DISCLOSURE STATEMENT

For the six months ended 31 December 2023

HEARTLAND
BANK

Contents

General Information

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

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

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

Priority of Creditors' Claims

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

Guarantee Arrangements

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

Auditor

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

Directors

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

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

Directors' Statements

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

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

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

    b) the Disclosure Statement is not false or misleading.

2. During the six months ended 31 December 2023:

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

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

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

This Disclosure Statement is dated 26 February 2024 and has been signed by all the Directors.

B R Irvine (Chair)

K Mitchell

J K Greenslade

S M Ruha

E J Harvey

S Tyler

Consolidated Interim Statement of Comprehensive Income

For the six months ended 31 December 2023

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

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

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

Consolidated Interim Statement of Changes in Equity

For the six months ended 31 December 2023

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

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

Consolidated Interim Statement of Financial Position

As at 31 December 2023

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

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

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

Consolidated Interim Statement of Cash Flows

For the six months ended 31 December 2023

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

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

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

Consolidated Interim Statement of Cash Flows (Continued)

For the six months ended 31 December 2023

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

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

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

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

Notes to the Interim Financial Statements

For the six months ended 31 December 2023

1 Interim Financial Statements preparation

Basis of preparation

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

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

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

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

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

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

1 Interim Financial Statements preparation (continued)

Critical accounting estimates and judgements

Provision for impairment on finance receivables measured at amortised cost

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

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

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

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

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

Climate Related Disclosures

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

Significant events and transactions

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

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

Performance

2 Segmental analysis

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

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

Operating segments

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

Motor	Motor vehicle finance.
Reverse Mortgages	Reverse mortgage lending.
Personal Lending	Transactional, home loans and personal loans to individuals.
Business	Term debt, plant and equipment finance, commercial mortgage lending and working capital solutions for small-to-medium sized businesses.
Rural	Specialist financial services to the farming sector primarily offering livestock finance, rural mortgage lending, seasonal and working capital financing, as well as leasing solutions to farmers.
Other	Operating expenses, such as premises, IT and support centre costs are not allocated to operating segments and are included in Other.

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

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

2 Segmental analysis (continued)

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

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

3 Net interest income

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

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

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

4 Operating expenses

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

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

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

5 Impaired asset expense

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

Financial Position

6 Finance receivables measured at amortised cost

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

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

(a) Movement in provision for impairment

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

	Collectively Assessed			Individually	
$000's	**Stage 1**	**Stage 2**	**Stage 3**	**Assessed**	**Total**
Unaudited - December 2023					
Total					
Impairment allowance as at 30 June 2023	**12,250**	**2,448**	**21,316**	**16,131**	**52,145**
Changes in loss allowance					
Transfer between stages[1]	(333)	(1,857)	1,854	336	-
New and increased provision (net of provision releases)[1]	(1,178)	3,320	17,741	5,056	24,939
Total impaired asset expense excluding recovery of amounts previously written off to the income statement	**(1,511)**	**1,463**	**19,595**	**5,392**	**24,939**
Write-offs	-	-	(8,699)	-	(8,699)
Impairment allowance as at 31 December 2023	**10,739**	**3,911**	**32,212**	**21,523**	**68,385**
Audited - June 2023					
Total					
Impairment allowance as at 30 June 2022	**19,201**	**1,863**	**14,362**	**15,001**	**50,427**
Changes in loss allowance					
Transfer between stages[1]	(8,197)	(3,819)	3,684	8,332	-
New and increased provision (net of provision releases)[1]	1,246	4,404	14,439	4,701	24,790
Total impaired asset expense excluding recovery of amounts previously written off to the income statement	**(6,951)**	**585**	**18,123**	**13,033**	**24,790**
Write-offs	-	-	(11,169)	(11,903)	(23,072)
Impairment allowance as at 30 June 2023	**12,250**	**2,448**	**21,316**	**16,131**	**52,145**

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

6 Finance receivables measured at amortised cost (continued)

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

$000's	Collectively Assessed Stage 1	Stage 2	Stage 3	Individually Assessed	Total
Unaudited - December 2023					
Total					
Gross finance receivables as at 30 June 2023	**3,690,564**	**182,180**	**81,246**	**52,955**	**4,006,945**
Transfer between stages	(119,621)	31,791	71,197	16,633	-
Additions	674,480	-	-	10,667	685,147
Deletions	(651,115)	(10,154)	(24,528)	(4,535)	(690,332)
Write-offs	(87)	(274)	(8,792)	-	(9,153)
Gross finance receivables as at 31 December 2023	**3,594,221**	**203,543**	**119,123**	**75,720**	**3,992,607**
Audited - June 2023					
Total					
Gross finance receivables as at 30 June 2022	**3,583,335**	**117,515**	**45,625**	**66,183**	**3,812,658**
Transfer between stages	(237,120)	161,803	63,594	11,723	-
Additions	1,396,365	-	-	9,326	1,405,691
Deletions	(1,052,016)	(97,138)	(16,731)	(15,194)	(1,181,079)
Write-offs	-	-	(11,242)	(19,083)	(30,325)
Gross finance receivables as at 30 June 2023	**3,690,564**	**182,180**	**81,246**	**52,955**	**4,006,945**

7 Borrowings

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

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

Deposits and unsubordinated notes rank equally and are unsecured.

Movement in other borrowings

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

Securitised borrowings

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

8 Share capital and dividends

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

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

Dividends paid

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

9 Related party transactions and balances

(a) Transactions with related parties

The Banking Group's ultimate parent company is HGH.

The Bank has regular transactions with its ultimate parent company, fellow subsidiaries and subsidiaries (collectively known as the Heartland Group) conducted on an arm’s length basis and on normal commercial terms. The transactions include the provision of tax and administrative services and customer operations. Banking facilities are provided by HBL to other Banking Group entities on normal commercial terms as with other customers. There is no lending from the Banking Group to HGH.

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

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

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

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

(b) Due from/to related parties

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

(c) Other balances with related parties

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

10 Fair value

(a) Financial instruments measured at fair value

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

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

Investments in debt securities

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

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

Investments in equity securities

Investments in equity securities are classified at FVTPL unless an irrevocable election is made by the Banking Group to measure at FVOCI. Investment in listed securities traded in liquid, active markets where prices are readily observable are measured under level 1 of the fair value hierarchy with no modelling or assumptions used in the valuation. Investments in unlisted equity securities are measured under level 3 of the fair value hierarchy with the fair value being based on unobservable inputs using market accepted valuation techniques.

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

Finance receivables - reverse mortgages

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

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

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

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

10 Fair value (continued)

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

Finance receivables - reverse mortgages (continued)

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

Derivative financial instruments

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

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

$000's	**Level 1**	**Level 2**	**Level 3**	**Total**
Unaudited - December 2023				
Assets				
Investments	389,048	-	1,819	390,867
Derivative financial instruments	-	21,526	-	21,526
Finance receivables - reverse mortgages	-	-	1,059,082	1,059,082
Total financial assets measured at fair value	**389,048**	**21,526**	**1,060,901**	**1,471,475**
Liabilities				
Derivative financial instruments	-	21,034	-	21,034
Total financial liabilities measured at fair value	**-**	**21,034**	**-**	**21,034**
Audited - June 2023				
Assets				
Investments	315,192	-	1,819	317,011
Derivative financial instruments	-	36,982	-	36,982
Finance receivables - reverse mortgages	-	-	888,600	888,600
Total financial assets measured at fair value	**315,192**	**36,982**	**890,419**	**1,242,593**
Liabilities				
Derivative financial instruments	-	7,624	-	7,624
Total financial liabilities measured at fair value	**-**	**7,624**	**-**	**7,624**

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

10 Fair value (continued)

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

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

$000's	Finance Receivables - Reverse Mortgages	Investments	Total
Unaudited - December 2023			
As at 30 June 2023	888,600	1,819	890,419
New loans[1]	182,869	-	182,869
Repayments	(62,271)	-	(62,271)
Capitalised interest and fees	49,953	-	49,953
Other	(69)	-	(69)
As at 31 December 2023	**1,059,082**	**1,819**	**1,060,901**
Audited - June 2023			
As at 30 June 2022	721,264	1,503	722,767
New loans	193,845	-	193,845
Repayments	(96,753)	-	(96,753)
Capitalised interest and fees	70,168	-	70,168
Purchase of investments	-	316	316
Other	76	-	76
As at 30 June 2023	**888,600**	**1,819**	**890,419**

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

(b) Financial instruments not measured at fair value

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

Cash and cash equivalents

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

Finance receivables measured at amortised cost

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

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

10 Fair value (continued)

(b) Financial instruments not measured at fair value

Borrowings

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

Due to and from related parties

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

Other financial assets and financial liabilities

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

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

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

Risk Management

11 Enterprise risk management program

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

12 Credit risk exposure

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

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

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

(b) Concentration of credit risk by geographic region

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

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

12 Credit risk exposure (continued)

(c) Concentration of credit risk by industry sector

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

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

(d) Credit exposure to individual counterparties

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

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

	Unaudited Number of Exposures As at December 2023	Unaudited Number of Exposures Peak End-of-Day over 6 Months to December 2023
Exposures to banks		
With a long-term credit rating of A- or A3 or above, or its equivalent:		
10% to less than 15% of CET1 capital	-	1
15% to less than 20% of CET1 capital	1	1
20% to less than 25% of CET1 capital	-	1
25% to less than 30% of CET1 capital	-	-
With a long-term credit rating of at least BBB- or Baa3, or its equivalent, and at most BBB+ or Baa1, or its equivalent	-	-
Exposures to non-banks		
Total number of exposures to non-banks that are greater than 10% to less than 15% of CET1 capital that do not have a long-term credit rating	1	1

13 Asset quality

The disclosures in this note are categorised by the following credit risk concentrations:

Corporate Business lending including rural lending.

Residential Lending secured by a first ranking mortgage over a residential property used primarily for residential purposes either by the mortgagor or a tenant of the mortgagor.

All Other This relates primarily to consumer lending to individuals.

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

(a) Past due but not individually impaired

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

13 Asset quality (continued)

(b) Provision for impairment

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

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

13 Asset quality (continued)

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

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

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

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

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

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

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

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

13 Asset quality (continued)

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

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

(d) Other asset quality information

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

14 Liquidity risk

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

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

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

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

Contractual liquidity profile of financial liabilities

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

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

$000's	On Demand	0-6 Months	6-12 Months	1-2 Years	2-5 Years	5+ Years	Total
Unaudited - December 2023							
Non-derivative financial liabilities							
Deposits	791,117	2,386,823	1,056,305	67,875	76,356	-	4,378,476
Other borrowings	-	325,148	45,291	382,885	6,933	136,908	897,165
Due to related parties	-	685	-	-	-	-	685
Lease liabilities	-	1,388	1,386	2,611	6,611	1,681	13,677
Other financial liabilities	-	21,047	-	-	-	-	21,047
Total non-derivative financial liabilities	**791,117**	**2,735,091**	**1,102,982**	**453,371**	**89,900**	**138,589**	**5,311,050**
Derivative financial liabilities							
Inflows from derivatives	-	62,908	75,799	26,105	25,390	304	190,506
Outflows from derivatives	-	61,916	77,302	33,488	36,452	424	209,582
Total derivative financial liabilities	**-**	**(992)**	**1,503**	**7,383**	**11,062**	**120**	**19,076**
Undrawn facilities available to customers	322,910	-	-	-	-	-	322,910

15 Interest rate risk

Contractual repricing analysis

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

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

16 Concentrations of funding

(a) Regulatory liquidity ratios

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

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

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

(b) Concentration of funding by industry

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

(c) Concentration of funding by geographical area

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

Other Disclosures

17 Structured entities

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

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

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

18 Capital adequacy

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

RBNZ Capital Adequacy Framework

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

Total regulatory capital is divided into Tier 1 and Tier 2 capital. Tier 1 capital comprises Common Equity Tier 1 (**CET1**) capital and Additional Tier 1 (**AT1**) capital. Tier 1 capital primarily consists of shareholder's equity and other capital instruments acceptable to the RBNZ as per BPR110: Capital Definitions, less intangible assets, cash flow hedge reserves, deferred tax assets, and other prescribed deductions. Tier 2 as per BPR110: Capital Definitions comprises eligible subordinated debt securities.

Regulatory capital adequacy ratios are calculated by expressing capital as a percentage of risk weighted exposures. As a Condition of Registration, the Bank must comply with the following minimum requirements set by the RBNZ:
- Total capital must not be less than 8% of RWE
- Tier 1 capital must not be less than 6% of RWE
- CET1 capital must not be less than 4.5% of RWE
- Capital must not be less than NZ$30m

In addition, if the Prudential Buffer Ratio (**PCR**) is less than 2.5%, the Bank must limit aggregate distributions, other than discretionary payments payable to holders of AT1 capital instruments, to the limits set out within the Banks Conditions of Registration.

Including the PCR, the Banking Group's minimum total capital requirement is 10.5%. On 5 December 2019 the RBNZ finalised their revised Capital Framework for banks which were not domestic systematically important banks (non **D-SIB**). This requires non D-SIB banks in New Zealand to gradually increase their Total Capital ratio to 16% by July 2028. The Banking Group's Total Capital ratio is 14.07% as at 31 December 2023. This means the revised Framework requires the Banking Group to increase its Total Capital ratio by 1.93% over the transitional period.

Capital management

The Board has overall responsibility for ensuring the Banking Group has adequate capital in relation to its risk profile and establishes minimum internal capital levels and limits above the regulatory minimum.

The Banking Group's objectives for the management of capital are to:
- comply at all times with the regulatory capital requirements set by the RBNZ;
- maintain a strong capital base to cover the inherent risks of the business in excess of that required by credit ratings agencies to maintain a strong credit rating; and
- support the future development and growth of the business.

The Bank's Capital Management Framework includes its:
- Internal Capital Adequacy Assessment Process (**ICAAP**);
- Capital Stress Testing Policy; and
- Capital Management Plan (**CMP**)

18 Capital adequacy (continued)

Capital management (continued)

The Banking Group has an ICAAP which complies with the requirements set out in BPR100 and is in accordance with its Conditions of Registration. The ICAAP identifies the capital required to be held against other material risks, being strategic business risk, reputational risk, regulatory risk and additional credit risk which is assisted through stress testing conducted in accordance with the Capital Stress Testing policy.

The Banking Group actively monitors its capital adequacy through Asset and Liability Committee (**ALCO**) and reports this on a regular basis to the Board. This includes forecasting capital requirements to ensure any future capital requirements can be executed in a timely manner. The Banking Group uses a mix of capital instruments to reduce single source reliance and to optimise the Banking Group's mix of capital. ICAAP, CMP and Capital Stress Testing Policy are reviewed annually by the Board.

The capital adequacy tables set out below summarise the composition of regulatory capital and the capital adequacy ratios for the Banking Group for the six month ended 31 December 2023.

(a) Capital

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

(b) Capital structure

The following details summarise each instrument included within Total Capital. None of these instruments are subject to phase-out from eligibility as capital under the RBNZ's Basel III transitional arrangements.

Ordinary shares

In accordance with BPR110, ordinary share capital is classified as CET1 capital. The ordinary shares have no par value. Each ordinary share of the Bank carries the right to vote on a poll at meetings of shareholders, the right to an equal share in dividends authorised by the Board and the right to an equal share in the distribution of the surplus assets of the Bank in the event of liquidation.

18 Capital adequacy (continued)

Retained earnings

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

Reserves classified as CET1 capital

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

Tier 2 capital

Subordinated notes

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

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

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

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

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

18 Capital adequacy (continued)

(c) Credit risk

On balance sheet exposures

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

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

18 Capital adequacy (continued)

(c) Credit risk (continued)

Off balance sheet exposures

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

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

(d) Additional mortgage information – LVR range

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

[1] Off balance sheet exposures means unutilised limits.

At 31 December 2023, there were no Welcome Home loans whose credit risk is mitigated by the Crown included in "Exceeds 90% residential mortgages". Capital adequacy calculations, only the value of the first ranking mortgages over residential property is included in the LVR calculation, in accordance with BPR131. All new residential mortgages in respect of non-property investments lending have a loan-to-valuation ratio of less than or equal to 80%.

18 Capital adequacy (continued)

(e) Reconciliation of mortgage related amounts

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

(f) Credit risk mitigation

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

(g) Operational risk

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

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

(h) Market risk

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

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

18 Capital adequacy (continued)

(i) Total capital requirement

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

(j) Capital ratios

%	Unaudited December 2023	Unaudited December 2022
Capital ratios compared to minimum ratio requirements		
Common Equity Tier 1 capital ratio	12.04%	13.15%
Minimum Common Equity Tier 1 Capital as per Conditions of Registration	4.50%	4.50%
Tier 1 capital ratio	12.04%	13.15%
Minimum Tier 1 Capital as per Conditions of Registration	6.00%	6.00%
Total capital ratio	14.07%	13.15%
Minimum Total Capital as per Conditions of Registration	8.00%	8.00%
Buffer ratio	6.04%	7.15%
Buffer trigger ratio	2.50%	2.50%

(k) Solo capital adequacy

Previously, certain securitised motor loans were derecognised from the Bank's solo balance sheet and transferred to Heartland Auto Receivable Warehouse Trust (**HARWT**). On review, it has been established that under NZ GAAP, these assets do not meet the criteria for derecognition and thus, have been retained within the Bank’s solo balance sheet.

Accordingly, the Bank’s Solo capital calculation includes subsidiaries wholly owned and wholly funded by the Bank, and HARWT as per section A2.3 of BPR 160. This change in accounting treatment and consolidation election is the basis of the prior period restatement which reduced Bank’s solo total capital ratios for 31 December 2022 from 13.72% to 13.02%. This restatement had no impact on the Banking Group's capital ratios for 31 December 2022. Marac Insurance Limited is excluded per BPR100.

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

(l) Capital for other material risks

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

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

Insurance business

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

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

Securitisation

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

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

Risk management

The Banking Group has in place policies and procedures to ensure that the fiduciary activities identified above are conducted in an appropriate manner. It is considered that these policies and procedures will ensure that any difficulties arising from these activities will not impact adversely on the Banking Group. The policies and procedures include comprehensive and prominent disclosure of information regarding products, and formal and regular review of operations and policies by management and internal auditors.

20 Contingent liabilities and commitments

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

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

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

21 Events after reporting date

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

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

Conditions of Registration

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

On 1 October 2023 HBL's conditions of registration were updated as follows:

- The Banking Prudential Requirements (**BPR**) were updated post consultation and review by the RBNZ. HBL's COR was updated to refer to the updated requirements.
- That HBL must comply with the revised BS8 Connected Exposures document dated October 2023 except for paragraphs A.3(1) to A.3(12) which do not take effect until 1 April 2024.
- Clarified that the Banking Group must always exceed the rating-contingent limit to all connected persons at the end of each working day at all times.
- That full year disclosure statements are prepared on the basis that clause 6(2)(b), Schedule 14 of the "Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order 2014", does not apply.

Credit Ratings

As at the date of signing this Disclosure Statement, the Bank's credit rating issued by Fitch Australia Pty Ltd (Fitch Ratings) was BBB stable. This BBB credit rating was issued on 14 October 2015 and is applicable to long term unsecured obligations payable in New Zealand, in New Zealand dollars. This BBB stable credit rating was affirmed by Fitch Ratings on 1 September 2023.

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

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

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

Other Material Matters

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

Independent auditor's review report

To the shareholder of Heartland Bank Limited

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

Our conclusion

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

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

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

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

Basis for conclusion

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

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

Responsibilities of the Directors for the Disclosure Statement

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

Statements and the Supplementary Information that are free from material misstatement, whether due to fraud or error.

In addition, the Directors are responsible on behalf of the Bank for the preparation and fair presentation of the Disclosure Statement which includes:

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

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

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

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

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

Who we report to

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

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

For and on behalf of:

PricewaterhouseCoopers

Chartered Accountants
26 February 2024

Auckland

Independent Assurance Report

To the shareholder of Heartland Bank Limited

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

Our conclusion

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

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

Basis for conclusion

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

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

Directors' responsibilities

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

Our independence and quality management

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

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

We are independent of the Bank and the entities it controlled at 31 December 2023 or from time to time during the period (together, the "Banking Group"). In our role as auditor, we provide other audit and assurance related services comprising: assurance over insurance solvency, trust deed reporting, supervisory reporting and registry assurance services. In addition, certain partners and employees of our firm may deal with the Banking Group on normal terms within the ordinary course of trading activities of the Banking Group. The provision of these other services and these relationships have not impaired our independence.

Assurance practitioner's responsibilities

Our responsibility is to express a limited assurance conclusion on whether the Bank's information relating to capital adequacy and regulatory liquidity requirements, included in the Disclosure Statement in compliance with clause 22 of the Order is not, in all material respects, disclosed in accordance with Schedule 9 of the Order. SAE 3100 (Revised) requires that we plan and perform our procedures to obtain limited assurance about whether anything has come to our attention that causes us to believe that the Bank's information relating to capital adequacy and regulatory liquidity requirements, included in the Disclosure Statement in compliance with clause 22 of the Order, is not, in all material respects, disclosed in accordance with Schedule 9 of the Order.

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

Given the circumstances of the engagement we:

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

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

Inherent limitations

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

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

Use of report

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

Our report should not be used for any other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility for any reliance on this report to anyone other than the Bank and the Bank’s shareholder, or for any purpose other than that for which it was prepared.

The engagement partner on the engagement resulting in this independent assurance report is Karen Shires.

PricewaterhouseCoopers

Chartered Accountants
26 February 2024

Auckland