INTERIM FINANCIAL STATEMENTS

For the six months ended 31 December 2023

HEARTLAND
GROUP

Contents

General Information

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

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

Directors

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

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

Auditor

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

Directors’ Statement

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

G R Tomlinson (Chair)

E F Comerford

J K Greenslade

K Mitchell

G E Summerhayes

Consolidated Interim Statement of Comprehensive Income

For the six months ended 31 December 2023

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

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

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

Consolidated Interim Statement of Changes in Equity

For the six months ended 31 December 2023

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

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Consolidated Interim Statement of Financial Position

As at 31 December 2023

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

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Consolidated Interim Statement of Cash Flows

For the six months ended 31 December 2023

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

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

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

Consolidated Interim Statement of Cash Flows (Continued)

For the six months ended 31 December 2023

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

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

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

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

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Notes to the Interim Financial Statements

For the six months ended 31 December 2023

1 Interim financial statements preparation

Basis of preparation

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

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

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

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

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

Critical accounting estimates and judgements

Provision for impairment on finance receivables measured at amortised cost

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

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

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

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

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

Climate Related Disclosures

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

Performance

2 Segmental analysis

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

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

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

Operating segments – New Zealand

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

Operating segments – Australia

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

All other segments

Other	Operating expenses, such as premises, IT and support centre costs are not allocated to operating segments and are included in Other. These are primarily in relation to the New Zealand business.

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

2 Segmental analysis (continued)

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

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

3 Net interest income

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

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

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

4 Operating expenses

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

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

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

5 Impaired asset expense

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

6 Earnings per share

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

Financial Position

7 Finance receivables measured at amortised cost

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

(a) Movement in provision for impairment

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

	Collectively Assessed			Individually	
$000's	**Stage 1**	**Stage 2**	**Stage 3**	**Assessed**	**Total**
Unaudited - December 2023					
Impairment allowance as at 30 June 2023	**13,009**	**2,463**	**21,499**	**16,295**	**53,266**
Changes in loss allowance					
Transfer between stages[1]	(367)	(1,860)	1,891	336	-
New and increased provision (net of provision releases)[1]	(1,170)	3,314	17,940	5,054	25,138
Total impaired asset expense excluding recovery of amounts previously written off to the income statement	**(1,537)**	**1,454**	**19,831**	**5,390**	**25,138**
Write-offs	-	-	(8,898)	-	(8,898)
Impairment allowance as at 31 December 2023	**11,472**	**3,917**	**32,432**	**21,685**	**69,506**
Audited - 30 June 2023					
Impairment allowance as at 30 June 2022	**20,256**	**1,958**	**14,602**	**15,189**	**52,005**
Changes in loss allowance					
Transfer between stages[1]	(8,226)	(3,864)	3,758	8,332	-
New and increased provision (net of provision releases)[1]	983	4,369	15,774	4,678	25,804
Total impaired asset expense excluding recovery of amounts previously written off to the income statement	**(7,243)**	**505**	**19,532**	**13,010**	**25,804**
Write-offs	-	-	(12,612)	(11,904)	(24,516)
Effect of changes in foreign exchange rate	(4)	-	(23)	-	(27)
Impairment allowance as at 30 June 2023	**13,009**	**2,463**	**21,499**	**16,295**	**53,266**

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

7 Finance receivables measured at amortised cost (continued)

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

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

Impact of changes in gross exposures on loss allowances

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

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

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

8 Borrowings

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

Deposits and unsubordinated notes rank equally and are unsecured.

Movement in other borrowings

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

Unsubordinated notes

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

Securitised borrowings

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

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

9 Share capital and dividends

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

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

The Group issued 4,790,946 new shares at $1.6865 per share ($8.0 million) on 22 September 2023 under the dividend reinvestment plan (**DRP**) for the period (June 2023: 4,336,812 new shares at $1.6370 per share ($7.1 million)) on 23 March 2023 under the DRP for the period).

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

Dividends paid

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

10 Related party transactions and balances

(a) Transactions with related parties

HGH is the ultimate parent company of the Group.

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

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

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

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

11 Intangible assets

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

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

Australian Banking Licence

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

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

Goodwill

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

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

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

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

11 Intangible assets (continued)

StockCo Australia

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

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

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

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

12 Fair value

(a) Financial instruments measured at fair value

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

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

Investments in debt securities

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

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

Investments in equity securities

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

Equity securities are measured at FVOCI where they are not held for trading, the Group doesn't have control or significant influence over the investee and where an irrevocable election is made to measure them at FVOCI. These securities are measured at fair value with unrealised gains and losses recognised in other comprehensive income except for dividend income which is recognised in profit or loss.

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

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

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

12 Fair value (continued)

(a) Financial instruments not measured at fair value

Finance receivables - reverse mortgages

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

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

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

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

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

Derivative financial instruments

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

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

12 Fair value (continued)

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

$000's	Level 1	Level 2	Level 3	Total
Unaudited - December 2023				
Assets				
Investments	394,475	-	11,428	405,903
Derivative financial instruments	-	21,526	-	21,526
Finance receivables - reverse mortgages	-	-	2,632,001	2,632,001
Total financial assets measured at fair value	**394,475**	**21,526**	**2,643,429**	**3,059,430**
Liabilities				
Derivative financial instruments	-	21,034	-	21,034
Total financial liabilities measured at fair value	**-**	**21,034**	**-**	**21,034**
Audited - June 2023				
Assets				
Investments	318,756	-	11,484	330,240
Derivative financial instruments	-	36,983	-	36,983
Finance receivables - reverse mortgages	-	-	2,403,810	2,403,810
Total financial assets measured at fair value	**318,756**	**36,983**	**2,415,294**	**2,771,033**
Liabilities				
Derivative financial instruments	-	7,624	-	7,624
Total financial liabilities measured at fair value	**-**	**7,624**	**-**	**7,624**

There were no transfers between any fair value hierarchy levels in the six months ended 31 December 2023 (June 2023: nil).

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

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

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

12 Fair value (continued)

(b) Financial instruments not measured at fair value

The following assets and liabilities of the Group are not measured at fair value in the Consolidated Statement of Financial Position.

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

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

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

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

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

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

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

Risk Management

13 Enterprise risk management program

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

Other Disclosures

14 Contingent liabilities and commitments

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

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

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

15 Events after reporting date

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

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

pwc

Independent auditor's review report

To the shareholders of Heartland Group Holdings Limited

Report on the interim financial statements

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

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

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

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

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

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

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

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

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

For and on behalf of:

PricewaterhouseCoopers

Chartered Accountants
26 February 2024

Auckland