NZX/ASX release
27 February 2024

Heartland announces 1H2024 financial results

Heartland Group Holdings Limited (**Heartland**) (**NZX/ASX: HGH**) has announced its financial results for the six-month period ended 31 December 2023 (**1H2024**).

- Net profit after tax (**NPAT**) of $37.6 million. Underlying[1] NPAT of $52.7 million. NPAT decreased by $11.1 million (22.7%) and, on an underlying basis, decreased by $2.0 million (3.6%) compared with the six-month period ended 31 December 2022 (**1H2023**).[2]
- One-off or non-cash technical items had a $15.1 million net[3] impact on NPAT.
- Gross finance receivables (**Receivables**)[4] up 4.2%[5].
- Continued strong growth in New Zealand Reverse Mortgages (up 18.7%)[5] and Australian Reverse Mortgages (up 20.0%)[5].
- Solid growth in Asset Finance (up 8.9%)[5] and Motor Finance (up 6.4%)[5].
- Underlying impairment expense ratio decreased by 6 basis points (**bps**) to 0.23% compared with 1H2023.[6]
- Significant progress towards Heartland's ambitions to become a bank in Australia through the acquisition of Challenger Bank Limited (**Challenger Bank**).[7]
- Completion of Heartland Bank Limited's (**Heartland Bank**) core banking system upgrade in 1H2024 enabling accelerated digitalisation and automation.

In December 2023, Heartland announced revised NPAT guidance for the financial year ending 30 June 2024 (**FY2024**) due to:

- the expected A$3.5 million one-off FY2024 impact on underlying NPAT arising from the anticipated acquisition of Challenger Bank, positioning Heartland for its next stage of growth
- short-term operational performance challenges - a slower than expected start to FY2024 for Motor Finance and Australian Livestock Finance, and higher cost of funds
- Heartland Bank's response to issues affecting a subset of legacy lending.

---

[1] Unaudited 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 fair value changes on equity investments held, the de-designation of derivatives, the Australian Bank Programme costs, increase in provisions for a subset of legacy lending, and any other impacts of one-offs. NPAT excluding only the impact of fair value changes on equity investments held, the de-designation of derivatives and the Australian Bank Programme costs was $41.2 million. This is intended to allow for easier comparability between periods and is used internally by management for this purpose. Refer to *Profitability* on page 5 for a summary of reported and underlying results. A detailed reconciliation between reported and underlying financial information, including details about 1H2024 one-offs, is set out on page 41 of the 1H2024 investor presentation (**IP**). General information about the use of non-GAAP financial measures is set out on page 4 and 36 of the 1H2024 IP.
[2] All comparative results are based on the unaudited half year consolidated financial statements of Heartland and its subsidiaries (the **Group**) for 1H2023.
[3] Includes tax impact on one-offs (as and where applicable).
[4] Receivables includes Reverse Mortgages.
[5] Annualised 1H2024 growth excluding the impact of changes in foreign currency exchange (**FX**) rates.
[6] Underlying impairment expense ratio refers to the impairment expense ratio calculated using underlying results. When calculated using reported results, the impairment expense ratio was 0.70%, up 41 bps compared with 1H2023. For more information, see page 4 of the 1H2024 IP.
[7] Subject to Reserve Bank of New Zealand (**RBNZ**) and Australian Prudential Regulation Authority (**APRA**) approval.

In what has been a mixed environment in which to operate, Heartland's 1H2024 result saw continued growth in most of its core lending portfolios[8], with good pipelines for further growth and to expand market share.

The acquisition of Challenger Bank is nearing completion with the regulatory approval process now in the final stages. When FY2024 guidance was provided, it excluded any costs related to the acquisition of Challenger Bank. As the acquisition nears completion, it was appropriate that guidance was updated to reflect the impact of Challenger Bank becoming part of Heartland. The impact to underlying NPAT for FY2024 is expected to be a net loss of A$3.5 million, reflecting underlying NPAT of Challenger Bank. This is expected to transition quickly to a profit-making position as material deposit raising occurs.

In preparation for completion, Challenger Bank is actively raising deposits. Recent success achieved by Challenger Bank in the Australian deposit market has exceeded Heartland's expectations. This will enable Heartland to optimise the advantage of a lower cost of funds post-acquisition completion. Heartland is confident of acquisition completion in the second half of FY2024 (**2H2024**).

The arrears experienced in a subset of longer dated Motor Finance loans are a result of operational issues in Heartland Bank's Collections & Recoveries area and do not reflect any underlying issues with the credit quality of the book. This is primarily a resourcing issue caused by illness, employee turnover due to overseas travel, and a focus on Heartland Bank's core banking system upgrade (which is now complete). This is being addressed through a specialised recruitment strategy and automation. Underlying impairments are otherwise performing as expected given the challenging economic conditions. Heartland's asset quality continues to shift towards loans with lower risk exposures.

Overall performance continues to demonstrate the resilience of Heartland's core lending portfolios and 'best or only' strategy. In particular, Australian Reverse Mortgages' market share increased to 41% as at 30 September 2023[9] and Motor Finance experienced growth of 6.4%[5] in a market where total new and used car sales in New Zealand were down by 12.2%[10]. In the long-term Heartland expects to continue its growth story. Organic growth is expected to improve in line with reduced inflation. Similarly, cost of funds and net interest margin (**NIM**) are expected to improve as interest rates ease.

One of Heartland's focuses in 1H2024 has been on continuing to position for future growth. Heartland has growth ambitions that will facilitate cost efficiency and return on equity (**ROE**) expansion. Specifically, Heartland's ambition is to achieve an underlying NPAT of $200 million and an underlying cost-to-income (**CTI**) ratio of less than 35% by the financial year ending 30 June 2028 (**FY2028**).

Heartland has various strategic initiatives underway to support the realisation of its FY2028 ambitions, including:

- expansion in Australia facilitated by the acquisition of Challenger Bank providing access to depositor funding and larger addressable markets
- increased digitalisation and automation to achieve frictionless service at a low cost
- continued growth across core lending portfolios.

---

[8] Heartland's core lending portfolios are Reverse Mortgages, Motor Finance, Asset Finance and Livestock Finance.
[9] Up from 36% at 30 September 2022. Based on APRA authorised deposit-taking institution (**ADI**) Property Exposure and Heartland Finance data as at 30 September 2022 and 30 September 2023. This does not include data from non-ADI providers of reverse mortgages.
[10] Based on data from Turners, dated December 2023 (data sourced from Waka Kotahi NZ Transport Agency).

Key financial metrics

	Reported			Underlying[11]		
	1H2024	1H2023	Movement	1H2024	1H2023	Movement
NOI[12] ($m)	143.1	141.7	1.4	145.6	149.6	(4.1)
Operating expenses (**OPEX**) ($m)	66.5	63.4	3.0	63.5	63.9	(0.4)
NPAT ($m)	37.6	48.7	(11.1)	52.7	54.7	(2.0)
NIM	3.67%	3.97%	(29 bps)	3.67%	4.02%	(34 bps)
CTI ratio	46.5%	44.8%	170 bps	43.7%	42.7%	93 bps
Impairment expense ratio	0.70%	0.29%	41 bps	0.23%	0.29%	(6 bps)
ROE	7.3%	10.6%	(329 bps)	10.2%	12.1%	(183 bps)
Earnings per share (**EPS**)	5.3 cps	7.3 cps	(2.0 cps)	7.4 cps	8.2 cps	(0.8 cps)

Strategic vision

Heartland's strategic vision is to create sustainable growth and differentiation by providing products which are the 'best or only' of their kind, through scalable digital platforms. In December 2023, Heartland Bank was proud to be recognised for its strategy in the Deloitte Top 200 Awards as a finalist in the Best Growth Strategy category.

Heartland's strategy is underpinned by three pillars:

1. Frictionless Service at the Lowest Cost – reflected in a superior underlying CTI ratio
2. Expansion in Australia
3. Business as Usual Growth (reported on in *Business performance* from page 8).

Frictionless Service at the Lowest Cost – CTI ratio

Heartland measures efficiency through the CTI ratio. Through careful cost management, Heartland's costs were flat on 1H2023 and underlying OPEX decreased $0.4 million (0.6%). However, as a result of NIM compression which is expected to be temporary (see page 6), Heartland's underlying CTI ratio increased by 93 bps on 1H2023 to 43.7%.[13] Heartland's underlying CTI ratio remains significantly lower than the average CTI ratio of New Zealand's main domestic banks, and much more comparable to the average CTI ratio of Australia's major banks.[14] This demonstrates that Heartland has achieved a similar operating leverage to the major Australian banks.

Heartland's ambition is to achieve an underlying CTI ratio of less than 35% by FY2028 through revenue growth, cost discipline, and ongoing automation and digitalisation initiatives. In doing so, Heartland intends to provide customers with frictionless service and enable scalable growth. Increasing customer self-service and improving process efficiencies are key to achieving this.

---

[11] See footnote 1.

[12] Net operating income (**NOI**) includes fair value gains/losses on investments.

[13] Underlying CTI ratio refers to the CTI ratio calculated using underlying results. When calculated using reported results, the CTI ratio was 46.5%, up 170 bps compared with 1H2023. See page 4 of the 1H2024 IP for more information about the use of the CTI ratio, a supplementary, non-GAAP measure.

[14] The average CTI ratio of New Zealand's main domestic non-major banks excluding Heartland (The Co-operative Bank, Kiwibank, SBS and TSB) was 70.7% for the 12 months to 30 September 2023 (data from the RBNZ Financial Strength Dashboard, valid as at 27 November 2023). The average CTI ratio of Australia's major banks (ANZ, CBA, NAB and Westpac) was 45.2% for their most recent respective annual reporting periods.

The upgrade of Heartland Bank's core banking system was completed in November 2023 and is an important enabler of increased levels of automation and digitalisation. Enhanced core system capability allows Heartland Bank to accelerate digital development and is expected to position Heartland Bank for greater scalability in the future.

Motor Finance digital platform enhancements continued through 1H2024, with Heartland Bank delivering four branded online origination platforms for dealer partners. This has progressed Heartland well towards delivering its stated goal of seven dealer origination platforms by the end of FY2024. Work on delivering a further four platforms is in progress. Through these online platforms, customers can purchase a vehicle conveniently from any device by selecting their vehicle, applying for finance, and receiving an approval in minutes.

Process automation continues, with a particular focus on Heartland Bank's Collections & Recoveries area. Resourcing issues caused by illness, employee turnover due to overseas travel and a focus on Heartland Bank's core banking system upgrade (which is now complete) in the Collections & Recoveries area have resulted in collection efforts being constrained. These challenges are being actively resolved, including through increased automation, and do not reflect any underlying credit quality issues. Automation is expected to improve internal workflows and reduce manual effort, thereby reducing friction for customers and employees. Activity underway includes upgrading the debt management and collections system, integration with core banking systems, introducing automation to workflows and some outbound calls, and making greater use of data and analytics to drive collections strategies.

Expansion in Australia

Considerable effort has been made in 1H2024 towards progressing Heartland's ambition to become a bank in Australia through the acquisition of Challenger Bank. While the acquisition remains subject to Reserve Bank of New Zealand (**RBNZ**) and Australian Prudential Regulation Authority (**APRA**) approval, the approval process is now in the final stages and Heartland is confident of completion in 2H2024.

Challenger Bank has commenced raising deposits ahead of being acquired by Heartland Bank and will continue to do so. This will enable Heartland to optimise the advantage of a lower cost of funds post-acquisition completion. In the seven-week period commencing 8 January 2024, retail deposit growth of $528 million was achieved, at a rate which is 1.34% lower than Heartland Australia's (comprising Heartland Australia Holdings Pty Ltd and its subsidiaries) current cost of funds.[15]

Subject to completion, the acquisition would make Heartland the only specialist bank provider of both reverse mortgages and livestock finance in Australia. The acquisition once completed is expected to support ongoing growth and enable expansion into new product segments in which Heartland Bank has specialist expertise, including in Motor Finance and Asset Finance. Heartland intends to leverage its extensive operational experience in New Zealand to drive expansion into Australia.

Heartland continued to be the leading Australian provider of reverse mortgages as its market share increased to 41% as at 30 September 2023.[9] Demand continues to increase for Reverse Mortgages on both sides of the Tasman, driven by continued cost-of-living pressures and a growing proportion of people aged 65 and over in both populations. As new trans-Tasman research by RMIT University suggests, ageing populations are expected to place significant strain on government and local authority resources.[16] As a result, households may need to draw more on their own resources. The Australian Treasury's 2020 Retirement Income Review reported that for most households aged 65

---

[15] Month to date January 2024 cost of funds for Heartland Australia (including StockCo Australia).
[16] *Ageing Well in Place: An Australian and New Zealand Perspective*, RMIT University.

and over, the family home is their largest asset. For those wishing to remain in their home as they age, a reverse mortgage can be a good solution to the financial barriers to ageing well in place.

Heartland's Australian Livestock Finance business, StockCo, is positioned to benefit from strong tailwinds in the Australian livestock sector. StockCo, is one of the largest specialist livestock finance providers in Australia. Becoming a bank will provide Heartland with a lower cost of funds to enable product enhancements which Heartland believes will provide a competitive advantage from which to gain market share. StockCo continues to work with and support its clients as they overcome the challenges of the last year, noting the recent livestock market price gains are expected to benefit both clients and StockCo's balance sheet.

Operating environment

Borrower demand and NIM are expected to improve as inflation eases and interest rates decline (see page 6).

The New Zealand general election, held in October 2023, is believed to have caused some uncertainty for many who delayed borrowing decisions until the new government and subsequent policy changes were confirmed. In the motor market, pre-election announcements to repeal the clean car discount scheme, and the consequent removal of internal combustion engine taxes on new vehicles from 31 December 2023, is believed to have caused consumers to delay new vehicle buying decisions until the 2024 calendar year. As expected, the end of January 2024 saw an increase in vehicle purchase enquiries, with normal trading patterns anticipated by Heartland to return towards the end of FY2024.

The adverse climatic conditions that affected Heartland's Australian Livestock Finance portfolio in 1H2024 are dissipating. After recent rainfall across the eastern states of Australia, the chance of drought is now reduced, and livestock prices are improving (see page 10).

The medium-term economic outlook is for improvement as higher interest rates drive down the rate of inflation. In addition, the labour market is proving to be more resilient than expected. Typically, however, credit outcomes tend to lag economic conditions, so similar credit outcomes are expected through the remainder of FY2024, before an improvement in FY2025, as the expected impact of more stable economic conditions and stronger consumer and business confidence is felt.

Financial results

Profitability

1H2024 reported results have been normalised to exclude one-off or non-cash technical items, including the following.[17]

1. Legacy hedge accounting impacts: a $4.3 million loss contributed by the derivatives that were de-designated from their prior hedge accounting relationships in the financial year ended 30 June 2022 (**FY2022**). The de-designation resulted in a pre-tax $16.7 million mark-to-market (**MTM**) accounting gain on these derivatives being recognised in FY2022. This MTM gain is subsequently unwound as a loss as the cashflows from these derivatives are realised, including a pre-tax $9.1 million loss recognised in the financial year ended 30 June 2023 (**FY2023**) and pre-tax $4.3 million in 1H2024.

[17] Refer to page 41 of the 1H2024 IP for an exhaustive list of 1H2024 one-offs and a detailed reconciliation between reported and underlying financial information.

2. Fair value gain on equity investment in Harmoney Corp Limited (**Harmoney**): a $1.9 million fair value gain was recognised on investment in Harmoney shares during 1H2024. The fair value as at 29 December 2023 was determined based on the closing last traded price of Harmoney shares on the Australian Stock Exchange of A$0.49 per share.
3. Australia Bank Programme costs: $2.3 million of transaction and other costs in relation to acquiring an ADI in Australia. In addition, $3.3 million of costs directly attributable to applying to become an ADI have been capitalised as an intangible asset in 1H2024.
4. Increase in provisions for a subset of legacy lending: a pre-tax $16.0 million increase in provisions to respond to issues affecting a subset of legacy lending (see page 7).

The impact of one-off items on the respective financial metrics is outlined in the table on page 3.

NOI

Total NOI was $143.1 million, an increase of $1.4 million (1.0%) from 1H2023.

Underlying NOI was $145.6 million, $4.1 million (2.7%) lower than in 1H2023. This was largely due to a $2.0 million (1.4%) decrease in net interest income, driven by a 34 bps decrease in underlying NIM compared with 1H2023 offset by $562.7 million (8.1%) higher average interest earning assets in 1H2024 than in 1H2023.

Underlying other operating income decreased by $2.0 million (23.1%) from 1H2023.

NIM

NIM[18] has been impacted by the following factors.

- Heightened competition in the New Zealand deposit market in 1H2024 as banks refinanced their drawings under the RBNZ Funding for Lending Programme[19], impacting Heartland Bank's cost of funds, thereby also contributing to NIM compression. Heartland Bank expects this to continue through the 2024 calendar year as RBNZ Funding for Lending Programme participants replace this funding with deposit funding.
- Increased growth in Reverse Mortgages.
- Heartland continuing to shift its portfolio composition towards lower risk exposures while higher margin legacy business lending and other forms of non-core and unsecured lending portfolios run off, noting that lower margin Asset Finance loans are taking longer to roll off as customers take longer to refinance assets.

In addition, Heartland intentionally delayed passing the full impact of successive interest rate increases onto New Zealand Reverse Mortgages and Australian Livestock Finance customers. While this did not maximise potential NIM, it was considered the socially responsible and more sustainable approach.

Careful pricing and margin management is in place to balance NIM and growth. Heartland expects NIM improvement in the 2025 calendar year as the deposit market eases and older Asset Finance and Motor Finance loans at lower rates continue to be repaid.

OPEX

OPEX was $66.5 million, an increase of $3.0 million (4.8%) on 1H2023. Underlying OPEX[17] decreased $0.4 million (0.6%).

---

[18] In the six months to 31 December 2023, underlying NIM contracted 33 bps from 30 June 2023.

[19] One of the monetary policy tools used by the RBNZ during the COVID-19 pandemic, which allowed eligible banks to borrow directly from the RBNZ at the official cash rate, to lower the funding costs for eligible banks.

CTI ratio

The underlying CTI ratio increased by 93 bps on 1H2023 to 43.7%.[20] While costs in 1H2024 were controlled, the CTI ratio was impacted by a decrease in NOI, largely due to NIM compression which Heartland expects to be temporary, with NIM improvement expected in the 2025 calendar year.

Impairment expense

Overall, underlying impairments continue to perform within expectations. Impairment expense was $24.0 million, $14.8 million (160.1%) up on 1H2023. On an underlying basis, impairment expense was $1.2 million (13.0%) down on 1H2023, reflecting the overall improvement in asset quality. Underlying impairment expense ratio decreased to 0.23% in 1H2024, down 6 bps compared with 1H2023.[21]

As advised in December 2023, Heartland Bank's $16.0 million (pre-tax) increase in provisions was taken to respond to issues affecting a subset of legacy lending as outlined below. While Heartland considered the increase in provisions was required out of prudence, it may not be utilised in full.

1. Legacy Business and Relationship lending: a $5.5 million increase in provisions held against this portfolio. This includes a $4.5 million increase in specific provisions against legacy loans in segments of the market to which Heartland Bank no longer lends where economic conditions have decreased confidence in collectability, and a $1.0 million collective provision.
2. Longer dated Motor Finance loans: a $10.5 million increase in collective provisions. This was reduced by $2.3 million to reflect write-offs experienced in 1H2024 against this cohort.

ROE

Underlying ROE was 10.2%, down 183 bps compared with 1H2023.[22] This is as a result of carrying more capital on average following the capital raise conducted in 1H2023.

Financial position

Total assets increased by $167.1 million (2.2%) during 1H2024, driven by a $143.7 million (4.2%)[23] increase in Receivables and a $51.5 million (8.2%) increase in liquid assets.

Borrowings[24] increased by $211.1 million (3.2%). Deposits increased by $82.7 million (2.0%), along with an increase in other borrowings of $128.4 million (5.1%) during 1H2024.

Net assets decreased by $9.7 million to $1,021.3 million. Net tangible assets (**NTA**) decreased by $24.0 million to $750.2 million, resulting in an NTA per share of $1.05 (30 June 2023: $1.09).

---

[20] Underlying CTI ratio refers to the CTI ratio calculated using underlying results. When calculated using reported results, the CTI ratio was 46.5%, up 170 bps compared with 1H2023. See page 4 of the 1H2024 IP for more information about the use of the CTI ratio, a supplementary, non-GAAP measure.
[21] Underlying impairment expense ratio refers to the impairment expense ratio calculated using underlying results. When calculated using reported results, the impairment expense ratio was 0.70%, up 41 bps compared with 1H2023. For more information, see page 4 of the 1H2024 IP.
[22] Underlying ROE refers to ROE calculated using underlying results. When calculated using reported results, ROE was 7.3%, down 329 bps compared with 1H2023. For more information, see page 4 of the 1H2024 IP.
[23] Annualised 1H2024 growth excluding the impact of changes in FX rates.
[24] Includes retail deposits and other borrowings.

Business performance

New Zealand

New Zealand Reverse Mortgages

New Zealand Reverse Mortgages NOI was $23.8 million, an increase of $3.3 million (16.3%) compared with 1H2023. Receivables increased $83.9 million (18.7%)[25] to $972.5 million.

Older New Zealanders and Australians continue to feel the impact of cost-of-living pressures in retirement.[25] This has been reflected in the demand for and use of Reverse Mortgages. Average initial loan value has been steadily decreasing, from $90,287 at 31 December 2022 to $77,125 at 31 December 2023, as customers become more conservative with the amount being borrowed upfront. Demand for Heartland Bank's 'Easy Living Monthly Advance' option also increased, up 29% in December 2023 compared with the average monthly figure across FY2023.

At the start of FY2024, Heartland Bank made improvements to its online application form and processes, driving a higher volume of online applications and resulting in better customer outcomes – including a more efficient application experience. Accelerated growth is expected in 2H2024 as the benefits of these improvements continue to be realised, and as a result of demand from cashflow pressures being felt by older homeowners.

Motor Finance

Motor Finance NOI was $31.6 million, a decrease of $1.1 million (3.3%) compared with 1H2023. Motor Finance Receivables increased $50.6 million (6.4%)[20] to $1.6 billion.

Motor Finance experienced a slower than expected start to FY2024 as described on page 5 in a market where total new and used car sales in New Zealand were down by 12.2% in 1H2024[26]. Relative to the market, Heartland Bank's growth of 6.4%[25] was very pleasing.

Motor Finance NIM continues to be impacted by a shift in asset quality, competitive pressures, and as customers hold on to their vehicle loans for longer periods of time.

Heartland Bank continued to strengthen its distribution network of dealers and partnerships. In 1H2024, Heartland Bank renewed its partnerships with Jaguar Land Rover New Zealand and Auto Distributors (for Peugeot, Citroen and Opel) and announced a new partnership with MG Motor in New Zealand to launch MG Finance. Heartland Bank is now also one of Tesla's two preferred finance providers.[27]

Online Home Loans[28]

Online Home Loans NOI was $1.2 million, a decrease of $0.9 million (43.5%) compared with 1H2023. Online Home Loans Receivables increased $9.0 million (5.7%)[25] to $322.3 million.

While the rate of growth slowed, Receivables growth of 5.7%[25] remained well above the overall New Zealand market expansion in home lending over the period, which stood at 1.7%.[29] Heartland Bank has strong retention of existing customers – exceeding 90% for those customers whose fixed rates came up for review during 1H2024.

---

[25] *Ageing Well in Place: An Australian and New Zealand Perspective*, RMIT University.
[26] Based on data from Turners, dated December 2023 (data sourced from Waka Kotahi NZ Transport Agency).
[27] Tesla preferred finance provider launched in February 2024.
[28] Excludes legacy Retail Mortgages.
[29] Based on RBNZ's *Registered banks and non-bank lending institutions: Sector lending (C5)* data at 31 December 2023 compared with 30 June 2023. Data accurate as at 31 January 2024.

Personal Lending

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

Personal Lending NOI was $2.1 million, a decrease of $1.4 million (39.5%) compared with 1H2023. Personal Lending Receivables decreased by $13.0 million (54.9%)[25] to $34.1 million. Harmoney Receivables decreased by $4.5 million (86.2%)[25], made up of a decrease in the New Zealand Harmoney channel of $2.3 million (81.9%)[25] to $3.2 million, and a decrease in the Australian Harmoney channel of $2.3 million (90.9%)[25] to $2.7 million. Heartland originated personal lending decreased by $8.5 million (46.0%)[25] to $28.2 million in 1H2024.

Asset Finance

Asset Finance NOI was $14.3 million, a decrease of $0.6 million (4.1%) compared with 1H2023, largely as a result of lower margin loans taking longer to roll off as customers take longer to refinance assets. Refinance deferral by customers has also impacted growth, with Asset Finance Receivables increasing $30.6 million (8.9%)[25] to $713.3 million. However, against this backdrop, growth of 8.9% is strong.

Heartland Bank entered 2H2024 with a solid pipeline for further growth. Heartland Bank's focus remains on the freight transport and yellow goods sectors. Exposure to the forestry sectors continues to run down.

Business

Overall Business NOI was $14.1 million, a decrease of $1.6 million (10.4%) compared with 1H2023. Business Receivables decreased $39.1 million (13.5%)[25] to $534.5 million. This is made up of Wholesale Lending and Business Relationship.

Wholesale Lending includes floorplan lending to vehicle retailers and wholesale facilities to other lenders, including for medium enterprises that on-lend to their own customers in the consumer motor and business sectors. Wholesale Lending Receivables decreased $20.1 million (16.3%)[25] to $225.0 million, reflecting lower utilisation of floorplan lending limits as existing customers reduced stock levels to match consumer demand. Growth from new business is anticipated in 2H2024 as Heartland Bank continues to expand its Motor Finance dealer network, presenting Wholesale Lending opportunities with dealerships.

Business Relationship Receivables decreased $19.0 million (11.5%)[25] to $309.5 million, as this portfolio continues to transition from legacy loans to lower risk loans that are more cost efficient to transact.

Open for Business (**O4B**)

O4B NOI was $5.5 million, a decrease of $1.2 million (18.2%) compared with 1H2023. O4B Receivables decreased $18.2 million (30.9%)[25] to $98.9 million.

Rural

Overall Rural lending NOI was $16.8 million, a decrease of $0.2 million (1.2%) compared with 1H2023. Overall Rural portfolio Receivables decreased by $36.4 million (10.3%)[25] to $664.1 million. This is made up of Livestock Finance, Rural Relationship and Rural Direct.

The decrease in overall Rural portfolio Receivables was primarily driven by the normal seasonal fluctuations in Heartland's Livestock Finance Receivables which decreased by $31.9 million (33.1%)[25]

to $159.3 million. The portfolio performance was better than expected, in a market where overall livestock prices were down year-on-year. The outlook for 2H2024 is positive as Heartland Bank maintains its growth momentum with existing and new intermediaries.

Rural Relationship Receivables decreased by $8.2 million (3.8%)[25] to $416.2 million, reflecting Heartland Bank's continued transition away from large, complex, low margin lending.

Rural Direct includes Heartland's Sheep & Beef Direct and Dairy Direct digital platforms which provide online finance to well-geared and resilient sheep, beef and dairy farmers. Rural Direct Receivables increased by $3.7 million (8.6%)[25] to $88.6 million. Weak livestock price conditions and higher costs reduced confidence in the market and led to fewer farm sales, resulting in subdued growth of the portfolio.

Australia

Australian Reverse Mortgages

Australian Reverse Mortgages NOI was $26.2 million, an increase of $3.1 million (13.4%) compared with 1H2023. Australian Reverse Mortgages Receivables increased by $152.9 million (20.0%)[25] to $1.7 billion.

As in New Zealand, cost-of-living pressures are contributing to growth in Australian Reverse Mortgages and the way in which customers are using their Reverse Mortgages.[30] Cost-of-living requests (debt consolidation, supplementing income) have increased while lifestyle requests (car, travel) have softened. Home improvements and debt consolidation remain the top two loan purposes.

Growth is expected to remain strong in 2H2024 as older Australians seek to remain in their home as they age.

Australian Livestock Finance

Australian Livestock Finance NOI was $8.2 million, a decrease of $3.3 million (28.6%) compared with 1H2023. Receivables decreased $76.4 million (40.4%)[25] to $298.6 million.

Adverse weather conditions and drought concerns continued to negatively impact livestock prices in 1H2024. Many producers either consolidated debt with banks or destocked ahead of the drought and, in doing so, sold livestock at low prices. While other farmers with sufficient feed retained livestock for longer periods to gain weight and recoup value. This resulted in growth challenges and compressed Australian Livestock Finance NIM.

January and February are traditionally low trading months, however the market remains cautious yet optimistic ahead of autumn restocking, the reducing risk of drought and the recent improvements in lamb and cattle prices. Cattle prices are now above the 10- and 20-year averages. While Trade Lamb prices have nearly doubled over recent weeks and now sit above the 20-year average and slightly below the 10-year average.[31] Heartland expects a stronger performance from Australian Livestock Finance in 2H2024, with growth on a value basis.

Funding and liquidity

Heartland increased borrowings by $211.1 million (3.2%) to $6,838.5 million.

[30] *Ageing Well in Place: An Australian and New Zealand Perspective*, RMIT University.
[31] Data from the National Livestock Reporting Service.

New Zealand

Heartland Bank increased borrowings by $217.3 million (4.6%) to $4,963.5 million.

Total deposits grew $82.7 million (2.0%) during 1H2024 to $4,213.8 million, which was driven by competitive pricing on targeted products, including Heartland Bank's Digital Saver offering which launched in October 2023.

Term deposits increased by $187.5 million (7.1%) during 1H2024, while call deposits and savings deposits decreased by $104.8 million (7.0%). The savings to total deposit ratio decreased from 17% to 15%, while call to total deposit ratio remained consistent during 1H2024.

Heightened competition is being experienced in the deposit market and is expected to continue through the 2024 calendar year as banks refinance their drawings under the RBNZ Funding for Lending Programme. Despite market competition resulting in a higher cost of funds, Heartland Bank's cost of funds has outperformed its key peer challenger banks in the first quarter of FY2024.[32]

Other borrowings increased by $134.6 million (21.9%) during 1H2024, largely due to an increase in the amount drawn down in Heartland Bank's committed auto warehouse facility by $149.5 million. This was partially offset by the decreased amount of Heartland Bank's issuance of short-term Commercial Paper.

A $100 million limit increase to Heartland Bank's committed auto warehouse facility was executed in September 2023 taking the total limit outstanding to $500 million.

With a regulatory capital ratio at 14.07%[33], Heartland Bank continues to operate significantly in excess of regulatory minimums and is well positioned to meet the RBNZ's future higher capital requirements. These requirements are for a core capital ratio of 11.50% and a total capital ratio of 16.00% by 1 July 2028.

Australia

Heartland Australia increased borrowings by A$4.2 million (0.2%) to A$1,736.7 million. Excluding StockCo Australia (comprising StockCo Australia Management Pty Ltd, StockCo Holdings 2 Pty Ltd and their subsidiaries), which was transferred from Heartland to Heartland Australia on 1 August 2023, borrowings increased by A$74.9 million (5.1%) from 1H2023 to A$1,557.1 million.

An A$50 million tap issue was completed in October 2023 and a further A$105 million tap Medium Term Note (**MTN**) was issued in December 2023. The proceeds were used to refinance another maturing facility and provide further Reverse Mortgage funding. The aggregate outstanding issuance under Heartland Australia's MTN programme was A$395 million as at 31 December 2023 (30 June 2023: A$240 million).

The aggregate senior limits of the two Reverse Mortgage securitisation warehouses were expanded by A$200 million during the period, providing Heartland Australia with access to A$1.77 billion of committed funding in aggregate.

StockCo Australia decreased borrowings by A$70.6 million (28.2%) to A$179.6 million[34], reflecting the current book size.

---

[32] Based on dashboard data from the RBNZ for the period July 2023 to September 2023.
[33] Heartland Bank's regulatory capital ratio decreased slightly to 14.07% as at 31 December 2023 (30 June 2023: 14.71%) driven by balance sheet growth and the FY2023 dividend payment.
[34] Excluding intercompany funding from Heartland Australia.

Heartland Australia has also made significant progress on negotiations with senior lenders to make existing securitisation facilities compliant with the Australian Prudential Standards for ADIs in anticipation of operating in Australia as a licenced bank.

Regulatory update

On 31 January 2024, New Zealand's Minister of Commerce and Consumer Affairs announced plans to review the:

- Credit Contracts and Consumer Finance Act 2003 to ensure it works effectively to protect vulnerable consumers without unnecessarily limiting access to credit. Consultation is expected over the coming months, including on removing prescriptive affordability requirements for lower-risk lending and reviewing the penalty and disclosure regimes.
- Financial Markets (Conduct of Financial Institutions) Amendment Act 2022 given concerns that it could result in disproportionate compliance costs.

Heartland Bank will monitor for further developments regarding any proposed changes.

The Commerce Commission is due to publish its preliminary findings from the market study into any factors that may affect competition for the supply or acquisition of personal banking services around March 2024, with the final report due by 20 August 2024.

The new depositor compensation scheme under the Deposit Takers Act 2023 is now expected to commence from mid-2025.

In Australia, Heartland is monitoring changes to Australian regulatory requirements for its existing businesses and is preparing for the acquisition of Challenger Bank, which is an APRA regulated ADI (including compliance with the Financial Accountability Regime).

Sustainability update

Heartland is preparing to meet 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 sustainability strategy is built on three pillars: environment, people and financial wellbeing. Significant achievements in 1H2024 are outlined below.

- Heartland's Board established a Sustainability Committee to oversee Heartland's sustainability strategy and implementation plans.
- As part of funding Heartland's borrowers' transition to a net-zero economy, Australian Livestock Finance business, StockCo, announced a two-year pilot project with farmer-led software provider Ruminati. The software helps producers track and validate on-farm climate action across the supply chain. The partnership will allow StockCo to view its clients' on-farm emissions, and understand the client's strategy for farm management, climate risk mitigation and emission reduction strategies.
- Heartland Bank's Manawa Ako internship programme welcomed 30 Māori and Pasifika rangatahi (youth). The FY2024 programme received 80 applications – the greatest number of applications received since the programme was established in 2017.
- Heartland Bank was awarded Canstar New Zealand's Bank of the Year – Savings for the sixth year in a row, with five-star ratings awarded for its Direct Call Account (for the eighth year in a

row), 32-day Notice Saver Account (for the second year in a row), and 90-day Notice Saver Account.
- Australian Reverse Mortgage business, Heartland Finance, was awarded a Non-Bank of the Year Excellence Award at the Australian Mortgage Awards 2023 for the fourth year in a row.

Removal from FTSE Global Equity Index Series Small Cap Index

Heartland will be removed from the FTSE Global Equity Index Series Small Cap Index (**Index**) after close of business on Friday, 15 March 2024 (UK time), following the semi-annual review of the Index. Heartland wishes to ensure that all shareholders have this information, following some recent speculation in the market.

Heartland is being removed from the Index as it no longer meets the Index's liquidity requirement for existing constituent issuers to pass a monthly median turnover test based on their free float shares on issue. Heartland's best estimate is it is likely that less than 3% of its shares must be sold as a result of its removal from the Index.

The Index includes over 18,000 large, mid, small and micro-cap securities across 48 developed and emerging markets globally, with a wide range of modular indices available to target specific markets and market segments.

Interim dividend

Heartland is pleased to declare a 1H2024 interim dividend of 4.0 cps, down 1.5 cps on 1H2023. Heartland's interim dividend yield of 11.9%[35] compares with 8.7%[36] in 1H2023.

A slightly lower interim dividend is consistent with current earnings and previous payout ratios and does not reflect a change in policy.

The interim dividend will be paid on Wednesday 20 March 2024 (**Payment Date**) to shareholders on the company's register as at 5.00pm NZST on Wednesday 6 March 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 interim dividend with a 2.0% discount.[37] The DRP offer document and participation form is available on Heartland's website at heartlandgroup.info/investor-information/dividends.

Looking forward

Heartland's vision is to create sustainable growth and a superior underlying CTI ratio, providing digital banking products which are the best or only of their kind to markets it considers are underserved in New Zealand and Australia. By FY2028, its ambition is to achieve an underlying NPAT of $200 million and underlying CTI ratio of less than 35%. Heartland has various strategic initiatives

---

[35] Total fully imputed dividends for 1H2024 (interim) and 2H2023 (final) divided by the closing share price as at 26 February 2024 of $1.17.
[36] Total fully imputed dividends for 1H2023 (interim) and 2H2022 (final) divided by the closing share price as at 24 February 2023 of $1.75.
[37] 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.

underway to support the realisation of its future growth ambitions.

Completing the Challenger Bank acquisition is the focal point for 2H2024 and a critical step in Heartland's strategy for expansion in the Australian market – and ultimately towards achieving its FY2028 ambitions. Recent success achieved by Challenger Bank in the Australian deposit market has exceeded Heartland's expectations and will enable Heartland to optimise the advantage of a lower cost of funds post-acquisition completion. The regulatory approval process for the Challenger Bank acquisition is nearing completion and Heartland is confident of completion in 2H2024.

In the long-term Heartland expects to continue its growth story. Organic growth is expected to improve in line with reduced inflation. Similarly cost of funds and NIM are expected to improve as interest rates ease.

While 2H2024 is expected to be challenging, Heartland is confident in the resilience of its core lending portfolios and 'best or only' strategy and anticipates accelerated organic growth in line with reduced inflation.

In particular, New Zealand and Australian Reverse Mortgages are expected to continue to perform well as Heartland meets the financial needs of ageing populations in both countries. Although competition has increased in Australia, this brings with it greater opportunities for increased awareness and acceptance of reverse mortgages as a solution to living a more comfortable retirement. Heartland's partnership with RMIT University continues through 2H2024 as it seeks to gain a more in-depth understanding of the factors which can impact an individual's ability to age well in place.

Core lending portfolio growth will be supported by accelerated digitalisation and automation, enabled by the completion of Heartland Bank's core banking system upgrade. Process automation and the development of more customer self-service functionality will contribute to enhanced efficiency and the removal of friction for employees and customers. Increased digitalisation, alongside ongoing cost discipline and revenue growth, underpins Heartland's ability to achieve a superior underlying CTI ratio and achieve scalable growth. This is what sets Heartland apart.

Heartland expects NPAT for FY2024 to be within the guidance range of $93 million to $97 million, excluding any impacts of fair value changes on equity investments held and the impact of the de-designation of derivatives and Australian Bank Programme transaction costs. Excluding the impact of the (non-cash) increase in provisions for a subset of legacy lending, and Challenger Bank NPAT, the underlying guidance range is $108 million to $112 million, reflecting Heartland's underlying operational performance (which is the basis upon which the underlying 1H2024 results are presented).

– ENDS –

The persons who authorised this announcement:
Jeff Greenslade, Chief Executive Officer
Andrew Dixson, Chief Financial Officer

For further information and media enquiries, please contact:
Nicola Foley, Group Head of Communications
+64 27 345 6809
nicola.foley@heartland.co.nz
Level 3, Heartland House, 35 Teed Street, Newmarket, Auckland, New Zealand

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, online home loans, reverse mortgages, business loans, car loans and rural loans. In Australia, Heartland's main business is currently in reverse mortgages through Heartland Finance which is a market leader. Heartland also operates StockCo Australia, a specialist livestock financier, which was acquired by Heartland in May 2022. In October 2022, Heartland announced its intention to purchase Challenger Bank, a digital bank based in Melbourne, Australia, subject to obtaining the requisite regulatory approvals.

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

More about Heartland: heartlandgroup.info

1H2024 Results

For the six-months ended
31 December 2023

HEARTLAND
GROUP

Contents

01

Highlights & strategic update

Jeff Greenslade
Chief Executive Officer Heartland Group

01

Presentation of results

Unaudited 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 impacts of fair value changes on equity investments held, the de-designation of derivatives, the ABP costs, increase in provisions for a subset of legacy lending, and any other impacts of one-offs. This is intended to allow for easier comparability between periods, and is used internally by management for this purpose.

Adjustments for underlying results impact net operating income (**NOI**), operating expenses (**OPEX**), net profit after tax (**NPAT**), net interest margin (**NIM**) and earnings per share (**EPS**). Underlying return on equity (**ROE**), underlying cost to income (**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 Appendix 3 on page 41 for a detailed reconciliation between reported and underlying financial information, including details about one-offs in the periods covered in this investor presentation.

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

Solid performance despite economic headwinds

Resilience of core lending portfolios

- Continued Receivables growth in most core lending portfolios with good pipelines for further growth and to expand market share.
- Strong growth in Reverse Mortgages (NZ up 18.7%, AU up 20.0%)[1] .
- Solid growth in Asset Finance (up 8.9%)[1] and Motor Finance (up 6.4%)[1] – Motor Finance experienced growth in a market where total new and used car sales in NZ were down 12.2%[2].
- Heartland's funding, liquidity and capital positions remain strong.

Becoming a bank in Australia

- The acquisition of Challenger Bank is nearing completion with the regulatory approval process now in the final stages.[3]
- Recent success of Challenger Bank in the AU deposit market has exceeded Heartland's expectations. This will enable Heartland to optimise the advantage of a lower cost of funds post-acquisition completion.

Growth

- In the long-term Heartland expects to continue its growth story.
- Organic growth is expected to improve in line with reduced inflation. Similarly cost of funds and NIM are expected to improve as interest rates ease.

December 2023 revision to guidance

- The expected A$3.5 million one-off FY2024 impact on underlying NPAT arising from the anticipated acquisition of Challenger Bank, positioning Heartland for its next stage of growth.
- Short-term operational performance challenges – a slower than expected start to FY2024 for Motor Finance and AU Livestock Finance, and higher cost of funds.
- Heartland Bank's response to issues affecting a subset of legacy lending.

[1] Annualised 1H2024 growth excluding the impact of changes in FX rates. [2] Based on data from Turners, dated December 2023 (data sourced from Waka Kotahi NZ Transport Agency) [3] The acquisition of Challenger Bank remains subject to the requisite regulatory approvals.

Group financial highlights

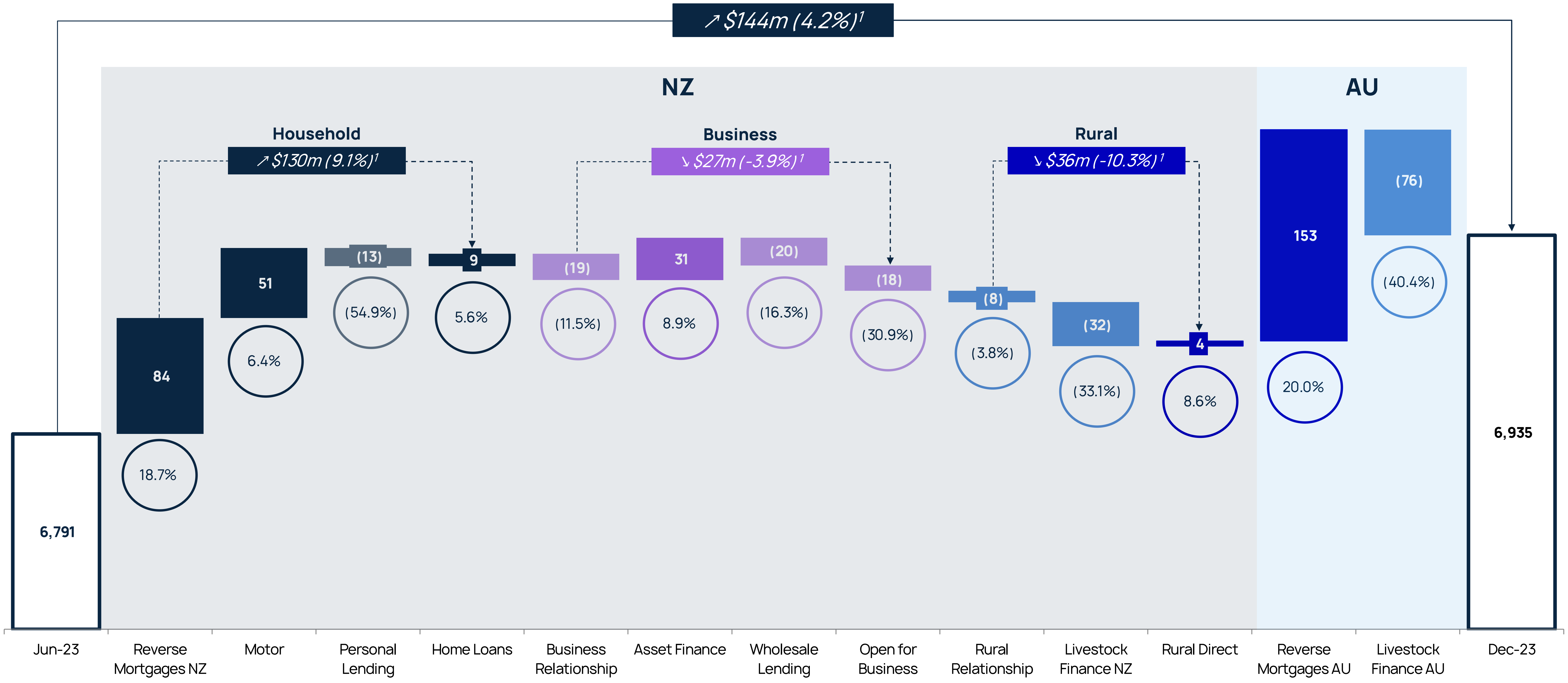
	NPAT²	NIM		CTI ratio	Impairment expense ratio	ROE	EPS
Reported	$37.6m ↓ 22.7% vs 1H2023	3.67% ↓ 29 bps vs 1H2023		46.5% ↑ 170 bps vs 1H2023	0.70% ↑ 41 bps vs 1H2023	7.3% ↓ 329 bps vs 1H2023	5.3 cps ↓ 2.0 cps vs 1H2023
Underlying[1]	$52.7m ↓ 3.6% vs 1H2023	3.67% ↓ 34 bps vs 1H2023	↓ 33 bps vs FY2023	43.7% ↑ 93 bps vs 1H2023	0.23% ↓ 6 bps vs 1H2023	10.2% ↓ 183 bps vs 1H2023	7.4 cps ↓ 0.8 cps vs 1H2023

Receivables[3]	Borrowings	Equity	Interim dividend
$6,924m ↑ 4.2%[4] vs June 2023	$6,839m ↑ 3.2% vs June 2023	$1,021m ↓ 0.9% vs June 2023	4.0 cps ↓ 1.5 cps vs 1H2023

[1] Refer to Appendix 3 for a reconciliation between reported and underlying NPAT result. [2] NPAT excluding only the impact of fair value changes on equity investments held, the de-designation of derivatives and the ABP costs was $41.2 million.
[3] Receivables also includes Reverse Mortgages. [4] Annualised 1H2024 growth excluding the impact of changes in FX rates.

Business as Usual Growth

- Overall Receivables growth of 4.2%[1].
- Continued strong Reverse Mortgage growth (NZ up 18.7%, AU up 20.0%)[1].
- Motor Finance growth of 6.4%[1] in market where total new and used car sales in NZ were down 12.2%[2].



Note: The graph shows 1H2024 growth in Receivables by portfolio excluding the impact of changes in FX rates and intercompany balances. All figures in NZ$m.
[1]Annualised 1H2024 growth excluding the impact of changes in FX rates. [2] Based on data from Turners, dated December 2023 (data sourced from Waka Kotahi NZ Transport Agency).

FY2028 growth ambitions

	FY2023 Result	FY2028 Ambition
Underlying NPAT	$110m	$200m+
Underlying CTI ratio	42%	< 35%

Strong growth in core lending

- Achievement of ambitions requires Receivables growth rates at historical levels only.

CTI ratio of less than 35%

- Underlying CTI ratio of 43.7%[1], remains significantly lower than the average CTI ratio of NZ's non-major domestic banks and much more comparable to the average CTI ratio of major AU banks.[2]
- Heartland Bank core banking system upgrade completed in 1H2024, enabling accelerated digitalisation.
- Motor digitalisation through the delivery of branded online origination platforms for Motor Finance dealer partners.
- Process automation with a focus on Heartland Bank's Collections & Recoveries area to improve internal workflows and reduce manual effort.

Australia

- Continues to be leading provider of reverse mortgages with market share of 41% at 30 September 2023 (up from 36% at 30 September 2022).[3]
- Positioned to benefit from structural tailwinds in AU Livestock sector.
- Subject to completion[4], the acquisition of Challenger Bank will:
  - make Heartland the only specialist bank provider of both reverse mortgages and livestock finance in AU
  - support ongoing growth and enable expansion into new product segments
  - enable Heartland to optimise the advantage of a lower cost of funds post-acquisition completion.
- Heartland intends to leverage its extensive operational experience in New Zealand to drive expansion into AU.

[1] Underlying CTI ratio excludes one-off impacts. Refer to Appendix 3 for a reconciliation between reported and underlying result. [2] The average CTI ratio of New Zealand's main domestic non-major banks excluding Heartland (The Co-operative Bank, Kiwibank, SBS and TSB) was 70.7% for the 12 months to 30 September 2023 (data from the RBNZ Financial Strength Dashboard, valid as at 27 November 2023). The average CTI ratio of Australia's major banks (ANZ, CBA, NAB and Westpac) was 45.2% for their most recent respective annual reporting periods. [3] Based on APRA ADI Property Exposure and Heartland Finance data as at 30 September 2022 and 30 September 2023. This does not include data from non-ADI providers of reverse mortgages. [4] The acquisition of Challenger Bank remains subject to requisite regulatory approvals.

02

Financial results, funding & liquidity

Andrew Dixson
Chief Financial Officer Heartland Group

Group financial results

		Reported			Underlying		
Financial performance	NII	$138.7m	↓	0.1% vs 1H2023	$138.7m	↓	1.4% vs 1H2023
	OOI[1]	$4.4m	↑	54.9% vs 1H2023	$6.8m	↓	23.1% vs 1H2023
	NOI	$143.1m	↑	**1.0% vs 1H2023**	$145.6m	↓	**2.7% vs 1H2023**
	OPEX	$66.5m	↑	4.8% vs 1H2023	$63.9m	↓	0.6% vs 1H2023
	Impairment Expense	$24.0m	↑	160.1% vs 1H2023	$8.0m	↓	13.0% vs 1H2023
	Tax Expense	$15.0m	↓	26.5% vs 1H2023	$21.2m	↓	2.4% vs 1H2023
	NPAT[2]	$37.6m	↓	**22.7% vs 1H2023**	$52.7m	↓	**3.6% vs 1H2023**
	NIM	3.67%	↓	29bps vs 1H2023	3.67%	↓	34bps vs 1H2023
						↓	33 bps vs FY2023
	CTI	46.5%	↑	170 bps vs 1H2023	43.7%	↑	93 bps vs 1H2023
	Impairment Expense Ratio[3]	0.70%	↑	41 bps vs 1H2023	0.23%	↓	6 bps vs 1H2023
	ROE	7.3%	↓	329 bps vs 1H2023	10.2%	↓	183 bps vs 1H2023
	EPS	5.3 cps	↓	2.0 cps vs 1H2023	7.4 cps	↓	0.8 cps vs 1H2023

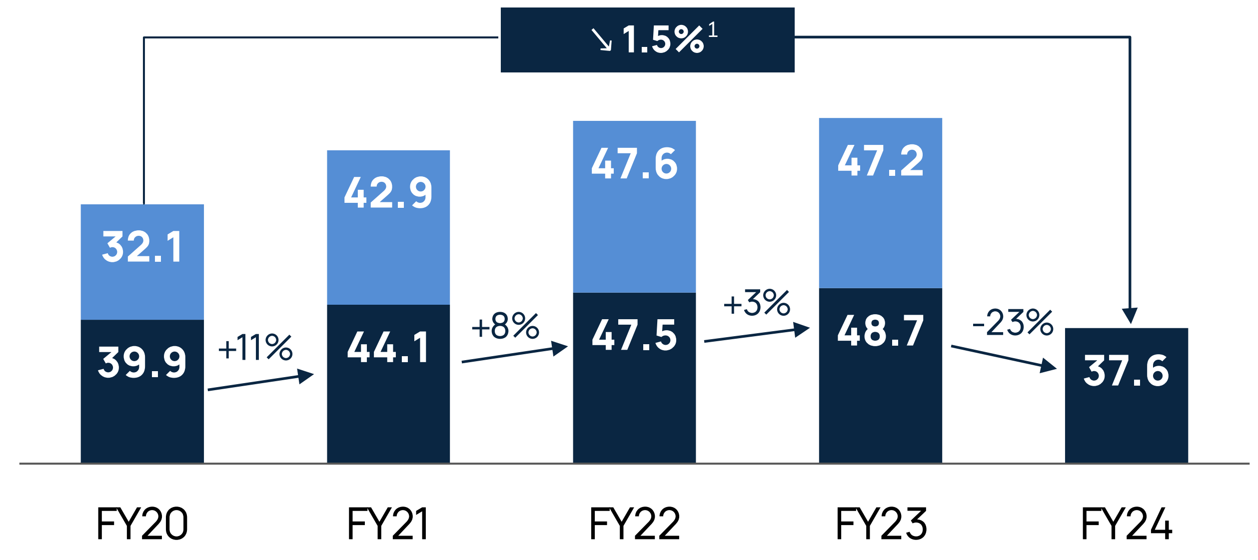
Financial Position	Receivables[4]	$6,924m	↑	4.2%[5] vs June 2023
	Borrowings	$6,839m	↑	3.2% vs June 2023
	Equity	$1,021m	↓	0.9% vs June 2023
	Equity/Total Assets	12.9%	↓	40 bps vs June 2023

[1] OOI includes fair value gains/losses on investments. [2] Refer to Appendix 3 for a reconciliation between reported and underlying NPAT result. [3] Impairment expense as a percentage of average Receivables. [4] Receivables also includes Reverse Mortgages. [5] Annualised 1H2024 growth excluding the impact of changes in FX rates.

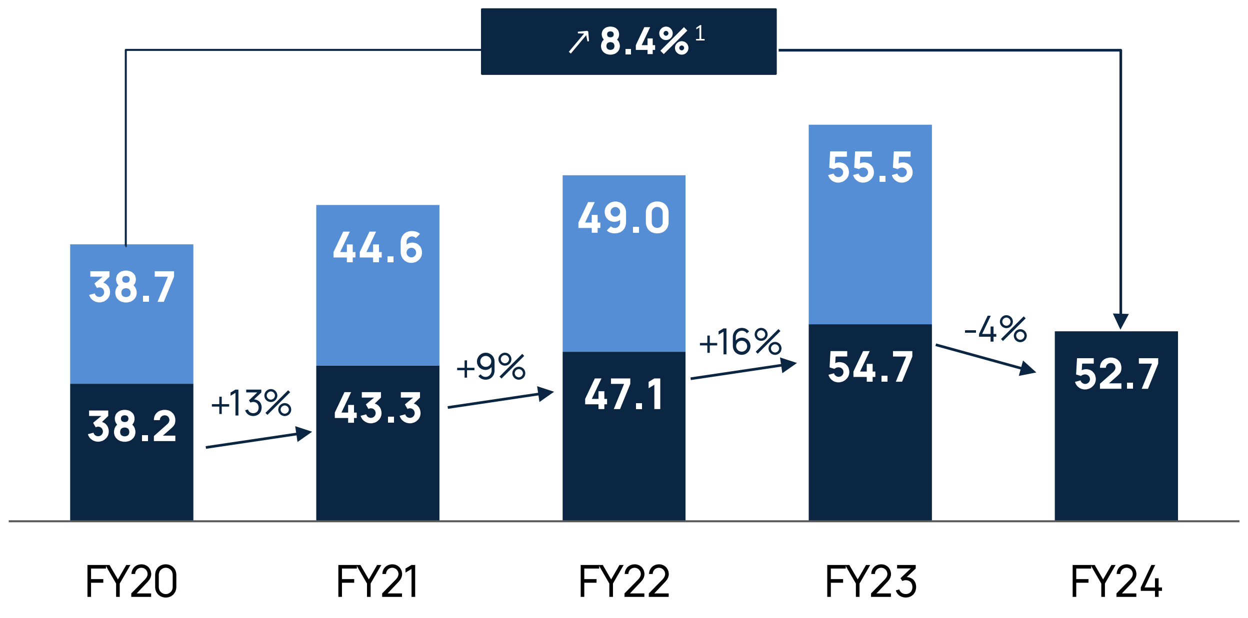
02

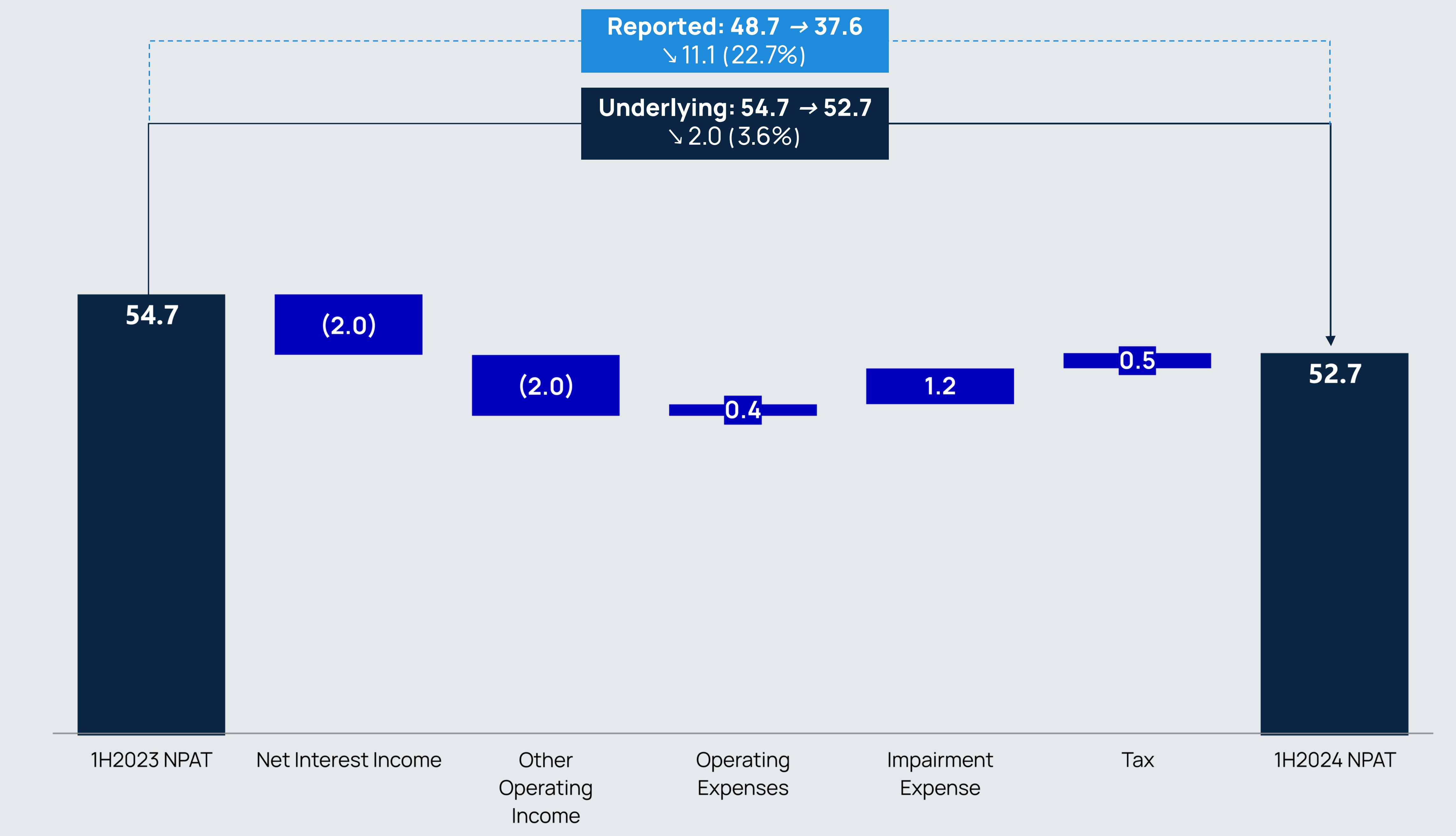
Growth in profitability

NPAT ($ million)



Underlying NPAT ($ million)



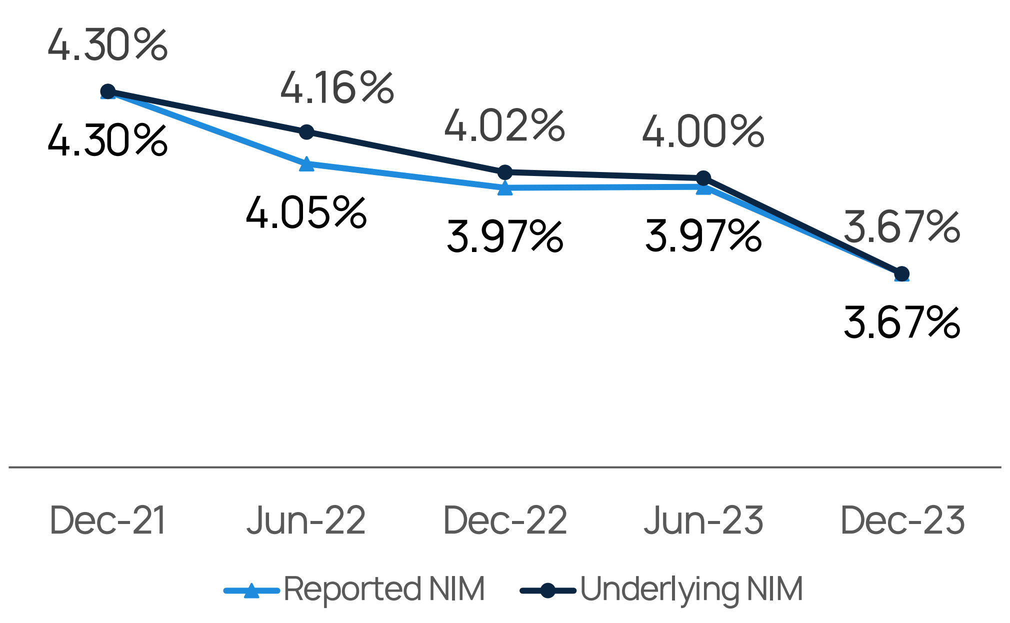


Note: All figures in NZ$m. Refer to Appendix 3 for a reconciliation between reported and underlying NPAT result.
[1] Compounded growth rate for the period 1H2020-1H2024.

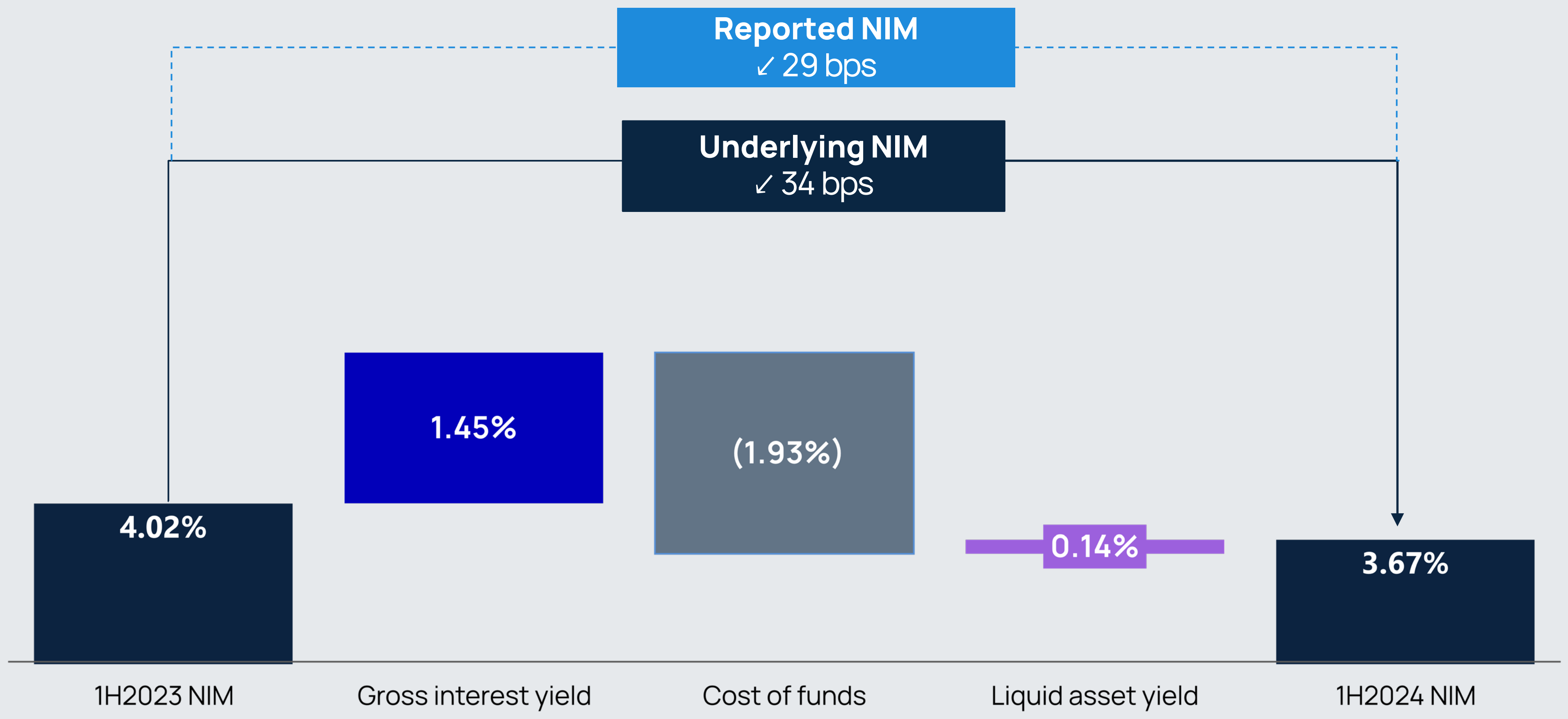
02

Net interest margin

NIM



Underlying Gross interest yield	Underlying Cost of funds	Underlying Liquid assets yield
8.93%	**5.34%**	**3.52%**
NIM contribution ↗ 145bps[1] vs 1H2023	NIM contribution ↘ 193bps[2] vs 1H2023	NIM contribution ↗ 14bps[3] vs 1H2023



FY24 NIM outlook

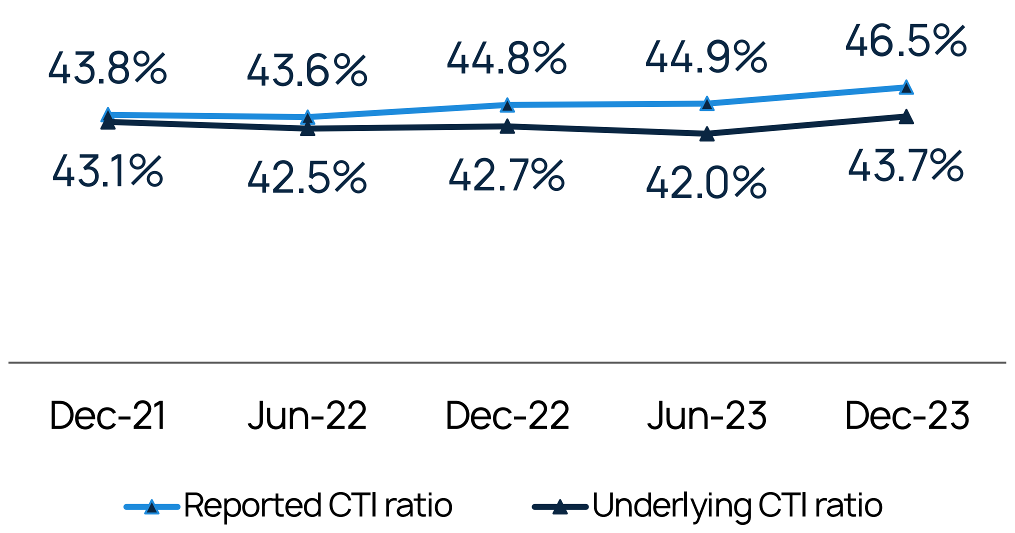
NIM compression expected to be temporary.

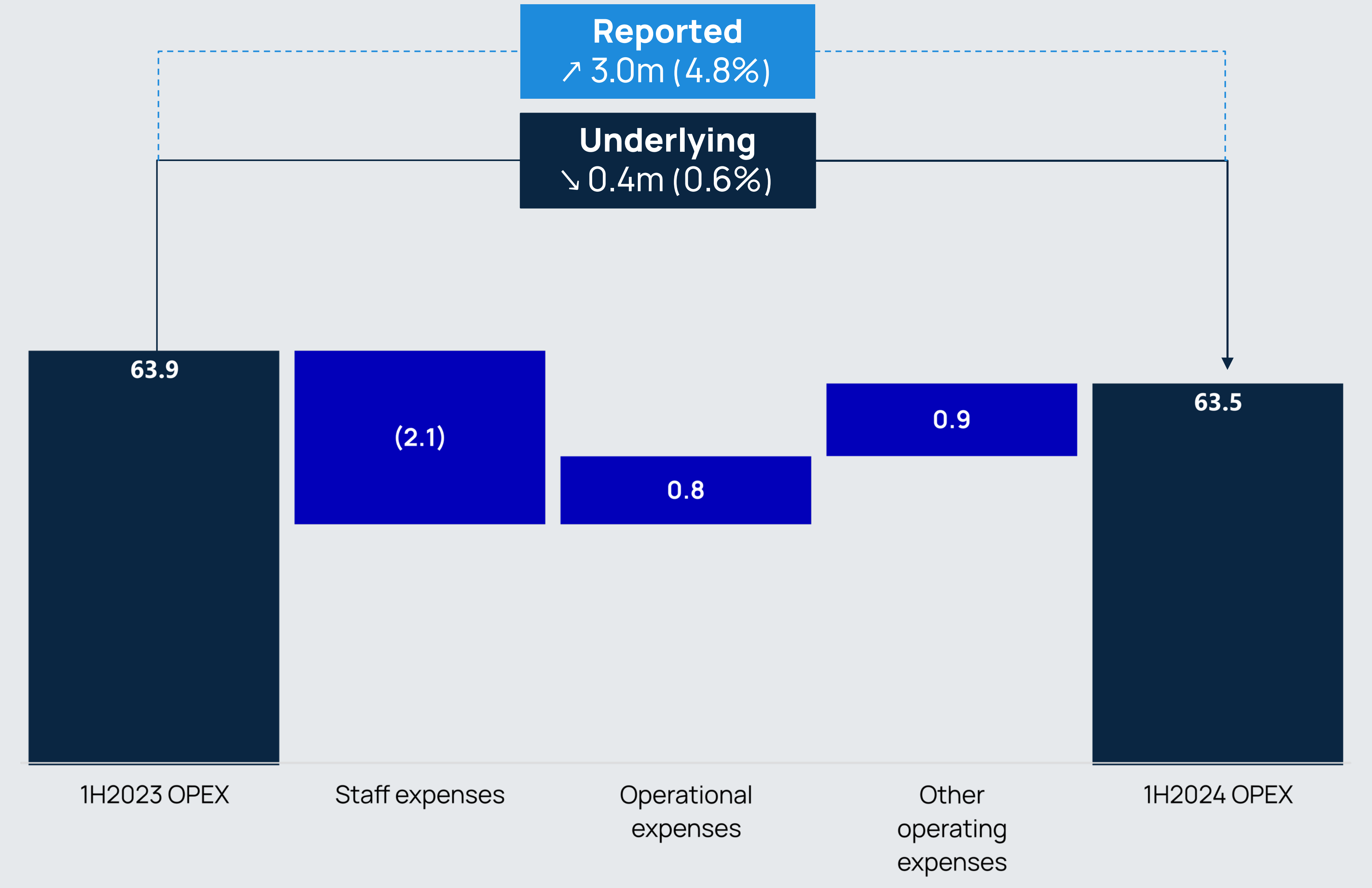
Improvements anticipated in CY2025 as competitive pressures in the deposit market ease and older Asset Finance and Motor Finance loans at lower rates continue to be repaid.

Note: NIM is calculated as net interest income/average gross interest earning assets.
[1] Underlying gross interest yield increased 157 bps vs 1H2023 to 8.93%, contributing to a 145 bps increase in NIM vs 1H2023. [2] Underlying cost of funds increased 217 bps vs 1H2023 to 5.34%, contributing to a 193 bps decrease in NIM vs 1H2023. [3] Underlying liquid asset yield increased 163 bps vs 1H2023 to 3.52%, contributing to a 14 bps increase in NIM vs 1H2023.

Cost to income ratio

CTI ratio





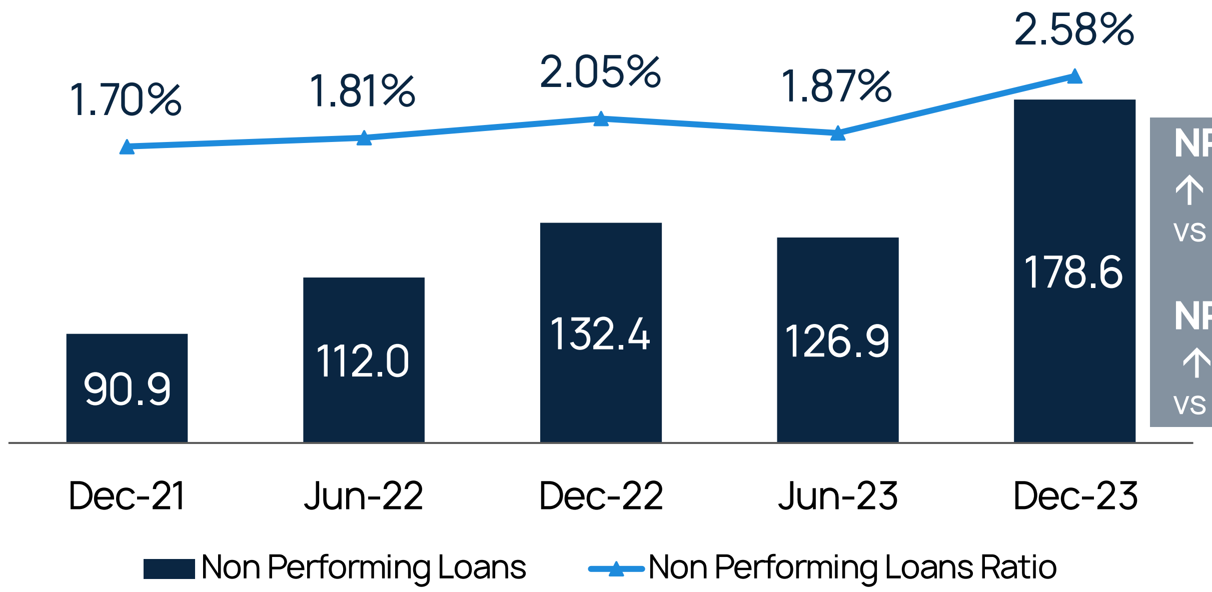
FY24 CTI ratio outlook

Expected to gradually improve, via continued cost discipline, revenue growth and digitalisation initiatives.

Note:
- CTI ratio is calculated as OPEX/NOI.
- Underlying CTI ratio excludes one-off impacts. Refer to Appendix 3 for a reconciliation between reported and underlying result.

Provisions

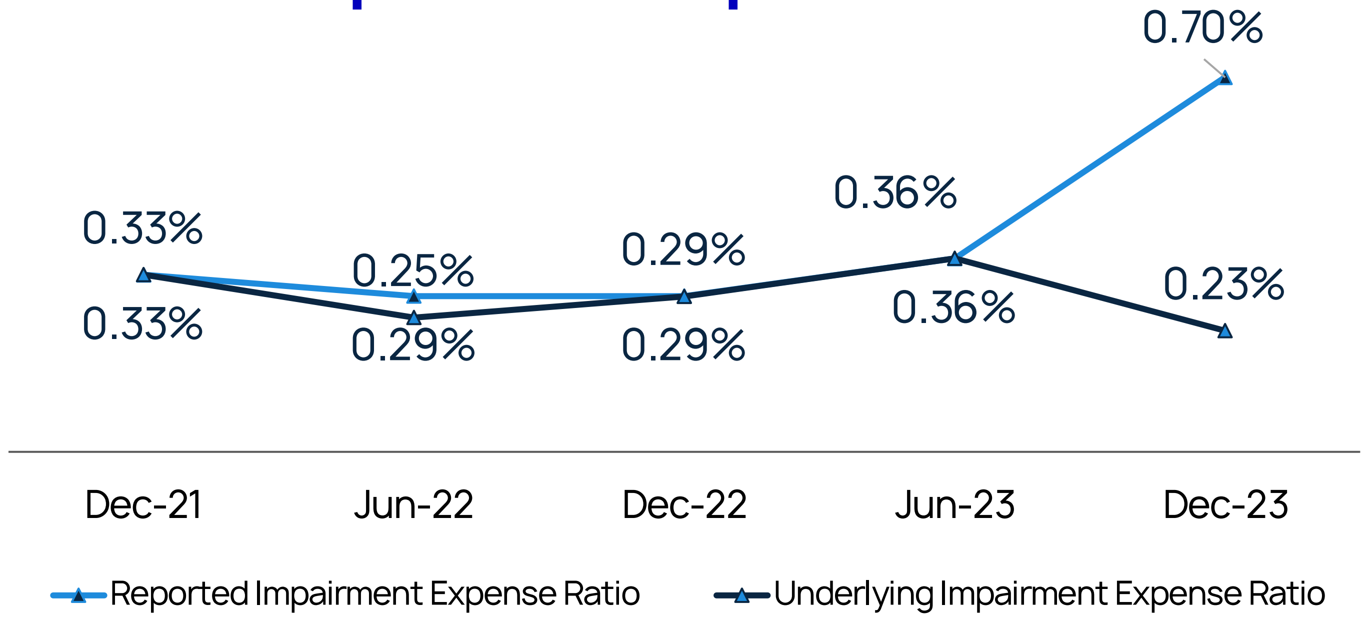
Non Performing Loans



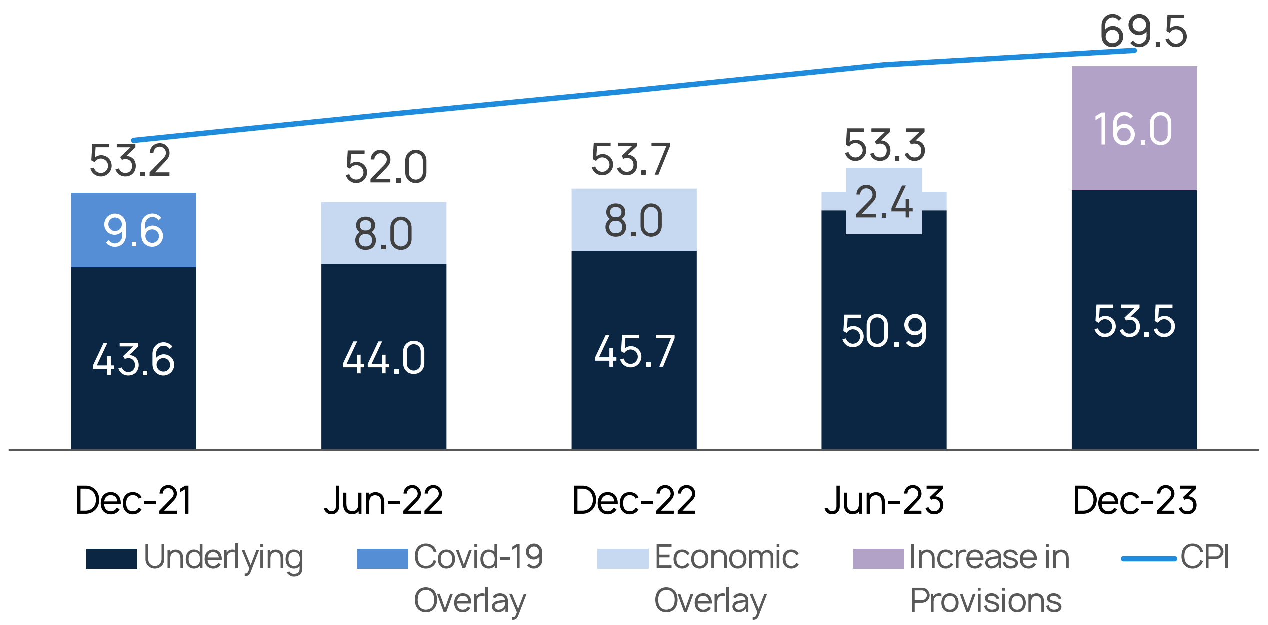
NPL
↑ 51.7m
vs 30 June 2023

NPL ratio
↑ 71 bps
vs 30 June 2023

Impairment Expense Ratio



Total Provisions



Legacy Business and Relationship lending: $5.5 million.

- $4.5 million increase in specific provisions against legacy loans in segments of the market Heartland Bank no longer lends to where economic conditions have decreased confidence in collectability.
- $1.0 million collective provision.

Longer standing Motor Finance loans: $10.5 million increase in collective provisions.

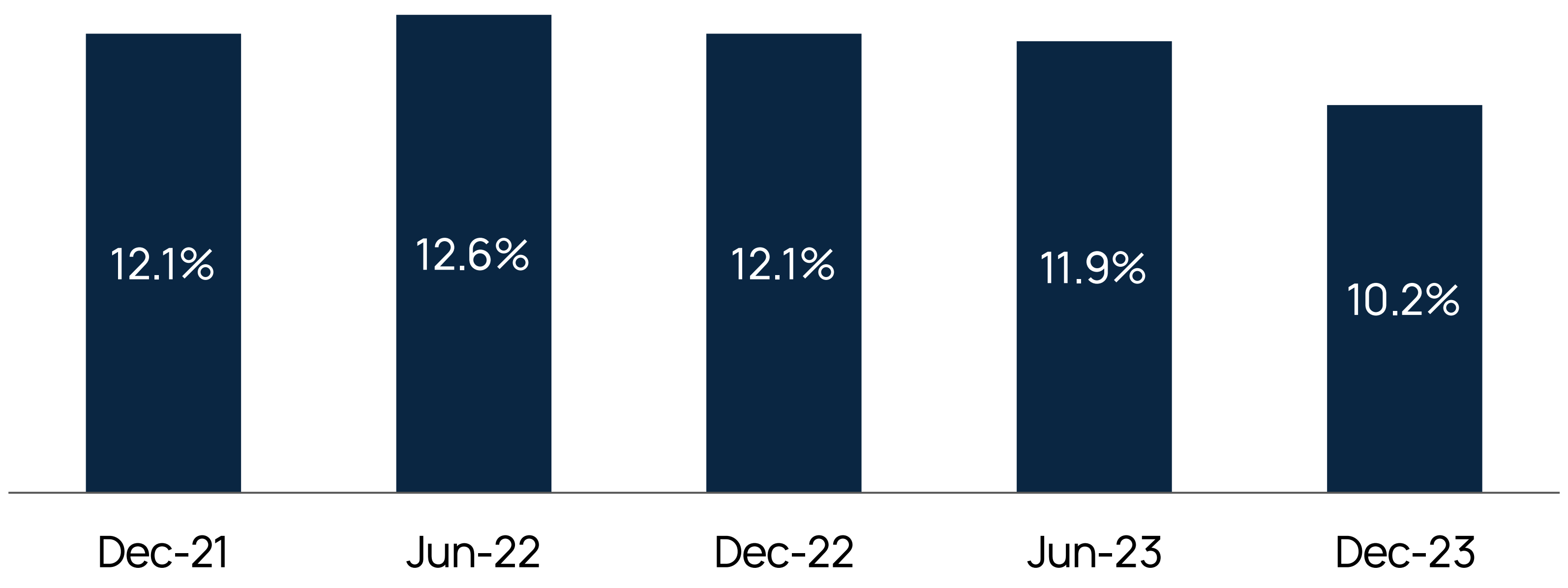
Note: Impairment expense ratio is calculated as impairment expense/average Receivables.

Shareholder return

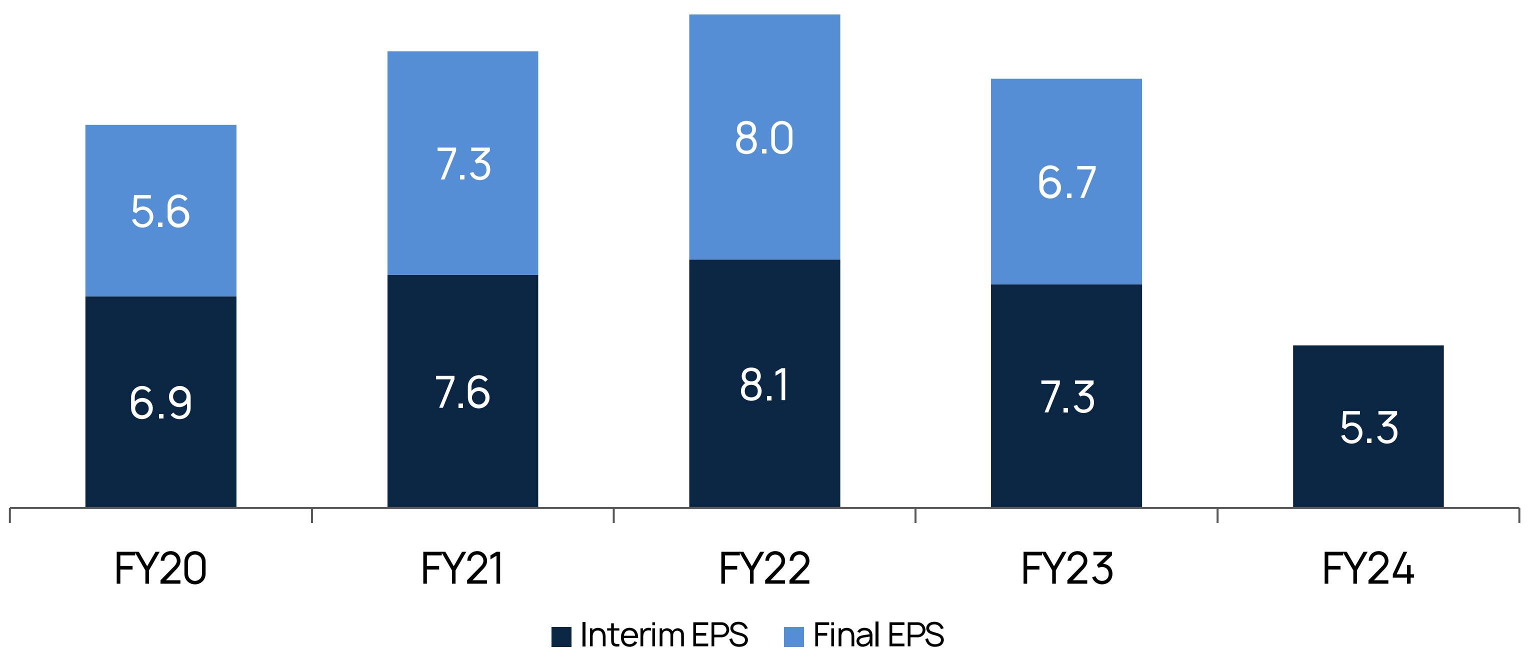
- Underlying ROE of 10.2% (down 183 bps vs 1H2023).[1]
- EPS of 5.3 cps, down 2.0 cps compared with 1H2023.
- Underlying EPS of 7.4 cps (down 0.8 cps vs 1H2023).
- Interim dividend of 4.0 cps, down 1.5 cps on 1H2023.

- Dividend yield of 11.9%[2] (1H2023: 8.7%[3]).
- A slightly lower interim dividend is consistent with current earnings and previous payout ratios and does not reflect a change in policy.
- Heartland's DRP will apply to the interim dividend with a 2.0% discount.[4]

Underlying ROE



EPS (cps)



[1] Underlying ROE refers to ROE calculated using underlying results. When calculated using reported results, ROE was 7.3%, down 329 bps. See page 4 for more information about the use of ROE, a supplementary, non-GAAP measure. [2] Total fully imputed dividends for 1H2024 (interim) and 2H2023 (final) divided by the closing share price as at 26 February 2024 of $1.17. [3] Total fully imputed dividends for 1H2023 (interim) and 2H2022 (final) divided by the closing share price as at 24 February 2023 of $1.75. [4] That is, the strike price under the DRP will be 98.0% of the volume weighted average sale price of Heartland shares over the five trading days following the Record Date. For the full details of the DRP and the Strike Price calculation, refer to the Heartland DRP offer document dated 10 December 2018.

02

Funding & liquidity

New Zealand

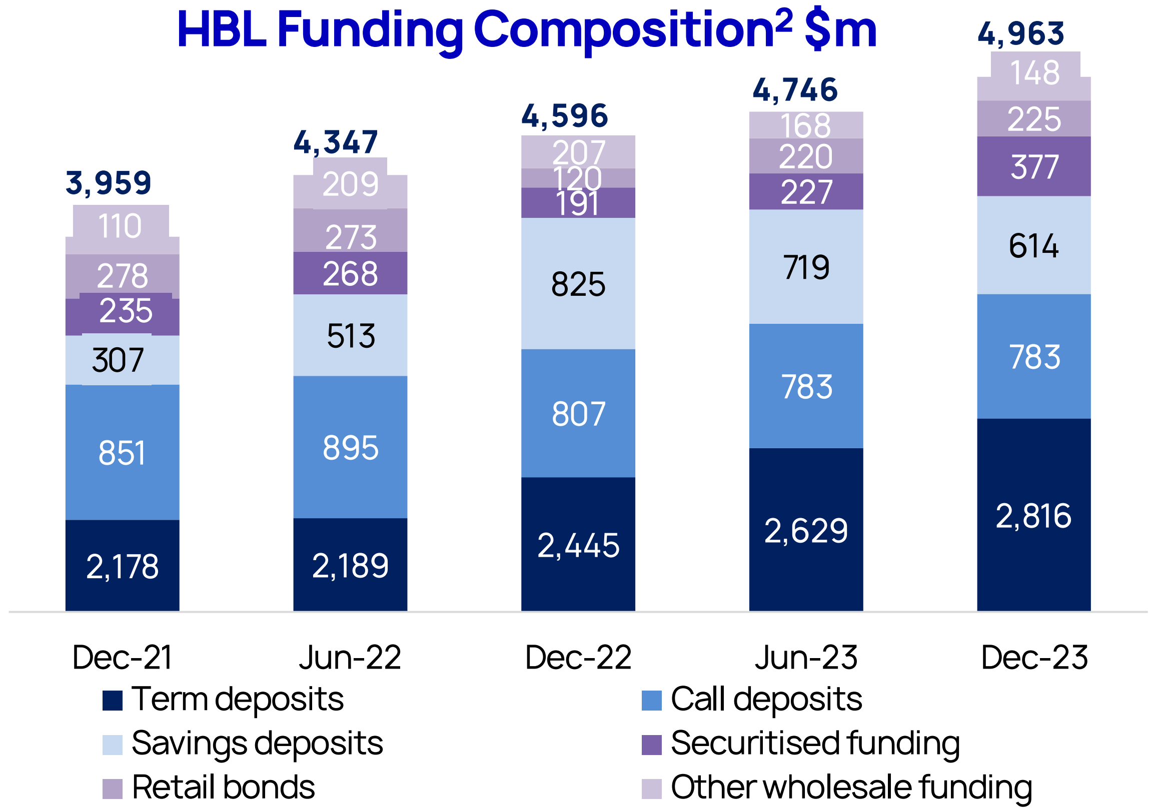
- Heartland Bank increased borrowings by $217.3 million (4.6%) to $4,963.5 million.
- Deposits grew $82.7 million (2.0%) to $4,213.8 million, driven by competitive pricing on targeted products, including Heartland's Notice Saver offerings, particularly the Digital Saver product which launched in October 2023.
- Despite market competition, Heartland Bank's cost of funds outperformed its key peer challenger banks in Q1.[1]
- Other borrowings increased by $134.6 million (21.9%), largely due to an increased drawdown in Heartland Bank's committed auto warehouse facility by $149.5 million. Partially offset by the decreased amount of Heartland Bank's issuance of short-term Commercial Paper.
- $100 million limit increase to Heartland Bank's committed auto warehouse facility was executed in September 2023 taking the total limit outstanding to $500 million.

Core funding Ratio
89.7%
as at Dec 23
vs 75% regulatory minimum
↑ 0.06 pps vs Jun 23

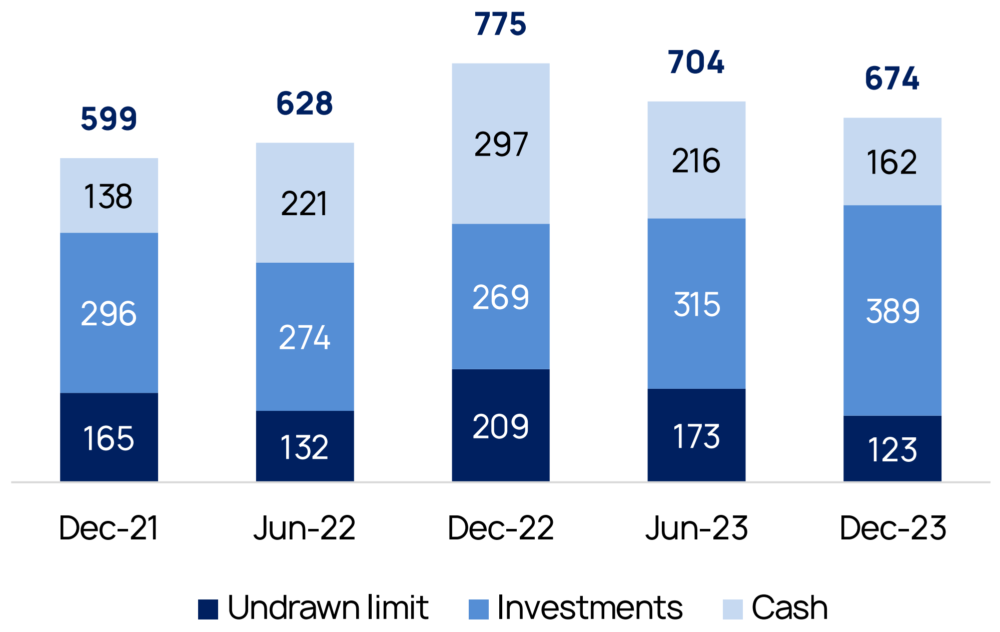
1-week Mismatch
8.52%
as at Dec 23
vs 0% regulatory minimum
↓ 0.17 pps vs Jun 23

1-month mismatch
8.11%
as at Dec 23
vs 0% regulatory minimum
↓ 0.23 pps vs Jun 23

HBL Funding Composition[2] $m



HBL Liquidity Composition $m

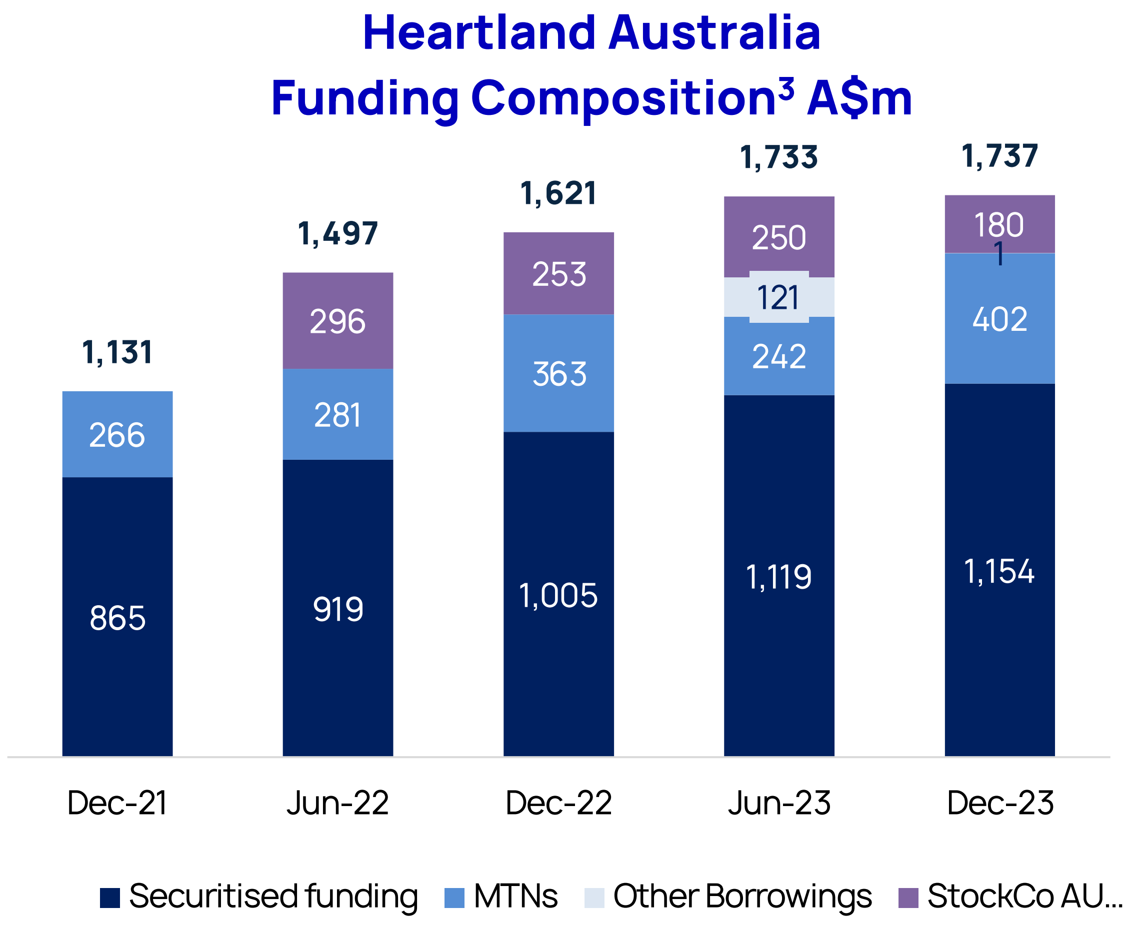


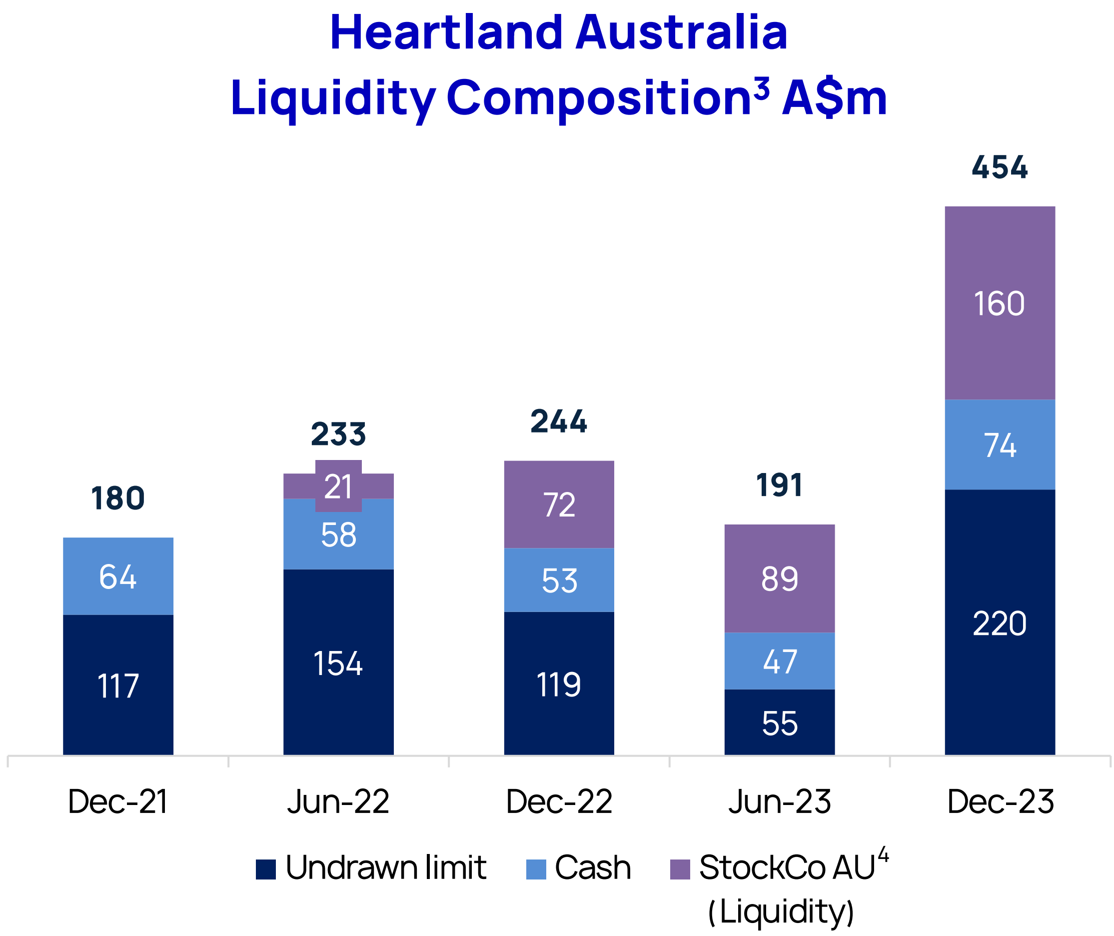
[1] Based on dashboard data from the RBNZ for the period July 2023-September 2023. [2] Includes intercompany deposits.

Funding & liquidity

Australia

- Heartland Australia increased borrowings by A$4.2 million (0.2%) to A$1,736.7 million.
- Excluding StockCo Australia[1], borrowings increased by A$74.9 million (5.1%) to A$1,557.1 million.
- An A$50 million tap issue was completed in October 2023 and a further A$105 million tap MTN was issued in December 2023. The proceeds were used to refinance another maturing facility and provide further Reverse Mortgage funding.
- The aggregate outstanding issuance under Heartland Australia's MTN programme was A$395 million as at 31 December 2023.
- The aggregate senior limits of the two Reverse Mortgage securitisation warehouses were expanded by A$200 million, providing access to A$1.77 billion of committed funding in aggregate.
- StockCo Australia decreased borrowings by A$70.6 million (28.2%) to A$179.6 million[2], reflecting the current book size.





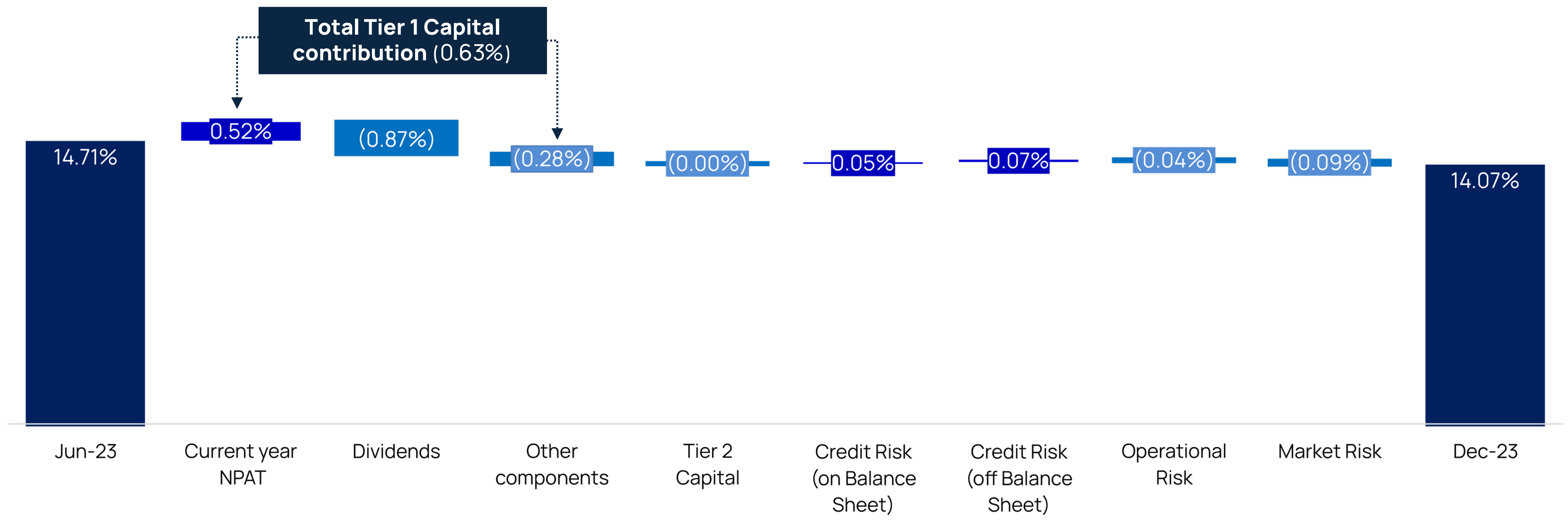
[1] StockCo Australia was transferred from Heartland to Heartland Australia on 1 August 2023. [2] Excluding intercompany funding from Heartland Australia. [3] For comparison purposes, StockCo Australia is included from the acquisition date of 31 May 2022. [4] Includes cash and undrawn limit of securitised funding.

02

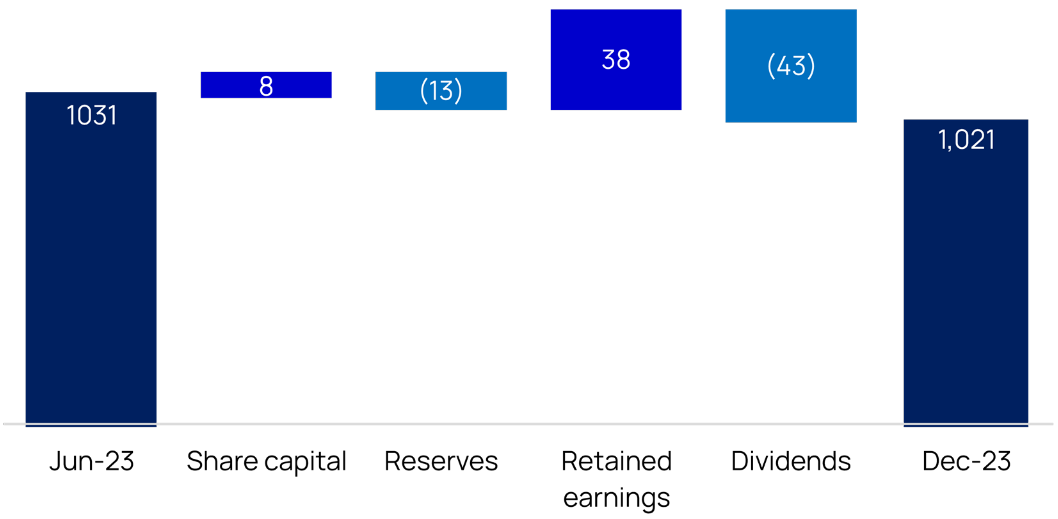
Capital

- With a regulatory capital ratio of 14.07%[1], Heartland Bank continues to operate significantly in excess of regulatory minimums and is well positioned to meet the RBNZ's future higher capital requirements.
- The RBNZ future capital requirements are for a core capital ratio of 11.50% and a total capital ratio of 16.00% by 1 July 2028.

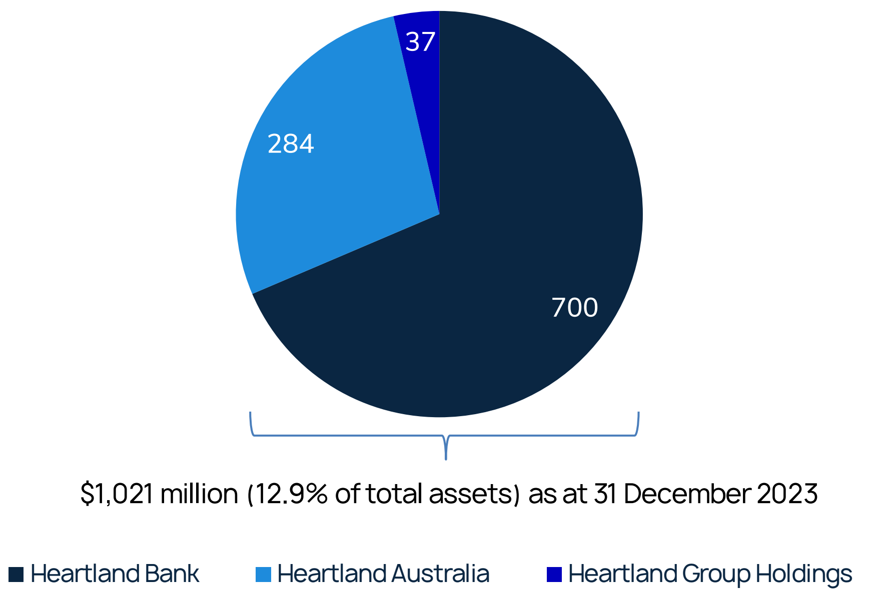
Heartland Bank Total Capital Ratio



Heartland Capital Movement $m



Heartland Capital Allocation $m



[1] Heartland Bank's regulatory capital ratio decreased slightly to 14.07% as at 31 December 2023 (30 June 2023: 14.71%) driven by balance sheet growth and the FY2023 dividend payment (paid on 20 September 2023).

Note:

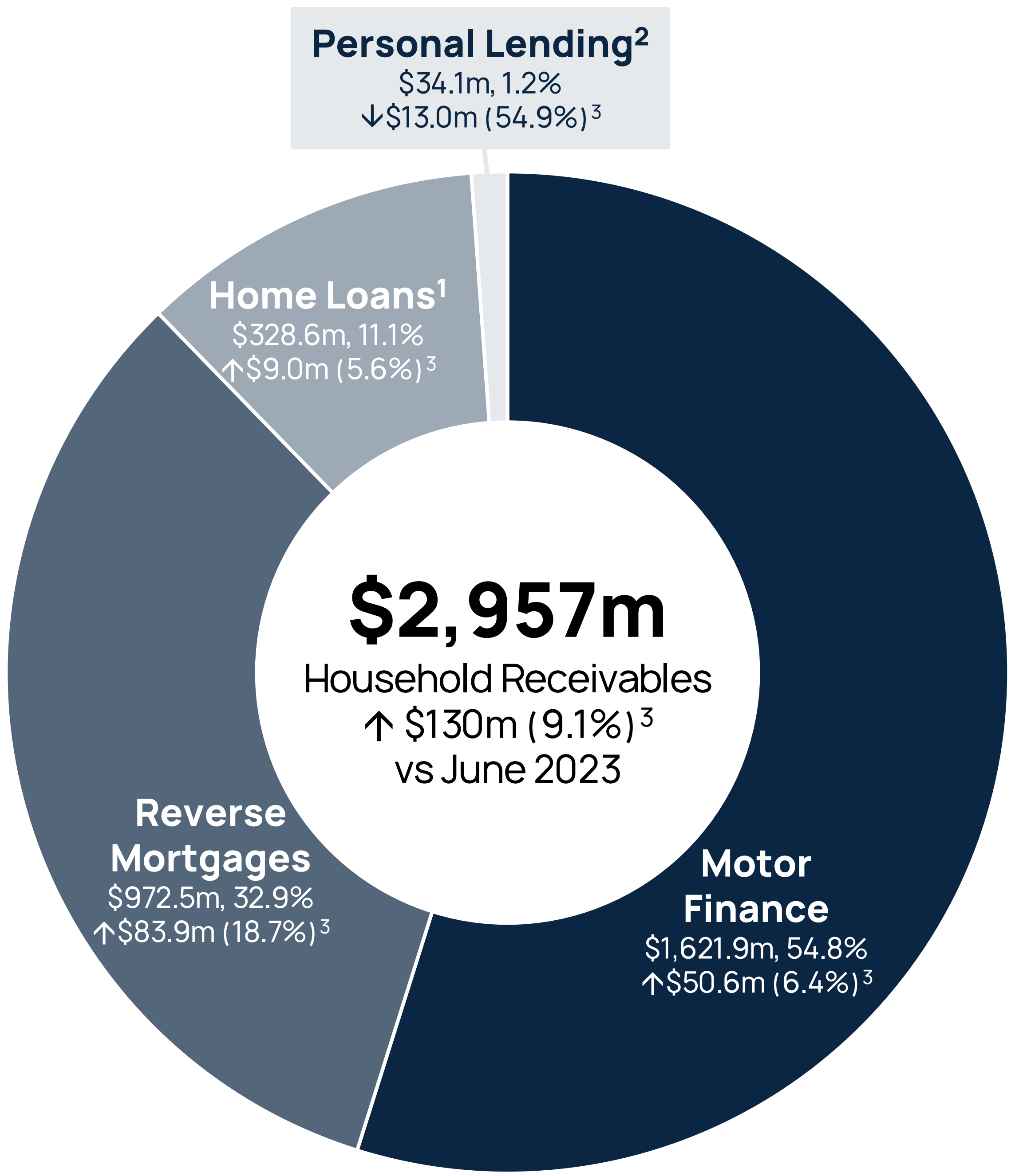
- Retained earnings includes current NPAT.
- StockCo Australia was transferred from Heartland to Heartland Australia on 1 August 2023.
- RBNZ total capital ratio plus prudential capital buffer requirement of 10.50% as at 31 December 2023.

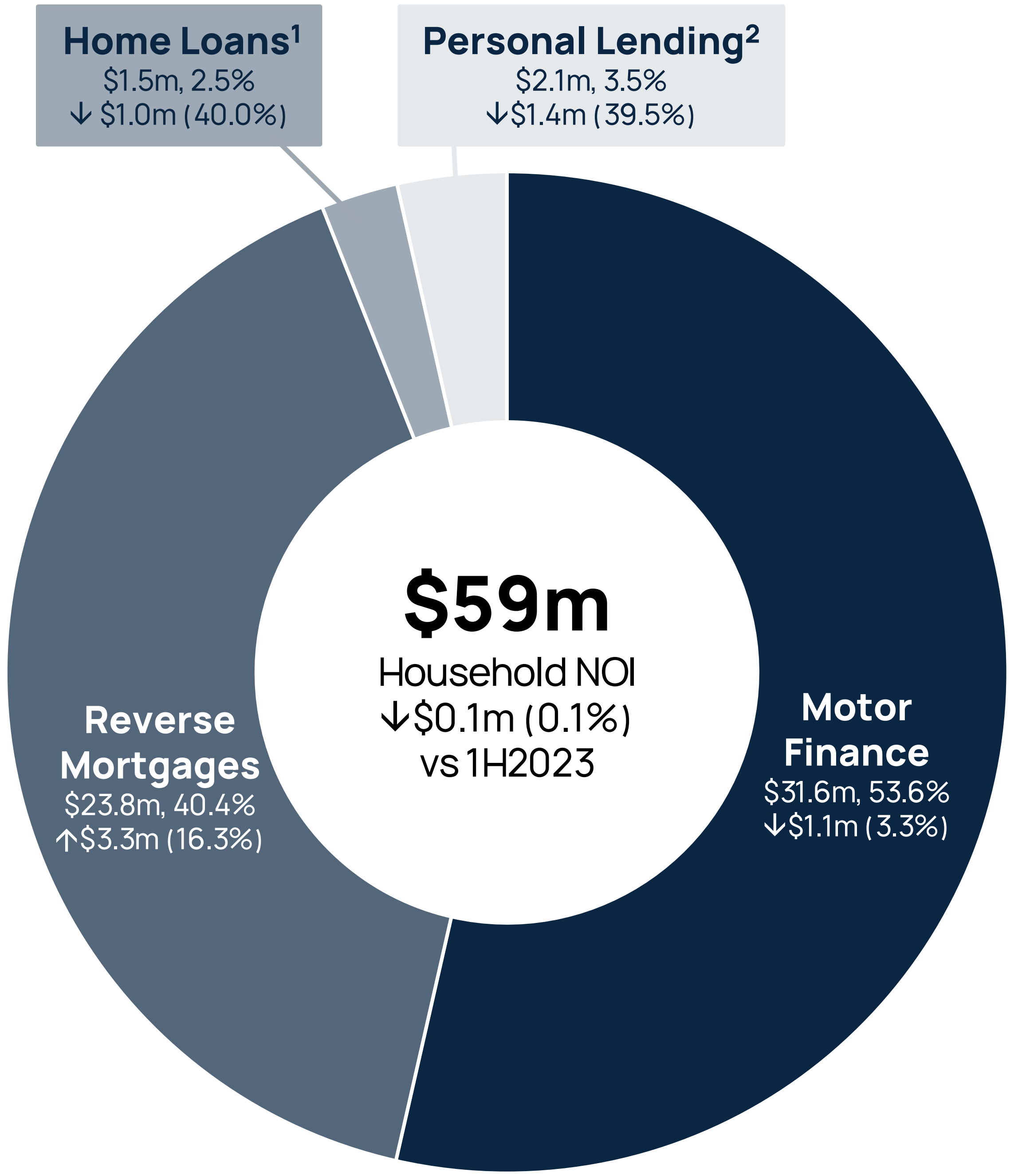
03

NZ divisional summary

Leanne Lazarus
Chief Executive Officer Heartland Bank

NZ Household





Reverse Mortgages

- Strong growth of 18.7%[3].
- Current demand driven by the ongoing cost-of-living strain placed on older homeowners.
- Accelerated growth expected in 2H2024.

Motor Finance

- Very pleasing growth of 6.4%[3] in a market where total new and used car sales in NZ were down 12.2%[4].
- Strengthened distribution network (including new partnerships with MG Motor and Tesla[5]).

Online Home Loans

- Growth of 5.7%[6] well above the overall NZ market expansion in home lending of 1.7%.[7]
- Retention exceeded 90% for customers whose fixed rates came up for renewal in 1H2024.

Personal Lending

- The portfolio is not actively originating.
- The Harmoney personal loans channel is closed to new business and in run off.

[1] Includes Online Home Loans and legacy Retail Mortgages. [2] Excluding the impact of changes in FX rates. [3]Annualised 1H2024 growth excluding the impact of changes in FX rates. [4] Based on data from Turners, dated December 2023 (data sourced from Waka Kotahi NZ Transport Agency). [5] Tesla preferred finance provider launched in February 2024. [6] Excludes legacy Retail Mortgages. [7] Based on RBNZ's *Registered banks and non-bank lending institutions: Sector lending (C5)* data at 31 December 2023 compared with 30 June 2023. Data accurate as at 31 January 2024.

Motor Finance & Collections position

Issue affecting a subset of longer dated loans

- Economic conditions impacting more severely on a subset of longer dated loans which arose from operational issues in Heartland Bank's Collections & Recoveries area and do not reflect any underlying issues with the credit quality of the book. This is primarily a resourcing issue, and these challenges are being actively resolved as described below.
- Resourcing issues were caused by illness, employee turnover due to overseas travel and a focus on Heartland Bank's core banking system upgrade (which is now complete).

Active resolution

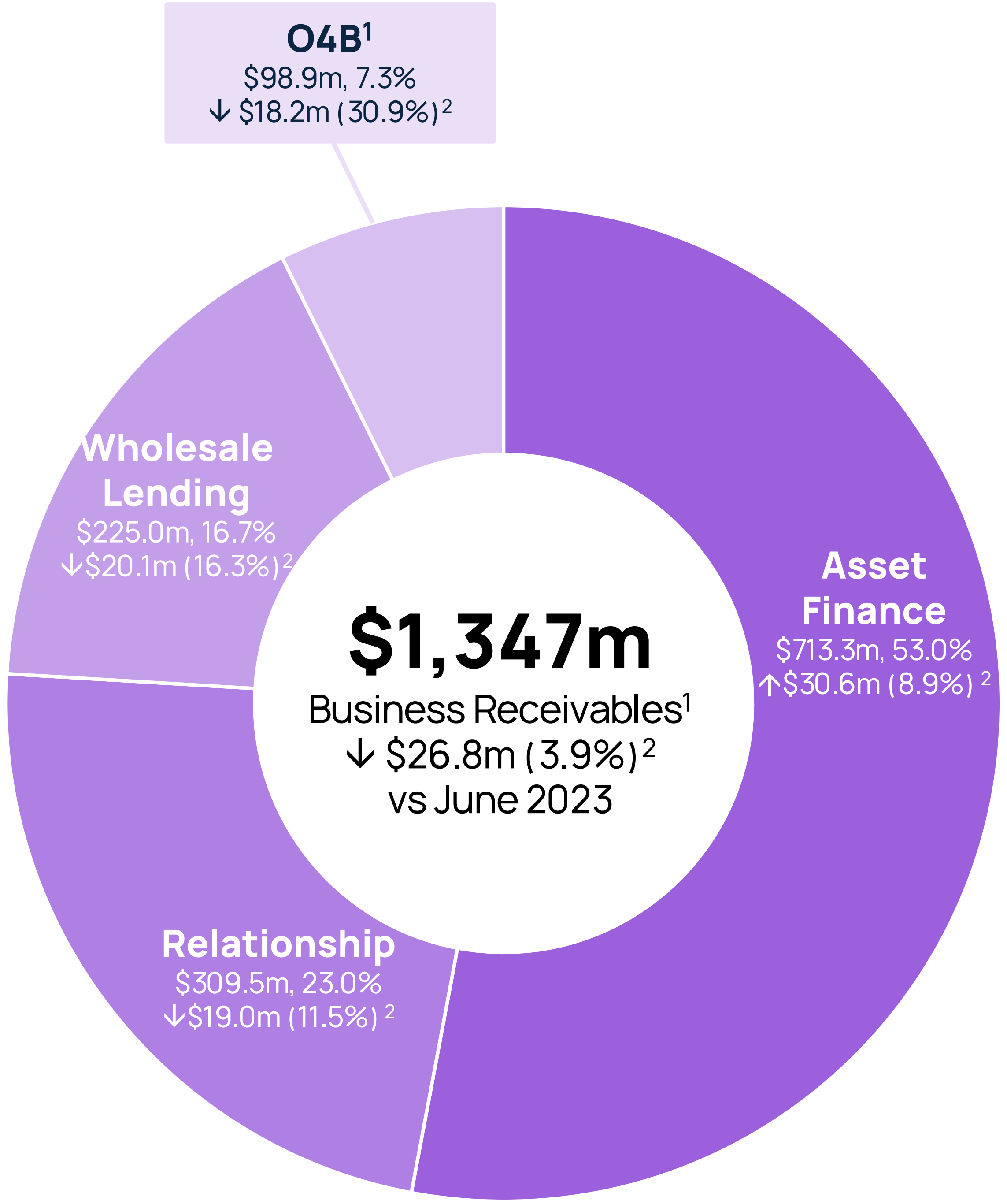
- Additional resourcing to full capacity.
- Specialised recruitment strategy underway for a more stable and experienced workforce, with increased regional focus.
- While Heartland Bank is addressing resourcing, it remains a challenge.
- Increased automation is required to improve internal workflows and reduce manual effort. This includes upgrading the debt management and collections system, integration with core banking systems, and making greater use of data and analytics to drive collections strategies.

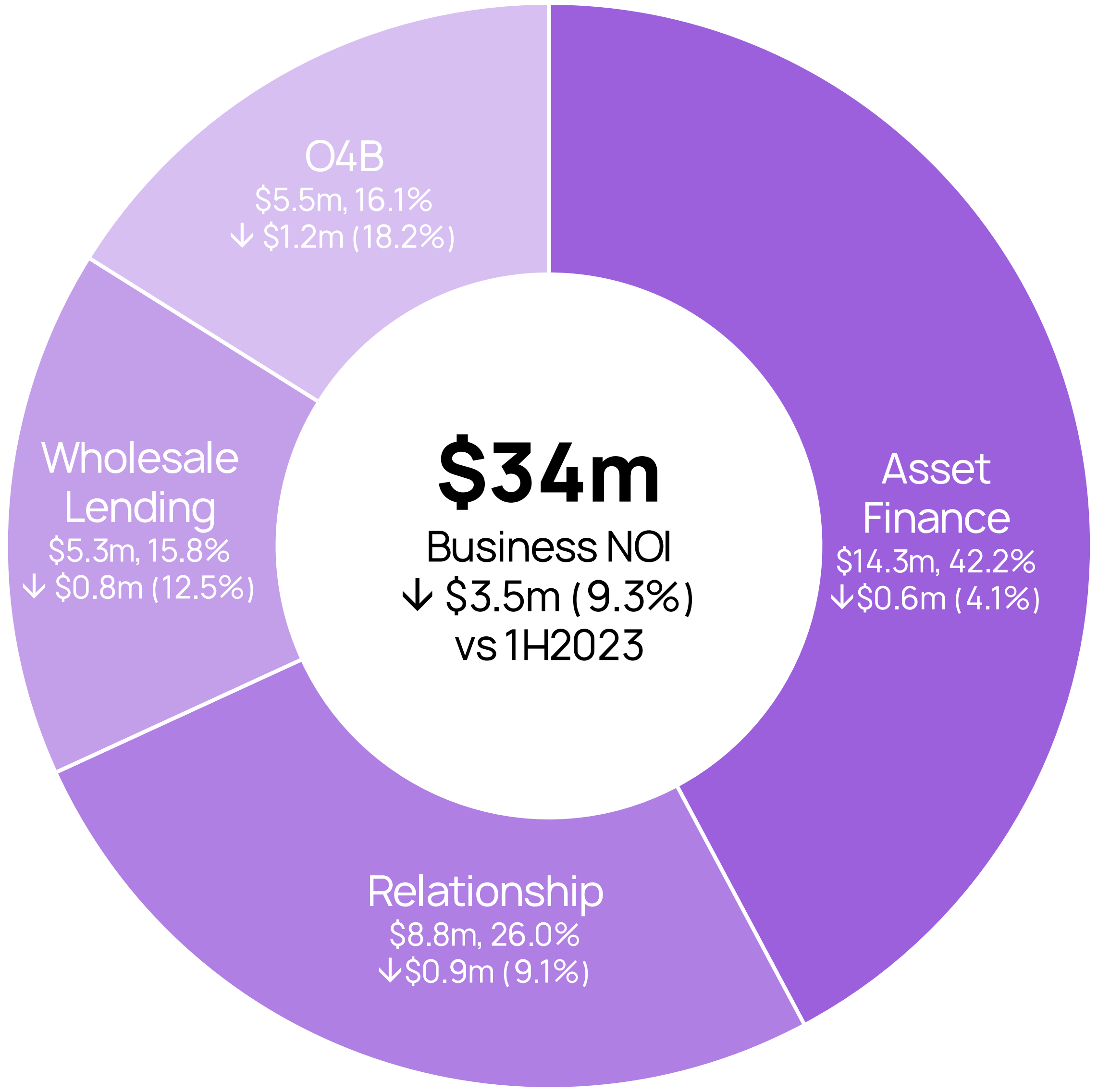
NZ Reverse Mortgages portfolio analytics

$972m NZ Reverse Mortgages +$84m (18.7%)[1] vs June 2023	**$135,139** Average loan size	**78** Weighted average borrowers' age	**16.7%** Compounded annual growth rate[2]
9.6% Average origination LVR	**22.8%** Weighted average LVR	**0.0%** Proportion of the loan book over 75% LVR	**0** Number of loans in the book over 75% LVR
$96m (-$13m vs 1H2023) 1H2024 origination	**$58m** (+$7m vs 1H2023) Total repayments in 1H2024	**12.9%** (vs 14.0% in 1H2023) 1H2024 repayment rate	**22.8%** (vs 31.4% in 1H2023) Repayments from vintage loans (+11 years)

[1] Annualised 1H2024 growth excluding the impact of changes in FX rates. [2] Compounded annual growth rate for the period 1 July 2018 – 30 December 2023.

NZ Business





Asset Finance

- Growth of 8.9%[2] is strong against a backdrop of lower margin loans taking longer to roll off as customers take longer to refinance assets.

Wholesale Lending

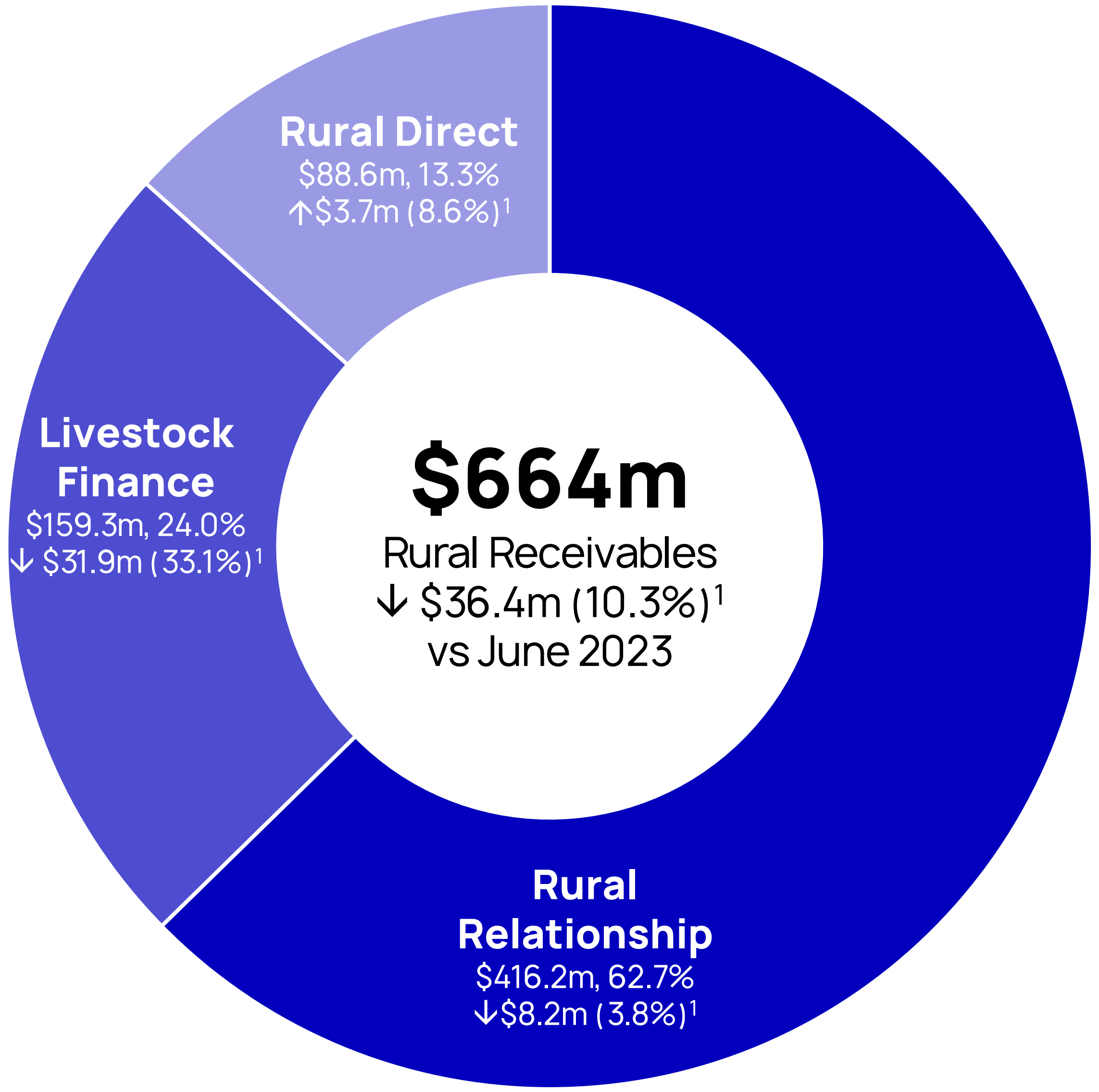
- Growth from new business is anticipated in 2H2024 as Heartland Bank continues to expand its Motor Finance dealer network, presenting Wholesale Lending opportunities with dealerships.

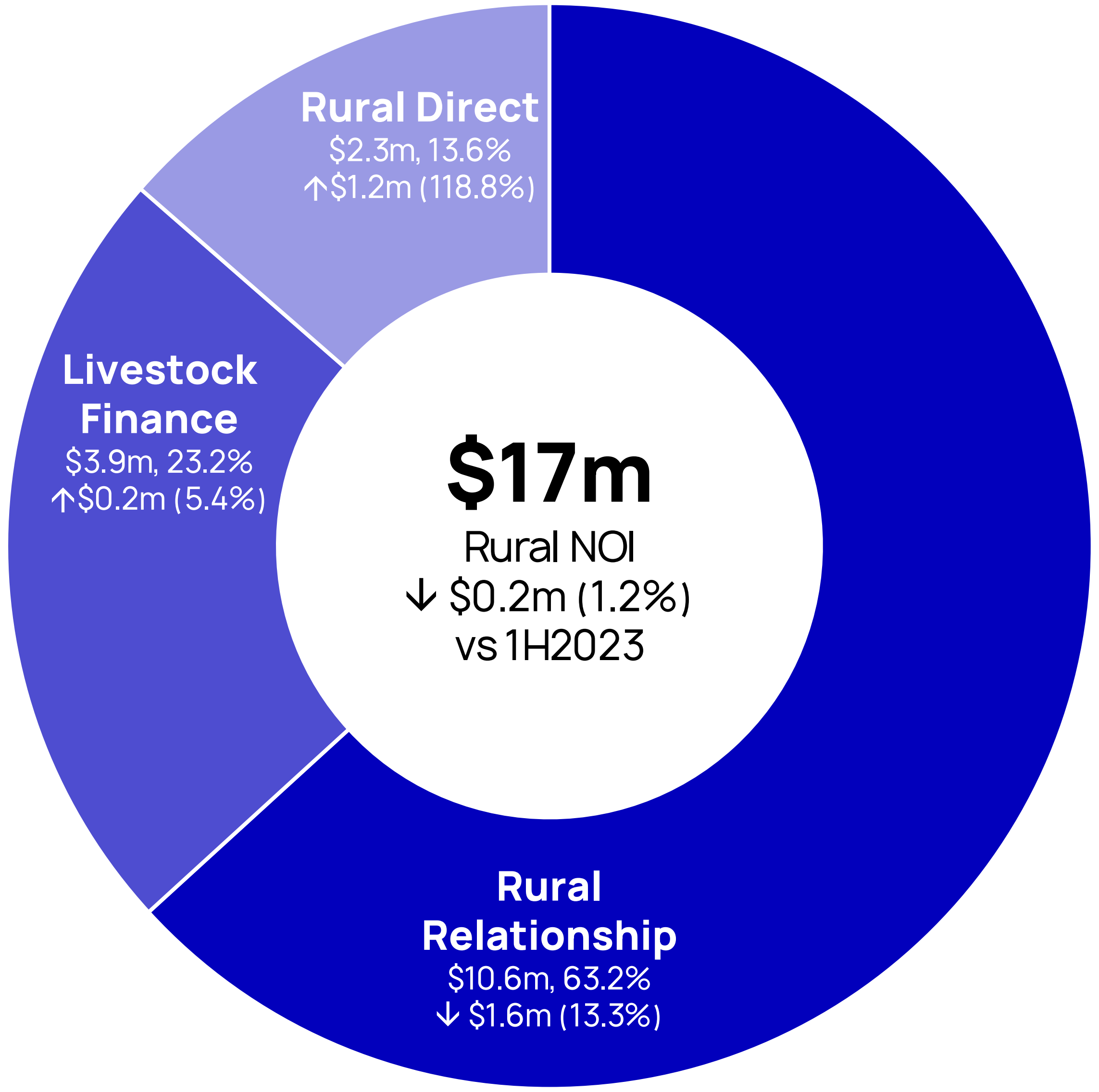
Relationship

- Includes legacy Business Relationship lending being run down as Heartland continues to transition to loans which present lower risk and are more cost efficient to transact.

[1] Excluding the impact of changes in FX rates. [2] Annualised 1H2024 growth excluding the impact of changes in FX rates.

NZ Rural





Livestock Finance

- Decrease in Receivables was driven by the normal seasonal fluctuations, with growth expected in 2H2024.

Rural Direct

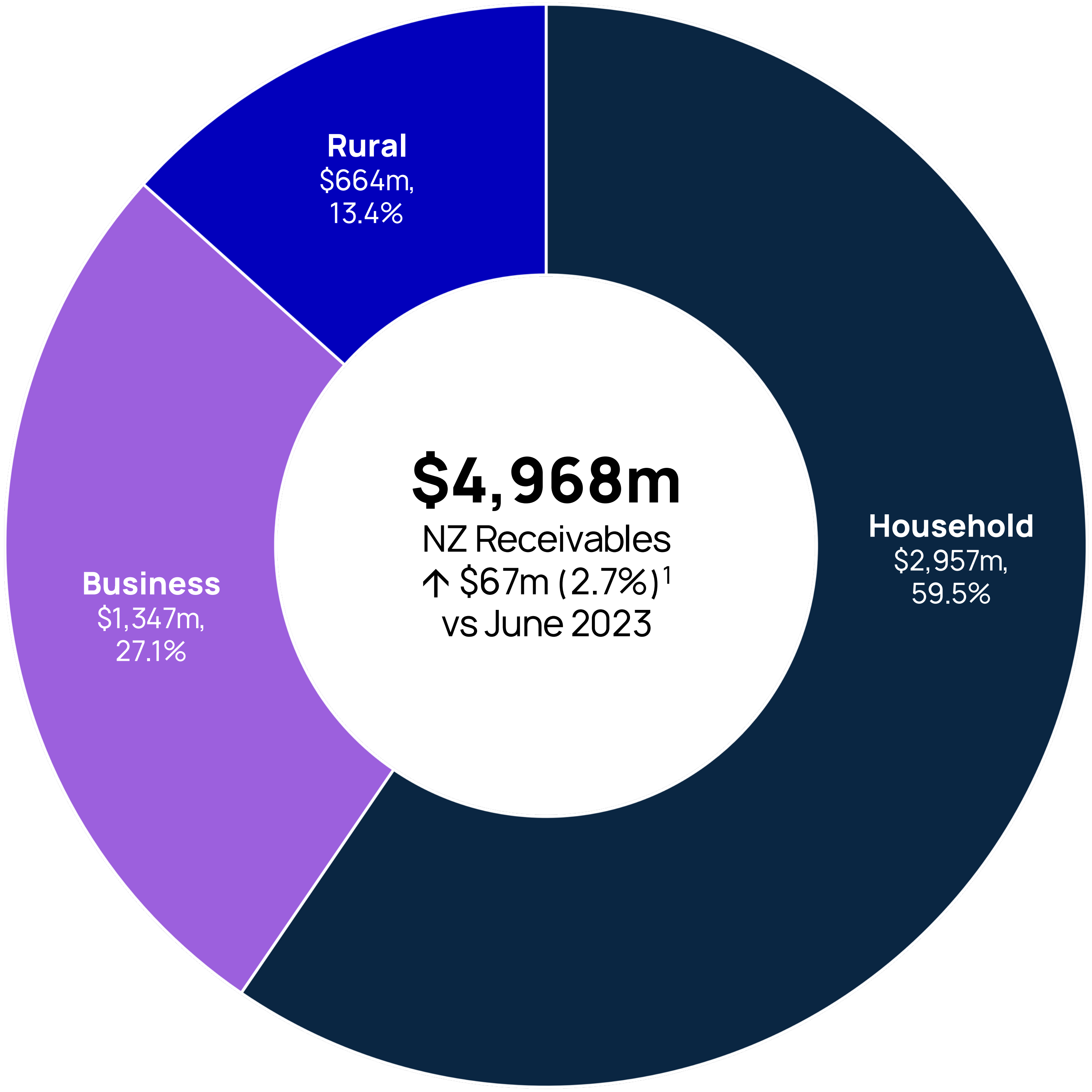
- Weak livestock price conditions and higher costs reduced confidence in the market and led to fewer farm sales, resulting in subdued growth.

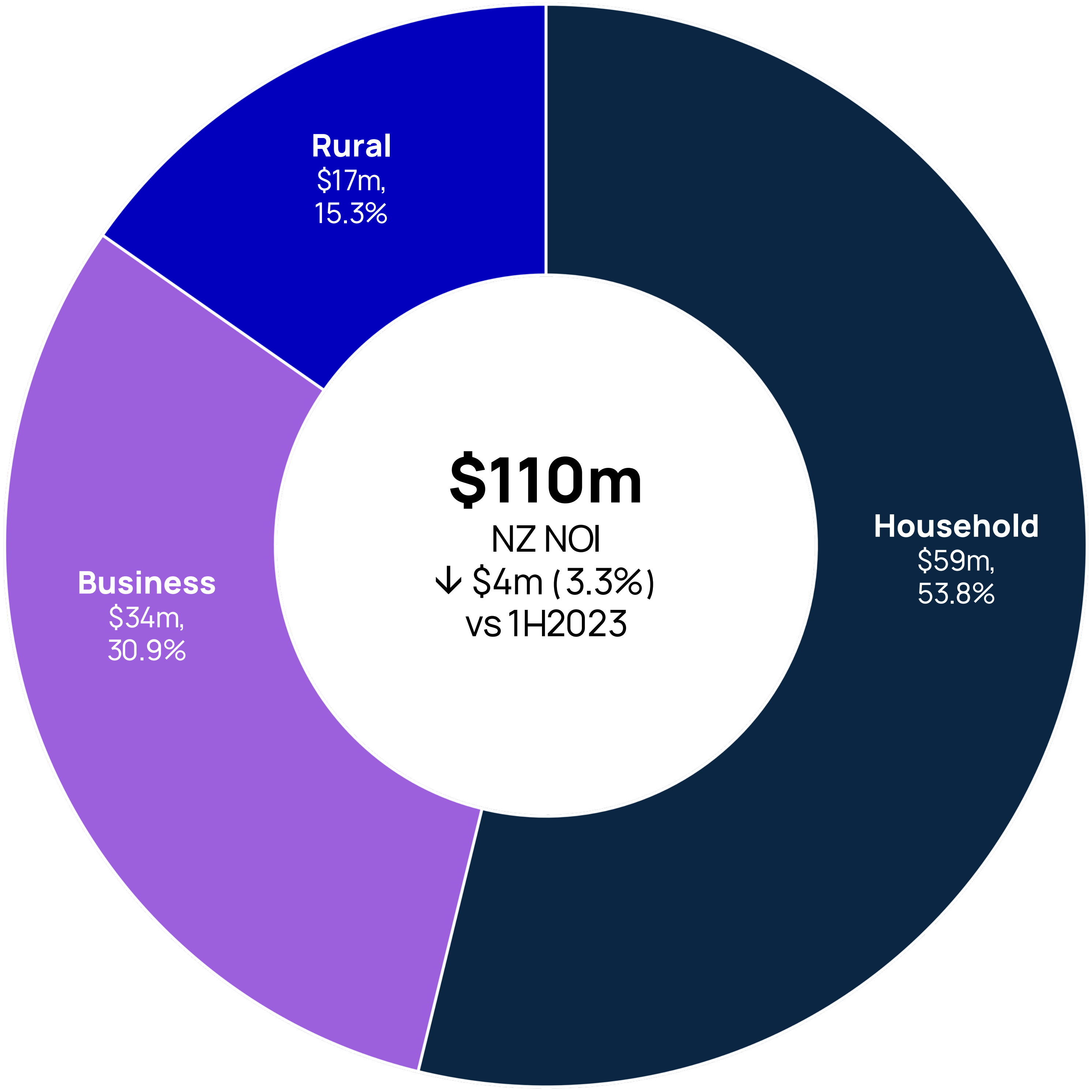
Rural Relationship

- Reduction in Receivables of $8.2 million due to the continued transition of the book away from large, complex, low margin lending.

[1]Annualised 1H2024 growth excluding the impact of changes in FX rates.

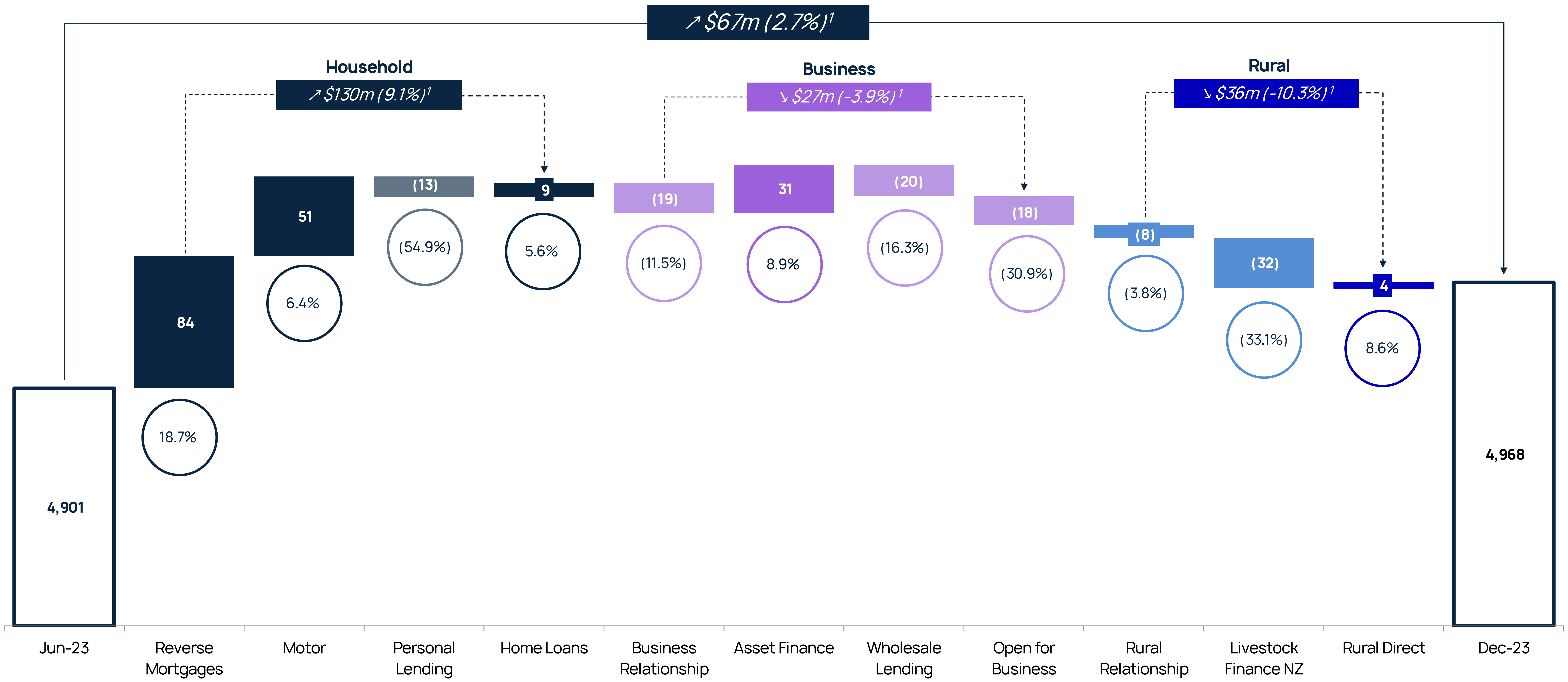
NZ divisional summary





Note: 1H2024 growth in Receivables by portfolio is excluding the impact of changes in FX rates and intercompany balances. All figures in NZ$m.
[1]Annualised 1H2024 growth excluding the impact of changes in FX rates.

NZ divisional summary



Note: The graph shows 1H2024 growth in Receivables by portfolio excluding the impact of changes in FX rates and intercompany balances. All figures in NZ$m.
[1]Annualised 1H2024 growth excluding the impact of changes in FX rates

04

AU divisional summary

Chris Flood
Deputy Chief Executive Officer Heartland Group

Preparation for completion of Challenger Bank acquisition[1]

Transaction related costs expected to be expensed in FY2024 which are one-off, non-recurring in nature and do not impact underlying performance.[2]

Premises leased in Melbourne and Sydney to accommodate growth.

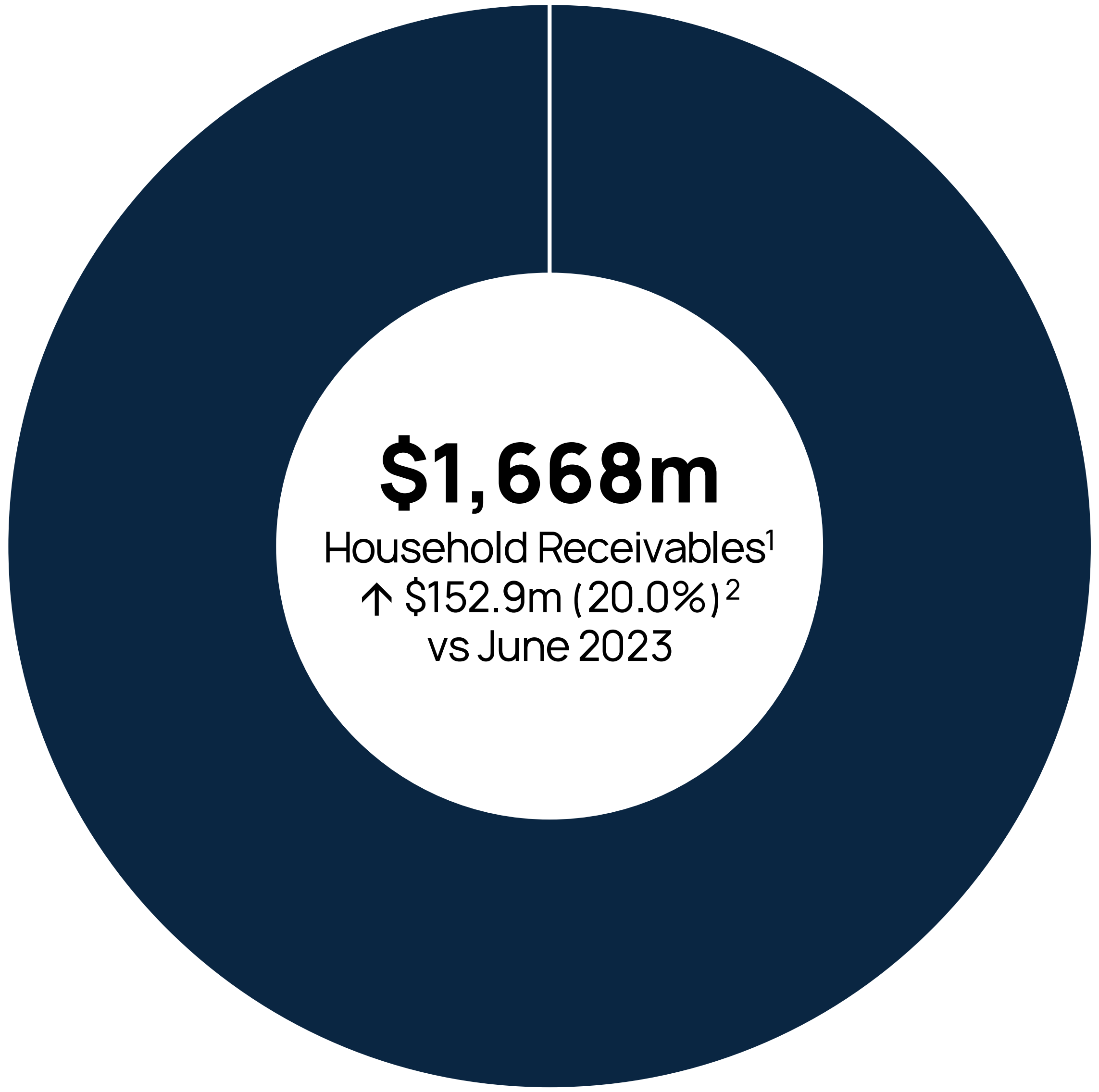
Recruitment of key roles well advanced to support bank operations, expansion ambitions and compliance with regulatory standards.

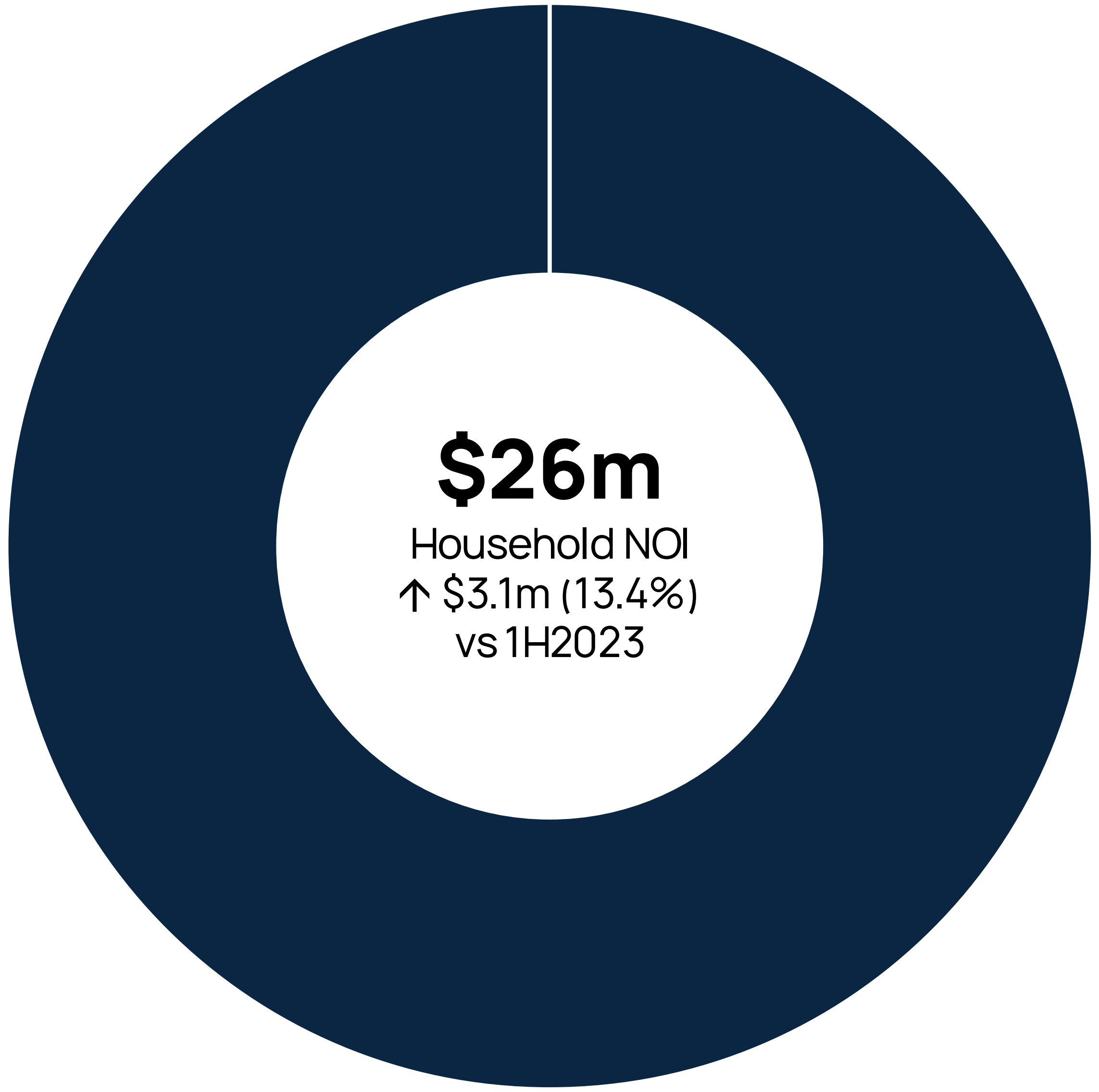
Early Challenger Bank AU deposit market experience exceeding Heartland expectations

- Challenger Bank is actively raising deposits ahead of being acquired by Heartland Bank and will continue to do so. This will enable Heartland to optimise the advantage of a lower cost of funds post-acquisition completion.
- Recent success of Challenger Bank in the AU deposit market has exceeded Heartland's expectations.
- In the seven-week period commencing 8 January 2024, retail deposit growth of $528 million was achieved, at a rate which is 1.34% lower than Heartland Australia's current cost of funds.[2]

[1] The acquisition of Challenger Bank remains subject to requisite regulatory approvals. [2] Month to date January 2024 cost of funds for Heartland Australia (including StockCo Australia). [2] Refer to ABP costs in Appendix 3.

AU Household





Reverse Mortgages[1]

- Strong growth of 20.0%.[2]
- Cost-of-living requests (debt consolidation, supplementing income) have increased while lifestyle requests (car, travel) have softened. Home improvements and debt consolidation remain the top two loan purposes.
- Growth is expected to remain strong in 2H2024 as older Australians seek to remain in their home as they age.

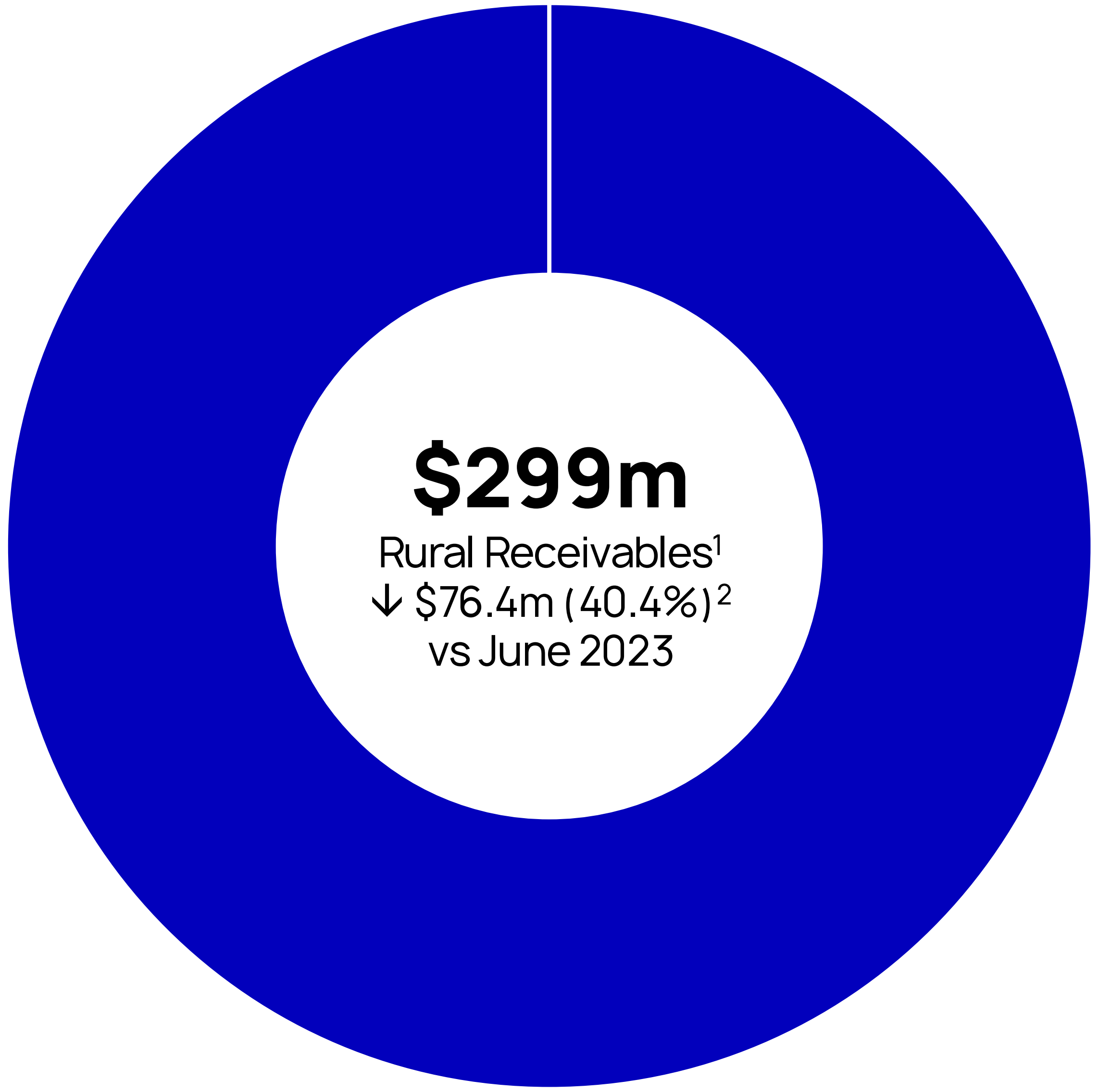
[1] Excluding the impact of changes in FX rates. [2] Annualised 1H2024 growth excluding the impact of changes in FX rates.

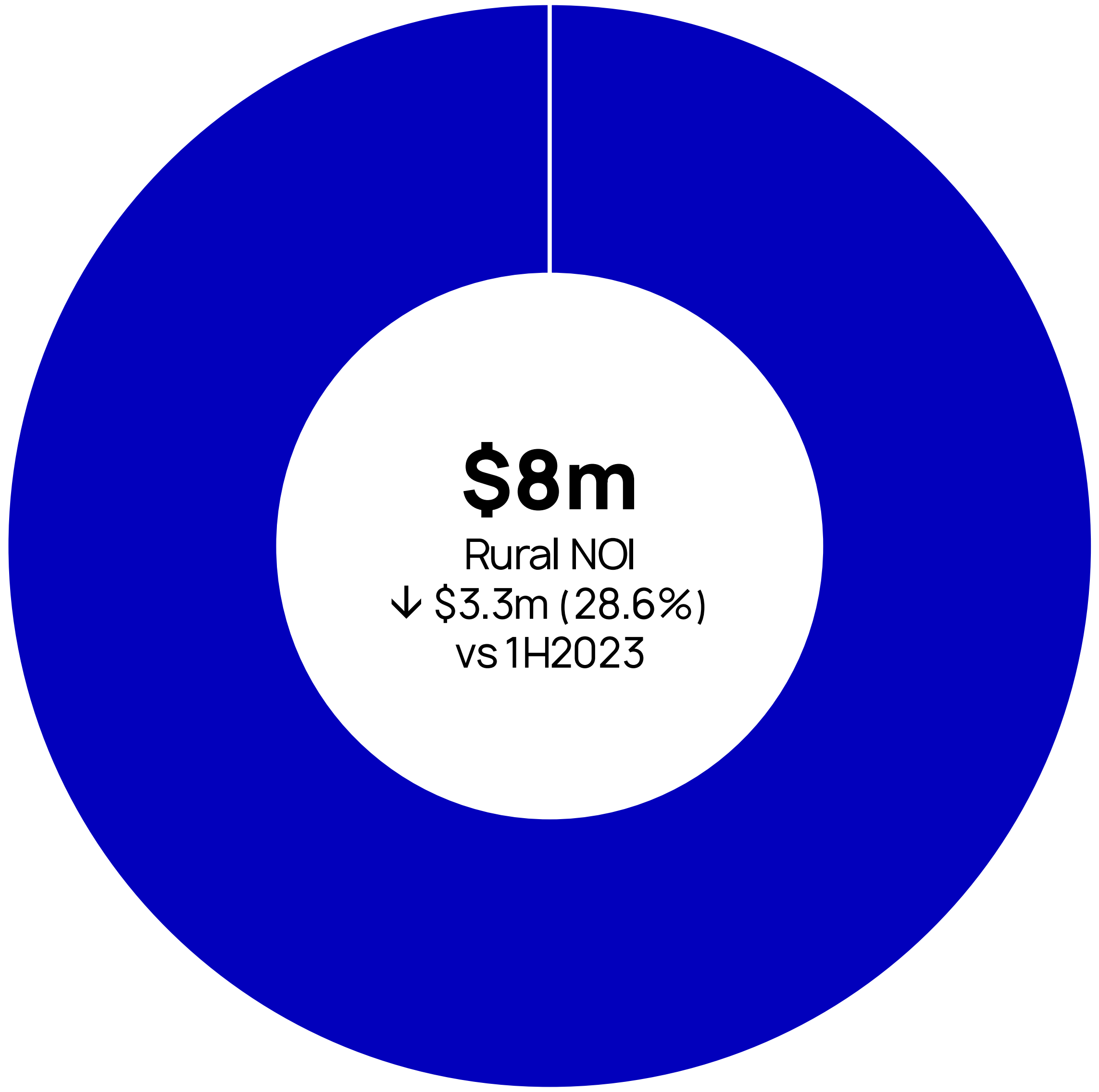
AU Reverse Mortgages portfolio analytics[1]

$1,668m AU Reverse Mortgages +$153m (20.0%)[3] vs June 2023	**$190,849** Average loan size	**77** Weighted average borrowers' age	**22.6%** Compounded annual growth rate[2]
11.9% Average origination LVR	**22.7%** Weighted average LVR	**0.1%** Proportion of the loan book over 75% LVR	**3** Number of loans in the book over 75% LVR
$185m (-$1m vs 1H2023) 1H2024 origination	**$104m** (-$3m vs 1H2023) Total repayments in 1H2024	**13.8%** (vs 16.7% in 1H2023) 1H2024 repayment rate	**16.1%** (vs 17.2% in 1H2023) Repayments from vintage loans (+11 years)

[1] Excluding the impact of changes in FX rates (where applicable). All figures in NZD. [2] Compounded annual growth rate for the period 1 July 2018 – 30 December 2023. [3] Annualised 1H2024 growth excluding the impact of changes in FX rates.

AU Rural



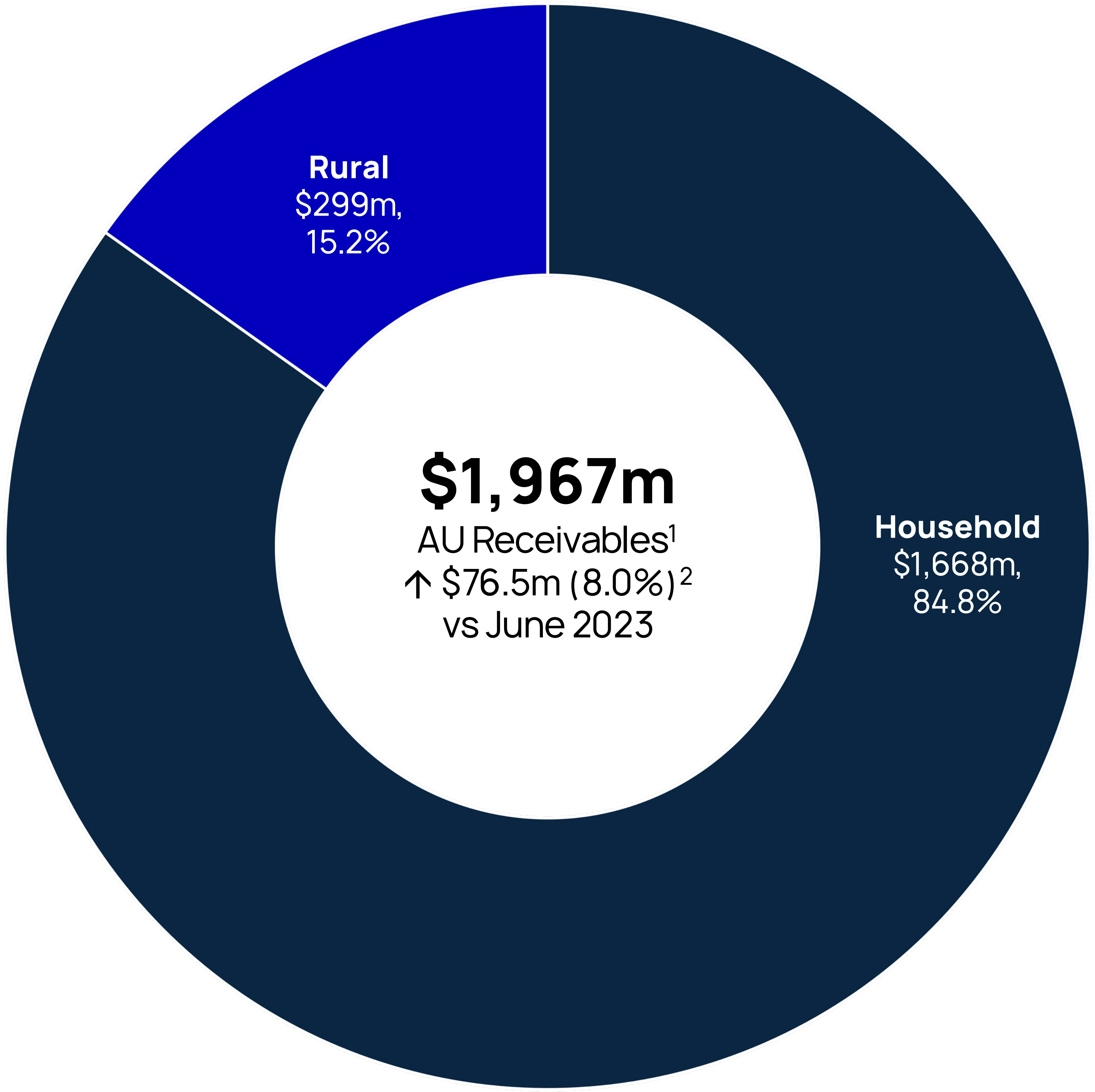


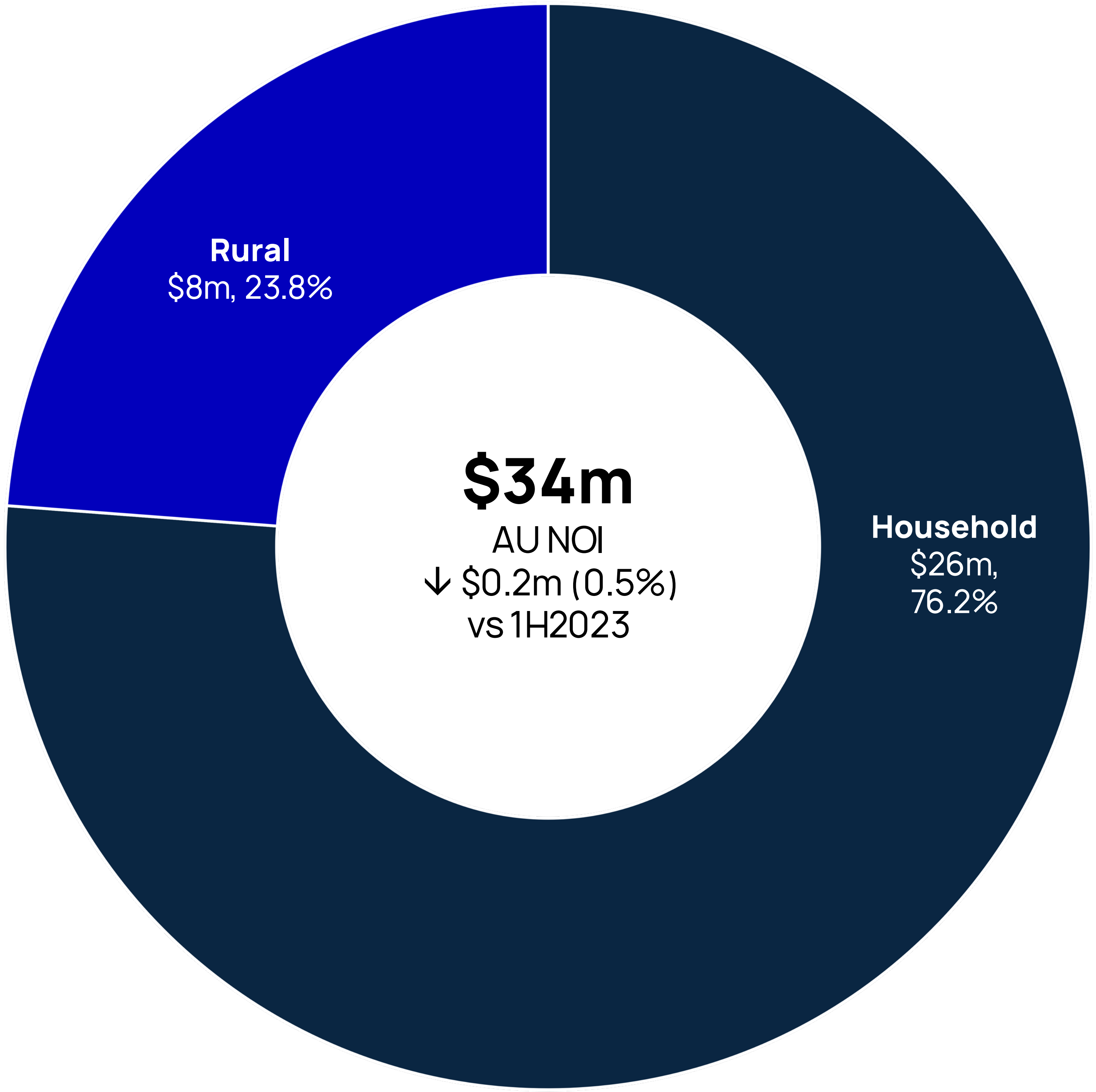
Livestock Finance

- Adverse weather conditions and drought concerns continued to negatively impact livestock prices in 1H2024.
- With the reducing risk of drought, livestock prices have improved. Cattle prices are now above the 10- and 20-year averages and Trade Lamb prices have nearly doubled over recent weeks and now sit above the 20-year average and slightly below the 10-year average.[3]
- Heartland expects a stronger performance in 2H2024, with growth on a value basis.

[1] Excluding the impact of changes in FX rates. [2] Annualised 1H2024 growth excluding the impact of changes in FX rates. [3] Data from the National Livestock Reporting Service.

AU divisional summary





[1] Excluding the impact of changes in FX rates. [2] Annualised 1H2024 growth excluding the impact of changes in FX rates.

05

Outlook

Jeff Greenslade
Chief Executive Officer Heartland Group

FY2024 outlook

Complete the acquisition of Challenger Bank within 2H2024[1]

- The focal point for 2H2024 and a critical step in Heartland's strategy for expansion in AU market – and ultimately towards achieving its FY2028 ambitions.

Growth expected through core lending portfolio resilience

- 2H2024 is expected to be challenging, however improved organic growth is anticipated in line with reduced inflation.
- Heartland is confident in the resilience of its core lending portfolios and 'best or only' strategy – with a particular focus on Reverse Mortgages.

Growth supported by digitalisation and cost discipline

- Heartland's ability to achieve a superior underlying CTI ratio over time and enable scalable growth is underpinned by increased digitalisation, cost discipline and revenue growth.
- Increased levels of digitalisation and automation enabled by Heartland Bank's core banking system upgrade, completed in 1H2024.

FY2024 NPAT

- Heartland expects NPAT for FY2024 to be within the guidance range of $93 million to $97 million, excluding any impacts of fair value changes on equity investments held and the impact of the de-designation of derivatives and ABP transaction costs.
- Excluding the impact of the (non-cash) increase in provisions for a subset of legacy lending, and Challenger Bank NPAT, the underlying guidance range is $108 million to $112 million, reflecting Heartland's underlying operational performance (which is the basis upon which the underlying 1H2024 results are presented).

[1] Subject to the requisite regulatory approvals.

06

Disclaimer, glossary & appendices

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 and underlying EPS. A reconciliation between reported and the non-GAAP measure of underlying financial information is included on page 41.

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

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

All amounts are in New Zealand dollars unless otherwise indicated. Financial data in this presentation is as at 31 December 2023 unless otherwise indicated. Any other financial information provided as at a date after 31 December 2023 has not been audited or reviewed by any independent registered public accounting firm.

Glossary

ABP	Australia Bank Programme	NOI	Net operating income
ADI	Authorised deposit-taking institution	NPAT	Net profit after tax
APRA	Australian Prudential Regulation Authority	NPL	Non performing loan
bps	Basis points	O4B	Open for Business
Challenger Bank	Challenger Bank Limited	OOI	Other operating income
CPI	Consumers price index	OPEX	Operating expenses
cps	Cents per share	pps	Percentage points
CTI ratio	Cost to income ratio	RBNZ	Reserve Bank of New Zealand
DRP	Dividend Reinvestment Plan	Receivables	Gross Finance Receivables
EPS	Earnings per share	ROE	Return on Equity
FX	Foreign currency exchange	StockCo Australia	Comprised of StockCo Australia Management Pty Ltd, StockCo Holdings 2 Pty Ltd and their subsidiaries
Harmoney	Harmoney Corp Limited	CY2025	2025 calendar year (1 January to 31 December 2025)
Heartland	Heartland Group Holdings Limited or the **Company**	FY2024	Financial year ending 30 June 2024
Heartland Australia	Heartland Australia Holdings Pty Ltd and its direct and indirect wholly-owned subsidiaries	FY2028	Financial year ending 30 June 2028
Heartland Bank, HBL	Heartland Bank Limited	1H2020	First half of FY2020 (1 July to 31 December 2019)
LVR	Loan-to-value ratio	1H2023	First half of FY2023 (1 July to 31 December 2022)
MTN	Medium Term Note	1H2024	First half of FY2024 (1 July to 31 December 2023)
NII	Net interest income	2H2024	Second half of FY2024 (1 January to 30 June 2024)
NIM	Net interest margin	Q1	First quarter of FY2024 (1 July to 30 September 2023)

Sustainability

Heartland's sustainability framework is built on three key pillars: **environment**, **people** and **financial wellbeing**.

Heartland is making good progress to meet the new **Climate-Related Disclosures obligations in NZ**, with Heartland's first climate statement required as part of full year reporting for FY2024.

StockCo announced a **two-year pilot project with Australian farmer-led software provider Ruminati**, to help producers track and validate on-farm climate action across the supply chain.

Heartland Bank awarded **Canstar NZ's Bank of the Year – Savings** (sixth year in a row). Plus, **Five-star ratings** for Direct Call Account, 32-Day Notice Saver Account and 90-Day Notice Saver Account.

Heartland's Board established a Sustainability Committee to oversee Heartland's sustainability strategy and implementation plans.

The Manawa Ako internship welcomed 30 Māori and Pasifika interns in its sixth intake, with the **greatest number of applications** since programme establishment in 2017.

Heartland Finance, awarded a **Non-Bank of the Year Excellence Award at the Australian Mortgage Awards 2023** (fourth year in a row).

Appendix 1: Financial performance

	Reported				Underlying			
$m	**1H24**	**1H23**	**Change ($)**	**Change (%)**	**1H24**	**1H23**	**Change ($)**	**Change (%)**
NII	138.7	138.9	(0.2)	(0.1%)	138.7	140.8	(2.0)	(1.4%)
OOI[1]	4.4	2.8	1.5	54.9%	6.8	8.9	(2.0)	(23.1%)
NOI	**143.1**	**141.7**	**1.4**	**1.0%**	**145.6**	**149.6**	**(4.1)**	**(2.7%)**
OPEX	66.5	63.4	3.0	4.8%	63.5	63.9	(0.4)	(0.6%)
Impairment Expense	24.0	9.2	14.8	160.1%	8.0	9.2	(1.2)	(13.0%)
Profit Before Tax	52.6	69.0	(16.5)	(23.8%)	74.0	76.5	(2.5)	(3.2%)
Tax Expense	15.0	20.4	(5.4)	(26.5%)	21.2	21.8	(0.5)	(2.4%)
NPAT	**37.6**	**48.7**	**(11.1)**	**(22.7%)**	**52.7**	**54.7**	**(2.0)**	**(3.6%)**
NIM	3.67%	3.97%	(29 bps)		3.67%	4.02%	(34 bps)	
CTI	46.5%	44.8%	170 bps		43.7%	42.7%	93 bps	
Impairment Expense Ratio[2]	0.70%	0.29%	41 bps		0.23%	0.29%	(6 bps)	
ROE	7.3%	10.6%	(329 bps)		10.2%	12.1%	(183 bps)	
EPS	5.3 cps	7.3 cps	(2.0 cps)		7.4 cps	8.2 cps	(0.8 cps)	

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

Appendix 2: Financial position

$m	31 Dec 2023	30 June 2023	Movement ($m)	Movement (%)
Liquid Assets	678	627	52	8.2%
Gross Finance Receivables	6,924	6,791	133	2.0%
Provisions	(70)	(53)	(16)	(30.5%)
Other Assets	382	383	(1)	(0.3%)
Total Assets	**7,914**	**7,747**	**167**	**2.2%**
Retail Deposits	*4,214*	*4,131*	*83*	*2.0%*
Other Borrowings	*2,625*	*2,496*	*128*	*5.1%*
Total Funding	6,839	6,627	211	3.2%
Other Liabilities	55	89	(34)	(38.6%)
Equity	1,021	1,031	(10)	(0.9%)
Total Equity & Liabilities	**7,914**	**7,747**	**167**	**2.2%**

Appendix 3: Reconciliation of reported with underlying results

1H2024 one-offs and non-cash technical items included in the reported result:

- *Hedging*: a $4.3 million loss was recognised in relation to derivatives that were de-designated from prior hedge accounting relationships in FY2022.
- *Valuation of equity investments*: a $1.9 million fair value gain was recognised on investment in Harmoney shares.
- *Other provisions:* $0.1 million of unwarranted legacy provisions were released.
- *ABP costs*: $2.3 million of transaction and other costs in relation to becoming an ADI in Australia. In addition, $3.3 million of costs directly attributable to applying to become an ADI have been capitalised as an intangible asset.
- *Other non-recurring expenses:* $0.8 million.
- *Impairment provision:* a $16.0 million increase in provisions to respond to issues affecting a subset of legacy lending.

1H2023 one-offs and non-cash technical items included in the reported result:

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

$m	1H2024	1H2023	Movement ($)	Movement (%)
Reported NOI	**143.1**	**141.7**	**1.4**	**1.0%**
Less:				
Hedge accounting Impacts	(4.3)	(3.6)	(0.7)	
Net fair value gain/loss on investments	1.9	(2.4)	4.3	
StockCo Australia acquisition (bridging loan)	-	(1.9)	1.9	
Underlying NOI	**145.6**	**149.6**	**(4.1)**	**(2.7%)**
Reported OPEX	**66.5**	**63.4**	**3.0**	**4.8%**
Less:				
Legacy provisions and accruals	(0.1)	-	(0.1)	
ABP costs	2.3	-	2.3	
Other non-recurring items	0.8	(0.5)	1.2	
Underlying OPEX	**63.5**	**63.9**	**(0.4)**	**(0.6%)**
Reported impairment expense	**24.0**	**9.2**	**14.8**	**160.1%**
Less:				
Increase in provisions for a subset of legacy lending	16.0	-	16.0	
Underlying impairment expense	**8.0**	**9.2**	**(1.2)**	**(13.0%)**
Reported NPAT	**37.6**	**48.7**	**(11.1)**	**(22.7%)**
Less:				
Post-tax impact of one-offs	(15.1)	(6.0)	(9.1)	
Underlying NPAT	**52.7**	**54.7**	**(2.0)**	**(3.6%)**
Reported NIM	3.67%	3.97%	(29 bps)	
Underlying NIM	**3.67%**	**4.02%**	**(34 bps)**	
Reported CTI	46.5%	44.8%	170 bps	
Underlying CTI	**43.7%**	**42.7%**	**93 bps**	
Reported ROE	7.3%	10.6%	(329 bps)	
Underlying ROE	**10.2%**	**12.1%**	**(183 bps)**	

Thank you

Investor & media relations

Nicola Foley
Group Head of Communications
+64 27 345 6809
nicola.foley@heartland.co.nz

Investor information

For more information
heartlandgroup.info/investor-information

HEARTLAND GROUP

HEARTLAND GROUP

Results announcement

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

Results for announcement to the market		
Name of issuer	Heartland Group Holdings Limited	
Reporting Period	6 months to 31 December 2023	
Previous Reporting Period	6 months to 31 December 2022	
Currency	NZD	
	Amount (000s)	**Percentage change**
Revenue from continuing operations	$143,109	1.0%
Total Revenue	$143,109	1.0%
Net profit/(loss) from continuing operations	$37,600	-22.7%
Total net profit/(loss)	$37,600	-22.7%
Interim/Final Dividend		
Amount per Quoted Equity Security	$ 0.04000000	
Imputed amount per Quoted Equity Security	$ 0.01555556	
Record Date	06/03/2024	
Dividend Payment Date	20/03/2024	
	Current period	**Prior comparable period**
Net tangible assets per Quoted Equity Security	$1.05	$1.09
A brief explanation of any of the figures above necessary to enable the figures to be understood		
Authority for this announcement		
Name of person authorised to make this announcement	Andrew Dixson, Chief Financial Officer	
Contact person for this announcement	Nicola Foley, Group Head of Communications	
Contact phone number	027 345 6809	
Contact email address	nicola.foley@heartland.co.nz	
Date of release through MAP	27/02/2024	

Unaudited financial statements accompany this announcement.

HEARTLAND GROUP

Distribution Notice

Section 1: Issuer information			
Name of issuer	Heartland Group Holdings Limited		
Financial product name/description	Ordinary shares		
NZX ticker code	HGH		
ISIN (If unknown, check on NZX website)	NZHGHE0007S9		
Type of distribution (Please mark with an X in the relevant box/es)	Full Year		Quarterly	
	Half Year	X	Special	
	DRP applies	X		
Record date	06/03/2024		
Ex-Date (one business day before the Record Date)	05/03/2024		
Payment date (and allotment date for DRP)	20/03/2024		
Total monies associated with the distribution[1]	$ 28,610,610.80		
Source of distribution (for example, retained earnings)	Retained earnings		
Currency	NZD		
Section 2: Distribution amounts per financial product			
Gross distribution[2]	$ 0.05555556		
Gross taxable amount [3]	$ 0.05555556		
Total cash distribution[4]	$ 0.04000000		
Excluded amount (applicable to listed PIEs)	NIL		
Supplementary distribution amount	$ 0.00705882		
Section 3: Imputation credits and Resident Withholding Tax[5]			
Is the distribution imputed	Fully imputed – YES		
	~~Partial imputation~~		
	~~No imputation~~		

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

If fully or partially imputed, please state imputation rate as % applied[6]	28%	
Imputation tax credits per financial product	$ 0.01555556	
Resident Withholding Tax per financial product	$ 0.00277778	
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	07/03/2024	13/03/2024
Date strike price to be announced (if not available at this time)	14/03/2024	
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	07/03/2024, 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	27/02/2024	

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

INTERIM FINANCIAL STATEMENTS

For the six months ended 31 December 2023

HEARTLAND GROUP

Contents

General Information

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

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

Directors

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

There have been no other changes in the composition of the Board of Directors of HGH since 30 June 2023 to the six months ended 31 December 2023.

Auditor

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

Directors’ Statement

The Interim Financial Statements for the six months ended 31 December 2023 for HGH and its subsidiaries (together the **Group**) are dated 26 February 2024 and have been signed by all the Directors.

G R Tomlinson (Chair)

E F Comerford

J K Greenslade

K Mitchell

G E Summerhayes

Consolidated Interim Statement of Comprehensive Income

For the six months ended 31 December 2023

$000's	Note	Unaudited 6 Months to December 2023	Unaudited 6 Months to December 2022
Interest income	3	319,522	240,716
Interest expense	3	180,774	101,813
Net interest income		**138,748**	**138,903**
Operating lease income		2,999	2,696
Operating lease expense		2,136	1,862
Net operating lease income		**863**	**834**
Lending and credit fee income		5,906	6,397
Other expenses		(4,270)	(1,966)
Net operating income		**141,247**	**144,168**
Operating expenses	4	66,498	63,450
Profit before fair value gain on investments, impaired asset expense and income tax		**74,749**	**80,718**
Fair value gain/(loss) on investments		1,862	(2,449)
Impaired asset expense	5	24,036	9,240
Profit before income tax		**52,575**	**69,029**
Income tax expense		14,975	20,367
Profit for the period		**37,600**	**48,662**
Other comprehensive income/(loss)			
Items that are or may be reclassified subsequently to profit or loss:			
Effective portion of change in fair value of derivative financial instruments for cashflow hedges		(11,083)	8,536
Movement in fair value reserve		(40)	(752)
Movement in foreign currency translation reserve		(1,540)	(9,736)
Other comprehensive loss for the period, net of income tax		**(12,663)**	**(1,952)**
Total comprehensive income for the period		**24,937**	**46,710**
Earnings per share			
Basic earnings per share	6	5.30c	7.30c
Diluted earnings per share	6	5.30c	7.30c

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

The notes to the Interim Financial Statements form an integral part of, and should be read in conjunction with, these Interim Financial Statements. These Interim Financial Statements should be read in conjunction with the Consolidated Financial Statements for the year ended 30 June 2023.

Consolidated Interim Statement of Changes in Equity

For the six months ended 31 December 2023

$000's	Note	Share Capital	Employee Benefit Reserve	Foreign Currency Translation Reserve	Fair Value Reserve	Cash Flow Hedge Reserve	Retained Earnings	Total Equity
Unaudited - December 2023								
Balance as at 1 July 2023		**800,712**	**3,581**	**(8,438)**	**(3,978)**	**15,075**	**224,052**	**1,031,004**
Total comprehensive income for the period								
Profit for the period		-	-	-	-	-	37,600	37,600
Other comprehensive (loss), net of income tax		-	-	(1,540)	(40)	(11,083)	-	(12,663)
Total comprehensive (loss)/ income for the period		**-**	**-**	**(1,540)**	**(40)**	**(11,083)**	**37,600**	**24,937**
Contributions by and distributions to owners								
Dividend paid	9	-	-	-	-	-	(42,579)	(42,579)
Share based payments	9	-	631	-	-	-	-	631
Vesting of share based payments	9	765	(765)	-	-	-	-	-
Share issuance	9	7,283	-	-	-	-	-	7,283
Total transactions with owners		**8,048**	**(134)**	**-**	**-**	**-**	**(42,579)**	**(34,665)**
Balance as at 31 December 2023		**808,760**	**3,447**	**(9,978)**	**(4,018)**	**3,992**	**219,073**	**1,021,276**
Unaudited - December 2022								
Balance as at 1 July 2022		**599,185**	**4,646**	**(1,635)**	**(1,034)**	**7,959**	**199,586**	**808,707**
Total comprehensive income for the period								
Profit for the period		-	-	-	-	-	48,662	48,662
Other comprehensive (loss)/gain, net of income tax		-	-	(9,736)	(752)	8,536	-	(1,952)
Total comprehensive (loss)/ income for the period		**-**	**-**	**(9,736)**	**(752)**	**8,536**	**48,662**	**46,710**
Contributions by and distributions to owners								
Dividends paid	9	-	-	-	-	-	(32,610)	(32,610)
Share based payments		-	(263)	-	-	-	-	(263)
Vesting of share based payments		1,170	(1,170)	-	-	-	-	-
Share issuance	9	197,006	-	-	-	-	-	197,006
Transaction costs associated with capital raising	9	(3,695)	-	-	-	-	-	(3,695)
Total transactions with owners		**194,481**	**(1,433)**	**-**	**-**	**-**	**(32,610)**	**160,438**
Balance as at 31 December 2022		**793,666**	**3,213**	**(11,371)**	**(1,786)**	**16,495**	**215,638**	**1,015,855**

The notes to the Interim Financial Statements form an integral part of, and should be read in conjunction with, these Interim Financial Statements. These Interim Financial Statements should be read in conjunction with the Consolidated Financial Statements for the year ended 30 June 2023.

Consolidated Interim Statement of Financial Position

As at 31 December 2023

$000's	Note	Unaudited December 2023	Audited June 2023
Assets			
Cash and cash equivalents		286,925	310,286
Investments	12	405,903	330,240
Derivative financial instruments	12	21,526	36,983
Finance receivables measured at amortised cost	7	4,222,679	4,334,214
Finance receivables - reverse mortgages	12	2,632,001	2,403,810
Investment properties		11,903	11,903
Operating lease vehicles		17,547	16,966
Right of use assets		14,924	12,318
Other assets		28,386	26,342
Current tax asset		17,647	1,960
Intangible assets	11	248,224	235,733
Deferred tax asset		22,872	21,105
Total assets		**7,930,537**	**7,741,860**
Liabilities			
Deposits	8	4,213,768	4,131,025
Other borrowings	8	2,620,690	2,493,510
Derivative financial instruments	12	21,034	7,624
Lease liabilities		17,133	14,287
Tax liabilities		-	6,112
Trade and other payables		36,636	58,298
Total liabilities		**6,909,261**	**6,710,856**
Net assets		**1,021,276**	**1,031,004**
Equity			
Share capital	9	808,760	800,712
Retained earnings and other reserves		212,516	230,292
Total equity		**1,021,276**	**1,031,004**

The notes to the Interim Financial Statements form an integral part of, and should be read in conjunction with, these Interim Financial Statements. These Interim Financial Statements should be read in conjunction with the Consolidated Financial Statements for the year ended 30 June 2023.

Consolidated Interim Statement of Cash Flows

For the six months ended 31 December 2023

$000's	Note	Unaudited 6 Months to December 2023	Unaudited 6 Months to December 2022
Cash flows from operating activities			
Interest received		197,352	155,508
Operating lease income received		2,645	2,197
Lending, credit fees and other income received		4,882	1,516
Operating inflows		**204,879**	**159,221**
Interest paid		(158,341)	(88,759)
Payments to suppliers and employees		(84,611)	(58,118)
Taxation paid		(32,494)	(38,505)
Operating outflows		**(275,446)**	**(185,382)**
Net cash flows applied to operating activities before changes in operating assets and liabilities		**(70,567)**	**(26,161)**
Proceeds from sale of operating lease vehicles		437	1,643
Purchase of operating lease vehicles		(2,463)	(3,245)
Net movement in finance receivables		(14,632)	(182,656)
Net movement in deposits		78,428	472,606
Net cash flows (applied to)/from operating activities[1]		**(8,797)**	**262,187**
Cash flows from investing activities			
Purchase of property, plant and equipment and intangible assets		(16,715)	(7,744)
Proceeds from investment securities		63,159	4,919
Purchase of investment securities		(125,000)	-
Deposit paid for the conditional acquisition of Challenger Bank Limited (**CBL**)		-	(3,936)
Purchase of equity investment		-	(5,667)
Purchase of investment properties		-	(71)
Purchase of subsidiary, net of cash acquired		-	(3,047)
Net cash flows applied to investing activities		**(78,556)**	**(15,546)**
Cash flows from financing activities			
Proceeds from wholesale funding		659,253	534,065
Repayment of wholesale borrowings		(731,228)	(739,621)
Proceeds from issue of unsubordinated notes		172,170	87,589
Repayment of unsubordinated notes			(213,166)
Proceeds from issue of subordinated debt		-	-
Dividends paid	9	(42,579)	(32,610)
Payment of lease liabilities		(1,206)	(1,692)
Net issue of share capital		7,915	193,313
Total cash provided from/(applied to) financing activities		**64,325**	**(172,122)**
Net (decrease)/increase in cash held		**(23,038)**	**74,519**
Effect of exchange rates on cash and cash equivalents		(1,540)	-
Opening cash and cash equivalents		311,503	310,758
Closing cash and cash equivalents[2]		**286,925**	**385,277**

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

[2]At 31 December 2023, the Group has $129.9 million (2022: $78.1 million) of cash held by structured asset holding entities (**Trusts)** which may only be used for the purposes defined in the underlying Trust documents.

Consolidated Interim Statement of Cash Flows (Continued)

For the six months ended 31 December 2023

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

$000's	Note	Unaudited 6 Months to December 2023	Unaudited 6 Months to December 2022
Profit for the period		**37,600**	**48,662**
Add/(less) non-cash items:			
Depreciation and amortisation expense		5,192	5,177
Depreciation on lease vehicles		1,882	1,692
Capitalised net interest income and fee income		(93,561)	(81,310)
Impaired asset expense	5	25,138	10,557
Investment fair value movement		(1,806)	2,449
Deferred tax		(1,767)	2,570
Other non-cash items		(22,279)	1,324
Total non-cash items		**(87,201)**	**(57,541)**
Add/(less) movements in operating assets and liabilities:			
Finance receivables		(15,734)	(183,973)
Operating lease vehicles		(2,463)	(1,602)
Other assets		(4,833)	(3,440)
Current tax		(21,799)	(18,736)
Derivative financial instruments		28,867	5,696
Deposits		78,428	472,606
Other liabilities		(21,662)	515
Total movements in operating assets and liabilities		**40,804**	**271,066**
Net cash flows (applied to)/from operating activities[1]		**(8,797)**	**262,187**

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

The notes to the Interim Financial Statements form an integral part of, and should be read in conjunction with, these Interim Financial Statements. These Interim Financial Statements should be read in conjunction with the Consolidated Financial Statements for the year ended 30 June 2023.

Notes to the Interim Financial Statements

For the six months ended 31 December 2023

1 Interim financial statements preparation

Basis of preparation

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

The Interim Financial Statements do not include all notes of the type normally included in an annual financial report. Accordingly these Interim Financial Statements should be read in conjunction with the Consolidated Financial Statements for the year ended 30 June 2023.

The Interim Financial Statements presented here are for the six months ended 31 December 2023.

The Interim Financial Statements have been prepared on a going concern and historical cost basis, unless stated otherwise. The accounting policies adopted are consistent with those of the previous financial year ended 30 June 2023.

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

Critical accounting estimates and judgements

Provision for impairment on finance receivables measured at amortised cost

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

As at 31 December 2023, the most significant changes in judgement in respect of the collective provision for impairment are as follows:

- Motor vehicles lending: The Group has additional provisioning resulting from changes in assumptions in respect of customer cure rates for exposures in default due to changing patterns of customer behaviour arising from the current economic conditions (this is the rate of loans in default which the Group expects to return to performing), and loan write-off rates for certain cohorts of stressed loans as a result of recent changes in customer collectability experience. The collective ECL on motor vehicle lending for Corporate and Other Exposures was $25.3 million as at 31 December 2023 (30 June 2023: $15.1 million).
- Economic overlay: The Group has developed a new approach to multiple forward looking economic scenarios through estimating future loss distributions.

Goodwill - StockCo Australia: Please refer to note 11 – Intangible assets for further details.

There have been no other material changes to the use of estimates and judgements for the preparation of the Interim Financial Statements since the reporting date of the previous financial statements. The Group's Financial Statements for the year ended 30 June 2023 contains detail on other estimates and judgements used.

Climate Related Disclosures

Effective 1 January 2023, Climate Related Disclosures (**CRD**) become mandatory for climate reporting entities (**CRE**). The Group is a CRE and the Group's framework for considering requirements to enable CRD has been completed. The Group will issue CRD in line with the Aotearoa New Zealand Climate Standards for the financial year ending 30 June 2024.

Performance

2 Segmental analysis

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

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

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

Operating segments – New Zealand

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

Operating segments – Australia

StockCo Australia	Livestock finance within Australia.
Australia	Reverse mortgage lending and other financial services within Australia.

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.

Finance receivables are allocated across the operating segments. Other assets and liabilities are managed centrally and therefore are not allocated across the operating segments. The Group does not rely on any single major customer for its revenue base.

2 Segmental analysis (continued)

$000's	Motor	Reverse Mortgages	Personal Lending	Business	Rural	StockCo Australia	Australia	Other	Total
Unaudited - December 2023									
Net interest income	29,531	22,534	2,948	32,101	17,012	8,199	26,420	3	138,748
Lending and credit fee income	1,413	1,314	72	1,335	154	-	1,618	-	5,906
Net other income/(expense)	644	-	486	452	(415)	-	-	(4,574)	(3,407)
Net operating income/(expense)	**31,588**	**23,848**	**3,506**	**33,888**	**16,751**	**8,199**	**28,038**	**(4,571)**	**141,247**
Operating expenses	2,067	2,549	3,486	4,624	1,663	4,308	6,903	40,898	66,498
Profit/(loss) before fair value gain/(loss) on investments, impaired asset expense and income tax	**29,521**	**21,299**	**20**	**29,264**	**15,088**	**3,891**	**21,135**	**(45,469)**	**74,749**
Fair value gain on investments	-	-	-	-	-	-	-	1,862	1,862
Impaired asset expense	15,327	-	615	7,888	118	66	22	-	24,036
Profit/(loss) before income tax	**14,194**	**21,299**	**(595)**	**21,376**	**14,970**	**3,825**	**21,113**	**(43,607)**	**52,575**
Income tax expense	-	-	-	-	-	-	-	14,975	14,975
Profit/(loss) for the period	**14,194**	**21,299**	**(595)**	**21,376**	**14,970**	**3,825**	**21,113**	**(58,582)**	**37,600**

$000's	Motor	Reverse Mortgages	Personal Lending	Business	Rural	StockCo Australia	Australia	Other	Total
Unaudited - December 2022									
Net interest income	30,936	19,058	5,284	35,843	16,612	13,413	20,526	(2,769)	138,903
Lending and credit fee income	1,037	1,444	43	1,142	137	-	2,593	-	6,396
Net other income/(expense)	697	-	552	400	199	2	0	(2,981)	(1,131)
Net operating income	**32,670**	**20,502**	**5,879**	**37,385**	**16,948**	**13,415**	**23,120**	**(5,750)**	**144,168**
Operating expenses	2,055	2,585	3,344	4,867	1,628	4,566	6,473	37,932	63,450
Profit/(loss) before fair value gain/(loss) on investments, impaired asset expense and income tax	**30,615**	**17,917**	**2,535**	**32,518**	**15,320**	**8,849**	**16,647**	**(43,682)**	**80,718**
Fair value (loss) on investments	-	-	-	-	-	-	-	(2,449)	(2,449)
Impaired asset expense	3,341	-	1,580	4,092	162	39	26	-	9,240
Profit/(loss) before income tax	**27,274**	**17,917**	**955**	**28,426**	**15,158**	**8,810**	**16,621**	**(46,131)**	**69,029**
Income tax (benefit)/expense	-	-	-	-	-	(11)	-	20,378	20,367
Profit/(loss) for the period	**27,274**	**17,917**	**955**	**28,426**	**15,158**	**8,821**	**16,621**	**(66,509)**	**48,662**
Unaudited - December 2023									
Total assets	**1,604,893**	**972,484**	**357,626**	**1,323,638**	**676,193**	**295,654**	**1,662,621**	**1,037,428**	**7,930,537**
Total liabilities									**6,909,261**
Audited - June 2023									
Total assets	**1,563,939**	**888,600**	**358,572**	**1,356,913**	**712,596**	**374,193**	**1,520,437**	**966,610**	**7,741,860**
Total liabilities									**6,710,856**

3 Net interest income

$000's	Unaudited 6 Months to December 2023	Unaudited 6 Months to December 2022
Interest income		
Cash and cash equivalents	6,367	3,525
Investments	5,235	2,399
Finance receivables measured at amortised cost	189,217	156,707
Finance receivables - reverse mortgages	118,703	78,085
Total interest income[1]	**319,522**	**240,716**
Interest expense		
Deposits	110,232	58,667
Other borrowings	84,558	50,374
Net interest (income) on derivative financial instruments	(14,016)	(7,228)
Total interest expense[2]	**180,774**	**101,813**
Net interest income	**138,748**	**138,903**

[1]Cash and cash equivalents and Finance receivables are measured at amortised cost. Investments are measured at fair value through other comprehensive income (**FVOCI**). Total interest income derived from these financial assets is calculated using the effective interest rate method. Finance receivables - reverse mortgages are measured at fair value through profit or loss (**FVTPL**).

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

4 Operating expenses

$000's	Unaudited 6 Months to December 2023	Unaudited 6 Months to December 2022
Personnel expenses[1]	33,064	33,682
Directors' fees	635	574
Superannuation	987	952
Depreciation - property, plant and equipment	963	948
Legal and professional fees[2]	2,694	2,400
Advertising and public relations	1,537	1,785
Depreciation - right of use asset	1,444	1,278
Technology services	5,958	4,940
Telecommunications, stationery and postage	983	1,011
Customer administration costs	5,022	5,009
Customer onboarding costs	1,354	1,398
Occupancy costs	1,254	892
Amortisation of intangible assets	2,785	2,951
Other operating expenses	7,818	5,630
Total operating expenses	**66,498**	**63,450**

[1]Excludes certain personnel expenses directly incurred in acquiring and developing software also capitalised as part of specific application software as well as those directly attributable to the application for the Banking Licence in Australia. Refer to Note 11 – Intangible assets for further details.

[2]Legal and professional fees include compensation of auditor.

5 Impaired asset expense

$000's	Unaudited 6 Months to December 2023	Unaudited 6 Months to December 2022
Individually impaired asset expense	5,390	5,447
Collectively impaired asset expense	19,748	5,110
Total impaired asset expense excluding recovery of amounts previously written off to the income statement	**25,138**	**10,557**
Recovery of amounts previously written off to the income statement	(1,102)	(1,317)
Total impaired asset expense	**24,036**	**9,240**

6 Earnings per share

	Earnings Per Share Cents	Net Profit After Tax $000's	Weighted Average No. of Shares 000's
Unaudited - December 2023			
Basic earnings	5.30	37,600	713,414
Diluted earnings	5.30	37,600	713,414
Unaudited - December 2022			
Basic earnings	7.30	48,662	666,186
Diluted earnings	7.30	48,662	666,186

Financial Position

7 Finance receivables measured at amortised cost

$000's	Unaudited December 2023	Audited June 2023
Gross finance receivables measured at amortised cost	4,292,185	4,387,480
Less provision for impairment	(69,506)	(53,266)
Net finance receivables measured at amortised cost	**4,222,679**	**4,334,214**

(a) Movement in provision for impairment

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

	Collectively Assessed			Individually	
$000's	**Stage 1**	**Stage 2**	**Stage 3**	**Assessed**	**Total**
Unaudited - December 2023					
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]	(367)	(1,860)	1,891	336	-
New and increased provision (net of provision releases)[1]	(1,170)	3,314	17,940	5,054	25,138
Total impaired asset expense excluding recovery of amounts previously written off to the income statement	**(1,537)**	**1,454**	**19,831**	**5,390**	**25,138**
Write-offs	-	-	(8,898)	-	(8,898)
Impairment allowance as at 31 December 2023	**11,472**	**3,917**	**32,432**	**21,685**	**69,506**
Audited - 30 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
Total impaired asset expense excluding recovery of amounts previously written off to the income statement	**(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.

7 Finance receivables measured at amortised cost (continued)

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

$000's	Collectively Assessed Stage 1	Stage 2	Stage 3	Individually Assessed	Total
Unaudited - December 2023					
Gross finance receivables as at 30 June 2023	**4,070,598**	**182,470**	**81,294**	**53,118**	**4,387,480**
Transfer between stages	(174,292)	75,754	81,905	16,633	-
Additions	674,961	-	-	10,667	685,628
Deletions	(677,703)	(54,130)	(35,169)	(4,123)	(771,125)
Write-offs	(156)	(274)	(8,792)	(576)	(9,798)
Gross finance receivables as at 31 December 2023	**3,893,408**	**203,820**	**119,238**	**75,719**	**4,292,185**
Audited - June 2023					
Gross finance receivables as at 30 June 2022	**3,967,917**	**118,424**	**46,114**	**66,371**	**4,198,826**
Transfer between stages	(237,955)	161,605	64,627	11,723	-
Additions	1,412,648	-	-	9,326	1,421,974
Deletions	(1,072,012)	(97,559)	(17,068)	(15,194)	(1,201,833)
Write-offs	-	-	(12,379)	(19,108)	(31,487)
Gross finance receivables as at 30 June 2023	**4,070,598**	**182,470**	**81,294**	**53,118**	**4,387,480**

Impact of changes in gross exposures on loss allowances

The Group's provision for impairment has increased by $16.2 million during the period due to:

- A net increase in collective provisions of $10.8 million due to increase in stage 3 receivables, increase in provisions made against motor vehicles lending from changes in motor vehicles lending assumptions in respect of cure rates and loan write-off rates, as well as a new economic overlay due to the new methodology in estimating future loss distributions.

- A net increase in individually assessed provisions of $5.4 million due to additional provisions required on various legacy single named exposures as a result of changes in the estimated recoverable amounts driven by the deterioration of economic conditions.

8 Borrowings

$000's	Unaudited December 2023	Audited June 2023
Deposits	4,213,768	4,131,025
Total deposits	**4,213,768**	**4,131,025**
Unsubordinated notes	554,374	382,617
Subordinated notes	100,291	97,794
Securitised borrowings	1,817,525	1,713,737
Certificate of deposit	148,259	148,110
Bank borrowings	241	131,248
Money market borrowings	-	20,004
Total other borrowings	**2,620,690**	**2,493,510**
Total deposits and other borrowings	**6,834,458**	**6,624,535**

Deposits and unsubordinated notes rank equally and are unsecured.

Movement in other borrowings

$000's	Unaudited December 2023	Audited June 2023
Opening Balance	**2,493,510**	**2,578,213**
Issue of debt	831,423	1,449,882
Repayment of Debt	(731,228)	(1,538,592)
Total Cash Movements	**100,195**	**(88,710)**
Capitalised interest and fee expense	**23,308**	**34,809**
Fair Value Movements	**4,777**	**(473)**
Foreign exchange and other movements	**(1,100)**	**(30,329)**
Total non-cash movements	**26,985**	**4007**
Closing Balance	**2,620,690**	**2,493,510**

Unsubordinated notes

During the period, the Group issued AU $50 million medium term notes (**MTN's**) on 18 December 2023 maturing on 5 October 2027, and AU $105 million MTN on 20 December 2023 maturing on 13 May 2025. The funds received were used to repay bank borrowings.

Securitised borrowings

On 15 September 2023, Heartland Auto Receivable Warehouse Trust 2018-1 **(HARWT)** increased its motor vehicle facility by $100 million, taking the total facility limit from $400 million to $500 million. The maturity date was extended to 26 August 2025.

On 25 September 2023, Seniors Warehouse Trust 2 **(SWT2)** reverse mortgage facility was increased by AU $100 million taking the total Class A limit to AU $550 million. On 22 December 2023, there was a further AU $100 million increase to SWT2 increasing the total facility limit from AU $550 million to AU $650 million.

9 Share capital and dividends

000's	Unaudited December 2023 Number of Shares	Audited June 2023 Number of Shares
Issued shares		
Opening balance	709,658	592,904
Shares issued during the period	1,275	112,417
Dividend reinvestment plan	4,791	4,337
Closing balance	**715,724**	**709,658**

On 19 September 2023, HGH issued a further 1,275,194 shares under the Long Term Incentive Scheme of HGH (**LTI Scheme**), of which 459,070 shares were acquired by HGH pursuant to the buyback offer to the participants in order to fund the tax liability that arose for those participants upon receipt of shares under the LTI Scheme.

The Group issued 4,790,946 new shares at $1.6865 per share ($8.0 million) on 22 September 2023 under the dividend reinvestment plan (**DRP**) for the period (June 2023: 4,336,812 new shares at $1.6370 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

	6 Months to December 2023			12 Months to June 2023		
	Date Declared	Cents Per Share	$000's	Date Declared	Cents Per Share	$000's
Final dividend	26 August 2023	5.5	42,579	24 August 2022	5.5	32,610
Interim dividend	-	-	-	28 February 2023	5.5	38,792
Total dividends paid			**42,579**			**71,402**

10 Related party transactions and balances

(a) Transactions with related parties

HGH is the ultimate parent company of the Group.

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

$000's	Unaudited 6 Months to December 2023	Unaudited 6 Months to December 2022
ASF Custodians Pty Limited		
Audit fees	2	4
Heartland Trust (HT)		
Dividend paid to HT	390	356

HT held 6,504,266 shares in HGH (December 2022: 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.

11 Intangible assets

$000's	Unaudited December 2023	Audited June 2023
Computer software		
Software - cost	50,646	48,513
Software under development	39,182	28,391
Accumulated amortisation	34,317	31,944
Net carrying value of computer software	**55,511**	**44,960**
Goodwill	183,563	184,422
Net carrying value of goodwill	**183,563**	**184,422**
Other intangible assets[1]	9,150	6,351
Total intangible assets	**248,224**	**235,733**

[1]Other intangible assets include capitalised Australian banking licence costs of $9.2 million (June 2023: $6.4 million)

Australian Banking Licence

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

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

Goodwill

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

- Heartland Australia Holdings Pty Limited: $15.3 million (June 2023: $15.3 million).
- Heartland Bank Limited: $29.8 million (June 2023: $29.8 million).
- StockCo Australia: $138.4 million (June 2023: $139.3 million).

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

There was no indication of impairment and no impairment losses have been recognised against the carrying amount of goodwill for the six months ended 31 December 2023 (June 2023: nil).

11 Intangible assets (continued)

StockCo Australia

During the period adverse weather conditions and drought concerns continued to negatively impact livestock prices. Demand for livestock financing has been affected given many producers have destocked, consolidated debt from selling livestock at lower rates, or retained livestock for longer periods to gain weight and recoup value. This resulted in growth challenges and compressed net interest margins.

While the risk of drought has reduced and livestock prices have subsequently improved, a stress test was conducted on the recoverable amount previously determined at 30 June 2023 on a fair value less cost to sell basis using a discounted cash flow methodology. The receivables growth assumption was reduced and the cost of funds assumption was updated based on the forward curve for bank bill rates as at 31 December 2023. All other key assumptions and drivers from the annual impairment test remained appropriate. There remains headroom as at 31 December 2023 and no impairment of the StockCo Australia CGU was recognised. A change to any one of the key drivers noted below based on the stress test would result in a break-even position with no remaining headroom.

Key driver	**Sensitivity over the forecast cash flow period to break-even as at 31 December 2023**
Lending growth	A permanent decrease of A$21.0 million in gross receivable balances over the forecast cash flow period.
Interest yield	A permanent decrease of 0.8100% over the forecast cash flow period.
Cost of funds	A permanent increase of 0.2317% over the forecast cash flow period.

A combination of changes to key drivers noted above may also lead in a break-even position with no remaining headroom.

12 Fair value

(a) Financial instruments measured at fair value

The following methods and assumptions were used to estimate the fair value of each class of financial asset and liability measured at fair value on a recurring basis in the Consolidated Statement of Financial Position.

The Group has an established framework governing 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 material valuations are reported to the Group's Board Audit and Risk Committee prior to adoption in the financial statements.

Investments in debt securities

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

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

Investments in equity securities

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

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.

Investment in listed securities traded in liquid, active markets where prices are readily observable are measured under Level 1 of the fair value hierarchy with no modelling or assumptions used in the valuation. Investments in unlisted equity securities are measured under Level 3 of the fair value hierarchy with the fair value being based on unobservable inputs using market accepted valuation techniques.

Where appropriate, the Group may apply adjustments to the above-mentioned techniques to determine fair value of an equity security to reflect the underlying characteristics. These adjustments are reflective of market participant considerations in valuing the said security.

The Group has irrevocably elected to account for certain equity investments at fair value through other comprehensive income. These are Level 3 investments and were valued using outcomes from capital raises last completed and calibrated against market multiples as at 31 December 2023.

12 Fair value (continued)

(a) Financial instruments not measured at fair value

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 of a reverse mortgage 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 considers whether the fair value can be determined by reference to a relevant active market or using a valuation technique that incorporates observable inputs but has concluded relevant support is not currently available. In the absence of such market evidence, the Group has used an actuarial valuation to determine a proxy for the fair value that incorporates changes in the portfolio risk and expectations of the portfolio performance. The actuarial valuation includes inputs such as mortality and potential move into care, voluntary exits, house price changes, interest rate margin and the “no negative 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 (June 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

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

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

12 Fair value (continued)

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

$000's	**Level 1**	**Level 2**	**Level 3**	**Total**
Unaudited - December 2023				
Assets				
Investments	394,475	-	11,428	405,903
Derivative financial instruments	-	21,526	-	21,526
Finance receivables - reverse mortgages	-	-	2,632,001	2,632,001
Total financial assets measured at fair value	**394,475**	**21,526**	**2,643,429**	**3,059,430**
Liabilities				
Derivative financial instruments	-	21,034	-	21,034
Total financial liabilities measured at fair value	**-**	**21,034**	**-**	**21,034**
Audited - 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 any fair value hierarchy levels in the six months ended 31 December 2023 (June 2023: nil).

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

$000's	**Finance Receivables - Reverse Mortgages**	**Investments**	**Total**
Unaudited - December 2023			
As at 30 June 2023	2,403,810	11,484	2,415,294
New loans	276,435	-	276,435
Repayments	(161,781)	-	(161,781)
Capitalised interest and fees	122,277	-	122,277
Other[1]	(8,740)	(56)	(8,796)
As at 31 December 2023	**2,632,001**	**11,428**	**2,643,429**
Audited - June 2023			
As at 30 June 2022	1,996,854	7,032	2,003,886
New loans	543,248	-	543,248
Repayments	(297,066)	-	(297,066)
Capitalised interest and fees	183,458	-	183,458
Purchase of investments	-	6,952	6,952
Fair value (loss) on investment	-	(2,411)	(2,411)
Other[1]	(22,684)	(89)	(22,773)
As at 30 June 2023	**2,403,810**	**11,484**	**2,415,294**

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

12 Fair value (continued)

(b) Financial instruments not measured at fair value

The following 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 for the Group.

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 financial instruments such as short-term trade receivables and payables is considered equivalent to their carrying value due to their short-term nature.

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

		Unaudited December 2023		Audited June 2023	
$000's	**Fair Value Hierarchy**	**Total Fair Value**	**Total Carrying Value**	**Total Fair Value**	**Total Carrying Value**
Assets					
Finance receivables measured at amortised cost	Level 3	4,008,631	4,222,679	4,102,591	4,334,214
Total financial assets		**4,008,631**	**4,222,679**	**4,102,591**	**4,334,214**
Liabilities					
Deposits	Level 2	4,214,086	4,213,768	4,130,326	4,131,025
Other borrowings	Level 2	2,620,746	2,620,690	2,496,310	2,496,375
Total financial liabilities		**6,834,832**	**6,834,458**	**6,626,636**	**6,627,400**

Risk Management

13 Enterprise risk management program

There have been no material changes in the Group's policies for managing risk, or material exposures to any new types of risk since the reporting date of the annual financial statements 30 June 2023.

Other Disclosures

14 Contingent liabilities and commitments

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

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

$000's	**Unaudited December 2023**	**Audited June 2023**
Letters of credit, guarantee commitments and performance bonds	3,208	7,378
Total contingent liabilities	**3,208**	**7,378**
Undrawn facilities available to customers	445,368	435,314
Conditional commitments to fund at future dates	7,501	24,873
Total commitments	**452,869**	**460,187**

15 Events after reporting date

The Group approved a fully imputed interim dividend of 4 cents per share on 26 February 2024.

There were no other events subsequent to the reporting period which would materially affect the Interim Financial Statements.

Independent auditor’s review report

To the shareholders of Heartland Group Holdings Limited

Report on the interim financial statements

Our conclusion

We have reviewed the interim financial statements of Heartland Group Holdings Limited (the “Company”) and its controlled entities (the “Group”), which comprise the consolidated interim statement of financial position as at 31 December 2023, and the consolidated interim statement of comprehensive income, the consolidated interim statement of changes in equity and the consolidated interim statement of cash flows for the six month period ended on that date, and selected explanatory notes.

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim financial statements of the Group do not present fairly, in all material respects, the financial position of the Group as at 31 December 2023, and its financial performance and cash flows for the six month period then ended, in accordance with International Accounting Standard 34 *Interim Financial Reporting* (“IAS 34”) and New Zealand Equivalent to International Accounting Standard 34 *Interim Financial Reporting* (“NZ IAS 34”).

Basis for conclusion

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

We are independent of the Group in accordance with the relevant ethical requirements in New Zealand relating to the audit of the annual financial statements, and we have fulfilled our other ethical responsibilities in accordance with these ethical requirements. In our role as auditor, we provide other audit and assurance related services comprising: assurance over insurance solvency, trust deed reporting, supervisory reporting, registry assurance, assurance over financial service licence compliance, regulatory reporting and agreed upon procedures. In addition, certain partners and employees of our firm may deal with the Group on normal terms within the ordinary course of trading activities of the Group. The provision of these other services and these relationships have not impaired our independence.

Responsibilities of Directors for the interim financial statements

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

Auditor’s responsibilities for the review of the interim financial statements

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

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

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

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

For and on behalf of:

PricewaterhouseCoopers

Chartered Accountants
26 February 2024

Auckland

DISCLOSURE STATEMENT

For the six months ended 31 December 2023

HEARTLAND BANK

Contents

General Information

This Disclosure Statement has been issued by Heartland Bank Limited (the **Bank** or **HBL**) and its subsidiaries (the **Banking Group**) for the six months ended 31 December 2023 in accordance with the Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order 2014 (as amended) (the **Order**). The financial statements of the Bank for the six months ended 31 December 2023 form part of, and should be read in conjunction with, this Disclosure Statement.

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

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

Priority of Creditors' Claims

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

Guarantee Arrangements

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

Auditor

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

Directors

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

There have been no changes in the composition of the Board of Directors of the Bank since 30 June 2023 to the six months ended 31 December 2023.

Directors' Statements

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

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

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

   b) the Disclosure Statement is not false or misleading.

2. During the six months ended 31 December 2023:

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

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

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

This Disclosure Statement is dated 26 February 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 Tyler

Consolidated Interim Statement of Comprehensive Income

For the six months ended 31 December 2023

$000's	Note	Unaudited 6 Months to December 2023	Unaudited 6 Months to December 2022
Interest income	3	227,944	170,581
Interest expense	3	122,485	63,118
Net interest income		**105,459**	**107,463**
Operating lease income		2,999	2,696
Operating lease expense		2,136	1,862
Net operating lease income		**863**	**834**
Lending and credit fee income		4,312	3,803
Other income		1,075	2,376
Net operating income		**111,709**	**114,476**
Operating expenses	4	52,147	53,126
Profit before impaired asset expense and income tax		**59,562**	**61,350**
Impaired asset expense	5	23,948	9,175
Profit before income tax		**35,614**	**52,175**
Income tax expense		10,044	14,689
Profit for the period		**25,570**	**37,486**
Other comprehensive income/(loss)			
Items that are or may be reclassified subsequently to profit or loss, net of income tax:			
Effective portion of change in fair value of derivative financial instruments for cash flow hedging instruments		(10,912)	8,678
Movement in fair value reserve		(20)	(579)
Other comprehensive (loss)/income for the period, net of income tax		**(10,932)**	**8,099**
Total comprehensive income for the period		**14,638**	**45,585**

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

The notes to the Interim Financial Statements form an integral part of, and should be read in conjunction with, these Interim Financial Statements. These Interim Financial Statements should be read in conjunction with the financial statements included in the Disclosure Statement for the year ended 30 June 2023.

Consolidated Interim Statement of Changes in Equity

For the six months ended 31 December 2023

$000's	Note	Share Capital	Fair Value Reserve	Cash Flow Hedge Reserve	Retained Earnings	Total Equity
Unaudited - December 2023						
Balance as at 1 July 2023		**553,239**	**(1,567)**	**14,710**	**162,354**	**728,736**
Total comprehensive income for the period						
Profit for the period		-	-	-	25,570	25,570
Other comprehensive (loss), net of income tax		-	(20)	(10,912)	-	(10,932)
Total comprehensive (loss)/ income for the period		**-**	**(20)**	**(10,912)**	**25,570**	**14,638**
Contributions by and distributions to owner						
Dividend to Heartland Group Holdings Limited	8	-	-	-	(43,000)	(43,000)
Total transactions with owner		**-**	**-**	**-**	**(43,000)**	**(43,000)**
Balance as at 31 December 2023		**553,239**	**(1,587)**	**3,798**	**144,924**	**700,374**
Unaudited - December 2022						
Balance as at 1 July 2022		**553,239**	**(1,034)**	**7,446**	**147,852**	**707,503**
Total comprehensive income for the period						
Profit for the period		-	-	-	37,486	37,486
Other comprehensive (loss)/ income, net of income tax		-	(579)	8,678	-	8,099
Total comprehensive (loss)/ income for the period		**-**	**(579)**	**8,678**	**37,486**	**45,585**
Contributions by and distributions to owner						
Dividend to Heartland Group Holdings Limited	8	-	-	-	(30,000)	(30,000)
Total transactions with owner		**-**	**-**	**-**	**(30,000)**	**(30,000)**
Balance as at 31 December 2022		**553,239**	**(1,613)**	**16,124**	**155,338**	**723,088**

The notes to the Interim Financial Statements form an integral part of, and should be read in conjunction with, these Interim Financial Statements. These Interim Financial Statements should be read in conjunction with the financial statements included in the Disclosure Statement for the year ended 30 June 2023.

Consolidated Interim Statement of Financial Position

As at 31 December 2023

$000's	Note	Unaudited December 2023	Audited June 2023
Assets			
Cash and cash equivalents		161,564	216,044
Investments	10	390,867	317,011
Derivative financial instruments	10	21,526	36,982
Due from related parties	9	1,028	-
Finance receivables measured at amortised cost	6	3,924,222	3,954,800
Finance receivables - reverse mortgages	10	1,059,082	888,600
Investment properties		11,903	11,903
Operating lease vehicles		17,547	16,966
Right of use assets		10,438	11,510
Other assets		20,234	19,597
Current tax asset		8,162	-
Intangible assets		81,295	71,635
Deferred tax asset		20,699	16,760
Total assets		**5,728,567**	**5,561,808**
Liabilities			
Deposits	7	4,213,772	4,131,029
Other borrowings	7	749,711	615,126
Derivative financial instruments	10	21,034	7,624
Due to related parties	9	685	7,173
Lease liabilities		12,589	13,478
Tax liabilities		-	7,692
Trade and other payables		30,402	50,950
Total liabilities		**5,028,193**	**4,833,072**
Net assets		**700,374**	**728,736**
Equity			
Share capital	8	553,239	553,239
Retained earnings and other reserves		147,135	175,497
Total equity		**700,374**	**728,736**

Total interest earning and discount bearing assets		5,533,916	5,374,632
Total interest and discount bearing liabilities		4,946,490	4,726,367

The notes to the Interim Financial Statements form an integral part of, and should be read in conjunction with, these Interim Financial Statements. These Interim Financial Statements should be read in conjunction with the financial statements included in the Disclosure Statement for the year ended 30 June 2023.

Consolidated Interim Statement of Cash Flows

For the six months ended 31 December 2023

$000's	Unaudited 6 Months to December 2023	Unaudited 6 Months to December 2022
Cash flows from operating activities		
Interest received	179,527	135,934
Operating lease income received	2,645	2,197
Lending, credit fees and other income received	12,445	6,989
Operating inflows	**194,617**	**145,120**
Interest paid	(120,529)	(55,018)
Payments to suppliers and employees	(68,434)	(40,384)
Taxation paid	(25,116)	(34,571)
Operating outflows	**(214,079)**	**(129,973)**
Net cash flows (applied to)/from operating activities before changes in operating assets and liabilities	**(19,462)**	**15,147**
Proceeds from sale of operating lease vehicles	1,219	1,642
Purchase of operating lease vehicles	(3,245)	(3,245)
Net movement in finance receivables	(114,109)	(150,835)
Net movement in deposits	78,428	475,077
Net movement in related party balances	(7,516)	(543)
Net cash flows (applied to)/from operating activities[1]	**(64,685)**	**337,243**
Cash flows from investing activities		
Purchase of property, plant and equipment and intangible assets	(12,724)	(6,539)
Proceeds from investment securities	63,159	4,791
Purchase of investment securities	(125,000)	-
Purchase of investment properties	-	(71)
Net cash flows (applied to) investing activities	**(74,565)**	**(1,819)**
Cash flows from financing activities		
Proceeds from wholesale funding	592,522	315,284
Repayment of wholesale borrowings	(463,825)	(394,290)
Repayment of unsubordinated notes	-	(150,000)
Dividends paid	(43,000)	(30,000)
Payment of lease liabilities	(927)	(1,336)
Net cash flows from/(applied to) financing activities	**84,770**	**(260,342)**
Net (decrease)/increase in cash held	**(54,480)**	**75,082**
Opening cash and cash equivalents	216,044	221,469
Closing cash and cash equivalents[2]	**161,564**	**296,551**

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

[2]At 31 December 2023, the Banking Group has $30.7 million (December 2022: $14.2 million) of cash held by a structured asset holding entity (the **Trust**) which may only be used for the purposes defined in the underlying Trust documents.

Consolidated Interim Statement of Cash Flows (Continued)

For the six months ended 31 December 2023

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

$000's	Note	Unaudited 6 Months to December 2023	Unaudited 6 Months to December 2022
Profit for the period		**25,570**	**37,486**
Add/(less) non-cash items:			
Depreciation and amortisation expense		4,632	4,722
Depreciation on lease vehicles		1,882	1,692
Capitalised net interest income and fee income		(39,541)	(31,231)
Impaired asset expense	5	24,939	10,154
Other non-cash items		(22,947)	(2,040)
Total non-cash items		**(31,035)**	**(16,703)**
Add/(less) movements in operating assets and liabilities:			
Finance receivables		(115,100)	(151,814)
Operating lease vehicles		(2,463)	(1,602)
Other assets		(2,122)	1,991
Current tax		(15,854)	(17,233)
Derivative financial instruments		28,866	5,926
Deferred tax		(3,939)	(110)
Deposits		78,428	475,077
Other liabilities		(27,036)	4,225
Total movements in operating assets and liabilities		**(59,220)**	**316,460**
Net cash flows (applied to)/from operating activities[1]		**(64,685)**	**337,243**

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

The notes to the Interim Financial Statements form an integral part of, and should be read in conjunction with, these Interim Financial Statements. These Interim Financial Statements should be read in conjunction with the financial statements included in the Disclosure Statement for the year ended 30 June 2023.

Notes to the Interim Financial Statements

For the six months ended 31 December 2023

1 Interim Financial Statements preparation

Basis of preparation

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

The Banking Group's ultimate parent company is Heartland Group Holdings Limited (**HGH**).

These Interim Financial Statements do not include all notes of the type normally included in an annual financial report. Accordingly, these Interim Financial Statements should be read in conjunction with the financial statements included in the Disclosure Statement for the year ended 30 June 2023.

The Interim Financial Statements presented here are for the six months period 31 December 2023.

The Interim Financial Statements have been prepared on a going concern and historical cost basis, unless stated otherwise. The accounting policies adopted are consistent with those of the previous financial year ended 30 June 2023.

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

1 Interim Financial Statements preparation (continued)

Critical accounting estimates and judgements

Provision for impairment on finance receivables measured at amortised cost

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

As at 31 December 2023, the most significant changes in judgement in respect of the collective provision for impairment are as follows:

- Motor vehicles lending: The Banking Group has additional provisioning resulting from changes in assumptions in respect of customer cure rates for exposures in default due to changing patterns of customer behaviour arising from the current economic conditions (this is the rate of loans in default which the Banking Group expects to return to performing), and loan write-off rates for certain cohorts of stressed loans as a result of recent changes in customer collectability experience. The collective ECL on motor vehicle lending for Corporate and Other Exposures was $25.3 million as at 31 December 2023 (30 June 2023: $15.1 million).

- Economic overlay: The Banking Group has developed a new approach to multiple forward looking economic scenarios through estimating future loss distributions.

There have been no other material changes to the use of estimates and judgements for the preparation of the Interim Financial Statements since the reporting date of the previous financial statements. The Banking Group's Disclosure Statement for the year ended 30 June 2023 contains detail on other estimates and judgements used.

Climate Related Disclosures

Effective 1 January 2023, Climate Related Disclosures (**CRD**) become mandatory for climate reporting entities (**CRE**). The Banking Group is a CRE and the Banking Group's framework for considering requirements to enable CRD has been completed. The Banking Group will issue CRD in line with the Aotearoa New Zealand Climate Standards for the financial year ending 30 June 2024.

Significant events and transactions

Intangible assets have increased by $9.7 million during the period mainly attributable to development of the Core Banking System upgrade and integration of other systems into the Core Banking System.

All other significant events and transactions are disclosed in the Notes of the Interim Financial Statements.

Performance

2 Segmental analysis

Segment information presented in respect of the Banking Group's operating segments 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 comprises the following main operating segments:

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.
Other	Operating expenses, such as premises, IT and support centre costs are not allocated to operating segments and are included in Other.

Finance receivables are allocated across the operating segments 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.

$000's	Motor	Reverse Mortgages[1]	Personal Lending	Business	Rural	Other	Total
Unaudited - December 2023							
Net interest income	29,531	23,866	2,762	32,101	17,012	187	105,459
Lending and credit fee income	1,413	1,338	72	1,335	154	-	4,312
Net other income/(expense)	644	-	486	452	(415)	771	1,938
Net operating income	**31,588**	**25,204**	**3,320**	**33,888**	**16,751**	**958**	**111,709**
Operating expenses	2,067	2,622	3,485	4,624	1,663	37,686	52,147
Profit/(loss) before impaired asset expense and income tax	**29,521**	**22,582**	**(165)**	**29,264**	**15,088**	**(36,728)**	**59,562**
Impaired asset expense	15,327	-	615	7,888	118	-	23,948
Profit/(loss) before income tax	**14,194**	**22,582**	**(780)**	**21,376**	**14,970**	**(36,728)**	**35,614**
Income tax expense	-	-	-	-	-	10,044	10,044
Profit/(loss) for the period	**14,194**	**22,582**	**(780)**	**21,376**	**14,970**	**(46,772)**	**25,570**

2 Segmental analysis (continued)

$000's	Motor	Reverse Mortgages	Personal Lending	Business	Rural	Other	Total
Unaudited - December 2022							
Net interest income	30,936	19,058	5,213	35,843	16,612	(199)	107,463
Lending and credit fee income	1,037	1,444	43	1,142	137	-	3,803
Net other income	697	-	551	400	199	1,363	3,210
Net operating income	**32,670**	**20,502**	**5,807**	**37,385**	**16,948**	**1,164**	**114,476**
Operating expenses	2,055	2,585	3,344	4,867	1,628	38,647	53,126
Profit/(loss) before impaired asset expense and income tax	**30,615**	**17,917**	**2,463**	**32,518**	**15,320**	**(37,483)**	**61,350**
Impaired asset expense	3,341	-	1,580	4,092	162	-	9,175
Profit/(loss) before income tax	**27,274**	**17,917**	**883**	**28,426**	**15,158**	**(37,483)**	**52,175**
Income tax expense	-	-	-	-	-	14,689	14,689
Profit/(loss) for the period	**27,274**	**17,917**	**883**	**28,426**	**15,158**	**(52,172)**	**37,486**
Unaudited - December 2023							
Total assets	1,604,893	1,058,928	357,626	1,323,638	676,193	707,289	5,728,567
Total liabilities							5,028,193
Audited - June 2023							
Total assets	1,563,939	888,600	358,572	1,356,913	712,596	681,188	5,561,808
Total liabilities							4,833,072

[1]Includes Australian Reverse Mortgage loans acquired from Seniors Warehouse Trust (**SWT**). Refer to Note 9 - Related party transactions and balances for further details.

3 Net interest income

$000's	Unaudited 6 Months to December 2023	Unaudited 6 Months to December 2022
Interest income		
Cash and cash equivalents	4,977	3,043
Investments	5,235	2,399
Finance receivables measured at amortised cost	169,139	135,407
Finance receivables - reverse mortgages	48,593	29,732
Total interest income[1]	**227,944**	**170,581**
Interest expense		
Deposits	110,232	56,864
Other borrowings	26,100	13,297
Net interest (income) on derivative financial instruments	(13,847)	(7,043)
Total interest expense[2]	**122,485**	**63,118**
Net interest income	**105,459**	**107,463**

[1]Cash and cash equivalents and Finance Receivables are measured at amortised cost. Investments are measured at fair value through other comprehensive income (**FVOCI**). Total interest income derived from these financial assets is calculated using the effective interest rate method. Finance Receivables - reverse mortgages are measured at fair value through profit or loss (**FVTPL**).

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

4 Operating expenses

$000's	Unaudited 6 Months to December 2023	Unaudited 6 Months to December 2022
Personnel expenses[1]	27,969	31,983
Directors' fees	274	282
Superannuation	582	654
Depreciation - property, plant and equipment	907	871
Legal and professional fees[2]	1,622	1,484
Advertising and public relations	1,005	1,081
Depreciation - right of use asset	1,111	1,059
Technology services	5,727	4,625
Telecommunications, stationery and postage	866	867
Customer administration costs	1,281	1,325
Customer onboarding costs	1,240	1,226
Occupancy costs	811	753
Amortisation of intangible assets	2,614	2,792
Other operating expenses	6,138	4,124
Total operating expenses	**52,147**	**53,126**

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

[2]Legal and professional fees include compensation of auditor.

5 Impaired asset expense

$000's	Unaudited 6 Months to December 2023	Unaudited 6 Months to December 2022
Individually impaired asset expense	5,392	5,292
Collectively impaired asset expense	19,547	4,862
Total impaired asset expense excluding recovery of amounts previously written off to the income statement	**24,939**	**10,154**
Recovery of amounts previously written off to the income statement	(991)	(979)
Total impaired asset expense	**23,948**	**9,175**

Financial Position

6 Finance receivables measured at amortised cost

$000's	Unaudited December 2023	Audited June 2023
Gross finance receivables measured at amortised cost	3,992,607	4,006,945
Less provision for impairment[1]	(68,385)	(52,145)
Net finance receivables measured at amortised cost	**3,924,222**	**3,954,800**

[1]Refer to Note - 13 Asset quality for further details.

(a) Movement in provision for impairment

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

$000's	Collectively Assessed Stage 1	Collectively Assessed Stage 2	Collectively Assessed Stage 3	Individually Assessed	Total
Unaudited - December 2023					
Total					
Impairment allowance as at 30 June 2023	**12,250**	**2,448**	**21,316**	**16,131**	**52,145**
Changes in loss allowance					
Transfer between stages[1]	(333)	(1,857)	1,854	336	-
New and increased provision (net of provision releases)[1]	(1,178)	3,320	17,741	5,056	24,939
Total impaired asset expense excluding recovery of amounts previously written off to the income statement	**(1,511)**	**1,463**	**19,595**	**5,392**	**24,939**
Write-offs	-	-	(8,699)	-	(8,699)
Impairment allowance as at 31 December 2023	**10,739**	**3,911**	**32,212**	**21,523**	**68,385**
Audited - June 2023					
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)	(3,819)	3,684	8,332	-
New and increased provision (net of provision releases)[1]	1,246	4,404	14,439	4,701	24,790
Total impaired asset expense excluding recovery of amounts previously written off to the income statement	**(6,951)**	**585**	**18,123**	**13,033**	**24,790**
Write-offs	-	-	(11,169)	(11,903)	(23,072)
Impairment allowance as at 30 June 2023	**12,250**	**2,448**	**21,316**	**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.

6 Finance receivables measured at amortised cost (continued)

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

$000's	Collectively Assessed Stage 1	Stage 2	Stage 3	Individually Assessed	Total
Unaudited - December 2023					
Total					
Gross finance receivables as at 30 June 2023	**3,690,564**	**182,180**	**81,246**	**52,955**	**4,006,945**
Transfer between stages	(119,621)	31,791	71,197	16,633	-
Additions	674,480	-	-	10,667	685,147
Deletions	(651,115)	(10,154)	(24,528)	(4,535)	(690,332)
Write-offs	(87)	(274)	(8,792)	-	(9,153)
Gross finance receivables as at 31 December 2023	**3,594,221**	**203,543**	**119,123**	**75,720**	**3,992,607**
Audited - June 2023					
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**

7 Borrowings

$000's	Unaudited December 2023	Audited June 2023
Deposits	4,213,772	4,131,029
Total deposits	**4,213,772**	**4,131,029**
Unsubordinated notes	124,639	122,165
Subordinated notes[1]	100,291	97,793
Securitised borrowings	376,522	227,054
Certificate of deposit	148,259	148,110
Money market borrowings	-	20,004
Total other borrowings	**749,711**	**615,126**
Total deposits and other borrowings	**4,963,483**	**4,746,155**

[1]Refer to Note 18 - Capital adequacy for further details.

Deposits and unsubordinated notes rank equally and are unsecured.

Movement in other borrowings

$000's	Unaudited December 2023	Audited June 2023
Opening balance	**615,126**	**749,478**
Issue of debt	592,522	769,205
Repayment of debt	(463,825)	(903,838)
Total cash movements	**128,697**	**(134,633)**
Capitalised interest and fee expense	1,109	755
Fair value movements	4,779	(474)
Total non-cash movements	**5,888**	**281**
Closing balance	**749,711**	**615,126**

Securitised borrowings

On 15 September 2023, Heartland Auto Receivable Warehouse Trust 2018-1 (**HARWT**) increased its motor vehicle facility by $100 million taking the total facility limit from $400 million to $500 million. The maturity date was extended to 26 August 2025.

8 Share capital and dividends

000's	Unaudited December 2023 Number of Shares	Audited June 2023 Number of Shares
Issued shares		
Opening balance	565,430	565,430
Closing balance	**565,430**	**565,430**

There were no new shares issued during the period (June 2023: nil).

Dividends paid

	6 Months to December 2023		12 Months to June 2023	
	Date Declared	$000's	Date Declared	$000's
Dividend to HGH	28 August 2023	43,000	22 August 2022	30,000
Dividend to HGH			28 February 2023	30,000
Total dividends paid		**43,000**		**60,000**

9 Related party transactions and balances

(a) 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) conducted on an arm’s length basis and on normal commercial terms. The transactions include the provision of tax and administrative services and customer operations. Banking facilities are provided by HBL to other Banking Group entities on normal commercial terms as with other customers. There is no lending from the Banking Group to HGH.

Seniors Warehouse Trust **(SWT)** forms part of Australian Seniors Finance **(ASF)** Pty Ltd reverse mortgage business and is set up by ASF as an asset holding entity. During the six months ended 31 December 2023, HBL purchased AU$80 million of reverse mortgage loans from SWT. The portfolio was purchased at carrying value which approximated fair value at date of purchase.

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

$000's	Unaudited 6 Months to December 2023	Unaudited 6 Months to December 2022
Heartland Group Holdings Limited		
Interest expense	-	71
Deposits	-	2,400
Dividends paid to HGH	43,000	30,000
Management fees to HGH	5,682	5,361
Management fees from HGH	3,175	2,271

$000's	Unaudited 6 Months to December 2023	Unaudited 6 Months to December 2022
Australian Seniors Finance Pty Limited (ASF)		
Management fees to ASF	-	2
Management fees from ASF	2,108	2,369

(b) Due from/to related parties

$000's	Unaudited December 2023	Audited June 2023
Due from		
Australian Seniors Finance Pty Limited	1,028	-
Total due from related parties	**1,028**	**-**
Due to		
Australian Seniors Finance Pty Limited	156	217
Heartland Group Holdings Limited	529	6,956
Total due to related parties	**685**	**7,173**

(c) Other balances with related parties

$000's	Unaudited December 2023	Audited June 2023
Heartland Group Holdings Limited		
Deposits owing to HGH	4	4

10 Fair value

(a) Financial instruments measured at fair value

The following methods and assumptions were used to estimate the fair value of each class of financial asset and liability measured at fair value on a recurring basis in the Interim Statement of Financial Position.

The Banking Group has an established framework governing 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 material 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 with the fair value being based on quoted market prices (level 1 under the fair value hierarchy) or modelled using observable market inputs (level 2 under the fair value hierarchy).

Investments valued under level 2 of the fair value hierarchy are modelled 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. Investments in unlisted equity securities are measured under level 3 of the fair value hierarchy with the fair value being based on unobservable inputs using market accepted valuation techniques.

Where appropriate, the Banking Group may apply adjustments to the above-mentioned techniques to determine fair value of an equity security to reflect the underlying characteristics. These adjustments are reflective of market participant considerations in valuing the said security.

Finance receivables - reverse mortgages

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 of a reverse mortgage 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 an actuarial valuation to determine a proxy for the fair value that incorporates changes in the portfolio risk and expectations of the portfolio performance. The actuarial valuation includes inputs such as mortality and potential move into care, voluntary exits, house price changes, interest rate margin and the “no negative 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 (June 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.

10 Fair value (continued)

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

Finance receivables - reverse mortgages (continued)

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

Derivative financial instruments

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

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

$000's	Level 1	Level 2	Level 3	Total
Unaudited - December 2023				
Assets				
Investments	389,048	-	1,819	390,867
Derivative financial instruments	-	21,526	-	21,526
Finance receivables - reverse mortgages	-	-	1,059,082	1,059,082
Total financial assets measured at fair value	**389,048**	**21,526**	**1,060,901**	**1,471,475**
Liabilities				
Derivative financial instruments	-	21,034	-	21,034
Total financial liabilities measured at fair value	**-**	**21,034**	**-**	**21,034**
Audited - 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 any fair value hierarchy levels in the six months ended 31 December 2023 (June 2023: nil).

10 Fair value (continued)

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

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

$000's	Finance Receivables - Reverse Mortgages	Investments	Total
Unaudited - December 2023			
As at 30 June 2023	888,600	1,819	890,419
New loans[1]	182,869	-	182,869
Repayments	(62,271)	-	(62,271)
Capitalised interest and fees	49,953	-	49,953
Other	(69)	-	(69)
As at 31 December 2023	**1,059,082**	**1,819**	**1,060,901**
Audited - 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	76	-	76
As at 30 June 2023	**888,600**	**1,819**	**890,419**

[1]Includes Australian Reverse Mortgage loans acquired from SWT. Refer to Note 9 - Related party transactions and balances for further details.

(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 Interim 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 for the Banking Group.

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.

10 Fair value (continued)

(b) Financial instruments not measured at fair value

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.

Due to and from related parties

The fair value of amounts due to and from related parties is considered equivalent to their carrying value due to their short term nature.

Other financial assets and financial liabilities

The fair value of financial instruments such as short-term trade receivables and payables is considered equivalent to their carrying value due to their short-term nature.

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

		Unaudited December 2023		Audited June 2023	
$000's	**Fair Value Hierarchy**	**Total Fair Value**	**Total Carrying Value**	**Total Fair Value**	**Total Carrying Value**
Assets					
Finance receivables measured at amortised cost	Level 3	3,687,996	3,924,222	3,700,196	3,954,800
Total financial assets		**3,687,996**	**3,924,222**	**3,700,196**	**3,954,800**
Liabilities					
Deposits	Level 2	4,214,090	4,213,772	4,130,330	4,131,029
Other borrowings	Level 2	749,767	749,711	615,061	615,126
Total financial liabilities		**4,963,857**	**4,963,483**	**4,745,391**	**4,746,155**

Risk Management

11 Enterprise risk management program

There have been no material changes in the Banking Group's policies for managing risk, or material exposures to any new types of risk since the reporting date of the previous Disclosure Statement 30 June 2023.

12 Credit risk exposure

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

The following table represents the maximum credit risk exposure, without taking account of any collateral held. The exposures set out below are based on net carrying amounts as reported in the Interim Statement of Financial Position.

$000's	Unaudited December 2023
On balance sheet:	
Cash and cash equivalents	161,564
Investments	389,048
Finance receivables	3,924,222
Finance receivables - reverse mortgages	1,059,082
Derivative financial assets	21,526
Due from related parties	1,028
Other financial assets	1,831
Total on balance sheet credit exposures	**5,558,301**
Off balance sheet:	
Letters of credit, guarantee commitments and performance bonds	3,208
Undrawn facilities available to customers	322,910
Conditional commitments to fund at future dates	7,501
Total off balance sheet credit exposures	**333,619**
Total credit exposures	**5,891,920**

(b) Concentration of credit risk by geographic region

$000's	Unaudited December 2023
New Zealand	5,608,194
Australia	86,640
Rest of the world [1]	265,471
	5,960,305
Provision for impairment	(68,385)
Total credit exposures	**5,891,920**

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

12 Credit risk exposure (continued)

(c) Concentration of credit risk by industry sector

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

$000's	Unaudited December 2023
Agriculture	746,536
Forestry and fishing	126,463
Mining	10,601
Manufacturing	70,243
Finance and insurance	623,094
Wholesale trade	40,704
Retail trade and accommodation	416,603
Households	2,480,875
Other business services	302,536
Construction	342,101
Rental, hiring and real estate services	208,225
Transport and storage	398,682
Other	193,642
	5,960,305
Provision for impairment	(68,385)
Total credit exposures	**5,891,920**

(d) Credit exposure to individual counterparties

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

The peak end-of-day aggregate concentration of credit exposure to individual counterparties has been calculated by determining the maximum end-of-day aggregate amount of credit exposure over the relevant six month period and then dividing the amount by the Banking Group's common equity tier one capital as at 31 December 2023.

	Unaudited Number of Exposures As at December 2023	Unaudited Number of Exposures Peak End-of-Day over 6 Months to December 2023
Exposures to banks		
With a long-term credit rating of A- or A3 or above, or its equivalent:		
10% to less than 15% of CET1 capital	-	1
15% to less than 20% of CET1 capital	1	1
20% to less than 25% of CET1 capital	-	1
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 do not have a long-term credit rating	1	1

13 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 expected credit loss (**ECL**) are not material to the Banking Group.

(a) Past due but not individually impaired

$000's	Corporate	Residential	All Other	Total
Unaudited - December 2023				
Less than 30 days past due	69,700	3,232	51,310	124,242
At least 30 but less than 60 days past due	32,258	154	16,333	48,745
At least 60 but less than 90 days past due	16,685	331	7,281	24,297
At least 90 days past due	73,318	152	39,736	113,206
Total past due but not individually impaired	**191,961**	**3,869**	**114,660**	**310,490**

13 Asset quality (continued)

(b) Provision for impairment

$000's	Collectively Assessed Stage 1	Collectively Assessed Stage 2	Collectively Assessed Stage 3	Individually Assessed	Total
Unaudited - December 2023					
Corporate					
Impairment allowance as at 30 June 2023	**11,089**	**1,337**	**8,530**	**16,131**	**37,087**
Changes in loss allowance					
Transfer between stages[1]	(206)	(943)	813	336	-
New and increased provision (net of provision releases)[1]	(1,412)	1,685	4,923	5,056	10,252
Total impaired asset expense excluding recovery of amounts previously written off to the income statement	**(1,618)**	**742**	**5,736**	**5,392**	**10,252**
Write-offs	-	-	(1,887)	-	(1,887)
Impairment allowance as at 31 December 2023	**9,471**	**2,079**	**12,379**	**21,523**	**45,452**
Residential					
Impairment allowance as at 30 June 2023	**127**	**-**	**-**	**-**	**127**
Changes in loss allowance					
Transfer between stages[1]	-	-	-	-	-
New and increased provision (net of provision releases)[1]	19	2	31	-	52
Total impaired asset expense excluding recovery of amounts previously written off to the income statement	**19**	**2**	**31**	**-**	**52**
Write-offs	-	-	-	-	-
Impairment allowance as at 31 December 2023	**146**	**2**	**31**	**-**	**179**
All Other					
Impairment allowance as at 30 June 2023	**1,034**	**1,111**	**12,786**	**-**	**14,931**
Changes in loss allowance					
Transfer between stages[1]	(127)	(914)	1,041	-	-
New and increased provision (net of provision releases)[1]	215	1,633	12,787	-	14,635
Total impaired asset expense excluding recovery of amounts previously written off to the income statement	**88**	**719**	**13,828**	**-**	**14,635**
Write-offs	-	-	(6,812)	-	(6,812)
Impairment allowance as at 31 December 2023	**1,122**	**1,830**	**19,802**	**-**	**22,754**
Total					
Impairment allowance as at 30 June 2023	**12,250**	**2,448**	**21,316**	**16,131**	**52,145**
Changes in loss allowance					
Transfer between stages[1]	(333)	(1,857)	1,854	336	-
New and increased provision (net of provision releases)[1]	(1,178)	3,320	17,741	5,056	24,939
Total impaired asset expense excluding recovery of amounts previously written off to the income statement	**(1,511)**	**1,463**	**19,595**	**5,392**	**24,939**
Write-offs	-	-	(8,699)	-	(8,699)
Impairment allowance as at 31 December 2023	**10,739**	**3,911**	**32,212**	**21,523**	**68,385**

[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 Asset quality (continued)

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

$000's	Collectively Assessed Stage 1	Stage 2	Stage 3	Individually Assessed	Total
Unaudited - December 2023					
Corporate					
Gross finance receivables as at 30 June 2023	**2,310,034**	**158,956**	**44,709**	**52,955**	**2,566,654**
Transfer between stages	(99,425)	27,156	55,636	16,633	-
Additions	214,568	-	-	10,667	225,235
Deletions	(216,620)	(4,400)	(21,651)	(4,535)	(247,206)
Write-offs	(5)	(16)	(1,930)	-	(1,951)
Gross finance receivables as at 31 December 2023	**2,208,552**	**181,696**	**76,764**	**75,720**	**2,542,732**
Residential					
Gross finance receivables as at 30 June 2023	**322,486**	**-**	**-**	**-**	**322,486**
Transfer between stages	(637)	485	152	-	-
Additions	43,018	-	-	-	43,018
Deletions	(8,145)	-	-	-	(8,145)
Write-offs	-	-	-	-	-
Gross finance receivables as at 31 December 2023	**356,722**	**485**	**152**	**-**	**357,359**
All Other					
Gross finance receivables as at 30 June 2023	**1,058,044**	**23,224**	**36,537**	**-**	**1,117,805**
Transfer between stages	(19,559)	4,150	15,409		-
Additions	416,894	-	-	-	416,894
Deletions	(426,350)	(5,754)	(2,877)	-	(434,981)
Write-offs	(82)	(258)	(6,862)	-	(7,202)
Gross finance receivables as at 31 December 2023	**1,028,947**	**21,362**	**42,207**	**-**	**1,092,516**
Total					
Gross finance receivables as at 30 June 2023	**3,690,564**	**182,180**	**81,246**	**52,955**	**4,006,945**
Transfer between stages	(119,621)	31,791	71,197	16,633	-
Additions	674,480	-	-	10,667	685,147
Deletions	(651,115)	(10,154)	(24,528)	(4,535)	(690,332)
Write-offs	(87)	(274)	(8,792)	-	(9,153)
Gross finance receivables as at 31 December 2023	**3,594,221**	**203,543**	**119,123**	**75,720**	**3,992,607**

Impact of changes in gross exposures on loss allowances - Corporate exposures

The Banking Group's provision for impairment has increased by $8.4 million during the period due to:

- A net increase in collective provisions of $3.0 million due to increase in provisions made against motor vehicles lending to corporates from changes in motor vehicles lending assumptions in respect of cure rates and loan write-off rates, as well as a new economic overlay due to the new methodology in estimating future loss distributions.

- A net increase in individually assessed provisions of $5.4 million due to additional provisions required on various legacy single named exposures as a result of changes in the estimated recoverable amounts driven by the deterioration of economic conditions.

Impact of changes in gross exposures on loss allowances - Residential exposures

The Banking Group's provision for impairment has remained unchanged at $0.1 million due to no significant changes in gross exposures or staging of these exposures.

13 Asset quality (continued)

Impact of changes in gross exposures on loss allowances - All Other exposures

The Banking Group's provision for impairment has increased by $7.9 million during the period due to increase in stage 3 receivables and changes in motor vehicles lending assumptions in respect of cure rates and loan write-off rates.

(d) Other asset quality information

As at 31 December 2023 there were nil undrawn lending commitments available to counterparties for whom drawn balances are classified as individually impaired (June 2023: nil). As at 31 December 2023, the Banking Group had $0.549 million assets under administration (June 2023: $0.349 million).

14 Liquidity risk

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

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

The Banking Group holds the following liquid assets for the purpose of managing liquidity risk:

$000's	Unaudited December 2023
Cash and cash equivalents	161,564
Investments	389,048
Total liquid assets	**550,612**
Undrawn committed bank facilities	123,478
Total liquid assets and committed undrawn funding	**674,090**

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 Interim Statement of Financial Position.

The contractual cash flows presented below may differ significantly from actual cash flows. This occurs as a result of future actions by the 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
Unaudited - December 2023							
Non-derivative financial liabilities							
Deposits	791,117	2,386,823	1,056,305	67,875	76,356	-	4,378,476
Other borrowings	-	325,148	45,291	382,885	6,933	136,908	897,165
Due to related parties	-	685	-	-	-	-	685
Lease liabilities	-	1,388	1,386	2,611	6,611	1,681	13,677
Other financial liabilities	-	21,047	-	-	-	-	21,047
Total non-derivative financial liabilities	**791,117**	**2,735,091**	**1,102,982**	**453,371**	**89,900**	**138,589**	**5,311,050**
Derivative financial liabilities							
Inflows from derivatives	-	62,908	75,799	26,105	25,390	304	190,506
Outflows from derivatives	-	61,916	77,302	33,488	36,452	424	209,582
Total derivative financial liabilities	**-**	**(992)**	**1,503**	**7,383**	**11,062**	**120**	**19,076**
Undrawn facilities available to customers	322,910	-	-	-	-	-	322,910

15 Interest rate risk

Contractual repricing analysis

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

$000's	0-3 Months	3-6 Months	6-12 Months	1-2 Years	2+ Years	Non-Interest Bearing	Total
Unaudited - December 2023							
Financial assets							
Cash and cash equivalents	161,564	-	-	-	-	-	161,564
Investments	15,138	23,052	-	100,174	250,684	1,819	390,867
Derivative financial assets	-	-	-	-	-	21,526	21,526
Finance receivables	1,561,335	298,052	594,717	710,173	759,945	-	3,924,222
Finance receivables - reverse mortgages	1,059,082	-	-	-	-	-	1,059,082
Due from related parties	-	-	-	-	-	1,028	1,028
Other financial assets	-	-	-	-	-	1,831	1,831
Total financial assets	**2,797,119**	**321,104**	**594,717**	**810,347**	**1,010,629**	**26,204**	**5,560,120**
Financial liabilities							
Deposits	2,229,141	854,269	1,007,259	55,462	50,648	16,993	4,213,772
Other borrowings	484,203	163,393	-	-	102,115	-	749,711
Derivative financial liabilities	-	-	-	-	-	21,034	21,034
Due to related parties	-	-	-	-	-	685	685
Lease liabilities	-	-	-	-	-	12,589	12,589
Other financial liabilities	-	-	-	-	-	21,047	21,047
Total financial liabilities	**2,713,344**	**1,017,662**	**1,007,259**	**55,462**	**152,763**	**72,348**	**5,018,838**
Effect of derivatives held for risk management	1,201,271	69,984	(357,996)	(469,212)	(444,047)	-	-
Net financial assets/(liabilities)	**1,285,046**	**(626,574)**	**(770,538)**	**285,673**	**413,819**	**(46,144)**	**541,282**

16 Concentrations of funding

(a) Regulatory liquidity ratios

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

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

	Unaudited Average for the 3 Months Ended 31 December 2023	**Unaudited Average for the 3 Months Ended 30 September 2023**
One-week mismatch ratio	7.53	7.74
One-month mismatch ratio	7.04	7.63
Core funding ratio	90.03	90.47

(b) Concentration of funding by industry

$000's	**Unaudited December 2023**
Agriculture	115,344
Forestry and fishing	20,321
Mining	56
Manufacturing	21,983
Finance and insurance	1,111,839
Wholesale trade	10,752
Retail trade and accommodation	25,589
Households	3,300,145
Rental, hiring and real estate services	75,765
Construction	38,856
Other business services	67,030
Transport and storage	7,513
Other	43,651
	4,838,844
Unsubordinated notes	124,639
Total borrowings	**4,963,483**

(c) Concentration of funding by geographical area

$000's	**Unaudited December 2023**
New Zealand	4,831,318
Overseas	132,165
Total borrowings	**4,963,483**

Other Disclosures

17 Structured entities

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

During the period, Heartland Auto Receivable Warehouse Trust 2018-1 (**HARWT**) increased its motor vehicle facility by $100 million taking the total facility limit from $400 million to $500 million. The maturity date was extended to 26 August 2025.

There were no other material changes to the Banking Group's structured entities for the six months ended 31 December 2023.

18 Capital adequacy

The capital adequacy tables set out on the following pages summarise the composition of regulatory capital and the capital adequacy ratios for the Banking Group as at 31 December 2023.

RBNZ Capital Adequacy Framework

The Banking Group has calculated its Risk Weighted Exposures (**RWE**s) and minimum regulatory capital requirements in accordance with the Banking Prudential Requirements (**BPR**) documents. In doing so, the Banking Group has applied the standardised methodology to Risk Weighted Assets (**RWA**) as per BPR 131: Standardised credit RWA, standardised operational risk as per BPR150: Standardised Operational risk, and market risk as per BPR140: Market 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, the Bank must comply with the following minimum requirements set by the RBNZ:

- Total capital must not be less than 8% of RWE
- Tier 1 capital must not be less than 6% of RWE
- CET1 capital must not be less than 4.5% of RWE
- Capital must not be less than NZ$30m

In addition, if the Prudential Buffer Ratio (**PCR**) 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 10.5%. 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 14.07% as at 31 December 2023. This means the revised Framework requires the Banking Group to increase its Total Capital ratio by 1.93% over the transitional period.

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:

- comply at all times with the regulatory capital requirements set by the RBNZ;
- 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.

The Bank's Capital Management Framework includes its:

- Internal Capital Adequacy Assessment Process (**ICAAP**);
- Capital Stress Testing Policy; and
- Capital Management Plan (**CMP**)

18 Capital adequacy (continued)

Capital management (continued)

The Banking Group 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 Banking Group actively monitors its capital adequacy through Asset and Liability Committee (**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 Banking Group for the six month ended 31 December 2023.

(a) Capital

$000's	**Unaudited December 2023**
Tier 1 Capital	
CET1 capital	
Paid-up ordinary shares issued by the Banking Group plus related share premium	553,239
Retained earnings (net of appropriations)	144,924
Accumulated other comprehensive income and other disclosed reserves	2,211
Less deductions from CET1 capital	
Intangible assets	(81,309)
Deferred tax asset	(20,699)
Cash flow hedge reserve	(3,798)
Total CET1 capital	**594,568**
AT1 capital	-
Total Tier 1 capital	**594,568**
Tier 2 capital	100,000
Total Tier 2 capital	**100,000**
Total capital	**694,568**

(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.

18 Capital adequacy (continued)

Retained earnings

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

Reserves classified as CET1 capital

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

Tier 2 capital

Subordinated notes

A summary of the key terms and features of the subordinated notes is provided below:

Issuer	The Bank
Face value	$100 million
Issue date	28 April 2023
Maturity date	28 April 2033
Optional redemption	28 April 2028 and every quarterly interest payment date thereafter
Interest	Fixed at 7.51% for the first five years, thereafter, resets to quarterly floating rate equal to the sum of the applicable 3-month Bank Bill Rate plus 3.2% per annum.

Interest payable
The quarterly payment of interest in respect of the subordinated notes of the Bank are subject to the Bank being solvent at the time of, and immediately following the interest payment.

Early redemption
The Bank 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 the Bank obtaining the RBNZ’s prior written approval and the Bank being solvent at the time.

Ranking
In a liquidation of the Bank, the claims of the holders of the subordinated notes will rank:
- behind the claims of all depositors and other creditors of the Bank;
- 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 Bank's shareholders and holders of any other securities and obligations of the Bank that rank behind the subordinated notes.

18 Capital adequacy (continued)

(c) Credit risk
On balance sheet exposures

	Total Exposure After Credit Risk Mitigation $000's	Risk Weight %	Risk Weighted Exposure $000's	Minimum Pillar 1 Capital Requirement $000's
Unaudited - December 2023				
Cash	-	0%	-	-
Sovereigns and central banks	868	0%	-	-
Multilateral development banks	207,697	0%	-	-
Multilateral development banks	57,760	20%	11,552	924
Banks - Short term - Tier 1	-	20%	-	-
Banks - Short term - Tier 2	161,564	20%	32,313	2,585
Banks - Short term - Tier 3	-	20%	-	-
Banks - Long term - Tier 1	-	20%	-	-
Banks - Long term - Tier 2	21,982	50%	10,991	879
Banks - Long term - Tier 3	-	50%	-	-
Public sector entity (AA- and above)	101,609	20%	20,322	1,626
Public sector entity (A- and above)	-	50%	-	-
Public sector entity (BBB+, BBB, BBB-)	-	100%	-	-
Corporates (AA- and above)	-	20%	-	-
Corporates (A- and above)	-	50%	-	-
Corporates (BBB- and above)	-	100%	-	-
Corporate Exposures - Government Guarantee	47,806	20%	9,561	765
Corporate Exposures- unrated	2,000,695	100%	2,000,695	160,056
Welcome Home Loans - loan to value ratio (LVR) <= 80%[1]	1,036	35%	363	29
Welcome Home Loans - loan to value ratio (LVR) <= 90%[1]	-	35%	-	-
Welcome Home Loans - LVR 90% <= 100%[1]	-	50%	-	-
Welcome Home Loans - LVR > 100%[1]	-	100%	-	-
Reverse Residential mortgages <= 30% LVR	638,702	40%	255,481	20,438
Reverse Residential mortgages 30 <= 60% LVR	398,239	50%	199,119	15,930
Reverse Residential mortgages 60 <= 80% LVR	20,263	80%	16,211	1,297
Reverse Residential mortgages > 80% LVR	1,878	100%	1,878	150
Reverse Residential mortgages > 100% LVR	-	100%	-	-
Non Property Investment Mortgage Loan <=80% LVR	344,257	35%	120,490	9,639
Non Property Investment Mortgage Loan 80 <= 90% LVR	-	50%	-	-
Non Property Investment Mortgage Loan 90 <= 100% LVR	-	75%	-	-
Non Property Investment Mortgage Loan > 100% LVR	-	100%	-	-
Property Investment Mortgage Loan <= 80% LVR	11,370	40%	4,549	364
Property Investment Mortgage Loan 80 <= 90% LVR	-	70%	-	-
Property Investment Mortgage Loan 90 <= 100% LVR	-	90%	-	-
Property Investment Mortgage Loan > 100% LVR	-	100%	-	-
Past due residential mortgages	516	100%	516	41
Other past due assets - provision >= 20%	53,371	100%	53,371	4,270
Other past due assets - provision < 20%	70,112	150%	105,168	8,413
Equity holdings	-	300%	-	-
All other equity holdings	1,804	400%	7,215	577
Fixed assets	12,482	100%	12,482	999
Leased assets	10,438	100%	10,438	835
Other assets	1,440,583	100%	1,440,583	115,247
Not risk weighted assets	102,009	0%	-	-
Total on balance sheet exposures	**5,707,041**		**4,313,298**	**345,064**

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

18 Capital adequacy (continued)

(c) Credit risk (continued)

Off balance sheet exposures

	Total Exposure $000's	Credit Conversion Factor %	Credit Equivalent Amount $000's	Average Risk Weight %	Risk Weighted Exposure $000's	Minimum Pillar 1 Capital Requirement $000's
Unaudited - December 2023						
Direct credit substitute	-	100%	-	100%	-	-
Performance-related contingency	3,208	50%	1,604	100%	1,604	128
Other commitments where original maturity is more than one year	148,728	50%	74,364	100%	74,364	5,949
Other commitments where original maturity is more than one year	55,906	50%	27,953	50%	13,977	1,118
Other commitments where original maturity is more than one year	51,052	50%	25,526	35%	8,934	715
Other commitments where original maturity is less than or equal to one year	74,725	20%	14,945	100%	14,945	1,196
Counterparty credit risk[1]						
Interest rate contracts	1,883,639	N/A	5,290	34%	1,785	143
FX forward contracts	-	N/A	-	0%	-	-
Credit valuation adjustment	-	-	-	-	1,400	112
Total off balance sheet exposures	**2,217,258**		**149,682**		**117,009**	**9,361**

[1] The credit equivalent amount was calculated using the current exposure method.

(d) Additional mortgage information – LVR range

$000's	On Balance Sheet Exposures	Off Balance Sheet Exposures[1]	Total Exposures
Unaudited - December 2023			
Does not exceed 80%	1,413,868	106,958	1,520,826
Exceeds 80% and not 90%	1,878	-	1,878
Exceeds 90%	516	-	516
Total exposures	**1,416,262**	**106,958**	**1,523,220**

[1] Off balance sheet exposures means unutilised limits.

At 31 December 2023, there were no Welcome Home loans whose credit risk is mitigated by the Crown included in “Exceeds 90% residential mortgages”. Capital adequacy calculations, only the value of the first ranking 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%.

18 Capital adequacy (continued)

(e) Reconciliation of mortgage related amounts

$000's	Note	Unaudited December 2023
Gross finance receivables - reverse mortgages		1,059,082
Loans and advances - loans with residential mortgages	13(c)	357,359
On balance sheet residential mortgage exposures subject to the standardised approach		**1,416,441**
Less: collective provision for impairment	13(b)	(179)
On balance sheet residential mortgage exposures after collective provision	18(d)	**1,416,262**
Off balance sheet mortgage exposures subject to the standardised approach	18(d)	106,958
Total residential exposures subject to the standardised approach	18(d)	**1,523,220**

(f) Credit risk mitigation

As at 31 December 2023 the Banking Group had $1.0 million of Welcome Home Loans (June 2023: $1.3 million), whose credit risk was mitigated by the Crown. Other than this the Banking Group does not have any exposures covered by eligible collateral, guarantees and credit derivatives.

(g) Operational risk

$000's	Implied Risk Weight Exposure	Total Operational Risk Capital Requirement
Unaudited - December 2023		
Operational risk	313,828	25,106

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

(h) Market risk

$000's	Implied Risk Weighted Exposure	Aggregate Capital Charge
Unaudited - December 2023		
Market risk end-of-period capital charge		
Equity risk	1,804	144
Interest rate risk	190,206	15,217
Foreign currency risk	836	67
Market risk peak end-of-period capital charge		
Equity risk	1,804	144
Interest rate risk	190,206	15,217
Foreign currency risk	836	67

The Banking Group calculates its aggregate market exposure in accordance with BPR140. Peak end-of-day capital charge disclosure is derived by taking the highest calculated exposure over the last six months ended 31 December 2023. For November and December, the Banking Group reverted to an internal model temporarily due to a core system upgrade. This internal model supported that the peak exposure for both periods was the month-end position.

18 Capital adequacy (continued)

(i) Total capital requirement

$000's	Total Exposure After Credit Risk Mitigation	Risk Weighted Exposure or Implied Risk Weighted Exposure	Total Capital Requirement
Unaudited - December 2023			
Total credit risk			
On balance sheet	5,707,041	4,313,298	345,064
Off balance sheet	2,217,258	117,009	9,361
Operational risk	NA	313,828	25,106
Market risk	NA	192,846	15,428
Total	**7,924,299**	**4,936,981**	**394,959**

(j) Capital ratios

%	Unaudited December 2023	Unaudited December 2022
Capital ratios compared to minimum ratio requirements		
Common Equity Tier 1 capital ratio	12.04%	13.15%
Minimum Common Equity Tier 1 Capital as per Conditions of Registration	4.50%	4.50%
Tier 1 capital ratio	12.04%	13.15%
Minimum Tier 1 Capital as per Conditions of Registration	6.00%	6.00%
Total capital ratio	14.07%	13.15%
Minimum Total Capital as per Conditions of Registration	8.00%	8.00%
Buffer ratio	6.04%	7.15%
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, and HARWT as per section A2.3 of BPR 160. This change in accounting treatment and consolidation election is the basis of the prior period restatement which reduced Bank's solo total capital ratios for 31 December 2022 from 13.72% to 13.02%. This restatement had no impact on the Banking Group's capital ratios for 31 December 2022. Marac Insurance Limited is excluded per BPR100.

%	Unaudited December 2023	Unaudited December 2022 (Restated)
Capital ratios		
Common Equity Tier 1 Capital ratio	11.91%	13.02%
Tier 1 Capital ratio	11.91%	13.02%
Total capital ratio	13.94%	13.02%

(l) Capital for other material risks

In addition to the material risks included in the calculation of the capital ratios, the Banking Group has identified other material risks to be included in the capital allocation (being strategic/business risk, regulatory and additional credit risk). As at 31 December 2023, the Banking Group has made an internal capital allocation of $8.94 million to cover these risks (December 2022: $9.4 million).

19 Insurance business, securitisation, funds management and other fiduciary activities

Insurance business

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

As at 31 December 2023, the Banking Group's aggregate amount of insurance business comprises the total consolidated assets of MIL of $7 million (June 2023: $7.4 million), which represents 0.12% of the total consolidated assets of the Banking Group (June 2023: 0.14%).

Securitisation

As at December 2023, the Banking Group had $418.84 million securitised assets (June 2023: $254.74 million).

There have been no material changes to the Banking Group's involvement in the securitisation activities.

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.

20 Contingent liabilities and commitments

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

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

$000's	Unaudited December 2023	Audited June 2023
Letters of credit, guarantee commitments and performance bonds	3,208	7,378
Total contingent liabilities	**3,208**	**7,378**
Undrawn facilities available to customers	322,910	310,423
Conditional commitments to fund at future dates	7,501	24,873
Total commitments	**330,411**	**335,296**

21 Events after reporting date

The Bank resolved to pay a cash dividend to its parent company HGH of $22.5 million on its ordinary shares on 26 February 2024.

There were no other events subsequent to the reporting period which would materially affect the Interim Financial Statements.

Conditions of Registration

The following changes to the Banks Conditions of Registration (**COR**) have occurred since the reporting date for the previous Disclosure Statement.

On 1 October 2023 HBL's 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.

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 September 2023.

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

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

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

Other Material Matters

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

Independent auditor's review report

To the shareholder of Heartland Bank Limited

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

Our conclusion

We have reviewed the interim financial statements (the "Financial Statements") for the six month period ended 31 December 2023 of Heartland Bank Limited (the "Bank") and the entities it controlled at 31 December 2023 or from time to time during the period (together, the "Banking Group") as required by clause 25 of the Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order 2014 (as amended) (the "Order") and the supplementary information disclosed in accordance with Schedules 5, 7, 13, 16 and 18 of the Order (the "Supplementary Information"), excluding the information relating to capital adequacy and regulatory liquidity requirements disclosed in accordance with Schedule 9 of the Order contained in the half year disclosure statement (the "Disclosure Statement").

The Financial Statements comprise the consolidated interim statement of financial position as at 31 December 2023, the related consolidated interim statement of comprehensive income, consolidated interim statement of changes in equity and consolidated interim statement of cash flows for the six month period then ended and selected explanatory notes.

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

- Financial Statements have not been prepared, in all material respects, in accordance with New Zealand Equivalent to International Accounting Standard 34 *Interim Financial Reporting* ("NZ IAS 34") and International Accounting Standard 34 *Interim Financial Reporting* ("IAS 34"); and
- Supplementary Information that is required to be disclosed in accordance with Schedules 5, 7, 13, 16 and 18 of the Order:
  - does not present fairly, in all material respects, the matters to which it relates; or
  - is not disclosed, in all material respects, in accordance with those Schedules.

Basis for conclusion

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

We are independent of the Banking Group in accordance with the relevant ethical requirements in New Zealand relating to the audit of the annual financial statements, and we have fulfilled our other ethical responsibilities in accordance with these requirements. In our role as auditor, we provide other audit and assurance related services comprising: assurance over insurance solvency, trust deed reporting, supervisory reporting and registry assurance services. In addition, certain partners and employees of our firm may deal with the Banking Group on normal terms within the ordinary course of trading activities of the Banking Group. The provision of these other services and these relationships have not impaired our independence.

Responsibilities of the Directors for the Disclosure Statement

The Directors are responsible, on behalf of the Bank, for the preparation and fair presentation of the Financial Statements in accordance with clause 25 of the Order, NZ IAS 34 and IAS 34 and for such internal control as the Directors determine is necessary to enable the preparation of the Financial

Statements 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 3 of the Order; and
- the information prescribed in Schedules 5, 7, 9, 13, 16 and 18 of the Order.

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

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

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

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

Who we report to

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

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

For and on behalf of:

PricewaterhouseCoopers

Chartered Accountants — Auckland

26 February 2024

Independent Assurance Report

To the shareholder of Heartland Bank Limited

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

Our conclusion

We have undertaken a limited assurance engagement on Heartland Bank Limited's (the "Bank") compliance, in all material respects, with clause 22 of the Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order 2014 (as amended) (the "Order") which requires information prescribed in Schedule 9 of the Order relating to capital adequacy and regulatory liquidity requirements to be disclosed in its half year Disclosure Statement for the six month period ended 31 December 2023 (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 shareholder of the Bank.

Based on the procedures we have performed and the evidence we have obtained, nothing has come to our attention that causes us to believe that the Bank's information relating to capital adequacy and regulatory liquidity requirements, included in the Disclosure Statement in compliance with clause 22 of the Order and disclosed in notes 16(a) and 18 of the interim financial statements, is not, in all material respects, disclosed in accordance with Schedule 9 of the Order.

Basis for conclusion

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

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

Directors' responsibilities

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

Our independence and quality management

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

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

PricewaterhouseCoopers, PwC Tower, 15 Customs Street West, Private Bag 92162, Auckland 1142 New Zealand
T: +64 9 355 8000, www.pwc.co.nz

We are independent of the Bank and the entities it controlled at 31 December 2023 or from time to time during the period (together, the “Banking Group”). In our role as auditor, we provide other audit and assurance related services comprising: assurance over insurance solvency, trust deed reporting, supervisory reporting and registry assurance services. In addition, certain partners and employees of our firm may deal with the Banking Group on normal terms within the ordinary course of trading activities of the Banking Group. 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 22 of the Order is not, in all material respects, disclosed in accordance with Schedule 9 of the Order. SAE 3100 (Revised) requires that we plan and perform our procedures to obtain limited assurance about whether anything has come to our attention that causes us to believe that the Bank’s information relating to capital adequacy and regulatory liquidity requirements, included in the Disclosure Statement in compliance with clause 22 of the Order, is not, in all material respects, disclosed in accordance with Schedule 9 of the Order.

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

Given the circumstances of the engagement we:

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

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

Inherent limitations

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

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

Use of report

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

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

PricewaterhouseCoopers

Chartered Accountants
26 February 2024

Auckland