Te Pūrongo ā-Tau
Annual Report 2024

HEARTLAND
GROUP

TE RĀRANGI UPOKO
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This Annual Report of Heartland Group Holdings Limited (**Heartland**) is dated 30 September 2024 and is signed on behalf of the Board of Directors by:

Gregory Tomlinson
Chair and Non-Executive Director

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

NA TE KAIWHAKAHAERE POARI
CHAIR'S REPORT

Greg Tomlinson
Chair and Non-Executive Director

The focus for Heartland's Board and Management in the financial year ended 30 June 2024 (FY2024) has been on ensuring we have a solid foundation from which to achieve our long-term growth ambitions and deliver enhanced value to customers and shareholders. These ambitions are to achieve an underlying net profit after tax (NPAT) of more than $200 million[1], underlying cost-to-income (CTI) ratio of less than 35% and underlying return on equity (ROE) of 12-14% by the end of the financial year ending 30 June 2028 (FY2028).

While it has been a challenging year economically, this has been a year of great strategic success for Heartland and its subsidiaries (the **Group**). The critical milestones of acquiring an authorised deposit-taking institution (**ADI**) in Australia and completing Heartland Bank Limited's (**Heartland Bank**'s) core banking system upgrade help pave the way forward as we embark on the next phase of growth.

Despite the economic challenges, I am pleased to report the Group achieved a FY2024 NPAT of $74.5 million. On an underlying basis[2], FY2024 NPAT was $102.7 million.

BOARD UPDATES

Heartland Bank Australia Board

On 30 April 2024, Heartland Bank successfully acquired Challenger Bank Limited (**Challenger Bank**). On completion, we were pleased to appoint a highly skilled Board to lead the ADI (now Heartland Bank Australia Limited (**Heartland Bank Australia**)).

Geoff Summerhayes resigned from the Heartland Board and was appointed Chair and Independent Non-Executive Director of Heartland Bank Australia. He was joined by Independent Non-Executive Directors Shane Buggle, Lyn McGrath (who sat on the Challenger Bank Board prior to Heartland's acquisition), Vivienne Yu and Bruce Irvine (Chair and Independent Non-Executive Director of Heartland Bank), and Non-Independent Non-Executive Directors Leanne Lazarus (CEO of Heartland Bank) and Jeff Greenslade (CEO and Executive Director of Heartland, and Non-Independent Non-Executive Director of Heartland Bank).[3]

The Heartland Bank Australia Board has a strong level of independence and knowledge of prudential regulatory requirements to drive growth and expansion in Australia.

Heartland Board

On 26 June 2024, Ellie Comerford resigned from the Heartland Board. Ellie had served on Heartland boards for more than seven years.

The Board thanks Ellie for her significant contribution, dedication and commitment to Heartland throughout her tenure as Director, particularly in relation to her experience and associated advice on the Australian market.

On 27 June 2024, Heartland was pleased to appoint Rob Bell and Simon Beckett as Independent Non-Executive Directors. Rob and Simon bring to Heartland a strong understanding of the Australian banking market and regulatory environment, and skillsets which complement the Group's best or only strategy. As the founding CEO of digital bank 86 400, Rob has a deep understanding of technology, digital and growth strategies. Simon has extensive M&A and financial, regulatory, risk and governance expertise – in addition to this, he has had particular experience working in motor finance businesses during his career at GE Capital, Wells Fargo and Cerberus Capital.

Their appointments further contribute to the depth of expertise and skill of the Board and strengthen the Board's Australian expertise.

On 30 April 2024, John Harvey was appointed to the Heartland Board as an Independent Non-Executive Director. He remains on the Heartland Bank Board as a Non-Independent Non-Executive Director.

MANAGEMENT UPDATES

On 22 July 2024, the Board was pleased to welcome Michelle Winzer who commenced her appointment as CEO of Heartland Bank Australia. With more than 30 years' experience in banking and financial services, Michelle joined Heartland Bank Australia from RACQ Bank in Queensland where she was Chief Executive Banking. Previously, Michelle was CEO of Bank of Melbourne, and worked in senior roles at Bankwest, Commonwealth Bank of Australia and Westpac. Michelle's extensive banking experience and track record of delivering outcomes and cultural transformation will contribute to the successful execution of Heartland Bank Australia's strategy.

1 All figures in this Annual Report are in NZD unless otherwise stated.

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

3 On 30 September 2024, Jeff Greenslade retired as Heartland CEO and from all Group directorships.

On 23 September 2024, the Board was pleased to announce the appointment of Andrew Dixson as CEO of Heartland and a Non-Independent Non-Executive Director of Heartland Bank, effective 1 October 2024.[4]

After 15 years with Heartland and its predecessors, on 8 April 2024, Jeff Greenslade indicated to the Board his intention to step down from his role as CEO of Heartland by the end of this calendar year. Andrew's appointment enables a thorough handover to be completed sooner, allowing Jeff to retire from his role as CEO and all Heartland directorships on 30 September 2024.

Andrew, currently Group Chief Financial Officer, has been with Heartland since 2010. In this time, he has been involved in all key parts of Heartland's evolution, including the initial merger in 2011, New Zealand bank registration in 2012 and Heartland's listing on both the NZX and ASX. Andrew has also played a critical role in the execution of several major strategic acquisitions, including the acquisition of the Reverse Mortgage businesses in 2014, StockCo Australia in 2022 and Challenger Bank this year.

Andrew joins strong leadership across the group, which includes Heartland Bank CEO Leanne Lazarus and Heartland Bank Australia CEO Michelle Winzer. The Board is confident in Andrew's ability to lead Heartland in the next stage of its journey which will be focused on capital allocation and an improved ROE.

Andrew's appointment reflects the evolution of the business since Heartland Bank's acquisition of Challenger Bank. As the parent company of two banks, Heartland's operations are now focused on group strategy, investor relations, corporate finance, capital allocation, and strategic and risk management oversight of each bank, with a number of responsibilities having moved from Heartland to the respective banks.

As such, the Group Chief Financial Officer role will not be replaced, and the Deputy Group CEO role has been disestablished. Deputy Group CEO Chris Flood will finish with Heartland on 31 October 2024.

Chris first joined Heartland through a predecessor entity in 1997 and has held a number of senior management positions at Heartland, including as CEO of Heartland Bank before he was appointed Deputy Group CEO in August 2022.

On behalf of the Board, I would like to express our sincere thanks to Chris for his significant contribution to Heartland and acknowledge the value he has created for our shareholders. We wish him all the best in his next endeavours.

SUSTAINABILITY

The Financial Sector (Climate-related Disclosures and Other Matters) Amendment Act 2021 introduced a mandatory reporting regime for climate-related disclosures in New Zealand in FY2022, with effect from FY2024. With oversight from Heartland's Board Sustainability Committee (established in November 2023), Heartland is pleased to have published its first Climate Report.

Heartland's environmental strategy is one part of our three-pillar sustainability strategy which aims also to make positive contributions to our communities and enrich the lives of our people and customers. We do this in various ways, including through the products and services we provide to customers, initiatives available to employees, and community giving through the Heartland Trust.[5]

More information about Heartland's Climate Report and overall sustainability journey can be found in '*Sustainability*' on page 32.

DIVIDEND

The Board resolved to pay a fully imputed final dividend of 3.0 cents per share (**cps**) on Friday 20 September 2024 to all shareholders on Heartland's register at 5.00pm NZST on Friday 6 September 2024.

Together with the interim dividend, the total FY2024 dividend was 7.0 cps. This represents a full year payout ratio of 55% of underlying NPAT, which takes into consideration the recent $210 million equity raise, acquisition of Challenger Bank and associated growth opportunities.

Having regard to Heartland's next stage of growth, the Board expects to target a total dividend payout ratio of at least 50% of underlying NPAT in the financial year ending 30 June 2025 (**FY2025**). The Board will, as it has historically, actively manage dividend settings and carefully consider the declaration of any dividends based on Heartland's capital needs, ROE accretive growth opportunities, balance sheet flexibility and financial performance.

OUTLOOK

The year ahead will see a transformation of the business as Heartland enters the next phase of its journey.

While the recent capital raise to fund the Challenger Bank acquisition had an impact on earnings per share (**EPS**), it was an important part of our expansion into Australia and critical to enhancing the longer-term value proposition. With an ADI, we can now more sustainably fund the Australian businesses through retail deposits rather than the high cost of wholesale funding previously relied upon. We're already seeing this benefit flow through to a reduced cost of funds. Structural efficiencies as Heartland Bank Australia continues to establish itself and bed in new ways of working will increase operational capacity to do more, as will a continued investment in digitalisation and automation.

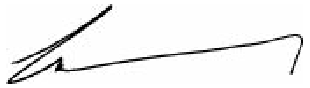
In New Zealand, Heartland Bank's transformation focus for FY2025 is on simplification through a process of identifying and managing lending which no longer aligns to its strategy, alongside a dedicated focus on margin expansion and implementing initiatives to help drive cost reduction in years to come.

All of this is expected to contribute towards our FY2028 ambitions as a Group. Under Andrew, Leanne and Michelle's leadership, the Board is confident in Heartland's ability to execute against its best or only strategy and deliver enhanced value to customers and shareholders.

Looking towards the end of FY2025, as Heartland begins to realise the benefits from the ADI acquisition in Australia, contributors to growth across the Group are expected to include ongoing strong demographic demand for Reverse Mortgages in both countries and a turnaround in market conditions for Australian Livestock Finance.

However, Heartland expects the volatility experienced in FY2024 to continue in the markets within which it operates for at least the remainder of the 2024 calendar year as rate reductions bed in and the New Zealand and Australian economies recover. In Heartland's view, this creates too much uncertainty at this stage to provide an accurate underlying NPAT guidance range for FY2025. We will revisit our ability to provide an underlying NPAT guidance range for FY2025 as the financial year progresses.

On behalf of the Board, I would like to acknowledge the ongoing support of our shareholders. I would also like to thank Heartland's Management team and its people for their continued dedication and commitment to our customers and shareholders.



Greg Tomlinson
Chair of the Board

4 Subject to Reserve Bank of New Zealand (**RBNZ**) non-objection.
5 Heartland's registered charitable trust which is independent from but closely supported by Heartland.

TE PŪRONGO A TE KAIWHAKAHAERE MATUA
CHIEF EXECUTIVE OFFICER'S REPORT

Jeff Greenslade
CEO

As this is my last Annual Report for Heartland, I would like to start by first expressing my thanks to Heartland's shareholders, Board, Management and employees for their ongoing support. I am proud of all that we have been able to achieve since Heartland was first established in 2011, and look forward to seeing what lies ahead for the Group.

Nā te mea ko tēnei taku Pūrongo ā-Tau whakamutunga mō Heartland, kia tīmata ake au ki te mihi ki ngā kaiwhaipānga, ki te Poari, ki te Tira Whakahaere, ki ngā kaimahi hoki, mō rātou e tautoko tonu mai ana. E whakahīhī ana au i te nui o tā tātou i whakatutuki ai nō te whakatūnga tuatahitanga o Heartland i te tau 2011, ā, e rikarika ana au ki te kite i ngā āhuatanga kei mua i te aroaro mō te Rōpū.

In the current economic conditions, Heartland announced a solid FY2024 result. Gross finance receivables (**Receivables**)[1] were up 6.4%[2] on the financial year ended 30 June 2023 (**FY2023**) to $7.2 billion in FY2024. This growth was driven primarily by Reverse Mortgages which were up 20.2% in New Zealand and 19.7%[2] in Australia. In the period from 1 July 2019 to 30 June 2024, Heartland achieved a Receivables compound annual growth rate (**CAGR**) of 10.4%. This compares to the median CAGR for the major Australian banks of 3.5% and continues to demonstrate the strength of Heartland's best or only product strategy.[3]

Heartland's FY2024 result was however impacted by a challenging economic environment. The rapidly deteriorating economic conditions in May and June 2024 saw the emergence of additional provisions primarily in Heartland Bank's Asset Finance, Motor Finance and Rural portfolios, and resulted in a 4.9% shortfall to guidance. Further information about Heartland's FY2024 financial performance is set out in '*Financial commentary*' on page 75.

Despite economic challenges, Heartland executed on various significant strategic milestones in FY2024, and is well positioned for continued growth as the economy improves.

INTRODUCING HEARTLAND BANK AUSTRALIA

Arguably the most significant achievement in FY2024 was the completion of the Challenger Bank acquisition on 30 April 2024. This was made possible by continued strong support by shareholders and investors through a successful $210 million equity raise in April 2024. The acquisition made Heartland Bank the first New Zealand registered bank to acquire an Australian ADI. Importantly, it has created a pathway for further growth and product expansion in the Australian market.

Heartland's progress in Australia is already ahead of expectations. With an ADI licence and access to retail deposits, Heartland Bank Australia can now more sustainably fund its Reverse Mortgage and Livestock Finance lending portfolios. Heartland Bank Australia's transition from a 100% wholesale funding base to a retail and wholesale funding mix was

I ngā āhuatanga ōhanga, kua pānuitia e Heartland ngā huanga autaia i te FY2024. Ko te 6.4%[1] te pikinga o te tapeke o ngā moni kua tau mai (**Receivables**)[2] i ērā o te tau ahumoni i mutu i te 30 o Hune 2023 (**FY2023**) ki te $7.2 piriona i te FY2024. I piki tēnei tipuranga nā runga i ngā Reverse Mortgages (Mōkete Whakamuri), i 20.2% te pikinga i Aotearoa, i 19.7%[1] hoki te pikinga i Ahitereiria.

I waenga i te 1 o Hūrae, 2019, ki te 30 o Hune, 2024, i 10.4% te ekenga o te pāpātanga o ngā huamoni whakaputu o te tau (**CAGR**) o ngā Receivables. Kei te hāngai hoki tēnei ki te CAGR tau waenga mō ngā pēke matua o Ahitereiria, arā, te 3.5%, ā, e whakaatu tonu ana tēnei i te kaha o tā Heartland rautaki o te hanga pai katoa, o te hanga motuhake rānei.[3]

Heoi, i whai pānga ki te huanga o te FY2024 o Heartland āhuatanga o te ōhanga e papatoiake ana. Nā te tere o te kino haere o ngā āhuatanga ōhanga o te Mei me te Hune 2024 i 4.9% ai itinga iho o ētahi atu anō hua o te Asset Finance, o te Motor Finance, o ngā kōpaki Rural hoki a Heartland Bank i ērā o ngā kupu ārahi. He pārongo atu anō mō ngā whakatutukihanga ā-ahumoni i te FY2024 o Heartland kei te wāhanga o '*He kōrero ahumoni*', kei te whārangi 75.

Ahakoa ngā wero ā-ōhanga, i whakatutuki a Heartland i ētahi pae tāpua e whānui ana i te FY2024, me te aha, e tau ana te noho a Heartland kia tipu tonu i te piki haere tonutanga o te ōhanga.

TE WHAKATAKINGA O HEARTLAND BANK KI AHITEREIRIA

Ka tohea pea tēnei, engari ko te angitutanga tāpua katoa i te FY2024, ko te tatūtanga o te hokonga o Challenger Bank i te 30 o Āpereira 2024. I tutuki tēnei i te kaha o te tautoko tonu a ngā kaiwhaipānga me ngā kaihaumi mā roto mai i te tika o te kohinga o te $210 miriona o te tūtanga moni i te Āpereira 2024. Nā runga i te hokonga, i tū mai ai a Heartland Bank hei pēke tuatahi kua rēhitatia i Aotearoa ki te hoko i tētahi ADI nō Ahitereira. Ko te mea whakahirahira kē, nā tēnei, kua takoto te ara e tipu tonu ai, e whānui tonu ai hoki ō tātou hua i te mākete o Ahitereiria.

Ko tō Heartland kaunekenga i Ahitereiria, kua eke kē ki tua o ngā matapaenga. Mā roto mai i te raihana ADI me te arawātea ki ngā monikuhu i te ao o te kaihoko, e toitū ake ana te utunga o ngā kōpaki moni taurewa o te Reverse Mortgage

1 Receivables includes Reverse Mortgages.
2 Excludes the impact of changes in foreign currency exchange (**FX**) rates.
3 CAGR for the five-year period from 1 July 2019 to 30 June 2024, including FX, was 10.4% compared with the median five-year CAGR for the four major Australian Banks (ANZ, Commonwealth Bank, National Australia Bank and Westpac) of 3.5% based on their most recent respective reporting periods.

1 Hāunga rā ngā pānga o ngā panonitanga ki te pāpātanga o te whakawhitinga moni nō tāwāhi (**FX**).
2 E whai wāhi ana ngā Reverse Mortgages ki ngā Receivables.
3 Ko te CAGR mō te rima tau nō te 1 o Hūrae 2019 ki te 30 o Hune 2024, tae atu ki te FX, ko te 10.4% ina whakatauritea ki te tau waenga mō te CAGR i te rima tau mo ngā pēke matua e whā o Ahitereiria (ko ANZ, ko Commonwealth Bank, ko National Australia Bank, ko Westpac hoki) i 3.5% e hāngai nei ki ō rātou wā tuku pūrongo nō nā tata nei.

accelerated in FY2024 by Challenger Bank's pre-completion deposit raising programme. From 1 January 2024 to 30 June 2024, the ADI achieved deposit growth of A$1,147 million at a weighted average rate of 4.85%. This was 2.03% lower than Heartland Australia's[4] cost of funds across the same period.

Since completion, Heartland Bank Australia has been originating and funding all lending through deposits on its own balance sheet while its wholesale funding facilities continue to repay. The funding mix is expected to be predominantly retail deposits (circa 90%) by the end of FY2025.

Heartland Bank Australia is now the only ADI to offer both reverse mortgages and specialist livestock finance (which it continues to provide under the StockCo Australia brand). Read more about Heartland Bank Australia, including its Management team and growth aspirations, in '*Introducing Heartland Bank Australia*' on page 14.

ACCELERATING THE DIGITALISATION PROGRAMME

The upgrade of Heartland Bank's core banking system was a significant programme of work and investment completed over several years. The upgrade was completed in November 2023 and positions the New Zealand bank for increased scalability in the future by enabling greater levels of digitalisation and automation not possible in the previous version of the system. This is expected to contribute towards Heartland's ambition of an underlying CTI ratio of less than 35% by the end of FY2028.

Since completion of the upgrade, Heartland Bank has accelerated its digitalisation programme and expects to see the impact of this activity through FY2025. As part of this, several features have been released to the Heartland Mobile App, including functionality to increase login security and risk detection, and features to enable increased customer self-service for many of the reasons for customer inbound calls. Digitalisation combined with employee training and customer awareness campaigns to increase adoption contributed to a 6% reduction in Retail calls and a 9% reduction in Customer Service calls in FY2024 compared with FY2023.

me te Livestock Finance. Ko te whakawhitinga o Heartland Bank ki Ahitereiria te tūāpapa o te pūtea e ahu mai ana te 100% i ngā kaihokorau, ki ērā e ahu mai ana i te kaihoko me te kaihokorau whakamutunga, ka mutu, i whakaterehia tērā i te FY2024 nā runga i te hōtaka e kohikohi ana i te tāpaetanga utu i mua i te whakatutukihanga o te hokonga o Challenger Bank. Nō te 1 o Hānuere 2024 ki te 30 o Hune 2024, i eke te tipuranga o ngā monikuhu a te ADI ki te A$1,147 miriona, ka mutu, i 4.85% te toharite kua whakaāwhatatia. E 2.03% te iti iho o tēnei i tērā o ngā utu ki a Heartland ki Ahitereiria[4] i taua wā tonu rā.

Nō tōna whakatutukihanga, kua tīmata mai, kua utu hoki a Heartland Bank ki Ahitereiria i ngā moni taurewa katoa ki ngā tāpaetanga utu kei ana ripanga kaute, i tana taha hokorau e whakaea tonu ana i te utu. E matapaetia ana ka ahu mai te nuinga o tēnei hanumitanga pūtea i ngā monikuhu (ko tōna 90%) hei te mutunga o te FY2025.

I tēnei wā, ko Heartland Bank ki Ahitereira anake te pēke e tuku ADi ana mō ngā Reverse Mortgages me te Specialist Livestock Finance (e rere tonu ana i raro i te tapanga o StockCo Australia). Pānuitia he pārongo anō mō Heartland Bank ki Ahitereiria, tae atu ki tōna tira Whakahaere, ki ōna wawata whakatipu, ki '*Te Whakatakinga o Heartland ki Ahitereiria*' kei te whārangi 14.

TE KŌKIRITANGA O TE HŌTAKA WHAKAMATIHIKO

Ko te whakahoutanga o tā Heartland Bank pūnaha mahi pēke matua tētahi hōtaka mahi tāpua, tētahi haumitanga tāpua hoki i tutuki i roto i ētahi tau. I tutuki te whakahoutanga i te Noema 2023, ā, nā konā kua rite te pēke o Aotearoa kia whakawhānuitia ā tōna wā mā roto mai i te whakarahinga o te whakamatihikotanga me te whakaaunoatanga, kāore i taea i ngā kātū o mua o te pūnaha. E matapaetia ana ka hāpai tēnei i te whāinga a Heartland kia iti iho tana ōwehenga o te CTI kāore anō kia whai hua o te 35% i te mutunga o te FY2028.

Nō te whakatutukihanga o te whakahoutanga, kua whakaterehia e Heartland Bank tana hōtaka whakamatihiko, ka mutu, e matapaetia ana ka kite i te pānga o aua mahi ā te FY2025. Hei wāhanga mō tēnei, kua rewa ētahi āhuatanga ki te Heartland Bank Mobile App, tae atu ki ētahi hanga e piki ai te whakamarutanga i te takiuru me te kite atu i ngā tūraru, e piki ai hoki tā te kiritaki āwhina i a ia anō hei

4 Comprising Heartland Australia Holdings Pty Ltd and its subsidiaries.
5 The ratios and growth rates provided for the financial metrics underlying the FY2028 ambitions are not targets. They represent an indication of how the financial metrics may work in combination to achieve the FY2028 underlying NPAT and ROE ambitions. The FY2028 ambitions and underlying key metrics assumes current growth in Receivables being maintained and no material deterioration in the economic environment.
6 NSAs do not reflect a structural change to Heartland's operations.
7 Excluding provisions.

Read more about Heartland Bank's digitalisation programme in '*Accelerating digitalisation*' on page 17.

PATHWAY TO FY2028 AMBITIONS[5]

As affirmed by the Chair, Heartland remains committed to its FY2028 growth ambitions. These are to achieve an underlying NPAT of more than $200 million, underlying CTI ratio of less than 35% and underlying ROE of 12-14% by the end of FY2028.

Heartland's pathway to achieving these FY2028 ambitions is driven by:

- modest Receivables growth (CAGR above 10% p.a.)
- net interest margin (**NIM**) expansion (underlying NIM above 4%)
- cost savings from automation (underlying CTI ratio below 35%)
- an improvement in impairments (underlying impairment expense ratio below 0.30%).

Alongside an ongoing commitment to its best or only product strategy, the strategic milestones achieved by Heartland in FY2024 strengthen the foundation required to meet these ambitions.

NON-STRATEGIC ASSETS

The ADI acquisition presented an opportunity to reassess the capital allocation across the Group. Heartland Bank has a pool of assets it has accumulated through to its current state of maturity that are no longer a strategic fit for the organisation. These Non-Strategic Assets (**NSAs**) earn little or no income or are returning less than Heartland Bank's cost of capital.[6] As at 30 June 2024, this included equity investments of $13.5 million, investment properties of $3.7 million, property of $12.6 million, Business lending Receivables of $74.4 million[7] and Rural lending Receivables of $113.7 million[7].

NSAs will be managed and reported separately in FY2025 to provide greater transparency and enable more focused resolution strategies to be adopted. This will allow underlying capital to be redeployed to support Heartland Bank's growth ambitions and contribute to the delivery of greater

whakaheke i te nui o tana waea mai. Mā roto mai i te whakamatihikotanga, i te whakangungu i ngā kaimahi, me te rautaki kia piki ai tā te kiritaki whakamahi, kua 6% te hekenga o ngā waeatanga mai ki te Ratonga Kiritaki (Customer Service) i te FY2024 ina whakatauritea ki te FY2023.

Pānuitia he pārongo anō mō te hōtaka whakamatihiko a Heartland Bank ki '*Te kōkiritanga o te whakamatihikotanga*' kei te whārangi 17.

TE ARA KI NGĀ WAWATA O TE FY2028[5]

Pērā i tā te Kaiwhakahaere Matua i whakaū ai, e ū tonu ana a Heartland ki ōna wawata o te tipu mō te FY2028. Ko aua wawata, ko te eke ki te NPAT kāore anō kia whai hua e neke atu ana i te $200 miriona, ko te heke o te ōwehenga CTI kāore anō kia whai hua e iti iho ai i te 35%, ko te eke hoki o te ROE kāore anō kia whai hua ki te 12-14% i mua i te mutunga o te FY2028.

E kōkiritia ana tēnei ara o tā Heartland whakatutuki i ēnei wawata FY2028 mā roto mai i te:

- te paku tipuranga o ngā Receivables (te CAGR e nui ake ana i te 10% i ia tau)
- te whakawhānuitanga o te paenga o te huamoni (**NIM**) (te NIM kāore anō kia whai hua e nui ake ana i te 4%)
- te whakaheke i ngā utu mā roto mai i te whakaaunoatanga (te ōwehenga CTI kāore anō kia whai hua kei raro iho i te 35%)
- te whakapikinga o te uara o ngā rawa (te ōwehenga o te hekenga o te uara o ngā rawa kāore anō kia whai hua e iti iho ana i te 0.30%).

I te taha o tana ū ki te rautaki o te hanga pai katoa, o te hanga motuhake rānei, kei te whakapakari ngā pae kua tutuki i a Heartland i te FY2024 i te tūāpapa e tika ana e ea ai aua wawata.

NGĀ RAWA KĀORE I TE HĀNGAI KI TE RAUTAKI

Nā te hokonga o te ADI i kitea ai tētahi arawātea ki te arotake anō i te tukunga o ngā rawa puta noa i te Rōpū. He puna rawa kei a Heartland Bank kua kohia mā roto mai i te tipuranga aunoa kāore nei i te hāngai ki te rautaki o te whakahaere. Ko ngā Rawa kāore nei i te Hāngai ki te Rautaki (**NSAs**), e iti ana rānei te moniwhiwhi, kāore rānei he moniwhiwhi o roto, e iti iho ana rānei te moniwhiwhi e puta ana i te utu o te pūrawa ki a

4 E whai wāhi nei a Heartland Australia Holdings Pty Ltd me ana pakihi e hāngai ana.
5 Ehara ngā ōwehenga me ngā pāpātanga tipu e tukua ana mō ngā pūnaha arotake ahumoni kāore anō kia whai hua mō te FY2028 i te whāinga. E tohu kē ana i te āhua tērā pea ka puta i te hanumitanga kia ea ai ngā wawata o te NPAT me te ROE kāore anō kia whai hua o te FY2028. E matapae ana ngā wawata me ngā arotakenga matua o te FY2028 i te tipuranga tonutanga i ngā Receivables, i te korenga hoki o te hekenga o te uara o ngā rawa i tēnei horopaki o te ōhanga.
6 Kāore ngā NSA i te hāngai ki ngā panonitanga ki te anga o ngā whakahaere i Heartland.

shareholder return. The intention is to rationalise these assets over a responsible period of time.

LOOKING FORWARD

The long-term outlook for Heartland is positive. As we realise the benefit of the ADI acquisition and accelerate the digitalisation programme, additional contributors to growth in FY2025 are expected to include strong demographic demand for Reverse Mortgages in both countries and a turnaround in conditions for Australian Livestock Finance.

As Heartland Bank Australia establishes itself in the market, its focus is on maintaining discipline against our best or only product strategy. Through its simplified product offering of Reverse Mortgages and Livestock Finance, the Australian ADI is well positioned for growth beyond FY2025. Portfolio growth is expected to be coupled with improvements in underlying NIM through a combination of cost efficiencies and the conversion of Heartland Bank Australia's funding base from its historic 100% wholesale to a predominantly retail funding base.

The focus in New Zealand is on simplification, including through the rationalisation of NSAs as described above. As Heartland Bank focuses on simplification, it remains cautious around growth expectations within Motor Finance and Asset Finance given the economic conditions and recent deterioration in credit quality. Overall growth in core lending is expected to be coupled with stabilisation of impairments over the period and underlying NIM expansion.

A key theme for both countries in the year ahead is cost efficiencies through digitalisation. Our CTI ratio is increasingly a key point of differentiation for Heartland. Our best or only product strategy has enabled us to make great strides as a small trans-Tasman banking group. Now, moving forward, we need to extend that strategy to our CTI ratio. To become the lowest cost provider of everything we do. This will be achieved through digitalisation and is fundamentally about changing the way we do stuff. This will have an enduring benefit for the future and ensure Heartland can continue to deliver value for customers and shareholders.

Heartland.[6] Nō te 30 o Hune 2024, i whai wāhi ki tēnei te tūtanga haumi o te $13.5 miriona, ngā papanoho haumi o te $3.7 miriona, te papanoho o te $12.6 miriona, ngā Receivables o ngā moni taurewa Pakihi o te $74.4 miriona[7] me ngā Receivables o ngā moni taurewa Tuawhenua o te $113.7 miriona[7].

Ka wehewehe te whakahaerehia, te pūrongotia o ngā NSA ā te FY2025 e mārakerake ai te kitea, e kaha ake ai hoki te arohia o ngā rautaki me whai. Mā tēnei e tukua ai anō ngā pūrawa hei tautoko i ngā wawata o te tipuranga o Heartland Bank, hei hāpai hoki i te whakatinanatanga o ngā moniwhiwhi ki ngā kaiwhaipānga. Ko te whāinga kia whakahāngai haere i aua rawa i roto i tētahi wā e tika ana.

TE ANGA WHAKAMUA

E ngākaupai ana te tirohanga tūroa mō Heartland. I a tātou e kitekite nei i ngā hua o te hokonga o te ADI me te kōkiritanga o te hōtaka whakamatihiko, tērā ētahi atu āpitihanga ka hāpai i te tipuranga i te FY2025, pēnei i te hiahia o ētahi hangapori ki ngā Reverse Mortgages i ngā whenua e rua, me te huri kōarotanga o ngā āhuatanga o te Livestock Finance mō Ahitereiria.

I a Heartland Bank ki Australia e whakaū ana i a ia anō ki te mākete, ko tana arotahi, ko te uhupoho ki tā tātou rautaki o te hanga pai katoa, o te hanga motuhake rānei. Mā roto mai i te whakamāmātanga o tana tuku i ngā Reverse Mortgages me te Livestock Finance, e tau ana te noho o te ADI o Ahitereiria kia tipu tonu ki tua noa atu i te FY2024. E matapaetia ana ka tipu ngā kōpaki i te taha o te whakapakaritanga o te NIM kāore anō kia whai hua mā te whakamāmātanga o ngā nama me te whakawhitinga o Heartland Bank ki Ahitereiria i tana puna moni e ahu mai ana te 100% i ngā mahi hokorau, pēnei i tana mahi o mua, ki te nuinga ka ahu mai i ngā mahi kaihoko.

Ko te whakamāmātanga te arotahi i Aotearoa, tae atu ki te whakahāngaitanga o ngā NSA i whakamāramatia ai i runga. I a Heartland e arotahi ana ki te whakamāmātanga, e mataara tonu ana ia ki ngā kawatau o te tipuranga i te Motor Finance me te Asset Finance nā runga i ngā āhuatanga ōhanga me te hekenga o te kounga o ngā mohi taurewa. E matapaetia ana ka tipu tonu ngā āhuatanga whānui o te tuku moni taurewa me te whakataunga o ngā whakapōreareatanga i roto i te whakawhānuitanga o te NIM kāore anō kia whai hua.

THANK YOU

In my time at Heartland, I am pleased to have seen Receivables grow from $1.7 billion at 30 June 2011 to $7.2 billion at 30 June 2024. In the same period, Heartland's NPAT has increased from $7.1 million to $74.5 million (or $102.7 million on an underlying basis).

Reflecting on the past 15 years, there is plenty to be proud of. Highlights for me have included our digitalisation progress (ka whawhai tonu mātou, a struggle without end), our Manawa Ako internship programme for Māori and Pasifika rangatahi (youth) and gaining an ADI licence in Australia through the acquisition of Challenger Bank. I reflect on these highlights and more on page 30.

While further volatility is expected through at least the remainder of the 2024 calendar year as rate reductions bed in and the New Zealand and Australian economies recover, Heartland has set a strong foundation to support its next phase of growth. With Andrew, Leanne and Michelle's leadership, and the support of their Management teams, I am confident that Heartland is well positioned to capitalise on the various opportunities available ahead.

Ngā mihi nui,

Jeff Greenslade
Chief Executive Officer

Ko tētahi āhuatanga tāpua i ngā whenua e rua i te tau kei mua i te aroaro, ko te whakahekenga o ngā nama mā roto mai i te whakamatihikotanga. E piki haere ana te āhuatanga o te CTI hei whakamotuhake i a Heartland. Nā te rautaki o te hanga pai katoa, o te hanga motuhake rānei, kua nui te kokenga hei tira pēke puta noa i Te Tai-o-Rehua. Ināianei, i a tātou e titiro whakamua ana, me whakawhānui i taua rautaki ki te ōwehenga o te CTI. Kia noho ko ā tātou utu ngā mea iti katoa i ā tātou mahi katoa. Ka ea tēnei, mā te whakamatihikotanga, mā te whakarerekē hoki i ngā āhuatanga katoa o ā tātou mahi. Ka tūroa ngā hua ā haere ake nei, ka pūmau tonu hoki tā Heartland whakarite hanga e pai ana te uara ki ngā kiritaki me ngā kaiwhaipānga.

HE MIHI

I a au i Heartland, e matakuikui ana te ngākau i te kitenga o ngā Receivables e tipu ana i te $1.7 piriona i te 30 o Hune 2011 ki te $7.2 piriona i te 30 o Hune 2024. I taua wā tonu rā, kua piki te NPAT i Heartland i te $7.1 miriona ki te $74.5 miriona (ki te $102.7 miriona rānei kāore anō kia whai hua).

I taku huritao ki ngā tau 15 kua hori, e nui ana ngā take kia whakahīhī te tangata. Ko ētahi o ngā tino ki a au, ko te kokenga o te whakamatihikotanga (ka whawhai tonu mātou), o Manawa Ako, arā tā tātou hōtaka kaimahi pīrere (internship) mā ngā rangatahi Māori me ngā rangatahi Pasifika, o te rironga hoki o te raihana ADI i Ahitereira mā roto mai i te hokonga o Challenger Bank. Ka huritao au ki ēnei tino, me ētahi atu āhuatanga ki te whārangi 30.

Ahakoa e matapaetia ana ka tītokitoki tonu ētahi āhuatanga mō te roanga ake o te tau 2024, mō kō atu rānei, i te taunga o te hekenga o ngā pāpātanga, me te whakahaumanutanga o te ōhanga o Aotearoa me Ahitereiria, e pakari ana te tūāpapa o Heartland ki te hāpai i ngā āhuatanga o te whakatipuranga kei mua i te aroaro. Nā runga i te ārahi a Andrew rātou ko Leanne, ko Michelle, me te tautoko a ō rātou tira Whakahaere, e nui ana taku whakapono ki te tau o te noho a Heartland ki te whai i ngā arawātea maha kei mua i a tātou

Ngā mihi nui, nā

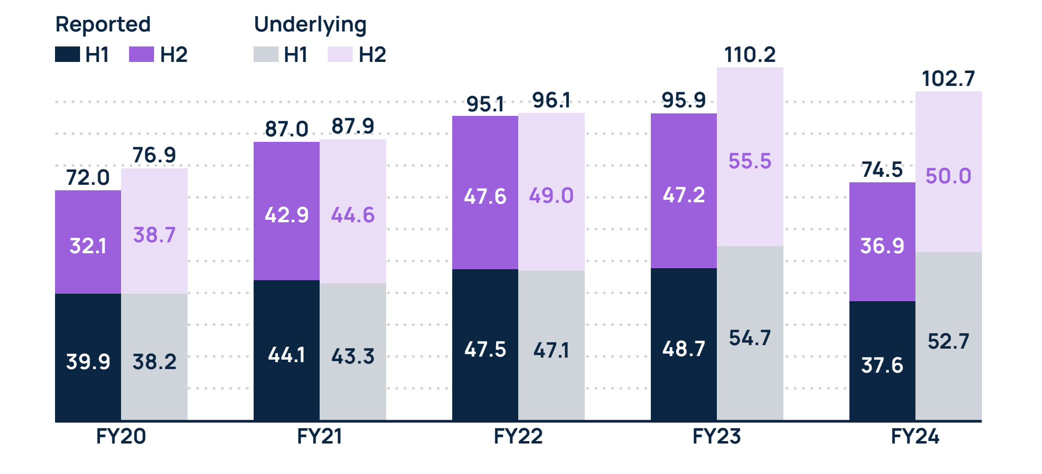
Jeff Greenslade
Te Kaiwhakahaere Matua

7 Hāunga rā ngā penapenatanga moni.

NGĀ HUA WHĀNUI O TE FY2024
FY2024 RESULTS AT A GLANCE

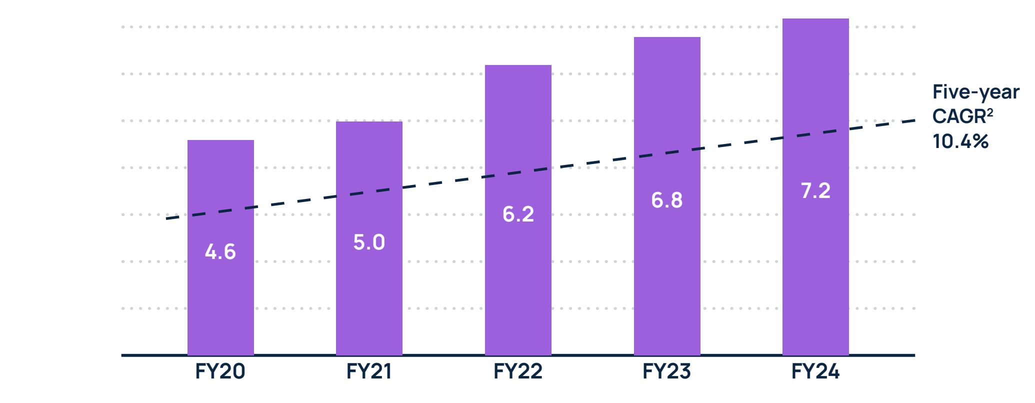
NET PROFIT AFTER TAX

FY24	FY23
$74.5m	$95.9m
Underlying NPAT $102.7m	FY23 underlying NPAT $110.2m



GROSS FINANCE RECEIVABLES[1]

FY24	FY23
$7.2b	$6.8b



GROSS FINANCE RECEIVABLES GROWTH[1]

FY24 6.4%

FY23 10.1%

NET INTEREST MARGIN

FY24 3.39%
Underlying NIM 3.64%

FY23 3.97%
Underlying NIM 4.00%

COST-TO-INCOME RATIO

FY24 48.0%
Underlying CTI ratio 41.9%

FY23 44.9%
Underlying CTI ratio 42.0%

RETURN ON EQUITY

FY24 6.6%
Underlying ROE 9.8%

FY23 10.4%
Underlying ROE 11.9%

TOTAL DIVIDEND FOR THE YEAR

FY24 7.0cps

FY23 11.5cps

EARNINGS PER SHARE

FY24 9.8cps
Underlying EPS 13.5cps

FY23 14.0cps
Underlying EPS 16.0cps

Note: Financial results are presented on a reported and underlying basis. Reported results are prepared in accordance with NZ GAAP and include the impacts of positive and negative one-offs, which can make it difficult to compare performance. Underlying results (which are non-GAAP financial information) exclude the impact of the de-designation of derivatives, the fair value changes on equity investments held, the Australian Bank Programme costs, an increase in provisions for a subset of legacy lending, the Challenger Bank NPAT, and any other impacts of one-offs. Adjusted NPAT for FY2024 before excluding the increase in provisions for a subset of legacy lending and the Challenger Bank NPAT was $87.9 million. The use of underlying results is intended to allow for easier comparability between periods and is used internally by Management for this purpose. A detailed reconciliation between reported and underlying financial information, including details about FY2024 and FY2023 one-offs, is set out in Heartland's FY2024 full year results investor presentation available at heartlandgroup.info. General information about the use of non-GAAP financial measures is also available in that presentation.

1 Excludes the impact of changes in FX rates.
2 Compound annual growth rate (**CAGR**) for the five-year period from 1 July 2019 to 30 June 2024, including FX.

Te Whakatakinga o Heartland Bank ki Ahitereiria

Introducing Heartland Bank Australia

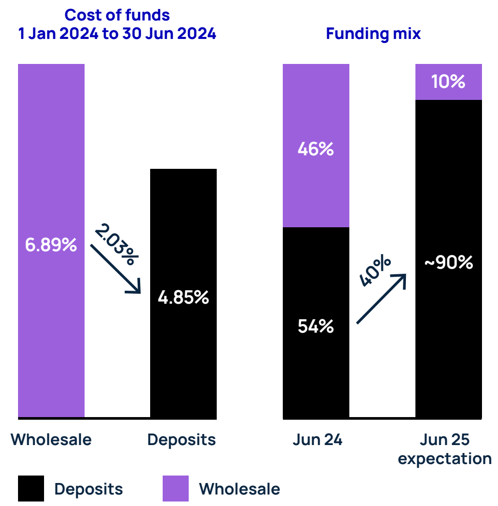
The acquisition of Challenger Bank on 30 April 2024 marked a critical milestone in Heartland's strategy for expansion in Australia. The ADI has since been rebranded to Heartland Bank Australia, bringing together Challenger Bank, Heartland Finance (Heartland's Australian Reverse Mortgage brand) and StockCo Australia (Heartland's Australian Livestock Finance brand).

Already well-established in Australia, Heartland's Australian portfolio collectively had approximately $2 billion[1] of Receivables at 30 June 2024. Heartland Bank Australia is now the only specialist ADI provider of both reverse mortgages and livestock finance.

HEAD-START TO FUNDING

Prior to the acquisition, Heartland's Australian businesses relied on costly wholesale funding. With an ADI licence and access to retail deposits, the bank can now more sustainably fund its existing lending products and expand its offering in the Australian market. And it's already ahead of Heartland's expectations.

A pre-completion deposit raising programme by Challenger Bank achieved retail deposit growth of A$1,147 million between 1 January and 30 June 2024. This enabled the full repayment of a CBA reverse mortgage funding facility prior to completion of the acquisition and is having a positive effect on Heartland Bank Australia's cost of funds. In the six months to 30 June 2024, the ADI achieved deposit growth at a weighted average rate of 4.85%, 2.03% lower than Heartland Australia's (comprising Heartland Australia Holdings Pty Ltd and its subsidiaries) cost of funds across the same period.



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

The bank is now well underway with its transition from a 100% wholesale funding base to a retail and wholesale funding mix. The funding mix is expected to be about 90% retail funding by the end of FY2025.

To further diversify and strengthen its capital base, in June 2024, Heartland Bank Australia successfully completed an inaugural A$50 million Tier 2 Subordinated Note transaction. The transaction received strong support from a broad range of institutional investors, with demand nearly three times oversubscribed. Proceeds from the Subordinated Notes are intended to support future growth opportunities for the existing Australian lending portfolios.

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

AN EXPERIENCED BOARD

On 30 April 2024, Heartland Bank Australia appointed a diverse, highly qualified and experienced Board to enable the successful delivery of its best or only product strategy. The Board is led by **Geoff Summerhayes**. A Director of Heartland since 2021, on 30 April 2024, Geoff resigned from the Heartland Board and was appointed Chair and Independent Non-Executive Director of Heartland Bank Australia.

He is joined by Independent Non-Executive Directors **Shane Buggle**, **Lyn McGrath** (who was a Director of Challenger Bank prior to Heartland's acquisition), **Vivienne Yu** and **Bruce Irvine** (who is also Chair and Independent Non-Executive Director of Heartland Bank in New Zealand). **Leanne Lazarus** and **Jeff Greenslade** were also appointed Non-Independent Non-Executive Directors.[2]

See full biographies at heartlandbank.com.au/board-of-directors

1 Excluding the impact of changes in FX rates.
2 On 30 September 2024, Jeff Greenslade retired as a Director of Heartland Bank Australia.

A STRONG LEADERSHIP TEAM

Since acquisition completion, a core area of focus has been on bringing together the cultures of the three businesses as Heartland Bank Australia continues to establish itself in the Australian market. In May 2024, the Challenger Bank and Heartland Finance teams came together in a new Melbourne office, becoming the main hub for the business. Sydney employees also relocated to a new office, while StockCo Australia employees mostly remain in Brisbane.

On 22 July 2024, after supporting the successful acquisition completion and aiding the transition of the Australian businesses, **Chris Flood** moved from Acting CEO of Heartland Bank Australia back to his role as Deputy Group CEO of Heartland.[3] On this date, Heartland welcomed **Michelle Winzer** as CEO of Heartland Bank Australia.

Michelle's initial focus has been setting the structure of the business, appointing key roles to join the executive team and creating the appropriate operating rhythm.

On 1 July 2024, **Vaughan Dixon** was appointed Chief Technology & Operations Officer. Vaughan leads Heartland Bank Australia's technology and operations teams, combined under a new structure to deliver synergy across both critical functions. In August 2024, **Medina Cicak** was appointed Chief Commercial Officer to lead a newly created Commercial business unit, comprising the Retail, Reverse Mortgage and Livestock Finance teams. Medina's focus is on creating and maintaining synergy across the distribution teams with a targeted approach to growth.

These new appointments complement the highly experienced executive team, comprising **David Brown**, Chief Risk Officer, **Richard Collier**, Chief Financial Officer, **Sharon Yardley**, Chief Compliance & Sustainability Officer and **Sarah Burgemeister**, General Counsel.

See full biographies at heartlandbank.com.au/management-team

LOOKING AHEAD

Heartland Bank Australia's focus as a specialist digital bank is on delivering banking products which are the best or only of their kind to underserved areas of the market in which it has expertise – such as reverse mortgages for older Australians and finance options for livestock producers.

As it aims to become the lowest cost provider in the areas it operates, Heartland Bank Australia will remain focused on margin expansion and cost reduction through its funding mix transition and commitment to digitalisation.

Through the ongoing integration of business systems and practices post-acquisition, Heartland Bank Australia will continue to identify opportunities to improve operational efficiencies and digitalise processes, reducing friction for customers and contributing to a reduced CTI ratio over time.

Growth in FY2025 is expected to be driven by ongoing demographic demand for Australian Reverse Mortgages, and a turnaround in conditions for Australian Livestock Finance as market confidence in the sector returns, supported by the execution of product development initiatives and distribution network expansion.

Heartland Bank Australia is well capitalised, profitable and has good access to retail deposits to fund its future growth aspirations. With strong leadership in place, local expertise and learned experience from Heartland Bank in New Zealand, Heartland is confident in what lies ahead for its Australian bank.

3 As announced on 23 September 2024, Chris Flood will finish with Heartland on 31 October 2024.

Te kōkiritanga o te whakamatihikotanga
Accelerating digitalisation

Heartland Bank made considerable progress in FY2024 to remove friction for customers through digitalisation, while creating the opportunity for scale and increased efficiency. In particular, the upgrade of Heartland Bank's core banking system in New Zealand enabled the acceleration of Heartland's digitalisation programme – the benefits of which are expected to contribute towards achieving Heartland's ambition of an underlying CTI ratio of less than 35% by the end of FY2028.

A PLATFORM FOR FUTURE GROWTH AND STABILITY

In November 2023, Heartland Bank successfully upgraded its core banking system. The upgrade was a significant programme of work and investment which began in the financial year ended 30 June 2021 (**FY2021**).

The multi-year programme included a replacement of Heartland Bank's internet banking platform to deliver improved functionality, stability and easier integration with supporting systems and third-party platforms. This has increased Heartland Bank's opportunity for future innovation and improved efficiencies.

With cyber threats and events on the rise globally, data security is critical and was a key part of this change programme. The new internet banking platform now provides a foundation for further customer security feature enhancements into the future.

ACCELERATING THE DIGITALISATION PROGRAMME

Since the core banking system upgrade, Heartland Bank has accelerated its digitalisation programme of work. Several features have since been released to Heartland Bank's digital platforms (the Heartland Mobile App and Heartland Digital). These were focused on enabling increased customer self-service for many of the reasons for customer inbound calls, and further enhancing customer security.

New features released since the upgrade provide customers with the ability to:

- log in with multi-factor authentication for improved security when prompted
- reset their own password directly from the app or Heartland Digital
- view the interest rates for their savings accounts
- cancel future dated payments
- request loan overpayments be either refunded or applied to their loan
- generate and download settlement quotes for Motor Finance loans
- process transactions on multiple signatory accounts.

In addition, customer letters and statements are now available online (from the Heartland Mobile App and Heartland Digital) as the primary method of distribution – this is expected to deliver substantial cost benefit through the reduction of postage.

The impact of Heartland's increased digitalisation and automation activity is expected to be realised through FY2025. Already, digitalisation combined with employee training and customer awareness campaigns to increase adoption contributed to a 6% reduction in Retail calls and a 9% reduction in customer service calls in FY2024 compared with FY2023.

LOOKING FORWARD

Ongoing digitalisation and automation efficiencies are critical to Heartland Bank's ability to achieve its FY2028 underlying CTI ratio ambition. In FY2025, cost savings are expected to be delivered by aiming to uplift mobile app customer usage to 60% and reducing basic inbound customer service calls by 35%. To support this ambition, Heartland is working to digitalise over 50% of its basic banking functions, enabling customers to self-serve through online channels, and automate 35% of collections and operations processes. Eligible customers will also have the flexibility to self-manage certain Motor Finance loan repayments from October 2024.

Through digitalisation and changing the way it does things, Heartland Bank intends to become the lowest cost provider in the areas in which it operates. Ultimately, this is intended to increase Heartland Bank's ability to provide competitive banking products, grow at scale and deliver enhanced value for customers and Heartland's shareholders.

02 | WHO WE ARE

TĀ MĀTOU PAKIHI
OUR BUSINESS

OUR PEOPLE

Employees **613**

New Zealand **513**

Australia **100**

Female 51%

Male 49%

Gender diverse 0%

16 locations

New Zealand **13**

Australia **3**

13,000+ Shareholders

Customers ^ **12.3%**[1]

OUR FUNDING & CAPITAL

The banking group is well capitalised and has strong access to retail deposits to fund future growth expectations.

$5.9b Retail deposits

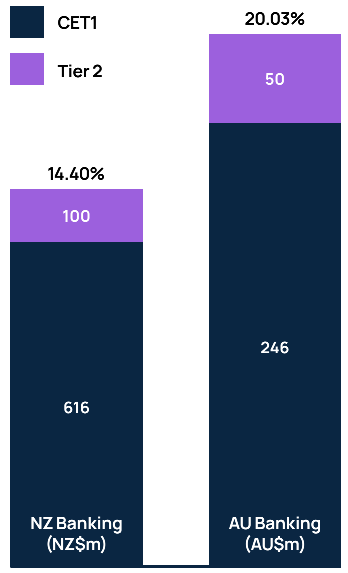
NZ Banking $4.4b	AU Banking $1.6b

$1.4b Wholesale facilities

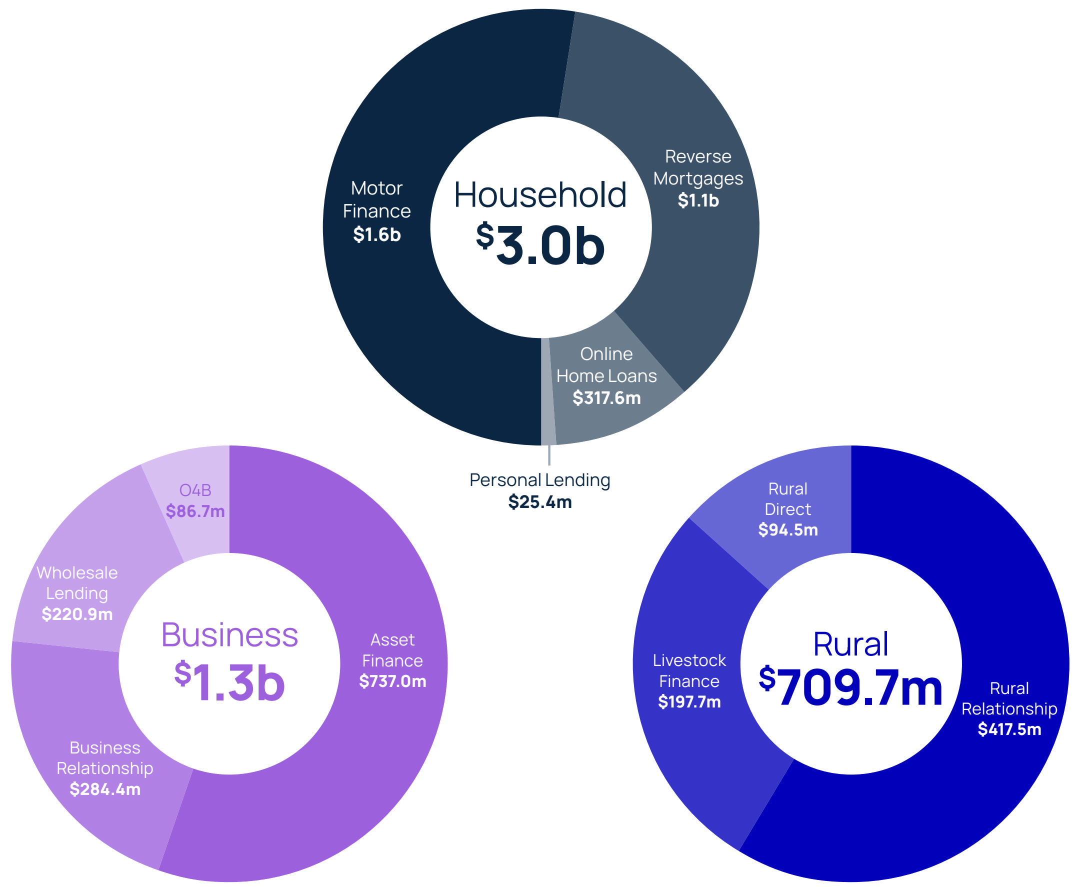
NZ Banking $0.5b	AU Banking $0.9b

$0.7b Bonds and notes

NZ Banking $0.2b	AU Banking $0.5b



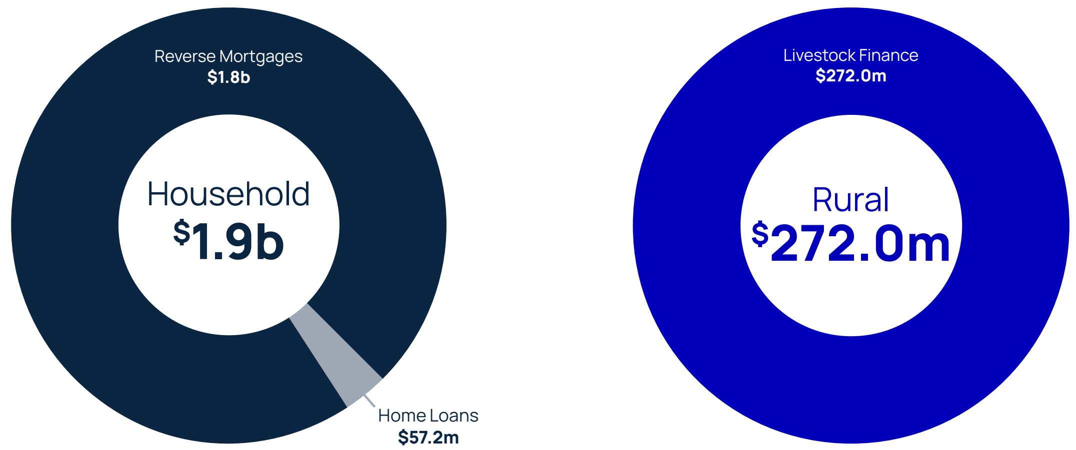
OUR LENDING[2]



Total Receivables **$7.2b**

NZ Banking **$5.1b**

AU Banking **$2.1b**



1 The number of customers across the Group increased by 12.3% from 30 June 2023 to 30 June 2024. Customer numbers as at 30 June 2023 included Challenger Bank Deposit customers prior to Heartland Bank's acquisition.

2 All lending portfolio figures exclude FX impact.

TE POARI O HEARTLAND GROUP
HEARTLAND GROUP BOARD

Greg Tomlinson
Chair and Non-Independent Non-Executive Director
Appointed 31 October 2018
Committee memberships:
- Heartland Audit and Risk Committee

Jeff Greenslade[1]
CEO and Executive Director
Appointed 19 July 2018

Rob Bell
Independent Non-Executive Director
Appointed 27 June 2024

Simon Beckett
Independent Non-Executive Director
Appointed 27 June 2024

Kate Mitchell
Independent Non-Executive Director
Appointed 28 October 2021
Committee memberships:
- Heartland Sustainability Committee (Chair)
- Heartland Audit and Risk Committee

John Harvey
Independent Non-Executive Director
Appointed 30 April 2024
Committee memberships:
- Heartland Audit and Risk Committee (Chair)[2]

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

1 On 30 September 2024, Jeff Greenslade retired from his role as Heartland CEO and as a Director of Heartland.
2 Appointed Chair 27 June 2024, following the retirement of Ellie Comerford on 26 June 2024.

TE POARI O HEARTLAND BANK (KI AOTEAROA)
HEARTLAND BANK (NEW ZEALAND) BOARD

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

Committee memberships:
- Heartland Bank People & Culture and Remuneration Committee (Chair)[1]
- Heartland Bank Audit Committee

Jeff Greenslade[2]
Non-Independent Non-Executive Director
Appointed 31 December 2015

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

Committee memberships:
- Heartland Bank Audit Committee
- Heartland Bank Risk Committee

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

Committee memberships:
- Heartland Bank Risk Committee
- Heartland Bank People & Culture and Remuneration Committee

Shelley Ruha
Independent Non-Executive Director
Appointed 1 January 2020

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

Simon Tyler
Independent Non-Executive Director
Appointed 8 November 2022

Committee memberships:
- Heartland Bank Audit Committee (Chair)[3]
- Heartland Bank Risk Committee
- Heartland Bank People & Culture and Remuneration Committee
- Heartland Sustainability Committee

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

1 The Heartland Bank People & Culture and Remuneration Committee was established on 1 July 2024.
2 On 30 September 2024, Jeff Greenslade retired from his role as a Director of Heartland Bank. With effect from 1 October 2024, Andrew Dixson will be appointed a Non-Independent Non-Executive Director of Heartland Bank, subject to RBNZ non-objection.

3 Appointed Chair 30 April 2024.

TE POARI O HEARTLAND BANK (KI AHITEREIRIA)
HEARTLAND BANK (AUSTRALIA) BOARD

Geoff Summerhayes
Chair and Independent Non-Executive Director
Appointed 30 April 2024
Committee memberships:
- Heartland Bank Australia Audit Committee
- Heartland Bank Australia Risk Committee
- Heartland Bank Australia People, Remuneration and Nominations Committee
- Heartland Sustainability Committee

Shane Buggle
Independent Non-Executive Director
Appointed 30 April 2024
Committee memberships:
- Heartland Bank Australia Audit Committee (Chair)
- Heartland Bank Australia Risk Committee
- Heartland Bank Australia People, Remuneration and Nominations Committee

Lyn McGrath
Independent Non-Executive Director
Appointed 14 February 2022
Committee memberships:
- Heartland Bank Australia Risk Committee (Chair)
- Heartland Bank Australia People, Remuneration and Nominations Committee
- Heartland Bank Australia Audit Committee

Vivienne Yu
Independent Non-Executive Director
Appointed 30 April 2024
Committee memberships:
- Heartland Bank Australia People, Remuneration and Nominations Committee (Chair)
- Heartland Bank Australia Audit Committee
- Heartland Bank Australia Risk Committee

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

Leanne Lazarus
Non-Independent Non-Executive Director
Appointed 30 April 2024

Jeff Greenslade[1]
Non-Independent Non-Executive Director
Appointed 30 April 2024

Bruce Irvine
Independent Non-Executive Director
Appointed 30 April 2024
Committee memberships:
- Heartland Bank Australia Audit Committee
- Heartland Bank Australia Risk Committee
- Heartland Bank Australia People, Remuneration and Nominations Committee

1 On 30 September 2024, Jeff Greenslade retired as a Director of Heartland Bank Australia.

TE TIRA WHAKAHAERE
MANAGEMENT

Heartland Group

Jeff Greenslade[1]
Chief Executive Officer

Chris Flood[2]
Deputy Chief Executive Officer

Andrew Dixson[1]
Chief Financial Officer

Aleisha Langdale[3]
Chief Performance Officer

Heartland Bank (New Zealand)

Leanne Lazarus
Chief Executive Officer

Andy Wood
Chief Risk Officer

Kerry Conway
Chief Financial Officer

Michael Drumm
Chief Operating Officer

Lana West
Chief People & Culture Officer

Phoebe Gibbons
General Counsel

Heartland Bank (Australia)

Michelle Winzer
Chief Executive Officer

David Brown
Chief Risk Officer

Richard Collier
Chief Financial Officer

Sharon Yardley
Chief Compliance & Sustainability Officer

Vaughan Dixon
Chief Technology & Operations Officer

Medina Cicak
Chief Commercial Officer

Sarah Burgemeister
General Counsel

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

1 On 30 September 2024, Jeff Greenslade retired from his role as Heartland CEO. With effect from 1 October 2024, Andrew Dixson will be appointed CEO of Heartland, subject to RBNZ non-objection. The Group Chief Financial Officer role will not be replaced.
2 As announced on 23 September 2024, Chris Flood will finish with Heartland on 31 October 2024.
3 With effect from 9 October 2024, Aleisha Langdale will join the Heartland Bank Management team, reporting to Leanne Lazarus, Heartland Bank CEO.

KA TŌ HE RĀ, KA RERE HE RĀ
THE END OF AN ERA

After 15 years, on 30 September 2024, Jeff Greenslade retired from his role as CEO of Heartland.

In this interview, Jeff reflects on his time at Heartland, including how the company came to be a trans-Tasman specialist banking group, and the moments he's most proud of.

Q: Can you tell me about Heartland's formation and your role in it?

I felt I had done my time in large banks and was looking for a challenge. In 2009, the opportunity came along to join Pyne Gould Corporation (**PGC**) which was the parent company of MARAC Finance (**Marac**). The purpose of my role was to revisit PGC's objectives and guide Marac into becoming a bank.

This coincided with the global financial crisis crash and it turned out Marac had a major balance sheet issue with its property exposures. However, it had a strong business in vehicle finance which provided the earnings to support a recapitalisation.

Then, in 2010, we came together with Canterbury Building Society (**CBS**) and Southern Cross Building Society (**SCBS**) with the idea that together we had greater prospects of becoming a bank.

That's when Geoff Ricketts got involved, joining Bruce Irvine and Greg Tomlinson. Geoff joined through SCBS, Bruce through PGC and Greg came in from Marac's recapitalisation. They are the three key people who have been the Chairs of the various companies along the way and I feel very lucky to have had them as mentors and be able to utilise their various different skills.

In 2011, the merger to create Heartland Building Society happened and we listed on the NZX. Soon after, we bought PGG Wrightson Finance. In 2012, we obtained our banking registration from the RBNZ. That was the end of the first major chapter for Heartland.

Then we started again. What do we do with this new bank?

The thing that stood out for me was the need to create a different bank. We couldn't just be a smaller version of a big bank. We lacked scale. We lacked distribution. At the time, we had a lot of debates at Board level on opening more branches, transactional banking or launching a residential mortgage offering. But eventually commonsense and logic prevailed. We couldn't do those things because we wouldn't be able to meet an acceptable return.

And that's where the best or only strategy came from. Everything we did had to have a point of differentiation which delivered a higher margin. That allowed us to grow and formed the second phase. We had become a bank, now we needed to reinvent the bank.

In line with the best or only strategy, in 2014 we bought the Reverse Mortgage businesses. It was the New Zealand reverse mortgage book that we wanted, but that came with the Australian book. After buying both, the Australian book started to flourish and grow much faster. That led to the third stage – how to fuel exceptional growth potential in Australia.

We listed on the ASX, bought the StockCo Australia livestock finance business, and, after acquiring Challenger Bank earlier this year, we brought the Australian businesses together to create Heartland Bank Australia.

Heartland has had significant growth since forming in 2011. We've seen growth in Receivables from $1.7 billion as at 30 June 2011 to $7.2 billion as at 30 June 2024.

In the same period, our NPAT has increased from $7.1 million to $74.5 million (or $102.7 million on an underlying basis).

Q: What's the fourth phase?

The fourth phase for Heartland is about simplification via technology with the ultimate goal of having the lowest CTI ratio of any bank in New Zealand and Australia.

Alongside having different products that other banks don't do, this phase is really about harnessing technology, simplifying what we do, eliminating friction and eliminating areas of inefficiency. We need to speed up our operations – if you can't do something quickly, you can't do it cheaply. If you can't do something cheaply, you have to question why you are doing it at all. And that may mean jettisoning some products along the way.

Q: Why the name Heartland?

In media coverage at the time, "Heartland" was used to refer to the bank we were creating as one that represented the heartland of New Zealand. It made sense. We had a good regional bias – SCBS was Auckland based, but CBS and Marac had southern roots.

The name also sat well with depositors, with good sentiment around being local and New Zealand owned. The Crown retail deposit guarantee scheme was about to expire at the end of December 2011, so our main focus was on retaining depositors in a post-guarantee world.

And no one else could come up with anything better!

Q: Looking back on your time as CEO, what are you most proud of?

The success of our best or only strategy, and particularly the digitalisation work that we have done, and continue to do, has been exciting and enjoyable.

Latterly, bringing the Australian bank acquisition to a successful conclusion. I saw Geoff Ricketts the day before he passed and that was one thing he asked me to promise – not to leave until we had obtained a banking licence in Australia. Geoff had substantial experience in Australian companies as a director. He knew the market well and could see the potential for Heartland. I'm pleased to have been able to deliver on that promise.

Q: When you reflect on Heartland's impact on its customers and communities, what stands out?

It's vital to have a strong sense of social purpose. With Reverse Mortgages, we are making retirement better for older Australians and New Zealanders. Livestock Finance gives farmers in both countries better options to manage their business with more flexibility. Similarly in Motor Finance, we're giving people options to be able get into safer or better cars.

Our Manawa Ako internship programme stands out as being a great contribution internally, but also externally. Through this programme we've learnt a lot about why Māori aren't represented in the financial industry. The whole concept of whakamā (shame or embarrassment) and therefore making sure people feel welcome in what can be an intimidating environment. And there have been some great stories and people we've been able to give some opportunities and experience to along the way.

Q: What's next for you?

I'm in the very happy situation of being able to say I really don't know. I mean that in a good way. It's nice for the first time in my life to say, "I don't know", and it doesn't bother me. I'm not going to rush into anything. I'm going to take my time and have an open mind.

Jeff hands the reins to Andrew Dixson, previously Group Chief Financial Officer, who will be appointed Heartland CEO with effect from 1 October 2024[1].

1 Subject to RBNZ non-objection.

03 | SUSTAINABILITY

Through its sustainability strategy, Heartland is committed to sustainable practices that not only minimise its environmental footprint, but also make positive contributions to its communities and enrich the lives of its people and customers.

Environment

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

People

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

Financial wellbeing

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

TE TAIAO
ENVIRONMENT

Heartland's environmental sustainability strategy is underpinned by three key pillars. Together, these help Heartland fulfil its commitment to supporting the just transition to a net-zero economy.

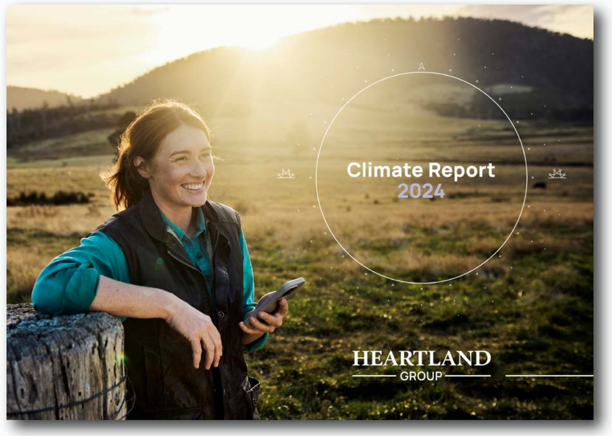
1. Build the capability to appropriately take climate change risks into consideration when making lending decisions.
2. Fund Heartland's borrowers' transition to a net-zero economy.
3. Embed sustainability into what Heartland does.

Climate reporting

The Financial Sector (Climate-related Disclosures and Other Matters) Amendment Act 2021 introduced a mandatory reporting regime for climate-related disclosures in New Zealand in the financial year ended 30 June 2022 (**FY2022**), with effect from FY2024.

Heartland's **Sustainability Committee** was established in November 2023 to oversee Heartland's sustainability strategy and implementation plans. With the direction of this new Board committee, Heartland is pleased to have **published its first Climate Report** in line with the Financial Sector (Climate-related Disclosures and Other Matters) Amendment Act. The Heartland Climate Report 2024 provides insight into Heartland's environmental journey, including achievements, challenges, climate-related risks and opportunities and future targets.

For a comprehensive review of Heartland's environmental journey, refer to the Heartland Climate Report 2024 available at heartlandgroup.info/sustainability.



HEARTLAND'S COMMITMENT:
Support the just transition to a net-zero economy.

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

FY2024 TARGET	FY2024 PROGRESS
Climate-related risk analysis.	Heartland has made significant progress in FY2024 in its capability to appropriately take climate change risks into consideration when making lending decisions. Heartland completed scenario analysis to better understand the resilience of its business strategy in light of possible climate-related risks. Climate change is a significant and complex problem that will impact Heartland and its stakeholders differently. ***Refer to page 6 of the Heartland Climate Report 2024 for further information on Heartland's scenario analysis.***
Implementation of a climate risk tool and **calculating financed emissions.**	Heartland engaged **Jupiter Intelligence**, a climate risk modelling software company, enabling Heartland to understand its exposure to potential climate hazards through to 2100. Understanding the potential impacts of climate-related events will allow Heartland to set risk-appetite targets for lending within its New Zealand and Australian businesses as part of its climate risk management strategy. ***Refer to the Heartland Climate Report 2024 for further information on climate-related risks and hazards.***
Establish a Sustainability Committee.	Heartland's Sustainability Committee was established in November 2023 to oversee Heartland's sustainability strategy and implementation plans. The Committee is made up of directors of Heartland, Heartland Bank and Heartland Bank Australia. The Committee meets quarterly to consider climate-related risks and opportunities and provide updates, guidance and leadership regarding climate initiatives.

HOW: Fund Heartland's borrowers' transition to a net-zero economy.	
FY2024 TARGET	**FY2024 PROGRESS**
Increase lending to new generation vehicles.	Of all vehicles funded within Heartland's Motor Finance portfolio in FY2024,15% were new generation (hybrids (**HEVs**), Plug-in hybrids (**PHEVs**), and battery electric vehicles (**BEVs**)), compared with 10% in FY2023. In December 2023, Heartland announced its white labelled **MG Finance partnership** with MG Motors New Zealand. This finance offering provides Heartland's borrowers a range of flexible finance solutions for the entire MG range, including HEVs, PHEVs and BEVs. In February 2024, Heartland Bank became one of **Tesla's two preferred finance providers** in New Zealand, offering an online finance solution to help more Kiwi drive electric vehicles.
Identifying climate-related opportunities.	Through scenario analysis, Heartland has a better understanding of the resilience of its business strategy in light of climate-related risks and opportunities. ***Refer to the Heartland Climate Report 2024 for further information on climate-related opportunities.***
Baseline carbon footprint analysis for Australian Livestock Finance.	Heartland's Australian livestock business, StockCo Australia, partnered with Australian farmer-led software provider, Ruminati, for a two-year pilot project. **Ruminati** is an online emissions calculator created by farmers for farmers. The platform provides producers accurate climate data and emissions information to help producers across Australia track and validate on-farm climate action throughout the supply chain.
Funding low emissions assets.	Heartland is positioning itself in the low emission heavy to medium duty transport and yellow goods space and has established partnerships with two national distributors. Heartland intends to continue exploring opportunities to fund low emission assets in these spaces in FY2025.

HOW: Embed sustainability into what Heartland does.	
FY2024 TARGET	**FY2024 PROGRESS**
Replace remaining vehicle fleet with new generation vehicles.	As at 30 June 2024, Heartland Bank had replaced 91% of its vehicle fleet with new generation vehicles.
Set long-term greenhouse gas (GHG) emissions reduction targets.	Heartland's long-term GHG emissions reduction target is to reduce its operational emissions in line with the Paris Agreement to net-zero by 2050. Since its base year (being the financial year ended 30 June 2019 (**FY2019**)), Heartland has achieved a 40% reduction in operational emissions.[1]
Engage with Rural borrowers to understand their emissions profiles and environmental sustainability practices.	In FY2024, Heartland began surveying its Rural and Livestock Finance borrowers in New Zealand to understand their current and planned on-farm environmental sustainability practices. However, some responses indicated uncertainty within the sector and were inconclusive. As a result, Heartland paused the survey to explore a more effective method for assessing borrowers' emissions profiles and sustainability practices. This includes examining existing information from borrowers' key partners to gain a more comprehensive understanding of their emissions profile. This process started in FY2024 and is expected to be completed in FY2025.

LOOKING FORWARD TO FY2025

Heartland intends to build on its FY2024 progress in FY2025 through engaging with its people, customers and key suppliers to reach the following targets.

- Reduce Heartland's **absolute gross operational emissions** by 35% by the end of FY2025, from its FY2019 base year.
- Increase the percentage of **new generation vehicles** funded through Motor Finance to more than 15%.
- Extend Heartland's physical **climate risk identification tool** to the credit assessment process for Online Home Loans, Reverse Mortgages, Australian Livestock Finance, and New Zealand Rural and Livestock Finance borrowers.
- Develop and execute a climate-related customer **communication and education strategy** in partnership with subject matter experts in FY2025.
- **Engage with the 100 largest** Australian Livestock Finance and New Zealand Rural and Livestock Finance borrowers in each of Australia and New Zealand to understand their on-farm emissions by the end of FY2025, and ensure they have an emissions reduction plan in place by the end of the financial year ending 30 June 2026 (**FY2026**).
- **Develop Heartland's Transition Plan** detailing how Heartland intends to reduce its operational emissions to net-zero by 2050 and reduce the climate-risk and emissions intensity of its lending books.

For more information on Heartland's environmental journey, refer to Heartland's Climate Report at heartlandgroup.info/sustainability.

1 Includes Scope 1, 2 and select Scope 3 emissions that Heartland has operational control over including freight, flights, car rentals, taxi, working from home emissions, electricity transmission losses and waste generated in operations.

NGĀ TĀNGATA
PEOPLE

HEARTLAND'S COMMITMENT:

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

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

FY2024 TARGET	FY2024 PROGRESS
Extend community engagement for Heartland's Manawa Ako internship programme.	The Manawa Ako internship programme reached a broader network of applicants by leveraging business relationships and connections. This included recruiting interns from Manurewa High School, Ngā Puna O Waiōrea (Western Springs College) and Ngāti Whakaue. Through engaging with a wider network, Heartland welcomed 30 interns in FY2024 – the largest cohort for Manawa Ako since its inception in 2017. 140 rangatahi have participated in the programme since 2017. At 30 June 2024, 15 former Manawa Ako interns were employed by Heartland. Seven of which are from the FY2024 Manawa Ako cohort.

FY2025 TARGETS

- Heartland is committed to **supporting Māori and Pasifika in the banking industry**. Heartland will achieve this through membership in the New Zealand Banking Association (**NZBA**) Tawhia (Māori Bankers Association) committee, close association with InZone Education Foundation and Heartland's annual Manawa Ako internship programme.
- Heartland will **extend its engagement to an even broader network** of schools across Auckland to offer opportunities to apply for the Manawa Ako internship programme in FY2025.

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

FY2024 TARGET	FY2024 PROGRESS
Seek employee insight on how Heartland can become a more recognisable and desirable employer.	Heartland began using surveys to gain employee insights as part of the integration of Challenger Bank employees from acquisition completion. These surveys were originally intended for broader employee engagement. However, Heartland's focus shifted following the acquisition of Challenger Bank in April 2024 and the subsequent integration of Challenger Bank employees with Heartland Finance and StockCo Australia employees to form Heartland Bank Australia. The surveys were tailored to better support a positive integration for employees into Heartland post-acquisition.
Continue to offer successful initiatives, including: • participation in the **Rotary Young-Person Leadership Awards (RYLA)** youth programme • facilitating the **Rangatahi (Youth) Advisory Board** programme • continuing to grant **Mātāpono Awards**.	**Rotary Young-Person Leadership Awards** This week-long, immersive programme includes presentations, workshops and activities aimed at enhancing teamwork and communication skills. Heartland nominates and sponsors selected employees to participate, and in FY2024, four emerging leaders from Heartland took part in the RYLA programme, of which 50% were female. **Rangatahi (Youth) Advisory Board** Heartland appointed 10 new members to the Board in FY2024, who sit alongside four existing members. The Board is made up of nine males and five females across Heartland's Australian and New Zealand businesses, who each bring their unique perspective and innovative ideas to the group. **Mātāpono (Values) Awards** Heartland's Mātāpono Awards are presented quarterly. In FY2024, 40 individuals across Australia and New Zealand received these awards, with 90% of the winners being non-leaders. Of the winners, 55% were female and 45% were male.
	New initiatives **Multiethnic Young Leaders NZ** In FY2024 Heartland also became a Corporate Impact Investor of Multiethnic Young Leaders NZ (**MYLN**). This is a network of young leaders who are committed to championing diversity in leadership, empowering Māori, Asian, Pacific and ethnic minority rangatahi (youth). As a Corporate Impact Investor, Heartland is invited to attend MYLN's events, workshops and programmes – which it shares with employees. Heartland has two employees participating in the **3 Kapu Kawhe Mentorship Programme** provided by MYLN. This short-term mentoring programme by MYLN is designed for ethnically diverse professionals aged 35 and under who show potential for impactful leadership. Participants are matched with executives and directors from New Zealand organisations for three one-hour mentoring sessions over six months. In return, mentees will have three coffee meetings with a student leader in tertiary education or their final year of high school.

FY2025 TARGETS

- Heartland intends to commence an **annual employee culture and engagement survey** to be conducted across all of Heartland. A baseline will be created and progress monitored against targets annually.

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

FY2024 TARGET	FY2024 PROGRESS
Reduce pay gaps Heartland is dedicated to advancing its efforts in reducing gender and ethnicity pay gaps.	Heartland has seen a reduction in the pay gaps between men and women, between Māori and non-Māori, and between Pasifika and non-Pasifika in the last year.[2] • Gap between median pay of men and women across all NZ roles has reduced by 6.1% since 30 June 2023 to 21.9%. • Gap between median pay of non-Māori and Māori across all NZ roles has reduced by 4.6% since 30 June 2023 to 23.4%. • Gap between median pay of non-Pasifika and Pasifika across all NZ roles has reduced by 9.9% since 30 June 2023 to 17.1%.
Increase gender balance Heartland tracks gender representation and leadership roles throughout the year.	In FY2024, there was an 8% increase in the percentage of women in management roles, rising to 38%. The Heartland Bank Board maintained 33% female representation, unchanged from FY2023. While the Heartland Board includes one female member (17%), the newly established Heartland Bank Australia Board has 43% female representation. Refer to the table on the next page for the gender diversity of directors and employees of the Group in New Zealand and Australia.
Improve accessibility Heartland is dedicated to enhancing accessibility for older customers and those with physical or hidden disabilities to ensure a more inclusive experience for all.	Heartland has combined its Accessibility and Vulnerable Customers committees into one broader Accessibility Committee. Heartland has renewed its status as a Hearing Accredited Workplace in New Zealand for another year with the Foundation for the Deaf and Hard of Hearing. In Australia, Heartland celebrated National Week of Deaf People in September 2023 to increase awareness and education about the Deaf community among Heartland's employees. For New Zealand Sign Language Week in May 2024, Heartland hosted Sign Language workshops to promote inclusivity.

Other achievements in FY2024

Maintained Rainbow Tick accreditation and joined the Welcome Here Project

Heartland Bank in New Zealand has successfully renewed its Rainbow Tick accreditation for another year, having initially received this certification in 2019.

In continuing its ongoing commitment to accessibility and diversity, Heartland has joined The Welcome Here Project in Australia and has replicated the concept of this project in New Zealand. The Welcome Here Project supports businesses in Australia to create an environment that is visibly welcoming of lesbian, gay, bisexual, transgender, queer and intersex (**LGBTQI+**) communities. Members are provided with Welcome Here rainbow stickers and a charter to prominently display, signalling that their business welcomes and celebrates LGBTQI+ diversity.

In FY2024 Heartland's Rainbow Committee conducted a Rainbow 101 and Active Allyship workshop through Rainbow Tick, which had significant uptake from Heartland employees and educated participants on the foundations of what it means to be inclusive of the LGBTQI+ community.

GENDER DIVERSITY

Positions	Female	Male	Gender Diverse	Not stated	Total
As at 30 June 2024					
Board - Heartland	1 (17%)	5 (83%)	0	0	**6**
Board - Heartland Bank	2 (33%)	4 (67%)	0	0	**6**
Board - Heartland Bank Australia	3 (43%)	4 (57%)	0	0	**7**
Management[3]	8 (38%)	13 (61%)	0	0	**21**
All People Leaders (excl Management)	45 (47%)	51 (53%)	0	0	**96**
All staff (excl Board)	311 (51%)	302 (49%)	0	0	**613**
As at 30 June 2023					
Board - Heartland	2 (40%)	3 (60%)	0	0	**5**
Board - Heartland Bank	2 (33%)	4 (67%)	0	0	**6**
Management[3]	3 (30%)	7 (70%)	0	0	**10**
All People Leaders (excl Management)	48 (46%)	56 (54%)	0	0	**104**
All staff (excl Board)	279 (52%)	251 (47%)	3 (0.6%)	2 (0.4%)	**535**

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

3 Management represents Heartland's Officers for the purposes of the NZX Listing Rules.

FY2025 TARGETS

- Heartland intends to continue to focus **on achieving gender balance in all levels** at Heartland, including by leveraging its Growing Families, Rainbow and Kia Eke employee groups. Heartland also intends to continue its commitment to disclosing its gender pay gap in New Zealand through Mind the Gap.
- Heartland is committed to diversity and inclusion and creating an environment where all employees can thrive. Heartland Bank will do this in New Zealand by **retaining its accreditations** as a Living Wage Employer, for the Rainbow Tick (NZ), and its Hearing Accreditation with the National Foundation for the Deaf and Hard of Hearing, by being a member of Mind the Gap.
- To ensure Heartland is a welcoming space for diverse employees in its Australian business, efforts are underway to **achieve Bronze Status in the Australian Workplace Equality Index**, as published by Pride in Diversity. This index serves as the Australian equivalent of the Rainbow Tick and will further reinforce Heartland's commitment to being an inclusive and uplifting place to work.

HEARTLAND'S COMMITMENT:
Heartland cares for its communities.

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

FY2024 TARGET	FY2024 PROGRESS
Increasing commitment to wellbeing through a renewed partnership with Lifeline Aotearoa.	With funds provided by the Heartland Trust, in FY2024 Heartland increased its support for initiatives that foster positive mental health and wellbeing in the community,[4] including Lifeline Aotearoa and grants provided to the Sir John Kirwan Foundation's mental health initiative Mitey, Auckland City Mission and Sweat with Pride.
Continue to give back through the Heartland Trust, a registered charitable trust that is independent from but closely supported by Heartland Bank.	In FY2024, more than $690,000 was funded through the Heartland Trust in the form of grants to community organisations and initiatives in the areas of education and learning, arts and culture, mental health and wellbeing, and sport and physical wellbeing. For more information on the organisations receiving support from the Heartland Trust, refer to heartland.co.nz/about-us/sponsorship
Increase volunteer day participation.	Heartland launched an awareness campaign to educate employees and senior leaders about volunteer days and the types of activities that can be included within them. Heartland acknowledges the positive impact that volunteering has on building employee wellbeing and a sense of connection and therefore offers one paid volunteer day per year to each employee.

FY2025 TARGETS

- Heartland is committed to supporting the communities it operates in, including **giving back through the Heartland Trust**. Heartland will review the funding categories of the Heartland Trust to ensure funding is allocated to areas where Heartland can have the greatest impact in the community.
- Heartland intends to continue promoting the use of **volunteer days to increase the use** of these days in both New Zealand and Australia.

4 This excludes one-off donations made in FY2023, totalling $45,000, to support disaster relief funds.

HEARTLAND'S COMMITMENT:
Heartland cares for its customers.

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

FY2024 TARGET	FY2024 PROGRESS
Continue to be recognised for exceptional value and innovation through maintaining its streak of **Canstar NZ recognition, and recognition in the Australian market** for its Reverse Mortgage product.	**Australian Mortgage Awards** Heartland Bank Australia has been shortlisted as an excellence awardee in the Bank of the Year category for the 2024 Australian Mortgage Awards.[5] The Australian Mortgage Awards celebrate achievements and acknowledges excellence across the financial sector, including brokers, aggregators, lenders, business development managers and more.
	Savings Bank of the Year Heartland Bank in New Zealand has been awarded Canstar's Savings Bank of the Year for seven consecutive years.[6] The Canstar Bank of the Year – Savings Award is awarded to the institution that provides the strongest combination of products, accounting for the price positioning, features, savings tools and flexibility of the products assessed within Canstar's rating profiles. Three of Heartland Bank's savings accounts were also awarded Canstar Outstanding Value awards, each with a 5-Star Rating: • Direct Call Account: Outstanding Value Savings Account, 2018 – 2024 • 90 Day Notice Saver: Outstanding Value Savings Account, 2023 – 2024 • 32 Day Notice Saver: Outstanding Value Savings Account, 2022 – 2024. Due to its recent market entry in October 2023, Heartland Bank's Digital Saver Account was not eligible for an Outstanding Value Award or Star Rating this year.
Commission research to better understand the needs of older New Zealanders and Australians.	Heartland's Reverse Mortgage teams in New Zealand and Australia have collaborated with RMIT University (**RMIT**), which has released a research paper on the post-COVID-19 enablers and barriers to ageing well in place. The report explores the benefits, risks and decisions associated with ageing in place and assesses some of the planning considerations required by individuals, government departments and agencies and industries to support people to remain in their home as they age. Previous research conducted by RMIT reported that almost 90% of older Australians wish to 'age in place'.

FY2025 TARGETS

- Heartland is committed to **delivering exceptional value and banking innovation** to its customers. Heartland aims to **uphold its streak of recognition** by Canstar NZ and gain further recognition in the Australian market for its Reverse Mortgage product.

5 Announced August 2024.
6 Awarded July 2024.

TE ORANGA Ā-AHUMONI
FINANCIAL WELLBEING

HEARTLAND'S COMMITMENT:
Support the financial wellbeing of Heartland's customers and communities.

HOW: Enhance economic outcomes for customers through digitalisation.	
FY2024 TARGET	FY2024 PROGRESS
Support borrowers to manage their repayments, avoiding arrears.	Heartland has made significant progress towards offering eligible Motor Finance customers flexibility to self-manage certain loan repayments (One-Click). The development and architecture are largely complete, and extensive testing is underway.
Continue to increase digital self-service functionality.	The implementation of Heartland Bank's core banking system upgrade has enabled the release of further features to its digital banking platforms to enhance customers' ability to self-service. See page 18 for more information on these features.

FY2025 TARGETS

- Heartland will **support eligible Motor Finance borrowers to manage certain repayments and avoid arrears through 'Manage loan' functionality** (One-Click). The first release of One-Click will provide eligible Motor Finance customers with the flexibility to self-manage their vehicle loan repayments digitally via the Heartland Mobile App.
- **Release further features** to the Heartland Mobile App.
  - Update direct debit details
    This feature will enable Motor Finance customers to update their direct debit date and frequency. Heartland is also looking to allow updates to the direct debit account.
  - Confirmation of Payee
    The Confirmation of Payee initiative, being led by the NZBA, aims to enhance the security of online banking transactions by verifying the payee's account details before completing a payment.
  - Other updates
    Other updates to the Heartland Mobile App include allowing users to update their tax information and set communication preferences via the app.
- Introduce a solution to provide **fraud detection**, monitoring and management capabilities to protect Heartland Bank's customers against unauthorised dealings when interacting with Heartland Bank's ecosystem (i.e. while applying for credit or transacting with existing accounts).

HOW: Ensure customers can benefit from Heartland's digitalisation journey.	
FY2024 TARGET	FY2024 PROGRESS
Provide digital access to New Zealand Reverse Mortgage customers.	Heartland intended to create a mobile app for its New Zealand Reverse Mortgage customers in FY2024, however this was delayed due to the prioritisation of other strategic initiatives. This development is still a focus for Heartland, although development may be further delayed to FY2026.
Deliver educational events to improve digital capability.	Heartland intended to host a series of events to educate Heartland's customers on how to use mobile devices and applications, including the Heartland Mobile App, in order to improve their confidence and capability using digital tools. These events did not take place in FY2024 due to the prioritisation of other strategic initiatives.

Other achievements in FY2024

Provided digital access for customers to manage their funds on the go

Heartland Bank's Digital Saver account launched in October 2023 and has helped over 4,000 Kiwi access their funds digitally in FY2024. This low-touch, self-service account provides Kiwi an additional savings investment option, with no monthly fees, unlimited withdrawals and the flexibility to easily access their funds if they need to, without being penalised for withdrawing more funds than deposited in any given month.

A Heartland Bank Digital Saver account can be opened online and self-managed by customers through the Heartland Mobile App or through Heartland Bank's online banking platform, Heartland Digital.

"I'm very new to the concept of high-yield savings accounts, and I was amazed at the interest rates offered by Heartland Bank's 90 Day Notice Saver and digital savings accounts. I am so glad I made the decision to invest with Heartland Bank."

Heartland Bank Deposit customer

FY2025 TARGETS

See *Financial wellbeing* targets listed on the previous page.

How: Ensure Heartland's values and commitments are shared by its suppliers.	
FY2024 TARGET	FY2024 PROGRESS
Set supplier sustainability targets to enhance sustainability and ensure Heartland's values and commitments are shared by its suppliers.	In FY2024, Heartland engaged a third-party management system to facilitate engagement with its New Zealand based landlords and Heartland's top suppliers responsible for over 50% of its total expenditure. A survey was sent to these groups to understand their emissions and strategies for reducing them. Heartland is yet to receive all responses to this survey which has delayed the ability to set supplier sustainability targets in FY2024.

FY2025 TARGETS

- Heartland intends to analyse the survey results from its New Zealand based landlords and its top suppliers responsible for over 50% of total expenditure across its Australian and New Zealand locations. This analysis will give Heartland insight into each entity's emissions and emission reduction targets, helping to **better align Heartland's sustainability practices across the Group**.

04 | DISCLOSURES

TE URUNGI Ā-RANGATŌPŪ
CORPORATE GOVERNANCE

This corporate governance statement describes Heartland's corporate governance policies and practices as at 30 June 2024 and has been approved by the Board.

Heartland has reported against the NZX Corporate Governance Code (**NZX Code**) dated 1 April 2023.

Heartland, as the parent company of the Group, is committed to ensuring that Heartland's policies and practices reflect current best practice, in the interests of Heartland's shareholders and other stakeholders.

In addition to information about Heartland's corporate governance policies and practices, this section includes information about Heartland Bank and Heartland Bank Australia's corporate governance policies and practices, where relevant.

Heartland Bank and Heartland Bank Australia each have their own Board and Board Committees and make independent decisions (including on corporate governance matters). Heartland and Heartland Bank have developed a Heartland Entities Oversight Governance Framework (**Oversight Framework**), which was adopted by their respective Boards from completion of the acquisition of Challenger Bank (now Heartland Bank Australia). The Oversight Framework balances the importance of strong governance by the respective boards of directors of Heartland Bank and Heartland Bank Australia to ensure the prudent management of their own business and risks, alongside the need for Group-wide oversight of all material risks.

Heartland, Heartland Bank and Heartland Bank Australia Board and Committee meetings are held separately.[1] In the case of Heartland and Heartland Bank, only the respective Chairs are attendees at both meetings. The Chair of Heartland Bank and the respective CEOs of Heartland and Heartland Bank were also directors on the Heartland Bank Australia Board as at 30 June 2024, having been appointed from completion of the Challenger Bank acquisition. Heartland's key corporate governance policies and practices either apply to, or have been adopted by, Heartland Bank and Heartland Bank Australia (as applicable).

Other than in respect of the matters explained in response to Recommendations 2.9, 3.3, 3.4 and 8.4 below, Heartland was in compliance with the corporate governance recommendations contained in the NZX Code as at 30 June 2024.

PRINCIPLE 1 – ETHICAL STANDARDS

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

Codes of Conduct – Recommendation 1.1

Heartland has separate Codes of Conduct for New Zealand and Australia[2] and also a Directors' Code of Conduct. These Codes of Conduct set out the ethical and behavioural standards expected of Group directors, employees and intermediaries and are available on Heartland's shareholder website, heartlandgroup.info.

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

- Heartland's responsibilities towards shareholders and the financial community, its customers, clients and service providers, and its employees
- conflicts of interest, including the receipt of gifts and other corporate opportunities
- confidentiality
- the recommended procedure for advising Heartland of a suspected breach in accordance with the applicable Heartland Employee Whistleblowing Policy.

Suspected breaches of the Codes of Conduct may be reported in accordance with the relevant Heartland Whistleblowing Policy or directly to Group Management. Whistleblower cases are addressed in accordance with the applicable Whistleblowing Policy. Suspected breaches reported directly to Group Management are addressed in accordance with Heartland's disciplinary process as appropriate.

Every new director or employee is provided with a copy of the relevant Code of Conduct and is required to read it and each new employee is required to attest to their understanding of it. Employees are trained on the relevant Code of Conduct annually and required to review and repeat their attestation to their understanding of it.

Each director and employee has an obligation, at all times, to comply with the spirit as well as the letter of the law, and to comply with the principles of the relevant Code of Conduct, including exhibiting a high standard of ethical behaviour. The Codes of Conduct are subject to annual review. Various Heartland policies, frameworks and standards expand upon the topics in the relevant Code of Conduct, for example, Heartland's Conduct Management Framework, Employee Whistleblowing Policies and Gift and Hospitality Policy.

Heartland, Heartland Bank and Heartland Bank Australia provide all employees with access to independent and external whistleblowing hotlines.

Insider Trading Policy – Recommendation 1.2

Heartland has an Insider Trading Policy which applies to all directors, employees and contractors of the Group. In addition to the prohibition on insider trading, directors, employees and contractors are prohibited from buying or selling the Group's quoted financial products during 'blackout periods' – which are periods that commence 30 days prior to the end of the half-year and the full-year and 30 days prior to the release of a product disclosure statement, prospectus and/or investment statement for a general public offer of any quoted financial products, and generally end, respectively, once the financial results from the half-year or the full-year or disclosure document has been released to the market. Additional blackout periods may also be notified from time to time.

All of the Group's directors, senior officers and certain other designated persons are required to obtain consent before buying or selling the Group's quoted financial products outside of blackout periods, and to certify that their decision to buy or sell has not been made on the basis of inside information.

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

The Insider Trading Policy is available on Heartland's shareholder website, heartlandgroup.info. Through its share registrar, MUFG Corporate Markets (formerly Link Market Services), Heartland actively monitors trading in Heartland shares by directors, officers and certain other designated persons.

PRINCIPLE 2 – BOARD COMPOSITION AND PERFORMANCE

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

Role of the Board – Recommendation 2.1

The Board is responsible for corporate governance, setting the Group's overall strategic direction and having Group-wide oversight of all material risks.

The Board Charter regulates Board procedure and describes in detail the Board's role and responsibilities and the role of Management. The Board Charter is available on Heartland's

1 For Heartland and Heartland Bank, this has been the case since November 2023. Please refer to the '*Corporate governance*' section of Heartland's FY2023 Annual Report for more information.
2 Separate Codes of Conduct were adopted from completion of the Challenger Bank acquisition.

shareholder website, heartlandgroup.info. The Board establishes objectives, strategies and an overall policy framework in respect of those matters applicable at a Group-wide level within which the Group's business is conducted.

The Board schedules regular meetings at which it receives briefings on key strategic and operational issues from Management, together with updates from the Chairs of the respective Board Committees, the Chair of the Heartland Bank Board and the New Zealand directors who sit on the Heartland Bank Australia Board.

In light of the acquisition of Challenger Bank (now Heartland Bank Australia), and the consequent changes to the boards of Heartland, Heartland Bank and Heartland Bank Australia, a Group-wide skills matrix is being progressed and is intended to be published in next year's annual report.

Director appointment – Recommendations 2.2 and 2.3

Heartland has a procedure for the nomination and appointment of directors to the Board, as documented in Heartland's Constitution and Board Charter. Directors may be appointed in accordance with Heartland's Constitution or pursuant to formal written letters of appointment. Letters of appointment set out the key terms and conditions of a director's appointment to ensure that directors clearly understand the expectations of Heartland and the Board. Directors are entitled to appoint and remove alternate directors with the approval of the majority of the other directors. The Board may appoint a managing director.

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

During FY2024, the Heartland Corporate Governance, People, Remuneration and Nominations Committee was tasked with the role of reviewing Heartland's Board composition, and reviewing and making recommendations in relation to nominations, for the Board's consideration.

With effect from 1 July 2024, the Heartland Corporate Governance, People, Remuneration and Nominations Committee was disestablished. Please see the reporting against Recommendations 3.3 and 3.4 below for more information.

Director attendance at Board and Committee meetings and other director information – Recommendation 2.4

The Board held 13 meetings, the Heartland Bank Board held 12 meetings, and the Heartland Bank Australia Board held 3 meetings during FY2024.[3] The following table shows attendance by each director at the meetings of the relevant Board and Board Committees of which he or she was a member.

	Heartland Board		Heartland Committees		
	Attended as Director	Attended as Observer	Audit & Risk Committee	Corporate Governance, People, Remuneration and Nominations Committee[4]	Sustainability Committee[5]
J K Greenslade	13	-	11*	-	-
E F Comerford[6]	12	-	11	-	-
E J Harvey[7]	1	5	11**	-	-
K Mitchell	13	-	11	-	3
G R Tomlinson	13	-	11	7	-
G E Summerhayes[8]	12	-	5*	-	3
R A Bell[9]	-	1	-	-	-
S Beckett[10]	-	1	-	-	-
B R Irvine	-	12*^	1^^	7***	-
S M Ruha	-	4^	6^^	-	-
S R Tyler	-	4^	7^^	-	3

	Heartland Bank Board		Heartland Bank Committees	
	Attended as Director	Attended as Observer	Audit Committee	Risk Committee
J K Greenslade	10	-	1*	-
B R Irvine	12	-	10	1*
K Mitchell	12	-	7*	6
E J Harvey	12	-	10	6
S M Ruha	12	-	9	6
S R Tyler[11]	12	-	10	5
G R Tomlinson	-	11*^	3^^	-
E F Comerford	-	4^	10^^	6*
G E Summerhayes	-	4^	-	-

	Heartland Bank Australia Board		Heartland Bank Australia Committees	
	Attended as Director	Attended as Observer	Audit Committee	Risk Committee
J K Greenslade	3	-	-	-
B R Irvine	3	-	2	2
G E Summerhayes	3	-	2	2
V Z Yu	3	-	2	2
L G Lazarus	3	-	-	-
S M Buggle	3	-	2	2
L T McGrath	3	-	2	2
G R Tomlinson	-	1*	-	-

* These meetings were attended by the director as an observer rather than as a member.
** The first eight meetings were attended as an observer and the subsequent three as a member.
*** Attended as a member.
^ Heartland and Heartland Bank Board meetings were held jointly until 31 October 2023, after which they were held separately, noting the Heartland Chair and Heartland Bank Chair continue to attend the Board meetings of the other as an observer. G R Tomlinson and B R Irvine attended the Heartland Bank and Heartland Board meetings respectively as observers from 1 November 2023.
^^ Heartland Audit & Risk Committee and Heartland Bank Audit Committee meetings were held jointly until 31 October 2023, after which they were held separately.

3 Heartland Bank's acquisition of Challenger Bank completed on 30 April 2024. Challenger Bank was subsequently rebranded to Heartland Bank Australia, and the current Heartland Bank Australia Board held its first meeting as part of the Group on 1 May 2024.
4 The Heartland Corporate Governance, People, Remuneration and Nominations Committee was disestablished by the Heartland Board on 1 July 2024.
5 The Heartland Sustainability Committee was established by the Heartland Board on 9 November 2023.
6 E F Comerford resigned from the Heartland Board on 26 June 2024.
7 E J Harvey was appointed to the Heartland Board on 30 April 2024. He became a member of the Heartland Audit & Risk Committee on 30 April 2024 and became its Chair on 27 June 2024 following the resignation of E F Comerford.
8 G E Summerhayes resigned from the Heartland Board on 30 April 2024 and was appointed as the Chair of the Heartland Bank Australia Board.
9 R Bell was appointed to the Heartland Board on 27 June 2024.
10 S Beckett was appointed to the Heartland Board on 27 June 2024.
11 S R Tyler was appointed as the Chair of the Heartland Bank Audit Committee on 30 April 2024, following E J Harvey's resignation as Chair.

All of the then serving members of the Board and Heartland Bank Board attended the Annual General Meeting (**Annual Meeting**) held on 9 November 2023.

A profile of each director's experience is available on Heartland's shareholder website, **heartlandgroup.info**.

Succession planning is key to Heartland's corporate governance approach. Heartland recognises the challenges of attracting and retaining talented directors in New Zealand and Australia and adopts a forward-thinking approach in this regard. This includes taking director tenure into account, in line with NZX Code recommendations. The Board is responsible for selecting new directors, their induction, and developing a succession plan for Board members. Annual performance assessments of the Boards, Committees and individual directors are conducted, with the engagement of external providers if necessary. This ensures a range of complementary skills, knowledge, and experience to effectively govern the Group's business, monitor performance and support strategic priorities.

The Board has assessed each Heartland director's independence status, as described in the Directors' disclosure section of this report. The Board confirms that none of the factors listed in Table 2.4 of the NZX Code apply to any of the Heartland directors assessed to be independent.

In assessing the independence of Heartland's directors, the Board considered, among other things, the following factors:

- employment in an executive role at Heartland or its subsidiaries
- income derived from Heartland in the last 12 months
- holding a senior role at a major professional services provider to Heartland or its subsidiaries
- employment by Heartland's external auditor in the last three years
- material business relationships with Heartland or its subsidiaries in the last three years
- being a substantial product holder or associated with one
- material contractual relationships with Heartland or its subsidiaries, excluding directorship, in the last three years.

The Board concluded that none of these factors applied to the directors noted as independent in a way that would interfere with their ability to exercise independent judgment, act in Heartland's best interests, or represent shareholders' interests. The Directors' disclosures section of this report also includes information on each director's Heartland share dealings and relevant interests and disclosure of interests. A description of each director's length of service is included on pages 22 to 27 of this Annual Report.

Diversity and inclusion – Recommendation 2.5

In order to articulate its commitment to diversity, Heartland has developed a Diversity & Inclusion Policy which requires the Heartland Board, with the help of the employee Diversity & Inclusion Committee, to set measurable objectives for achieving diversity and to track progress against them. Heartland's Diversity & Inclusion Policy was updated in FY2024 to include Kia Eke and Growing Families on the increasing list of employee network groups that support Heartland's diversity and inclusion strategy.

Kia Eke and Growing Families are employee network groups focused on achieving greater gender balance across Heartland, supporting families and providing events which allow employees to understand different perspectives and gain exposure to Heartland's senior leaders.

Heartland's Diversity & Inclusion Policy is available on Heartland's shareholder website, **heartlandgroup.info**. Heartland's diversity and inclusion objectives align to its social sustainability targets. Commentary on Heartland's other achievements and activity in FY2024, including gender and ethnicity pay gap information, is included on pages 38 to 42 of this Annual Report.

Board training – Recommendation 2.6

To ensure ongoing education, directors are regularly informed of developments that affect the industry and business environment, as well as company and legal updates that are relevant for the performance of their duties. Directors also have access to Management and external advisers to answer any questions they may have and often receive specific training on relevant topics. In FY2024, for example, members of the Heartland Board received specialist capital markets training from one of Heartland's external legal advisers. The Heartland Bank Australia Board also completed four days of induction training covering topics such as corporate structure, company and Group strategy, an introduction to Heartland's Management team, governance and Heartland's product set and customer base.

Board, director and committee performance assessments – Recommendation 2.7

The Boards of Heartland, Heartland Bank and Heartland Bank Australia undertake a formal review of their own, their committees' and individual directors' performance at least annually. Individual director performance reviews are facilitated by the Chairs of the respective Boards. The Boards are also able to engage external providers to support performance reviews, where considered appropriate.

This is to ensure that the Boards each have a range of complementary skills, knowledge and experience in order to effectively govern the relevant Group entity, to monitor its performance, and to support the implementation of its strategic priorities – in the interests of its shareholders and other stakeholders.

Each of the Group Boards recognise the need to have a range of complementary skills, knowledge and experience to support the Group's implementation of its strategic priorities, and for each Board to have a balance of skills and attributes in order to support diversity at a Board level. With this in mind, the composition of the Boards of Heartland, Heartland Bank and Heartland Bank Australia are regularly reviewed and their collective skills, knowledge and experience formally assessed. This exercise provides an opportunity to reflect on and discuss current Board composition, as well as succession planning.

This process informed a number of director changes that occurred in FY2024, and specifically the desire to strengthen the Heartland Board's Australian expertise. As a result, Heartland welcomed Robert (Rob) Bell and Simon Beckett to the Board on 27 June 2024, both with a deep understanding of the Australian banking market and regulatory environment. The composition of the Board of Heartland Bank Australia was also designed to have a strong level of independence and extensive financial, regulatory, risk and governance expertise. The current Boards comprise directors with a mix of qualifications, skills and attributes who hold diverse business, governance and industry experience.

Board independence – Recommendation 2.8

Recommendation 2.8 of the NZX Code states that a majority of the board should be independent. The NZX Main Board Listing Rules also require that the number of directors must be at least three, at least two directors must be ordinarily resident in New Zealand and at least two directors must be independent directors. Subject to these requirements, the Board determines the size and composition of the Board from time to time.

On 30 April 2024, upon completion of the Challenger Bank acquisition, G E Summerhayes resigned from the Heartland Board when he was appointed Chair of the Heartland Bank Australia Board. During the reporting period, E J Harvey was appointed as an independent, non-executive director on 30 April 2024, E F Comerford resigned with effect from 26 June 2024, and R A Bell and S Beckett were appointed as independent, non-executive directors on 27 June 2024.

As at 30 June 2024, the Board comprised six directors, being the non-independent, non-executive Chair, the CEO and four independent, non-executive directors. Four of Heartland's directors are ordinarily resident in New Zealand, and (as has been the case throughout the reporting period) a majority of the Heartland Board is independent. The Board encourages rigorous discussion and analysis when making decisions.

Independent Chair – Recommendation 2.9

G R Tomlinson is not considered to be an independent Chair of Heartland, as he is a substantial product holder of the issuer. Although G R Tomlinson is not independent, the Board is of the view that it is appropriate for G R Tomlinson to be Heartland's Chair, as he has been a longstanding non-executive director of Heartland since 2018,[12] held the role of Deputy Chair for a number of years, and has a deep understanding of Heartland, its business and its shareholders. In addition, he is not an executive of Heartland which ensures that there is continued, appropriate separation between the Chair and CEO of Heartland as discussed in the commentary on Recommendation 2.9 below.

As a result, Heartland was not compliant with Recommendation 2.9 of the NZX Code for the year ended 30 June 2024, which states that an issuer should have an independent chair of the board.

Separate Chair and CEO – Recommendation 2.10

To ensure that a conflict of interest does not arise, the Chair of Heartland and the CEO are separate persons, in accordance with Recommendation 2.10 of the NZX Code.

PRINCIPLE 3 – BOARD COMMITTEES

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

As at 30 June 2024, Heartland had three permanently constituted Board Committees: the Audit & Risk Committee, the Sustainability Committee, and the Corporate Governance, People, Remuneration and Nominations Committee.[13] During FY2024, each of these Committees worked with Management in its specific area of responsibility and reported its findings and recommendations to the Board. Management attended committee meetings as required at the invitation of the relevant Committee.

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

On 1 July 2024, the Heartland Corporate Governance, People, Remuneration and Nominations Committee was disestablished. See the commentary on Recommendations 3.3 and 3.4 below for further information.

Audit & Risk Committee – Recommendations 3.1 and 3.2

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

E F Comerford chaired the Audit & Risk Committee for the majority of the reporting period up until her resignation from the Board on 26 June 2024, when E J Harvey assumed the role of Chair, having been appointed to the Committee on 30 April 2024 at the same time as his appointment to the Heartland Board.

As at 30 June 2024, the members of the Audit & Risk Committee were E J Harvey (Chair), K Mitchell and G R Tomlinson. The role of the Audit & Risk Committee is to advise and provide assurance to the Board in order to enable the Board to discharge its responsibilities in relation to the oversight of:

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

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

The Audit & Risk Committee works as needed with the Audit Committee and the Risk Committee of each of Heartland Bank and Heartland Bank Australia, which have similar responsibilities in relation to Heartland Bank and Heartland Bank Australia, respectively. Their meetings are held separately with only the respective Chairs attending the other meetings.[14]

The biographies of the Committee members are available on Heartland's shareholder website, heartlandgroup.info. As at 30 June 2024, the Board determined that all Committee members had a recognised form of financial expertise in accordance with the Audit & Risk Committee's charter.

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

During FY2024, a Corporate Governance, People, Remuneration and Nominations Committee assisted the Board with:

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

The Committee operated under a written charter and Management only attended committee meetings at the invitation of the Committee. Recommendations 3.3 and 3.4 of the NZX Code recommend that at least a majority of the Committee members should be independent directors.

As at 30 June 2024, the members of the Corporate Governance, People, Remuneration and Nominations Committee were G R Tomlinson (Chair), a non-independent, non-executive director of Heartland,[15] B R Irvine, the independent Chair of Heartland Bank and an independent, non-executive director of Heartland Bank Australia and K Mitchell, an independent non-executive director of Heartland and a non-independent, non-executive director of Heartland Bank. K Mitchell was appointed to the Committee on 30 April 2024. Accordingly, Heartland did not strictly comply with Recommendations 3.3 and 3.4 of the NZX Code for the entire reporting period as the majority of the Committee members were not independent directors until 30 April 2024. However, the Board was comfortable with the composition of the Committee for the same reasons as outlined in the FY2023 Annual Report.

On 1 July 2024, the Heartland Corporate Governance, People, Remuneration and Nominations Committee was disestablished, and the full Heartland Board assumed certain corporate governance, people, remuneration and nomination functions which had previously been carried out by the Committee (and are now being carried out by the new Heartland Bank and Heartland Bank Australia Committees described below). The Heartland Bank Board established a People & Culture and Remuneration Committee on 30 April 2024 and the Heartland Bank Australia Board established a People, Remuneration and Nominations Committee on 1 July 2024.

In disestablishing the Heartland Corporate Governance, People, Remuneration and Nominations Committee, the Heartland Board considered the following:

- the new Group structure following Heartland Bank's acquisition of Challenger Bank (now Heartland Bank Australia) (as most staff are now employed by Heartland Bank or Heartland Bank Australia)
- the establishment of the Heartland Bank and Heartland Bank Australia Committees described above, which each have broad remits in relation to people, remuneration and nomination matters relating to Heartland Bank and Heartland Bank Australia (as applicable)
- the full Heartland Board taking on the

12 G R Tomlinson has been a non-executive director of Heartland since 2018. He was also a director of Heartland Bank Limited, Heartland's predecessor entity, before the corporate restructure of the Heartland group on 31 October 2018. On that date he ceased to be a director of Heartland Bank Limited and began his appointment on the Heartland Board.

13 The Corporate Governance, People, Remuneration and Nominations Committee was disestablished with effect from 1 July 2024. Please refer to the commentary in respect of Recommendations 3.3 and 3.4 for further information.

14 The Heartland Audit & Risk Committee, Heartland Bank Audit Committee and Heartland Bank Risk Committee commenced holding separate meetings from November 2023.

15 G R Tomlinson is not considered to be an independent Chair of Heartland for the reasons set out on page 54 of the Annual Report.

remaining functions of the Heartland Corporate Governance, People, Remuneration and Nominations Committee, including oversight of remuneration for the Heartland Board and those staff not employed by Heartland Bank or Heartland Bank Australia, and the nomination of directors to the Heartland Board.

Other Committees – Recommendations 3.5

In addition to the Audit & Risk Committee, the Heartland Board established a Sustainability Committee on 9 November 2023 to oversee Heartland's Sustainability strategy and implementation plans.

The Sustainability Committee operates under a written charter which is available on Heartland's shareholder website, **heartlandgroup.info**. The purpose of the Committee is to advise and provide assurance to the Board in order to enable the Board to discharge its responsibilities in relation to:

- setting and reviewing progress against Heartland's sustainability strategy (covering environmental, social and economic wellbeing factors)
- Heartland's annual sustainability disclosures
- the oversight of Heartland's implementation of the climate-related risks (and opportunities) disclosure regime
- advocacy for sustainability issues, including consideration of whether the appropriate skills and competencies exist across Heartland.

Under the charter, the Committee must be made up of at least one non-executive director of Heartland. The majority of the Committee must be independent directors. The Committee may include non-executive directors of Heartland's subsidiaries. As at 30 June 2024, the members of the Committee are K Mitchell, S Tyler and G E Summerhayes. The proceedings of the Committee are regularly reported back to the Board.

As at 30 June 2024, Heartland Bank and Heartland Bank Australia also have separately constituted Audit Committees, Risk Committees, and a People & Culture and Remuneration Committee in the case of Heartland Bank and a People, Remuneration and Nomination Committee in the case of Heartland Bank Australia. The Committees each operate under charters and are tasked with working with Management and reporting their findings and recommendations to the relevant Board.

The Board is comfortable that no other standing committees are necessary at this stage, however other ad hoc committees are established for specific purposes from time to time.

Takeovers Response Manual – Recommendation 3.6

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

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

PRINCIPLE 4 – REPORTING AND DISCLOSURES

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

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

Continuous Disclosure Policy – Recommendation 4.1

Heartland's Disclosure Policy sets out procedures that are in place to make sure all material information is identified and disclosed in a timely manner, and to prevent the selective disclosure of material non-public information. Under the Policy, potentially 'material information' is required to be brought to the attention of the Heartland General Counsel who is responsible for making a recommendation to the 'Decision Makers' being:

- the CEO of Heartland, and/or
- the CEO of Heartland Bank and at least one independent director of Heartland and/or Heartland Bank, and/or
- the full Board of Heartland and/or Heartland Bank (as applicable).

The Decision Makers are ultimately responsible for determining whether information is material, and approving the form and content of material information that is disclosed. Heartland also monitors information in the market about itself and will release information to the extent necessary to prevent the development of a false market for the Group's quoted financial products.

Availability of key documents – Recommendation 4.2

Heartland's Codes of Conduct, Board and Committee Charters and the policies recommended in the NZX Code, including the Disclosure Policy, the Insider Trading Policy, the Diversity and Inclusion Policy and the Remuneration Policy, are available on Heartland's shareholder website, **heartlandgroup.info**. Heartland also maintains copies of its stock exchange announcements, and half-year and full-year reports, investor presentations and details of Annual Meetings, on its shareholder website.

Financial reporting disclosure – Recommendation 4.3

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

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

Heartland's CEO and Chief Financial Officer were also required to certify to the Audit & Risk Committee that the financial statements of the Group presented a true and fair view of Heartland and complied with all relevant accounting standards.

Non-financial reporting disclosure – Recommendation 4.4

Heartland's non-financial reporting includes comprehensive commentary on environmental, social sustainability and governance matters, including Heartland's non-financial targets, and those disclosures are made at least annually.

This is the sixth year that Heartland has reported against a Sustainability Framework in order to provide more detailed information on the value created for Heartland's stakeholders. Refer to '*Sustainability*' on page 32 of this Annual Report for detailed information on Heartland's environmental, social and economic impact across New Zealand and Australia.

This is also the first year that Heartland has published its climate-related disclosures (refer to Heartland's Climate Report available at **heartlandgroup.info/sustainability**), in accordance with the requirements of the Aotearoa New Zealand Climate Standards.

The Board continually evaluates what non-financial matters are a focus of the Group and the roles of executives are refined to ensure that such matters have appropriate oversight. This process ensures that Heartland's non-financial reporting is accurate and discloses a valuable amount of information to shareholders. In recognition of the need to dedicate specific expertise to Heartland's sustainability initiatives, Heartland's Sustainability Committee (being a Board

Committee) was established with effect from 9 November 2023.

PRINCIPLE 5 – REMUNERATION

Heartland's remuneration report can be found on page 66 of this Annual Report.

PRINCIPLE 6 – RISK MANAGEMENT

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

Risk management – Recommendation 6.1

The Board ensures that Heartland has a Risk Management Framework in place which identifies, manages and communicates the key risks that may impact Heartland's business. Specific risk management strategies have been developed for each of the key risks identified. The Board Audit & Risk Committee oversees the Risk Management Framework and strategy. The Board and the Board Audit & Risk Committee receive and review regular reports on risk management. Specific risks identified by the Board are set out in the notes to Heartland's financial statements for the year ended 30 June 2024 included in this Annual Report.

Current key risks for Heartland include strategic execution risk following the acquisition of Challenger Bank (now Heartland Bank Australia), credit risk across both New Zealand and Australia, reflecting the current challenging economic conditions, and operational risk (including cyber risk) given the Group's reliance on digital platforms and the evolving threat environment. Risks are monitored and managed by the Management teams and Boards of the respective Group entities.

Heartland and Heartland Bank have developed an Oversight Framework, which was adopted by their respective Boards from completion of the Challenger Bank acquisition on 30 April 2024, and sets out the overarching framework for, and approach to, oversight activities in the Group. This includes (amongst other things) governance expectations in respect of risk, reflecting that each Group entity has its own risk appetite and measures, but parent entities will set consolidated group risk appetite and measures (as applicable), which necessitates overall alignment of subsidiaries' risk appetites, measures and common risk classification where possible.

Heartland also has in place insurance cover for insurable liability and general business risk.

Health and safety – Recommendation 6.2

Heartland promotes a working environment where it engages with all its people, so that together they can maintain a workplace that is mentally and physically safe and healthy, and to promote a positive health and safety culture. Heartland engages with its people to identify, assess, control and review risk, with a focus on continuous improvement of health and safety.

All Group employees are required to read and attest to the relevant policy, noting separate policies are now maintained for New Zealand (Wellbeing, Health and Safety Policy) and Australia (Workplace Health and Safety Policy) effective 1 May 2024. Maintaining separate policies allows for the legislative variances between jurisdictions and Australia having both State and Federal workplace health and safety requirements. Induction includes instruction on the relevant policy and procedures, and employees are required to attest to their reading and understanding of the relevant policy on an annual basis – this has been completed for the year ended 30 June 2024. The Wellbeing, Health & Safety Committee, representing all employees, convenes quarterly to discuss and review reported incidents, accidents and near misses, initiatives and tabled reports. Incidents, accidents and near misses are registered in our Risk Management System (**RMS**). A Health & Safety Report that includes RMS data, number of employee insurance claims, number of employees accessing counselling, and summaries of initiatives is provided to the Executive Risk Committee and to all Boards.

In FY2024, there were no notifiable events to report to WorkSafe New Zealand, and there have been no claims to the Australian Workers Compensation Insurance.

PRINCIPLE 7 – AUDITORS

External auditor relationship framework and independence – Recommendation 7.1

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

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

Heartland's External Auditor Independence Policy was updated in November 2023 to ensure it remains current. The Policy provides guidelines to ensure that non-audit related services do not conflict with the independent role of the external auditor, and the Audit & Risk Committee ensures that non-audit work undertaken by the auditors is in accordance with that Policy. The Policy also sets out guidelines in relation to the tenure and re-appointment of the external auditor, which the Audit & Risk Committee ensures are complied with. Refer to Heartland's shareholder website, heartlandgroup.info, for a copy of the External Auditor Independence Policy.

The external auditor monitors its independence and reports to the Audit & Risk Committee bi-annually to confirm that it has remained independent in the previous six months, in accordance with Heartland's External Auditor Independence Policy and the external auditor's policies and professional requirements. There have been no threats to auditor independence identified during FY2024.

During FY2024, PwC continued its appointment as Heartland and Heartland Bank's external auditor, with EY providing external audit services to Heartland Bank Australia.

Auditor AGM attendance – Recommendation 7.2

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

Internal Audit – Recommendation 7.3

Heartland also has internal audit functions which are independent of the external auditors. The internal audit teams are responsible for independent reviews of the risk control framework and compliance with policies. The Audit & Risk Committee and the Audit Committees of Heartland Bank and Heartland Bank Australia approve the annual internal audit programmes (as applicable), which are developed in consultation with Management.

The internal audit function for New Zealand is maintained within Heartland Bank and made available to Heartland as a Group services function. Heartland Bank Australia has its own internal audit function. The internal audit functions and other assurance roles have unfettered access to the Group Boards as required.

PRINCIPLE 8 – SHAREHOLDER RIGHTS AND RELATIONS

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

Shareholder information and communication – Recommendations 8.1 and 8.2

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

- periodic and continuous disclosure to NZX and ASX

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

To ensure a high level of accountability, the Board encourages full participation of shareholders at the Annual Meeting and designs the meeting to best achieve this outcome. This includes holding a hybrid meeting where shareholders can attend a physical event or join virtually online. Attendees are also able to submit questions in advance of the Annual Meeting and those attending in person can raise them directly. When Heartland publishes its Notice of Annual Meeting, it also publishes an Online Guide which explains how to join and navigate the virtual elements of the meeting. At the conclusion of the live event, a recording of the Annual Meeting is published on Heartland's website.

Heartland's shareholder website includes a '*Contact Us*' page that provides contact details for Heartland's share registrar and shareholder enquiries and Heartland provides the option to receive communications from Heartland electronically.

Major decisions – Recommendation 8.3

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

Raising additional equity – Recommendation 8.4

On 8 April 2024, Heartland announced a $210 million equity raise, comprising a $105 million underwritten institutional placement (**Placement**) and a $105 million underwritten 1 for 6.85 accelerated non-renounceable entitlement offer (**ANREO** or **Entitlement Offer**).

The Placement and institutional component of the Entitlement Offer closed on 9 April 2024 and raised gross proceeds of approximately $131 million with strong support from Heartland's existing institutional shareholders and new institutional investors. The retail component of the Entitlement Offer completed on 24 April 2024 and raised gross proceeds of approximately $79 million with 81% take up.

Under Recommendation 8.4, it is recommended that issuers seeking additional equity capital should first offer further equity securities to existing holders of the same class on a pro rata basis and on no less favourable terms before extending the offer to other investors.

While the Entitlement Offer was a pro rata structure, Heartland only partially complied with Recommendation 8.4, as the Placement was a non-pro rata structure.

As outlined in the Offer Document at the time of the capital raise, the Board determined that a Placement and ANREO structure was in the best interests of Heartland, after carefully considering alternative capital raising structures, and weighing the benefits of this capital raising structure against the expected impact on non-participating shareholders.

The benefits that Heartland obtained through a structure combining a Placement and ANREO that were assessed as desirable were:

- **Certainty** – Heartland required certainty that sufficient funds would be raised under the capital raise to complete the acquisition of Challenger Bank (since rebranded to Heartland Bank Australia) and to support the expected regulatory capital requirements of Heartland Bank Australia and Heartland Bank. The ANREO structure provided for better sub-underwriting support than a pro rata offer and enabled the capital raise to be fully underwritten with the exception of the pre-commitments by Harrogate Trustee Limited.
- **Pricing** – using a Placement and ANREO structure allowed Heartland to price the capital raise at a smaller discount than would be the case for a renounceable pro rata capital raising structure. This minimised the dilutionary impact on non-participating shareholders and provided more certainty to those existing shareholders who subscribed for additional shares at a fixed price.
- **Timing** – the accelerated nature of the Placement and ANREO structure enabled completion of the capital raise on a faster timetable than certain alternative structures. This enabled Heartland to receive the proceeds of the capital raise more quickly, which in turn allowed for the acquisition of Challenger Bank to complete sooner.

Heartland elected to undertake the Placement partly for timing reasons, as it is the preferred method in circumstances where capital is required quickly, and to further its objective of diversify its share register to promote increased liquidity on both the NZX and ASX.

In conducting the Placement, Heartland endeavoured to treat existing shareholders fairly through how it conducted the Placement. The allocation policy was set such that Heartland, to the extent possible, provided pro rata allocations to existing shareholders that bid into the Placement. Additionally, under the ANREO, eligible retail shareholders were able to "over subscribe" and offset any dilution resulting from the Placement. All eligible retail shareholders who took up their entitlements in full and applied for additional shares in excess of their entitlements received all of the additional shares for which they applied.

At the time of the capital raise, Heartland obtained independent expert investment banking advice from Jarden. That advice presented a consistent view with the explanation provided above, supporting the rationale for selecting the Placement and ANREO structure and affirming that it was in the best interests of Heartland.

Publication of notice of meeting – Recommendation 8.5

Heartland's 2023 notice of meeting was available at least 20 working days prior to its Annual Meeting at heartlandgroup.info.

NGĀ WHĀKITANGA A TE TOIHAU
DIRECTORS' DISCLOSURES

DIRECTORS

The following persons were directors of the Group during FY2024.

Company	Directors	Status
Heartland Group Holdings Limited	Gregory Raymond Tomlinson	Non-Independent, Non-Executive Director (Chair)
	Ellen Frances Comerford	Independent, Non-Executive Director (ceased directorship 26 June 2024)
	Jeffrey Kenneth Greenslade	Non-independent, Executive Director[1]
	Kathryn Mitchell	Independent, Non-Executive Director
	Geoffrey Edward Summerhayes	Independent, Non-Executive Director (ceased directorship 30 April 2024)[2]
	Edward John Harvey	Independent, Non-Executive Director (appointed 30 April 2024)
	Robert Alan Bell	Independent, Non-Executive Director (appointed 27 June 2024)
	Simon Beckett	Independent, Non-Executive Director (appointed 27 June 2024)

1 J K Greenslade retired from all Group directorships on 30 September 2024.
2 G E Summerhayes resigned from the Heartland Board on 30 April 2024 and was appointed as the Chair of the Heartland Bank Australia Board.

Company	Directors	Status
Heartland Bank Limited	Bruce Robertson Irvine	Independent, Non-Executive Director (Chair)
	Jeffrey Kenneth Greenslade	Non-Independent, Non-Executive Director[1]
	Edward John Harvey	Non-Independent, Non-Executive Director[3]
	Shelley Maree Ruha	Independent, Non-Executive Director
	Kathryn Mitchell	Non-Independent, Non-Executive Director
	Simon Ross Tyler	Independent, Non-Executive Director
Heartland Bank Australia Limited	Geoffrey Edward Summerhayes	Independent, Non-Executive Director (Chair) (appointed 30 April 2024)
	Jeffrey Kenneth Greenslade	Non-Independent, Non-Executive Director (appointed 30 April 2024)[1]
	Bruce Robertson Irvine	Independent, Non-Executive Director (appointed 30 April 2024)
	Shane Michael Buggle	Independent, Non-Executive Director (appointed 30 April 2024)
	Leanne Gloria Lazarus	Non-Independent, Non-Executive Director (appointed 30 April 2024)
	Lyn Therese McGrath[4]	Independent, Non-Executive Director
	Vivienne Zhaohui Yu	Independent, Non-Executive Director (appointed 30 April 2024)
ASF Custodians Pty Limited	Richard Glenn Udovenya	
	Jeffrey Kenneth Greenslade	
Australian Seniors Finance Pty Limited	Jeffrey Kenneth Greenslade	
	Geoffrey Edward Summerhayes	
	Christopher Patrick Francis Flood	
Heartland Australia Holdings Pty Ltd	Jeffrey Kenneth Greenslade	
	Geoffrey Edward Summerhayes	
	Christopher Patrick Francis Flood	
Heartland Australia Group Pty Ltd	Jeffrey Kenneth Greenslade	
	Geoffrey Edward Summerhayes	
	Christopher Patrick Francis Flood	
Heartland Australia Investments Holdings Pty Limited[5]	Christopher Patrick Francis Flood	Appointed 1 May 2024
Heartland NZ Trustee Limited	Christopher Patrick Francis Flood	
Heartland PIE Fund Limited	Bruce Robertson Irvine	
	Leanne Lazarus	
MARAC Insurance Limited	Andrew James Aitken	
	Christopher Patrick Francis Flood	
	Christopher Robert Mace	
VPS Properties Limited	Christopher Patrick Francis Flood	
Fuelled Limited	Christopher Patrick Francis Flood	
StockCo Holdings 2 Pty Limited	Jeffrey Kenneth Greenslade	
	Douglas Robert Snell	Ceased directorship 24 June 2024
	Andrew Peter Dixson	
	Geoffrey Edward Summerhayes	
	Christopher Patrick Francis Flood	Appointed 12 April 2024

3 E J Harvey's independence on the Heartland Bank Board changed following his appointment to the Heartland Board on 30 April 2024, from which date he became a non-independent, non-executive director on the Heartland Bank Board.
4 L T McGrath was an independent, non-executive director on the Challenger Bank Limited Board prior to the completion of its acquisition by Heartland Bank on 30 April 2024.
5 Heartland Australia Investments Holdings Pty Limited was incorporated on 1 May 2024.

Company	Directors	Status
StockCo Holdings Pty Limited	Jeffrey Kenneth Greenslade	
	Douglas Robert Snell	Ceased directorship 24 June 2024
	Andrew Peter Dixson	
	Christopher Patrick Francis Flood	Appointed 12 April 2024
StockCo AgriCapital Pty Ltd	Jeffrey Kenneth Greenslade	
	Douglas Robert Snell	Ceased directorship 24 June 2024
	Andrew Peter Dixson	
	Christopher Patrick Francis Flood	Appointed 12 April 2024
StockCo Feedlot Holdings Pty Limited	Jeffrey Kenneth Greenslade	
	Douglas Robert Snell	Ceased directorship 24 June 2024
	Christopher Patrick Francis Flood	Appointed 12 April 2024
StockCo Feedlot Capital Pty Limited	Jeffrey Kenneth Greenslade	
	Douglas Robert Snell	Ceased directorship 24 June 2024
	Christopher Patrick Francis Flood	Appointed 12 April 2024
StockCo Australia Management Pty Ltd	Jeffrey Kenneth Greenslade	
	Douglas Robert Snell	Ceased directorship 24 June 2024
	Andrew Peter Dixson	
	Christopher Patrick Francis Flood	Appointed 12 April 2024

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

INTERESTS REGISTER

The following are the entries in the Interests Register of the Group made during FY2024.

Indemnification and insurance of directors

Heartland has given indemnities to, and has effected insurance for, directors of the Group to indemnify and insure them in respect of any liability for, or costs incurred in relation to, any act or omission in their capacity as directors, to the extent permitted by the Companies Act 1993. The cost of the directors and officers' liability insurance premiums to the Group for FY2024 was $491,426 (excluding GST and admin charges).

Share dealings by directors

Details of individual directors' share dealings as entered in the Interests Register of Heartland and Heartland Bank under Section 148(2) of the Companies Act 1993 during FY2024 are as follows (all dealings are in ordinary shares unless otherwise specified):

J K Greenslade

Date of acquisition/ disposal	Nature of transaction and relevant interest	Acquisition / disposal	No. of shares	Consideration
26 April 2024	Acquisition of beneficial interest in shares under retail component of Heartland's $105 million accelerated non renounceable entitlement offer	Acquisition	350,440	$350,440
22 April 2024	Off market disposal of shares	Disposal	100,000	Nil

E J Harvey

Date of acquisition/ disposal	Nature of transaction and relevant interest	Acquisition / disposal	No. of shares	Consideration
26 April 2024	Acquisition of beneficial interest in shares under retail component of Heartland's $105 million accelerated non renounceable entitlement offer	Acquisition	25,289	$25,289
20 March 2024	Allotment under DRP	Acquisition	4,927	$6,264.54
20 September 2023	Allotment under DRP	Acquisition	5,393	$9,095.46

B R Irvine

Date of acquisition/ disposal	Nature of transaction and relevant interest	Acquisition / disposal	No. of shares	Consideration
26 April 2024	Acquisition of legal and beneficial interest in shares under retail component of Heartland's $105 million accelerated non renounceable entitlement offer	Acquisition	48,634	$48,634
26 April 2024	Acquisition of beneficial interest in shares under retail component of Heartland's $105 million accelerated non renounceable entitlement offer	Acquisition	155,570	$155,570

K Mitchell

Date of acquisition/ disposal	Nature of transaction and relevant interest	Acquisition / disposal	No. of shares	Consideration
26 April 2024	Acquisition of legal and beneficial interest in shares under retail component of Heartland's $105 million accelerated non renounceable entitlement offer	Acquisition	16,058	$16,058
26 April 2024	Acquisition of beneficial interest in shares under retail component of Heartland's $105 million accelerated non renounceable entitlement offer	Acquisition	15,500.29	$15,500.29

S M Ruha

Date of acquisition/ disposal	Nature of transaction and relevant interest	Acquisition / disposal	No. of shares	Consideration
26 April 2024	Acquisition of beneficial interest in shares under retail component of Heartland's $105 million accelerated non renounceable entitlement offer	Acquisition	41,464	$41,464

G E Summerhayes

Date of acquisition/ disposal	Nature of transaction and relevant interest	Acquisition / disposal	No. of shares	Consideration
1 May 2024	Acquisition of legal and beneficial interest in shares	Acquisition	30,000	$32,032
26 April 2024	Acquisition of legal and beneficial interest in shares under retail component of Heartland's $105 million accelerated non renounceable entitlement offer	Acquisition	5,838	$5,838

G R Tomlinson

Date of acquisition/ disposal	Nature of transaction and relevant interest	Acquisition / disposal	No. of shares	Consideration
15 April 2024	Acquisition of beneficial interest in shares under institutional component of Heartland's $105 million accelerated non renounceable entitlement offer	Acquisition	10,122,034	$10,122,034
15 April 2024	Acquisition of beneficial interest in shares under Heartland's $105 million placement	Acquisition	3,877,966	$3,877,966

GENERAL NOTICE OF DISCLOSURE OF INTERESTS IN THE INTERESTS REGISTER

Details of any changes to Heartland and Heartland Bank directors' general disclosures entered in the relevant interests register under Section 140 of the Companies Act 1993 FY2024 are as follows:

Heartland

G R Tomlinson	Director of Indevin Group Investments Limited and Indevin Group Holdings Limited disclosed 23 November 2023; ceased directorship of Villa Maria Estate Limited disclosed 19 October 2023.
J K Greenslade	No amendments for the year ended FY2024.
K Mitchell	Trustee of Montefiano Trust and director of PurePods Limited disclosed 30 January 2024; ceased directorship of Farmright Limited disclosed 7 November 2023; ceased directorship of Firsttrax Limited and Helping Hands Holdings Limited disclosed 30 January 2024.
E J Harvey	Director of Napier Port Holdings Limited, Pomare Investments Limited and Port of Napier Limited disclosed 30 April 2024.
S Beckett	Director of ORDE Holdings Pty Ltd, ORDE Financial Pty Ltd, ORDE Capital Management Limited, ORDE Mortgage Custodian Pty Ltd, GeoSnapShot Pty Ltd, First Avenue Ventures Pty Ltd and First Avenue Capital Pty Ltd disclosed 27 June 2024.
R A Bell	Director of Liveheats Pty. Ltd, 86 Elwood Pty Ltd, Home Finance Company PTE Limited and HFC Bank disclosed 27 June 2024.
G E Summerhayes[6]	No amendments for FY2024.
E F Comerford[7]	Director of NTI Limited disclosed 28 February 2024.

Heartland Bank

B R Irvine	No amendments for FY2024.
J K Greenslade	No amendments for FY2024.
E J Harvey	No amendments for FY2024.
K Mitchell	Trustee of Montefiano Trust and director of PurePods Limited disclosed 30 January 2024; ceased directorship of Farmright Limited disclosed 7 November 2023; ceased directorship of Firsttrax Limited and Helping Hands Holdings Limited disclosed 30 January 2024.
S M Ruha	Director of Allied Famers Rural Limited disclosed 9 August 2024; ceased directorship of SmartPay Limited disclosed 27 August 2024.
S Tyler	Director of NZ Bio Forestry Limited, Palliser Estate Wines of Marlborough Limited, IHC, Omega Imports Limited, Nutrition for Health Limited and Global Horticulture Limited disclosed on 30 January 2024; trustee of University of Otago Foundation Trust and Fale Malae Trust disclosed on 30 January 2024.

6 No amendments were noted before G E Summerhayes ceased being a director on 30 April 2024.
7 One amendment was noted before E F Comerford ceased being a director on 26 June 2024.

Details of Heartland and Heartland Bank directors' general disclosures entered in the relevant interest register under Section 140 of the Companies Act 1993 prior to 1 July 2023 can be found in earlier Annual Reports.

SPECIFIC DISCLOSURES OF INTEREST IN THE INTERESTS REGISTER

There were no specific disclosures of interests in transactions entered into by the Group (including Heartland Bank) during FY2024.

INFORMATION USED BY DIRECTORS

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

HEARTLAND, HEARTLAND BANK AND HEARTLAND BANK AUSTRALIA'S DIRECTORS' RELEVANT INTERESTS

As at 30 June 2024.

Director	Number of ordinary shares – beneficial	Number of ordinary shares – non-beneficial[8]	Number of options
J K Greenslade	2,650,954	Nil	Nil
E J Harvey	198,519	6,504,266	Nil
B R Irvine	903,606	6,504,266	Nil
K Mitchell	139,646	Nil	Nil
S M Ruha	200,000	Nil	Nil
G R Tomlinson	83,335,936	Nil	Nil
G E Summerhayes	55,838	Nil	Nil

TE PŪRONGO MŌ NGĀ MONIWHIWHI
REMUNERATION REPORT

This remuneration report describes Heartland's remuneration arrangements for FY2024 and has been prepared on the basis of NZX's Remuneration Reporting Template published December 2023.

REMUNERATION GOVERNANCE

Remuneration Governance Framework

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

Heartland has a Remuneration Policy which explains its remuneration strategy and approach to setting remuneration for directors of Heartland. The key principles are that Heartland's Remuneration Policy:

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

The full Remuneration Policy is available on Heartland's shareholder website at heartlandgroup.info.

Heartland's Board is kept up to date with relevant market information and best practice, obtaining advice from external advisers when necessary.

Heartland's Remuneration Committees

During FY2024, a Corporate Governance, People, Remuneration and Nominations Committee assisted the Board with:

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

The Committee operated under a written charter and Management only attended committee meetings at the invitation of the Committee. On 1 July 2024, the Heartland Corporate Governance, People, Remuneration and Nominations Committee was disestablished, and the full Heartland Board assumed certain corporate governance, people, remuneration and nomination functions which had previously been carried out by the Committee (and are now being carried out by the new Heartland Bank and Heartland Bank Australia Committees described below). The Heartland Bank Board established a People & Culture and Remuneration Committee on 30 April 2024 and the Heartland Bank Australia Board established a People, Remuneration and Nominations Committee on 1 July 2024. These committees assist their respective boards with a range of matters, including:

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

EXECUTIVE REMUNERATION POLICY

Heartland's Remuneration Policy, as described above, also applies to Heartland's executives, along with other employees.

The performance of executives is assessed with reference to Group risk management policies and frameworks. Executive remuneration levels are also reviewed annually for market competitiveness and alignment with strategic and performance priorities. The objective is to provide competitive remuneration that aligns executives' remuneration with shareholder value and rewards the executives' achievement of the Group's strategies and business plans.

All senior executives receive a base salary and are also eligible to participate, in some cases, in short-term and long-term incentive plans under which participants are rewarded for their achievement of key performance and operating results on a qualitative and a quantitative basis.

Short term incentives (**STI**s) are effectively bonus payments that are at the discretion of the relevant Board. STIs may be paid at the end of a financial year to recognise individuals who have exceeded performance and behavioural or leadership expectations during that financial year.

Certain executives and senior employees may be eligible for long-term incentives (**LTI**s) to align their interests with shareholders' long-term goals. Heartland operates a LTI plan under which selected executives of

8 The non-beneficial interest in the 6,504,266 shares arises from those directors being a trustee of the Heartland Trust, which held 6,504,266 shares in Heartland as at 30 June 2024.

the Group are issued performance share rights. The performance share rights convert to ordinary shares in Heartland for nil consideration, subject to certain vesting conditions being met in relation to financial performance, strategic initiatives and adherence to compliance and conduct expectations (amongst other things). The LTI plan entitlements eligible for vesting in FY2024 have not vested due to the vesting conditions not being met and the LTI plan entitlements eligible for vesting in FY2025 to the CEO and Deputy Group CEO have been forfeited.

There is one grant remaining under the current LTI plan that will be eligible for vesting in FY2025 (**FY2025 Grant**). The current expectation is that the FY2025 Grant will not vest and accordingly further details in respect of the current LTI plan have not been included in this report. Heartland is currently designing a new LTI plan which certain senior employees will be invited to participate in during FY2025.

CEO REMUNERATION ARRANGEMENTS & OUTCOMES

The remuneration for Heartland's CEO includes a fixed remuneration component and a variable remuneration component comprising STIs and LTIs.

CEO REMUNERATION ARRANGEMENTS

Fixed remuneration

Fixed remuneration consists of a package of base salary and standard employment-associated benefits. Heartland utilises external benchmarking in determining the CEO's remuneration.

Variable remuneration

STI scheme

The CEO is entitled to receive STIs which are cash payments, determined by the Board, and paid at the end of a financial year for achieving performance expectations in the relevant financial year in relation to certain qualitative and quantitative criteria relating to financial performance, strategic initiatives and adherence to compliance and conduct expectations. Ultimately, STI payments are entirely discretionary, and entitlement is not guaranteed even if performance expectations have been met or exceeded.

LTI scheme

As noted above, Heartland operates a LTI plan under which the CEO was issued performance share rights, which were eligible to be converted to ordinary shares in Heartland for nil consideration, subject to certain vesting conditions being met in relation to financial performance, strategic initiatives and adherence to compliance and conduct expectations (amongst other things). The CEO did not receive a grant of performance share rights in FY2024, the LTI plan entitlements eligible for vesting in FY2024 to the CEO have not vested due to the vesting conditions not being met and the LTI plan entitlements eligible for vesting in FY2025 to the CEO have been forfeited.

CEO REMUNERATION OUTCOMES

Fixed remuneration

The fixed remuneration paid to the CEO (including any employment-associated benefits) in FY2024 was $1,100,000.

Variable remuneration

The Board determined that no STI award in respect of FY2024 had been earned, that the performance share rights issued to the CEO and eligible for vesting in FY2024 have not vested due to the vesting conditions not being met and that performance share rights issued to the CEO and eligible for vesting in FY2025 have been forfeited. As such, no variable component of the CEO's remuneration was earned during FY2024.

As disclosed in the FY2023 Annual Report, the CEO earned an STI award of $990,000 in FY2023 which was paid during FY2024.

Following the non-vesting and forfeit of the performance share rights eligible for vesting in FY2024 and FY2025, the CEO does not hold any performance share rights and has no remaining entitlement under the LTI plan. Given his resignation on 30 September 2024, no further LTI grants will be made to the CEO.

CEO REMUNERATION (FY2024 AND FY2023)

Year	Fixed remuneration		STI			LTI		Total
	Base salary	Other benefits	Earned	Amount earned as a % of maximum Award	Total cash-based remuneration earned	Earned	% of maximum awarded for the relevant performance period	(Fixed rem + STI earned + LTI vested)
FY2024	$1,089,200	$10,800	-	0%	$1,100,000	-	N/A	$1,100,000
FY2023	$1,089,200	$10,800	$990,000	90%	$2,090,000	-	N/A	$2,090,000

CEO remuneration as a multiple of employee remuneration

The CEO's salary as a multiple of the employee average is 9.5 times (FY2023: 10.41 times), and his total remuneration as a multiple of the employee average is 9.5 times (FY2023: 19.22 times).

REMUNERATION BANDS

The number of Heartland employees (including former employees and excluding directors, which includes the Heartland CEO) who received remuneration (including non-cash benefits) in excess of $100,000 during FY2024 is detailed in the remuneration bands below.

Remuneration	Number of employees
$100,000 - $109,999	21
$110,000 - $119,999	28
$120,000 - $129,999	19
$130,000 - $139,999	26
$140,000 - $149,999	30
$150,000 - $159,999	18
$160,000 - $169,999	8
$170,000 - $179,999	7
$180,000 - $189,999	14
$190,000 - $199,999	2
$200,000 - $209,999	4
$220,000 - $229,999	3
$230,000 - $239,999	5
$240,000 - $249,999	2
$250,000 - $259,999	4
$260,000 - $269,999	3
$270,000 - $279,999	1
$280,000 - $289,999	3
$300,000 - $309,999	1
$310,000 - $319,999	4
$320,000 - $329,999	1
$340,000 - $349,999	2
$350,000 - $359,999	2
$400,000 - $409,999	1
$440,000 - $449,999	1
$460,000 - $469,999	1
$470,000 - $479,999	1
$520,000 - $529,999	1
$550,000 - $559,999	1
$680,000 - $689,999	1
Grand total	**215**

DIRECTOR REMUNERATION

Director Remuneration Policy

Total remuneration available to the Group's non-executive directors is determined by Heartland's shareholders. At the 2023 Annual Meeting, shareholders approved a resolution to increase the pool available to all non-executive directors to $2,400,000 or A$2,200,000 (whichever is the greater amount from time to time). No director remuneration increases are being sought at the 2024 Annual Meeting.

Heartland's policy is to pay directors' fees in cash, rather than in shares or share options.

There is no requirement for directors to take a portion of their remuneration in shares and nor is there a requirement for directors to hold shares in Heartland. However, as at 30 June 2024, a number of the directors held shares, or a beneficial interest in shares, in Heartland (see '*Directors' disclosures*' on page 61 of this Annual Report for further details).

Director remuneration outcomes

The tables below set out the fees paid to the non-executive directors of Heartland for FY2024 based on the position(s) held.

Heartland and Heartland Bank Board roles	Fees (per annum)
Heartland and Heartland Bank Board Chairs	$175,000
Heartland and Heartland Bank Board Members	$120,000
Board Member of Heartland Bank Board, where also a member of Heartland Board	$25,000
Chair Heartland Audit and Risk Committee	$20,000
Member Heartland Audit and Risk Committee	Nil
Chair Corporate Governance, People, Remuneration and Nominations Committee[1]	$20,000
Member Corporate Governance, People, Remuneration and Nominations Committee[1]	Nil
Chair Heartland Sustainability Committee	$20,000
Member Sustainability Committee	Nil
Chair Heartland Bank Audit Committee	$20,000
Member Heartland Bank Audit Committee	Nil
Chair Heartland Bank Risk Committee	$20,000
Member Heartland Bank Risk Committee	Nil
Chair Heartland Bank People & Culture and Remuneration Committee	$20,000
Member Heartland Bank People & Culture and Remuneration Committee	Nil

Heartland Bank Australia Board roles	Fees (per annum)
Heartland Bank Australia Board Chair	A$320,000
Heartland Bank Australia Board Member – Independent Non-Executive Director	A$155,000
Heartland Bank Australia Board Member – Heartland Bank Non-Executive Director	A$35,000
Heartland Bank Australia Board Member – Heartland and Heartland Bank Executive	Nil
Chair Heartland Bank Australia Audit Committee	A$25,000
Member Heartland Bank Australia Audit Committee	Nil
Chair Heartland Bank Australia Risk Committee	A$25,000
Member Heartland Bank Australia Risk Committee	Nil
Chair Heartland Bank Australia People, Remuneration and Nominations Committee	A$25,000
Member Heartland Bank Australia People, Remuneration and Nominations Committee	Nil

The total remuneration and value of other benefits received by each non-executive director who held office in Heartland and/or any of its subsidiaries during FY2024 is set out in the table below. Directors' fees exclude GST where appropriate.

Director	Board fees	Heartland Audit & Risk Committee	Heartland Bank Audit Committee	Heartland Bank Risk Committee	Heartland Corporate Governance, People, Remuneration and Nominations Committee[1]	Sustainability Committee[2]	Additional Board fee	Total[3]
Heartland and Heartland Bank directorships								
E F Comerford[4]	$118,681	$18,585	-	-	-	-	-	**$137,266**
E J Harvey[5]	$120,000	$220	$16,538	-	-	-	$4,327	**$141,085**
B R Irvine	$175,000	-	-	-	-	-	-	**$175,000**
K Mitchell	$120,000	-	-	-	-	$13,333	$25,000	**$158,333**
S M Ruha	$120,000	-	-	$20,000	-	-	-	**$140,000**
G R Tomlinson	$175,000	-	-	-	$10,000	-	-	**$185,000**
S R Tyler	$120,000	-	$3,333	-	-	-	-	**$123,333**
G E Summerhayes[6]	$75,000	-	-	-	-	-	-	**$75,000**
R A Bell[7]	-	-	-	-	-	-	-	**-**
S Beckett[8]	-	-	-	-	-	-	-	**-**
Subsidiary directorships								
A J Aitken	$32,000[9]	-	-	-	-	-	-	**$32,000**
C R Mace	$15,000[10]	-	-	-	-	-	-	**$15,000**
E F Comerford	A$49,451[11]	-	-	-	-	-	-	**$49,451**
R G Udovenya	A$30,417[12]	-	-	-	-	-	-	**$30,417**
G E Summerhayes[6]	A$251,750	-	-	-	-	-	-	**$251,750**
V Yu[13]	A$23,401	-	-	-	-	-	-	**$23,401**
L McGrath[14]	A$23,401	AU$3,774	-	-	-	-	-	**$27,176**
S Buggle[15]	A$23,401	AU$3,774	-	-	-	-	-	**$27,176**
B R Irvine[16]	$8,750	-	-	-	-	-	-	**$8,750**
	Total							**$1,600,137**

1 The Heartland Corporate Governance, People, Remuneration and Nominations Committee was disestablished by the Heartland Board on 1 July 2024.
2 The Sustainability Committee was established by Heartland on 9 November 2023.
3 For the purposes of the total remuneration column in this table, A$ fees have been converted to NZ$ using an exchange rate of $0928 and then rounded.
4 E F Comerford resigned from the Heartland Board on 26 June 2024.
5 E J Harvey was appointed to the Heartland Board on 30 April 2024. He became a member of the Heartland Audit & Risk Committee on 30 April 2024 and became its Chair on 27 June 2024 following the resignation of E F Comerford.
6 G E Summerhayes resigned from the Heartland Board on 30 April 2024 and was appointed as the Chair of the Heartland Bank Australia Board.
7 R A Bell was appointed to the Heartland Board on 27 June 2024.
8 S Beckett was appointed to the Heartland Board on 27 June 2024.
9 Fees paid to A J Aitken as Chair of MARAC Insurance Limited.
10 Fees paid to C R Mace as a director of MARAC Insurance Limited.
11 Fees paid to E F Comerford by Heartland Australia Group Pty Limited and Heartland Australia Holdings Pty Limited (E F Comerford resigned as a director from 26 July 2019 but still received fees in return for consultancy services provided to these companies).
12 Fees paid to R G Udovenya as a director of ASF Custodians Pty Limited.
13 V Yu was appointed to the Heartland Bank Australia Board on 30 April 2024.
14 L T McGrath was an independent, non-executive director on the Challenger Bank Limited Board prior to the completion of its acquisition by Heartland Bank on 30 April 2024.
15 S Buggle was appointed to the Heartland Bank Australia Board on 30 April 2024.
16 B R Irvine was appointed to the Heartland Bank Australia Board on 30 April 2024.

NGĀ PĀRONGO MŌ TE HUNGA WHAIPĀNGA
SHAREHOLDER INFORMATION

SPREAD OF SHARES

Set out below are details of the spread of shareholders of Heartland as at 1 August 2024 (being a date not more than two months prior to the date of this Annual Report).

Size of holding	Number of shareholders	Total shares	% of issued shares
1 - 1,000 shares	1,426	744,402	0.08
1,001 - 5,000 shares	3,056	8,733,660	0.94
5,001 - 10,000 shares	2,185	16,186,157	1.74
10,001 - 50,000 shares	4,862	112,980,628	12.13
50,001 - 100,000 shares	1,102	77,002,411	8.27
100,001 shares and over	791	715,373,141	76.84
Total	**13,422**	**931,020,399**	**100.00**

TWENTY LARGEST SHAREHOLDERS

Set out below are details of the 20 largest shareholders of Heartland as at 1 August 2024 (being a date not more than two months prior to the date of this Annual Report).

Rank	Shareholder	Total shares	% of issued capital
1	Harrogate Trustee Limited	83,335,936	8.95
2	FNZ Custodians Limited	64,823,368	6.96
3	HSBC Nominees (New Zealand) Limited	61,604,901	6.62
4	Bnp Paribas Nominees NZ Limited Bpss40	41,355,753	4.44
5	Accident Compensation Corporation	39,042,231	4.19
6	New Zealand Depository Nominee	32,334,693	3.47
7	Custodial Services Limited	26,339,214	2.83
8	Forsyth Barr Custodians Limited	22,044,820	2.37
9	Philip Maurice Carter	14,972,472	1.61
10	Tea Custodians Limited	14,115,064	1.52
11	Citibank Nominees (Nz) Ltd	13,318,130	1.43
12	Jns Capital Limited	9,137,180	0.98
13	Public Trust	8,888,636	0.95
14	Onepoto Investments Holdings Limited	8,557,044	0.92
15	Pt Booster Investments Nominees Limited	8,486,988	0.91
16	Bnp Paribas Nominees NZ Limited Bpss41	7,914,579	0.85
17	Heartland Trust	6,504,266	0.70
18	FNZ Custodians Limited	6,266,777	0.67
19	Mmc Queen Street Nominees Ltd Acf Salt Funds Management	4,406,768	0.47
20	FNZ Custodians Limited	4,252,764	0.46
	Total	**477,701,584**	**51.30**

SUBSTANTIAL PRODUCT HOLDERS

As at 30 June 2024, Heartland had 930,561,329 ordinary shares on issue and, according to Heartland's records and disclosure notices provided to Heartland, the following entities were substantial product holders of Heartland.

Name	Number of shares	Class of shares	% of total number of shares in class
Harrogate Trustee Limited	83,335,936	Ordinary	8.95
FirstCape Group Limited	51,151,997[1]	Ordinary	5.49
Accident Compensation Corporation	46,856,077	Ordinary	5.03

SIGNIFICANT INFLUENCE

Under the Banking (Prudential Supervision) Act 1989, a person must obtain the prior written consent of the RBNZ before acquiring an interest of 10% or more in Heartland.

HE PĀRONGO ATU ANŌ
OTHER INFORMATION

AUDITORS' FEES

PricewaterhouseCoopers (**PwC**) has continued to act as auditors of Heartland and its New Zealand subsidiaries. The amount payable by Heartland and its New Zealand subsidiaries to PwC as audit fees during FY2024 was $1,388,000. The amount of fees payable to PWC for non-audit work during FY2024 was $113,000. These non-audit fees were primarily for regulatory assurance services and greenhouse gas emissions reporting.

Ernst & Young (**EY**) were appointed as auditors of Heartland's Australian subsidiaries. The amount payable by Heartland's Australian subsidiaries to EY as audit fees during FY2024 was $692,000. The amount of fees payable to EY for non-audit work during FY2024 was $451,000. These non-audit fees were primarily for regulatory assurance services, actuarial services and other advisory services including directors and executive remuneration review, CPS 234 information security plan review, review of Australian banking policies, assessment of funding facilities and facilitation of strategy review workshop. EY carried out other advisory services prior to the appointment of EY as auditor.

CREDIT RATING

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

DONATIONS

The total amount of donations made by Heartland during FY2024 was $5,000. No political donations were made in FY2024.

EXERCISE OF NZX DISCIPLINARY POWERS

NZX Limited did not exercise any of its powers under Listing Rule 9.9.3 in relation to Heartland and its subsidiaries during FY2024.

NZX WAIVERS

No waivers were granted to Heartland or relied on by Heartland during FY2024.

1 Details as per the '*Disclosure of beginning to have substantial holding*' released by FirstCape Group Limited to Heartland and the NZX Limited on 1 May 2024.

05 | FINANCIAL RESULTS

For the year ended 30 June 2024

HE KŌRERO AHUMONI
FINANCIAL COMMENTARY

Heartland (NZX/ASX: HGH) announced a NPAT of $74.5 million for FY2024. On an underlying basis[1], FY2024 NPAT was $102.7 million.

In a challenging economic environment, Heartland achieved solid Receivables[2] growth, up 6.4%[3] on FY2023.[4] While some volatility is expected to continue through at least the remainder of the 2024 calendar year, the longer-term outlook for Heartland is positive. Having executed significant strategic milestones in FY2024, further growth is anticipated in FY2025 as Heartland continues towards its FY2028 ambitions.

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

FY2024 FINANCIAL PERFORMANCE

FY2024 reported results have been normalised to exclude one-off or non-cash technical items.[5]

	FY2024	FY2023
Reported NPAT	**$74.5M**	**$95.9M**
De-designation of derivatives	$4.7m	$6.5M
Fair value changes on equity investments held	$0.3m	$4.5M
Bridging loan	n/a	$1.3M
Australia Bank Programme transaction costs	$7.7m	$2.2M
Other provisions	n/a	($0.5M)
Other	$0.6m	$0.2M
Adjusted NPAT[1]	**$87.9M**	**N/A**
Provisions for a subset of legacy lending	$11.5m	N/A
Challenger Bank NPAT	$3.3m	N/A
Underlying NPAT[1]	**$102.7m**	$110.2m
Underlying NPAT guidance range	$108-112m	$109-114m

GROWTH

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

Reverse Mortgages, Asset Finance and Motor Finance continued to perform well. Reverse Mortgage Receivables were up $179.6 million (20.2%) to $1.07 billion in New Zealand and $298.3 million (19.7%)[3] to $1.81 billion in Australia. Asset Finance Receivables increased $54.3 million (8.0%) to $737.0 million

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

in a market with difficult trading conditions. Motor Finance growth of $59.0 million (3.8%) to $1.63 billion was pleasing in a market where total new and used car sales by dealers in New Zealand were down 12.7% in FY2024.[6]

Heartland's Australian Livestock Finance business was impacted largely by adverse weather and market conditions as Receivables decreased $103.0 million (27.5%)[3] to $272.0 million. Receivables balances stabilised in the second half of FY2024 (**2H2024**) (down $26.6 million in 2H2024 vs $76.4 million in the first half of FY2024 (**1H2024**)), in line with lower volatility in cattle and lamb pricing, and improved trading conditions in New South Wales and Queensland. However, 2H2024 growth was negatively impacted compared to forecast growth by unseasonably dry conditions across South Australia and Victoria, presenting limited opportunity for customers to trade livestock and accelerating repayments. Product development to meet the growing Australian feedlotting sector, in combination with new distribution partnerships, is expected to contribute to portfolio growth in FY2025.

NET INTEREST MARGIN[7]

Heartland's underlying NIM was 3.64%, a reduction of 36 basis points (**bps**) from FY2023.[8]

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

NZ Banking

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

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

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

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

AU Banking

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

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

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

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

CREDIT QUALITY

Reflecting the challenging economic conditions, Heartland's overall credit quality deteriorated year-on-year during FY2024. The underlying impairment expense ratio increased to 0.44% in FY2024, up 8 bps compared with FY2023.[9]

NZ Banking

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

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

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

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

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

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

AU Banking

As farmers responded to extreme weather conditions, many held onto livestock for longer periods of time through FY2024 to gain weight

2 Receivables includes Reverse Mortgages.
3 Excludes the impact of changes in FX rates.
4 All comparative results are based on the audited full year consolidated Financial Statements of the Group for FY2023.
5 For a detailed reconciliation between reported and underlying financial information, and details about one-offs in the periods covered in this investor presentation, refer to Heartland's FY2024 IP available at **heartlandgroup.info**.
6 Based on data from Turners, dated June 2024 (data sourced from Waka Kotahi NZ Transport Agency).
7 NIM is calculated as net interest income over average gross interest earning assets.

8 Underlying NIM refers to NIM calculated using underlying results. When calculated using reported results, NIM was 3.39%, down 58 bps compared with FY2023. For more information, refer to Heartland's FY2024 IP available at **heartlandgroup.info**.
9 Underlying impairment expense ratio refers to the impairment expense ratio calculated using underlying results. When calculated using reported results, the impairment expense ratio was 0.66%, up 30 bps compared with FY2023. For more information, refer to Heartland's FY2024 IP available at **heartlandgroup.info**.

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

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

COSTS

While underlying costs in FY2024 were controlled (underlying operating expenses (**OPEX**) decreased by $1.3 million (1.0%)[9]), the CTI ratio was flat year-on-year despite the reduction in net operating income which was largely due to NIM compression and is expected to correct during FY2025.

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

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

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

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

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

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

NGĀ PUKA KAUTE
FINANCIAL STATEMENTS

for the year ended 30 June 2024

CONTENTS

GENERAL INFORMATION

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

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

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

AUDITOR

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

OTHER MATERIAL MATTERS

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

DIRECTORS

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

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

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

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

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

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

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

DIRECTORS (CONTINUED)

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

Chair - Board of Directors

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

Name: Simon Beckett
Qualifications: BSc (Hons), GAICD
Type of Director: Independent Non-Executive Director
Occupation: Company Director
External Directorships: ORDE Holdings Pty Ltd, ORDE Financial Pty Ltd, ORDE Capital Management Limited, ORDE Mortgage Custodian Pty Ltd, GeoSnapShot Pty Ltd, First Avenue Ventures Pty, First Avenue Capital Pty Ltd.

Name: Robert Bell
Qualifications: BBus
Type of Director: Independent Non-Executive Director
Occupation: Company Director
External Directorships: Liveheats Pty Ltd, 86 Elwood Pty Ltd, Home Finance Company PTE Ltd.

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

Name: Edward John Harvey
Qualifications: BCom, CA, CFInstD
Type of Director: Independent Non-Executive Director
Occupation: Company Director
External Directorships: Napier Port Holdings Ltd, Pomare Investments Ltd, Port of Napier Ltd.

Name: Kathryn Mitchell
Qualifications: BA, CMInstD
Type of Director: Independent Non-Executive Director
Occupation: Company Director
External Directorships: Chambers@151 Limited, Christchurch International Airport Limited, Firsttrax Approvals Limited, Link Engine Management Limited, Link Management International (NZ) Limited, Morrison Horgan Limited, The New Zealand Merino Company Limited, The A2 Milk Company Limited, Purepods Limited.

DIRECTORS' STATEMENTS

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

G R Tomlinson (Chair)

R Bell

J K Greenslade

S Beckett

K Mitchell

E J Harvey

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 30 June 2024

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

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

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

STATEMENT OF CHANGES IN EQUITY

For the year ended 30 June 2024

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

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

STATEMENT OF FINANCIAL POSITION

As at 30 June 2024

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

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

STATEMENT OF CASH FLOWS

For the year ended 30 June 2024

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

1 Includes proceeds from sale of reverse mortgage portfolio from the Group to HBA prior to HBA's acquisition. Refer to Note 21 - Fair value for further details.
2 Cash flows from operating activities do not include cash flows from wholesale borrowings which are included as part of financing activities.
3 At 30 June 2024, the Group has $176.0 million (2023: $97.0 million) of cash held by the Trusts which may only be used for the purposes defined in the underlying Trust documents. Refer to Note 27 - Structured entities for definition of Trusts and further details.

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

STATEMENT OF CASH FLOWS (CONTINUED)

For the year ended 30 June 2024

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2024

1 Financial statements preparation

Reporting entity

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

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

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

Basis of preparation

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

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

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

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

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

Basis of measurement

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

Principles of consolidation

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

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

1 Financial statements preparation (continued)

Changes in accounting standards

Accounting standards issued and effective

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

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

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

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

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

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

Accounting standards issued not yet effective

Presentation and Disclosure in Financial Statements (NZ IFRS 18)

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

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

1 Financial statements preparation (continued)

Accounting standards issued not yet effective (continued)

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

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

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

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

Critical accounting estimates and judgements

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

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

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

1 Financial statements preparation (continued)

Significant events

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

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

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

Financial assets and liabilities

Financial Assets

Financial assets are classified based on:

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

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

Financial assets are classified into the following measurement categories:

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

Financial assets measured at amortised cost

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

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

Financial assets measured at FVOCI

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

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

1 Financial statements preparation (continued)

Financial assets and liabilities (continued)

Financial assets (continued)

Financial assets measured at FVTPL

Financial assets are measured at FVTPL if:

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

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

Financial Liabilities

Financial liabilities are classified into the following measurement categories:

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

Financial liabilities measured at amortised cost

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

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

Financial liabilities measured at FVTPL

Financial liabilities are measured at FVTPL if:

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

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

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

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

Recognition

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

Derecognition

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

1 Financial statements preparation (continued)

Financial assets and liabilities (continued)

Financial liabilities (continued)

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

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

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

PERFORMANCE

2 Segmental analysis

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

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

Operating Segments

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

Operating segments – New Zealand

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

Operating segments – Australia

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

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

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

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

2 Segmental analysis (continued)

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

3 Net interest income

Policy

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

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

$000's	June 2024	June 2023
Interest income		
Cash and cash equivalents	12,952	10,906
Investments measured at FVOCI	12,082	5,081
Investments measured at FVTPL	4,186	-
Finance receivables measured at amortised cost	380,055	335,070
Finance receivables - reverse mortgages	251,757	176,653
Total interest income[1]	**661,032**	**527,710**
Interest expense		
Deposits	240,758	148,054
Other borrowings	167,796	117,774
Net interest (income) on derivative financial instruments	(25,167)	(20,107)
Total interest expense[2]	**383,387**	**245,721**
Net interest income	**277,645**	**281,989**

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

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

4 Net operating lease income

Policy

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

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

5 Other income

Policy

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

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

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

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

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

1 Insurance income includes net income from Marac Insurance Limited (**MIL**), a subsidiary of Heartland Bank Limited (**HBL**). MIL ceased writing insurance policies in 2020 with the periodic policies expected to expire in 2025.
2 Includes realised and unrealised losses on HBA's government securities, bank bonds and floating rate notes measured at fair value through profit and loss. Refer to Note 11 - Investments for further details.

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

6 Operating expenses

Policy

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

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

7 Compensation of auditor

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

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

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

1 Excludes certain personnel expenses directly incurred in acquiring and developing software and capitalised as part of specific application software.
2 Legal and professional fees include compensation of auditor which is disclosed in Note 7 - Compensation of auditor.
3 Other operating expenses mainly comprise non-recoverable proportion of goods and services tax (**GST**), travel, insurance and project expenses.

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

7 Compensation of auditor (continued)

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

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

1 Fees are for both the audit of the annual financial statements and review of the interim financial statements. This includes limited assurance on disclosures of capital adequacy and regulatory liquidity requirements.
2 Fees in 2024 are for reasonable assurance engagement for insurance solvency return, reasonable assurance on registry and trust deed suprvisor reporting. Fees in 2023 are for reasonable assurance engagement for insurance solvency return, reasonable assurance on registry, trust deed supervisor reporting, Economic and Financial Statistics (**EFS**) regulatory reporting and Australian Financial Services Licence (**AFSL**) assurance engagement.
3 Fees in 2023 are for agreed upon procedures engagements in relation to Seniors Warehouse Trusts.
4 Fees are for pre-conditions assessments and assurance relating to greenhouse gas emissions reporting.
5 For 2023, PwC was engaged to carry out tax work in respect of Stockco Australia's 30 June 2023 tax returns prior to their appointment as external auditor.
6 Other services paid to PwC in 2023 comprised actuarial services for reverse mortgages carried out prior to their appointment as external auditors
7 Fees are for assurance services for APRA regulatory reporting and AFSL reporting.
8 Other services paid to EY in 2024 comprised actuarial services for reverse mortgages, actuarial services for stress testing, directors remuneration review, executive reward survey report, executive remuneration review, CPS 234 information security plan review, hedge accounting and other accounting advisory services, review of Australian banking policies and periodic assessment of StockCo funding facilities and facilitation of strategy review workshop. Except for the actuarial services for reverse mortgages stress testing, all other services were carried out prior to their appointment as external auditor.

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

8 Impaired asset expense

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

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

9 Taxation

Policy

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

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

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

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

Income tax expense

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

9 Taxation (continued)

Deferred tax assets comprise the following temporary differences:

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

Imputation credit account

$000's	June 2024	June 2023
Imputation credits available for use in subsequent reporting periods	46,427	37,785

10 Earnings Per Share

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

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

FINANCIAL POSITION

11 Investments

Policy

Investments are classified into one of the following categories:

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

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

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

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

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

12 Derivative financial instruments

Policy

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

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

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

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

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

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

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

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

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

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

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

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

12 Derivative financial instruments (continued)

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

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

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

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

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

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

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

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

12 Derivative financial instruments (continued)

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

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

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

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

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

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

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

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

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

12 Derivative financial instruments (continued)

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

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

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

12 Derivative financial instruments (continued)

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

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

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

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

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

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

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

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

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

13 Finance receivables measured at amortised cost

Policy

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

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

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

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

13 Finance receivables measured at amortised cost (continued)

Policy

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

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

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

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

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

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

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

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

Where there has been a significant increase in credit risk.

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

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

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

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

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

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

13 Finance receivables measured at amortised cost (continued)

Policy (continued)

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

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

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

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

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

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

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

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

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

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

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

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

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

13 Finance receivables measured at amortised cost (continued)

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

Upside	10%
Central	50%
Downside	40%

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

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

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

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

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

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

13 Finance receivables measured at amortised cost (continued)

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

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

Impact of changes in gross exposures on loss allowances

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

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

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

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

14 Operating lease vehicles

Policy

Operating lease vehicles are stated at cost less accumulated depreciation.

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

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

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

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

15 Borrowings

Policy

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

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

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

Deposits and unsubordinated notes rank equally and are unsecured.

Unsubordinated notes

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

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

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

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

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

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

15 Borrowings (continued)

Subordinated notes

NZD Subordinated notes

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

Interest payable

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

Early Redemption

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

Ranking

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

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

AUD Subordinated notes

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

Interest payable

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

Early Redemption

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

Ranking

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

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

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

15 Borrowings (continued)

Securitised Borrowings

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

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

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

Net debt reconciliation

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

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

1 SWT drawn balance was fully repaid on 24 April 2024 and the facility was cancelled with effect from 1 May 2024.
2 Atlas is a closed securitisation trust due to its predefined asset composition and outstanding borrowings balance, fixed throughout its operational life. As such, there is no facility limit applicable to Atlas issued notes.

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

16 Share capital and dividends

Policy

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

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

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

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

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

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

Dividends paid

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

17 Other reserves

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

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

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

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

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

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

18 Other balance sheet items

Policy

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

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

Policy

Intangible assets

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

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

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

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

Goodwill

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

1 Prepayments at 30 June 2023 included $3.9 million deposit paid for the conditional acquisition of HBA.
2 Property, plant and equipment include rural property worth $7.8 million, which has undergone a change in use from investment property during the year.

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

18 Other balance sheet items (continued)

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

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

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

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

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

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

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

CGU / Group of CGUs	Goodwill	
$000's	June 2024	June 2023
Heartland Bank Limited	29,799	29,799
Heartland Bank Australia Limited (previously Challenger Bank Limited)	178,924	-
Heartland Australia Holdings Pty Limited	-	15,344
StockCo Australia Group[2]	-	139,279
Total goodwill	**208,723**	**184,422**

1 The increase in software - cost is related to capitalised costs associated with the core banking system upgrade completed during the year ended 30 June 2024.
2 Comprising StockCo Holdings 2 Pty Limited and StockCo Australia Management Pty Limited as stated in Note 26 – Significant subsidiaries.

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

18 Other balance sheet items (continued)

Goodwill (continued)

Impairment testing of goodwill

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

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

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

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

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

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

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

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

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

StockCo Australia Group

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

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

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

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

18 Other balance sheet items (continued)

Policy

Employee benefits

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

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

Policy

Leases

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

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

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

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

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

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

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

19 Acquisition

Policy

Business combination

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

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

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

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

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

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

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

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

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

19 Acquisition (continued)

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

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

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

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

20 Related party transactions and balances

Policy

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

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

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

(a) Transactions with key management personnel

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

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

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

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

20 Related party transactions and balances (continued)

(b) Transactions with related parties

HGH is the ultimate parent company of the Group.

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

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

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

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

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

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

21 Fair value

Policy

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

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

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

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

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

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

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

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

(a) Financial instruments measured at fair value

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

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

Investment in debt securities

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

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

Investments in equity securities

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

21 Fair value (continued)

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

Finance receivables - reverse mortgages

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

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

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

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

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

Derivative financial instruments

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

21 Fair value (continued)

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

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

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

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

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

21 Fair value (continued)

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

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

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

(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.

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.

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1 Represents reverse mortgage portfolio sold to HBA on 24 April 2024, prior to its acquisition. Refer to Note 27 - Structured Entities.
2 Refer to Note 19 - Acquisition.
3 This relates to foreign currency translation differences for the assets.

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

21 Fair value (continued)

(b) Financial instruments not measured at fair value (continued)

Borrowings

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

Other financial assets and financial liabilities

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

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

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

21 Fair value (continued)

(c) Classification of financial instruments

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

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

RISK MANAGEMENT

22 Enterprise risk management program

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

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

Role of the Board and the Board Audit and Risk Committee

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

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

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

Internal Audit

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

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

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

22 Enterprise risk management program (continued)

Group Asset and Liability Committee (GALCO)

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

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

HBL Executive Risk Committee (ERC)

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

Climate-related risks

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

Risk Management

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

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

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

Governance

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

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

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

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

22 Enterprise risk management program (continued)

Climate-related risks (continued)

Strategy

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

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

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

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

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

Operational and compliance risk

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

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

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

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

22 Enterprise risk management program (continued)

Market risk

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

Interest rate risk

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

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

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

Foreign exchange risk

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

FX Risk has the below components:

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

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

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

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

22 Enterprise risk management program (continued)

Market risk (continued)

Foreign exchange risk (continued)

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

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

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

Counterparty Credit Risk

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

The Group has on-going credit exposure associated with:

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

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

23 Credit risk exposure

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

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

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

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

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

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

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

Reverse mortgage loans and negative equity risk

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

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

Business Finance Guarantee Scheme

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

North Island Weather Events (NIWE) Loan Guarantee Scheme

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

23 Credit risk exposure (continued)

Maximum exposure to credit risk at the relevant reporting dates

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

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

Concentration of credit risk by geographic region

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

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

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

23 Credit risk exposure (continued)

Concentration of credit risk by industry sector

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

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

Credit risk grading

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

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

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

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

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

23 Credit risk exposure (continued)

Credit risk grading (continued)

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

23 Credit risk exposure (continued)

Collateral held

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

Reverse mortgage and Residential mortgage loans

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

Corporate lending

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

Other lending

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

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

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

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

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

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

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

24 Liquidity risk

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

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

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

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

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

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

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

24 Liquidity risk (continued)

Contractual liquidity profile of financial liabilities

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

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

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

25 Interest rate risk

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

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

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

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

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

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

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

The Group also manages interest rate risk by:

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

25 Interest rate risk (continued)

Contractual repricing analysis

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

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

25 Interest rate risk (continued)

Contractual repricing analysis (continued)

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

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

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

OTHER DISCLOSURES

26 Significant subsidiaries

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

27 Structured entities

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

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

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

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

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

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

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

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

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

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

27 Structured entities (continued)

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

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

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

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

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

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

(e) StockCo Securitisation Trust 2022-1

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

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

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

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

28 Staff share ownership arrangements

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

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

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

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

(a) Share-based compensation plan details

Heartland performance rights plan (PR plan)

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

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

2024 (CEOs) tranche

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

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

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

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

2025 (non-CEOs) tranche

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

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

28 Staff share ownership arrangements (continued)

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

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

(b) Effect of share-based payment transactions

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

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

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

(c) Number of rights outstanding

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

29 Securitisation, funds management and other fiduciary activities

Funds management and other fiduciary activities

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

30 Concentrations of funding

(a) Concentration of funding by industry

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

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

(b) Concentration of funding by geographical area

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

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

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

31 Offsetting financial instruments

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

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

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

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

32 Contingent liabilities and commitments

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

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

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

33 Events after reporting date

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

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

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

Independent auditor's report

To the shareholders of Heartland Group Holdings Limited

Our opinion

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

What we have audited

The Group's financial statements comprise:

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

Basis for opinion

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

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

Independence

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

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

Key audit matters

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

Description of the key audit matter	How our audit addressed the key audit matter
Provision for impairment of finance receivables As disclosed in note 13 of the financial statements, the impairment allowance totalled $76.3 million at 30 June 2024. For the determination of the collectively assessed impairment allowance, this requires the use of credit risk methodologies that are applied in models using the Group's historical experience of the correlations between defaults and losses, borrower creditworthiness, segmentation of customers or portfolios and economic conditions. The assumptions we focused our audit on included those with greater levels of management judgement and for which variations have the most significant impact on the impairment allowance. For finance receivables that meet specific risk based criteria, the impairment allowance is individually assessed by the Group. These impairment allowances are measured using probability weighted scenarios which are intended to reflect a range of reasonably possible outcomes, and incorporate assumptions such as estimated future cash proceeds expected to be recovered from the realisation of security held as collateral by the Group. We considered this a key audit matter due to the significant inherent estimation uncertainty present in the determination of the impairment allowance.	We obtained an understanding of control activities over the Group's impairment allowance, and for relevant control activities assessed whether they are appropriately designed. For controls relevant to our planned audit approach, we tested, on a sample basis, whether they operated effectively throughout the financial year. In addition, we, along with our credit risk modelling expert, performed the following procedures, amongst others, on a targeted or sample basis, on the Group's collectively assessed impairment allowance: • Assessed the appropriateness of the methodology inherent in the models used against the requirements of NZ IFRS 9 *Financial Instruments*; • Challenged and assessed the appropriateness of the collectively assessed impairment allowance inclusive of the impacts of any post model adjustments; • Challenged management's modelling outcomes using a range of what we consider reasonably possible assumptions to assess the collectively assessed impairment allowance; and • Tested the completeness and accuracy of critical data elements used in the calculations. With respect to individually assessed impairment allowances we: • For a sample of business and rural loans not identified as impaired, considered the borrowers latest information available to the Group to assess the credit risk grade rating allocated to the borrower as to whether the borrower could be identified as impaired, a critical data element which involves significant management judgement; and • For loans where an impairment allowance was individually assessed, we considered the borrower's latest financial information, value of security held as collateral and probability weighted scenario outcomes (where applicable) to test the basis of measuring the impairment allowance. We also considered the impacts of events occurring subsequent to balance date on the impairment allowances. We also assessed the reasonableness of the disclosures against the requirements of the accounting standards.

Description of the key audit matter	How our audit addressed the key audit matter
Fair value of finance receivables - reverse mortgages The Group's fair value of finance receivables – reverse mortgages ("Reverse mortgages") totalled $2.9 billion at 30 June 2024 as disclosed in note 21 of the financial statements. Reverse mortgages are held at fair value through profit or loss. The Group records the estimated fair value of the Reverse mortgages at transaction price (cash advanced plus accrued capitalised interest) on the basis that no reliable fair value can be estimated as there is no relevant active market and the fair value cannot be reliably estimated using other valuation techniques as permitted under the accounting standards. To assess whether the transaction price remains an appropriate proxy for fair value, the Group considers the impact on discounted future cash flows of changes in the risk profile and expectations of performance since origination, including possible outflows under the no negative equity guarantee provided by the Group to the borrower. High interest rates and volatility in house prices, combined with the economic outlook, increases the possibility of outflows under the no negative equity guarantee. Accordingly, we consider this to be a key audit matter.	Our audit procedures included assessing the design and implementation of controls relating to the Group's assessment of the fair value of Reverse mortgages. In addition, our audit procedures included: • Assessing the reasonableness of the Group's approach to estimating the fair value based on the transaction price against the requirements of the accounting standards; • Assessing whether there was evidence of a relevant active market or observable inputs in which to establish fair value using a market approach; • Engaging our internal actuarial expert to assess the Group's estimate of the value of discounted future cash flows from the Reverse mortgages, including any expected outflows under the no negative equity guarantee and comparing this to the transaction price of Reverse mortgages (carrying value) to assess any potential shortfall (a shortfall would indicate the transaction value was overstated); • Testing the completeness and accuracy of a sample of critical data elements used as inputs to the value of discounted future cash flows; • Assessing the reasonableness of key assumptions (such as future house prices, voluntary exits, interest rate margins, future interest rates) used in the value of discounted future cash flows; and • Considering the appropriateness of the disclosures in note 21 of the financial statements against the requirements of the accounting standards.

Description of the key audit matter	How our audit addressed the key audit matter
Heartland Bank Australia Limited group of cash generating units (CGUs) goodwill impairment assessment The carrying amount of the Heartland Bank Australia Limited group of CGUs goodwill as at 30 June 2024, as disclosed in note 18 of the financial statements, amounted to $178.9 million. The carrying value of goodwill is a key audit matter as it is a significant intangible asset in the Group's statement of financial position. At balance date an impairment assessment is required which uses an estimate of the recoverable amount that is dependent on future earnings. With the Group's acquisition of Challenger Bank Limited (subsequently renamed Heartland Bank Australia Limited), reorganisation of the Heartland Australia Holdings Limited business into Heartland Bank Australia Limited and changes in the way in which goodwill is monitored internally, judgement is applied in respect of the determination of the group of CGU's at which impairment is assessed. The Group used the Fair Value Less Cost to Sell (FVLCS) approach to determine the recoverable amount of the Heartland Bank Australia Limited group of CGUs. FVLCS is based on a price-earnings multiples approach using forecast earnings for the next twelve months (FY25 forecast earnings). The assumptions used in the FVLCS are: • Price-earnings multiple; and • FY25 forecast earnings.	We held discussions with management to understand the assumptions used in the determination of the group of CGUs and the goodwill impairment assessment. Our audit procedures also included the following: • Assessing judgements made in respect of the determination of the group of CGUs, taking into account the reorganisation of the Group's Australian business in the current year; • Obtaining an understanding of the business processes and controls applied by management in performing the impairment assessment; • Assessing the appropriateness of using a FVLCS approach against the requirements of the accounting standards; • Engaging our internal valuation expert to assess management's valuation methodology and key assumptions, including comparable price-earnings multiples; • Obtaining evidence of the FY25 forecast earnings approved by the Board and assessing the reasonableness of key inputs including lending growth, interest yields, funding mix, cost of funds and expenses; • Reviewing publicly available information on analyst forecasts of FY25 forecast earnings; • Testing the mathematical accuracy of the FY25 forecast earnings; • Obtaining and evaluating management's sensitivity analyses to ascertain the impact of reasonably possible changes in key assumptions on the recoverable amount; and • Considering the appropriateness of the disclosures in note 18 of the financial statements against the requirements of the accounting standards.

Description of the key audit matter	How our audit addressed the key audit matter
Operation of financial reporting information technology (IT) systems and controls The Group's operations and financial reporting processes are dependent on IT systems for the capture, processing, storage and extraction of significant volumes of transactions which is critical to the recording of financial information and the preparation of the Group's financial statements. In addition, the Group upgraded its New Zealand core banking system in the current year. Accordingly, we consider this to be a key audit matter. In common with other groups with banking subsidiaries, access management controls are important to ensure both access and changes made to applications and data are appropriate. Ensuring that only appropriate staff have access to IT systems, that the level of access itself is appropriate, and that access is periodically monitored, are key controls in mitigating the potential for fraud or error as a result of a change to an application or underlying data. The Group's controls over IT systems are intended to ensure that: • changes to existing systems operate as intended and are authorised; • access to process transactions or change data is appropriate and maintains an intended segregation of duties; • the use of privileged access to systems and data is restricted and monitored; and • IT processing is approved and where issues arise they are resolved.	For material financial statement transactions and balances, our procedures included obtaining an understanding of the business processes, IT systems used to generate and support those transactions and balances, associated IT application controls, and IT dependencies in manual controls. This involved assessing, where relevant to the audit: • change management: the processes and controls used to develop, test and authorise changes to the functionality and configurations within systems; • security: the access controls designed to enforce segregation of duties, govern the use of generic and privileged accounts, or ensure that data is only changed through authorised means; and • IT operations: the controls over certain IT batch processes used to ensure that any issues that arise are managed appropriately. In addition to the above, our audit procedures around the upgrade of the New Zealand core banking system included the following: • assessing management's governance over and methodology applied for the system upgrade; • testing the design and operating effectiveness of key controls over the system development life cycle; and • testing the completeness and accuracy of financial data migrated to the upgraded core banking system. Where relevant to our planned audit approach, we, along with our IT specialists, evaluated and tested the design and operating effectiveness of certain controls over the continued integrity of IT systems that are relevant to financial reporting. We also carried out tests, on a sample basis, of IT application controls that were key to our audit testing strategy in order to assess the accuracy of relevant system calculations, automated controls and the operation of certain system enforced access controls. Where we identified design or operating effectiveness matters relating to IT systems and application controls relevant to our audit, we performed alternative or additional audit procedures.

Description of the key audit matter	How our audit addressed the key audit matter
Accounting for the acquisition of Challenger Bank Limited As disclosed in note 19 of the financial statements, the Group acquired Challenger Bank Limited on 30 April 2024 for a total cash consideration of $126.6 million. The fair value of certain assets and liabilities arising from the acquisition have been determined on a provisional basis as any completion adjustments will be finalised within 12 months of the acquisition date. As a result of this acquisition, the Group has recognised provisional goodwill on acquisition of $23.2 million. We consider this acquisition to be a key audit matter due to: • the significance of the acquisition to the Group; • judgements made in the provisional fair value assessment of assets and liabilities arising from the acquisition of Challenger Bank Limited; and • the appropriateness of including within the cash consideration the additional payments made to Challenger Limited in respect of the deposit raising programme and increased capital.	Our audit procedures included: • Reading the Sale and Purchase Agreement (and any subsequent amendments) to understand key terms and conditions of the acquisition; • Gaining an understanding of the valuation approach and methodology undertaken by management to identify separately identifiable intangible assets against the criteria in the accounting standards and fair value of assets and liabilities acquired; • Obtaining and reading the identification of intangible assets report prepared by management's external expert for the acquisition of Challenger Bank Limited; • Agreeing the cash consideration to supporting documentation. This included assessing the appropriateness of including in the cash consideration the additional payments made to the vendor relating to the deposit raising programme and increased capital; • Performing an audit of the provisional acquisition balance sheet; and • Recalculating the provisional purchase price allocation and resulting provisional goodwill as a result of the fair value of acquired assets and liabilities of Challenger Bank Limited. We also assessed the disclosures made in note 19 of the financial statements against the requirements of the accounting standards.

Our audit approach

Overview

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

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

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

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

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

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

Materiality

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

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

How we tailored our group audit scope

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

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

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

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

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

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

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

Other information

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

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

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

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

Responsibilities of the Directors for the financial statements

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

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

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Auditor's responsibilities for the audit of the financial statements

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

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

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

This description forms part of our auditor's report.

Who we report to

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

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

For and on behalf of:

PricewaterhouseCoopers

Chartered Accountants
28 August 2024

Auckland, New Zealand

TE RĒHITA
DIRECTORY

Registered office

Heartland
35 Teed Street
Newmarket, Auckland 1023
PO Box 9919
Newmarket, Auckland 1149
T 0508 432 785
E shareholders@heartland.co.nz
W heartlandgroup.info

Auditor

PwC
Level 27, PwC Tower
15 Customs Street West
Auckland 1010
T 09 355 8000

Share registry

MUFG Corporate Markets (formerly Link Market Services)
Level 30, PwC Tower
15 Customs Street West
Auckland 1010
T 09 375 5998
E enquiries@linkmarketservices.co.nz
W linkmarketservices.co.nz

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heartlandgroup.info