Financial Statements

For the year ended 30 June 2024

HEARTLAND
GROUP

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.

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

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

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

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

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

Name: Edward John Harvey
Qualifications: BCom, CA, CFInstD
Type of Director: Independent Non-Executive Director
Occupation: Company Director
External Directorships (excluding HGH subsidiaries):
Napier Port Holdings Limited, Pomare Investments Limited, Port of Napier Limited.

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

Directors' Statements

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

G. R. Tomlinson (Chair)

R. Bell

J. K. Greenslade

S. Beckett

K. Mitchell

E. J. Harvey

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.

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.

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.

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**

[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.

7 Compensation of auditor

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

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

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

7 Compensation of auditor (continued)

The fees payable to the auditors, PricewaterhouseCoopers (**PwC**), Ernst & Young (**EY**) and predecessor auditor, 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.

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

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.

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.

$000's	June 2024 Cash flow hedge reserve	FCTR[1]	June 2023 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**

[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.

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

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

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

13 Finance receivables measured at amortised cost

Policy

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

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

$000's	June 2024	June 2023
Gross finance receivables measured at amortised cost	4,343,267	4,387,480
Less provision for impairment	(76,321)	(53,266)
Net finance receivables measured at amortised cost	**4,266,946**	**4,334,214**

Due within one year	1,050,448	1,172,487
Due more than one year	3,292,819	3,214,993
Less provision for impairment	(76,321)	(53,266)
Net finance receivables measured at amortised cost	**4,266,946**	**4,334,214**

13 Finance receivables measured at amortised cost (continued)

Policy

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

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

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

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

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

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

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

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

Where there has been a significant increase in credit risk.

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

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

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

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

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

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

13 Finance receivables measured at amortised cost (continued)

Policy (continued)

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

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

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

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

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

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

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

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

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

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

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

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

13 Finance receivables measured at amortised cost (continued)

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

Upside	10%
Central	50%
Downside	40%

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

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

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

$000's	Collectively Assessed 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.

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).

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).

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**	

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

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

15 Borrowings (continued)

Subordinated notes

NZD Subordinated notes

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

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

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

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

AUD Subordinated notes

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

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

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

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

15 Borrowings (continued)

Securitised Borrowings

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

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

[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.

- 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**

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.

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**

[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.

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

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

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

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

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

18 Other balance sheet items (continued)

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

[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.

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[1]	-	139,279
Total goodwill	**208,723**	**184,422**

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

18 Other balance sheet items (continued)

Goodwill (continued)

Impairment testing of goodwill

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

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

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

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

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

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

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

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

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

StockCo Australia Group

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

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

18 Other balance sheet items (continued)

Goodwill (continued)

StockCo Australia Group (continued)

- Gross interest income (including interest yield) which represents the pricing of the products which factors in market outlook and new customer segments and are estimated based on management's past experience.

- Cost of funds which was projected based on the forward curve for bank bill rate plus a margin at the date of assessment, representing the expected funding structure of an analogous Australian ADI noting that the Group is working towards obtaining an Australian ADI licence.

- Terminal growth rate of 2.4% after year five of the forecast and discount rate of 12.0%, which reflects external sources of information.

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

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

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

[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.

18 Other balance sheet items (continued)

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

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

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

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

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

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.

21 Fair value

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

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

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

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

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

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

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

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

(a) Financial instruments measured at fair value

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

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

Investment in debt securities

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

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

Investments in equity securities

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

21 Fair value (continued)

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

Finance receivables - reverse mortgages

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

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

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

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

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

Derivative financial instruments

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

21 Fair value (continued)

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

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

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

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

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

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

[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.

21 Fair value (continued)

(a) Financial instruments not measured at fair value

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

Cash and cash equivalents

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

Finance receivables measured at amortised cost

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

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

Borrowings

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

Other financial assets and financial liabilities

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

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

	June 2024			June 2023		
$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)

(b) Classification of financial instruments

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

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

Risk Management

22 Enterprise risk management program

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

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

Role of the Board and the Board Audit and Risk Committee

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

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

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

Internal Audit

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

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

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

22 Enterprise risk management program (continued)

Group Asset and Liability Committee (GALCO)

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

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

HBL Executive Risk Committee (ERC)

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

Climate-related risks

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

Risk Management

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

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

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

Governance

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

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

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

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

22 Enterprise risk management program (continued)

Climate-related risks (continued)

Strategy

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

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

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

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

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

Operational and compliance risk

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

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

- The first line of defence is the business line management of the identification, management and mitigation of the risks associated with the products and processes of the business. This accountability includes regular testing and attestation of the adequacy and effectiveness of controls and compliance with the Group's policies.

- The second line of defence is the Risk and Compliance function, responsible for the design and ownership of the Operational Risk Management Framework. It incorporates key processes including Risk and Control Self-Assessment (**RCSA**), incident management, independent evaluation of the adequacy and effectiveness of the internal control framework, and the attestation process.

- The third line of defence is Internal Audit which is responsible for independently assessing how effectively the Group is managing its risk according to its stated risk appetite.

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

22 Enterprise risk management program (continued)

Market risk

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

Interest rate risk

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

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

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

Foreign exchange risk

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

FX Risk has the below components:

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

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

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

22 Enterprise risk management program (continued)

Market risk (continued)

Foreign exchange risk (continued)

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

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

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

Counterparty Credit Risk

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

The Group has on-going credit exposure associated with:

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

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

23 Credit risk exposure

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

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

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

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

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

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

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

Reverse mortgage loans and negative equity risk

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

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

23 Credit risk exposure (continued)

Business Finance Guarantee Scheme

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

North Island Weather Events (NIWE) Loan Guarantee Scheme

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

Maximum exposure to credit risk at the relevant reporting dates

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

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

Concentration of credit risk by geographic region

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

[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").

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.

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%**

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.

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%

[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.

27 Structured entities

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

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

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

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

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

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

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

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

27 Structured entities (continued)

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

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

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

[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.

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

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

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

(e) StockCo Securitisation Trust 2022-1

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

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

28 Staff share ownership arrangements

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

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

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

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

(a) Share-based compensation plan details

Heartland performance rights plan (PR plan)

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

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

2024 (CEOs) tranche

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

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

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

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

2025 (non-CEOs) tranche

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

28 Staff share ownership arrangements (continued)

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

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

(b) Effect of share-based payment transactions

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

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

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

(c) Number of rights outstanding

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

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**

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.

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.

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