that have ceased to be adjusted for hedging gains and losses is nil (2023: nil).

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

\$000's	June 2024		June 2023	
	Cash flow hedge reserve	FCTR ¹	Cash flow hedge reserve	FCTR ¹
Cash flow hedges				
Balance at beginning of year	15,075	-	7,959	-
Transferred to the income statement	(744)	-	(1,771)	-
Net (loss)/gain from change in fair value	(14,233)	-	11,305	-
Net movement before tax	(14,977)	-	9,534	-
Tax on net movement in cash flow hedge reserve	4,276	-	(2,418)	-
Balance at end of year	4,374	-	15,075	-
Net investment hedge	-	-	-	2,537

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

During the year ended 30 June 2024, a gain of \$0.9 million was recognised in fair value gain on derivative financial instruments in the statement of comprehensive income related to hedge ineffectiveness from cash flow hedge relationships (2023: \$0.7 million).

There were no transactions for which cash flow hedge accounting had to be ceased as a result of the highly probable cash flows no longer being expected to occur (2023: nil).

There are \$2.5 million (2023: \$10.1 million) of balances recognised in the cash flow hedge reserve for which hedge accounting is no longer applied on the basis that the associated variable cash flows are still expected to occur over the lifetime of the original hedge relationships. The associated cash flow hedge reserve is being released over the period of the original hedge relationship which has since been de-designated.

13 Finance receivables measured at amortised cost

Policy

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

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

\$000's	June 2024	June 2023
Gross finance receivables measured at amortised cost	4,343,267	4,387,480
Less provision for impairment	(76,321)	(53,266)
Net finance receivables measured at amortised cost	4,266,946	4,334,214
Due within one year	1,050,448	1,172,487
Due more than one year	3,292,819	3,214,993
Less provision for impairment	(76,321)	(53,266)
Net finance receivables measured at amortised cost	4,266,946	4,334,214

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13 Finance receivables measured at amortised cost (continued)

Policy

Impairment of finance receivables measured at amortised cost

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

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

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

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

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

Stage 1 - 12 months ECL (past due 30 days or less)

Where there has been no evidence of increased credit risk since initial recognition, and finance receivables are not credit impaired upon origination, the portion of the lifetime ECL associated with the probability of default events occurring within the next 12 months is recognised.

Stage 2 - Lifetime ECL not credit impaired (greater than 30 but less than 90 days past due)

Where there has been a significant increase in credit risk.

Stage 3 - Lifetime ECL credit impaired (90 days past due or more)

Objective evidence of impairment, are considered to be in default or otherwise credit impaired.

Credit quality of financial assets

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

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

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

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

13 Finance receivables measured at amortised cost (continued)

Policy (continued)

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

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

Modification of contractual cash flows

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

Such restructuring activities include extended payment term arrangements, payment holidays and payment forgiveness. Restructuring policies and practices are based on indicators or criteria which, in the judgement of management, indicate that payment will most likely continue.

These policies are kept under continuous review. Restructuring is most commonly applied to term loans.

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

The Group's models for estimating ECL for each of its portfolios are based on the historical credit experience of those portfolios. The models assume that economic conditions remain static over time, and the provision is calculated as a point in time estimate. In FY2024, Heartland introduced a new methodology to calculating the Forward-Looking provision (that is, the change in provision as economic conditions change) for Motor. This includes building distribution curves based on previous loss rates. The Group then applies judgement to determine which loss rate applies to the upside, central, and downside scenario depending on how economic conditions may change in the foreseeable future. Subsequently, the loss rates are applied to current Motor receivables as at the reporting date to calculate forward-looking provisions under different economic scenarios.

The most significant and judgemental provision for impairment is on the motor vehicle lending with a collective ECL of \$29.9 million at 30 June 2024 (2023: \$15.1 million) which includes \$1.0 million for a forward looking position allowing for the impact of multiple economic scenarios.

As part of this assessment, three different economic indicators have been assessed. The assessment is based on the macroeconomic variables which the motor vehicle portfolio is most sensitive to. This includes consumer price index (inflation), the unemployment rate, and the OCR. However, management believes the most sensitive macroeconomic variable is unemployment, followed by CPI, then OCR. Therefore, the tables below present the forecasts for both the unemployment rate and CPI. The modelled provision for the motor vehicle lending is a probability weighted estimate based on three scenarios. The forecast of unemployment across all three scenarios uses consensus external data obtained from external economic experts, as well as, an average of forecasts from the relevant big four banks.

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

Unemployment Rate	2024/2025	2025/2026	2026/2027
Upside	4.68%	4.58%	4.50%
Central	5.13%	5.03%	4.80%
Downside	6.10%	6.28%	5.40%

CPI	2024/2025	2025/2026	2026/2027
Upside	2.00%	2.00%	1.90%
Central	2.30%	2.05%	2.10%
Downside	2.70%	2.40%	2.60%

13 Finance receivables measured at amortised cost (continued)

The probability weights assigned to each scenario are based on management's estimate of their relative likelihood. The following table indicates the weightings applied by the Group as at 30 June 2024:

Upside	10%
Central	50%
Downside	40%

The weightings are based on management's belief that there is still significant downside risk, uncertainty, and stresses in future economic conditions. Therefore, management has applied a 40% probability on the downside scenario. The following sensitivity table shows the provision for impairment based on the probability weighted scenarios and what the impairment allowance for motor vehicle lending would be assuming a 100% weighting is applied to the three scenarios with all other assumptions held constant.

Reported probability weighted impairment allowance	\$29.9 million
100% Upside	\$28.8 million
100% Central	\$29.0 million
100% Downside	\$31.7 million

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

\$000's	Collectively Assessed			Individually	Total
	Stage 1	Stage 2	Stage 3	Assessed	
June 2024					
Impairment allowance as at 30 June 2023	13,009	2,463	21,499	16,295	53,266
Changes in loss allowance					
Transfer between stages ¹	(769)	(5,687)	4,478	1,978	-
New and increased provision (net of provision releases) ¹	1,954	8,422	25,739	11,727	47,842
Credit impairment charge	1,185	2,735	30,217	13,705	47,842
Write-offs	-	-	(17,451)	(7,518)	(24,969)
Effect of changes in foreign exchange rate	-	(1)	16	-	15
Acquisition of subsidiary	167	-	-	-	167
Impairment allowance as at 30 June 2024	14,361	5,197	34,281	22,482	76,321
June 2023					
Impairment allowance as at 30 June 2022	20,256	1,958	14,602	15,189	52,005
Changes in loss allowance					
Transfer between stages ¹	(8,226)	(3,864)	3,758	8,332	-
New and increased provision (net of provision releases) ¹	983	4,369	15,774	4,678	25,804
Credit impairment charge	(7,243)	505	19,532	13,010	25,804
Write-offs	-	-	(12,612)	(11,904)	(24,516)
Effect of changes in foreign exchange rate	(4)	-	(23)	-	(27)
Impairment allowance as at 30 June 2023	13,009	2,463	21,499	16,295	53,266

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

13 Finance receivables measured at amortised cost (continued)

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

\$000's	Collectively Assessed			Individually	Total
	Stage 1	Stage 2	Stage 3	Assessed	
30 June 2024					
Gross finance receivables measured at amortised cost as at 30 June 2023	4,070,598	182,470	81,294	53,118	4,387,480
Acquisition of subsidiary	61,179	-	-	-	61,179
Transfer between stages	(261,729)	95,866	112,111	53,752	-
Additions	1,284,203	-	-	-	1,284,203
Deletions	(1,269,748)	(36,077)	(60,382)	(2,592)	(1,368,799)
Write-offs	(226)	(628)	(16,305)	(7,810)	(24,969)
Effect of changes in foreign exchange rate	4,166	2	5	-	4,173
Gross finance receivables measured at amortised cost as at 30 June 2024	3,888,443	241,633	116,723	96,468	4,343,267
30 June 2023					
Gross finance receivables measured at amortised cost as at 30 June 2022	3,967,917	118,424	46,114	66,371	4,198,826
Transfer between stages	(237,955)	161,605	64,627	11,723	-
Additions	1,412,648	-	-	9,326	1,421,974
Deletions	(1,072,012)	(97,559)	(17,068)	(15,194)	(1,201,833)
Write-offs	-	-	(12,379)	(19,108)	(31,487)
Gross finance receivables measured at amortised cost as at 30 June 2023	4,070,598	182,470	81,294	53,118	4,387,480

Impact of changes in gross exposures on loss allowances

Overall credit impairment provisions increased by \$23.0 million (43.3%) for the year ended 30 June 2024, mainly due to the shift of \$137.9 million (3.1%) of gross receivables moving to advanced stages associated with deteriorating credit quality.

As at 30 June 2024, there were \$0.03 million undrawn lending commitments available to counterparties for whom drawn balances are classified as individually impaired (2023: nil).

As at 30 June 2024, the contractual amount outstanding on loans to customers written off during the year and are still subject to enforcement activity was nil (2023: nil).

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14 Operating lease vehicles

Policy

Operating lease vehicles are stated at cost less accumulated depreciation.

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

\$000's	June 2024	June 2023
Cost		
Opening balance	22,913	20,450
Additions	6,732	8,766
Disposals	(3,454)	(6,303)
Closing balance	26,191	22,913
Accumulated depreciation		
Opening balance	5,947	5,289
Depreciation charge for the year	3,902	3,461
Disposals	(1,919)	(2,803)
Closing balance	7,930	5,947
Opening net book value	16,966	15,161
Closing net book value	18,261	16,966

The future minimum lease payments receivable under operating leases not later than one year is \$5.037 million (2023: \$4.086 million), within one to five years is \$7.192 million (2023: \$7.598 million) and over five years is \$0.002 million (2023: nil).

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15 Borrowings

Policy

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

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

\$000's	June 2024	June 2023
Deposits		
Short-term interest bearing deposits	1,399,189	1,493,190
Non-interest bearing deposits	38,193	9,205
Term deposits	4,511,734	2,628,630
Total borrowings related to deposits	5,949,116	4,131,025
Other borrowings		
Unsubordinated notes	458,019	385,482
Subordinated notes	153,732	97,794
Securitised borrowings	1,369,394	1,713,737
Certificate of deposit	59,618	148,110
Bank borrowings	-	131,248
Money market borrowings	-	20,004
Total other borrowings	2,040,763	2,496,375
Total deposits and other borrowings	7,989,879	6,627,400
Due within one year	6,150,044	4,731,388
Due more than one year	1,839,835	1,896,012
Total deposits and other borrowings	7,989,879	6,627,400

Deposits and unsubordinated notes rank equally and are unsecured.

Unsubordinated notes

Unsubordinated notes include short and long-term retail bonds and medium term notes. Medium term notes are issued in both New Zealand and Australian dollars to eligible non-retail investors in compliance with applicable laws.

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

Retail bonds and medium term notes \$000's	Frequency of interest repayment	June 2024	June 2023	Maturity Date
NZ \$125 million	Semi-annually	-	122,165	12 April 2024
NZ \$20 million	Semi-annually	20,302	-	27 March 2028
AU \$45 million ¹	Quarterly	49,974	49,471	9 July 2024
AU \$30 million ¹	Quarterly	33,285	32,585	9 July 2024
AU \$220 million	Quarterly	242,543	125,925	13 May 2025
AU \$100 million	Quarterly	111,915	55,336	5 October 2027
Total retail bonds and medium term notes		458,019	385,482	

¹Medium term notes, matured on 9 July 2024, were fully repaid.

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

15 Borrowings (continued)

Subordinated notes

NZD Subordinated notes

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

Interest payable

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

Early Redemption

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

Ranking

The claims of the holders of the subordinated notes will rank:

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

AUD Subordinated notes

On 28 June 2024, HBA, a subsidiary of the Group, issued A\$50 million of subordinated unsecured notes (**AUD Subordinated notes**) pursuant to the terms of the Debt Issuance Programme in accordance with the laws of Australia. AUD Subordinated notes are treated as Tier 2 capital under HBA regulatory capital requirements and will mature on 28 June 2034. AUD Subordinated notes do not qualify for treatment as Tier 2 capital under HBL regulatory capital requirements.

Interest payable

The interest rate is a floating rate equal to the sum of the applicable 3-month Bank Bill Swap Rate plus 3.7% Issue Margin. The quarterly payment of interest in respect of the subordinated notes are subject to HBA being solvent at the time of, and immediately following the interest payment.

Early Redemption

HBA may elect to repay the subordinated notes before 28 June 2034 in part or in full at their face value together with accrued interest on 28 June 2029 or any interest payment date thereafter. Early redemption of all the subordinated notes for certain tax or regulatory events is permitted on an interest payment date. Early redemption is subject to certain conditions, including HBA obtaining the Australian Prudential Regulatory Authority (**APRA**) prior written approval and HBA being solvent at the time.

Ranking

The claims of the holders of the subordinated notes will rank:

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

15 Borrowings (continued)

Securitised Borrowings

The Group had the following securitised borrowings outstanding as at 30 June 2024:

Securitisation facility \$000's	Currency	June 2024			June 2023		Maturity Date	
		Limit		Drawn	Limit			
		AUD	NZD		AUD	NZD		
Heartland Auto Receivable Warehouse (HARWT)	NZD	-	600,000	484,422	-	400,000	227,054	27 March 2028
Seniors Warehouse Trust (SWT) ¹	AU	-	-	-	600,000	651,537	622,344	30 September 2025
StockCo Securitisation Trust 2021-1 (StockCo)	AU	250,000	273,733	155,581	300,000	325,768	271,739	16 December 2025
Seniors Warehouse Trust No. 2 (SWT2)	AU	750,000	821,198	596,669	450,000	488,652	457,657	24 April 2026
Atlas 2020-1 Trust (Atlas) ²	AU	-	-	132,722	-	-	134,943	24 September 2050
Total securitised borrowings			1,694,931	1,369,394		1,865,957	1,713,737	

¹SWT drawn balance was fully repaid on 24 April 2024 and the facility was cancelled with effect from 1 May 2024.

²Atlas is a closed securitisation trust due to its predefined asset composition and outstanding borrowings balance, fixed throughout its operational life. As such, there is no facility limit applicable to Atlas issued notes.

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

Net debt reconciliation

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

\$000's	June 2024	June 2023
Balance as at beginning of year	2,496,375	2,578,213
Proceeds from wholesale borrowings	1,743,510	1,264,359
Repayment of wholesale borrowings	(2,362,786)	(1,208,292)
Proceeds from issue of unsubordinated notes	189,588	87,589
Repayment of unsubordinated notes	(123,764)	(330,300)
Proceeds from issue of subordinated debt	51,572	97,934
Total cash movements	(501,880)	(88,710)
Acquisition of debt from purchase of subsidiary	2,574	-
Capitalised interest and fee expense	30,791	34,809
Fair value movements	805	(473)
Foreign exchange and other movements	12,098	(27,464)
Total non-cash movements	46,268	6,872
Balance as at the end of year	2,040,763	2,496,375

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16 Share capital and dividends

Policy

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

	June 2024 Number of Shares	June 2023 Number of Shares
Issued shares		
Opening balance	709,658	592,904
Shares issued during the year	211,868	112,417
Shares issued - dividend reinvestment plan	9,035	4,337
Closing balance	930,561	709,658

HGH completed a capital raise during the year which comprised an institutional share placement (**Placement**) and a 1 for 6.85 accelerated non-renounceable entitlement offer (**Entitlement Offer**), offered to eligible institutional shareholders (**Institutional Entitlement Offer**) and eligible retail shareholders (**Retail Entitlement Offer**). HGH issued 131,949,647 shares for total proceeds of \$131.9 million on 15 April 2024 under the Institutional Entitlement Offer and 79,102,644 shares at \$1.00 per share (\$79.1 million) on 26 April 2024 under the Retail Entitlement Offer. The total value of shares issued was \$210.0 million with \$6.3 million of transaction costs recognised in relation to this share issuance.

On 19 September 2023, HGH issued a further 1,275,194 shares at \$0.60 per share (\$0.8 million) under the Long Term Incentive Scheme of HGH (**LTI Scheme**), of which 459,070 shares at \$1.74 per share (\$0.8 million) were acquired by HGH pursuant to the buyback offer to the participants to fund the tax liability arising for those participants upon receipt of shares under the LTI Scheme.

The Group issued 4,790,946 new shares at \$1.69 per share (\$8.1 million) on 22 September 2023 and 4,243,768 new shares at \$1.27 per share (\$5.4 million) on 20 March 2024 under the dividend reinvestment plan (**DRP**) for the period (2023: 4,336,812 new shares at \$1.64 per share (\$7.1 million) on 23 March 2023 under the DRP for the period).

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

Dividends paid

	June 2024			June 2023		
	Date Declared	Cents Per Share	\$000's	Date Declared	Cents Per Share	\$000's
Final dividend	28 August 2023	6.0	42,579	24 August 2022	5.5	32,609
Interim dividend	26 February 2024	4.0	28,611	28 February 2023	5.5	38,793
Total dividends paid			71,190			71,402

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17 Other reserves

\$000's	Employee Benefit Reserve	Foreign Currency Translation Reserve (FCTR)	Fair Value Reserve	Cash Flow Hedge Reserve	Total
June 2024					
Balance as at 30 June 2023	3,581	(8,438)	(3,978)	15,075	6,240
Movements attributable to net investments in foreign operations	-	1,773	-	-	1,773
Movements attributable to fair value hedges	-	-	1,282	-	1,282
Movements attributable to cash flow hedges	-	-	-	(14,977)	(14,977)
Movements attributable to fair value changes for the financial instruments at FVOCI	-	-	(3,152)	-	(3,152)
Income tax effect	-	-	(357)	4,276	3,919
Total other comprehensive income/(loss) net of income tax	-	1,773	(2,227)	(10,701)	(11,155)
Share based payments	(2,816)	-	-	-	(2,816)
Vesting of share based payments	(765)	-	-	-	(765)
Balance as at 30 June 2024	-	(6,665)	(6,205)	4,374	(8,496)
June 2023					
Balance as at 30 June 2022	4,646	(1,635)	(1,034)	7,959	9,936
Movements attributable to net investments in foreign operations	-	(6,803)	-	-	(6,803)
Movements attributable to fair value hedges	-	-	(779)	-	(779)
Movements attributable to cash flow hedges	-	-	-	9,534	9,534
Movements attributable to fair value changes for the financial instruments at FVOCI	-	-	(2,411)	-	(2,411)
Income tax effect	-	-	246	(2,418)	(2,172)
Total other comprehensive income/(loss) net of income tax	-	(6,803)	(2,944)	7,116	(2,631)
Share based payments	105	-	-	-	105
Vesting of share based payments	(1,170)	-	-	-	(1,170)
Balance as at 30 June 2023	3,581	(8,438)	(3,978)	15,075	6,240

Employee benefit reserve

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

FCTR

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

Fair value reserve

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

Cash flow hedge reserve

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

18 Other balance sheet items

Policy

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

\$000's	June 2024	June 2023
Other assets		
Trade receivables	194	430
GST receivables	4,402	562
Prepayments ¹	6,218	11,931
Property, plant and equipment ²	22,031	14,241
Other receivables	2,340	826
Total other assets	35,185	27,990

¹Prepayments at 30 June 2023 included \$3.9 million deposit paid for the conditional acquisition of HBA.

²Property, plant and equipment include rural property worth \$7.8 million, which has undergone a change in use from investment property during the year.

Policy

Intangible assets

Intangible assets with finite useful lives

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

Software-as-a-Service (SaaS) arrangements

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

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

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

Goodwill

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

18 Other balance sheet items (continued)

\$000's	June 2024	June 2023
Computer software		
Software - cost ¹	88,533	48,513
Software under development	5,692	28,391
Accumulated amortisation	(37,443)	(31,944)
Net carrying value of computer software	56,782	44,960
Goodwill	208,723	184,422
Net carrying value of goodwill	208,723	184,422
Banking licence	14,401	6,351
Total intangible assets	279,906	235,733

¹The increase in software - cost is related to capitalised costs associated with the core banking system upgrade completed during the year ended 30 June 2024.

Banking Licence

On 30 April 2024 Heartland Group Holdings Limited acquired 100% of the shares of CBL, holder of a full Australian Authorised Deposit-Taking Institution (**ADI**) Licence, from Challenger Limited. HGH and CBL jointly applied to the Australian Prudential Regulatory Authority (**APRA**) for approval to expand the range of products CBL offers and to amend CBL's APRA approved business plan to integrate with HGH's existing Australian based financial services business.

Costs directly attributable to the application have been recognised as Banking Licence intangible asset as the Banking Licence will have an indefinite life with no foreseeable limit to the period over which the asset will generate benefits for the business.

Goodwill

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

During the year, the Group had also recognised provisional goodwill from the acquisition of HBA (refer to Note 19 – Acquisition for further details).

The Group previously allocated goodwill to Heartland Bank Limited representing the New Zealand banking business, Heartland Australia Holdings Pty Limited representing the Australian reverse mortgage lending business and StockCo Australia Group representing the Australian specialist livestock finance business.

Pursuant to the acquisition of CBL, CBL and the Australian reverse mortgage lending and livestock financing businesses were transferred into HBA (collectively **the Australian businesses**). The performance of the Australian businesses is not monitored as separate business units but rather aggregated within HBA. The management structure has also been reorganised to reflect this, and general managers, responsible for product categories, report into one HBA management team. This represents a change in the way in which goodwill is monitored internally, and has resulted in a reallocation of goodwill to the group of CGUs represented by the Australian businesses. There were no indicators of impairment of goodwill immediately prior to the acquisition and business reorganisation.

CGU / Group of CGUs \$000's	Goodwill	
	June 2024	June 2023
Heartland Bank Limited	29,799	29,799
Heartland Bank Australia Limited (previously Challenger Bank Limited)	178,924	-
Heartland Australia Holdings Pty Limited	-	15,344
StockCo Australia Group ¹	-	139,279
Total goodwill	208,723	184,422

¹Comprising StockCo Holdings 2 Pty Limited and StockCo Australia Management Pty Limited as stated in Note 26 – Significant subsidiaries

18 Other balance sheet items (continued)

Goodwill (continued)

Impairment testing of goodwill

Further information about goodwill impairment tests performed for CGUs or group of CGUs is provided below.

Heartland Bank Limited (**HBL**) - \$29.8 million

The recoverable amount of the CGU was determined on a value in use (**VIU**) basis using a discounted cash flow methodology. The model uses a five-year cash flow forecast based on the latest budget approved by the respective Boards and extended out based on long term growth rates. The long-term growth rate applied to the future cash flows after year five of the forecast was 2.0% (2023: 2.0%), and a discount rate of 10.0% (2023: 10.0%) for HBL was applied which reflect both past experience and external sources of information. The goodwill impairment assessment indicates significant headroom, and that no foreseeable adjustments to key assumptions such as growth rate or discount rate would lead to impairment.

HBA group of CGUs (comprising the CGUs of Heartland Bank Australia Limited, Heartland Australia Holdings Pty Limited and StockCo Australia Group) - \$178.9 million

The recoverable amount is determined based on fair value less cost to sell by using an earnings multiple applicable to the group of CGUs. The category of this fair value is Level 3. Earnings multiples relating to the group of CGUs are sourced from publicly available data associated with comparable Australasian Financial Services companies to the group of CGUs, and are applied to the projected earnings for the next twelve months. The key assumption is the price-earnings (P/E) multiple observed for these businesses, the average of which for the comparable businesses were in the range of 14.0x-16.0x. For goodwill to be impaired for this group of CGUs, the forecast earnings for the next twelve months would need to decrease by between 15.9% and 26.4%.

No impairment losses have been recognised against the carrying amount of goodwill for the year ended 30 June 2024 (2023: nil).

The following information is in relation to the impairment tests performed for HAH and StockCo Australia Group for the comparative period.

Heartland Australia Holdings Pty Limited (**HAH**)

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

StockCo Australia Group

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

- Annual lending growth which has been forecasted based on management's current expectations of growth in the specialist livestock financing portfolio. In forming these expectations management has referenced the current and expected outlook in the overall Australian cattle and lamb markets and factored in pricing and growth strategies relative to market outlook. This includes targeting new customer segments and distribution channels to broaden reach.

18 Other balance sheet items (continued)

Goodwill (continued)

StockCo Australia Group (continued)

- Gross interest income (including interest yield) which represents the pricing of the products which factors in market outlook and new customer segments and are estimated based on management's past experience.
- Cost of funds which was projected based on the forward curve for bank bill rate plus a margin at the date of assessment, representing the expected funding structure of an analogous Australian ADI noting that the Group is working towards obtaining an Australian ADI licence.
- Terminal growth rate of 2.4% after year five of the forecast and discount rate of 12.0%, which reflects external sources of information.

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

Policy

Employee benefits

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

\$000's	June 2024	June 2023
Trade and other payables		
Trade and other payables	17,158	14,731
Insurance liability	645	914
Employee benefits	12,951	11,224
Other tax payables	4,176	3,820
Collateral received on derivatives ¹	2,384	27,609
Total trade and other payables	37,314	58,298

¹The Group has accepted collateral arising from derivative transactions, included in Cash and cash equivalents. The decrease in the carrying amount of cash collateral received is attributable to decrease in net asset positions on derivative balances compared to 30 June 2023. Refer to Note 31 - Offsetting financial instruments.

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18 Other balance sheet items (continued)

Policy

Leases

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

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

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

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

\$000's	June 2024	June 2023
Right of use assets		
Balance at beginning of year	12,318	14,145
Depreciation charge for the year, included within depreciation expense in the income statement	(3,252)	(2,539)
Additions to right of use assets	6,453	712
Total right of use assets	15,519	12,318
Lease liability		
Current	3,689	3,166
Non-current	14,087	11,121
Total lease liability	17,776	14,287
Interest expense relating to lease liability	693	488

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19 Acquisition

Policy

Business combination

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

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

On 30 April 2024 the Group completed the acquisition of 100% shareholding in CBL from Challenger Limited. From 1 May 2024, CBL began trading as Heartland Bank Australia, with the legal name change from CBL to HBA occurring later in May 2024.

Total cash consideration in relation to the transaction was A\$115.24 million (NZ\$126.60 million) which is comprised of:

- the total purchase price of A\$45.96 million (NZ\$50.49 million), reflecting the initial purchase price of A\$36.70 million (NZ\$40.31 million) plus A\$9.26 million (NZ\$10.17 million) of additional consideration due to the deposit raising programme undertaken by CBL prior to completion, and
- an additional payment of A\$69.28 million (NZ\$76.10 million), reflecting the increased capital being held by CBL following its pre-completion purchase of A\$574.30 million (NZ\$631.35 million) of reverse mortgages from HAH.

The deposit raising programme was requisite to the completion of the acquisition and is considered as part of the acquisition transaction.

The Group is assessing the fair value of the identifiable assets and liabilities acquired, and determining the related deferred tax effects, if any, in line with the principles for estimating fair value adopted by the Group. Values were provisionally allocated to identifiable assets and liabilities on completion date based on available information. They may be adjusted during the 12 months following that date on the basis of new information obtained relating to facts and circumstances prevailing at completion date.

Goodwill of A\$21.19 million (NZ \$23.21 million) has been recognised from the acquisition on a provisional basis. This is supported by the enabled expansion through access to retail deposits, together with the anticipated synergies to be realised over the next few years.

The provisional goodwill as at the acquisition date has been allocated to the Heartland Australia Bank Limited CGU (refer to Note 18 - Other balance sheet items for further details).

19 Acquisition (continued)

Details of the fair value of the assets and liabilities acquired and the provisional goodwill arising from the acquisition of HBA are set out as follows:

\$000's	Provisional fair value recognised on acquisition
Assets	
Cash and cash equivalents	292,211
Investments	367,739
Finance receivables measured at amortised cost	61,179
Finance receivables - reverse mortgages	635,609
Provision for impairment	(167)
Deferred tax asset	820
Other assets	860
Total assets	1,358,251
Liabilities	
Deposits	1,249,375
Other borrowings	2,574
Trade and other payables	2,916
Total liabilities	1,254,865
Net assets acquired	103,386
Provisional goodwill arising on acquisition	23,205
Fair value of consideration	126,591
<i>Cash flow on acquisition</i>	
Net cash acquired with the subsidiary	292,211
Net cash (inflow) on acquisition of subsidiary	(165,620)

HBA has contributed interest income of A\$14.86 million (NZ \$16.15 million) and net loss of A\$1.20 million (NZ \$1.29 million) to the Group for the period from 30 April 2024 to 30 June 2024.

If the acquisition had occurred on 1 July 2023, it is estimated that the contribution to the Group's interest income and profit for the year ended 30 June 2024 would have been A\$35.47 million (NZ\$38.40 million) and A\$8.90 million (NZ\$9.60 million) net loss respectively.

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20 Related party transactions and balances

Policy

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

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

(a) Transactions with key management personnel

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

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

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

\$000's	June 2024	June 2023
Transactions with key management personnel		
Interest income	-	123
Interest expense	(69)	(43)
Key management personnel compensation		
Short-term employee benefits	(3,423)	(8,083)
Share-based plan benefit/(expense)	-	14
Total transactions with key management personnel	(3,492)	(7,989)
Due from/(to) key management personnel		
Lending	-	4,428
Borrowings - deposits	(1,231)	(855)
Total due from/(to) key management personnel	(1,231)	3,573

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20 Related party transactions and balances (continued)

(b) Transactions with related parties

HGH is the ultimate parent company of the Group.

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

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

\$000's	June 2024	June 2023
ASF Custodians Pty Limited		
Audit fees	-	4
Heartland Trust (HT)		
Dividends paid	650	714

HT held 6,504,266 shares in HGH (2023: 6,504,266 shares).

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

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21 Fair value

Policy

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

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

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

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

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

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

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

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

(a) Financial instruments measured at fair value

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

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

Investment in debt securities

Investments in public sector securities and corporate bonds are stated at FVOCI or FVTPL, with the fair value being based on quoted market prices (Level 1 under the fair value hierarchy) or modelled using observable market inputs (Level 2 under the fair value hierarchy). Refer to Note 11 – Investments for more details.

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 at FVTPL unless an irrevocable election is made by the Group to measure at FVOCI. Investment in listed securities traded in liquid, active markets where prices are readily observable are measured under Level 1 of the fair value hierarchy with no modelling or assumptions used in the valuation. Equity securities are measured at FVOCI where they are not held for trading, the Group doesn't have control or significant influence over the investee and where an irrevocable election is made to measure them at FVOCI. These securities are measured at fair value with unrealised gains and losses recognised in other comprehensive income except for dividend income which is recognised in profit or loss. Investments in unlisted equity securities are measured under Level 3 of the fair value hierarchy with the fair value being based on unobservable inputs using market accepted valuation techniques. Where appropriate, the Group may apply adjustments to the above-mentioned techniques to determine fair value of an equity security to reflect the underlying characteristics. These adjustments are reflective of market participant considerations in valuing the said security.

21 Fair value (continued)

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

Finance receivables - reverse mortgages

The reverse mortgage portfolio is classified and measured at FVTPL under NZ IFRS 9 Financial instruments (**NZ IFRS 9**). An irrevocable election has been made by the Group to not apply the new NZ IFRS 17 Insurance Contracts standard effective from 1 July 2023. The review of the reverse mortgage portfolio valuation determined that the terms and conditions of these loan contracts do not contain a component of significant insurance risk, therefore they continue to be treated under NZ IFRS 9 Financial Instruments classified at FVTPL under NZ IFRS.

On initial recognition the Group considers the transaction price to represent the fair value of the loan, on the basis that no reliable fair value can be estimated as there is no relevant active market and fair value cannot be reliably measured using other valuation techniques under NZ IFRS 13 Fair value measurement.

For subsequent measurement, and at balance date, the Group considered whether the fair value can be determined by reference to a relevant active market or using a valuation technique that incorporates observable inputs but has concluded relevant support is not currently available. In the absence of such market evidence the Group has used the transaction value (cash advanced plus accrued capitalised interest) for subsequent measurement. The Group has used an actuarial method to determine a proxy for the fair value that incorporates changes in the portfolio risk and expectations of the portfolio performance. This includes inputs such as mortality and potential move into care, voluntary exits, house price changes, interest rate margin and the no equity guarantee. This estimate is highly subjective and a wide range of plausible values are possible. The estimate provides an indication of whether the transaction value is overstated.

The Group does not consider that the actuarial estimate has moved outside of the original expectation range on initial recognition. There has been no fair value movement recognised in profit or loss during the period (2023: nil). Fair value is not sensitive to the above assumptions due to the nature of reverse mortgage loans. In particular, given conservative origination loan-to-value ratio and security criteria, a material deterioration in house prices combined with a material increase in interest rates over a sustained period of time would likely need to occur before any potential impact to fair value.

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

Derivative financial instruments

Derivative financial instruments are recognised in the financial statements at fair value. Fair values are determined from observable market prices as at the reporting date, discounted cash flow models or option pricing models as appropriate (Level 2 under the fair value hierarchy).

21 Fair value (continued)

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

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

\$000's	Level 1	Level 2	Level 3	Total
June 2024				
Assets				
Investments	1,082,699	-	9,432	1,092,131
Derivative financial instruments	-	12,316	-	12,316
Finance receivables - reverse mortgages	-	-	2,897,818	2,897,818
Total financial assets measured at fair value	1,082,699	12,316	2,907,250	4,002,265
Liabilities				
Derivative financial instruments	-	9,017	-	9,017
Total financial liabilities measured at fair value	-	9,017	-	9,017
June 2023				
Assets				
Investments	318,756	-	11,484	330,240
Derivative financial instruments	-	36,983	-	36,983
Finance receivables - reverse mortgages	-	-	2,403,810	2,403,810
Total financial assets measured at fair value	318,756	36,983	2,415,294	2,771,033
Liabilities				
Derivative financial instruments	-	7,624	-	7,624
Total financial liabilities measured at fair value	-	7,624	-	7,624

There were no transfers between levels in the fair value hierarchy in the year ended 30 June 2024 (2023: nil).

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

\$000's	Finance Receivables - Reverse Mortgage	Investments	Total
June 2024			
As at 30 June 2023	2,403,810	11,484	2,415,294
Sale of SWT portfolio to HBA ¹	(631,345)	-	(631,345)
Additions - acquisition of HBA ²	635,609	-	635,609
New loans	552,073	-	552,073
Repayments	(335,429)	-	(335,429)
Capitalised Interest and fees	261,318	-	261,318
Purchase of investments	-	1,059	1,059
Fair value (loss) on investment	-	(3,152)	(3,152)
Other ³	11,782	41	11,823
As at 30 June 2024	2,897,818	9,432	2,907,250
June 2023			
As at 30 June 2022	1,996,854	7,032	2,003,886
New loans	543,248	-	543,248
Repayments	(297,066)	-	(297,066)
Capitalised Interest and fees	183,458	-	183,458
Purchase of investments	-	6,952	6,952
Fair value (loss) on investment	-	(2,411)	(2,411)
Other ³	(22,684)	(89)	(22,773)
As at 30 June 2023	2,403,810	11,484	2,415,294

¹Represents reverse mortgage portfolio sold to HBA on 24 April 2024, prior to its acquisition. Refer to Note 27 - Structured Entities.

²Refer to Note 19 - Acquisition.

³This relates to foreign currency translation differences for the assets.

21 Fair value (continued)

(a) Financial instruments not measured at fair value

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

Cash and cash equivalents

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

Finance receivables measured at amortised cost

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

Finance receivables with a floating interest rate are deemed to be at current market rates. The current amount of credit provisioning has been deducted from the fair value calculation of finance receivables as a proxy for future losses.

Borrowings

The fair value of deposits, bank borrowings and other borrowings is the present value of future cash flows and is based on the current market interest rates payable by the Group for debt of similar maturities.

Other financial assets and financial liabilities

The fair value of all other financial instruments is considered equivalent to their carrying value due to their short-term nature.

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

	June 2024			June 2023		
	Fair Value Hierarchy	Total Fair Value	Total Carrying Value	Fair Value Hierarchy	Total Fair Value	Total Carrying Value
\$000's						
Assets						
Finance receivables measured at amortised cost	Level 3	4,146,692	4,266,946	Level 3	4,102,591	4,334,214
Total financial assets		4,146,692	4,266,946		4,102,591	4,334,214
Liabilities						
Deposits	Level 2	5,955,369	5,949,116	Level 2	4,130,326	4,131,025
Other borrowings	Level 2	2,042,396	2,040,763	Level 2	2,496,310	2,496,375
Total financial liabilities		7,997,765	7,989,879		6,626,636	6,627,400

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21 Fair value (continued)

(b) Classification of financial instruments

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

\$000's	FVOCI Equity	FVOCI Debt Securities	FVTPL	Amortised Cost	Total Carrying Value
June 2024					
Assets					
Cash and cash equivalents	-	-	-	629,619	629,619
Investments	7,575	371,816	712,740	-	1,092,131
Finance receivables measured at amortised cost	-	-	-	4,266,946	4,266,946
Finance receivables - reverse mortgages	-	-	2,897,818	-	2,897,818
Derivative financial instruments	-	-	12,316	-	12,316
Other financial assets	-	-	-	2,534	2,534
Total financial assets	7,575	371,816	3,622,874	4,899,099	8,901,364
Liabilities					
Deposits	-	-	-	5,949,116	5,949,116
Other borrowings	-	-	-	2,040,763	2,040,763
Derivative financial instruments	-	-	9,017	-	9,017
Other financial liabilities	-	-	-	20,187	20,187
Total financial liabilities	-	-	9,017	8,010,066	8,019,083
June 2023					
Assets					
Cash and cash equivalents	-	-	-	311,503	311,503
Investments	9,665	315,192	5,383	-	330,240
Finance receivables measured at amortised cost	-	-	-	4,334,214	4,334,214
Finance receivables - reverse mortgages	-	-	2,403,810	-	2,403,810
Derivative financial instruments	-	-	36,983	-	36,983
Other financial assets	-	-	-	1,256	1,256
Total financial assets	9,665	315,192	2,446,176	4,646,973	7,418,006
Liabilities					
Deposits	-	-	-	4,131,025	4,131,025
Other borrowings	-	-	-	2,496,375	2,496,375
Derivative financial instruments	-	-	7,624	-	7,624
Other financial liabilities	-	-	-	43,254	43,254
Total financial liabilities	-	-	7,624	6,670,654	6,678,278

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Risk Management

22 Enterprise risk management program

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

The RMS&F supersedes HGH's Enterprise Risk Management Framework (**ERMF**) and has been developed to accommodate changes in the Group's operating environment, arising from the acquisition and integration of HBA, and is aligned with HBA's own Risk Management Strategy document that reflects Australian Prudential Regulation Authority (**APRA**) regulatory requirements in addition to the HGH's existing RMS&F that supports the RBNZ prudential risk management requirement.

Role of the Board and the Board Audit and Risk Committee

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

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

The BARC consists of three non-executive directors. The Chair of the HBL Audit Committee and the Chair of the HBL Risk Committee, as well as the HGH CEO, the HBL CEO, the Head of Internal Audit and the HGH Chief Financial Officer (**CFO**), HBL CFO and HBL Chief Risk Officer (**CRO**), each attend BARC meetings. The BARC undertakes its responsibilities with the assistance of subsidiary Boards and subsidiary Board Committees.

Internal Audit

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

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

A regular cycle of review has been implemented to cover all areas of the business, focused on assessment, management and control of risks identified. The audit plan takes into account cyclical review of various business units and operational areas, as well as identified areas of higher identified risk. The audit methodology is designed to meet the International Standards for the Professional Practice of Internal Auditing of The Institute of Internal Auditors.

22 Enterprise risk management program (continued)

Group Asset and Liability Committee (GALCO)

The GALCO is a management committee consisting of members from HBL and HBA which informs and supports the HGH BARC by providing consolidated oversight of risks of the Group's assets and liabilities across both HBL and HBA in relation to market risk, liquidity risk, balance sheet structure and capital management through:

- Ensuring compliance of the Group with risk limits and governance requirements.
- Recommending policies for approval and changes to risk tolerances to BRC and BAC.
- Setting the strategic direction for asset and liability management, to be reflected in the asset and liability management policy.
- Monitoring, assessing and proactively reacting to trends in the economy, interest rates, and foreign exchange rates to limit any potential adverse impact on earnings.

HBL Executive Risk Committee (ERC)

The ERC comprises the HBL CEO, HBL CRO, HBL CFO, HBL Group Treasurer and Head of Internal Audit. The ERC has responsibility for overseeing risk aspects including internal control environment to ensure that residual risk is consistent with the Group's risk appetite. The ERC generally meets monthly, and minutes are made available to the BARC. ERC's specific responsibilities include decision making and oversight of operational risk, compliance risk and credit risk.

Climate-related risks

Climate-related risks are integrated into the Group's overall risk management strategy and processes.

Risk Management

HGH has a defined risk tolerance for climate-related risk, which is monitored as part of HGH's respective RAS, reviewed, and updated at least annually to incorporate necessary changes and consider any new material emerging risks.

HGH's Enterprise Operational Risk Assessment identifies and assists proactive management of the Group's most critical operational risks, including climate-related risks, by establishing an inherent risk rating and residual risk rating to assist with monitoring of the risk exposure.

All Group business units are required to review their risk and control self-assessment (**RCSA**) at least annually. The RCSA primarily focuses on key operational risks and considers climate-related risks where relevant.

Governance

The Board is responsible for the Group's corporate governance, strategy and risk appetite ensuring climate-related risks and opportunities are considered. Oversight, assessment and management of climate-related risks and opportunities occur within HBL and HBA given their direct involvement in business operations and decision-making.

The HGH Sustainability Committee meets at least quarterly to consider climate-related risks and opportunities and provide updates, guidance, and leadership regarding climate initiatives to the Board.

The ERC receives monthly updates on risk appetite and status, including the status of climate-related risks, as well as quarterly Climate Change Composite Assessment capturing HBL and HBA climate-related risks.

HBL and HBA management are responsible for executing the initiatives, metrics and targets allocated based on accountability.

22 Enterprise risk management program (continued)

Climate-related risks (continued)

Strategy

The Group's sustainability strategy continues to evolve with the ongoing commitment to reducing its direct environmental impact, creating business practices that support positive environmental outcomes and fostering an internal culture of environmental awareness. The Group's strategy is built upon three pillars:

- building the capability to appropriately take climate change risks into consideration when making lending decisions,
- funding borrowers' transition to a net-zero economy; and
- embedding sustainability into every aspect of the Group's operations.

The Group integrates climate-related risks and opportunities into its wider business strategy, supported by ongoing monitoring of these risks through specific metrics and set targets focused on sustainable finance and its own operational emissions.

The Group assesses the impact of climate-related risks on its financial position and performance. Although climate change introduces an element of uncertainty, the Group has determined that climate-related risks do not have a material impact on the judgements, assumptions, and estimates for the year ended 30 June 2024.

HGH will release its Climate Report for the year ended 30 June 2024 by 31 October 2024, providing further details on the Group's approach to climate-related risks. A copy of the Climate Report will be available on HGH's website at <https://www.heartlandgroup.info/sustainability>.

Operational and compliance risk

Operational and compliance risk is the risk arising from day-to-day operational activities in the execution of the Group's strategy which may result in direct or indirect loss. Operational and compliance risk losses can occur as a result of fraud, human error, missing or inadequately designed processes, failed systems, damage to physical assets, improper behaviour or from external events. The losses range from direct financial losses, to reputational damage, unfavourable media attention, injury to or loss of staff or clients or as a breach of laws or banking regulations. Where appropriate, risks are mitigated by insurance.

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

- The first line of defence is the business line management of the identification, management and mitigation of the risks associated with the products and processes of the business. This accountability includes regular testing and attestation of the adequacy and effectiveness of controls and compliance with the Group's policies.
- The second line of defence is the Risk and Compliance function, responsible for the design and ownership of the Operational Risk Management Framework. It incorporates key processes including Risk and Control Self-Assessment (**RCSA**), incident management, independent evaluation of the adequacy and effectiveness of the internal control framework, and the attestation process.
- The third line of defence is Internal Audit which is responsible for independently assessing how effectively the Group is managing its risk according to its stated risk appetite.

The Group's exposure to operational and compliance risk is governed by a RAS approved by the Board and is used to guide management activities. This statement sets out the nature of risk which may be taken and aggregate risk limits, which are monitored by the ERC.

22 Enterprise risk management program (continued)

Market risk

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

Interest rate risk

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

- Mismatches between the repricing dates of interest bearing assets and liabilities (yield curve and repricing risk);
- Banking products repricing differently to changes in wholesale market rates (basis risk);
- Loan prepayment or deposit early withdrawal behaviour from customers that deviates from the expected or contractually agreed behaviour (optionality risk);
- The effect of internal or market forces on a bank's net interest margin where, for example, in a low-rate environment any fall in rates will further decrease interest income earned on the assets whereas funding cost cannot be reduced as it is already at the minimum level (margin compression risk); and
- The risk that the fair value of financial instruments will change when interest rates change (price risk). This is particularly relevant for the Group's fair-valued assets, such as its liquid asset portfolio, which the fair value of is relied upon to support the Group's funding requirements.

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

Foreign exchange risk

Foreign exchange (**FX**) risk arises from a change in FX rates for assets, liabilities, profit, or income denominated in an entity's non-functional currency. Functional currency is the currency in which an entity primarily operates.

FX Risk has the below components:

- Structural FX risk refers to the risk that an entity is exposed to when its assets, liabilities, or capital resources are denominated in a currency that is different to its reporting currency. This risk does not impact earnings unless and until the investment is sold. However, it does impact shareholder equity through revaluations of the net asset value through the foreign currency translation reserve.
- Profit translation risk is the risk that deviations in exchange rates significantly impact the translated value of a foreign currency-based operation's profit, creating volatility in the entity's reported profit.
- Balance sheet translation risk - arises from monetary assets and liabilities denominated in foreign currencies. Movements in FX rates change the equivalent value of foreign currency-denominated assets and liabilities through the entity's reported profit.

The Group's investment of capital in foreign currency operations generates an exposure to changes in foreign exchange rates. The Group has exposure to foreign currency translation risks through its Australian subsidiaries which have functional currency of Australian dollars (**AUD**). Variations in the value of these foreign currency operations arising as a result of exchange differences are reflected in the foreign currency translation reserve in equity. The Group incurs some non-traded foreign currency risk related to the potential repatriation of profits from its Australian subsidiaries.

The Group does not currently hedge its net investments in foreign operations except in circumstances where there is a material exposure arising from a currency that is anticipated to be volatile, and the hedging is cost effective. This risk is routinely monitored, and hedging is conducted where it is likely to add shareholder value.

22 Enterprise risk management program (continued)

Market risk (continued)

Foreign exchange risk (continued)

The Group's sensitivity to movements in the FX rates arises mainly from the translation of the profit generated by its Australian subsidiaries and the AUD-denominated monetary assets and liabilities. The Group's FX sensitivity analysis is based on the Australian subsidiaries' annual profit for the financial year representing an annual exposure to profit translation risk. Additionally, it incorporates the exposure to HBL's AUD-denominated cash balance as at the reporting date.

The following sensitivity analysis measures the impact on the Group's net profit after tax and equity from a reasonably possible movements in the AUD/NZD exchange rates, given the historical exchange rate volatility, with all other variables remaining constant.

\$000's	Impact on profit before tax	Impact on equity	Impact on profit before tax	Impact on equity
	As at 30 June 2024		As at 30 June 2023	
AUD/NZD exchange rate - increase 1%	(173)	(124)	(275)	(198)
AUD/NZD exchange rate - decrease 1%	176	127	280	202

Counterparty Credit Risk

Counterparty credit risk is the risk that the Group's earnings and/or capital are adversely impacted by the default of a counterparty.

The Group has on-going credit exposure associated with:

- Cash and cash equivalents;
- Finance receivables;
- Holding of investment securities; and
- Payments owed to the Group from risk management instruments.

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

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23 Credit risk exposure

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

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

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

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

The BARC (with the assistance of the HBL Board Risk Committee for New Zealand and the Heartland Australia Group Board for Australia) also oversees the Group's credit risk exposures to monitor overall risk metrics having regard to risk appetite set by the Board.

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

HBA Board has authority for approval for all credit exposures for HBA and its subsidiaries.

Reverse mortgage loans and negative equity risk

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

The Group's exposure to negative equity risk is managed via lending standards specific for this product. In addition to usual criteria regarding the type, and location, of security property that the Group will accept for reverse mortgage lending, a key aspect of the Group's policy is that a borrower's age on origination of the reverse mortgage loan will dictate the loan-to-value ratio of the reverse mortgage on origination. New Zealand and Australia reverse mortgage lending standards and operations are well aligned.

23 Credit risk exposure (continued)

Business Finance Guarantee Scheme

HBL along with other registered banks in New Zealand, has entered into a Deed of Indemnity with the New Zealand Government to implement the New Zealand Government's Business Finance Guarantee Scheme (**the Scheme**). The purpose of the Scheme is to provide short term credit to eligible small and medium size businesses, who have been impacted by the economic effects of COVID-19. The scheme allowed banks to lend to a maximum of \$5 million for a maximum of five years. The New Zealand Government will guarantee 80% of any loss incurred (credit risk) with HBL holding the remaining 20%. The Scheme concluded on 30 June 2021. As at 30 June 2024 HBL had a total exposure of \$42.2 million (2023: \$54.8 million) to its customers under this Scheme.

North Island Weather Events (NIWE) Loan Guarantee Scheme

On 31 July 2023, HBL entered into a Deed of Indemnity with the New Zealand Government to implement the North Island Weather Events Loan Guarantee Scheme. The supported loans are intended to assist New Zealand businesses to manage the impacts of the North Island Weather Events (during Auckland Anniversary weekend 2023). The facility limit for each supported loan must not exceed \$10 million for a maximum of 5 years. The New Zealand Government will guarantee 80% of any loss incurred (credit risk) with HBL holding the remaining 20%. The Scheme concluded on 30 June 2024. As at 30 June 2024 HBL had supported loans under this scheme of \$33.2 million.

Maximum exposure to credit risk at the relevant reporting dates

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

\$000's	June 2024	June 2023
On balance sheet:		
Cash and cash equivalents	629,619	311,503
Investments	1,092,131	315,192
Finance receivables measured at amortised cost	4,266,946	4,334,214
Finance receivables - reverse mortgages	2,897,818	2,403,810
Derivative financial assets	12,316	36,983
Other financial assets	2,534	1,256
Total on balance sheet credit exposures	8,901,364	7,402,958
Off balance sheet:		
Letters of credit, guarantee commitments and performance bonds	3,130	7,378
Undrawn facilities available to customers	554,307	435,314
Conditional commitments to fund at future dates	9,947	24,873
Total off balance sheet credit exposures	567,384	467,565
Total credit exposures	9,468,748	7,870,523

Concentration of credit risk by geographic region

\$000's	June 2024	June 2023
New Zealand	5,806,175	5,540,453
Australia	3,522,266	2,115,332
Rest of the world ¹	216,628	268,004
	9,545,069	7,923,789
Provision for impairment	(76,321)	(53,266)
Total credit exposures	9,468,748	7,870,523

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

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23 Credit risk exposure (continued)

Concentration of credit risk by industry sector

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

\$000's	June 2024	June 2023
Agriculture	1,084,889	1,156,042
Forestry and fishing	113,264	130,055
Mining	10,276	8,266
Manufacturing	69,799	80,729
Finance and insurance	1,758,706	817,864
Wholesale trade	40,561	46,053
Retail trade and accommodation	376,927	402,146
Households	4,715,535	4,078,270
Other business services	302,035	198,377
Construction	338,998	336,333
Rental, hiring and real estate services	196,329	205,079
Transport and storage	431,665	359,865
Other	106,085	104,710
	9,545,069	7,923,789
Provision for impairment	(76,321)	(53,266)
Total credit exposures	9,468,748	7,870,523

Credit risk grading

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

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

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

All loans past due but not impaired have been categorised into three impairments stages (see Note 13 – Finance receivables measured at amortised cost) which are in most cases based on arrears status. If a Judgemental loan is risk graded 6 or above it will be classified as stage 2 as a minimum and carry a provision based on lifetime ECL.

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23 Credit risk exposure (continued)

Credit risk grading (continued)

\$000's	Collectively Assessed			Individually Assessed	Total
	Stage 1	Stage 2	Stage 3		
June 2024					
Judgemental portfolio					
Grade 1 - Very Strong	183,354	-	-	-	183,354
Grade 2 - Strong	40,557	-	-	-	40,557
Grade 3 - Sound	167,230	5,556	536	-	173,322
Grade 4 - Adequate	505,177	14,142	6,940	-	526,259
Grade 5 - Acceptable	977,495	41,505	36,206	-	1,055,206
Grade 6 - Monitor	-	120,611	12,028	-	132,639
Grade 7 - Substandard	-	47,328	17,225	-	64,553
Grade 8 - Doubtful	-	-	141	88,549	88,690
Grade 9 - At risk of loss	-	-	166	6,633	6,799
Total Judgemental portfolio	1,873,813	229,142	73,242	95,182	2,271,379
Total Behavioural portfolio	2,014,630	12,491	43,481	1,286	2,071,888
Gross finance receivables measured at amortised cost	3,888,443	241,633	116,723	96,468	4,343,267
Provision for impairment	(14,361)	(5,197)	(34,281)	(22,482)	(76,321)
Total finance receivables measured at amortised cost	3,874,082	236,436	82,442	73,986	4,266,946
Undrawn facilities available to customers	272,829	1,805	904	-	275,538
June 2023					
Judgemental portfolio					
Grade 1 - Very Strong	25	-	-	-	25
Grade 2 - Strong	3,658	-	-	-	3,658
Grade 3 - Sound	41,887	477	-	-	42,364
Grade 4 - Adequate	637,993	9,975	3,477	-	651,445
Grade 5 - Acceptable	1,390,926	5,492	602	-	1,397,020
Grade 6 - Monitor	-	64,946	6,763	-	71,709
Grade 7 - Substandard	-	76,955	13,725	-	90,680
Grade 8 - Doubtful	-	-	-	51,447	51,447
Grade 9 - At risk of loss	-	-	-	1,671	1,671
Total Judgemental portfolio	2,074,489	157,845	24,567	53,118	2,310,019
Total Behavioural portfolio	1,996,109	24,625	56,727	-	2,077,461
Gross finance receivables measured at amortised cost	4,070,598	182,470	81,294	53,118	4,387,480
Provision for impairment	(13,009)	(2,463)	(21,499)	(16,295)	(53,266)
Total finance receivables measured at amortised cost	4,057,589	180,007	59,795	36,823	4,334,214
Undrawn facilities available to customers	255,174	2,609	86	-	257,869

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23 Credit risk exposure (continued)

Collateral held

The Group employs a range of policies and practices to mitigate credit risk and has internal policies on the acceptability of specific classes of collateral. Collateral is held as security to support credit risk on finance receivables and enforced in satisfying the debt in the event contractual repayment obligations are not met. The collateral held for mitigating credit risk for the Group's lending portfolios is outlined below.

Reverse mortgage and Residential mortgage loans

Reverse mortgage loans are secured by a first mortgage over a residential property which is typically a customer's primary residential dwelling, residential investment property or holiday home. Residential mortgage loans are secured by a residential mortgage over an owner-occupied property located in an approved urban area.

Corporate lending

Business lending including rural lending is typically secured by way of a charge over property and/or specific security agreement over relevant business assets, and, where considered appropriate, a general security agreement to provide the ability to control cash flows.

Other lending

Other lending comprises personal loans, primarily motor loans, which are secured by a motor vehicle or a boat; and other shorter term smaller personal loans which are predominantly unsecured.

The Group analyses the coverage of the loan portfolio which is secured by the collateral it holds.

Coverage is measured by the value of security as a proportion of loan balance outstanding and classified as follows:

Fully secured	Greater or equal to 100%
Partially secured	1% - 99.9%
Unsecured	No security held

The Group's loan portfolio have the following coverage from collateral held on credit impaired loans:

	Corporate	Residential	All other
June 2024			
Fully secured	47%	100%	69%
Partially secured	37%	-	10%
Unsecured	16%	-	21%
Total	100%	100%	100%
June 2023			
Fully secured	53%	100%	72%
Partially secured	39%	-	10%
Unsecured	8%	-	18%
Total	100%	100%	100%

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24 Liquidity risk

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

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

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

HBA and its controlled entities manage their own domestic liquidity and funding needs in accordance with HBA's own liquidity policy and the policies of the Group. HBA's liquidity policy is also overseen by APRA.

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

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

\$000's	June 2024	June 2023
Cash and cash equivalents	629,619	311,503
Investments in debt securities	1,078,656	315,192
Total liquid assets	1,708,275	626,695
Undrawn committed bank facilities	465,600	294,042
Total liquid assets and committed undrawn funding	2,173,875	920,737

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24 Liquidity risk (continued)

Contractual liquidity profile of financial liabilities

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

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

\$000's	On Demand	0-6 Months	6-12 Months	1-2 Years	2-5 Years	5+ Years	Total
June 2024							
Non-derivative financial liabilities							
Deposits	893,531	3,256,750	1,740,935	115,870	95,356	-	6,102,442
Other borrowings	-	205,029	305,010	1,304,185	217,942	443,513	2,475,679
Lease liabilities	-	2,158	2,212	4,043	10,610	640	19,663
Other financial liabilities	-	20,187	-	-	-	-	20,187
Total non-derivative financial liabilities	893,531	3,484,124	2,048,157	1,424,098	323,908	444,153	8,617,971
Derivative financial liabilities							
Inflows from derivatives	-	20,407	7,570	14,491	30,423	-	72,891
Outflows from derivatives	-	22,877	8,750	15,832	31,551	-	79,010
Total derivative financial liabilities	-	2,470	1,180	1,341	1,128	-	6,119
Undrawn facilities available to customers	554,307	-	-	-	-	-	554,307
June 2023							
Non-derivative financial liabilities							
Deposits	782,771	2,313,983	1,015,525	62,618	42,186	-	4,217,083
Other borrowings	-	220,675	575,087	918,506	822,614	330,353	2,867,235
Lease liabilities	-	1,489	1,501	2,875	7,046	2,731	15,642
Other financial liabilities	-	43,254	-	-	-	-	43,254
Total non-derivative financial liabilities	782,771	2,579,401	1,592,113	983,999	871,846	333,084	7,143,214
Derivative financial liabilities							
Inflows from derivatives	-	3,583	3,552	4,799	13,469	-	25,403
Outflows from derivatives	-	6,644	6,796	5,773	13,125	-	32,338
Total derivative financial liabilities	-	3,061	3,244	974	(344)	-	6,935
Undrawn facilities available to customers	435,314	-	-	-	-	-	435,314

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25 Interest rate risk

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

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

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

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

Sensitivity to interest rates arises from mismatches in the interest rate characteristics of interest bearing assets and the corresponding liability funding. One of the main causes of these mismatches is timing differences in the repricing of assets and liabilities. These mismatches are actively managed as part of the overall interest rate risk management process in accordance with the Group's policy.

An analysis of the Group's sensitivity is based on the values of the interest bearing assets and liabilities as at the reporting date, and measures the prospective impact on the net profit after tax and equity from movements in market interest rates by 100 basis points (**BP**), presented in the below table:

\$000's	Impact on	Impact on	Impact on	Impact on
	NPAT	equity	NPAT	equity
	As at 30 June 2024		As at 30 June 2023	
Market interest rates - 100 basis points increase	255	255	120	120
Market interest rates - 100 basis points decrease	(255)	(255)	(120)	(120)

The Group also manages interest rate risk by:

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

25 Interest rate risk (continued)

Contractual repricing analysis

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

\$000's	0-3 Months	3-6 Months	6-12 Months	1-2 Years	2+ Years	Non- Interest Bearing	Total
June 2024							
Financial assets							
Cash and cash equivalents	629,619	-	-	-	-	-	629,619
Investments	4,461	605,518	154,873	57,641	256,163	13,475	1,092,131
Derivative financial assets	-	-	-	-	-	12,316	12,316
Finance receivables measured at amortised cost	1,869,269	393,187	589,162	797,035	618,293	-	4,266,946
Finance receivables - reverse mortgages	2,897,818	-	-	-	-	-	2,897,818
Other financial assets	-	-	-	-	-	2,534	2,534
Total financial assets	5,401,167	998,705	744,035	854,676	874,456	28,325	8,901,364
Financial liabilities							
Deposits	2,733,266	1,334,469	1,659,617	109,708	73,864	38,192	5,949,116
Other borrowings	1,883,541	-	-	-	157,222	-	2,040,763
Derivative financial liabilities	-	-	-	-	-	9,017	9,017
Lease liabilities	-	-	-	-	-	17,776	17,776
Other financial liabilities	-	-	-	-	-	20,187	20,187
Total financial liabilities	4,616,807	1,334,469	1,659,617	109,708	231,086	85,172	8,036,859
Effect of derivatives held for risk management	1,219,913	(145,235)	(277,771)	(405,932)	(390,975)	-	-
Net financial assets/(liabilities)	2,004,273	(480,999)	(1,193,353)	339,036	252,395	(56,847)	864,505

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25 Interest rate risk (continued)

Contractual repricing analysis (continued)

\$000's	0-3 Months	3-6 Months	6-12 Months	1-2 Years	2+ Years	Non- Interest Bearing	Total
June 2023							
Financial assets							
Cash and cash equivalents	311,499	-	-	-	-	4	311,503
Investments	29,828	24,963	37,767	55,460	167,174	15,048	330,240
Derivative financial assets	-	-	-	-	-	36,983	36,983
Finance receivables measured at amortised cost	1,891,666	382,923	601,344	767,933	690,348	-	4,334,214
Finance receivables - reverse mortgages	2,403,810	-	-	-	-	-	2,403,810
Other financial assets	-	-	-	-	-	1,256	1,256
Total financial assets	4,636,803	407,886	639,111	823,393	857,522	53,291	7,418,006
Financial liabilities							
Deposits	2,269,837	795,536	962,205	59,026	35,216	9,205	4,131,025
Other borrowings	1,918,311	49,598	393,072	-	135,394	-	2,496,375
Derivative financial liabilities	-	-	-	-	-	7,624	7,624
Lease liabilities	-	-	-	-	-	14,287	14,287
Other financial liabilities	-	-	-	-	-	43,254	43,254
Total financial liabilities	4,188,148	845,134	1,355,277	59,026	170,610	74,370	6,692,565
Effect of derivatives held for risk management	1,084,971	(66,798)	(41,181)	(556,676)	(420,316)	-	-
Net financial assets/(liabilities)	1,533,626	(504,046)	(757,347)	207,691	266,596	(21,079)	725,441

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

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Other Disclosures

26 Significant subsidiaries

Significant subsidiaries	Country of incorporation and place of business	Nature of business	Proportion of ownership and voting power held	
			June 2024	June 2023
Heartland Bank Limited	New Zealand	Bank	100%	100%
VPS Properties Limited	New Zealand	Investment property holding company	100%	100%
Marac Insurance Limited	New Zealand	Insurance services	100%	100%
Heartland Bank Australia Limited ¹	Australia	Bank	100%	-
Heartland Australia Holdings Pty Limited	Australia	Financial services	100%	100%
Heartland Australia Group Pty Limited	Australia	Financial services	100%	100%
Australian Seniors Finance Pty Limited	Australia	Management services	100%	100%
StockCo Holdings 2 Pty Limited	Australia	Financial services	100%	100%
StockCo Australia Management Pty Limited	Australia	Management services	100%	100%

¹Heartland Bank Australia Limited (**HBA**) is the current legal name of CBL acquired by HBL on 30 April 2024. Refer to Significant events section in Note 1 - Financial statements preparation and Note 19 - Acquisition for further details.

27 Structured entities

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

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

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

\$000's	June 2024	June 2023
Deposits	389,388	244,258

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

HARWT securitises motor vehicle loan receivables as a source of funding.

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

\$000's	June 2024	June 2023
Cash and cash equivalents	43,646	16,874
Finance receivables measured at amortised cost	540,075	254,735
Other borrowings	(550,144)	(258,256)

27 Structured entities (continued)

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

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

\$000's	June 2024 ¹	June 2023
Cash and cash equivalents	68,316	29,392
Finance receivables - reverse mortgages	852,119	1,371,110
Other borrowings	(787,373)	(1,124,835)

¹Senior Warehouse Trust (SWT) total borrowings balance was fully repaid upon the sale of its finance receivables - reverse mortgages portfolio to HBA on 24 April 2024, followed by the cancellation of the A\$600 million facility limit, effective 1 May 2024. SWT had \$5.2 million of residual assets and nil liabilities on its balance sheet as at 30 June 2024.

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

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

\$000's	June 2024	June 2023
Cash and cash equivalents	16,322	11,684
Finance receivables - reverse mortgages	152,156	144,099
Other borrowings	(144,635)	(143,353)

(e) StockCo Securitisation Trust 2022-1

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

\$000's	June 2024	June 2023
Cash and cash equivalents	47,704	39,089
Finance receivables measured at amortised cost	171,960	365,130
Other borrowings	(211,046)	(365,823)

28 Staff share ownership arrangements

The Group operates a share-based compensation plan that issues tranches of performance rights from time to time that are equity settled. The plan contains clauses which provide the Board with absolute discretion to moderate the awards to ensure an equitable outcome for both the recipients and Heartland shareholders. This discretion means there can be no shared understanding of the terms and conditions of the arrangement between participants and the company until finalisation of an award. The fair value of each tranche shall be measured at grant date, which in the absence of shared understanding is deemed to be each reporting date for the respective tranches until such time grant date has been established.

The fair value is determined using a Monte Carlo option pricing model developed by an independent third party expert at each reporting date.

Each tranche contains a total shareholder return (TSR) measure which is a gate opener to consideration of achievement of other performance measures. At the end of each reporting period the Group revises its estimate of the value of performance rights based on its probability of attaining an equitable TSR and number of equity instruments expected to vest.

The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the employee benefits reserve.

(a) Share-based compensation plan details

Heartland performance rights plan (PR plan)

The PR plan was established to enhance the alignment of participants' interests with those of the Group's shareholders. Under the PR plan participants are issued performance rights which will entitle them to receive shares in the Group. As at June 2024, there were 4 active tranches being 2024 (CEOs), 2024 (non-CEOs), 2025 (CEOs) and 2025 (non-CEOs). All tranches are subject to the existing rules of the PR plan.

The 2023 tranche fully vested in September 2023 as per the original expectation and on the basis that the Group achieved its financial measures, strategic objectives and culture and conduct objectives over the period commencing 1 July 2020 and ending on 30 June 2023. On vesting, 1,275,194 performance rights were converted into ordinary shares, contributing a \$765,116 decrease in the Employee benefits reserve.

2024 (CEOs) tranche

The performance rights were issued subject to the participants' continued employment with the Group until the measurement date and the Group achieving its financial measures, strategic objectives and culture and conduct objectives, over the period commencing 1 July 2020 and ending on 30 June 2024. The targets are dynamic and may be adjusted by the Board from time to time in order to account for unanticipated capital changes during the performance period. The measurement date is the business days following the date on which the Group announces its full year results for the financial year ended 2024.

The 2024 (CEOs) tranche includes the performance rights originally issued to the CEOs under the 2023 tranche but whose measurement period was subsequently modified to be from 1 July 2020 to 30 June 2024. There have been no other changes in plan terms or rules.

2024 (non-CEOs) tranche and 2025 (CEOs) tranche

Performance rights were issued for period commencing 1 July 2021 and ending on 30 June 2024 and 30 June 2025 respectively. The tranche rules have been aligned with the 2023 tranche and 2024 (CEOs) tranche. Measures are tested on the business day after the announcement of full year results for the financial years ended 30 June 2024 and 30 June 2025 respectively.

2025 (non-CEOs) tranche

Performance rights were issued for the period commencing 1 July 2022 and ending on 30 June 2025. The tranche rules have been aligned with the 2023 tranche and 2024 (non-CEOs) tranche. Measures are tested on the business day after the announcement of full year results for the financial year ended 30 June 2025.

28 Staff share ownership arrangements (continued)

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

	June 2024 PR Plan Number of Rights	June 2023 PR Plan Number of Rights
Opening balance	7,853,640	8,801,096
Vested	(1,275,194)	(2,250,625)
Issued	-	1,717,909
Forfeited	(160,970)	(414,740)
Closing balance	6,417,476	7,853,640

(b) Effect of share-based payment transactions

\$000's	June 2024	June 2023
Award of Shares		
PR Plan	(2,816)	105
Total (income) / expense recognised	(2,816)	105

The fair value of each tranche of performance rights issued under the PR Plan were measured at nil as at 30 June 2024 based on the TSR performance of each respective tranche from its commencement date (2023: \$2.2 million).

As at 30 June 2024 nil share scheme awards remain unvested and not expensed.

(c) Number of rights outstanding

	June 2024		June 2023	
	Rights Outstanding	Remaining Years	Rights Outstanding	Remaining Years
PR Plan - 2023	-	-	1,275	-
PR Plan - 2024	3,548	-	3,548	1
PR Plan - 2025	2,869	1	3,031	2
Total	6,417		7,854	

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29 Securitisation, funds management and other fiduciary activities

Funds management and other fiduciary activities

The Group, through Heartland PIE Fund Limited, controls, manages and administers the Heartland PIE Fund and its products (Heartland Call PIE and Heartland Term Deposit PIE). Refer to Note 27 - Structured entities for further details. The Heartland PIE Fund deals with HBL in the normal course of business, in the HBL's capacity as Registrar of the Fund and also invests in HBL's deposits. The Group is considered to control the Heartland PIE Fund, and as such the Heartland PIE Fund is consolidated within the financial statements of the Group.

30 Concentrations of funding

(a) Concentration of funding by industry

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

\$000's	June 2024	June 2023
Agriculture	104,818	113,341
Forestry and fishing	18,745	21,944
Mining	178	291
Manufacturing	17,698	19,185
Finance and insurance	2,542,298	3,012,700
Wholesale trade	10,207	7,634
Retail trade and accommodation	30,410	25,136
Households	5,025,700	3,215,828
Rental, hiring and real estate services	101,495	59,720
Construction	28,914	36,868
Other business services	65,790	66,763
Transport and storage	6,512	7,807
Other	37,114	40,183
Total borrowings	7,989,879	6,627,400

(b) Concentration of funding by geographical area

\$000's	June 2024	June 2023
New Zealand	4,921,410	4,634,934
Australia	3,005,336	1,905,300
Rest of the world	63,133	87,166
Total borrowings	7,989,879	6,627,400

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31 Offsetting financial instruments

The Group offsets financial assets and financial liabilities and reports the net balance in the balance sheet where there is currently a legally enforceable right to set off and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

The Group enters into contractual arrangements with counterparties to manage the credit risks associated primarily with over-the-counter derivatives. The Group has entered into credit support annexes (**CSAs**) which form a part of International Swaps and Derivatives Association (**ISDA**) Master Agreement, in respect of certain exposures relating to derivative transactions. As per these CSAs, the Group or the counterparty needs to collateralise the market value of outstanding derivative transactions. As at 30 June 2024, the Group has received \$2.38 million of cash collateral (2023: \$27.61 million) against derivative assets. Cash collateral includes amounts of cash obtained to cover the net exposure between the counterparty in the event of default or insolvency. The cash collateral received is not netted off against the balance of derivative assets disclosed in the consolidated statement of financial position; and is disclosed within trade and other payables.

The following table sets out financial assets and financial liabilities which have not been offset but are subject to enforceable master netting agreements (or similar arrangements) and the related amounts not offset in the balance sheet. Financial instruments refer to amounts that are subject to relevant close out netting arrangements under a relevant ISDA agreement. ISDA and similar master netting arrangements do not meet the criteria for offsetting in the statement of financial position because under such agreements the counterparties typically have the right to offset only following an event of default, insolvency or bankruptcy or following other pre-determined events.

\$000's	Effects of offsetting on the balance sheet			Related amounts not offset		
	Gross amounts	Gross amount set off in balance sheet	Net amounts reported in the balance sheet	Financial instruments	Cash collateral received	Net amount
June 2024						
Derivative financial assets	12,316	-	12,316	(9,017)	(2,384)	915
Total financial assets	12,316	-	12,316	(9,017)	(2,384)	915
Derivative financial liabilities	9,017	-	9,017	(9,017)	-	-
Total financial liabilities	9,017	-	9,017	(9,017)	-	-
June 2023						
Derivative financial assets	36,983	-	36,983	(7,624)	(27,609)	1,750
Total financial assets	36,983	-	36,983	(7,624)	(27,609)	1,750
Derivative financial liabilities	7,624	-	7,624	(7,624)	-	-
Total financial liabilities	7,624	-	7,624	(7,624)	-	-

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32 Contingent liabilities and commitments

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

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

\$000's	June 2024	June 2023
Letters of credit, guarantee commitments and performance bonds	3,130	7,378
Total contingent liabilities	3,130	7,378
Undrawn facilities available to customers	554,307	435,314
Conditional commitments to fund at future dates	9,947	24,873
Total commitments	564,254	460,187

33 Events after reporting date

The Group approved a fully imputed final dividend of 3 cents per share on 28 August 2024.

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

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Independent auditor's report

To the shareholders of Heartland Group Holdings Limited

Our opinion

In our opinion, the accompanying financial statements of Heartland Group Holdings Limited (the Company), including its subsidiaries (the Group), present fairly, in all material respects, the financial position of the Group as at 30 June 2024, its financial performance and its cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) and International Financial Reporting Standards Accounting Standards (IFRS Accounting Standards).

What we have audited

The Group's financial statements comprise:

- the statement of financial position as at 30 June 2024;
- the statement of comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, comprising material accounting policy information and other explanatory information.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand) (ISAs (NZ)) and International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report.

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

Independence

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

Our firm carries out other services for the Group. These services are audit and assurance related services for the Group comprising: assurance over insurance solvency, supervisor reporting, registry audits and greenhouse gas emissions reporting. Other services include the provision of an executive reward survey report. In addition, certain partners and employees of our firm may deal with the Group on normal terms within the ordinary course of trading activities. The provision of these other services and these relationships have not impaired our independence as auditor of the Group.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current year. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Description of the key audit matter	How our audit addressed the key audit matter
<p>Provision for impairment of finance receivables</p> <p>As disclosed in note 13 of the financial statements, the impairment allowance totalled \$76.3 million at 30 June 2024.</p> <p>For the determination of the collectively assessed impairment allowance, this requires the use of credit risk methodologies that are applied in models using the Group’s historical experience of the correlations between defaults and losses, borrower creditworthiness, segmentation of customers or portfolios and economic conditions. The assumptions we focused our audit on included those with greater levels of management judgement and for which variations have the most significant impact on the impairment allowance.</p> <p>For finance receivables that meet specific risk based criteria, the impairment allowance is individually assessed by the Group. These impairment allowances are measured using probability weighted scenarios which are intended to reflect a range of reasonably possible outcomes, and incorporate assumptions such as estimated future cash proceeds expected to be recovered from the realisation of security held as collateral by the Group.</p> <p>We considered this a key audit matter due to the significant inherent estimation uncertainty present in the determination of the impairment allowance.</p>	<p>We obtained an understanding of control activities over the Group’s impairment allowance, and for relevant control activities assessed whether they are appropriately designed. For controls relevant to our planned audit approach, we tested, on a sample basis, whether they operated effectively throughout the financial year.</p> <p>In addition, we, along with our credit risk modelling expert, performed the following procedures, amongst others, on a targeted or sample basis, on the Group’s collectively assessed impairment allowance:</p> <ul style="list-style-type: none"> • Assessed the appropriateness of the methodology inherent in the models used against the requirements of NZ IFRS 9 <i>Financial Instruments</i>; • Challenged and assessed the appropriateness of the collectively assessed impairment allowance inclusive of the impacts of any post model adjustments; • Challenged management’s modelling outcomes using a range of what we consider reasonably possible assumptions to assess the collectively assessed impairment allowance; and • Tested the completeness and accuracy of critical data elements used in the calculations. <p>With respect to individually assessed impairment allowances we:</p> <ul style="list-style-type: none"> • For a sample of business and rural loans not identified as impaired, considered the borrowers latest information available to the Group to assess the credit risk grade rating allocated to the borrower as to whether the borrower could be identified as impaired, a critical data element which involves significant management judgement; and • For loans where an impairment allowance was individually assessed, we considered the borrower’s latest financial information, value of security held as collateral and probability weighted scenario outcomes (where applicable) to test the basis of measuring the impairment allowance. <p>We also considered the impacts of events occurring subsequent to balance date on the impairment allowances.</p> <p>We also assessed the reasonableness of the disclosures against the requirements of the accounting standards.</p>

Description of the key audit matter	How our audit addressed the key audit matter
<p>Fair value of finance receivables - reverse mortgages</p> <p>The Group's fair value of finance receivables – reverse mortgages (“Reverse mortgages”) totalled \$2.9 billion at 30 June 2024 as disclosed in note 21 of the financial statements. Reverse mortgages are held at fair value through profit or loss.</p> <p>The Group records the estimated fair value of the Reverse mortgages at transaction price (cash advanced plus accrued capitalised interest) on the basis that no reliable fair value can be estimated as there is no relevant active market and the fair value cannot be reliably estimated using other valuation techniques as permitted under the accounting standards.</p> <p>To assess whether the transaction price remains an appropriate proxy for fair value, the Group considers the impact on discounted future cash flows of changes in the risk profile and expectations of performance since origination, including possible outflows under the no negative equity guarantee provided by the Group to the borrower. High interest rates and volatility in house prices, combined with the economic outlook, increases the possibility of outflows under the no negative equity guarantee. Accordingly, we consider this to be a key audit matter.</p>	<p>Our audit procedures included assessing the design and implementation of controls relating to the Group's assessment of the fair value of Reverse mortgages.</p> <p>In addition, our audit procedures included:</p> <ul style="list-style-type: none"> ● Assessing the reasonableness of the Group's approach to estimating the fair value based on the transaction price against the requirements of the accounting standards; ● Assessing whether there was evidence of a relevant active market or observable inputs in which to establish fair value using a market approach; ● Engaging our internal actuarial expert to assess the Group's estimate of the value of discounted future cash flows from the Reverse mortgages, including any expected outflows under the no negative equity guarantee and comparing this to the transaction price of Reverse mortgages (carrying value) to assess any potential shortfall (a shortfall would indicate the transaction value was overstated); ● Testing the completeness and accuracy of a sample of critical data elements used as inputs to the value of discounted future cash flows; ● Assessing the reasonableness of key assumptions (such as future house prices, voluntary exits, interest rate margins, future interest rates) used in the value of discounted future cash flows; and ● Considering the appropriateness of the disclosures in note 21 of the financial statements against the requirements of the accounting standards.

Description of the key audit matter	How our audit addressed the key audit matter
<p>Heartland Bank Australia Limited group of cash generating units (CGUs) goodwill impairment assessment</p> <p>The carrying amount of the Heartland Bank Australia Limited group of CGUs goodwill as at 30 June 2024, as disclosed in note 18 of the financial statements, amounted to \$178.9 million.</p> <p>The carrying value of goodwill is a key audit matter as it is a significant intangible asset in the Group's statement of financial position. At balance date an impairment assessment is required which uses an estimate of the recoverable amount that is dependent on future earnings.</p> <p>With the Group's acquisition of Challenger Bank Limited (subsequently renamed Heartland Bank Australia Limited), reorganisation of the Heartland Australia Holdings Limited business into Heartland Bank Australia Limited and changes in the way in which goodwill is monitored internally, judgement is applied in respect of the determination of the group of CGU's at which impairment is assessed.</p> <p>The Group used the Fair Value Less Cost to Sell (FVLCS) approach to determine the recoverable amount of the Heartland Bank Australia Limited group of CGUs.</p> <p>FVLCS is based on a price-earnings multiples approach using forecast earnings for the next twelve months (FY25 forecast earnings).</p> <p>The assumptions used in the FVLCS are:</p> <ul style="list-style-type: none"> • Price-earnings multiple; and • FY25 forecast earnings. 	<p>We held discussions with management to understand the assumptions used in the determination of the group of CGUs and the goodwill impairment assessment.</p> <p>Our audit procedures also included the following:</p> <ul style="list-style-type: none"> • Assessing judgements made in respect of the determination of the group of CGUs, taking into account the reorganisation of the Group's Australian business in the current year; • Obtaining an understanding of the business processes and controls applied by management in performing the impairment assessment; • Assessing the appropriateness of using a FVLCS approach against the requirements of the accounting standards; • Engaging our internal valuation expert to assess management's valuation methodology and key assumptions, including comparable price-earnings multiples; • Obtaining evidence of the FY25 forecast earnings approved by the Board and assessing the reasonableness of key inputs including lending growth, interest yields, funding mix, cost of funds and expenses; • Reviewing publicly available information on analyst forecasts of FY25 forecast earnings; • Testing the mathematical accuracy of the FY25 forecast earnings; • Obtaining and evaluating management's sensitivity analyses to ascertain the impact of reasonably possible changes in key assumptions on the recoverable amount; and • Considering the appropriateness of the disclosures in note 18 of the financial statements against the requirements of the accounting standards.

Description of the key audit matter	How our audit addressed the key audit matter
<p>Operation of financial reporting information technology (IT) systems and controls</p> <p>The Group's operations and financial reporting processes are dependent on IT systems for the capture, processing, storage and extraction of significant volumes of transactions which is critical to the recording of financial information and the preparation of the Group's financial statements. In addition, the Group upgraded its New Zealand core banking system in the current year. Accordingly, we consider this to be a key audit matter.</p> <p>In common with other groups with banking subsidiaries, access management controls are important to ensure both access and changes made to applications and data are appropriate. Ensuring that only appropriate staff have access to IT systems, that the level of access itself is appropriate, and that access is periodically monitored, are key controls in mitigating the potential for fraud or error as a result of a change to an application or underlying data.</p> <p>The Group's controls over IT systems are intended to ensure that:</p> <ul style="list-style-type: none"> • changes to existing systems operate as intended and are authorised; • access to process transactions or change data is appropriate and maintains an intended segregation of duties; • the use of privileged access to systems and data is restricted and monitored; and • IT processing is approved and where issues arise they are resolved. 	<p>For material financial statement transactions and balances, our procedures included obtaining an understanding of the business processes, IT systems used to generate and support those transactions and balances, associated IT application controls, and IT dependencies in manual controls.</p> <p>This involved assessing, where relevant to the audit:</p> <ul style="list-style-type: none"> • change management: the processes and controls used to develop, test and authorise changes to the functionality and configurations within systems; • security: the access controls designed to enforce segregation of duties, govern the use of generic and privileged accounts, or ensure that data is only changed through authorised means; and • IT operations: the controls over certain IT batch processes used to ensure that any issues that arise are managed appropriately. <p>In addition to the above, our audit procedures around the upgrade of the New Zealand core banking system included the following:</p> <ul style="list-style-type: none"> • assessing management's governance over and methodology applied for the system upgrade; • testing the design and operating effectiveness of key controls over the system development life cycle; and • testing the completeness and accuracy of financial data migrated to the upgraded core banking system. <p>Where relevant to our planned audit approach, we, along with our IT specialists, evaluated and tested the design and operating effectiveness of certain controls over the continued integrity of IT systems that are relevant to financial reporting.</p> <p>We also carried out tests, on a sample basis, of IT application controls that were key to our audit testing strategy in order to assess the accuracy of relevant system calculations, automated controls and the operation of certain system enforced access controls.</p> <p>Where we identified design or operating effectiveness matters relating to IT systems and application controls relevant to our audit, we performed alternative or additional audit procedures.</p>

Description of the key audit matter	How our audit addressed the key audit matter
<p>Accounting for the acquisition of Challenger Bank Limited</p> <p>As disclosed in note 19 of the financial statements, the Group acquired Challenger Bank Limited on 30 April 2024 for a total cash consideration of \$126.6 million. The fair value of certain assets and liabilities arising from the acquisition have been determined on a provisional basis as any completion adjustments will be finalised within 12 months of the acquisition date. As a result of this acquisition, the Group has recognised provisional goodwill on acquisition of \$23.2 million.</p> <p>We consider this acquisition to be a key audit matter due to:</p> <ul style="list-style-type: none"> • the significance of the acquisition to the Group; • judgements made in the provisional fair value assessment of assets and liabilities arising from the acquisition of Challenger Bank Limited; and • the appropriateness of including within the cash consideration the additional payments made to Challenger Limited in respect of the deposit raising programme and increased capital. 	<p>Our audit procedures included:</p> <ul style="list-style-type: none"> • Reading the Sale and Purchase Agreement (and any subsequent amendments) to understand key terms and conditions of the acquisition; • Gaining an understanding of the valuation approach and methodology undertaken by management to identify separately identifiable intangible assets against the criteria in the accounting standards and fair value of assets and liabilities acquired; • Obtaining and reading the identification of intangible assets report prepared by management's external expert for the acquisition of Challenger Bank Limited; • Agreeing the cash consideration to supporting documentation. This included assessing the appropriateness of including in the cash consideration the additional payments made to the vendor relating to the deposit raising programme and increased capital; • Performing an audit of the provisional acquisition balance sheet; and • Recalculating the provisional purchase price allocation and resulting provisional goodwill as a result of the fair value of acquired assets and liabilities of Challenger Bank Limited. <p>We also assessed the disclosures made in note 19 of the financial statements against the requirements of the accounting standards.</p>

Our audit approach

Overview



The overall group materiality is \$5.4 million, which represents approximately 5% of profit before tax.

We chose profit before tax as the benchmark because, in our view, it is the benchmark against which the performance of the Group is most commonly measured by users, and is a generally accepted benchmark.

Following our assessment of the risk of material misstatement, full scope audits were performed for two (NZ Banking Group and Australia Banking Group) of the three identified components based on their financial significance. Specified audit procedures and analytical review procedures were performed on the remaining component (the Company).

As reported above, we have five key audit matters, being:

- Provision for impairment of finance receivables
- Fair value of finance receivables - reverse mortgages
- Heartland Bank Australia Limited group of cash generating units (CGUs) goodwill impairment assessment
- Operation of financial reporting information technology (IT) systems and controls
- Accounting for the acquisition of Challenger Bank Limited

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance about whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall Group materiality for the financial statements as a whole as set out above. These, together with qualitative considerations, helped us to determine the scope of our audit, the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate, on the financial statements as a whole.

How we tailored our group audit scope

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industries in which the Group operates.



We performed a full scope audit of the Group's two financially significant components. The full scope audit of the Australia Banking Group component was performed by:

- a foreign non-PwC firm operating under our instructions for which we obtained a specified scope audit opinion; and
- the remaining balances and transactions not included in the foreign non-PwC firms specific scope audit was audited by us.

Our involvement with the foreign non-PwC firm auditing the Australia Banking Group component included the following:

- issued Group audit instructions;
- meeting with the component audit team and reviewing their audit findings;
- inspecting audit working papers;
- attending key management and audit committee meetings; and
- maintaining regular communication throughout the audit and appropriately directing their audit.

Specified audit procedures and analytical review procedures were performed on the remaining component.

By performing these procedures, together with the procedures performed on the consolidation and intercompany eliminations, we have obtained sufficient and appropriate audit evidence regarding the financial information of the Group to provide a basis for our opinion on the Group's financial statements.

Other information

The Directors are responsible for the other information. The other information comprises the information included in the Annual Report (but does not include the financial statements and our auditor's report thereon) and the Heartland Climate Report 2024. The Annual Report and Heartland Climate Report 2024 are expected to be made available to us after the date of this auditor's report.

Our opinion on the financial statements does not cover the other information and we will not express any form of audit opinion or assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

When we read the other information not yet received, if we conclude that there is a material misstatement therein, we are required to communicate the matter to the Directors and use our professional judgement to determine the appropriate action to take.

Responsibilities of the Directors for the financial statements

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

In preparing the financial statements, the Directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.



Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements, as a whole, are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (NZ) and ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located at the External Reporting Board's website at:

<https://www.xrb.govt.nz/assurance-standards/auditors-responsibilities/audit-report-1/>

This description forms part of our auditor's report.

Who we report to

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

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

For and on behalf of:

Chartered Accountants
28 August 2024

Auckland, New Zealand

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Disclosure Statement

For the year ended 30 June 2024

HEARTLAND
BANK

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General Information

This Disclosure Statement has been issued by Heartland Bank Limited (**HBL** or the **Bank**) and its subsidiaries (the **Banking Group**) for the year ended 30 June 2024 in accordance with the Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order 2014 (as amended) (the **Order**). The financial statements of the Banking Group for the year ended 30 June 2024 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.

Name and address for service

The name of the Registered Bank is Heartland Bank Limited.

The Banking Group consists of the Bank and all of its subsidiaries.

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

The address for service of the ultimate parent, Heartland Group Holdings Limited (**HGH**), is Level 3, 35 Teed Street, Newmarket, Auckland 1023.

Details of incorporation

The Bank was incorporated under the Companies Act 1993 on 30 September 2010.

Interests in 5% or more of voting securities of the Bank

Name	Percentage held
Heartland Group Holdings Limited	100%

Heartland Group Holdings Limited has the ability to appoint 100% of Directors, subject to Reserve Bank of New Zealand (**RBNZ**) restrictions and RBNZ Director approval.

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.

Pending Proceedings or Arbitration

There are no pending legal proceedings or arbitrations concerning any member of the Banking Group at the date of Disclosure Statement that may have a material adverse effect on the Bank or the Banking Group.

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.

There have been no changes in the composition of the Board of Directors of the Bank for the year ended 30 June 2024.

The Directors of the Bank and their details at the time this Disclosure Statement was signed were:

Chairman – Board of Directors

Name: Bruce Robertson Irvine

Qualifications: BCom, LLB, FCA, CFInstD

Type of Director: Independent Non-Executive Director

Occupation: Company Director

External Directorships:

Air Rarotonga Limited, Amaia Day Spa (Tonga) Limited, Amaia Luxury Spa Limited, B R Irvine Limited, Blackbyre Horticulture Limited, Bowdens Mart Limited, MG Sustainable Operations Limited, Chambers @151 Limited, Clipper Investments (2002) Limited, Cockerill and Campbell (2007) Limited, Embassy Hotels Limited, GZ Capital Limited, GZ NZ Limited, GZ RES Limited, Hansons Lane International Holdings Limited, Hawling Holdings Limited, House of Travel Holdings Limited, Kaipaki Holdings Limited, Kaipaki Properties Limited, Lake Angelus Holdings Limited, Lamanna Bananas (NZ) Limited, Lamanna Premier Group Pty Limited, Lamanna Limited, Market Fresh Wholesale Limited, Market Gardeners Limited, MG Group Holdings Limited, MG Marketing Limited, MG New Zealand Limited, Monarch Hotels Limited, Noblesse Oblige Limited, Paradise Islands Limited, Phimai Holdings Limited, Quitachi Limited, Scenic Hotels (Karapiro) Limited, Scenic Hotels (Hamilton) Limited, Scenic Hotel Punakaiki Limited, Scenic Circle Convention Services Limited, Scenic Hotel (Haast) Limited, Scenic Circle (Napier) Limited, Scenic Hotel Group Limited, Scenic Hotels (Ashburton) Limited, Scenic Hotels (International) Limited, Scenic Circle MLC Café & Bar Limited, Skope Industries Limited, Southland Produce Markets Limited, Stark Holdings (NZ) Limited, Wavell Resources Limited, Scenic Circle (Rotorua) Limited, Scenic Circle (Queenstown) Limited, Scenic Hotels Limited, Abalon Investments Limited, Airedale Developments (Auckland) Limited, Scenic Hotels (Tonga) Limited, Waiho Investments Limited, Scenic Circle Hotels Management Services Limited, Scenic Hotel Collection New Zealand Limited, Scenic Hotels (Auckland) Limited, Scenic Hotels (Niue) Limited, Scenic Hotels (Kaikoura) Limited, Heartland Hotels Limited, Scenic (Franz Josef) Limited, Scenic Circle (Airedale) Limited, Scenic Circle (Bay Of Islands) Limited, Platinum Hotels Limited, Scenic Aviation Limited, Scenic Circle (Bay Of Plenty) Limited, Scenic Circle (Blenheim) Limited, Karma Finance Limited, Scenic Circle Hotels (Dunedin) Limited, Refined Hotels Limited, Scenic Hospitality Services Limited, Scenic Circle Glacier Country Hotel Limited, Scenic Circle (North Island) Limited, Scenic Hotels Technology Limited, Scenic Circle (Rotorua Lakes) Limited, Ezibed (2022) Limited, Mainstay International Hotels (NZ)(2022) Limited, Mainstay International Hotels (2022) Limited, Mitchell Corp New Zealand (2022) Limited, Te Kaikoura Investments Limited, MLC Scenic Limited, Wagstaff Holdings Limited, Golden Chain (NZ) (2022) Limited, Sproule Ft Leinster Limited, Premier Fresh Australia Pty Ltd, Sproule Ft Marshland Limited, Paulsen Porto Limited.

Name: Jeffrey Kenneth Greenslade

Qualifications: LLB

Type of Director: Non-Independent Non-Executive Director

Occupation: Chief Executive Officer of Heartland Group Holdings

External Directorships:

Henley Family Investments Limited, Heartland Group Holdings Limited.

Name: Edward John Harvey

Qualifications: BCom, CA, CFInstD

Type of Director: Non-Independent Non-Executive Director

Occupation: Company Director

External Directorships:

Napier Port Holdings Limited, Pomare Investments Limited, Port of Napier Limited, Heartland Group Holdings Limited.

Name: Kathryn Mitchell

Qualifications: BA, CMIInstD

Type of Director: Non-Independent Non-Executive Director

Occupation: Company Director

External Directorships:

Chambers@151 Limited, Christchurch International Airport Limited, Firsttrax Approvals Limited, Link Engine Management Limited, Link Engine Management International (NZ) Limited, Morrison Horgan Limited, The New Zealand Merino Company Limited, Heartland Group Holdings Limited, The A2 Milk Company Limited, Purepods Limited.

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Directors (continued)

Name: Shelley Maree Ruha

Qualifications: BCom, DipBank

Type of Director: Independent Non-Executive Director

Occupation: Company Director

External Directorships:

Analey Holdings Limited, Analey Investments Limited, IT & Business Consulting Limited, New Zealand Rural Land Management GP Limited, Partners Group Holdings Limited, Partners Life Limited, 9 Spokes International Limited, Paysauce Limited, 9 Spokes Knowledge Limited, 9 Spokes Operations Limited, 9 Spokes Trustee Limited, 9 Spokes US Holdings Limited, Allied Farmers Limited, Allied Farmers (New Zealand) Limited, 5M No.2 Limited, Alf Nominees Limited, Allied Farmers Rural Limited, Allied Farmers Property Holdings Limited, Clearwater Hotel 2004 Limited, Lifestyles of New Zealand Queenstown Limited, Lonz 2008 Holdings Limited, Lonz 2008 Limited, NZ Farmers Livestock Finance Limited, QWF Holdings Limited, Rural Funding Solutionz Limited, UFL Lakeview Limited, Smartpay Holdings Limited.

Name: Simon Ross Tyler

Qualifications: MSc, BSc (hons)

Type of Director: Independent Non-Executive Director

Occupation: Company Director

External Directorships:

Nutrition for Health Limited, Global Horticulture Limited, Palliser Estate Wines of Martinborough Limited, NZ Bio Forestry Limited.

Conflicts of interest policy

All Directors are required to disclose to the Board any actual or potential conflicts of interest which may exist or is thought to exist upon appointment and are required to keep these disclosures up to date. The details of each disclosure made by a Director to the Board must be entered in the Interests Register.

Directors are required to take any necessary and reasonable measures to try to resolve the conflict and comply with the Companies Act 1993 by disclosing interests and restrictions on voting. Any Director with a material personal, professional or business interest in a matter being considered by the Board must declare their interest and, unless the Board resolves otherwise, may not be present during the boardroom discussions or vote on the relevant matter.

Interested transactions

There have been no transactions between the Bank or any member of the Banking Group and any Director or immediate relative or close business associate of any Director which either has been entered into on terms other than those which would in the ordinary course of business of the Bank or any member of the Banking Group be given to any other person of like circumstances or means, or could be reasonably likely to influence materially the exercise of the Directors' duties.

Audit committee composition

Members of the Bank's Audit Committee as at the date of this Disclosure Statement are as follows:

Simon Ross Tyler (Chairperson)

Independent Non-Executive Director

Edward John Harvey

Non-Independent Non-Executive Director

Bruce Robertson Irvine

Independent Non-Executive Director

Shelley Maree Ruha

Independent Non-Executive Director

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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 year ended 30 June 2024:
 - (a) the Bank complied in all material respects with each Condition of Registration that applied during the period;
 - (b) credit exposures to connected persons were not contrary to the interests of the Registered Bank; and
 - (c) the Bank had systems in place to monitor and control adequately material risks of the Registered Bank, 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 28 August 2024 and has been signed by all the Directors.



B. R. Irvine (Chair)



K. Mitchell



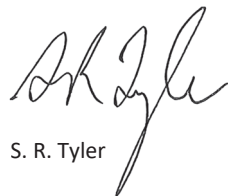
J. K. Greenslade



S. M. Ruha



E. J. Harvey



S. R. Tyler

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Statement of Comprehensive Income

For the year ended 30 June 2024

\$000's	Note	June 2024	June 2023
Interest income	3	506,793	372,688
Interest expense	3	284,405	158,027
Net interest income		222,388	214,661
Operating lease income	4	6,058	5,631
Operating lease expense	4	4,373	3,827
Net operating lease income		1,685	1,804
Lending and credit fee income		11,724	7,722
Other income	5	2,718	2,932
Net operating income		238,515	227,119
Operating expenses	6	116,302	101,337
Profit before impaired asset expense and income tax		122,213	125,782
Fair value (loss) on investments and investment property		(1,595)	-
Impaired asset expense	8	46,313	22,891
Profit before income tax		74,305	102,891
Income tax expense	9	21,785	28,389
Profit for the year		52,520	74,502
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 in a cash flow hedge relationship		(10,439)	7,264
Movement in fair value reserve		925	(533)
Movement in foreign currency translation reserve		(1,682)	-
Other comprehensive income for the year, net of income tax		(11,196)	6,731
Total comprehensive income for the year		41,324	81,233

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

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

Statement of Changes in Equity

For the year ended 30 June 2024

\$000's	Note	June 2024			June 2023				
		Share Capital	Reserves	Retained Earnings	Total Equity	Share Capital	Reserves	Retained Earnings	Total Equity
Balance at beginning of year		553,239	13,143	162,354	728,736	553,239	6,412	147,852	707,503
Business combination under common control	16, 18	-	(85,568)	85,826	258	-	-	-	-
Total comprehensive income for the year									
Profit for the year		-	-	52,520	52,520	-	-	74,502	74,502
Other comprehensive income, net of income tax	16	-	(11,196)	-	(11,196)	-	6,731	-	6,731
Total comprehensive income for the year		-	(11,196)	52,520	41,324	-	6,731	74,502	81,233
Transactions with owner									
Dividends paid to owner	15	-	-	(65,500)	(65,500)	-	-	(60,000)	(60,000)
Share issuance	15	491,572	-	-	491,572	-	-	-	-
Total transactions with owner		491,572	-	(65,500)	426,072	-	-	(60,000)	(60,000)
Balance at end of the year		1,044,811	(83,621)	235,200	1,196,390	553,239	13,143	162,354	728,736

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

Statement of Financial Position

As at 30 June 2024

\$000's	Note	June 2024	June 2023
Assets			
Cash and cash equivalents		627,969	216,044
Investments	10	1,092,131	317,011
Derivative financial instruments	11	12,316	36,982
Finance receivables measured at amortised cost	12	4,266,946	3,954,800
Finance receivables - reverse mortgages	20	2,897,818	888,600
Investment properties		3,660	11,903
Operating lease vehicles	13	18,261	16,966
Right of use assets	17	15,519	11,510
Other assets	17	34,897	19,597
Current tax asset		15,172	-
Intangible assets	17	264,493	71,635
Deferred tax asset	9	22,605	16,760
Total assets		9,271,787	5,561,808
Liabilities			
Deposits	14	5,967,239	4,131,029
Other borrowings	14	2,040,763	615,126
Derivative financial instruments	11	9,017	7,624
Due to related parties	19	7,653	7,173
Lease liabilities	17	17,776	13,478
Tax liabilities		-	7,692
Trade and other payables	17	32,949	50,950
Total liabilities		8,075,397	4,833,072
Net assets		1,196,390	728,736
Equity			
Share capital	15	1,044,811	553,239
Retained earnings and other reserves	16	151,579	175,497
Total equity		1,196,390	728,736
Total interest earning and discount bearing assets			
		8,871,389	5,374,632
Total interest and discount bearing liabilities			
		7,969,810	4,726,367

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

Statement of Cash Flows

For the year ended 30 June 2024

\$000's	Note	June 2024	June 2023
Cash flows from operating activities			
Interest received		367,259	293,872
Operating lease income received		5,288	4,571
Lending, credit fees and other income received		16,612	12,236
Operating inflows		389,159	310,679
Interest paid		(256,683)	(138,332)
Payments to suppliers and employees		(134,351)	(93,333)
Taxation paid		(41,691)	(44,055)
Operating outflows		(432,725)	(275,720)
Net cash flows (applied to)/from operating activities before changes in operating assets and liabilities		(43,566)	34,959
Proceeds from sale of operating lease vehicles		2,219	4,492
Purchase of operating lease vehicles		(6,732)	(8,766)
Net movement in finance receivables		(171,448)	(301,687)
Net movement in deposits		559,209	522,307
Net movement in related party balances		(4,312)	3,202
Net cash flows from operating activities¹		335,370	254,507
Cash flows from investing activities			
Purchase of property, plant and equipment and intangible assets		(18,842)	(23,423)
Proceeds from investment securities		246,490	55,443
Purchase of investment securities		(637,399)	(95,000)
Purchase of investment property		-	(71)
Cash acquired on business combination under common control	18	125,085	-
Cash acquired on acquisition of subsidiary	18	165,620	-
Net cash flows applied to investing activities		(119,046)	(63,051)
Cash flows from financing activities			
Proceeds from wholesale borrowings		998,688	671,271
Repayment of wholesale borrowings		(870,413)	(753,838)
Proceeds from issue of unsubordinated debt		24,364	-
Repayment of unsubordinated notes		(126,485)	(150,000)
Proceeds from issue of subordinated debt		51,572	97,934
Dividends paid	15	(65,500)	(60,000)
Payment of lease liabilities		(2,327)	(2,248)
Net issue of share capital	15	187,500	-
Net cashflows from/(applied to) financing activities		197,399	(196,881)
Net increase/(decrease) in cash held		413,723	(5,425)
Effect of exchange rates on cash and cash equivalents		(1,798)	-
Opening cash and cash equivalents		216,044	221,469
Closing cash and cash equivalents²		627,969	216,044

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

²At 30 June 2024, the Banking Group has \$176.0 million (2023: \$16.9 million) of cash held by the Trust which may only be used for the purposes defined in the underlying Trust documents. Refer to Note 28 - Structured entities for definition of the Trust and further details.

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

Statement of Cash Flows (continued)

For the year ended 30 June 2024

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

\$000's	Note	June 2024	June 2023
Profit for the year		52,520	74,502
Add/(less) non-cash items:			
Depreciation and amortisation expense		9,355	9,299
Depreciation on lease vehicles	13	3,902	3,461
Capitalised net interest income and fee income		(127,327)	(69,249)
Impaired asset expense	8	46,313	22,891
Fair value movements		(8,712)	(1,740)
Deferred tax		(5,845)	(1,222)
Other non-cash items		4,211	2,755
Total non-cash items		(78,103)	(33,805)
Add/(less) movements in operating assets and liabilities:			
Finance receivables		(171,448)	(301,687)
Operating lease vehicles		(5,197)	(5,266)
Other assets		(7,285)	2,313
Current tax		(22,864)	(14,787)
Derivative financial instruments		26,059	8,794
Deposits		559,209	522,307
Other liabilities		(17,521)	2,136
Total movements in operating assets and liabilities		360,953	213,810
Net cash flows from operating activities¹		335,370	254,507

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

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

Notes to the Financial Statements

For the year ended 30 June 2024

1 Financial statements preparation

Reporting entity

The financial statements presented are the consolidated financial statements comprising Heartland Bank Limited (**HBL** or the **Bank**) and its controlled entities (the **Banking Group**). Refer to Note 27 – Significant subsidiaries and Significant events section within this note for further details.

The Bank is a company incorporated in New Zealand under the Companies Act 1993, a registered bank under the Banking (**Prudential Supervision**) Act 1989 and a Financial Market Conduct (**FMC**) reporting entity for the purposes of the Financial Markets Conduct Act 2013.

The Banking Group is a designated climate reporting entity (**CRE**) under the climate-related disclosure regime and is required to meet its requirements effective from the financial reporting period commencing 1 July 2023. Refer to Note 21 - Enterprise risk management for further details.

Basis of preparation

The financial statements have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand (**NZ GAAP**) and with the requirements of the Financial Markets Conduct Act 2013. The financial statements comply with New Zealand Equivalents to International Financial Reporting Standards (**NZ IFRS**) and other applicable Financial Reporting Standards as appropriate for profit-oriented entities, and the Registered Bank Disclosure Statement (New Zealand Incorporated Registered Banks) Order 2014 (as amended) (the **Order**). The financial statements also comply with International Financial Reporting Standards Accounting Standards (**IFRS Accounting Standards**) as issued by the International Accounting Standards Board.

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

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

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

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

Basis of measurement

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

Principles of consolidation

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

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

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1 Financial statements preparation (continued)

Changes in accounting standards

Accounting standards issued and effective

Disclosure of Accounting Policies - Amendments to NZ IAS 1 Presentation of Financial Statements

The Banking Group adopted the amendments to *NZ IAS 1 Presentation of Financial Statements*. Effective 1 July 2023, these amendments require the disclosure of material accounting policy information instead of significant accounting policies. The amendments did not result in any changes to the accounting policies and did not impact the accounting policy information disclosed below.

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

Amendments were issued to FRS-44 New Zealand Additional Disclosures (**Amendments to FRS-44**) that require an entity to describe the services provided by its audit or review firm and to disclose the fees incurred by the entity for those services using prescribed categories.

The Banking Group early adopted the Amendments to FRS-44 from 1 July 2022. Refer to Note 7 - Compensation of auditor for further details.

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

Accounting standards issued not yet effective

Presentation and Disclosure in Financial Statements (NZ IFRS 18)

IFRS 18 Presentation and Disclosure in Financial Statements (IFRS 18) was issued in April 2024 to replace *IAS 1 Presentation of Financial Statements (IAS 1)* when applied. New Zealand Equivalent to IFRS 18 (**NZ IFRS 18**) was issued on 23 May 2024. Most of the presentation and disclosure requirements will largely remain unchanged together with other disclosures carried forward from *IAS 1*. *NZ IFRS 18* primarily introduces the following:

- a defined structure for the statement of comprehensive income by classifying items into one of the five categories: operating, investing, financing, income taxes and discontinued operations. Entities will also present expenses in the operating category by nature, function, or a mix of both, based on facts and circumstances;
- disclosure of management-defined performance measures (a subset of alternative performance measures / non-GAAP measures) in a single note together with reconciliation requirements, and
- additional guidance on aggregation and disaggregation principles (applied to all primary financial statements and notes).

1 Financial statements preparation (continued)

Accounting standards issued not yet effective (continued)

Presentation and Disclosure in Financial Statements (NZ IFRS 18) (continued)

NZ IFRS 18 also made limited change to certain presentation and disclosure requirements in the financial statements, e.g., NZ IAS 7 Statement of Cash Flows; as well as consequential changes to various IFRS Accounting Standards.

NZ IFRS 18 will be effective for annual reporting periods beginning on or after 1 January 2027. The Banking Group expects to adopt NZ IFRS 18 and relevant consequential changes of other accounting standards in the financial year beginning 1 July 2027. The Banking Group is currently assessing the impact and will disclose more detailed assessments in the future.

Other new accounting standards, amendments to accounting standards and interpretations have been published that are not mandatory for the 30 June 2024 reporting periods and have not been early adopted by the Banking Group. These standards, amendments or interpretations are not expected to have a material impact on the current or future reporting periods.

Critical accounting estimates and judgements

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

- Provisions for impairment - The effect of credit risk is quantified based on the Banking Group's best estimate of future cash repayments and proceeds from any security held or by reference to risk profile groupings, historical loss data and forward-looking information. Refer to Note 12 - Finance receivables measured at amortised cost for further details.
- Fair value of reverse mortgages - Fair value is quantified by the transaction price (cash advanced plus accrued capitalised interest). Judgement is applied in determining the appropriateness of the transaction price as fair value. Refer to Note 20 - Fair value for further details.
- Goodwill - The Banking Group carries out impairment testing annually over the carrying value of goodwill of its cash generating units (CGUs). Uncertainty is involved in estimating fair value less cost to sell and judgement is applied in assumptions used to determine the recoverable amount of CGU or group of CGUs for impairment testing. Refer to Note 17 - Other balance sheet items for further details.
- Acquisition of Challenger Bank Limited (now Heartland Bank Australia Limited) – Fair value of the consideration transferred and fair value of the identifiable assets acquired and liabilities assumed, measured on a provisional basis. Judgement is applied in determining consideration and in the valuation of the acquiree's identifiable assets and liabilities assumed on the acquisition date. Refer to Note 18 – Acquisition for further details.

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

1 Financial statements preparation (continued)

Significant events

HBL completed the acquisition of Challenger Bank Limited (**CBL**) from Challenger Limited on 30 April 2024. Completing the acquisition makes HBL the first New Zealand registered bank to acquire an Australian authorised deposit-taking institution (**ADI**). From 1 May 2024, CBL began trading as Heartland Bank Australia.

Under the varied conditions of CBL's banking licence, all the Australian banking business and other Australian financial activities within Heartland Group Holdings Limited (**HGH**) and its controlled entities are required to be conducted within CBL or as subsidiaries of CBL. On 2 May 2024, HGH transferred to CBL 100% shareholding of its Australian subsidiaries, being Heartland Australia Holdings Pty Limited (**HAH**) and its controlled entities. This resulted in CBL assuming ownership over HGH's Australian reverse mortgage lending, specialist livestock finance and other financial services businesses. Later in May 2024, the legal entity name for CBL officially changed to Heartland Bank Australia Limited (**HBA**).

As a result of the above transactions and transfers, the Banking Group has obtained control over HBA, HAH and its subsidiaries and has consolidated their results, assets and liabilities from the transaction dates. Refer to Note 18 – Acquisition for further details.

For purposes of these financial statements and this Disclosure Statement,

- the New Zealand Banking Group, as defined in the Bank's Conditions of Registration, refers to the consolidated group comprising HBL and its controlled entities incorporated in New Zealand but not including Marac Insurance Limited (MIL);
- the Australian Banking Group refers to the consolidated group comprising HBA and its controlled entities incorporated in Australia; and
- the Banking Group refers to the consolidated group comprising the New Zealand Banking Group, Australian Banking Group and MIL.

Financial assets and liabilities

Financial Assets

Financial assets are classified based on:

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

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

Financial assets are classified into the following measurement categories:

Financial Assets	Measurement Category	Note
Government securities, bank bonds and floating rate notes	Fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL)	10
Public sector securities and corporate bonds	FVOCI	10
Equity investments	FVOCI and FVTPL	10
Finance receivables – reverse mortgages	FVTPL	20
Finance receivables	Amortised cost	12
Derivative financial instruments	FVTPL	11

1 Financial statements preparation (continued)

Financial assets and liabilities (continued)

Financial Assets (continued)

Financial assets measured at amortised cost

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

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

Financial assets measured at FVOCI

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

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

Financial assets measured at FVTPL

Financial assets are measured at FVTPL if:

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

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

Financial Liabilities

Financial liabilities are classified into the following measurement categories:

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

Financial liabilities measured at amortised cost

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

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

Financial liabilities measured at FVTPL

Financial liabilities are measured at FVTPL if:

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

1 Financial statements preparation (continued)

Financial assets and liabilities (continued)

Financial Liabilities (continued)

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

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

The Banking Group's policies for determining the fair value of financial assets and financial liabilities are set out in Note 20 - Fair value.

Recognition

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

Derecognition

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

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

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

Performance

2 Segmental analysis

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

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

Operating segments

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

Operating segments – New Zealand

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

Operating segment – Australia

Operating segment – Australian Banking Group was acquired through the acquisition of CBL by HBL on 30 April 2024 and transfer of HAH and its subsidiaries from HGH to HBA on 2 May 2024, with HBA assuming ownership over HGH's Australian reverse mortgage lending, specialist livestock finances and other financial services businesses. Refer to Note 18 – Acquisition for further details.

Australian Banking Group	Australian Banking Group provides banking and financial services in Australia which consist of reverse mortgage lending, livestock finance and other financial services within Australia.
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All other segments

Other	Operating expenses, such as premises, IT and support centre costs are not allocated to operating segments and are included in Other. These are primarily in relation to the New Zealand business.
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Finance receivables are allocated across the operating segments as assets. Liabilities are managed centrally and therefore are not allocated across the operating segments. The Banking Group does not rely on any single major customer for its revenue base.

2 Segmental analysis (continued)

\$000's	Motor	Reverse Mortgages ¹	Personal lending	Business	Rural	Australian Banking Group	Other	Total
June 2024								
Net interest income	58,909	46,586	4,937	62,090	34,652	15,214	-	222,388
Lending and credit fee income	3,908	2,651	198	3,935	374	658	-	11,724
Net other income/(expense)	1,194	-	543	1,145	(443)	(762)	2,726	4,403
Net operating income	64,011	49,237	5,678	67,170	34,583	15,110	2,726	238,515
Operating expenses	4,628	5,366	6,824	9,113	3,181	16,204	70,986	116,302
Profit/(loss) before fair value (loss)/gain on investments, impaired asset expense and income tax	59,383	43,871	(1,146)	58,057	31,402	(1,094)	(68,260)	122,213
Fair value (loss) on investments	-	-	-	-	-	-	(1,595)	(1,595)
Impaired asset expense	24,329	-	1,476	17,527	2,428	553	-	46,313
Profit/(loss) before income tax	35,054	43,871	(2,622)	40,530	28,974	(1,647)	(69,855)	74,305
Income tax expense	-	-	-	-	-	-	21,785	21,785
Profit/(loss) for the year	35,054	43,871	(2,622)	40,530	28,974	(1,647)	(91,640)	52,520
Total assets	1,608,282	1,068,154	339,110	1,306,689	720,339	3,415,495	813,718	9,271,787
Total liabilities								8,075,397
June 2023								
Net interest income	60,681	39,696	9,426	71,630	33,522	-	(294)	214,661
Lending and credit fee income	2,034	2,671	447	2,278	292	-	-	7,722
Net other income	1,485	-	935	991	398	-	927	4,736
Net operating income	64,200	42,367	10,808	74,899	34,212		633	227,119
Operating expenses	4,140	4,928	6,459	9,387	3,068	-	73,355	101,337
Profit/(loss) before fair value (loss)/gain on investments, impaired asset expense and income tax	60,060	37,439	4,349	65,512	31,144	-	(72,722)	125,782
Fair value (loss)/gain on investments	-	-	-	-	-	-	-	-
Impaired asset expense	10,911	-	3,195	8,155	630	-	-	22,891
Profit/(loss) before income tax	49,149	37,439	1,154	57,357	30,514	-	(72,722)	102,891
Income tax expense	-	-	-	-	-	-	28,389	28,389
Profit/(loss) for the year	49,149	37,439	1,154	57,357	30,514	-	(101,111)	74,502
Total assets	1,563,939	888,600	358,572	1,356,913	712,596	-	681,188	5,561,808
Total liabilities								4,833,072

¹Includes Australian Reverse Mortgage loans acquired from Seniors Warehouse Trust (SWT) and subsequently sold to HBA post acquisition. Refer to Note 19 - Related party transactions and balances for further details.

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3 Net interest income

Policy

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

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

\$000's	June 2024	June 2023
Interest income		
Cash and cash equivalents	10,739	9,585
Investments measured at FVOCI	12,082	5,081
Investments measured at FVTPL	4,186	-
Finance receivables measured at amortised cost	348,769	290,487
Finance receivables - reverse mortgages	131,017	67,535
Total interest income¹	506,793	372,688
Interest expense		
Deposits	240,978	146,301
Other borrowings	68,332	31,490
Net interest (income) on derivative financial instruments	(24,905)	(19,764)
Total interest expense²	284,405	158,027
Net interest income	222,388	214,661

¹ Cash and cash equivalents and Finance receivables are measured at amortised cost. Investments are measured at FVOCI and FVTPL. Total interest income derived from financial assets measured at amortised cost or FVOCI is calculated using the effective interest rate method. Finance receivables - reverse mortgages are measured at FVTPL.

² Deposits and Other borrowings are measured at amortised cost, therefore interest expense incurred on these financial liabilities is calculated using the effective interest rate method. Net interest expense on derivative financial instruments is not calculated using the effective interest rate method as they are measured at FVTPL.

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4 Net operating lease income

Policy

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

\$000's	June 2024	June 2023
Operating lease income		
Lease income	5,374	4,639
Gain on disposal of lease assets	684	992
Total operating lease income	6,058	5,631
Operating lease expense		
Depreciation on lease assets	3,902	3,461
Direct lease costs	471	366
Total operating lease expense	4,373	3,827
Net operating lease income	1,685	1,804

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5 Other income

Policy

Rental income from investment properties

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

Insurance income

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

Fair value gain or loss on derivative financial instruments

A fair value gain or loss associated with the effective portion of a derivative designated as a cash flow hedge is recognised initially in the hedging reserve. The ineffective portion of a fair value gain or loss and changes in the fair value of any derivatives not designated in a hedge relationship are recognised immediately in the statement of comprehensive income and disclosed within Other income. Refer to Note 11 - Derivative financial instruments for further details.

Fair value gain or loss on non-derivative financial instruments

A fair value gain or loss on certain non-derivative financial instruments are recognised in the statement of comprehensive income for financial instruments held at fair value through profit or loss. Refer to Note 10 - Investments for further details.

\$000's	June 2024	June 2023
Rental income from investment properties	995	1,063
Insurance income ¹	209	756
Fair value (loss) on derivative financial instruments	(5,074)	(8,237)
Management fee income ²	5,591	9,113
Fair value (loss) on non-derivative financial instruments ³	(727)	-
Other income	4	243
Foreign exchange gain/(loss)	1,720	(6)
Total other income	2,718	2,932

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

²Refer to Note 19 - Related party transactions and balances for further details.

³Includes realised and unrealised losses on HBA's government securities, bank bonds and floating rate notes measured at fair value through profit and loss. Refer to Note 10 - Investments for further details.

6 Operating expenses

Policy

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

\$000's	June 2024	June 2023
Personnel expenses ¹	63,307	60,213
Directors' fees	648	574
Superannuation	1,409	1,171
Depreciation - property, plant and equipment	1,676	1,756
Legal and professional fees ²	4,488	2,838
Advertising and public relations	2,162	1,803
Depreciation - right of use asset	2,459	2,150
Technology services	13,202	9,720
Telecommunications, stationery and postage	1,918	1,694
Customer administration costs	4,899	2,497
Customer onboarding costs	2,533	2,469
Occupancy costs	1,834	1,408
Amortisation of intangible assets	5,220	5,393
Other operating expenses ³	10,547	7,651
Total operating expenses	116,302	101,337

¹Excludes certain personnel expenses directly incurred in acquiring and developing software and capitalised as part of specific application software.

²Legal and professional fees include compensation of auditor which is disclosed in Note 7 - Compensation of auditor.

³Other operating expenses mainly comprise non-recoverable proportion of goods and services tax (GST), travel, insurances and project expenses.

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7 Compensation of auditor

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

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

It is the Banking Group's policy to engage the external auditor's firm on assignments additional to its statutory audit duties only if they are not perceived to be in conflict with the role of external auditor. All services are approved by the HGH Board Audit and Risk Committee.

The fees payable to the auditors, PricewaterhouseCoopers (PwC) and Ernst & Young (EY), are outlined in the below table:

\$000's	June 2024	June 2023
Fees paid to auditor - PwC		
Audit and review of financial statements ¹	1,183	712
Audit or review related services		
Assurance engagement ²	18	17
Agreed-upon procedures engagements	-	-
Other assurance services and other agreed-upon procedures engagements		
Assurance engagement ³	73	-
Agreed-upon procedures engagements	-	-
Taxation services	-	-
Other services ⁴	-	17
Total compensation paid to PwC	1,274	746
Fees paid to auditor - EY		
Audit and review of financial statements ¹	692	-
Audit or review related services		
Assurance engagement ⁵	119	-
Agreed-upon procedures engagements	-	-
Other assurance services and other agreed-upon procedures engagements		
Assurance engagement	-	-
Agreed-upon procedures engagements	-	-
Taxation services	-	-
Other services ⁶	230	-
Total compensation paid to EY	1,041	-
Total compensation of auditor	2,315	746

¹Fees are for both the audit of the annual financial statements and review of the interim financial statements. This includes limited assurance on disclosures of capital adequacy and regulatory liquidity requirements.

²Fees in 2024 and 2023 are for reasonable assurance engagement for insurance solvency return, reasonable assurance on registry and trust deed supervisor reporting.

³Fees are for pre-conditions assessments and assurance relating to greenhouse gas emissions reporting.

⁴Other services paid to PwC in 2023 comprised actuarial services for reverse mortgages carried out prior to their appointment as external auditors.

⁵Fees are for assurance services for APRA regulatory reporting and Australian Financial Services Licence (AFSL) reporting.

⁶Other services paid to EY in 2024 comprised actuarial services for reverse mortgages, actuarial services for stress testing, directors remuneration review, executive reward survey report, CPS 234 information security plan review, hedge accounting and other accounting advisory services and facilitation of strategy review workshop. Except for the actuarial services for stress testing, all other services were carried out prior to their appointment as external auditor.

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8 Impaired asset expense

\$000's	June 2024	June 2023
Individually impaired asset expense	13,869	13,033
Collectively impaired asset expense	33,718	11,757
Total impaired asset expense excluding recovery of amounts previously written off to the income statement	47,587	24,790
Recovery of amounts previously written off to the income statement	(1,274)	(1,899)
Total impaired asset expense	46,313	22,891

Refer to Note 23 – Asset quality for provision for impairment details.

9 Taxation

Policy

Income tax

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

Current tax

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

Deferred tax

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

Goods and services tax (GST)

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

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9 Taxation (continued)

Income tax expense		
\$000's	June 2024	June 2023
Income tax recognised in profit or loss		
Current tax		
Current year	27,551	30,353
Adjustments for prior year	248	(742)
Tax at other rates	(50)	-
Deferred tax		
Current year	(5,584)	(1,447)
Adjustments for prior year	(712)	225
Tax other rates	(40)	-
Change in recognition of deferred tax	372	-
Total income tax expense recognised in profit or loss	21,785	28,389
Income tax recognised in other comprehensive income		
Current tax		
Investment securities at fair value in fair value reserve	357	(246)
Fair value movements in derivatives held in cash flow hedge reserve	(4,276)	2,418
Total income tax expense recognised in other comprehensive income	(3,919)	2,172
Reconciliation of effective tax rate		
Profit before income tax	74,305	102,891
Tax at the local income tax rate (NZ: 28%, Australia: 30%)	20,706	28,810
Adjusted tax effect of items not deductible	1,172	97
Adjustments for prior year	(465)	(518)
Change in recognition of deferred tax asset	372	-
Total income tax expense	21,785	28,389
Deferred tax assets comprise the following temporary differences:		
\$000's	June 2024	June 2023
Employee entitlements	1,901	1,370
Share based payment	-	616
Provision for impairment	21,528	14,622
Intangibles and property, plant and equipment	(1,465)	(1,530)
Right of use assets	(4,180)	-
Lease liabilities	4,834	-
Deferred acquisition costs	(6)	(55)
Operating lease vehicles	(594)	451
Deferred income	(6,522)	-
Prior year tax loss	4,911	-
Deductible prior expense	421	-
Other temporary differences	1,777	1,286
Total deferred tax assets	22,605	16,760
Opening balance of deferred tax assets	16,760	15,538
Movement recognised in profit or loss	6,336	1,222
Transfer on acquisition of business	1,673	-
Deferred tax asset reclass	2,118	-
Utilisation of tax loss	(3,910)	-
Change in recognition of deferred tax asset	(372)	-
Closing balance of deferred tax assets	22,605	16,760

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Financial Position

10 Investments

Policy

Investments are classified into one of the following categories:

Fair value through other comprehensive income

Investments under this category are held within a business model whose objective is achieved both through collecting contractual cash flows or selling the financial asset. These investments include bank bonds, floating rate notes, public sector securities, corporate bonds and equity investments where the Banking Group has irrevocably elected at initial recognition to measure at FVOCI. These are initially measured at fair value, including transaction costs, and subsequently carried at fair value. Changes in fair value of these investments are recognised in other comprehensive income and presented within the fair value reserve.

Fair value through profit or loss

Investments under this category are held within a business model whose objective is achieved through selling the financial asset. These investments include government securities, bank bonds, floating rate notes and equity investments and are measured at fair value plus transaction costs. Changes in fair value of these investments are recognised in profit or loss in the period in which they occur.

\$000's	June 2024	June 2023
Investments measured at FVOCI		
Bank bonds and floating rate notes	270,581	305,310
Public sector securities and corporate bonds	101,235	9,882
Equity investments ¹	7,575	-
Investments measured at FVTPL		
Government securities, bank bonds and floating rate notes ²	706,840	-
Equity investments ³	5,900	1,819
Total investments	1,092,131	317,011

¹Includes equity investments resulting from the transfer of HAH and its controlled entities to the Banking Group on 2 May 2024. Refer to Note 18 - Acquisition.

²Includes HBA's investments measured at fair value through profit or loss. Refer to Note 20 - Fair value for further details.

³Includes equity investment acquired from HGH on 29 April 2024. Refer to Note 15 - Share capital and dividends for further details.

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11 Derivative financial instruments

Policy

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

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

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

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

Fair value hedge accounting

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

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

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

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

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

Cash flow hedge accounting

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

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

11 Derivative financial instruments (continued)

Cash flow hedge accounting (continued)

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

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

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

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

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

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

\$000's	June 2024			June 2023		
	Notional Principal	Fair Value Assets	Fair Value Liabilities	Notional Principal	Fair Value Assets	Fair Value Liabilities
<i>Interest rate related contracts</i>						
Held as economic hedges	344,598	293	782	260,650	6,539	-
Designated as cash flow hedges	885,903	4,658	4,609	850,068	15,398	941
Designated as fair value hedges	424,502	7,365	3,626	543,200	15,045	6,683
Interest rate related contracts	1,655,003	12,316	9,017	1,653,918	36,982	7,624
Total derivative financial instruments	1,655,003	12,316	9,017	1,653,918	36,982	7,624

11 Derivative financial instruments (continued)

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

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

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

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

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

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

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

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

\$000's	0-6 Months	6-12 Months	1-2 Years	2-5 Years	5+ Years	Total
June 2024						
Interest rate risk						
Cash flow hedge relationships						
<i>Pay fixed</i>						
Nominal amounts	45,000	40,000	232,851	568,052	-	885,903
Average interest rate	5.20%	5.15%	4.71%	4.59%	-	
Fair value hedge relationships						
<i>Pay fixed</i>						
Nominal amounts	10,002	50,000	55,400	209,100	-	324,502
Average interest rate	1.63%	0.73%	0.47%	4.59%	-	
<i>Receive fixed</i>						
Nominal amounts	-	-	-	100,000	-	100,000
Average interest rate	-	-	-	4.30%	-	
Total interest rate risk nominal amount	55,002	90,000	288,251	877,152	-	1,310,405

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11 Derivative financial instruments (continued)

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

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

\$000's	As at 30 June 2024		For the year ended 30 June 2024
	Carrying value	Accumulated amount of fair value hedge adjustment	Gain/(loss) recognised in income statement
Interest rate risk			
Investments	361,808	(4,390)	10,036
Other borrowings	(99,706)	721	(4,610)
Total	262,102	(3,669)	5,426
Interest rate swaps	3,739	3,739	(5,303)
Hedge ineffectiveness of financial instruments recognised in other income			123

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11 Derivative financial instruments (continued)

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

The accumulated amount of fair value hedge adjustments included in the carrying amount of hedged items that have ceased to be adjusted for hedging gains and losses is nil (2023: nil).

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

\$000's	June 2024	June 2023
Cash flow hedge reserve		
Balance at beginning of year	14,710	7,446
Business combination under common control	103	-
Transferred to the income statement	(482)	(1,771)
Net (loss)/gain from change in fair value	(14,233)	11,453
Net movement before tax	(14,612)	9,682
Tax on net movement in cash flow hedge reserve	4,276	(2,418)
Balance at end of year	4,374	14,710

During the year ended 30 June 2024, a gain of \$0.9 million was recognised in fair value gain on derivative financial instruments in the statement of comprehensive income related to hedge ineffectiveness from cash flow hedge relationships (2023: \$0.7 million).

There were no transactions for which cash flow hedge accounting had to be ceased as a result of the highly probable cash flows no longer being expected to occur (2023: nil).

There are \$2.5 million (2023: \$10.1 million) of balances recognised in the cash flow hedge reserve for which hedge accounting is no longer applied on the basis that the associated variable cash flows are still expected to occur over the lifetime of the original hedge relationships. The associated cash flow hedge reserve is being released over the period of the original hedge relationship which has since been de-designated.

12 Finance receivables measured at amortised cost

Policy

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

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

\$000's	June 2024	June 2023
Gross finance receivables measured at amortised cost	4,343,267	4,006,945
Less provision for impairment ¹	(76,321)	(52,145)
Net finance receivables measured at amortised cost	4,266,946	3,954,800
Due within one year	1,050,448	881,919
Due more than one year	3,292,819	3,125,026
Less provision for impairment ¹	(76,321)	(52,145)
Net finance receivables measured at amortised cost	4,266,946	3,954,800

¹ Refer to Note 23 - Asset quality for further details.

13 Operating lease vehicles

Policy

Operating lease vehicles are stated at cost less accumulated depreciation.

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

\$000's	June 2024	June 2023
Cost		
Opening balance	22,913	20,450
Additions	6,732	8,766
Disposals	(3,454)	(6,303)
Closing balance	26,191	22,913
Accumulated depreciation		
Opening balance	5,947	5,289
Depreciation charge for the year	3,902	3,461
Disposals	(1,919)	(2,803)
Closing balance	7,930	5,947
Opening net book value	16,966	15,161
Closing net book value	18,261	16,966

The future minimum lease payments receivable under operating leases not later than one year is \$5.037 million (2023: \$4.086 million), within one to five years is \$7.192 million (2023: \$7.598 million) and over five years is \$0.002 million (2023: nil).

14 Borrowings

Policy

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

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

\$000's	June 2024	June 2023
Deposits		
Short-term interest bearing deposits	1,417,312	1,493,190
Non-interest bearing deposits	38,193	9,205
Term deposits	4,511,734	2,628,634
Total deposits	5,967,239	4,131,029
Other borrowings		
Unsubordinated notes	458,019	122,165
Subordinated notes	153,732	97,793
Securitised borrowings	1,369,394	227,054
Certificate of deposit	59,618	148,110
Money market borrowings	-	20,004
Total other borrowings	2,040,763	615,126
Total deposits and other borrowings	8,008,002	4,746,155
Due within one year	6,168,167	4,328,399
Due more than one year	1,839,835	417,756
Total deposits and other borrowings	8,008,002	4,746,155

Deposits and unsubordinated notes rank equally and are unsecured.

Unsubordinated notes

Unsubordinated notes include short and long-term retail bonds and medium term notes. Medium term notes are issued in both New Zealand and Australian dollars to eligible non-retail investors in compliance with applicable laws.

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

Retail Bonds and medium term notes \$000's	Frequency of interest repayments	June 2024	June 2023	Maturity date
NZ \$125 million	Semi-annually	-	122,165	12 April 2024
NZ \$20 million	Semi-annually	20,302	-	27 March 2028
AU \$45 million ¹	Quarterly	49,974	-	9 July 2024
AU \$30 million ¹	Quarterly	33,285	-	9 July 2024
AU \$220 million ¹	Quarterly	242,543	-	13 May 2025
AU \$100 million ¹	Quarterly	111,915	-	5 October 2027
Total retail bonds and medium term notes		458,019	122,165	

¹Australian dollar denominated medium term notes represent the Australian Banking Group's notes resulting from the transfer of HAH and its controlled entities to the Banking Group on 2 May 2024. Medium term notes, matured on 9 July 2024, were fully repaid.

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

14 Borrowings (continued)

Subordinated notes

NZD Subordinated notes

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

Interest payable

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

Early Redemption

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

Ranking

The claims of the holders of the subordinated notes will rank:

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

AUD Subordinated notes

On 28 June 2024, HBA, a subsidiary of the Banking Group, issued A\$50 million of subordinated unsecured notes (**AUD Subordinated notes**) pursuant to the terms of the Debt Issuance Programme in accordance with the laws of Australia. AUD Subordinated notes are treated as Tier 2 capital under HBA regulatory capital requirements and will mature on 28 June 2034. AUD Subordinated notes do not qualify for treatment as Tier 2 capital under HBL regulatory capital requirements.

Interest payable

The interest rate is a floating rate equal to the sum of the applicable 3-month Bank Bill Swap Rate plus 3.7% Issue Margin. The quarterly payment of interest in respect of the subordinated notes are subject to HBA being solvent at the time of, and immediately following the interest payment.

Early Redemption

HBA may elect to repay the subordinated notes before 28 June 2034 in part or in full at their face value together with accrued interest on 28 June 2029 or any interest payment date thereafter. Early redemption of all the subordinated notes for certain tax or regulatory events is permitted on an interest payment date. Early redemption is subject to certain conditions, including HBA obtaining the Australian Prudential Regulatory Authority (**APRA**) prior written approval and HBA being solvent at the time.

Ranking

The claims of the holders of the subordinated notes will rank:

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

14 Borrowings (continued)

Securitised borrowings

The Banking Group had the following securitised borrowings outstanding at balance sheet date:

Securitisation facility \$000's	Contract currency	June 2024		Drawn	June 2023		Maturity date
		Limit	Limit		Limit	Drawn	
		AUD	NZD		NZD		
Heartland Auto Receivable Warehouse (HARWT)	NZ	-	600,000	484,422	400,000	227,054	27 March 2028
StockCo Securitisation Trust 2021-1 (StockCo) ¹	AU	250,000	273,733	155,581	-	-	16 December 2025
Seniors Warehouse Trust No. 2 (SWT2) ¹	AU	750,000	821,198	596,669	-	-	24 April 2026
Atlas 2020-1 Trust (Atlas) ²	AU	-	-	132,722	-	-	24 September 2050
Total securitisation borrowings		1,694,931	1,369,394	400,000	227,054		

¹Australian dollar denominated securitisation facilities represent the Australian Banking Group's facilities resulting from the transfer of HAH and its controlled entities to the Banking Group on 2 May 2024.

²Atlas is a closed securitisation trust due to its predefined asset composition and outstanding borrowings balance, fixed throughout its operational life. As such, there is no facility limit applicable to Atlas issued notes.

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

Net debt reconciliation

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

\$000's	June 2024	June 2023
Balance as at beginning of year	615,126	749,478
Proceeds from wholesale borrowings	998,688	671,271
Repayment of wholesale borrowings	(870,413)	(753,838)
Proceeds from issue of unsubordinated notes	24,364	-
Repayment of unsubordinated notes	(126,485)	(150,000)
Proceeds from issue of subordinated debt	51,572	97,934
Total cash movements	77,726	(134,633)
Business combination under common control	1,341,420	-
Acquisition of debt from purchase of subsidiary	2,574	-
Capitalised interest and fee expense	3,779	754
Fair value movements	805	(473)
Foreign exchange and other movements	(667)	-
Total non-cash movements	1,347,911	281
Balances as at end of year	2,040,763	615,126

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15 Share capital and dividends

Policy

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

000's	June 2024 Number of Shares	June 2023 Number of Shares
Issued shares		
Opening balance	565,430	565,430
Shares issued during the year	464,830	-
Closing balance	1,030,260	565,430

On 26 April 2024 HBL issued 187,500,000 shares at \$1.00 to HGH as consideration for capital injection from HGH to fund HBL's acquisition of CBL and provide growth capital to the Banking Group.

On 29 April 2024 HBL issued another 4,844,986 shares at \$1.00 to HGH as consideration for the acquisition of the equity investment in Harmoney Corp Limited (**HMY**) from HGH.

During the year HBL issued a further 272,485,225 shares to HGH as consideration for HAH and its subsidiaries transferred to CBL.

The issued and fully paid ordinary share capital is included in CET1 capital of the Banking Group. Refer to Note 29 - Capital adequacy and regulatory liquidity ratios for further details.

Dividends paid

	June 2024 Date Declared	\$000's	June 2023 Date Declared	\$000's
Dividend to HGH	28 August 2023	43,000	22 August 2022	30,000
Dividend to HGH	26 February 2024	22,500	28 February 2023	30,000
Total dividends paid		65,500		60,000

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16 Other reserves

\$000's	Common Control Reserve	Foreign Currency Translation Reserve (FCTR)	Fair Value Reserve	Cash flow Hedge Reserve	Total
June 2024					
Balance as at 30 June 2023	-	-	(1,567)	14,710	13,143
Business combination under common control ¹	(81,660)	-	(4,011)	103	(85,568)
Movements attributable to net investments in foreign operations	-	(1,682)	-	-	(1,682)
Movements attributable to fair value hedges	-	-	1,282	-	1,282
Movements attributable to cash flow hedges	-	-	-	(14,715)	(14,715)
Income tax effect	-	-	(357)	4,276	3,919
Total other comprehensive income/(loss) net of income tax	-	(1,682)	925	(10,439)	(11,196)
Balance as at 30 June 2024	(81,660)	(1,682)	(4,653)	4,374	(83,621)
June 2023					
Balance as at 30 June 2022	-	-	(1,034)	7,446	6,412
Movements attributable to fair value changes for the financial instruments at FVOCI	-	-	(779)	-	(779)
Movements attributable to cash flow hedges	-	-	-	9,682	9,682
Income tax effect	-	-	246	(2,418)	(2,172)
Total other comprehensive income/(loss) net of income tax	-	-	(533)	7,264	6,731
Balance as at 30 June 2023	-	-	(1,567)	14,710	13,143

¹Movements represent the components of equity of the transferred entities and the resulting common control reserve. Refer to Note 18 - Acquisition for further details.

FCTR

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

Fair value reserve

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

Cash flow hedge reserve

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

Common control reserve

Common control reserve represents the difference between the consideration paid and the share capital of the transferred entities based on carrying amounts at the date of transfer.

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17 Other balance sheet items

Policy

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

\$000's	June 2024	June 2023
Other assets		
Trade receivables	194	381
GST receivables	4,376	275
Prepayments	6,091	4,280
Property, plant and equipment ¹	22,009	13,993
Other receivables	2,227	668
Total other assets	34,897	19,597

¹Property, plant and equipment include rural property worth \$7.8 million which has undergone a change in use from investment property during the year.

Policy

Intangible assets

Intangible assets with finite useful lives

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

Software-as-a-Service (SaaS) arrangements

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

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

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

Goodwill

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

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17 Other balance sheet items (continued)

\$000's	June 2024	June 2023
Computer software		
Software - cost ¹	88,533	46,714
Software under development	4,680	26,664
Accumulated amortisation	(37,443)	(31,542)
Net carrying value of computer software	55,770	41,836
Goodwill	208,723	29,799
Net carrying value of goodwill	208,723	29,799
Total intangible assets	264,493	71,635

¹The increase in software - cost is related to capitalised costs associated with the core banking system upgrade completed during the year ended 30 June 2024.

Goodwill

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

During the year, the Banking Group has recognised provisional goodwill from the acquisition of CBL and transfer of HAH and its controlled entities from HGH to HBA (refer to Note 18 – Acquisition for further details).

Pursuant to the acquisition of CBL, CBL and the Australian reverse mortgage lending and livestock financing businesses were transferred into HBA (collectively **the Australian businesses**). The performance of the Australian businesses is not monitored as separate business units but rather aggregated within HBA. The management structure has also been reorganised to reflect this, and general managers, responsible for product categories, report into one HBA management team. This represents the way in which goodwill is monitored internally, and has resulted in a reallocation of goodwill to the group of CGUs represented by the Australian businesses. There were no indicators of impairment of goodwill immediately prior to the acquisition and business reorganisation.

CGU / Group of CGUs	Goodwill	
	June 2024	June 2023
\$000's		
Heartland Bank Limited	29,799	29,799
Heartland Bank Australia Limited (previously Challenger Bank Limited) ¹	178,924	-
Total goodwill	208,723	29,799

¹Recognised on acquisition of HBA on 30 April 2024 and transfer of HAH from HGH to HBA on 2 May 2024. Refer to Note 18 – Acquisition for further details.

Impairment testing of goodwill

Further information about goodwill impairment tests performed for CGUs or group of CGUs is provided below.

Heartland Bank Limited (**HBL**) - \$29.8 million

The recoverable amount of the CGU was determined on a value in use (**VIU**) basis using a discounted cash flow methodology. The model uses a five-year cash flow forecast based on the latest budget approved by the respective Boards and extended out based on long-term growth rates. The long-term growth rate applied to the future cash flows after year five of the forecast was 2.0% (2023: 2.0%) and a discount rate of 10.0% (2023: 10.0%) for HBL was applied which reflects both past experience and external sources of information. The goodwill impairment assessment indicates significant headroom, and that no foreseeable adjustments to key assumptions such as growth rate or discount rate would lead to impairment.

17 Other balance sheet items (continued)

Goodwill (continued)

HBA group of CGUs (comprising the CGUs of Heartland Bank Australia Limited, Heartland Australia Holdings Pty Limited and StockCo Australia Group) - \$178.9 million

The recoverable amount is determined based on fair value less cost to sell by using an earnings multiple applicable to the group of CGUs. The category of this fair value is Level 3. Earnings multiples relating to the group of CGUs are sourced from publicly available data associated with comparable Australasian Financial Services companies to the group of CGUs, and are applied to the projected earnings for the next twelve months. The key assumption is the price-earnings (P/E) multiple observed for these businesses, the average of which for the comparable businesses was in the range of 14.0x-16.0x. For goodwill to be impaired for this group of CGUs, the forecast earnings for the next twelve months would need to decrease by between 15.9% to 26.4%.

No impairment losses have been recognised against the carrying amount of goodwill for the year ended 30 June 2024 (2023: nil).

Policy

Employee benefits

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

\$000's	June 2024	June 2023
Trade and other payables		
Trade and other payables	15,747	12,439
Insurance liability	645	915
Employee benefits	9,997	6,158
Other tax payables	4,176	3,829
Collateral received on derivatives ¹	2,384	27,609
Total trade and other payables	32,949	50,950

¹The Banking Group has accepted collateral arising from derivative transactions, included in Cash and cash equivalents. The decrease in the carrying amount of cash collateral received is attributable to decrease in net asset positions on derivative balances compared to 30 June 2023. Refer to Note 31 - Offsetting financial instruments.

Policy

Leases

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

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

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

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

\$000's	June 2024	June 2023
Right of use assets		
Balance at beginning of year	11,510	13,660
Depreciation charge for the year, included within depreciation expense in the income statement	(2,459)	(2,150)
Additions to right of use assets	6,468	-
Total right of use assets	15,519	11,510
Lease liability		
Current	3,689	2,357
Non-current	14,087	11,121
Total lease liability	17,776	13,478
Interest expense relating to lease liability	689	434

18 Acquisition

Policy

Business combination

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

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

Business combination under common control

Acquisitions which result in a business combination involving common control entities, are outside the scope of NZ IFRS 3 Business Combinations (**NZ IFRS 3**). Accordingly, predecessor value method has been applied by the Banking Group to account for such common control business combinations.

A business combination involving entities under common control is a business combination in which all the combining entities or subsidiaries are ultimately controlled by the same party and parties both before and after the business combination, and that control is not transitory. The assets and liabilities combined are recognised based on the carrying amounts at the date of transfer and no adjustments are made to reflect the fair values. These amounts include any goodwill and other fair value adjustments recorded at the consolidated level in respect of the transferred entity. The components of equity of the acquired entities are added to the same components within the Banking Group equity and any difference between the consideration paid and the share capital of the transferred entity is reflected within equity as a common control reserve.

On 30 April 2024 the Banking Group completed the acquisition of 100% shareholding in CBL from Challenger Limited. From 1 May 2024, CBL began trading as Heartland Bank Australia, with the legal name change from CBL to HBA occurring later in May 2024.

Total cash consideration in relation to the transaction was A\$115.24 million (NZ\$126.60 million) which is comprised of:

- the total purchase price of A\$45.96 million (NZ\$50.49 million), reflecting the initial purchase price of A\$36.70 million (NZ\$40.31 million) plus A\$9.26 million (NZ\$10.17 million) of additional consideration due to the deposit raising programme undertaken by CBL prior to completion, and
- an additional payment of A\$69.28 million (NZ\$76.10 million), reflecting the increased capital being held by CBL following its pre-completion purchase of A\$574.30 million (NZ\$631.35 million) of reverse mortgages from HAH.

The deposit raising programme was requisite to the completion of the acquisition and is considered as part of the acquisition transaction.

The Banking Group is assessing the fair value of the identifiable assets and liabilities acquired, and determining the related deferred tax effects, if any, in line with the principles for estimating fair value adopted by the Banking Group. Values were provisionally allocated to identifiable assets and liabilities on completion date based on available information. They may be adjusted during the 12 months following that date on the basis of new information obtained relating to facts and circumstances prevailing at completion date.

Goodwill of A\$21.19 million (NZ\$23.21 million) has been recognised from the acquisition on a provisional basis. This is supported by the enabled expansion through access to retail deposits, together with the anticipated synergies to be realised over the next few years.

The provisional goodwill as at the acquisition date has been allocated to the Heartland Australia Bank Limited CGU (refer to Note 17 - Other balance sheet items for further details).

18 Acquisition (continued)

Details of the fair value of the assets and liabilities acquired and the provisional goodwill arising from the acquisition of HBA are set out as follows:

\$000's	Provisional fair value recognised on acquisition
Assets	
Cash and cash equivalents	292,211
Investments	367,739
Finance receivables measured at amortised cost	61,179
Finance receivables - reverse mortgages	635,609
Provision for impairment	(167)
Deferred tax asset	820
Other assets	860
Total assets	1,358,251
Liabilities	
Deposits	1,249,375
Other borrowings	2,574
Trade and other payables	2,916
Total liabilities	1,254,865
Net assets acquired	103,386
Provisional goodwill arising on acquisition	23,205
Fair value of consideration	126,591
<i>Cash flow on acquisition</i>	
Net cash acquired with the subsidiary	292,211
Net cash (inflow) on acquisition of subsidiary	(165,620)

HBA has contributed interest income of A\$14.86 million (NZ\$16.15 million) and net loss of A\$1.20 million (NZ\$1.29 million) to the Banking Group for the period from 30 April 2024 to 30 June 2024.

If the acquisition had occurred on 1 July 2023, it is estimated that the contribution to the Banking Group's interest income and profit for the year ended 30 June 2024 would have been A\$35.47 million (NZ\$38.40 million) and A\$8.90 million (NZ\$9.60 million) net loss respectively.

Transfer of HAH and its controlled entities

On 2 May 2024, HGH transferred to HBA 100% shareholding of its Australian subsidiaries, being Heartland Australia Holdings Pty Limited (**HAH**) and its controlled entities, under the requirements of the varied conditions of HBA's banking licence granted by APRA. Transfer of HAH and its controlled entities from HGH to HBA is a reorganisation of entities under common control where HBA, HAH and its controlled entities are under the ultimate control of HGH, before and after the transaction. NZ IFRS 3 does not apply to business combinations under common control.

The Banking Group elected to apply predecessor value method for the recognition of assets and liabilities of HAH and its controlled entities, including goodwill, at date of transfer. HBL issued shares to HGH in exchange for HAH and its controlled entities transferred to HBA. Refer to Note 15 – Share capital and dividends for further details.

18 Acquisition (continued)

Details of the consolidated book values of the assets and liabilities of HAH and its controlled entities transferred from HGH to HBA are set out as follows:

\$000's	Book value recognised on transfer
Assets	
Cash and cash equivalents	125,085
Investments	1,972
Finance receivables measured at amortised cost	279,971
Finance receivables - reverse mortgages	1,072,410
Right of use assets	6,337
Other assets	1,814
Goodwill	156,274
Intangible assets	1,557
Deferred tax asset	853
Total assets	1,646,273
Liabilities	
Other borrowings	1,341,419
Due to related parties	789
Lease liabilities	6,494
Tax liabilities	566
Trade and other payables	2,134
Total liabilities	1,351,402
Net assets	294,871
Equity	
Share capital	212,953
Retained earnings	85,826
Other reserves	(3,908)
Total equity	294,871

Common control reserve of \$81.66 million has been recognised from the transfer of assets and liabilities of HAH and its controlled entities. Refer to Note 16 - Other reserves for further details on equity movements from business combination under common control.

HAH and its controlled entities contributed interest income of A\$21.68 million (NZ\$22.20 million) and net profit of A\$0.63 million (NZ\$0.69 million) to the Banking Group for the period from 2 May to 30 June 2024.

If the transfer had occurred on 1 July 2023, it is estimated that the contribution to the Banking Group's interest income and profit for the year ended 30 June 2024 would have been A\$161.76 million (NZ\$173.41 million) and A\$18.06 million (NZ\$19.42 million) respectively.

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19 Related party transactions and balances

Policy

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

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

(a) Transactions with key management personnel

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

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

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

\$000's	June 2024	June 2023
Transactions with key management personnel		
Interest income	159	123
Interest expense	(43)	(43)
Key management personnel compensation		
Short-term employee benefits	(2,876)	(1,441)
Share-based plan benefit/(expense)	-	14
Total transactions with key management personnel	(2,760)	(1,347)
Due from/(to) key management personnel		
Lending	2,918	4,428
Borrowings - deposits	(975)	(855)
Total due from/(to) key management personnel	1,943	3,573

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19 Related party transactions and balances (continued)

(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 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.

Seniors Warehouse Trust (**SWT**) forms part of Australian Seniors Finance Pty Ltd (**ASF**) reverse mortgage business and is set up by ASF as an asset holding entity. During the year, HBL purchased A\$80 million (NZ\$87 million) of reverse mortgage loans from SWT in the first half of the financial year and subsequently sold this portfolio to HBA post-acquisition. The transacted values approximated fair values at transaction dates.

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

\$000's	June 2024	June 2023
Heartland Group Holdings Limited (HGH)		
Interest expense	219	122
Net deposits/(withdrawals)	17,900	(4,754)
Shares issued to HGH	491,572	-
Dividends paid to HGH ¹	65,500	60,000
Management fees paid to HGH	9,003	11,013
Management fees received from HGH	5,203	4,596
Acquisition of equity investments from HGH ¹	10,479	-
Transfer of HAH and its subsidiaries from HGH ²	294,871	-

¹Refer to Note 15 - Share capital and dividends for further details.

²Refer to Note 18 - Acquisition note for further details.

\$000's	June 2024	June 2023
Australian Seniors Finance Pty Limited (ASF)		
Management fees paid to ASF	-	5
Management fees received from ASF ¹	388	4,517
Heartland Trust (HT)		
Unclaimed monies paid to HT	-	20
Payment to HT for providing goods and services	-	10

¹Management fee disclosed is in relation to services received by ASF for the period from 1 July 2023 to 2 May 2024, prior to the transfer of HAH and its controlled entities from HGH to HBA. Refer to Significant events section in the Note 1 - Financial statements preparation for further details.

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19 Related party transactions and balances (continued)

(c) Due to related parties

\$000's	June 2024	June 2023
Due to		
Heartland Group Holdings Limited	7,653	6,956
Australian Seniors Finance Pty Limited	-	217
Total due to related parties	7,653	7,173

(d) Other balances with related parties

\$000's	June 2024	June 2023
Heartland Group Holdings Limited		
Retail deposits owing to HGH	18,123	4

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20 Fair value

Policy

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

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

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

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

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

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

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

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

(a) Financial instruments measured at fair value

The following methods and assumptions were used to estimate the fair value of each class of financial asset and liability measured at fair value on a recurring basis in the 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 Committee for approval prior to its adoption in the financial statements.

Investments in debt securities

Investments in public sector securities and corporate bonds are stated at FVOCI or FVTPL, with the fair value being based on quoted market prices (Level 1 under the fair value hierarchy) or modelled using observable market inputs (Level 2 under the fair value hierarchy). Refer to Note - 10 Investments for more details.

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 at 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. Equity securities are measured at FVOCI where they are not held for trading, the Banking Group doesn't have control or significant influence over the investee and where an irrevocable election is made to measure them at FVOCI. These securities are measured at fair value with unrealised gains and losses recognised in other comprehensive income except for dividend income which is recognised in profit or loss. Investments in unlisted equity securities are measured under Level 3 of the fair value hierarchy with the fair value being based on unobservable inputs using market accepted valuation techniques. Where appropriate, the 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.

20 Fair value (continued)

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

Finance receivables - reverse mortgages

The reverse mortgage portfolio is classified and measured at FVTPL under NZ IFRS 9 Financial instruments (NZ IFRS 9). An irrevocable election has been made by the Banking Group to not apply the new NZ IFRS 17 Insurance Contracts standard effective from 1 July 2023. The review of the reverse mortgage portfolio valuation determined that the terms and conditions of these loan contracts do not contain a component of significant insurance risk, therefore they continue to be treated under NZ IFRS 9 Financial Instruments classified at FVTPL under NZ IFRS.

On initial recognition the Banking Group considers the transaction price to represent the fair value of the loan, on the basis that no reliable fair value can be estimated as there is no relevant active market and fair value cannot be reliably measured using other valuation techniques under NZ IFRS 13 Fair value measurement.

For subsequent measurement, and at balance date, the Banking Group considered whether the fair value can be determined by reference to a relevant active market or using a valuation technique that incorporates observable inputs but has concluded relevant support is not currently available. In the absence of such market evidence the Banking Group has used the transaction value (cash advanced plus accrued capitalised interest) for subsequent measurement. The Banking Group has used an actuarial method to determine a proxy for the fair value that incorporates changes in the portfolio risk and expectations of the portfolio performance. This includes inputs such as mortality and potential move into care, voluntary exits, house price changes, interest rate margin and the no equity guarantee. This estimate is highly subjective and a wide range of plausible values are possible. The estimate provides an indication of whether the transaction value is overstated.

The Banking Group does not consider that the actuarial estimate has moved outside of the original expectation range on initial recognition. There has been no fair value movement recognised in profit or loss during the period (2023: nil). Fair value is not sensitive to the above assumptions due to the nature of reverse mortgage loans. In particular, given conservative origination loan-to-value ratio and security criteria, a material deterioration in house prices combined with a material increase in interest rates over a sustained period of time would likely need to occur before any potential impact to fair value.

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

Derivative financial instruments

Derivative financial instruments 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 statement of financial position.

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20 Fair value (continued)

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

\$000's	Level 1	Level 2	Level 3	Total
June 2024				
Assets				
Investments	1,082,699	-	9,432	1,092,131
Derivative financial instruments	-	12,316	-	12,316
Finance receivables - reverse mortgages	-	-	2,897,818	2,897,818
Total financial assets measured at fair value	1,082,699	12,316	2,907,250	4,002,265
Liabilities				
Derivative financial instruments	-	9,017	-	9,017
Total financial liabilities measured at fair value	-	9,017	-	9,017
June 2023				
Assets				
Investments	315,192	-	1,819	317,011
Derivative financial instruments	-	36,982	-	36,982
Finance receivables - reverse mortgages	-	-	888,600	888,600
Total financial assets measured at fair value	315,192	36,982	890,419	1,242,593
Liabilities				
Derivative financial instruments	-	7,624	-	7,624
Total financial liabilities measured at fair value	-	7,624	-	7,624

There were no transfers between levels in the fair value hierarchy in the year ended 30 June 2024 (2023: nil).

20 Fair value (continued)

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

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

\$000's	Finance Receivables - Reverse Mortgage	Investments	Total
June 2024			
As at 30 June 2023	888,600	1,819	890,419
Additions - transfer from SWT to HBL ¹	86,551	-	86,551
Additions - acquisition of HBA ²	635,609	-	635,609
Additions - transfer of HAH and its controlled entities from HGH to HBA ²	1,072,410	1,972	1,074,382
New loans	245,920	-	245,920
Repayments	(158,498)	-	(158,498)
Capitalised Interest and fees	128,925	-	128,925
Purchase of investments	-	5,596	5,596
Fair value (loss) on investment	-	-	-
Other ³	(1,699)	45	(1,654)
As at 30 June 2024	2,897,818	9,432	2,907,250
June 2023			
As at 30 June 2022	721,264	1,503	722,767
New loans	193,845	-	193,845
Repayments	(96,753)	-	(96,753)
Capitalised Interest and fees	70,168	-	70,168
Purchase of investments	-	316	316
Other ³	76	-	76
As at 30 June 2023	888,600	1,819	890,419

¹Refer to Note 19 - Related party transactions and balances.

²Refer to Note 18 - Acquisition.

³This relates to foreign currency translation differences for the assets.

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20 Fair value (continued)

(b) Financial instruments not measured at fair value

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

Cash and cash equivalents

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

Finance receivables measured at amortised cost

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

Finance receivables with a floating interest rate are deemed to be at current market rates. The current amount of credit provisioning has been deducted from the fair value calculation of finance receivables as a proxy for future losses.

Borrowings

The fair value of deposits, bank borrowings and other borrowings is the present value of future cash flows and is based on the current market interest rates payable by the Banking Group for debt of similar maturities.

Other financial assets and financial liabilities

The fair value of all other financial instruments is considered equivalent to their carrying value due to their short-term nature.

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

\$000's	June 2024			June 2023		
	Fair Value Hierarchy	Total Fair Value	Total Carrying Value	Fair Value Hierarchy	Total Fair Value	Total Carrying Value
Assets						
Finance receivables measured at amortised cost	Level 3	4,146,692	4,266,946	Level 3	3,700,196	3,954,800
Total financial assets		4,146,692	4,266,946		3,700,196	3,954,800
Liabilities						
Deposits	Level 2	5,973,492	5,967,239	Level 2	4,130,330	4,131,029
Other borrowings	Level 2	2,042,396	2,040,763	Level 2	615,061	615,126
Total financial liabilities		8,015,888	8,008,002		4,745,391	4,746,155

20 Fair value (continued)

(c) Classification of financial instruments

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

\$000's	FVOCI Equity	FVOCI Debt Securities	FVTPL	Amortised Cost	Total Carrying Value
June 2024					
Assets					
Cash and cash equivalents	-	-	-	627,969	627,969
Investments	7,575	371,816	712,740	-	1,092,131
Finance receivables measured at amortised cost	-	-	-	4,266,946	4,266,946
Finance receivables - reverse mortgages	-	-	2,897,818	-	2,897,818
Derivative financial instruments	-	-	12,316	-	12,316
Other financial assets	-	-	-	2,421	2,421
Total financial assets	7,575	371,816	3,622,874	4,897,336	8,899,601
Liabilities					
Deposits	-	-	-	5,967,239	5,967,239
Other borrowings	-	-	-	2,040,763	2,040,763
Derivative financial instruments	-	-	9,017	-	9,017
Due to related parties	-	-	-	7,653	7,653
Other financial liabilities	-	-	-	18,776	18,776
Total financial liabilities	-	-	9,017	8,034,431	8,043,448
June 2023					
Assets					
Cash and cash equivalents	-	-	-	216,044	216,044
Investments	-	315,192	1,819	-	317,011
Finance receivables measured at amortised cost	-	-	-	3,954,800	3,954,800
Finance receivables - reverse mortgages	-	-	888,600	-	888,600
Derivative financial instruments	-	-	36,982	-	36,982
Other financial assets	-	-	-	1,050	1,050
Total financial assets	-	315,192	927,401	4,171,894	5,414,487
Liabilities					
Deposits	-	-	-	4,131,029	4,131,029
Other borrowings	-	-	-	615,126	615,126
Derivative financial instruments	-	-	7,624	-	7,624
Due to related parties	-	-	-	7,173	7,173
Other financial liabilities	-	-	-	40,963	40,963
Total financial liabilities	-	-	7,624	4,794,291	4,801,915

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Risk Management

21 Enterprise risk management program

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

The RMS&F supersedes HBL's Enterprise Risk Management Framework (**ERMF**) and has been developed to accommodate changes in the Banking Group's operating environment, arising from the acquisition and integration of HBA, and is aligned with HBA's own Risk Management Strategy document that reflects Australian Prudential Regulation Authority (**APRA**) regulatory requirements in addition to the HBL's existing RMS&F that supports the RBNZ prudential risk management requirement.

Role of the Board and the Board Risk Committee

The Board, through its Board Risk Committee (**BRC**) is responsible for oversight and governance of the development of the RMP. The role of the BRC is to assist the Board to formulate its risk appetite, and to monitor the effectiveness of the RMP. The BRC has specific responsibilities over the following areas:

- The Board's Risk Appetite Statement (**RAS**).
- Heartland's Internal Capital Adequacy Assessment Program (**ICAAP**) including appropriate stress testing scenarios.
- The effectiveness of the RMS&F and internal compliance and risk related policies, including approval or variation of policies, procedures and standards.
- Respond to changes anticipated in the economic, business and regulatory environment.
- Conduct, culture and customer outcomes, including emerging risks and any areas of concern.
- Credit exposures of the Bank, including the Delegated Lending Authority Policy and Framework.
- New products, including the process for approval of new products.
- Consideration of risks associated with pursuit of strategy.
- Forming a view on risk culture supporting effective management of risks.

The BRC consists of three non-executive directors. Two members of the BRC sit on the Board Audit Committee (**BAC**). In addition, HBL CEO, HBL Chief Risk Officer (**CRO**), Head of Internal Audit and the HBL Chief Financial Officer (**CFO**) (or their nominee, subject to the Chair's prior approval) attend the BRC meetings, and the directors who are not members of the BRC are entitled to attend meetings and to receive copies of the BRC papers.

Board Audit Committee

The BAC focuses on financial reporting and application of accounting policies as part of the internal control and risk assessment framework. The BAC provides oversight of the independent evaluation of the effectiveness of RMS&F processes and ensure corrective action is taken. This work is supported by Internal Audit, which provides an independent assessment of the design, adequacy and effectiveness of internal controls. The BAC receives regular reports from Internal Audit.

Charters for both the BRC and the BAC ensure suitable cross representation to allow effective communication pertaining to identified issues with oversight by the Board. HBL CRO has a direct reporting line to the Chair of the BRC. The Head of Internal Audit has a direct reporting line to the Chair of the BAC.

Internal Audit

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

21 Enterprise risk management program (continued)

Internal Audit (continued)

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

A regular cycle of review has been implemented to cover all areas of the business, focused on assessment, management and control of risks identified. The audit plan takes into account cyclical review of various business units and operational areas, as well as identified areas of higher identified risk. The audit methodology is designed to meet the International Standards for the Professional Practice of Internal Auditing of The Institute of Internal Auditors.

Group Asset and Liability Committee (GALCO)

The GALCO is a Banking Group management committee consisting of members from HBL and HBA which informs and supports the HBL BRC by providing consolidated oversight of risks of the Banking Group's assets and liabilities across both HBL and HBA in relation to market risk, liquidity risk, balance sheet structure and capital management through:

- Ensuring compliance of the Banking Group with risk limits and governance requirements.
- Recommending policies for approval and changes to risk tolerances to BRC and BAC.
- Setting the strategic direction for asset and liability management, to be reflected in the asset and liability management policy.
- Monitoring, assessing and proactively reacting to trends in the economy, interest rates, and foreign exchange rates to limit any potential adverse impact on earnings.

Asset and Liability Committee (ALCO)

The ALCO is a New Zealand Banking Group management committee comprising HBL CEO, HBL CFO, HBL CRO, Head of Retail and Group Treasurer of HBL. The ALCO meets monthly and has responsibility for overseeing aspects of risk management of the New Zealand Banking Group's financial position. ALCO's specific responsibilities include decision making and oversight of risk matters in relation to market risk, liquidity risk, balance sheet structure, capital management through:

- Ensuring adequate controls, processes, and systems are established to identify, measure, and manage market, liquidity and funding risk.
- Monitoring the performance and effectiveness of risk management activities.
- Monitoring and recommending interest rate pricing levels for all loan assets and funding products.

Executive Risk Committee (ERC)

The ERC comprises the HBL CEO, HBL CRO, HBL CFO, HBL Group Treasurer and Head of Internal Audit. The ERC has responsibility for overseeing risk aspects including internal control environment to ensure that residual risk is consistent with the Banking Group's risk appetite. The ERC generally meets monthly, and minutes are made available to the BRC. ERC's specific responsibilities include decision making and oversight of operational risk, compliance risk and credit risk.

Climate-related risks

Climate-related risks are integrated into the Banking Group's overall risk management strategy and processes.

Risk Management

HBL has a defined risk tolerance for climate-related risk, which is monitored as part of HBL's respective RAS, reviewed, and updated at least annually to incorporate necessary changes and consider any new material emerging risks.

For HBL, climate-related risks primarily manifest as credit risk. HBL's business strategy outlines its credit appetite for business lending, reviewed at least annually with consideration given to climate-related risks. HBL's credit risk management processes incorporate consideration of climate-related risks for the HBL's large customers initially at onboarding and subsequently during annual reviews. Climate-related risks for HBL's portfolio-managed exposures are continually monitored.

21 Enterprise risk management program (continued)

Climate-related risks (continued)

Risk Management (continued)

HBL conducts an annual ICAAP to ensure adequate capital in relation to its risk profile, including climate-related risks. The Banking Group's Enterprise Operational Risk Assessment identifies and assists in the proactive management of the most critical operational risks, including climate-related risks, by establishing inherent and residual risk ratings to monitor risk exposure.

All Banking Group business units are required to review their risk and control self-assessment (**RCSA**) at least annually. The RCSA primarily focuses on key operational risks and considers climate-related risks where relevant.

The Australian Banking Group's credit risk management processes also incorporate consideration of climate-related risks.

Governance

The Board is responsible for the Banking Group's corporate governance, strategy and risk appetite ensuring climate-related risks and opportunities are considered. Oversight, assessment and management of climate-related risks and opportunities occur within HBL and HBA given their direct involvement in business operations and decision-making.

The HGH Sustainability Committee meets at least quarterly to consider climate-related risks and opportunities and provide updates, guidance, and leadership regarding climate initiatives to the Board. HBL and HBA benefit from the work carried out by the HGH Sustainability Committee, although they have their own Boards of Directors and management teams.

The ERC receives monthly updates on risk appetite and status, including the status of climate-related risks, as well as quarterly Climate Change Composite Assessment capturing HBL and HBA climate-related risks.

HBL and HBA management are responsible for executing the initiatives, metrics and targets allocated based on accountability.

Strategy

The Banking Group's sustainability strategy continues to evolve with the ongoing commitment to reducing its direct environmental impact, creating business practices that support positive environmental outcomes and fostering an internal culture of environmental awareness. The Banking Group's strategy is built upon three pillars:

- building the capability to appropriately take climate change risks into consideration when making lending decisions,
- funding borrowers' transition to a net-zero economy; and
- embedding sustainability into every aspect of the Banking Group's operations.

The Banking Group integrates climate-related risks and opportunities into its wider business strategy, supported by ongoing monitoring of these risks through specific metrics and set targets focused on sustainable finance and its own operational emissions.

The Banking Group assesses the impact of climate-related risks on its financial position and performance. Although climate change introduces an element of uncertainty, the Banking Group has determined that climate-related risks do not have a material impact on the judgements, assumptions, and estimates for the year ended 30 June 2024. HGH will release its Climate Report for the year ended 30 June 2024 by 31 October 2024, providing further details on the Banking Group's approach to climate-related risks. A copy of the Climate Report will be available on HGH's website at <https://www.heartlandgroup.info/sustainability>.

Operational and compliance risk

Operational and compliance risk is the risk arising from day to day operational activities in the execution of the Banking Group's strategy which may result in direct or indirect loss. Operational and compliance risk losses can occur as a result of fraud, human error, missing or inadequately designed processes, failed systems, damage to physical assets, improper behaviour or from external events. The losses range from direct financial losses to reputational damage, unfavourable media attention, injury to or loss of staff or clients or as a breach of laws or banking regulations. Where appropriate, risks are mitigated by insurance.

21 Enterprise risk management program (continued)

Operational and compliance risk (continued)

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

- The first line of defence is the business line management of the identification, management and mitigation of the risks associated with the products and processes of the business. This accountability includes regular testing and attestation of the adequacy and effectiveness of controls and compliance with the Banking Group's policies.
- The second line of defence is the Risk and Compliance function, responsible for the overall management of enterprise risk. It incorporates key processes including governance oversight, RCSA, incident management, targeted independent evaluation of the adequacy and effectiveness of the internal control framework and the attestation process.
- The third line of defence provides independent assurance on the design and effectiveness of the risk frameworks, the effectiveness of the first and second lines of defence, and the effectiveness of the Banking Group's policies, procedures, and systems. The third line assurance incorporates the internal audit and external audit functions and extends to any other independent review activities.

The Banking Group's exposure to operational and compliance risk is governed by a RAS approved by the Board and is used to guide management activities. This statement sets out the nature of risk which may be taken and aggregate risk limits, which are monitored by the ERC.

Market risk

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

Interest rate risk

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

- Mismatches between the repricing dates of interest-bearing assets and liabilities (yield curve and repricing risk);
- Banking products repricing differently to changes in wholesale market rates (basis risk);
- Loan prepayment or deposit early withdrawal behaviour from customers that deviates from the expected or contractually agreed behaviour (optionality risk);
- The effect of internal or market forces on a bank's net interest margin where, for example, in a low rate environment any fall in rates will further decrease interest income earned on the assets whereas funding cost cannot be reduced as it is already at the minimum level (margin compression risk); and
- The risk that the fair value of financial instruments will change when interest rates change (price risk). This is particularly relevant for the Banking Group's fair-valued assets, such as its liquid asset portfolio, which the fair value of is relied upon to support the Banking Group's funding requirements.

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

Foreign exchange risk

Foreign exchange (FX) risk arises from a change in FX rates for assets, liabilities, profit, or income denominated in an entity's non-functional currency. Functional currency is the currency in which an entity primarily operates.

21 Enterprise risk management program (continued)

Market risk (continued)

Foreign exchange risk (continued)

FX Risk has the below components:

- Structural FX risk refers to the risk that an entity is exposed to when its assets, liabilities, or capital resources are denominated in a currency that is different to its reporting currency. This risk does not impact earnings unless and until the investment is sold. However, it does impact shareholder equity through revaluations of the net asset value through the foreign currency translation reserve.
- Profit translation risk is the risk that deviations in exchange rates significantly impact the translated value of a foreign currency-based operation's profit, creating volatility in the entity's reported profit.
- Balance sheet translation risk - arises from monetary assets and liabilities denominated in foreign currencies. Movements in FX rates change the equivalent value of foreign currency-denominated assets and liabilities through the entity's reported profit.

The Banking Group's investment of capital in foreign currency operations generates an exposure to changes in foreign exchange rates. The Banking Group has exposure to foreign currency translation risks through its Australian subsidiaries which have functional currency of Australian dollars (AUD). Variations in the value of these foreign currency operations arising as a result of exchange differences are reflected in the foreign currency translation reserve in equity. The Banking Group incurs some non-traded foreign currency risk related to the potential repatriation of profits from its Australian subsidiaries.

The Banking Group does not currently hedge its net investments in foreign operations except in circumstances where there is a material exposure arising from a currency that is anticipated to be volatile, and the hedging is cost effective. This risk is routinely monitored, and hedging is conducted where it is likely to add shareholder value.

The Banking Group's sensitivity to movements in the FX rates arises mainly from the translation of the profit generated by its Australian subsidiaries and the AUD-denominated monetary assets and liabilities. The Banking Group's FX sensitivity analysis is based on the Australian subsidiaries' annual profit for the year ended 30 June 2024 representing an annual exposure to profit translation risk, had the Australian subsidiaries been acquired by the Banking Group at the beginning of the financial year. Additionally, it incorporates the exposure to the Bank's AUD-denominated cash balance as at the reporting date.

The following sensitivity analysis measures the impact on the Banking Group's net profit after tax and equity from a reasonably possible movements in AUD/NZD exchange rates, given the historical exchange rate volatility, with all other variables remaining constant.

\$000's	Impact on profit	Impact on	Impact on profit	Impact on
	before tax	equity	before tax	equity
	As at 30 June 2024		As at 30 June 2023 ¹	
AUD/NZD exchange rate - increase 1%	(173)	(124)	-	-
AUD/NZD exchange rate - decrease 1%	176	127	-	-

¹The impact from foreign currency exposure on the Banking Group's net profit and equity for the year ended 30 June 2023 was not material.

Counterparty Credit Risk

Counterparty credit risk is the risk that the Banking Group's earnings and/or capital are adversely impacted by the default of a counterparty.

The Banking Group has on-going credit exposure associated with:

- Cash and cash equivalents;
- Finance receivables;
- Holding of investment securities; and
- Payments owed to the Banking Group from risk management instruments.

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

22 Credit risk exposure

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

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

To manage this risk the ERC oversees the formal credit risk management strategy. The ERC reviews the Banking Group's credit risk exposures typically on a monthly basis. The credit risk management strategies aim to ensure that:

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

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

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

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

HBA Board has authority for approval for all credit exposures for HBA and its subsidiaries.

Reverse mortgage loans and negative equity risk

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

The Banking Group's exposure to negative equity risk is managed via lending standards specific for this product. In addition to usual criteria regarding the type, and location, of security property that the Banking Group will accept for reverse mortgage lending, a key aspect of the Banking Group's policy is that a borrower's age on origination of the reverse mortgage loan will dictate the loan-to-value ratio of the reverse mortgage on origination. New Zealand and Australia reverse mortgage lending standards and operations are well aligned.

Business Finance Guarantee Scheme (BFGS)

The Bank, along with other registered banks in New Zealand, has entered into a Deed of Indemnity with the New Zealand Government to implement the New Zealand Government's Business Finance Guarantee Scheme (the Scheme). The purpose of the Scheme is to provide short term credit to eligible small and medium size businesses, who have been impacted by the economic effects of COVID-19. The scheme allowed banks to lend to a maximum of \$5 million for a maximum of five years. The New Zealand Government will guarantee 80% of any loss incurred (credit risk) with the Bank holding the remaining 20%. The Scheme concluded on 30 June 2021. As at 30 June 2024 the Bank had a total exposure of \$42.2 million (2023: \$54.8 million) to its customers under this Scheme.

22 Credit risk exposure (continued)

North Island Weather Events (NIWE) Loan Guarantee Scheme

On 31 July 2023, the Bank entered into a Deed of Indemnity with the New Zealand Government to implement the North Island Weather Events Loan Guarantee Scheme. The supported loans are intended to assist New Zealand businesses to manage the impacts of the North Island Weather Events (during Auckland Anniversary weekend 2023). The facility limit for each supported loan must not exceed \$10 million for a maximum of 5 years. The New Zealand Government will guarantee 80% of any loss incurred (credit risk) with the Bank holding the remaining 20%. The Scheme concluded on 30 June 2024. As at 30 June 2024 the Bank had supported loans under this scheme of \$33.2 million.

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 on balance sheet exposures set out below are based on net carrying amounts as reported in the statement of financial position.

\$000's	June 2024	June 2023
On balance sheet:		
Cash and cash equivalents	627,969	216,044
Investments	1,092,131	315,192
Finance receivables measured at amortised cost	4,266,946	3,954,800
Finance receivables - reverse mortgages	2,897,818	888,600
Derivative financial assets	12,316	36,982
Other financial assets	2,421	1,050
Total on balance sheet credit exposures	8,899,601	5,412,668
Off balance sheet:		
Letters of credit, guarantee commitments and performance bonds	3,130	7,378
Undrawn facilities available to customers	554,307	310,423
Conditional commitments to fund at future dates	9,947	24,873
Total off balance sheet credit exposures	567,384	342,674
Total credit exposures	9,466,985	5,755,342

Concentration of credit risk by geographic region

\$000's	June 2024	June 2023
New Zealand	5,804,412	5,538,346
Australia	3,522,266	1,137
Rest of the world ¹	216,628	268,004
	9,543,306	5,807,487
Provision for impairment	(76,321)	(52,145)
Total credit exposures	9,466,985	5,755,342

¹These overseas assets are primarily NZD-denominated investments in AA+ (Standard & Poor's) and high quality investment grade securities issued by offshore supranational agencies ("Kauri Bonds").

22 Credit risk exposure (continued)

Concentration of credit risk by industry sector

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

\$000's	June 2024	June 2023
Agriculture	1,084,889	781,065
Forestry and fishing	113,264	130,055
Mining	10,276	8,266
Manufacturing	69,799	80,729
Finance and insurance	1,757,056	722,404
Wholesale trade	40,561	46,053
Retail trade and accommodation	376,927	402,146
Households	4,715,535	2,432,860
Other business services	302,035	198,377
Construction	338,998	336,333
Rental, hiring and real estate services	196,329	205,079
Transport and storage	431,665	359,865
Other	105,972	104,255
	9,543,306	5,807,487
Provision for impairment	(76,321)	(52,145)
Total credit exposures	9,466,985	5,755,342

Credit exposures to connected persons

The Banking Group's methodology for calculating credit exposure concentrations is on the basis of actual credit exposures and calculated on a gross basis (net of individual credit impairment allowances and excluding advances of a capital nature) in accordance with the Bank's conditions of registration and the Reserve Bank's Connected Exposures Policy (**BS8**). Peak end-of-day credit exposures to non-bank connected persons are calculated using the Banking Group's Tier 1 capital at the end of the reporting period.

In accordance with its conditions of registration, the Banking Group must comply with all requirements set out in the RBNZ's standard BS8 Connected Exposures effective from 1 October 2023. Exposures to connected persons are not on more favourable terms than corresponding exposures to non-connected persons.

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22 Credit risk exposure (continued)

Credit exposures to connected persons (continued)

	As at June 2024	Peak End-of-Day for Year Ended June 2024
Credit exposures to connected persons (\$000's)	2	12,190
As a percentage of Tier 1 capital of the Banking Group at end of the year (%)	0.00%	1.36%
Credit exposures to non-bank connected persons (\$000's)	2	12,190
As a percentage of Tier 1 capital of the Banking Group at end of the year (%)	0.00%	1.36%

As at 30 June 2024, the Banking Group had no aggregate contingent exposures to connected persons arising from unfunded contingent credit protection arrangements provided by any connected persons. The aggregate amount of the Banking Group's loss allowance for credit exposures to connected persons that are credit-impaired was nil at 30 June 2024.

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 1 (CET1) capital as 30 June 2024.

	Number of Exposures As at June 2024	Number of Exposures Peak End-of-Day over 6 Months to June 2024
Exposures to banks		
With a long-term credit rating of A- or A3 or above, or its equivalent:		
10% to less than 15% of CET1 capital	-	-
15% to less than 20% of CET1 capital	-	1
20% to less than 25% of CET1 capital	2	2
25% to less than 30% of CET1 capital	-	-
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 have a long-term credit rating of A- or A3 or above.	1	1
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

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22 Credit risk exposure (continued)

Collateral held

The Banking Group employs a range of policies and practices to mitigate credit risk and has internal policies on the acceptability of specific classes of collateral. Collateral is held as security to support credit risk on finance receivables and enforced in satisfying the debt in the event contractual repayment obligations are not met. The collateral held for mitigating credit risk for the Banking Group's lending portfolios is outlined below.

Reverse mortgage and Residential mortgage loans

Reverse mortgage loans are secured by a first mortgage over a residential property which is typically a customer's primary residential dwelling, residential investment property or holiday home. Residential mortgage loans are secured by a residential mortgage over an owner-occupied property located in an approved urban area.

Corporate lending

Business lending including rural lending is typically secured by way of a charge over property and/or specific security agreement over relevant business assets, and, where considered appropriate, a general security agreement to provide the ability to control cash flows.

Other lending

Other lending comprises personal loans, primarily motor loans, which are secured by a motor vehicle or a boat; and other shorter term smaller personal loans which are predominantly unsecured.

The Banking Group analyses the coverage of the loan portfolio which is secured by the collateral it holds.

Coverage is measured by the value of security as a proportion of loan balance outstanding and classified as follows:

Fully secured	Greater or equal to 100%
Partially secured	1% - 99.9%
Unsecured	No security held

The Banking Group's loan portfolio have the following coverage from collateral held on credit-impaired loans:

	Corporate	Residential	All Other
June 2024			
Fully Secured	47%	100%	69%
Partially Secured	37%	-	10%
Unsecured	16%	-	21%
Total	100%	100%	100%
June 2023			
Fully Secured	53%	100%	72%
Partially Secured	39%	-	10%
Unsecured	8%	-	18%
Total	100%	100%	100%

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23 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.

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

(a) Past due but not individually impaired

\$000's	Corporate	Residential	All Other	Total
June 2024				
Less than 30 days past due	58,075	1,490	40,042	99,607
At least 30 but less than 60 days past due	28,021	251	16,461	44,733
At least 60 but less than 90 days past due	19,470	1,590	8,266	29,326
At least 90 days past due	71,021	1,098	46,276	118,395
Total past due but not individually impaired	176,587	4,429	111,045	292,061
June 2023				
Less than 30 days past due	4,515	151	4,685	9,351
At least 30 but less than 60 days past due	31,739	-	12,358	44,097
At least 60 but less than 90 days past due	6,514	300	4,543	11,357
At least 90 days past due	35,775	401	36,162	72,338
Total past due but not individually impaired	78,543	852	57,748	137,143

(b) Credit risk grading

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

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

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

23 Asset quality (continued)

(b) Credit risk grading (continued)

All loans past due but not impaired have been categorised into three impairment stages (refer to Note 23 – Asset quality (c)) which are in most cases based on arrears status. If a Judgemental loan is risk graded 6 or above it will be classified as stage 2 as a minimum and carry a provision based on lifetime expected credit losses.

\$000's	Collectively Assessed			Individually Assessed	Total
	Stage 1	Stage 2	Stage 3		
June 2024					
Judgemental portfolio					
Grade 1 - Very Strong	183,354	-	-	-	183,354
Grade 2 - Strong	40,557	-	-	-	40,557
Grade 3 - Sound	167,230	5,556	536	-	173,322
Grade 4 - Adequate	505,177	14,142	6,940	-	526,259
Grade 5 - Acceptable	977,495	41,505	36,206	-	1,055,206
Grade 6 - Monitor	-	120,611	12,028	-	132,639
Grade 7 - Substandard	-	47,328	17,225	-	64,553
Grade 8 - Doubtful	-	-	141	88,549	88,690
Grade 9 - At risk of loss	-	-	166	6,633	6,799
Total Judgemental portfolio	1,873,813	229,142	73,242	95,182	2,271,379
Total Behavioural portfolio	2,014,630	12,491	43,481	1,286	2,071,888
Gross finance receivables measured at amortised cost	3,888,443	241,633	116,723	96,468	4,343,267
Provision for impairment	(14,361)	(5,197)	(34,281)	(22,482)	(76,321)
Total finance receivables measured at amortised cost	3,874,082	236,436	82,442	73,986	4,266,946
Undrawn facilities available to customers	272,829	1,805	904	-	275,538
June 2023					
Judgemental portfolio					
Grade 1 - Very Strong	25	-	-	-	25
Grade 2 - Strong	3,658	-	-	-	3,658
Grade 3 - Sound	41,887	477	-	-	42,364
Grade 4 - Adequate	637,993	9,975	3,477	-	651,445
Grade 5 - Acceptable	1,016,113	5,492	602	-	1,022,207
Grade 6 - Monitor	-	64,946	6,763	-	71,709
Grade 7 - Substandard	-	76,955	13,725	-	90,680
Grade 8 - Doubtful	-	-	-	51,284	51,284
Grade 9 - At risk of loss	-	-	-	1,671	1,671
Total Judgemental portfolio	1,699,676	157,845	24,567	52,955	1,935,043
Total Behavioural portfolio	1,990,888	24,335	56,679	-	2,071,902
Gross finance receivables measured at amortised cost	3,690,564	182,180	81,246	52,955	4,006,945
Provision for impairment	(12,250)	(2,444)	(21,320)	(16,131)	(52,145)
Total finance receivables measured at amortised cost	3,678,314	179,736	59,926	36,824	3,954,800
Undrawn facilities available to customers	255,174	2,609	86	-	257,869

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23 Asset quality (continued)

(c) Provision for impairment

Policy

Impairment of finance receivables measured at amortised cost

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

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

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

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

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

Stage 1 - 12 months ECL (past due 30 days or less)

Where there has been no evidence of increased credit risk since initial recognition, and finance receivables are not credit impaired upon origination, the portion of the lifetime ECL associated with the probability of default events occurring within the next 12 months is recognised.

Stage 2 - Lifetime ECL not credit impaired (greater than 30 but less than 90 days past due)

Where there has been a significant increase in credit risk.

Stage 3 - Lifetime ECL credit impaired (90 days past due or more)

Objective evidence of impairment, are considered to be in default or otherwise credit impaired.

Credit quality of financial assets

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

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

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

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

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

23 Asset quality (continued)

Policy (continued)

Credit quality of financial assets (continued)

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

Modification of contractual cash flows

The Banking Group sometimes modifies the terms of loans provided to customers due to commercial re-negotiations, or for distressed loans, with a view to maximising recovery.

Such restructuring activities include extended payment term arrangements, payment holidays and payment forgiveness. Restructuring policies and practices are based on indicators or criteria which, in the judgement of management, indicate that payment will most likely continue.

These policies are kept under continuous review. Restructuring is most commonly applied to term loans.

The Banking Group's models for estimating ECL for each of its portfolios are based on the historical credit experience of those portfolios. The models assume that economic conditions remain static over time, and the provision is calculated as a point in time estimate. In FY2024, Heartland introduced a new methodology to calculating the Forward-Looking provision (that is, the change in provision as economic conditions change) for Motor. This includes building distribution curves based on previous loss rates. The Banking Group then applies judgement to determine which loss rate applies to the upside, central, and downside scenario depending on how economic conditions may change in the foreseeable future. Subsequently, the loss rates are applied to current Motor receivables as at the reporting date to calculate forward-looking provisions under different economic scenarios.

The most significant and judgemental provision for impairment is on the motor vehicle lending with a collective ECL of \$29.9 million at 30 June 2024 (2023: \$15.1 million) which includes \$1.0 million for a forward looking position allowing for the impact of multiple economic scenarios.

As part of this assessment, three different economic indicators have been assessed. The assessment is based on the macroeconomic variables which the motor vehicle portfolio is most sensitive to. This includes consumer price index (inflation), the unemployment rate, and the OCR. However, management believes the most sensitive macroeconomic variable is unemployment, followed by CPI, then OCR. Therefore, the tables below present the forecasts for both the unemployment rate and CPI. The modelled provision for the motor vehicle lending is a probability weighted estimate based on three scenarios. The forecast of unemployment across all three scenarios uses consensus external data obtained from external economic experts, as well as, an average of forecasts from the relevant big four banks.

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

Unemployment Rate	2024/2025	2025/2026	2026/2027
Upside	4.68%	4.58%	4.50%
Central	5.13%	5.03%	4.80%
Downside	6.10%	6.28%	5.40%

CPI	2024/2025	2025/2026	2026/2027
Upside	2.00%	2.00%	1.90%
Central	2.30%	2.05%	2.10%
Downside	2.70%	2.40%	2.60%

23 Asset quality (continued)

The probability weights assigned to each scenario are based on management’s estimate of their relative likelihood. The following table indicates the weightings applied by the Banking Group as at 30 June 2024:

Upside	10%
Central	50%
Downside	40%

The weightings are based on management’s belief that there is still significant downside risk, uncertainty, and stresses in future economic conditions. Therefore, management has applied a 40% probability on the downside scenario. The following sensitivity table shows the provision for impairment based on the probability weighted scenarios and what the impairment allowance for motor vehicle lending would be assuming a 100% weighting is applied to the three scenarios with all other assumptions held constant.

Reported probability weighted impairment allowance	\$29.9 million
100% Upside	\$28.8 million
100% Central	\$29.0 million
100% Downside	\$31.7 million

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23 Asset quality (continued)

(c) Provision for impairment (continued)

\$000's	Collectively Assessed			Individually	Total
	Stage 1	Stage 2	Stage 3	Assessed	
June 2024					
Corporate					
Impairment allowance as at 30 June 2023	11,089	1,337	8,530	16,131	37,087
Business combination under common control	899	-	161	-	1,060
Changes in loss allowance					
Transfer between stages ¹	(1,074)	(2,655)	1,640	2,089	-
New and increased provision (net of provision releases) ¹	(4,147)	3,041	13,957	11,780	24,631
Credit impairment charge	(5,221)	386	15,597	13,869	24,631
Write-offs	-	-	(4,258)	(7,518)	(11,776)
Effect of changes in foreign exchange rate	(14)	(7)	21	-	-
Impairment allowance as at 30 June 2024	6,753	1,716	20,051	22,482	51,002
Residential					
Impairment allowance as at 30 June 2023	127	-	-	-	127
Acquisition of subsidiary	167	-	-	-	167
Changes in loss allowance					
Transfer between stages ¹	-	-	-	-	-
New and increased provision (net of provision releases) ¹	(129)	3	110	-	(16)
Credit impairment charge	(129)	3	110	-	(16)
Write-offs	-	-	-	-	-
Impairment allowance as at 30 June 2024	165	3	110	-	278
All Other					
Impairment allowance as at 30 June 2023	1,034	1,111	12,786	-	14,931
Business combination under common control	37	9	14	-	60
Changes in loss allowance					
Transfer between stages ¹	(333)	(3,032)	3,365	-	-
New and increased provision (net of provision releases) ¹	6,705	5,390	10,877	-	22,972
Credit impairment charge	6,372	2,358	14,242	-	22,972
Write-offs	-	-	(12,922)	-	(12,922)
Impairment allowance as at 30 June 2024	7,443	3,478	14,120	-	25,041
Total					
Impairment allowance as at 30 June 2023	12,250	2,448	21,316	16,131	52,145
Business combination under common control	936	9	175	-	1,120
Acquisition of subsidiary	167	-	-	-	167
Changes in loss allowance					
Transfer between stages ¹	(1,407)	(5,687)	5,005	2,089	-
New and increased provision (net of provision releases) ¹	2,429	8,434	24,944	11,780	47,587
Credit impairment charge	1,022	2,747	29,949	13,869	47,587
Write-offs	-	-	(17,180)	(7,518)	(24,698)
Effect of changes in foreign exchange rate	(14)	(7)	21	-	-
Impairment allowance as at 30 June 2024	14,361	5,197	34,281	22,482	76,321

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

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23 Asset quality (continued)

(c) Provision for impairment (continued)

\$000's	Collectively Assessed			Individually	Total
	Stage 1	Stage 2	Stage 3	Assessed	
June 2023					
Corporate					
Impairment allowance as at 30 June 2022	19,353	901	4,941	15,001	40,196
Changes in loss allowance					
Transfer between stages ¹	(7,738)	(1,940)	1,346	8,332	-
New and increased provision (net of provision releases) ¹	(526)	2,376	4,653	4,701	11,204
Credit impairment charge	(8,264)	436	5,999	13,033	11,204
Write-offs	-	-	(2,410)	(11,903)	(14,313)
Impairment allowance as at 30 June 2023	11,089	1,337	8,530	16,131	37,087
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) ¹	12	-	-	-	12
Credit impairment charge	12	-	-	-	12
Write-offs	-	-	-	-	-
Impairment allowance as at 30 June 2023	127	-	-	-	127
All Other					
Impairment allowance as at 30 June 2022	(267)	966	9,417	-	10,116
Changes in loss allowance					
Transfer between stages ¹	(459)	(1,883)	2,342	-	-
New and increased provision (net of provision releases) ¹	1,760	2,028	9,786	-	13,574
Credit impairment charge	1,301	145	12,128	-	13,574
Write-offs	-	-	(8,759)	-	(8,759)
Impairment allowance as at 30 June 2023	1,034	1,111	12,786	-	14,931
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 ¹	(8,197)	(3,823)	3,688	8,332	-
New and increased provision (net of provision releases) ¹	1,246	4,404	14,439	4,701	24,790
Credit impairment charge	(6,951)	581	18,127	13,033	24,790
Write-offs	-	-	(11,169)	(11,903)	(23,072)
Impairment allowance as at 30 June 2023	12,250	2,444	21,320	16,131	52,145

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

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23 Asset quality (continued)

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

\$000's	Collectively Assessed			Individually	Total
	Stage 1	Stage 2	Stage 3	Assessed	
June 2024					
Corporate					
Gross finance receivables as at 30 June 2023	2,310,034	158,956	44,709	52,955	2,566,654
Business combination under common control	278,680	-	176	-	278,856
Transfer between stages	(203,286)	73,059	76,475	53,752	-
Additions	672,083	-	-	-	672,083
Deletions	(634,764)	(14,834)	(50,932)	(2,487)	(703,017)
Write-offs	(36)	(96)	(2,647)	(7,752)	(10,531)
Effect of changes in foreign exchange rate	(1,496)	-	(1)	-	(1,497)
Gross finance receivables as at 30 June 2024	2,421,215	217,085	67,780	96,468	2,802,548
Residential					
Gross finance receivables as at 30 June 2023	322,486	-	-	-	322,486
Acquisition of subsidiary	61,074	-	-	-	61,074
Transfer between stages	(2,653)	1,891	762	-	-
Additions	24,588	-	-	-	24,588
Deletions	(11,356)	-	-	-	(11,356)
Write-offs	-	-	-	-	-
Effect of changes in foreign exchange rate	(243)	-	-	-	(243)
Gross finance receivables as at 30 June 2024	393,896	1,891	762	-	396,549
All Other					
Gross finance receivables as at 30 June 2023	1,058,044	23,224	36,537	-	1,117,805
Acquisition of subsidiary	105	-	-	-	105
Business combination under common control	1,909	245	82	-	2,236
Transfer between stages	(55,505)	20,798	34,707	-	-
Additions	587,532	-	-	-	587,532
Deletions	(518,556)	(21,076)	(9,699)	-	(549,331)
Write-offs	(190)	(532)	(13,445)	-	(14,167)
Effect of changes in foreign exchange rate	(7)	(2)	(1)	-	(10)
Gross finance receivables as at 30 June 2024	1,073,332	22,657	48,181	-	1,144,170
Total					
Gross finance receivables as at 30 June 2023	3,690,564	182,180	81,246	52,955	4,006,945
Acquisition of subsidiary	61,179	-	-	-	61,179
Business combination under common control	280,589	245	258	-	281,092
Transfer between stages	(261,444)	95,748	111,944	53,752	-
Additions	1,284,203	-	-	-	1,284,203
Deletions	(1,164,676)	(35,910)	(60,631)	(2,487)	(1,263,704)
Write-offs	(226)	(628)	(16,092)	(7,752)	(24,698)
Effect of changes in foreign exchange rate	(1,746)	(2)	(2)	-	(1,750)
Gross finance receivables as at 30 June 2024	3,888,443	241,633	116,723	96,468	4,343,267

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23 Asset quality (continued)

(d) Impact of changes in gross finance receivables held at amortised cost on allowance for ECL (continued)

\$000's	Collectively Assessed			Individually	Total
	Stage 1	Stage 2	Stage 3	Assessed	
June 2023					
Corporate					
Gross finance receivables as at 30 June 2022	2,289,350	99,514	21,306	66,183	2,476,353
Transfer between stages	(180,762)	139,860	29,179	11,723	-
Additions	711,378	-	-	9,326	720,704
Deletions	(509,932)	(80,418)	(2,685)	(15,194)	(608,229)
Write-offs	-	-	(3,091)	(19,083)	(22,174)
Gross finance receivables as at 30 June 2023	2,310,034	158,956	44,709	52,955	2,566,654
Residential					
Gross finance receivables as at 30 June 2022	285,844	-	-	-	285,844
Transfer between stages	-	-	-	-	-
Additions	42,721	-	-	-	42,721
Deletions	(6,079)	-	-	-	(6,079)
Write-offs	-	-	-	-	-
Gross finance receivables as at 30 June 2023	322,486	-	-	-	322,486
All Other					
Gross finance receivables as at 30 June 2022	1,008,141	18,001	24,319	-	1,050,461
Transfer between stages	(56,358)	21,943	34,415	-	-
Additions	642,266	-	-	-	642,266
Deletions	(536,005)	(16,720)	(14,046)	-	(566,771)
Write-offs	-	-	(8,151)	-	(8,151)
Gross finance receivables as at 30 June 2023	1,058,044	23,224	36,537	-	1,117,805
Total					
Gross finance receivables as at 30 June 2022	3,583,335	117,515	45,625	66,183	3,812,658
Transfer between stages	(237,120)	161,803	63,594	11,723	-
Additions	1,396,365	-	-	9,326	1,405,691
Deletions	(1,052,016)	(97,138)	(16,731)	(15,194)	(1,181,079)
Write-offs	-	-	(11,242)	(19,083)	(30,325)
Gross finance receivables as at 30 June 2023	3,690,564	182,180	81,246	52,955	4,006,945

Impact of changes in gross exposures on loss allowances - Corporate exposures

Overall credit impairment provisions for corporate exposures increased by \$13.9 million (37.5%) for the year ended 30 June 2024, mainly due to increase in the corporate exposure portfolio of \$292.7 million (11.4%) and deterioration of credit quality of certain exposure resulting in \$203.3 million exposure moved from Stage 1 (12 month ECL) into more advanced stages. The Stage 3 and individually assessed exposure has gone up by \$66.6 million (68.2%), which has resulted in higher provision of \$17.9 million (72.5%) partially offset by the release of provisions previously held under Stage 1 exposures.

Impact of changes in gross exposures on loss allowances – All other exposures

Overall credit impairment provisions for All Other exposures increased by \$10.1 million (67.7%) for the year ended 30 June 2024 mainly due to the shifting of exposures amounting to \$55.5 million from Stage 1 into more advanced stages.

23 Asset quality (continued)

(e) Other asset quality information

As at 30 June 2024 there were \$0.03 million undrawn lending commitments available to counterparties for whom drawn balances are classified as individually impaired (2023: nil). As at 30 June 2024, the Banking Group had \$0.436 million assets under administration (2023: \$0.349 million).

As at 30 June 2024, the contractual amount outstanding on loans to customers written off during the year and are still subject to enforcement activity was nil (2023: nil).

24 Liquidity risk

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

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

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

The Australian Banking Group manages its own domestic liquidity and funding needs in accordance with its own liquidity policy and the policies of the Banking Group. HBA's liquidity policy is also overseen by APRA.

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

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

\$000's	June 2024	June 2023
Cash and cash equivalents	627,969	216,044
Investments	1,078,656	315,192
Total liquid assets	1,706,625	531,236
Undrawn committed bank facilities	465,600	172,946
Total liquid assets and committed undrawn funding	2,172,225	704,182

24 Liquidity risk (continued)

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 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.

\$000's	On Demand	0-6 Months	6-12 Months	1-2 Years	2-5 Years	5+ Years	Total
June 2024							
Non-derivative financial liabilities							
Deposits	911,654	3,256,750	1,740,935	115,870	95,356	-	6,120,565
Other borrowings	-	205,029	305,010	1,304,185	217,942	443,513	2,475,679
Due to related parties	-	7,653	-	-	-	-	7,653
Lease liabilities	-	2,158	2,212	4,043	10,610	640	19,663
Other financial liabilities	-	18,776	-	-	-	-	18,776
Total non-derivative financial liabilities	911,654	3,490,366	2,048,157	1,424,098	323,908	444,153	8,642,336
Derivative financial liabilities							
Inflows from derivatives	-	20,407	7,570	14,491	30,423	-	72,891
Outflows from derivatives	-	22,877	8,750	15,832	31,551	-	79,010
Total derivative financial liabilities	-	2,470	1,180	1,341	1,128	-	6,119
Undrawn facilities available to customers	554,307	-	-	-	-	-	554,307
June 2023							
Non-derivative financial liabilities							
Deposits	782,775	2,313,983	1,015,525	62,618	42,186	-	4,217,087
Other borrowings	-	184,397	138,217	237,138	22,551	136,274	718,577
Due to related parties	-	7,173	-	-	-	-	7,173
Lease liabilities	-	1,356	1,368	2,643	6,615	2,731	14,713
Other financial liabilities	-	40,963	-	-	-	-	40,963
Total non-derivative financial liabilities	782,775	2,547,872	1,155,110	302,399	71,352	139,005	4,998,513
Derivative financial liabilities							
Inflows from derivatives	-	3,583	3,552	4,799	13,469	-	25,403
Outflows from derivatives	-	6,644	6,796	5,773	13,125	-	32,338
Total derivative financial liabilities	-	3,061	3,244	974	(344)	-	6,935
Undrawn facilities available to customers	310,423	-	-	-	-	-	310,423

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25 Interest rate risk

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

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

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

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

Sensitivity to interest rates arises from mismatches in the interest rate characteristics of interest bearing assets and the corresponding liability funding. One of the main causes of these mismatches is timing differences in the repricing of assets and liabilities. These mismatches are actively managed as part of the overall interest rate risk management process in accordance with the Banking Group's policy.

An analysis of the Banking Group's sensitivity is based on the values of the interest bearing assets and liabilities as at the reporting date, and measures the prospective impact on the net profit after tax and equity from movements in market interest rates by 100 basis points (**BP**), presented in the below table:

\$000's	Impact on	Impact on	Impact on	Impact on
	NPAT	equity	NPAT	equity
	As at 30 June 2024		As at 30 June 2023	
Market interest rates - 100 basis points increase	255	255	200	200
Market interest rates - 100 basis points decrease	(255)	(255)	(200)	(200)

The Banking Group also manages interest rate risk by:

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

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25 Interest rate risk (continued)

Contractual repricing analysis

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

\$000's	0-3 Months	3-6 Months	6-12 Months	1-2 Years	2+ Years	Non- Interest Bearing	Total
June 2024							
Financial assets							
Cash and cash equivalents	627,969	-	-	-	-	-	627,969
Investments	4,461	605,518	154,873	57,641	256,163	13,475	1,092,131
Derivative financial assets	-	-	-	-	-	12,316	12,316
Finance receivables measured at amortised cost	1,869,269	393,187	589,162	797,035	618,293	-	4,266,946
Finance receivables - reverse mortgages	2,897,818	-	-	-	-	-	2,897,818
Other financial assets	-	-	-	-	-	2,421	2,421
Total financial assets	5,399,517	998,705	744,035	854,676	874,456	28,212	8,899,601
Financial liabilities							
Deposits	2,751,389	1,334,469	1,659,617	109,708	73,864	38,192	5,967,239
Other borrowings	1,883,541	-	-	-	157,222	-	2,040,763
Due to related parties	-	-	-	-	-	7,653	7,653
Derivative financial liabilities	-	-	-	-	-	9,017	9,017
Lease liabilities	-	-	-	-	-	17,776	17,776
Other financial liabilities	-	-	-	-	-	18,776	18,776
Total financial liabilities	4,634,930	1,334,469	1,659,617	109,708	231,086	91,414	8,061,224
Effect of derivatives held for risk management	1,219,913	(145,235)	(277,771)	(405,932)	(390,975)	-	-
Net financial assets/(liabilities)	1,984,500	(480,999)	(1,193,353)	339,036	252,395	(63,202)	838,377

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25 Interest rate risk (continued)

Contractual repricing analysis (continued)

\$000's	0-3 Months	3-6 Months	6-12 Months	1-2 Years	2+ Years	Non- Interest Bearing	Total
June 2023							
Financial assets							
Cash and cash equivalents	216,040	-	-	-	-	4	216,044
Investments	29,828	24,963	37,767	55,460	167,174	1,819	317,011
Derivative financial assets	-	-	-	-	-	36,982	36,982
Finance receivables measured at amortised cost	1,675,775	302,005	520,923	766,532	689,565	-	3,954,800
Finance receivables - reverse mortgages	888,600	-	-	-	-	-	888,600
Other financial assets	-	-	-	-	-	1,050	1,050
Total financial assets	2,810,243	326,968	558,690	821,992	856,739	39,855	5,414,487
Financial liabilities							
Deposits	2,259,258	795,536	962,205	59,026	35,216	19,788	4,131,029
Other borrowings	345,859	49,598	121,195	-	98,474	-	615,126
Derivative financial liabilities	-	-	-	-	-	7,624	7,624
Due to related parties	-	-	-	-	-	7,173	7,173
Lease liabilities	-	-	-	-	-	13,478	13,478
Other financial liabilities	-	-	-	-	-	40,963	40,963
Total financial liabilities	2,605,117	845,134	1,083,400	59,026	133,690	89,026	4,815,393
Effect of derivatives held for risk management	1,084,971	(66,798)	(41,181)	(556,676)	(420,316)	-	-
Net financial assets/(liabilities)	1,290,097	(584,964)	(565,891)	206,290	302,733	(49,171)	599,094

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

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26 Concentrations of funding

(a) Concentration of funding by industry

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

\$000's	June 2024	June 2023
Agriculture	104,818	113,341
Forestry and fishing	18,745	21,944
Mining	178	291
Manufacturing	17,698	19,185
Finance and insurance	2,560,421	1,131,456
Wholesale trade	10,207	7,634
Retail trade and accommodation	30,410	25,136
Households	5,025,700	3,215,828
Rental, hiring and real estate services	101,495	59,720
Construction	28,914	36,868
Other business services	65,790	66,763
Transport and storage	6,512	7,807
Other	37,114	40,182
Total borrowings	8,008,002	4,746,155

(b) Concentration of funding by geographical area

\$000's	June 2024	June 2023
New Zealand	4,939,533	4,634,937
Australia ¹	3,005,336	24,052
Rest of the world	63,133	87,166
Total borrowings	8,008,002	4,746,155

¹Includes the Australian Banking Group's total borrowings as at 30 June 2024.

Other Disclosures

27 Significant subsidiaries

Significant subsidiaries	Country of incorporation and place of business	Nature of business	Proportion of ownership and voting power held	
			June 2024	June 2023
VPS Properties Limited	New Zealand	Investment property holding company	100%	100%
Marac Insurance Limited	New Zealand	Insurance services	100%	100%
Heartland Bank Australia Limited ¹	Australia	Bank	100%	-
Heartland Australia Holdings Pty Limited ²	Australia	Financial services	100%	-
Heartland Australia Group Pty Limited ²	Australia	Financial services	100%	-
Australian Seniors Finance Pty Limited ²	Australia	Management services	100%	-
StockCo Holdings 2 Pty Limited ²	Australia	Financial services	100%	-
StockCo Australia Management Pty Limited ²	Australia	Management services	100%	-

¹Heartland Bank Australia Limited (**HBA**) is the current legal entity name of CBL acquired by HBL on 30 April 2024. Refer to Significant events section in the Note 1 - Financial statements preparation and Note 18 – Acquisition for further details.

²HBA's subsidiaries transferred from HGH to HBA on 2 May 2024. Refer to Significant events section in the Note 1- Financial statements preparation.

28 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	June 2024	June 2023
Deposits	389,388	244,258

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

HARWT securitises motor vehicle loan receivables as a source of funding.

The Banking Group continues to recognise the securitised assets and associated borrowings in the 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 HARWT, the loans sold to HARWT are set aside for the benefit of investors in HARWT. Other depositors and lenders to the Banking Group have no recourse to those assets.

\$000's	June 2024	June 2023
Cash and cash equivalents	43,646	16,874
Finance receivables measured at amortised cost	540,075	254,735
Other borrowings	(550,144)	(258,256)

28 Structured entities (continued)

(c) Seniors Warehouse Trust, Seniors Warehouse Trust No.2 (together the SWT Trusts) and Australian Seniors Finance Settlement Trust (ASF Trust)¹

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

\$000's	June 2024	June 2023
Cash and cash equivalents	68,316	-
Finance receivables - reverse mortgages	852,119	-
Other borrowings	(787,373)	-

(d) Atlas 2020-1 Trust (Atlas Trust)¹

Atlas Trust was set up on 11 September 2020 as part of ASF's reverse mortgage business similar to the existing SWT2 Trust and ASF Trust. The Trustee for the Trust is BNY Trust Company of Australia Limited and the Trust Manager is ASF. The balances of Atlas Trust are represented as follows:

\$000's	June 2024	June 2023
Cash and cash equivalents	16,322	-
Finance receivables - reverse mortgages	152,156	-
Other borrowings	(144,635)	-

(e) StockCo Securitisation Trust 2022-1 (StockCo Trust)¹

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

\$000's	June 2024	June 2023
Cash and cash equivalents	47,704	-
Finance receivables measured at amortised cost	171,960	-
Other borrowings	(211,046)	-

¹ HAH's structured entities transferred from HGH to HBA on 2 May 2024. Refer to Significant events section in the Note 1 - Financial statements preparation.

29 Capital adequacy and regulatory liquidity ratios - unaudited

The Reserve Bank of New Zealand (**RBNZ**) minimum regulatory capital requirements for banks have been established under the RBNZ Capital Adequacy Framework, outlined in the "Banking Prudential Requirements" (**BPRs**) documents. These documents are based on the international framework developed by the Bank for International Settlements Committee on Banking Supervision, commonly known as Basel III. These requirements define what is acceptable as capital and provide methods for measuring risks incurred by the banks in New Zealand. Basel III consists of three pillars:

- Pillar One covers the capital requirements for banks for credit, operational, and market risks;
- Pillar Two covers all other material risks not already included in Pillar One; and
- Pillar Three relates to market disclosure.

RBNZ Capital Adequacy Framework

Pursuant to the acquisition of Challenger Bank Limited (**CBL**), which was completed on 1 May 2024, RBNZ issued Conditions of Registration (**CoR**) for Heartland Bank Limited that modified how capital adequacy was to be calculated and applied after 30 April 2024. These included the requirement that Heartland Bank must manage the capital requirements of the Banking Group and the New Zealand Banking Group in line with these conditions of registration.

The Banking Group has calculated its Risk Weighted Exposures (**RWEs**) and minimum regulatory capital requirements in accordance with the CoR and the BPR documents, where relevant. In doing so, the Banking Group has applied the following methodology:

- Calculated the total credit risk - Risk Weighted Assets (**RWAs**) for the New Zealand operations as per BPR 130: Credit Risk RWAs;
- Calculated the total credit risk RWAs for the HBA and its subsidiaries as per Australian Prudential Standard (**APS**)112 Capital Adequacy Standardised Approach to Credit Risk and APS180 Capital Adequacy: Counterparty Credit Risk;
- Calculated the Banking Group's capital requirement for market risk exposure as per BPR140: Market Risk. In respect of interest rate risk for HBA, these are calculated on a best endeavours basis in accordance with an agreed transitional arrangement with the RBNZ for the period of six months from the date of acquisition of CBL which ends on 1 November 2024;
- Calculated the Banking Group's capital requirement for operational risk as per BPR150: Standardised Operational Risk.

Total regulatory capital is divided into Tier 1 and Tier 2 capital. Tier 1 capital comprises Common Equity Tier 1 (**CET1**) capital and Additional Tier 1 (**AT1**) capital. Tier 1 capital primarily consists of shareholder's equity and other capital instruments acceptable to the RBNZ as per BPR110: Capital Definitions, less intangible assets, cash flow hedge reserves, deferred tax assets, and other prescribed deductions. Tier 2 as per BPR110: Capital Definitions comprises eligible subordinated debt securities and revaluation reserves.

Regulatory capital adequacy ratios are calculated by expressing capital as a percentage of risk weighted exposures. As a Condition of Registration, the Bank must comply with the following minimum requirements set by the RBNZ:

- Total capital of the Banking Group must not be less than 10% of RWE¹
- Tier 1 capital of the Banking Group must not be less than 8% of RWE¹
- CET1 capital of the Banking Group must not be less than 6.5% of RWE¹

¹Includes the RBNZ's 2% capital overlay attached to the Bank's conditions of registration.

In addition, if the Prudential Buffer Ratio (**PCR**) of the Banking Group is less than 2.5%, the Bank must limit aggregate distributions, other than discretionary payments payable to holders of AT1 capital instruments, to the limits set out within the Banks Conditions of Registration.

Including the PCR, the Banking Group's minimum total capital requirement is 12.5%. On 5 December 2019 the RBNZ finalised their revised Capital Framework for banks which were not domestic systematically important banks (non D-SIB). This requires non D-SIB banks in New Zealand to gradually increase their Total Capital ratio to 16% by July 2028. The Banking Group's Total Capital ratio is 15.39% as at 30 June 2024. This means the revised Framework (excluding any capital overlay) requires the Banking Group to increase its Total Capital ratio by 0.61% over the transitional period.

29 Capital adequacy and regulatory liquidity ratios (continued) - unaudited

Capital management

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's objectives for the management of capital are to:

- Maintain a strong capital base to cover the inherent risks of the business in excess of that required by credit ratings agencies to maintain a strong credit rating; and
- Support the future development and growth of the business;
- Comply at all times with the regulatory capital requirements set by the RBNZ, whereas the Australian Banking Group must comply at all times with the regulatory capital requirements set by APRA.

The Bank's Capital Management Framework includes its:

- Internal Capital Adequacy Assessment Process (**ICAAP**);
- Capital Stress Testing Policy; and
- Capital Management Plan (**CMP**)

The Banking Group has an ICAAP that complies with the requirements set out in BPR100 and follows its Conditions of Registration. The ICAAP identifies the capital required to be held against other material risks, such as strategic business risk, reputational risk, regulatory risk, and additional credit risk. Stress testing conducted following the Capital Stress Testing policy assists in this process.

The Banking Group actively monitors their capital adequacy through GALCO and report this regularly to the Board. This includes forecasting capital requirements to ensure that future capital requirements can be executed on time. The Banking Group uses a mix of capital instruments to reduce single-source reliance and optimise its mix of capital. The Board reviews the ICAAP, CMP, and Capital Stress Testing Policy annually.

The capital adequacy tables set out below summarise the composition of regulatory capital and the capital adequacy ratios for the Banking Group as at 30 June 2024.

29 Capital adequacy and regulatory liquidity ratios (continued) - unaudited

(a) Capital

\$000's	June 2024
Tier 1 Capital	
CET1 capital	
Paid-up ordinary shares issued by the Banking Group plus related share premium	1,044,811
Retained earnings (net of appropriations)	235,200
Accumulated other comprehensive income and other disclosed reserves	(81,939)
Less deductions from CET1 capital	
Intangible assets	(264,509)
Deferred tax assets	(22,605)
Cash flow hedge reserve	(4,374)
Reverse Mortgage LVR greater than 100% ¹	(1,891)
Adjustment under the corresponding deductions approach - individual stakes exceeding 10%	(12,619)
Total CET1 capital	892,074
AT1 capital	-
Total Tier 1 capital	892,074
Tier 2 Capital	
NZD subordinated notes ²	100,000
Foreign exchange translation reserve	(1,682)
Total Tier 2 capital	98,318
Total capital	990,392

¹ Australian reverse mortgage LVRs for capital adequacy purposes are required to be calculated in accordance with APS112, which requires the property valuation to be the value at origination or, where relevant, on a subsequent formal revaluation. This has the effect of generally overstating LVRs in Australia as property values are not periodically updated (as compared to New Zealand) and therefore, some reverse mortgages in Australia are calculated with a LVR greater than 100% under this methodology. Had the Australian reverse mortgage property values been valued on the same basis as New Zealand reverse mortgage property values for LVR purposes, there would be only one loan with LVR greater than 100% leading to a total deduction of \$0.01 million.

² Classified as a liability under NZ GAAP and excludes capitalised transaction costs.

(b) Capital structure

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

Ordinary shares

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

Retained earnings

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

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29 Capital adequacy and regulatory liquidity ratios (continued) - unaudited

Reserves classified as CET1 capital

- Fair value reserve The 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, net of tax.
- Common control reserve Common control reserve represents the difference between the consideration paid and the share capital of the transferred entities based on carrying amounts at the date of transfer.

Tier 2 capital

Tier 2 capital comprises foreign exchange translation reserve and subordinated debt securities as per BPR110: Capital Definitions.

Subordinated notes – Tier 2 capital

NZD Subordinated notes

Refer to Note 14 – Borrowings for further details.

Foreign exchange translation reserve

The foreign exchange reserve arises from the translation of financial statements of foreign operations into the presentation currency of the reporting entity. This reserve includes the cumulative gains and losses resulting from the translation of assets, liabilities, income, and expenses at different exchange rates.

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29 Capital adequacy and regulatory liquidity ratios (continued) - unaudited

(c) Credit risk for the Banking Group

On balance sheet exposures

	Total Exposure After Credit Risk Mitigation \$000's	Risk Weight %	Risk Weighted Exposure \$000's
June 2024			
Sovereigns and central banks	722,061	0%	-
Multilateral development banks and other international organisations	199,407	0%	-
	51,917	20%	10,383
Public sector entities	101,235	20%	20,247
	-	50%	-
Banks	627,835	20%	125,567
	1,506	30%	452
	22,212	50%	11,106
Corporate	48,162	20%	9,632
	174,406	85%	148,245
	2,107,377	100%	2,107,377
Residential mortgages not past due			
No qualifying lender's mortgage insurance, non-property investment loan	20,059	20%	4,012
	15,280	25%	3,820
	10,015	30%	3,005
	334,983	35%	117,244
	2,874	40%	1,150
	445	45%	200
	493	65%	321
No qualifying lender's mortgage insurance, property investment mortgage loan	10,372	40%	4,149
Reverse mortgages	621,213	40%	248,485
	2,144,395	50%	1,072,198
	23,057	80%	18,446
	88,240	100%	88,240
	19,022	150%	28,533
Past due residential mortgages	578	80%	462
	1,172	100%	1,172
Other past due assets	374	20%	75
	7,102	30%	2,131
	65,951	100%	65,951
	116,318	150%	174,477
Equity holdings in the Business Growth Fund that qualify for 250% risk weight	-	250%	-
Equity holdings (not deducted from capital) included in the NZX50 or overseas equivalent index	-	300%	-
All other equity holdings (not deducted from capital)	841	400%	3,364
Other assets	1,418,946	100%	1,418,946
Non risk weighted assets	301,623	0%	-
Total on balance sheet exposures	9,259,471		5,689,390

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29 Capital adequacy and regulatory liquidity ratios (continued) - unaudited

(c) Credit risk for the Banking Group (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
June 2024					
Commitments with certain drawdown as per APS 112	140,642	100%	140,642	50%	70,796
Performance-related contingency	3,130	50%	1,565	100%	1,565
Other commitments where original maturity is more than one year	337,182	50%	168,591	81%	137,391
Other commitments where original maturity is less than or equal to one year	1,077	20%	215	90%	194
Other commitments as per APS 112	85,353	40%	34,141	48%	16,462
Counterparty credit risk¹					
Interest rate contracts	1,655,003	N/A	7,205	-	2,264
Credit valuation adjustment	-	-	-	-	2,297
Total off balance sheet exposures	2,222,387		352,359		230,969

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

Qualifying Central Counterparty (QCCP) exposures

	Trade exposure or collateral amount \$000's	Average Risk Weight %	Risk Weighted Exposure \$000's
June 2024			
Bank as QCCP clearing member, clearing own trades	-	-	-
Collateral posted for clearing own trades	-	-	-
Bank as client of QCCP member, clearing trades through that member	-	-	-
Collateral posted for clearing via member bank	500	2%	10
Total QCCP exposures	500		10

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29 Capital adequacy and regulatory liquidity ratios (continued) - unaudited

(d) Additional mortgage information – LVR range

In the table below, both New Zealand and Australian mortgage information is calculated in accordance with BPR131 loan to valuation ratio.

\$000's	On Balance Sheet Exposures	Off Balance Sheet Exposures ¹	Total Exposures
June 2024			
Does not exceed 80%	3,288,069	329,006	3,617,075
Exceeds 80% and not 90%	4,124	249	4,373
Exceeds 90%	1,896	-	1,896
Total exposures for the Banking Group	3,294,089	329,255	3,623,344

¹ Off balance sheet exposures means unutilised limits.

At 30 June 2024, there were no Welcome Home loans whose credit risk is mitigated by the Crown included in "Exceeds 90% residential mortgages". For capital adequacy calculations only the value of the first mortgages over residential property is included in the LVR calculation, in accordance with BPR131.

(e) Reconciliation of mortgage related amounts

\$000's	Note	June 2024
Gross finance receivables - reverse mortgages	20	2,897,818
Loans and advances - loans with residential mortgages	23(d)	382,791
Loans and advances - corporate lending secured on residential mortgages	23(d)	13,758
On balance sheet residential mortgage exposures subject to the standardised approach		3,294,367
Less: collective provision for impairment	23(c)	(278)
On balance sheet residential mortgage exposures after collective provision	29(d)	3,294,089
Off balance sheet mortgage exposures subject to the standardised approach	29(d)	329,255
Total residential exposures subject to the standardised approach		3,623,344

(f) Credit risk mitigation

As at 30 June 2024, the Banking Group had \$1.0 million of Welcome Home Loans (2023: \$1.3 million), \$25.3 million of BFGS loans (2023: \$41.0 million) and NIWE loans of \$30.9 million (2023: nil) whose credit risk is mitigated by the Crown.

The Banking Group also has eligible collateral paid from its correspondent banks in relation to derivatives it holds on its balance sheet, however no benefit has been attributed to the risk weighted assets held against these exposures.

(g) Operational risk

\$000's	Implied Risk Weighted Exposure	Total Operational Risk Capital Requirement
June 2024		
Operational risk	343,947	27,516

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

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29 Capital adequacy and regulatory liquidity ratios (continued) - unaudited

(h) Market risk

Market risk is the risk that market interest rates or foreign exchange rates will change and impact on the Banking Group's earnings due to either mismatches between repricing dates of interest bearing assets and liabilities and/or differences between customer pricing and wholesale rates.

\$000's	Implied Risk Weighted Exposure	Aggregate Capital Charge
June 2024		
Market risk end-of-period capital charge		
Equity risk	841	67
Interest rate risk	165,486	13,239
Foreign currency risk	5,364	429
Market risk peak end-of-period capital charge		
Equity risk	1,859	149
Interest rate risk	207,688	16,615
Foreign currency risk	41,118	3,289

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 daily market exposure over the six months ended 30 June 2024. Interest rate, foreign exchange, and equity risks are calculated daily using a combination of static monthly and daily data sets.

Currently intra-month calculations overstate the interest rate risk of the finance receivables due to the identified system limitations which is being remediated through the upgrade of the software that removes these limitations.

Following the acquisition of CBL on 30 April 2024, the Banking Group has calculated its interest rate risk relating to HBA in accordance with an agreed transitional arrangement with the RBNZ for the period of six months from the date of acquisition of CBL. The transitional arrangement ends on 1 November 2024. The Banking Group currently calculates its HBA interest rate risk on a best endeavours basis while finalising models and assessing the interest rate risk profile of specific loan portfolios.

(i) Total capital requirement

\$000's	Total Exposure After Credit Risk Mitigation	Risk Weighted Exposure or Implied Risk Weighted Exposure	Total Capital Requirement
June 2024			
Total credit risk + equity	11,481,858	5,920,359	592,036
Operational risk	N/A	343,947	34,395
Market risk	N/A	171,691	17,169
Total	11,481,858	6,435,997	643,600

Total capital requirement in the above table includes a 2% overlay imposed by the RBNZ.

29 Capital adequacy and regulatory liquidity ratios (continued) - unaudited

(j) Capital ratios

%	June 2024	June 2023
Capital ratios compared to minimum ratio requirements		
Common Equity Tier 1 capital ratio	13.86%	12.68%
Minimum Common Equity Tier 1 capital ratio	6.50%	4.50%
Tier 1 capital ratio	13.86%	12.68%
Minimum Tier 1 capital ratio	8.00%	6.00%
Total capital ratio	15.39%	14.71%
Minimum Total capital ratio	10.00%	8.00%
Prudential capital buffer ratio		
Prudential capital buffer ratio	5.39%	6.68%
Buffer trigger ratio	2.50%	2.50%

(k) Solo capital adequacy

Previously, certain securitised motor loans were derecognised from the Bank's solo balance sheet and transferred to Heartland Auto Receivable Warehouse Trust (**HARWT**). On review, it has been established that under NZ GAAP, these assets do not meet the criteria for derecognition and thus, have been retained within the Bank's solo balance sheet.

Accordingly, the Bank's Solo capital calculation includes subsidiaries wholly owned and wholly funded by the Bank, at HARWT as per section A2.3 of BPR 160. The change in accounting treatment and consolidation election is the basis of the prior period restatement which reduced the Banking Group's capital ratios for 30 June 2023 from 14.93% to 14.60%. This restatement had no impact on the Banking Group's capital ratios for 30 June 2024. Marac Insurance Limited is excluded per BPR100.

%	June 2024	June 2023 (Restated)
Capital ratios		
Common Equity Tier 1 capital ratio	12.39%	12.55%
Tier 1 capital ratio	12.39%	12.55%
Total capital ratio	14.40%	14.60%

(l) Capital for other material risks

As of 30 June 2024, the Banking Group has identified no material risks requiring additional capital allocation. In June 2023, \$20 million was held to cover additional operational and strategic risks.

(m) 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.

29 Capital adequacy and regulatory liquidity ratios (continued) - unaudited

(m) Regulatory liquidity ratios (continued)

Following the acquisition of CBL on 30 April 2024, the Banking Group has calculated its liquidity ratios relating to HBA in accordance with an agreed transitional arrangement with the RBNZ for the period of six months from the date of acquisition of CBL. The transitional arrangement ends on 1 November 2024 in line with Conditions of Registration 11 and 11A. The Banking Group currently calculates its daily liquidity metrics relating to HBA, in accordance with the RBNZ's Liquidity Policy (**BS13**), but with some simplifying assumptions.

The below measure of the core funding ratio is averaged over the quarter.

	Average for the 3 Months Ended	
	June 2024 ¹	March 2024
One-week mismatch ratio	13.03	7.59
One-month mismatch ratio	12.29	6.55
Core funding ratio	105.48	90.31

¹There is an agreed transitional period for the Banking Group liquidity reporting in accordance with its conditions of registration.

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30 Securitisation, funds management and other fiduciary activities

Securitisation

The Banking Group securitises its motor vehicle loan receivables, reverse mortgage loans and livestock finance receivables as a funding and liquidity tool. Securitisation structured entities, controlled by the Banking Group are consolidated. SWT Trusts, ASF Trust, Atlas Trust and StockCo Trust were consolidated by the Banking Group on transfer of HAH and its controlled entities from HGH to HBA on 2 May 2024. Refer to Note 28 - Structured entities for further details.

There have been no other material changes to the Banking Group's involvement in securitisation activities.

As at 30 June 2024, the Banking Group had \$1,716.31 million securitised assets (2023: \$254.74 million).

Funds management and other fiduciary activities

The Banking Group, through Heartland PIE Fund Limited, controls, manages and administers the Heartland Cash and Term PIE Fund and its products (Heartland Call PIE and Heartland Term Deposit PIE). Note 28 - Structured entities has further details. The Heartland Cash and Term PIE Fund deals with the Bank in the normal course of business, in the Bank's capacity as Registrar of the Fund and also invests in the Bank's deposits. The Banking Group is considered to control the Heartland Cash and Term PIE Fund, and as such the Heartland Cash and Term PIE Fund is consolidated within the financial statements of the Banking Group.

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. The policies and procedures include comprehensive and prominent disclosure of information regarding products, and formal and regular review of operations and policies by management and internal auditors. Further information on the Banking Group's risk management policies and practices is included in Note 21 - Enterprise risk management.

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.

Peak aggregate funding to entities

The Banking Group did not provide any funding to entities conducting funds management and other fiduciary activities, or insurance product or marketing and distribution activities described in this note, during the year (2023: nil).

30 Securitisation, funds management and other fiduciary activities (continued)

The Bank provided the following funding in relation to securitisation entities.

	Peak end-of-day aggregate amount of funding provided (\$000's)		Peak end-of-day aggregate amount of funding provided as a percentage of the Banking Group's Tier 1 Capital as at the end of the year	
	June 2024	June 2023	June 2024	June 2023
Total Trusts	1,412,358	308,755	158.3%	49.4%

For this purpose, peak ratio information was derived by determining the maximum end-of-day aggregate amount of funding over the financial year and then dividing that amount by the amount of the Banking Group's Tier 1 Capital as at the end of the year.

	Peak end-of-day aggregate amount of funding provided (\$000's)		Peak end-of-day aggregate amount of funding provided as a percentage of the total assets of the individual entity as at the end of the year	
	June 2024	June 2023	June 2024	June 2023
HARWT ¹	531,639	308,755	90.7%	114.8%
SWT Trusts	589,620	-	67.6%	-
Atlas Trust	139,562	-	82.8%	-
Stockco Trust	173,083	-	78.2%	-

¹Total assets as at the end of the year in June 2023 were lower compared to the timing of the peak end-of-day aggregate amount of funding provided due to a repurchase.

For this purpose, peak ratio information was derived by determining the maximum end-of-day aggregate amount of funding over the financial year and then dividing that amount by the amount of the entity's assets as at the end of the year.

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31 Offsetting financial instruments

The Banking Group offsets financial assets and financial liabilities and reports the net balance in the balance sheet where there is currently a legally enforceable right to set off and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

The Banking Group enters into contractual arrangements with counterparties to manage the credit risks associated primarily with over-the-counter derivatives. The Banking Group has entered into credit support annexes (**CSAs**) which form a part of International Swaps and Derivatives Association (**ISDA**) Master Agreement, in respect of certain exposures relating to derivative transactions. As per these CSAs, the Banking Group or the counterparty needs to collateralise the market value of outstanding derivative transactions. As at 30 June 2024, the Banking Group has received \$2.38 million of cash collateral (2023: \$27.61 million) against derivative assets. Cash collateral includes amounts of cash obtained to cover the net exposure between the counterparty in the event of default or insolvency. The cash collateral received is not netted off against the balance of derivative assets disclosed in the statement of financial position and is disclosed within trade and other payables.

The following table sets out financial assets and financial liabilities which have not been offset but are subject to enforceable master netting agreements (or similar arrangements) and the related amounts not offset in the balance sheet. Financial instruments refer to amounts that are subject to relevant close out netting arrangements under a relevant ISDA agreement. ISDA and similar master netting arrangements do not meet the criteria for offsetting in the statement of financial position because under such agreements the counterparties typically have the right to offset only following an event of default, insolvency or bankruptcy or following other predetermined events.

\$000's	Effects of offsetting on the balance sheet			Related amounts not offset		
	Gross Amount	Gross amounts set off in the balance sheet	Net amounts reported in the balance sheet	Financial Instruments	Cash collateral received	Net amount
June 2024						
Derivative financial assets	12,316	-	12,316	(9,017)	(2,384)	915
Total financial assets	12,316	-	12,316	(9,017)	(2,384)	915
Derivative financial liabilities	9,017	-	9,017	(9,017)	-	-
Total financial liabilities	9,017	-	9,017	(9,017)	-	-
June 2023						
Derivative financial assets	36,982	-	36,982	(7,624)	(27,609)	1,749
Total financial assets	36,982	-	36,982	(7,624)	(27,609)	1,749
Derivative financial liabilities	7,624	-	7,624	(7,624)	-	-
Total financial liabilities	7,624	-	7,624	(7,624)	-	-

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32 Contingent liabilities and commitments

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

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

\$000's	June 2024	June 2023
Letters of credit, guarantee commitments and performance bonds	3,130	7,378
Total contingent liabilities	3,130	7,378
Undrawn facilities available to customers	554,307	310,423
Conditional commitments to fund at future dates	9,947	24,873
Total commitments	564,254	335,296

33 Events after reporting date

The Bank resolved to pay a cash dividend to its parent company HGH of \$15 million on its ordinary shares on 28 August 2024.

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

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Independent auditor's report

To the shareholder of Heartland Bank Limited

Our opinion

In our opinion, the accompanying:

- financial statements, excluding the information disclosed in accordance with Schedules 4, 7, 9, 13, 14, 15 and 17 of the Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order 2014 (as amended) (the "Order"), of Heartland Bank Limited (the "Bank"), including the entities it controlled as at 30 June 2024 or from time to time during the financial year (the "Banking Group"), present fairly, in all material respects, the financial position of the Banking Group as at 30 June 2024, its financial performance and its cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards ("NZ IFRS") and International Financial Reporting Standards Accounting Standards ("IFRS Accounting Standards"); and
- information disclosed in accordance with Schedules 4, 7, 13, 14, 15 and 17 of the Order (the "Supplementary Information"), in all material respects:
 - presents fairly the matters to which it relates; and
 - is disclosed in accordance with those schedules.

What we have audited

- The Banking Group's financial statements (the "Financial Statements") required by clause 24 of the Order, comprising:
 - the statement of financial position as at 30 June 2024;
 - the statement of comprehensive income for the year then ended;
 - the statement of changes in equity for the year then ended;
 - the statement of cash flows for the year then ended; and
 - the notes to the Financial Statements, excluding the information disclosed in accordance with Schedules 4, 7, 9, 13, 14, 15 and 17 of the Order within the statement of financial position and notes 21, 22, 23, 24, 25, 29 and 30, which includes material accounting policy information and other explanatory information.
- The Supplementary Information within the statement of financial position and notes 21, 22, 23, 24, 25, 29 and 30 of the Financial Statements for the year ended 30 June 2024 of the Banking Group.

We have not audited the information relating to capital adequacy and regulatory liquidity requirements disclosed in accordance with Schedule 9 of the Order within note 29 of the Financial Statements and our opinion does not extend to this information.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand) (ISAs (NZ)) and International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the Financial Statements and the Supplementary Information* section of our report.

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



Independence

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

Our firm carries out other services for the Banking Group. These services are audit and assurance related services for the Banking Group comprising: assurance over insurance solvency, supervisor reporting, registry audits and greenhouse gas emissions reporting. Other services include the provision of an executive reward survey report. 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. The provision of these other services and these relationships have not impaired our independence as auditor of the Banking Group.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the Financial Statements and the Supplementary Information of the current year. These matters were addressed in the context of our audit of the Financial Statements and the Supplementary Information as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Description of the key audit matter	How our audit addressed the key audit matter
<p>Provision for impairment of finance receivables</p> <p>As disclosed in note 23 of the Financial Statements, the impairment allowance totalled \$76.3 million at 30 June 2024.</p> <p>For the determination of the collectively assessed impairment allowance, this requires the use of credit risk methodologies that are applied in models using the Banking Group’s historical experience of the correlations between defaults and losses, borrower creditworthiness, segmentation of customers or portfolios and economic conditions. The assumptions we focused our audit on included those with greater levels of management judgement and for which variations have the most significant impact on the impairment allowance.</p> <p>For finance receivables that meet specific risk based criteria, the impairment allowance is individually assessed by the Banking Group.</p>	<p>We obtained an understanding of control activities over the Banking Group’s impairment allowance, and for relevant control activities assessed whether they are appropriately designed. For controls relevant to our planned audit approach we tested, on a sample basis, whether they operated effectively, throughout the financial year.</p> <p>In addition, we, along with our credit risk modelling expert, performed the following procedures, amongst others, on a targeted or sample basis, on the Banking Group’s collectively assessed impairment allowance:</p> <ul style="list-style-type: none"> Assessed the appropriateness of the methodology inherent in the models used against the requirements of NZ IFRS 9 <i>Financial Instruments</i>; Challenged and assessed the appropriateness of the collectively assessed impairment allowance inclusive of the impacts of any post model adjustments; Challenged management’s modelling outcomes using a range of what we consider reasonably possible assumptions to assess the collectively assessed impairment allowance; and Tested the completeness and accuracy of critical data elements used in the calculations. <p>With respect to individually assessed impairment allowances we:</p>



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Description of the key audit matter	How our audit addressed the key audit matter
<p>These impairment allowances are measured using probability weighted scenarios which are intended to reflect a range of reasonably possible outcomes, and incorporate assumptions such as estimated future cash proceeds expected to be recovered from the realisation of security held as collateral by the Banking Group.</p> <p>We considered this a key audit matter due to the significant inherent estimation uncertainty present in the determination of the impairment allowance.</p>	<ul style="list-style-type: none"> For a sample of business and rural loans not identified as impaired, considered the borrowers latest information available to the Banking Group to assess the credit risk grade rating allocated to the borrower as to whether the borrower could be identified as impaired, a critical data element which involves significant management judgement; and For loans where an impairment allowance was individually assessed, we considered the borrower's latest financial information, value of security held as collateral and probability weighted scenario outcomes (where applicable) to test the basis of measuring the impairment allowance. <p>We also considered the impacts of events occurring subsequent to balance date on the impairment allowances.</p> <p>We also assessed the reasonableness of the disclosures against the requirements of the accounting standards.</p>
<p>Fair value of finance receivables - reverse mortgages</p> <p>The Banking Group's fair value of finance receivables – reverse mortgages (“Reverse mortgages”) totalled \$2.9 billion at 30 June 2024 as disclosed in note 20 of the Financial Statements. Reverse mortgages are held at fair value through profit or loss.</p> <p>The Banking Group records the estimated fair value of the Reverse mortgages at transaction price (cash advanced plus accrued capitalised interest) on the basis that no reliable fair value can be estimated as there is no relevant active market and the fair value cannot be reliably estimated using other valuation techniques as permitted under the accounting standards.</p>	<p>Our audit procedures included assessing the design and implementation of controls relating to the Banking Group's assessment of the fair value of Reverse mortgages.</p> <p>In addition, our audit procedures included:</p> <ul style="list-style-type: none"> Assessing the reasonableness of the Banking Group's approach to estimating the fair value based on the transaction price against the requirements of the accounting standards; Assessing whether there was evidence of a relevant active market or observable inputs in which to establish fair value using a market approach; Engaging our internal actuarial expert to assess the Banking Group's estimate of the value of discounted future cash flows from the Reverse mortgages, including any expected outflows under the no negative equity guarantee and comparing this to the transaction price of Reverse mortgages (carrying value) to assess any potential shortfall (a shortfall would indicate the transaction value was overstated); Testing the completeness and accuracy of a sample of critical data elements used as inputs to the value of discounted future cash flows; Assessing the reasonableness of key assumptions (such as future house prices, voluntary exits, interest rate margins, future interest rates) used in the value of discounted future cash flows; and



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Description of the key audit matter	How our audit addressed the key audit matter
<p>To assess whether the transaction price remains an appropriate proxy for fair value, the Banking Group considers the impact on discounted future cash flows of changes in the risk profile and expectations of performance since origination, including possible outflows under the no negative equity guarantee provided by the Banking Group to the borrower. High interest rates and volatility in house prices, combined with the economic outlook, increases the possibility of outflows under the no negative equity guarantee. Accordingly, we consider this to be a key audit matter.</p>	<ul style="list-style-type: none"> • Considering the appropriateness of the disclosures in note 20 of the Financial Statements against the requirements of the accounting standards.
<p>Heartland Bank Australia Limited group of cash generating units (CGUs) goodwill impairment assessment</p> <p>The carrying amount of the Heartland Bank Australia Limited group of CGUs goodwill as at 30 June 2024, as disclosed in note 17 of the Financial Statements, amounted to \$178.9 million.</p> <p>The carrying value of goodwill is a key audit matter as it is a significant intangible asset in the Banking Group's statement of financial position. At balance date an impairment assessment is required which uses an estimate of the recoverable amount that is dependent on future earnings.</p> <p>With the Banking Group's acquisition of Challenger Bank Limited (subsequently renamed Heartland Bank Australia Limited), reorganisation of the Heartland Australia Holdings Limited business into Heartland Bank Australia Limited and changes in the way in which goodwill is monitored internally, judgement is applied in respect of the determination of the group of CGU's at which impairment is assessed.</p> <p>The Banking Group used the Fair Value Less to Sell (FVLCS) approach to determine the recoverable amount of the Heartland Bank Australia Limited group of CGUs.</p> <p>FVLCS is based on a price-earnings multiples approach using forecast earnings</p>	<p>We held discussions with management to understand the assumptions used in the determination of the group of CGUs and the goodwill impairment assessment.</p> <p>Our audit procedures also included the following:</p> <ul style="list-style-type: none"> • Assessing judgements made in respect of the determination of the group of CGUs, taking into account the reorganisation of the Banking Group's Australian business in the current year; • Obtaining an understanding of the business processes and controls applied by management in performing the impairment assessment; • Assessing the appropriateness of using a FVLCS approach against the requirements of the accounting standards; • Engaging our internal valuation expert to assess management's valuation methodology and key assumptions, including comparable price-earnings multiples; • Obtaining evidence of the FY25 forecast earnings approved by the Board and assessing the reasonableness of key inputs including lending growth, interest yields, funding mix, cost of funds and expenses; • Reviewing publicly available information on analyst forecasts of FY25 forecast earnings; • Testing the mathematical accuracy of the FY25 forecast earnings; • Obtaining and evaluating management's sensitivity analyses to ascertain the impact of reasonably possible changes in key assumptions on the recoverable amount; and



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Description of the key audit matter	How our audit addressed the key audit matter
<p>for the next twelve months (FY25 forecast earnings).</p> <p>The assumptions used in the FVLCS are:</p> <ul style="list-style-type: none"> • Price-earnings multiple; and • FY25 forecast earnings. 	<ul style="list-style-type: none"> • Considering the appropriateness of the disclosures in note 17 of the Financial Statements against the requirements of the accounting standards.
<p>Operation of financial reporting information technology (IT) systems and controls</p> <p>The Banking Group’s operations and financial reporting processes are dependent on IT systems for the capture, processing, storage and extraction of significant volumes of transactions which is critical to the recording of financial information and the preparation of the Banking Group’s Financial Statements. In addition, the Banking Group upgraded its New Zealand core banking system in the current year. Accordingly, we consider this to be a key audit matter.</p> <p>In common with other banking entities, access management controls are important to ensure both access and changes made to applications and data are appropriate. Ensuring that only appropriate staff have access to IT systems, that the level of access itself is appropriate, and that access is periodically monitored, are key controls in mitigating the potential for fraud or error as a result of a change to an application or underlying data.</p> <p>The Banking Group’s controls over IT systems are intended to ensure that:</p> <ul style="list-style-type: none"> • changes to existing systems operate as intended and are authorised; • access to process transactions or change data is appropriate and maintains an intended segregation of duties; • the use of privileged access to systems and data is restricted and monitored; and • IT processing is approved and where issues arise they are resolved. 	<p>For material Financial Statement transactions and balances, our procedures included obtaining an understanding of the business processes, IT systems used to generate and support those transactions and balances, associated IT application controls, and IT dependencies in manual controls.</p> <p>This involved assessing, where relevant to the audit:</p> <ul style="list-style-type: none"> • change management: the processes and controls used to develop, test and authorise changes to the functionality and configurations within systems; • security: the access controls designed to enforce segregation of duties, govern the use of generic and privileged accounts, or ensure that data is only changed through authorised means; and • IT operations: the controls over certain IT batch processes used to ensure that any issues that arise are managed appropriately. <p>In addition to the above, our audit procedures around the upgrade of the New Zealand core banking system included the following:</p> <ul style="list-style-type: none"> • assessing management’s governance over and methodology applied for the system upgrade; • testing the design and operating effectiveness of key controls over the system development life cycle; and • testing the completeness and accuracy of financial data migrated to the upgraded core banking system. <p>Where relevant to our planned audit approach, we, along with our IT specialists, evaluated and tested the design and operating effectiveness of certain controls over the continued integrity of IT systems that are relevant to financial reporting.</p> <p>We also carried out tests, on a sample basis, of IT application controls that were key to our audit testing strategy in order to assess the accuracy of relevant system calculations, automated controls and the operation of certain system enforced access controls.</p> <p>Where we identified design or operating effectiveness matters relating to IT systems and application controls relevant to our audit, we performed alternative or additional audit procedures.</p>

Description of the key audit matter	How our audit addressed the key audit matter
<p>Accounting for the acquisitions of Challenger Bank Limited and Heartland Australia Holdings Pty Limited</p> <p>As disclosed in note 18 of the Financial Statements, the Banking Group acquired Challenger Bank Limited on 30 April 2024 for a total cash consideration of \$126.6 million. The fair value of certain assets and liabilities arising from the acquisition have been determined on a provisional basis as any completion adjustments will be finalised within 12 months of the acquisition date. As a result of this acquisition, the Banking Group has recognised provisional goodwill on acquisition of \$23.2 million.</p> <p>Further, as disclosed in note 18 of the Financial Statements, on 2 May 2024, the Banking Group acquired Heartland Australia Holdings Pty Limited, as part of Heartland Group Holdings Limited's reorganisation of entities under the conditions of Challenger Bank Limited's (now Heartland Bank Australia Limited) banking licence.</p> <p>We consider these acquisitions to be a key audit matter due to:</p> <ul style="list-style-type: none"> the significance of the acquisitions to the Banking Group; judgements made in the provisional fair value assessment of assets and liabilities arising from the acquisition of Challenger Bank Limited; the appropriateness of including within the cash consideration the additional payments made to Challenger Limited in respect of the deposit raising programme and increased capital; and the application of management judgement in assessing the accounting for the acquisition of Heartland Australia Holdings Pty Limited as a business combination under common control. 	<p>In respect of the acquisition of Challenger Bank Limited, our audit procedures included:</p> <ul style="list-style-type: none"> Reading the Sale and Purchase Agreement (and any subsequent amendments) to understand key terms and conditions of the acquisition; Gaining an understanding of the valuation approach and methodology undertaken by management to identify separately identifiable intangible assets against the criteria in the accounting standards and fair value of assets and liabilities acquired; Obtaining and reading the identification of intangible assets report prepared by management's external expert for the acquisition of Challenger Bank Limited; Agreeing the cash consideration to supporting documentation. This included assessing the appropriateness of including in the cash consideration the additional payments made to the vendor relating to the deposit raising programme and increased capital; Performing an audit of the provisional acquisition balance sheet; and Recalculating the provisional purchase price allocation and resulting provisional goodwill as a result of the fair value of acquired assets and liabilities of Challenger Bank Limited. <p>In respect of the acquisition of Heartland Australia Holdings Pty Limited, we reviewed management's accounting paper and management's external expert accounting opinion outlining:</p> <ul style="list-style-type: none"> their assessment of how this transaction is not a business combination in accordance with the accounting standards; the regulatory requirements of Heartland Bank Australia Limited's banking licence which required this reorganisation of entities owned by Heartland Group Holdings Limited; and that common control was not considered to be transitory given the timing of the transactions. <p>We challenged the assessments made by management as noted above, and obtained sufficient appropriate supporting documentation, where we determined it necessary. We also performed an audit of the acquisition balance sheet.</p> <p>We also assessed the disclosures made in note 18 of the Financial Statements against the requirements of the accounting standards.</p>

Our audit approach

Overview



The overall Banking Group materiality is \$3.8 million, which represents approximately 5% of the profit before tax.

We chose profit before tax as the benchmark because, in our view, it is the benchmark against which the performance of the Banking Group is most commonly measured by users, and is a generally accepted benchmark.

Following our assessment of the risk of material misstatement, full scope audits were performed for the two identified components of the Banking Group (New Zealand and Australia).

As reported above, we have five key audit matters, being:

- Provision for impairment of finance receivables
- Fair value of finance receivables - reverse mortgages
- Heartland Bank Australia Limited group of cash generating units (CGUs) goodwill impairment assessment
- Operation of financial reporting information technology (IT) systems and controls
- Accounting for the acquisitions of Challenger Bank Limited and Heartland Australia Holdings Pty Limited

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the Financial Statements and the Supplementary Information. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance about whether the Financial Statements and the Supplementary Information are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the Financial Statements and the Supplementary Information.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall Banking Group materiality for the Financial Statements and the Supplementary Information, as a whole, as set out above. These, together with qualitative considerations, helped us to determine the scope of our audit, the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate, on the Financial Statements and the Supplementary Information, as a whole.

How we tailored our group audit scope

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the Financial Statements and the Supplementary Information, as a whole, taking into account the structure of the Banking Group, the financial reporting processes and controls, and the industry in which the Banking Group operates.

We performed a full scope audit of the Banking Group's two components (New Zealand and Australia), which we considered are both financially significant in the context of the Banking Group.



The full scope audit of the Australia component was performed by:

- a foreign non-PwC firm operating under our instructions for which we obtained a specified scope audit opinion; and
- the remaining balances and transactions not included in the foreign non-PwC firm's specific scope audit were audited by us.

Our involvement with the foreign non-PwC firm auditing the Australia component included the following:

- issuing Group audit instructions;
- meeting with the component audit team and reviewing their audit findings;
- inspecting audit working papers;
- attending key management and audit committee meetings; and
- maintaining regular communication throughout the audit and appropriately directing their audit.

By performing these procedures, together with the procedures performed on the consolidation and intercompany eliminations, we have obtained sufficient and appropriate audit evidence regarding the financial information of the Banking Group to provide a basis for our opinion on the Banking Group's Financial Statements and the Supplementary Information.

Other information

The Directors are responsible for the other information. The other information comprises the information included in the Disclosure Statement presented in accordance with Schedule 2 of the Order on pages 1 to 4, 105, 117 to 131 (but does not include the Financial Statements, the Supplementary Information and our auditor's report thereon), the information included in the Disclosure Statement relating to capital adequacy and regulatory liquidity requirements disclosed in accordance with Schedule 9 of the Order within note 29, the information included in the Disclosure Statement relating to the New Zealand Banking Group disclosures and the Heartland Climate Report 2024 to be published at a later date. Other than the Heartland Climate Report 2024 which we will receive at a later date, we have received all the other information included in the Disclosure Statement.

Our opinion on the Financial Statements and the Supplementary Information does not cover the other information and we do not express any form of audit opinion or assurance conclusion thereon. We issue a separate limited assurance report on the information relating to capital adequacy and regulatory liquidity requirements disclosed in accordance with Schedule 9 of the Order.

In connection with our audit of the Financial Statements and the Supplementary Information, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the Financial Statements and the Supplementary Information or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

When we read the Heartland Climate Report 2024, if we conclude that there is a material misstatement therein, we are required to communicate the matter to the Directors and use our professional judgement to determine the appropriate action to take.

Responsibilities of the Directors for the 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 24 of the Order, NZ IFRS and IFRS Accounting Standards, and for such internal control as the Directors determine is necessary to enable the preparation of Financial Statements and the Supplementary Information 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 2 of the Order; and
- the information prescribed in Schedules 4, 7, 9, 13, 14, 15 and 17 of the Order.

In preparing the Financial Statements, the Directors are responsible for assessing the Banking Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Banking Group or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the Financial Statements and the Supplementary Information

Our objectives are to obtain reasonable assurance about whether the Financial Statements and the Supplementary Information, as a whole, are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (NZ) and ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the Financial Statements and the Supplementary Information.

A further description of our responsibilities for the audit of the Financial Statements and the Supplementary Information is located at the External Reporting Board's website at:

<https://www.xrb.govt.nz/assurance-standards/auditors-responsibilities/audit-report-1/>

This description forms part of our auditor's report.

Who we report to

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

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

For and on behalf of:

Chartered Accountants
28 August 2024

Auckland, New Zealand



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 21 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 full year Disclosure Statement for the year ended 30 June 2024 (the "Disclosure Statement"). The Disclosure Statement containing the information prescribed in Schedule 9 of the Order relating to capital adequacy and regulatory liquidity requirements will accompany our report, for the purpose of reporting to the Bank's shareholder.

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 21 of the Order and disclosed in note 29 of the financial statements, is not, in all material respects, disclosed in accordance with Schedule 9 of the Order.

Emphasis of matter

We draw your attention to notes 29(h) and 29(m) of the financial statements which note that following the acquisition of Challenger Bank Limited ("CBL") on 30 April 2024, the Banking Group has calculated its interest rate risk and liquidity ratios relating to Heartland Bank Australia Limited ("HBA", formerly CBL), on an agreed transitional arrangement with the Reserve Bank of New Zealand ("RBNZ") for the period of six months from the date of acquisition of CBL. The transitional arrangement ends on 1 November 2024.

Our conclusion on the information relating to capital adequacy and regulatory liquidity requirements is not modified in respect of these matters.

Basis for conclusion

We have conducted our engagement in accordance with Standard on Assurance Engagements 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 21 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.

The Directors are also responsible on behalf of the Bank for ensuring compliance with the RBNZ transitional arrangements in respect of the calculation of interest rate risk and regulatory liquidity requirements for HBA.



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 as at 30 June 2024 or from time to time during the financial year (together, the “Banking Group”). In addition to our role as auditor, our firm carries out other audit and assurance related services for the Banking Group comprising: assurance over insurance solvency, supervisor reporting, registry audits and greenhouse gas emissions reporting. Other services is the provision of an executive reward survey report. 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. The provision of these other services and these relationships 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 21 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 21 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 21 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 RBNZ’s 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;
- obtained an understanding of the transitional arrangements agreed with the RBNZ until the end of October 2024 in respect of interest rate risk and regulatory liquidity requirements in respect of Heartland Bank Australia Limited;



- 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 annual 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 21 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 and 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.

A handwritten signature in black ink, appearing to read 'Karen Shires', is written over a faint, larger version of the same signature.

Chartered Accountants
28 August 2024

Auckland, New Zealand

Historical Summary of Financial Statements

For the year ended 30 June 2024

\$000's	Audited June 2024	Audited June 2023	Audited June 2022	Audited June 2021	Audited June 2020
Interest income	506,793	372,688	275,770	272,562	297,512
Interest expense	284,405	158,027	66,205	73,753	108,476
Net interest income	222,388	214,661	209,565	198,809	189,036
Other net income	16,127	12,458	33,704	15,006	15,742
Net operating income	238,515	227,119	243,269	213,815	204,778
Operating expenses	116,302	101,337	96,203	100,852	90,782
Profit before impaired asset expense and income tax	122,213	125,782	147,066	112,963	113,996
Fair value (loss) on investments and investment property	(1,595)	-	(315)	215	-
Impaired asset expense	46,313	22,891	14,692	14,579	29,372
Profit before income tax	74,305	102,891	132,059	98,599	84,624
Income tax expense	21,785	28,389	36,068	27,090	23,924
Profit for the year	52,520	74,502	95,991	71,509	60,700
Dividends paid to equity holders	65,500	60,000	35,500	30,000	65,000

As at 30 June 2024

\$000's	June 2024	June 2023	June 2021	June 2020	June 2019
Total assets	9,271,787	5,561,808	5,154,652	4,419,488	4,314,559
Individually impaired assets	96,468	52,955	66,183	38,143	24,667
Total liabilities	8,075,397	4,833,072	4,447,149	3,777,660	3,717,522
Total equity	1,196,390	728,736	707,503	641,828	597,037

The information presented for the year ended 30 June 2024 in the above table has been extracted from audited financial statements of the Banking Group. The amounts for the periods from the financial year ended 30 June 2023 to the financial year ended 30 June 2020 are not comparable with the information presented for the year ended 30 June 2024 due to HBL's acquisition of HBA and transfer of HAH and its controlled entities from HGH to HBA. Refer to Note 18 - Acquisition for further details.

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New Zealand Banking Group disclosures - unaudited

For the year ended 30 June 2024

Basis of preparation

These disclosures are presented for the New Zealand Banking Group ("**NZ Banking Group**") for the year ended 30 June 2024.

In accordance with the amended Conditions of Registration for Heartland Bank Limited, applicable on and after 30 April 2024, the NZ Banking Group is defined as all entities included in its Banking Group that are incorporated or otherwise established in New Zealand, but not including Marac Insurance Limited (**MIL**), which is consistent with the consolidation of subsidiaries for capital ratio calculations. As such, MIL and HBA and its subsidiaries do not form part of the NZ Banking Group and are, therefore, excluded from consolidation for purposes of these disclosures.

The amended Conditions of Registration imposed on Heartland Bank Limited by the Reserve Bank of New Zealand (**RBNZ**) came into force on 30 April 2024, the date of the "acquisition transaction" defined in section 11 as the Bank's acquisition of Challenger Bank Limited (**CBL**). As disclosed in the Significant events section of the Note 1 - Financial statements preparation of the Banking Group's Financial statements, the legal entity name for CBL officially changed from CBL to Heartland Bank Australia Limited (**HBA**) in May 2024.

The disclosures have been prepared based on the accounting policies that are consistent with the Banking Group financial statements, with the exception of principles of aggregation.

The amended Conditions of Registration contain specific requirements applicable to the NZ Banking Group. These disclosures are mainly focused on the NZ Banking Group's enterprise risk management including market, liquidity, balance sheet structure and operational risks, and contain relevant information that is considered appropriate by the Directors and is in accordance with the Conditions of Registration requirements for the NZ Banking Group applicable as at 30 June 2024.

These disclosures are presented in New Zealand dollars which is the NZ Banking Group's functional and presentation currency. Unless otherwise indicated, amounts are rounded to the nearest thousand dollars.

1. Enterprise Risk Management

The board of directors (**the Board**) sets and monitors the NZ Banking Group's risk appetite across the primary risk domains of credit, capital, liquidity, market (including interest rate and foreign exchange), operational and compliance and general business risk. Management is, in turn, responsible for ensuring appropriate structures, policies, procedures and information systems are in place to actively manage these risk domains, as outlined within the Risk Management Strategy and Framework document (**RMS&F**). The RMS&F supersedes HBL's Enterprise Risk Management Framework (**ERMF**) and has been developed to accommodate changes in the NZ Banking Group, arising from the acquisition of HBA.

Refer to Note 21 - Enterprise risk management program of the Banking Group's Financial statements for further information in relation to the role of the Board, the Board Risk Committee, the Executive Risk Committee, and the Internal audit function.

Asset and Liability Committee (ALCO)

The ALCO is a NZ Banking Group management committee comprising the HBL CEO, HBL CFO, HBL CRO, Head of Retail and HBL Group Treasurer. The ALCO has responsibility for overseeing aspects of risk management of the NZ Banking Group's financial position. Refer to Note 21 - Enterprise risk management program of the Banking Group's Financial statements for further information in relation to ALCO's responsibilities.

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New Zealand Banking Group disclosures - unaudited (continued)

1. Enterprise Risk Management (continued)

Climate-related risks

Climate-related risks are integrated into the NZ Banking Group's overall risk management strategy and processes. Refer to Note 21 - Enterprise risk management program of the Banking Group's Financial statements for further information in relation to the climate-related risk management, governance and strategy.

Operational and compliance risk

Operational and compliance risk is the risk arising from day-to-day operational activities in the execution of the Banking Group's strategy which may result in direct or indirect loss. Operational and compliance risk losses can occur as a result of fraud, human error, missing or inadequately designed processes, failed systems, damage to physical assets, improper behaviour or from external events due to regulatory, cyber and other business interruption risks which may affect NZ Banking Group's ability to maintain continuity of service. The losses range from direct financial losses to reputational damage, unfavourable media attention, injury to or loss of staff or clients or as a breach of laws or banking regulations. Where appropriate, risks are mitigated by insurance.

The NZ Banking Group implements strategic decisions such as acquisitions and investments in businesses. These transactions involve a number of risks and additional costs, such as risk of poor performance of the acquired business, unknown or unaccounted liabilities, regulatory risks or overstated fair value at the time of the acquisition. Operational, cultural, governance, compliance and risk appetite differences between the NZ Banking Group and the acquired business may lead to longer and more costly business integration with further risks of being unable to increase or maintain market share or resulting pressure on margins and fees.

Any of these risks could have a negative impact on the NZ Banking Group business, growth prospects, reputation, engagement with regulators, financial performance or financial condition.

Refer to Note 21 - Enterprise risk management program of the Banking Group's Financial statements for further information in relation to the roles and responsibilities for operational and compliance risk management.

Market risk

Market risk is the possibility of experiencing losses or gains due to factors affecting the overall performance of financial markets in which the NZ Banking Group is exposed. The primary market risk exposures for the NZ Banking Group are interest rate risk and foreign exchange risk.

ALCO is responsible for providing independent oversight of market risk by ensuring that adequate controls, processes and systems have been established to identify, measure and manage market risk.

Refer to Note 21 - Enterprise risk management program of the Banking Group's Financial statements for further information in relation to the interest rate risk and foreign exchange risk management.

Counterparty Credit Risk

The NZ Banking Group has on-going credit exposure associated with:

- Cash and cash equivalents;
- Finance receivables;
- Holding of investment securities; and
- Payments owed to the NZ Banking Group from risk management instruments.

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

New Zealand Banking Group disclosures - unaudited (continued)

2. Capital adequacy and regulatory liquidity ratios - unaudited

The RBNZ minimum regulatory capital requirements for banks have been established under the RBNZ Capital Adequacy Framework, outlined in the "Banking Prudential Requirements" (**BPRs**) documents. These documents are based on the international framework developed by the Bank for International Settlements Committee on Banking Supervision, commonly known as Basel III. These requirements define what is acceptable as capital and provide methods of measuring the risks incurred by the banks in New Zealand. Basel III consists of three pillars:

- Pillar One covers the capital requirements for banks for credit, operational, and market risks;
- Pillar Two covers all other material risks not already included in Pillar One; and
- Pillar Three relates to market disclosure.

RBNZ Capital Adequacy Framework

The NZ Banking Group has calculated its Risk Weighted Exposures (**RWEs**) and minimum regulatory capital requirements in accordance with the CoR and the BPR documents, where relevant. In doing so, the Banking Group has applied the following methodology:

- Calculated the total credit risk as Risk Weighted Assets (**RWAs**) for the NZ Banking Group as per BPR 130: Credit Risk RWAs;
- Calculated the Banking Group's capital requirement for market risk exposure as per BPR140: Market Risk;
- Calculated the Banking Group's capital requirement for operational risk as per BPR150: Standardised Operational Risk.

Total regulatory capital is divided into Tier 1 and Tier 2 capital. Tier 1 capital comprises Common Equity Tier 1 (**CET1**) capital and Additional Tier 1 (**AT1**) capital. Tier 1 capital primarily consists of shareholder's equity and other capital instruments acceptable to the RBNZ as per BPR110: Capital Definitions, less intangible assets, cash flow hedge reserves, deferred tax assets, and other prescribed deductions. Tier 2 as per BPR110: Capital Definitions comprises eligible subordinated debt securities.

Regulatory capital adequacy ratios are calculated by expressing capital as a percentage of risk weighted exposures. As a Condition of Registration (1AA), the NZ Banking Group must comply with the following minimum requirements set by the RBNZ:

- Total capital of the NZ Banking Group must not be less than 10% of RWE¹
- Tier 1 capital of the NZ Banking Group must not be less than 8% of RWE¹
- CET1 capital of the NZ Banking Group must not be less than 6.5% of RWE¹
- NZ Banking Group capital must not be less than NZ\$30m

¹Includes the RBNZ's 2% capital overlay attached to the Bank's conditions of registration.

In addition, if the Prudential Buffer Ratio (**PCR**) is less than 2.5%, the NZ Banking Group must limit aggregate distributions, other than discretionary payments payable to holders of AT1 capital instruments, to the limits set out within the Bank's Conditions of Registration.

Including the PCR the Banking Group's minimum total capital requirement is 12.5%. On 5 December 2019 the RBNZ finalised their revised Capital Framework for banks which were not domestic systematically important banks (**non D-SIB**). This requires non D-SIB banks in New Zealand to gradually increase their Total Capital ratio to 16% by July 2028. The NZ Banking Group's Total Capital ratio is 14.40% as at 30 June 2024. This means the revised Framework (excluding any capital overlay) requires the Banking Group to increase its Total Capital ratio by 1.60% over the transitional period.

New Zealand Banking Group disclosures - unaudited (continued)

2. Capital adequacy and regulatory liquidity ratios (continued) - unaudited

Capital management

The Board has overall responsibility for ensuring the NZ Banking Group has adequate capital in relation to its risk profile and establishes minimum internal capital levels and limits above the regulatory minimum.

The Bank's objectives for the management of capital are to:

- Maintain a strong capital base to cover the inherent risks of the business in excess of that required by credit ratings agencies to maintain a strong credit rating;
- Support the future development and growth of the business; and
- Comply at all times with the regulatory capital requirements set by the RBNZ.

The Bank's Capital Management Framework includes its:

- Internal Capital Adequacy Assessment Process (**ICAAP**);
- Capital Stress Testing Policy; and
- Capital Management Plan (**CMP**)

The Bank has an ICAAP which complies with the requirements set out in BPR100 and is in accordance with its Conditions of Registration. 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 which is assisted through stress testing conducted in accordance with the Capital Stress Testing policy.

The Bank actively monitors its capital adequacy through ALCO and reports this on a regular basis to the Board. This includes forecasting capital requirements to ensure any future capital requirements can be executed in a timely manner. The Banking Group uses a mix of capital instruments to reduce single source reliance and to optimise the Banking Group's mix of capital. ICAAP, CMP and Capital Stress Testing Policy are reviewed annually by the Board.

The capital adequacy tables set out below summarise the composition of regulatory capital and the capital adequacy ratios for the NZ Banking Group as at 30 June 2024.

New Zealand Banking Group disclosures - unaudited (continued)

2. Capital adequacy and regulatory liquidity ratios (continued) - unaudited

a) Capital

\$000's	June 2024
Tier 1 Capital	
CET1 capital	
Paid-up ordinary shares issued by the NZ Banking Group plus related share premium	1,045,059
Retained earnings (net of appropriations)	151,588
Accumulated other comprehensive income and other disclosed reserves	3,649
Less deductions from CET1 capital	
Intangible assets	(84,140)
Deferred tax assets	(21,522)
Cash flow hedge reserve	(4,291)
Adjustment under the corresponding deductions approach	
- Individual stakes exceeding 10%	(5,043)
- Investments in unconsolidated subsidiaries	(469,028)
Total CET1 capital	616,272
AT1 capital	-
Total Tier 1 capital	616,272
Tier 2 Capital	
Tier 2 capital instruments ¹	100,000
Total Tier 2 capital	100,000
Total capital	716,272

¹ Classified as a liability under NZ GAAP and excludes capitalised transaction costs. Refer to Note 29 - Capital adequacy and regulatory liquidity ratios of the Banking Group's Financial statements for further details.

Refer to Note 29 – Capital adequacy and regulatory liquidity ratios of the Banking Group's Financial statements for further details for the NZ Group capital structure.

New Zealand Banking Group disclosures - unaudited (continued)

2. Capital adequacy and regulatory liquidity ratios (continued) - unaudited

b) Credit risk

On balance sheet exposures

	Total Exposure After Credit Risk Mitigation \$000's	Risk Weight %	Risk Weighted Exposure \$000's
June 2024			
Sovereigns and central banks	14,912	0%	-
Multilateral development banks	199,407	0%	-
	51,917	20%	10,383
Public sector entities	101,235	20%	20,247
Banks	242,435	20%	48,487
	19,256	50%	9,628
Corporate	48,162	20%	9,632
	2,081,715	100%	2,081,715
Residential mortgages not past due			
No qualifying lender's mortgage insurance, non-property investment loan	328,359	35%	114,926
No qualifying lender's mortgage insurance, property investment mortgage loan	10,372	40%	4,149
Reverse mortgages	621,214	40%	248,486
	422,581	50%	211,291
	23,057	80%	18,446
	1,302	100%	1,302
Past due residential mortgages	866	100%	866
Other past due assets	374	20%	75
	7,102	30%	2,131
	65,951	100%	65,951
	45,892	150%	68,839
Equity holdings in the Business Growth Fund that qualify for 250% risk weight	-	250%	-
Equity holdings (not deducted from capital) included in the NZX50 or overseas equivalent index	-	300%	-
All other equity holdings (not deducted from capital)	841	400%	3,364
Other assets	-	20%	-
	1,409,023	100%	1,409,023
Non risk weighted assets	579,733	0%	-
Total on balance sheet exposures	6,275,706		4,328,940

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New Zealand Banking Group disclosures - unaudited (continued)

2. Capital adequacy and regulatory liquidity ratios (continued) - unaudited

Off balance sheet exposures

	Total Exposure \$000's	Credit Conversion Factor %	Credit Equivalent Amount \$000's	Average Risk Weight %	Risk Weighted Exposure \$000's
June 2024					
Performance-related contingency	3,130	50%	1,565	100%	1,565
Other commitments where original maturity is more than one year	337,182	50%	168,591	81%	137,391
Other commitments where original maturity is less than or equal to one year	1,077	20%	215	90%	194
Counterparty credit risk¹					
Interest rate contracts	1,655,003	N/A	7,205	31%	2,264
Credit valuation adjustment	-	-	-	-	2,297
Total off balance sheet exposures	1,996,392		177,576		143,711

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

Note 22 - Credit risk exposure of the Banking Group's Financial statements has further details for Business Finance Guarantee and North Island Weather Events Loan Guarantee Schemes that HBL entered into.

Qualifying Central Counterparty (QCCP) exposures

	Trade exposure or collateral amount \$000's	Average Risk Weight %	Risk Weighted Exposure \$000's
June 2024			
Bank as QCCP clearing member, clearing own trades	-	-	-
Collateral posted for clearing own trades	-	-	-
Bank as client of QCCP member, clearing trades through that member	-	-	-
Collateral posted for clearing via member bank	500	2%	10
Total QCCP exposures	500	2%	10

c) Additional mortgage information - LVR range

\$000's	On Balance Sheet Exposures	Off Balance Sheet Exposures ²	Total Exposure
June 2024			
Does not exceed 80%	1,406,885	103,260	1,510,145
Exceeds 80% and not 90%	-	-	-
Exceeds 90%	866	-	866
Total exposures	1,407,751	103,260	1,511,011

²Off balance sheet exposures means unutilised limits.

New Zealand Banking Group disclosures - unaudited (continued)

2. Capital adequacy and regulatory liquidity ratios (continued) – unaudited

c) Additional mortgage information - LVR range (continued)

On 30 June 2024, there were no Welcome Home loans whose credit risk is mitigated by the Crown included in “Exceeds 90% residential mortgages”. 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%.

d) Reconciliation of mortgage related amounts

	June 2024
Gross finance receivables reverse mortgage	1,068,154
Loans and advances - loans with residential mortgages	326,006
Loans and advances – corporate lending secured on residential mortgage	13,759
On balance sheet residential mortgage exposure subject to the standardised approach	1,407,919
Less: collective provision for impairment	(168)
On balance sheet residential mortgage exposure after collective provision	1,407,751
Off balance sheet residential mortgage exposure subject to the standardised approach	103,260
Total residential exposures subject to the standardised approach	1,511,011

e) Credit risk mitigation

As at 30 June 2024, the NZ Banking Group had \$1.0 million of Welcome Home Loans (2023: \$1.3 million), \$25.3 million of BFGS loans (2023: \$41.0 million) and NIWE loans of \$30.9 million (2023: nil) whose credit risk is mitigated by the Crown.

The NZ Banking Group also has eligible collateral paid from its correspondent banks in relation to derivatives it holds on its balance sheet, however no benefit has been attributed to the risk weighted assets held against these exposures.

f) Operational risk

\$000's	Implied Risk Weighted Exposure	Total Operational Risk Capital Requirement
June 2024		
Operational risk	328,257	26,261

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

g) Market risk

Market risk is the risk that market interest rates or foreign exchange rates will change and impact on the NZ Banking Group's earnings due to either mismatches between repricing dates of interest-bearing assets and liabilities and/or differences between customer pricing and wholesale rates.

\$000's	Implied Risk Weighted Exposure	Aggregate Capital Charge
June 2024		
Market risk		
Equity risk	841	67
Interest rate risk	165,486	13,239
Foreign currency risk	5,364	429
Market risk peak end-of-day capital charge		
Equity risk	1,859	149
Interest rate risk	207,688	16,615
Foreign currency risk	41,118	3,289

New Zealand Banking Group disclosures - unaudited (continued)

2. Capital adequacy and regulatory liquidity ratios (continued) - unaudited

g) Market risk (continued)

NZ 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 daily market exposure over the six months ended 30 June 2024. Interest rate, foreign exchange, and equity risks are calculated daily using a combination of static monthly and daily data sets. NZ Banking Group continues to investigate methods that improve the accuracy of daily aggregate market risk exposure. Certain identified system limitations are expected to be addressed by replacing the existing application used for market risk calculations to obtain more accurate daily peak period exposures.

h) Total capital requirement

\$000's	Total Exposure After Credit Risk Mitigation	Risk Weighted Exposure or Implied Risk Weighted Exposure	Total Capital Requirement
June 2024			
Total credit risk + equity	8,272,098	4,472,651	447,265
Operational risk	N/A	328,257	32,826
Market risk	N/A	171,691	17,169
Total	8,272,098	4,972,599	497,260

Total capital requirement in the above table includes a 2% overlay imposed by the RBNZ.

i) Capital for other material risks

As of 30 June 2024, the NZ Banking Group has identified no material risks requiring additional capital allocation. In June 2023, \$20 million was held to cover additional operational and strategic risks.

j) Capital ratio

%	June 2024	June 2023
Capital ratios compared to minimum ratio requirements		
Common Equity Tier 1 Capital ratio	12.39%	12.68%
Minimum Common Equity Tier 1 Capital as per Conditions of Registration	6.50%	4.50%
Tier 1 Capital ratio	12.39%	12.68%
Minimum Tier 1 Capital as per Conditions of Registration	8.00%	6.00%
Total Capital ratio	14.40%	14.71%
Minimum Total Capital as per Conditions of Registration	10.00%	8.00%
Prudential capital buffer ratio		
Prudential capital buffer ratio	4.39%	6.68%
Buffer trigger ratio	2.50%	2.50%

New Zealand Banking Group disclosures - unaudited (continued)

2. Capital adequacy and regulatory liquidity ratios (continued) – unaudited

k) Regulatory liquidity ratios - unaudited

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

RBNZ requires banks to get a minimum amount of funding from stable sources called core funding. The minimum amount of core funding is 75% of a bank's total loans. The NZ 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. Refer to section 11B of the Conditions of Registration for further details.

	Average for 3 Months Ended 30 June 2024	Average for 3 Months Ended 31 March 2024
One-week mismatch ratio	6.86	7.59
One-month mismatch ratio	6.39	6.55
Core funding ratio	93.09	90.31

3. Credit exposures to connected persons

The NZ Banking Group's methodology for calculating credit exposure concentrations is on the basis of actual credit exposures and calculated on a gross basis (net of individual credit impairment allowances and excluding advances of a capital nature) in accordance with the Bank's conditions of registration and the Reserve Bank's Connected Exposures Policy (BS8). Peak end-of-day credit exposures to non-bank connected persons are calculated using The NZ Banking Group's Tier 1 capital at the end of the reporting period.

In accordance with the section 4C of the Conditions of Registration, the NZ Banking Group's aggregate credit exposures to all connected persons must not exceed 25% of NZ Banking Group's Tier 1 capital. Exposures to connected persons are not on more favourable terms than corresponding exposures to non-connected persons.

	As at June 2024	Peak End-of-Day for Year Ended June 2024
Credit exposures to connected persons (\$000's)	1,970	3,980
As a percentage of Tier 1 capital of The NZ Banking Group at end of the year (%)	0.32%	0.65%
Credit exposures to non-bank connected persons (\$000's)	1,970	3,980
As a percentage of Tier 1 capital of The NZ Banking Group at end of the year (%)	0.32%	0.65%

As at 30 June 2024, the NZ Banking Group had no aggregate contingent exposures to connected persons arising from unfunded contingent credit protection arrangements provided by any connected persons. The aggregate amount of the NZ Banking Group's loss allowance for credit exposures to connected persons that are credit-impaired was nil at 30 June 2024.

Credit exposure to individual counterparties

The NZ 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 NZ Banking Group's common equity tier one capital as at 30 June 2024.

New Zealand Banking Group disclosures - unaudited (continued)

3. Credit exposure to connected persons (continued)

Credit exposure to individual counterparties (continued)

	Number of Exposure As at June 2024	Number of Exposure Peak End-of-Day over 6 Months to June 2024
Exposure to banks		
With a long term credit rating of A- or A3 or above, or its equivalent:		
10% to less than 15% of CET1 capital	-	-
15% to less than 20% of CET1 capital	-	1
20% to less than 25% of CET1 capital	-	-
25% to less than 30% of CET1 capital	-	-
30% to less than 35% 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:		
	-	-
Exposure 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

Related party transactions and balances

Transactions with related parties

The NZ 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 NZ Banking Group entities on normal commercial terms as with other customers. There is no lending from the NZ Banking Group to HGH.

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Amendments to Conditions of Registration

Changes in Conditions of Registration

No changes were made to Heartland Bank’s (**Heartland**) Conditions of Registration from 1 June 2023 to 30 September 2023.

From 1 October 2023, conditions of registration were updated as follows:

- The Banking Prudential Requirements (**BPR**) were updated post consultation and review by the RBNZ. HBL’s COR was updated to refer to the updated requirements.
- That HBL must comply with the revised BS8 Connected Exposures document dated October 2023 except for paragraphs A.3(1) to A.3(12) which do not take effect until 1 April 2024.
- Clarified that the Banking Group must always exceed the rating-contingent limit to all connected persons at the end of each working day at all times.
- That full year disclosure statements are prepared on the basis that clause 6(2)(b), Schedule 14 of the “Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order 2014”, does not apply.

From 1 April 2024, further changes were made regarding Connected Exposures directing Heartland to comply with all requirements set out in BS8 Connected Exposures dated 1 October 2023, removing the previous exemptions.

As a result of the completion of the Challenger Bank acquisition, substantial changes were made to Heartland’s Conditions of Registration with effect on and from 30 April 2024.

In summary:

Condition	Change Summary
1	<p>Total capital ratio requirements specific to the Banking Group have been changed.</p> <p>Capital requirements for the banking group changes are as under:</p> <ul style="list-style-type: none"> a) the Total capital ratio of the banking group is not less than 10%, as against 8%; b) the Tier 1 capital ratio of the banking group is not less than 8%, as against 6%; c) the Common Equity Tier 1 capital ratio of the banking group is not less than 6.5%, as against 4.5%. <p>The total capital floor of \$30m for the banking group is removed.</p> <p>Additional requirements when calculating the “total RWA equivalents” in Subpart B2 of BPR100: Capital Adequacy specified in condition 1BAA.</p>
1AA.	<p>Capital requirements for the New Zealand banking group are added. Capital requirements for the New Zealand banking group are as under:</p> <ul style="list-style-type: none"> a) the Total capital ratio of the New Zealand banking group is not less than 10%; b) the Tier 1 capital ratio of the New Zealand banking group is not less than 8%; c) the Common Equity Tier 1 capital ratio of the New Zealand banking group is not less than 6.5%. d) the Total Capital of New Zealand banking group is not less than \$30 million.
1B	<p>Changes to the Prudential Capital Buffer (PCB) requirements to include both the banking group and New Zealand banking group as 2.5% or less.</p> <p>Limit on the aggregate distribution of bank’s earnings is now based on the lesser of banking group PCB ratio and the New Zealand banking group PCB ratio.</p>

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Changes in Conditions of Registration (continued)

1BAA	<p>The calculation of “total RWA equivalents” for the banking group are added. This includes for all items which fall within the scope of section A1.3 of BPR130: Credit Risk RWAs Overview and which are exposures of the Authorised deposit-taking institution (ADI) or a subsidiary of the ADI, the risk-weighted assets for credit risk are to be calculated using the methodology set out by the Australian Prudential Regulation Authority (APRA), specifically APS 112 Capital Adequacy: Standardised Approach to Credit Risk and APS 180 Capital Adequacy: Counterparty Credit Risk.</p> <p>“the ADI” means the Authorised Deposit-taking Institution Challenger Bank Limited (ACN 106 842 371).</p>
4	Condition 4 is changed to include all the requirements specified in BS8 Connected Exposure 1 October 2023.
4C	New condition is added to limit the aggregate credit exposures of the New Zealand banking group to all connected persons. It must not exceed 25% of the New Zealand banking group’s Tier 1 capital.
5A	New condition is added regarding Connected Exposures, that exposures of the New Zealand banking group to connected persons are not on more favourable terms (e.g. as relates to such matters as credit assessment, tenor, interest rates, amortisation schedules and requirement for collateral) than corresponding exposures to non-connected persons.
7A and 8A	Additional requirements for the RBNZ non-objection process to be completed on the appointment of any director, chief executive officer, executive who reports or is accountable directly to the chief executive officer or chairperson of the board of the parent company of the bank.
10 and 10A	Specified expectations regarding the proportion of the bank’s business (75%) and the banking group’s business (50%), to be conducted in New Zealand.
11	Additional requirements when calculating the mismatch and core funding ratios for the banking group specified in condition 11A noting these are to come into force six months after the date of completion of the acquisition transaction, being on and from 30 October 2024.
11A	Variation to the calculation methodology specified in BS13 and BS13A when calculating the one-week mismatch ratio, one-month mismatch ratio and core funding ratio.
11B	<p>Liquidity requirements for the New Zealand banking group are added, as under:</p> <ul style="list-style-type: none"> (a) the one-week mismatch ratio of the New Zealand banking group is not less than zero per cent at the end of each business day; (b) the one-month mismatch ratio of the New Zealand banking group is not less than zero per cent at the end of each business day; and (c) the one-year core funding ratio of the New Zealand banking group is not less than 75 per cent at the end of each business day.
12	Expansion of the requirement for an internal framework for liquidity risk management from the “bank” to include both the banking group and New Zealand banking group.

Changes in Conditions of Registration (continued)

22	<p>Additional requirement that the parent company, Heartland Group Holdings Limited does not carry out any business other than the business of ownership or control of subsidiaries that operate the banking business unless it obtains prior written non-objection from the Reserve Bank.</p> <p>Additionally, the parent company does not:</p> <ul style="list-style-type: none"> (i) itself issue deposit liabilities; (ii) trade in financial instruments (other than for hedging for the purposes of carrying on the activities specified in conditions 22(b)(ii) to (vi)); (iii) provide security over investments in its subsidiaries unless it obtains prior written non-objection from the Reserve Bank; (iv) provide guarantees of the obligations of its subsidiaries unless it obtains prior written non-objection from the Reserve Bank except the existing guarantees; (v) conduct any other business that is not in connection with the activities specified in condition 22(b); (vi) carry out activities that relate to undertaking a corporate centre role including banking group financial control, banking group treasury activities, banking group risk management, banking group settlements, banking group human resources, banking group financial reporting, banking group taxation and other banking group services such as company secretarial services; and (vii) carry out any activity that the Reserve Bank determines it may give rise to a prudential risk if retained by the parent company.
23	<p>A new requirement that the business and affairs of the banking group are managed by, or under the direction or supervision of, the board of the bank.</p>
24-27	<p>New conditions including:</p> <ul style="list-style-type: none"> (i) the employment agreement of the Chief Executive Officer (CEO) of the bank or person in an equivalent position is with the bank, and the terms and conditions of the CEO's employment agreement are determined by, and any decisions relating to the employment or termination of employment of the CEO are made by, the board of the bank. (ii) all staff employed by the bank have their remuneration determined by (or under the delegated authority of) the board or the CEO of the bank and are accountable (directly or indirectly) to the CEO of the bank. (iii) Heartland Bank Australia complies with the requirements imposed on it by the Australian Prudential Regulation Authority. (iv) the total amount of the banking group's assets transferred or committed to be transferred to special purpose vehicles in securitisation structures is less than 20% of the banking group's total assets.

As at 30 June 2024, there have been no other changes to the Conditions of Registration.

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Conditions of Registration

For Heartland Bank Limited

These conditions apply on and after 30 April 2024.

The registration of Heartland Bank Limited (“the bank”) as a registered bank is subject to the following conditions:

1. That—
 - (a) the Total capital ratio of the banking group is not less than 10%;
 - (b) the Tier 1 capital ratio of the banking group is not less than 8%;
 - (c) the Common Equity Tier 1 capital ratio of the banking group is not less than 6.5%.

For the purposes of this condition of registration, —

“Total capital ratio”, “Tier 1 capital ratio”, and “Common Equity Tier 1 capital ratio” have the same meaning as in Subpart B2 of BPR100: Capital Adequacy, subject to the additional requirements on the calculation methodology specified in condition 1BAA.

- 1AA. That—

- (a) the Total capital ratio of the New Zealand banking group is not less than 10%;
- (b) the Tier 1 capital ratio of the New Zealand banking group is not less than 8%;
- (c) the Common Equity Tier 1 capital ratio of the New Zealand banking group is not less than 6.5%;
- (d) the Total capital of the New Zealand banking group is not less than \$30 million.

For the purposes of this condition of registration, —

“Total capital ratio”, “Tier 1 capital ratio”, and “Common Equity Tier 1 capital ratio” have the same meaning as in Subpart B2 of BPR100: Capital Adequacy when the calculation methodology is applied with all references to “banking group” replaced by references to “New Zealand banking group”;

“Total capital” has the same meaning as in BPR110: Capital Definitions when the capital adequacy calculation methodology in BPR100: Capital Adequacy is applied with all references to “banking group” replaced by references to “New Zealand banking group”.

- 1A. That—

- (a) the bank has an internal capital adequacy assessment process (“ICAAP”) that accords with the requirements set out in Part D of BPR100: Capital Adequacy;
- (b) under its ICAAP the bank identifies and measures its “other material risks” defined in Part D of BPR100: Capital Adequacy; and
- (c) the bank determines an internal capital allocation for each identified and measured “other material risk”.

- 1B. That, if the Prudential Capital Buffer (PCB) ratio of the banking group is 2.5% or less or the Prudential Capital Buffer (PCB) ratio of the New Zealand banking group is 2.5% or less, the bank must—

- (a) according to the following table, limit the aggregate distributions of the bank’s earnings, other than discretionary payments payable to holders of Additional Tier 1 capital instruments, to the percentage limit on distributions that corresponds to the banking group’s PCB ratio; and

Lesser of banking group PCB ratio and New Zealand banking group PCB ratio	Percentage limit on distributions of the bank’s earnings	Capital Buffer Response Framework stage
0% – 0.5%	0%	Stage 3
>0.5 – 1%	30%	Stage 2
>1 – 2%	60%	Stage 1
>2 – 2.5%	100%	None

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Conditions of Registration (continued)

- (b) comply with the Capital Buffer Response Framework requirements as set out in Part D of BPR120: Capital Adequacy Process Requirements.

For the purposes of this condition of registration, —

“prudential capital buffer ratio of the banking group” has the same meaning as “prudential capital buffer ratio” in Subpart B2 of BPR100: Capital Adequacy, subject to the additional requirements on the calculation methodology specified in condition 1BAA;

“prudential capital buffer ratio of the New Zealand banking group” has the same meaning as “prudential capital buffer ratio” in Subpart B2 of BPR100: Capital Adequacy, when the capital adequacy calculation methodology in BPR100: Capital Adequacy is applied with all references to “banking group” replaced by references to “New Zealand banking group”;

“distributions”, and “earnings” have the same meaning as in Subpart B2 of BPR100: Capital Adequacy;

an Additional Tier 1 capital instrument is an instrument that meets the requirements of B2.2(2)(a), (c) or (d) of BPR110: Capital Definitions.

1BAA. When calculating the “total RWA equivalents” in Subpart B2 of BPR100: Capital Adequacy as part of the formula for those ratios in conditions 1 (Total capital ratio, Tier 1 capital ratio, and Common Equity Tier 1 capital ratio) and 1B (Prudential Capital Buffer Ratio), the bank must do the following—

- (a) as per A1.2 of BPR130: Credit Risk RWAs Overview, calculate the total RWAs for credit risk (“total credit risk RWAs”) in the manner specified in section A1.3 of BPR130: Credit Risk RWAs Overview; and
- (b) for all items which fall within the scope of section A1.3 of BPR130: Credit Risk RWAs Overview and which are exposures of the ADI or a subsidiary of the ADI, calculate risk-weighted assets for credit risk using the methodology set out in the following documents issued by APRA,—
- (i) APS 112 Capital Adequacy: Standardised Approach to Credit Risk; and
 - (ii) APS 180 Capital Adequacy: Counterparty Credit Risk; and
- (c) as per A2.1 of BPR140: Market Risk, calculate the aggregate capital charge for currency risk in the manner specified in Part C of BPR140: Market Risk; and
- (d) when calculating the aggregate capital charge for currency risk as part of the total capital charge for market risk in accordance with BPR140: Market Risk, treat the excess (if any) of AUD-denominated assets of the ADI over AUD denominated liabilities of the ADI as an AUD structural foreign currency position in terms of section C1.2(1)(c) of BPR140: Market Risk.

For the purposes of this condition of registration, —

“the ADI” means the Authorised Deposit-taking Institution Challenger Bank Limited (ACN 106 842 371);

“APRA” means the Australian Prudential Regulation Authority;

“APS 112 Capital Adequacy: Standardised Approach to Credit Risk” means the Prudential Standard issued by APRA as amended or replaced from time to time;

“APS 118 Capital Adequacy: Counterparty Credit Risk” means the Prudential Standard issued by APRA as amended or replaced from time to time; and “AUD” means Australian Dollars.

1BA. That the bank must not make any distribution on a transitional AT1 capital instrument on or after the date on which on any conversion or write-off provision in the terms and conditions of the instrument is triggered due to either a loss absorption trigger event or a non-viability trigger event.

For the purposes of this condition of registration, “transitional AT1 capital instrument” has the meaning given in section A2.3 of BPR110: Capital Definitions and “loss absorption trigger event” and “non-viability trigger event” have the meanings given in sub-section C2.2(3) of BPR120: Capital Adequacy Requirements.

Conditions of Registration (continued)

1C. That:

- (a) the bank must not include the amount of an Additional Tier 1 capital instrument or Tier 2 capital instrument issued on or after 1 July 2021 in the calculation of its capital ratios unless it has completed the notification requirements in Part B of BPR120: Capital Adequacy Process Requirements in respect of the instrument; and
- (b) the bank meets the requirements of Part C of BPR120: Capital Adequacy Process Requirements in respect of regulatory capital instruments.

For the purposes of this condition of registration, —

an Additional Tier 1 capital instrument is an instrument that meets the requirements of subsection B2.2(2)(a) or (c) of BPR110: Capital Definitions;

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

2. That the banking group does not conduct any non-financial activities that in aggregate are material relative to its total activities.

In this condition of registration, the meaning of “material” is based on generally accepted accounting practice.

3. That the banking group’s insurance business is not greater than 1% of its total consolidated assets.

For the purposes of this condition of registration, the banking group’s insurance business is the sum of the following amounts for entities in the banking group:

- (a) if the business of an entity predominantly consists of insurance business and the entity is not a subsidiary of another entity in the banking group whose business predominantly consists of insurance business, the amount of the insurance business to sum is the total consolidated assets of the group headed by the entity; and
- (b) if the entity conducts insurance business and its business does not predominantly consist of insurance business and the entity is not a subsidiary of another entity in the banking group whose business predominantly consists of insurance business, the amount of the insurance business to sum is the total liabilities relating to the entity’s insurance business plus the equity retained by the entity to meet the solvency or financial soundness needs of its insurance business.

In determining the total amount of the banking group’s insurance business—

- (a) all amounts must relate to on balance sheet items only, and must comply with generally accepted accounting practice; and
- (b) if products or assets of which an insurance business is comprised also contain a non-insurance component, the whole of such products or assets must be considered part of the insurance business.

For the purposes of this condition of registration,—

“insurance business” means the undertaking or assumption of liability as an insurer under a contract of insurance:

“insurer” and “contract of insurance” have the same meaning as provided in sections 6 and 7 of the Insurance (Prudential Supervision) Act 2010.

4. The bank must comply with all the requirements set out in the following document:
BS8 Connected Exposures 1 October 2023.

- 4A. That full year disclosure statements are prepared on the basis that clause 6(2)(b), Schedule 14 of the Order does not apply.

Conditions of Registration (continued)

For the purposes of this condition of registration, “Order” means the Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order 2014, and “disclosure statement” means a disclosure statement to be prepared under the Order.

- 4C. That the aggregate credit exposures of the New Zealand banking group to all connected persons must not exceed 25% of the New Zealand banking group’s Tier 1 capital.

For the purposes of this condition of registration, —

“aggregate credit exposures” has the same meaning as in Part C of the Reserve Bank of New Zealand document entitled “Connected exposure policy” (BS8) dated October 2023, with “a banking group” in paragraph C.5(1) taken to refer to the New Zealand banking group.

“connected person” has the same meaning as in Subpart A.3 of the Reserve Bank of New Zealand document entitled “Connected exposure policy” (BS8) dated October 2023, but with the reference to “banking group” in paragraph A.3(3) replaced with a reference to “New Zealand banking group”.

“Tier 1 capital” has the same meaning as in BPR110: Capital Definitions when the capital adequacy calculation methodology in BPR100: Capital Adequacy is applied with all references to “banking group” replaced with references to “New Zealand banking group”.

5. That exposures to connected persons are not on more favourable terms (e.g. as relates to such matters as credit assessment, tenor, interest rates, amortisation schedules and requirement for collateral) than corresponding exposures to non-connected persons.
- 5A. That exposures of the New Zealand banking group to connected persons are not on more favourable terms (e.g. as relates to such matters as credit assessment, tenor, interest rates, amortisation schedules and requirement for collateral) than corresponding exposures to non-connected persons.

For the purposes of this condition of registration, “connected person” has the same meaning as in Subpart A.3 of the Reserve Bank of New Zealand document entitled “Connected exposure policy” (BS8) dated October 2023, but with the reference to “banking group” in paragraph A.3(3) replaced with a reference to “New Zealand banking group”.

6. That the bank complies with the following corporate governance requirements:
- (a) the board of the bank must have at least five directors;
 - (b) the majority of the board members must be non-executive directors;
 - (c) at least half of the board members must be independent directors;
 - (d) an alternate director, —
 - (i) for a non-executive director must be non-executive; and
 - (ii) for an independent director must be independent;
 - (e) at least half of the independent directors of the bank must be ordinarily resident in New Zealand;
 - (f) the chairperson of the board of the bank must be independent; and
 - (g) the bank’s constitution must not include any provision permitting a director, when exercising powers or performing duties as a director, to act other than in what he or she believes is the best interests of the company (i.e. the bank).

For the purposes of this condition of registration, —

“independent,”—

- (a) in relation to a person other than a person to whom paragraph (b) applies, has the same meaning as in the Reserve Bank of New Zealand document entitled “Corporate Governance” (BS14) dated July 2014; and
- (b) in relation to a person who is the chairperson of the board of the bank, means a person who—
 - (i) meets the criteria for independence set out in section 10 except for those in paragraph 10(1)(a) in BS14; and
 - (ii) does not raise any grounds of concern in relation to the person’s independence that are communicated in writing to the bank by the Reserve Bank of New Zealand:

“non-executive” has the same meaning as in the Reserve Bank of New Zealand document entitled “Corporate Governance” (BS14) dated July 2014.

Conditions of Registration (continued)

7. That no appointment of any director, chief executive officer, or executive who reports or is accountable directly to the chief executive officer, is made in respect of the bank unless:
- (a) the Reserve Bank has been supplied with a copy of the curriculum vitae of the proposed appointee; and
 - (b) the Reserve Bank has advised that it has no objection to that appointment.
- 7A. That no appointment of any director, chief executive officer, or executive who reports or is accountable directly to the chief executive officer, is made in respect of the parent company of the bank unless:
- (a) the Reserve Bank has been supplied with a copy of the curriculum vitae of the proposed appointee; and
 - (b) the Reserve Bank has advised that it has no objection to that appointment.
8. That a person must not be appointed as chairperson of the board of the bank unless:
- (a) the Reserve Bank has been supplied with a copy of the curriculum vitae of the proposed appointee; and
 - (b) the Reserve Bank has advised that it has no objection to that appointment.
- 8A. That a person must not be appointed as chairperson of the board of the parent company of the bank unless:
- (a) the Reserve Bank has been supplied with a copy of the curriculum vitae of the proposed appointee; and
 - (b) the Reserve Bank has advised that it has no objection to that appointment.
9. That the bank has a board audit committee, or other separate board committee covering audit matters, that meets the following requirements:
- (a) the mandate of the committee must include: ensuring the integrity of the bank's financial controls, reporting systems and internal audit standards;
 - (b) the committee must have at least three members;
 - (c) every member of the committee must be a non-executive director of the bank;
 - (d) the majority of the members of the committee must be independent; and
 - (e) the chairperson of the committee must be independent and must not be the chairperson of the bank.

For the purposes of this condition of registration, "independent" and "non-executive" have the same meanings as in condition of registration 6.

10. That more than 75% of the bank's business is conducted in and from New Zealand.
- 10A. That more than 50% of the banking group's business is conducted in and from New Zealand.
11. That—
- (a) the one-week mismatch ratio of the banking group is not less than zero per cent at the end of each business day;
 - (b) the one-month mismatch ratio of the banking group is not less than zero per cent at the end of each business day; and
 - (c) the one-year core funding ratio of the banking group is not less than 75 per cent at the end of each business day.

For the purposes of this condition of registration, the ratios identified must be calculated in accordance with the Reserve Bank of New Zealand documents entitled "Liquidity Policy" (BS13) dated July 2022 and "Liquidity Policy Annex: Liquid Assets" (BS13A) dated July 2022, subject to the additional requirements on the calculation methodology specified in condition 11A.

This condition comes into force six months after the date of completion of the acquisition transaction.

For the purpose of this condition of registration, the "acquisition transaction" means the bank's acquisition of Challenger Bank Limited and the transfer of Heartland Australia and its subsidiaries to sit under Challenger Bank as per the bank's BS15 application dated 17 October 2023.

Conditions of Registration (continued)

11A When calculating the one-week mismatch ratio, one-month mismatch ratio and core funding ratio for the purpose of condition 11, the bank must vary the calculation methodology specified in BS13 and BS13A as follows—

- (a) an asset denominated in Australian dollars and owned by the ADI or a subsidiary of the ADI qualifies as a primary or secondary liquid asset if—
- it meets the conditions for liquid assets specified in Attachment B “Minimum liquidity holdings approach” of APS 210 Liquidity; and
 - the bank includes it in the ratio calculations using the primary/ secondary classification and cover factors (“haircuts”) set out in BS13A according to the following correspondence table:

Category in APS210 Attachment B	Primary or secondary	BS13A category for determining haircuts
2(a) notes and coins and settlement funds	Primary	Nil haircut
2(b) Commonwealth Government	Primary	New Zealand government securities
2(b) semi-government securities	Primary	Local authority securities
2(c) debt securities guaranteed by the Australian Government, or foreign sovereign governments	Secondary	Securities guaranteed by the New Zealand government
2(d) debt securities issued by supranationals and foreign governments	Primary	“Kauri” securities
2(e) bank bills, certificates of deposits (CDs) and debt securities issued by ADIs	Secondary	Registered bank securities
2(f) deposits (at call and any other deposits readily convertible into cash within two business days) held with other ADIs net of placements by other ADIs.	Primary	Nil haircut

- (b) the eligibility limit on total RCDs specified in paragraph 12(b) of BS13A applies such that the maximum value of bank bills, certificates of deposit, and RCDs held by the banking group, after applying the haircuts, that is eligible to be included in secondary liquid assets is 2% of the banking group’s total assets;
- (c) in respect of non-market funding provided by a person or group of connected persons to the banking group that is treated as a single deposit for the purpose of the policy and is denominated exclusively in Australian dollars, the definitions of the size bands set out in Table 3 in BS13 must be read as referring to Australian dollars rather than New Zealand dollars;
- (d) references in BS13 to “dollar amounts” are to New Zealand dollar amounts, and conversion from other currencies as needed to calculate New Zealand dollar aggregates must be carried out at the end-of-day exchange rates used by the bank in New Zealand; and
- (e) references in the BS13 definitions to cash flows due in or out at close of business must be taken to refer to the business day relevant to the transaction, namely the New Zealand or Australian business day as appropriate.

This condition comes into force six months after the date of completion of the acquisition transaction.

For the purposes of this condition of registration,—

“the acquisition transaction” means the bank’s acquisition of Challenger Bank Limited and the transfer of Heartland Australia and its subsidiaries to sit under Challenger Bank as per the bank’s BS15 application dated 17 October 2023.

“the ADI” means the Authorised Deposit-taking Institution Heartland Bank Australia;

“APRA” means the Australian Prudential Regulation Authority; “APS 210 Liquidity” means the Prudential Standard issued by APRA as amended or replaced from time to time;

Conditions of Registration (continued)

11B. That—

- (a) the one-week mismatch ratio of the New Zealand banking group is not less than zero per cent at the end of each business day;
- (b) the one-month mismatch ratio of the New Zealand banking group is not less than zero per cent at the end of each business day; and
- (c) the one-year core funding ratio of the New Zealand banking group is not less than 75 per cent at the end of each business day.

For the purposes of this condition of registration, the ratios identified must be calculated in accordance with the Reserve Bank of New Zealand documents entitled “Liquidity Policy” (BS13) dated July 2022 and “Liquidity Policy Annex: Liquid Assets” (BS13A) dated July 2022.

12. That the bank has an internal framework for liquidity risk management that is adequate in the bank’s view for managing the banking group’s liquidity risk and the New Zealand banking group’s liquidity risk at a prudent level, and that, in particular:

- (a) is clearly documented and communicated to all those in the organisation with responsibility for managing liquidity and liquidity risk;
- (b) identifies responsibility for approval, oversight and implementation of the framework and policies for liquidity risk management;
- (c) identifies the principal methods that the bank will use for measuring, monitoring and controlling liquidity risk; and
- (d) considers the material sources of stress that the banking group and the New Zealand banking group might face, and prepares the bank to manage stress through a contingency funding plan.

13. That no more than 10% of total assets may be beneficially owned by a SPV.

For the purposes of this condition, —

“total assets” means all assets of the banking group plus any assets held by any SPV that are not included in the banking group’s assets:

“SPV” means a person—

- (a) to whom any member of the banking group has sold, assigned, or otherwise transferred any asset;
- (b) who has granted, or may grant, a security interest in its assets for the benefit of any holder of any covered bond; and
- (c) who carries on no other business except for that necessary or incidental to guarantee the obligations of any member of the banking group under a covered bond:

—
“covered bond” means a debt security issued by any member of the banking group, for which repayment to holders is guaranteed by a SPV, and investors retain an unsecured claim on the issuer.

14. That—

- (a) no member of the banking group may give effect to a qualifying acquisition or business combination that meets the notification threshold, and does not meet the non-objection threshold, unless:
 - (i) the bank has notified the Reserve Bank in writing of the intended acquisition or business combination and at least 10 working days have passed; and
 - (ii) at the time of notifying the Reserve Bank of the intended acquisition or business combination, the bank provided the Reserve Bank with the information required under the Reserve Bank of New Zealand Banking Supervision Handbook document “Significant Acquisitions Policy” (BS15) dated December 2011; and
- (b) no member of the banking group may give effect to a qualifying acquisition or business combination that meets the non-objection threshold unless:
 - (i) the bank has notified the Reserve Bank in writing of the intended acquisition or business combination;
 - (ii) at the time of notifying the Reserve Bank of the intended acquisition or business combination, the bank provided the Reserve Bank with the information required under the Reserve Bank of New Zealand Banking Supervision Handbook document “Significant Acquisitions Policy” (BS15) dated December 2011; and

Conditions of Registration (continued)

- (iii) the Reserve Bank has given the bank a notice of non-objection to the significant acquisition or business combination.

For the purposes of this condition of registration, “qualifying acquisition or business combination”, “notification threshold” and “non-objection threshold” have the same meaning as in the Reserve Bank of New Zealand Banking Supervision Handbook document “Significant Acquisitions Policy” (BS15) dated December 2011.

15. That the bank is pre-positioned for Open Bank Resolution and in accordance with a direction from the Reserve Bank, the bank can—
- (a) close promptly at any time of the day and on any day of the week and that effective upon the appointment of the statutory manager—
 - (i) all liabilities are frozen in full; and
 - (ii) no further access by customers and counterparties to their accounts (deposits, liabilities or other obligations) is possible;
 - (b) apply a de minimis to relevant customer liability accounts;
 - (c) apply a partial freeze to the customer liability account balances;
 - (d) reopen by no later than 9am the next business day following the appointment of a statutory manager and provide customers access to their unfrozen funds;
 - (e) maintain a full freeze on liabilities not pre-positioned for open bank resolution; and
 - (f) reinstate customers’ access to some or all of their residual frozen funds.

For the purposes of this condition of registration, “de minimis”, “partial freeze”, “customer liability account”, and “frozen and unfrozen funds” have the same meaning as in the Reserve Bank of New Zealand document “Open Bank Resolution (OBR) Pre-positioning Requirements Policy” (BS17) dated June 2022.

16. That the bank has an Implementation Plan that—
- (a) is up-to-date; and
 - (b) demonstrates that the bank’s prepositioning for Open Bank Resolution meets the requirements set out in the Reserve Bank document: “Open Bank Resolution Pre-positioning Requirements Policy” (BS17) dated June 2022.

For the purposes of this condition of registration, “Implementation Plan” has the same meaning as in the Reserve Bank of New Zealand document “Open Bank Resolution (OBR) Pre-positioning Requirements Policy” (BS17) dated June 2022.

17. That the bank has a compendium of liabilities that—
- (a) at the product-class level lists all liabilities, indicating which are—
 - (i) pre-positioned for Open Bank Resolution; and
 - (ii) not pre-positioned for Open Bank Resolution;
 - (b) is agreed to by the Reserve Bank; and
 - (c) if the Reserve Bank’s agreement is conditional, meets the Reserve Bank’s conditions.

For the purposes of this condition of registration, “compendium of liabilities”, and “prepositioned and non pre positioned liabilities” have the same meaning as in the Reserve Bank of New Zealand document “Open Bank Resolution (OBR) Pre-positioning Requirements Policy” (BS17) dated June 2022.

18. That on an annual basis the bank tests all the component parts of its Open Bank Resolution solution that demonstrates the bank’s prepositioning for Open Bank Resolution as specified in the bank’s Implementation Plan.

For the purposes of this condition of registration, “Implementation Plan” has the same meaning as in the Reserve Bank of New Zealand document “Open Bank Resolution (OBR) Pre-positioning Requirements Policy” (BS17) dated June 2022.

Conditions of Registration (continued)

19. That, for a loan-to-valuation measurement period ending on or after 30 November 2023, the total of the bank's qualifying new mortgage lending amount in respect of property-investment residential mortgage loans with a loan-to-valuation ratio of more than 65%, must not exceed 5% of the total of the qualifying new mortgage lending amount in respect of property-investment residential mortgage loans arising in the loan-to-valuation measurement period.
20. That, for a loan-to-valuation measurement period ending on or after 30 November 2023, the total of the bank's qualifying new mortgage lending amount in respect of non property-investment residential mortgage loans with a loan-to-valuation ratio of more than 80%, must not exceed 15% of the total of the qualifying new mortgage lending amount in respect of non property-investment residential mortgage loans arising in the loan-to-valuation measurement period.
21. That the bank must not make a residential mortgage loan unless the terms and conditions of the loan contract or the terms and conditions for an associated mortgage require that a borrower obtain the registered bank's agreement before the borrower can grant to another person a charge over the residential property used as security for the loan.
22. That, subject to conditions 2 and 3–
 - (a) the parent company does not carry out any business other than the business of ownership or control of subsidiaries that operate banking business unless the Reserve Bank provides prior written non-objection. The business of ownership or control of subsidiaries that operate banking business is limited to:
 - (i) holding investments in subsidiaries;
 - (ii) holding properties used by Heartland group members;
 - (iii) raising funds to invest in, or to provide support to its subsidiaries;
 - (iv) raising funds to conduct activities permitted under these conditions;
 - (v) investing funds (i.e. surplus capital) on behalf of the Heartland group;
 - (vi) conducting the financial activities required for the purpose of carrying out activities permitted under these conditions;
 - (vii) providing strategic analysis and setting strategic direction and priorities for the Heartland group;
 - (viii) setting risk appetite for the Heartland group (acknowledging that subsidiaries within the Heartland group may set their own risk appetite within group risk tolerances);
 - (ix) monitoring and managing compliance of subsidiaries with Heartland group strategic and risk settings;
 - (x) providing corporate finance services to support the operation of the Heartland group;
 - (xi) providing analysis, design, marketing, and digital delivery services to support product initiatives within the Heartland group;
 - (xii) providing administration services to support the operation of the Heartland group); and
 - (xiii) activities that must be undertaken to enable the bank to meet its obligations under its conditions of registration, activities that the parent company is required to undertake under a statute, listing rule or requirement of any governmental agency or regulatory body;
 - (b) the parent company does not:
 - (i) itself issue deposit liabilities;
 - (ii) trade in financial instruments (other than for hedging for the purposes of carrying on the activities specified in conditions 22(b)(ii) to (vi));
 - (iii) provide security over investments in its subsidiaries without the prior written non-objection from the Reserve Bank;
 - (iv) provide guarantees of the obligations of its subsidiaries without the prior written non-objection from the Reserve Bank except the existing guarantees;
 - (v) conduct any other business that is not in connection with the activities specified in conditions 22(a)(i) to (xiii);
 - (vi) carry out activities that relate to undertaking a corporate centre role including banking group financial control, banking group treasury activities, banking group risk management, banking group settlements, banking group human resources, banking group financial reporting, banking group taxation and other banking group services such as company secretarial services; and
 - (vii) carry out any activity that the Reserve Bank determines it may give rise to a prudential risk if retained by the parent company;
 - (c) if the parent company carries out any business other than those permitted in writing, the Reserve Bank may make a recommendation to the Minister under section 77 of the Banking (Prudential Supervision) Act 1989 and the Minister may direct the Reserve Bank to cancel the bank's registration.

Conditions of Registration (continued)

In this condition of registration, –

“banking business” means:

- (a) the business consists of, or to a substantial extent consists of, the borrowing and lending of money, or the provision of other financial services, or both; and
- (b) any other business which the Reserve Bank considers as a type of banking business that would be carried out by a registered bank based on the determination criteria under the Banking (Prudential Supervision) Act 1989.

“existing guarantees” for the purpose of condition 22(c)(iv) means the guarantees that the parent company currently provides as at the date of completion of the acquisition transaction relating to the approximately AUD \$290 million of Medium-Term Notes and AUD \$20 million of bridge finance issued by Heartland Australia Group Pty Limited. “Heartland group” means the group of companies owned by Heartland Group Holdings Limited and it includes Heartland Group Holdings Limited itself.

23. That the business and affairs of the banking group are managed by, or under the direction or supervision of, the board of the bank.
24. That the employment agreement of the chief executive officer of the bank or person in an equivalent position (together “CEO”) is with the bank, and the terms and conditions of the CEO’s employment agreement are determined by, and any decisions relating to the employment or termination of employment of the CEO are made by, the board of the bank.
25. That all staff employed by the bank have their remuneration determined by (or under the delegated authority of) the board or the CEO of the bank and are accountable (directly or indirectly) to the CEO of the bank.
26. That Heartland Bank Australia complies with the requirements imposed on it by the Australian Prudential Regulation Authority.
27. That the total amount of the banking group’s assets transferred or committed to be transferred to special purpose vehicles in securitisation structures is less than 20% of the banking group’s total assets.

In these conditions of registration, –

“banking group” means Heartland Bank Limited (as reporting entity) and all other entities included in the group as defined in section 6(1) of the Financial Markets Conduct Act 2013 for the purposes of Part 7 of that Act.

“generally accepted accounting practice” has the same meaning as in section 8 of the Financial Reporting Act 2013.

“New Zealand banking group” means Heartland Bank Limited and all entities included in its banking group that are incorporated or otherwise established in New Zealand, but not including Marac Insurance Limited.

“parent company” means Heartland Group Holdings Limited (company number:6937955), the ultimate holding company of the bank duly incorporated and established in New Zealand.

In these conditions of registration, the version dates of the Reserve Bank of New Zealand Banking Prudential Requirement (BPR) documents that are referred to in the capital adequacy conditions 1 to 1C, or are referred to in turn by those documents or by Banking Supervision Handbook (BS) documents, are—

Conditions of Registration (continued)

BPR document	Version date
BPR100: Capital adequacy	1 October 2021
BPR110: Capital definitions	1 October 2023
BPR120: Capital adequacy process requirements	1 October 2023
BPR130: Credit risk RWAs overview	1 October 2023
BPR131: Standardised credit risk RWAs	1 April 2024
BPR132: Credit risk mitigation	1 October 2023
BPR133: IRB credit risk RWAs	1 October 2023
BPR134: IRB minimum system requirements	1 July 2021
BPR140: Market risk exposure	1 October 2021
BPR150: Standardised operational risk	1 July 2021
BPR151: AMA operational risk	1 July 2021
BPR160: Insurance, securitisation, and loan transfers	1 July 2021
BPR001: Glossary	1 October 2023

In conditions of registration 19 to 21,—

“loan-to-valuation ratio”, “non property-investment residential mortgage loan”,

“property-investment residential mortgage loan”, “qualifying new mortgage lending amount in respect of property investment residential mortgage loans”, “qualifying new mortgage lending amount in respect of non property-investment residential mortgage loans”, and “residential mortgage loan” have the same meaning as in the Reserve Bank of New Zealand document entitled “Framework for Restrictions on High-LVR Residential Mortgage Lending” (BS19) dated October 2021.

“loan-to-valuation measurement period” means a period of six calendar months ending on the last day of the sixth calendar month.

Conditions of Registration – Non Compliance

Conditions of Registration Non-Compliance

The Bank has not identified any material non-compliance with the conditions of registration since its last disclosure statement.

Credit Ratings

As at the date of signing this Disclosure Statement, the Bank's credit rating issued by Fitch Australia Pty Ltd (**Fitch Ratings**) was BBB stable. This BBB credit rating was issued on 14 October 2015 and is applicable to long term unsecured obligations payable in New Zealand, in New Zealand dollars. This BBB stable credit rating was affirmed by Fitch Ratings on 1 May 2024. Subsequently, Fitch Ratings assigned HBA a first-time Long-Term Issuer Default Rating (IDR) of BBB with a Stable Outlook on 16 May 2024.

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

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

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

Other Material Matters

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