Interim Financial Statements

For the six months ended 31 December 2024

HEARTLAND

GROUP

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General Information

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

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

Directors

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

Jeffrey Kenneth Greenslade retired as a Non-Independent Executive Director of HGH effective 30 September 2024.

There have been no other changes in the composition of the Board of Directors of HGH since 30 June 2024 to the six months ended 31 December 2024.

Auditor

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

Directors' Statements

The interim financial statements for the six months ended 31 December 2024 for HGH and its subsidiaries (together the **Group**) are dated 26 February 2025 and have been signed by all the Directors.

G R Tomlinson (Chair)

E J Harvey

K Mitchell

S Beckett

R Bell

Statement of Comprehensive Income

For the six months ended 31 December 2024

$000's	Note	Unaudited 6 Months to December 2024	Unaudited 6 Months to December 2023
Interest income	3	362,733	319,522
Interest expense	3	213,599	180,774
Net interest income		**149,134**	**138,748**
Operating lease income		3,131	2,999
Operating lease expense		2,239	2,136
Net operating lease income		**892**	**863**
Lending and credit fee income		6,746	5,906
Other (expense)		(1,473)	(4,270)
Net operating income		**155,299**	**141,247**
Operating expenses	4	98,081	66,498
Profit before fair value (loss)/gain on investments and investment property, losses on guaranteed future value products, impaired asset expense and income tax		**57,218**	**74,749**
Net fair value loss/(gain) on investments and investment property		172	(1,862)
Losses on guaranteed future value products		1,174	-
Impaired asset expense	5	50,530	24,036
Profit before income tax		**5,342**	**52,575**
Income tax expense		1,730	14,975
Profit for the period		**3,612**	**37,600**
Other comprehensive (loss)/income			
Items that are or may be reclassified subsequently to profit or loss, net of income tax:			
Effective portion of change in fair value of derivative financial instruments in a cash flow hedge relationship		(13,160)	(11,083)
Movement in fair value reserve		246	(40)
Movement in foreign currency translation reserve		4,824	(1,540)
Other comprehensive loss for the period, net of income tax		**(8,090)**	**(12,663)**
Total comprehensive (loss)/ income for the period		**(4,478)**	**24,937**
Earnings per share			
Basic earnings per share	6	0.40c	5.30c
Diluted earnings per share	6	0.40c	5.30c

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

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

Statement of Changes in Equity

For the six months ended 31 December 2024

$000's	Note	Share Capital	Employee Benefit Reserve	Foreign Currency Translation Reserve	Fair Value Reserve	Cash Flow Hedge Reserve	Retained Earnings	Total Equity
Unaudited - December 2024								
Balance as at 1 July 2024		**1,018,954**	**-**	**(6,665)**	**(6,205)**	**4,374**	**227,411**	**1,237,869**
Total comprehensive income for the period								
Profit for the period		-	-	-	-	-	3,612	3,612
Other comprehensive income/(loss), net of income tax		-	-	4,824	246	(13,160)	-	(8,090)
Total comprehensive income/(loss) for the period		**-**	**-**	**4,824**	**246**	**(13,160)**	**3,612**	**(4,478)**
Transactions with owners								
Dividends paid	9	-	-	-	-	-	(27,918)	(27,918)
Share issuance	9	7,142	-				-	7,142
Total transactions with owners		**7,142**	**-**	**-**	**-**	**-**	**(27,918)**	**(20,776)**
Balance as at 31 December 2024		**1,026,096**	**-**	**(1,841)**	**(5,959)**	**(8,786)**	**203,105**	**1,212,615**
Unaudited - December 2023								
Balance as at 1 July 2023		**800,712**	**3,581**	**(8,438)**	**(3,978)**	**15,075**	**224,052**	**1,031,004**
Total comprehensive income for the period								
Profit for the period		-	-	-	-	-	37,600	37,600
Other comprehensive (loss), net of income tax		-	-	(1,540)	(40)	(11,083)	-	(12,663)
Total comprehensive (loss)/ income for the period		**-**	**-**	**(1,540)**	**(40)**	**(11,083)**	**37,600**	**24,937**
Transactions with owners								
Dividends paid	9	-	-	-	-	-	(42,579)	(42,579)
Share based payments		-	631	-	-	-	-	631
Vesting of share based payments	9	765	(765)	-	-	-	-	-
Share issuance	9	7,283	-	-	-	-	-	7,283
Total transactions with owners		**8,048**	**(134)**	**-**	**-**	**-**	**(42,579)**	**(34,665)**
Balance as at 31 December 2023		**808,760**	**3,447**	**(9,978)**	**(4,018)**	**3,992**	**219,073**	**1,021,276**

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

Statement of Financial Position

As at 31 December 2024

$000's	Note	Unaudited December 2024	Audited June 2024
Assets			
Cash and cash equivalents		377,070	629,619
Collateral paid		13,457	-
Investments	12	903,932	1,092,131
Derivative financial instruments	12	5,168	12,316
Finance receivables measured at amortised cost	7	3,902,427	4,266,946
Finance receivables - reverse mortgages	12	3,137,924	2,897,818
Investment properties		4,390	3,660
Operating lease vehicles		16,914	18,261
Right of use assets		13,725	15,519
Other assets		42,562	35,185
Current tax asset		41,671	16,767
Intangible assets	10	275,431	279,906
Deferred tax asset		21,716	23,727
Total assets		**8,756,387**	**9,291,855**
Liabilities			
Collateral received		-	2,384
Deposits	8	6,091,522	5,949,116
Other borrowings	8	1,382,302	2,040,763
Derivative financial instruments	12	21,726	9,017
Lease liabilities		16,031	17,776
Trade and other payables		30,886	34,930
Deferred tax liability		1,305	-
Total liabilities		**7,543,772**	**8,053,986**
Net assets		**1,212,615**	**1,237,869**
Equity			
Share capital	9	1,026,096	1,018,954
Retained earnings and other reserves		186,519	218,915
Total equity		**1,212,615**	**1,237,869**

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

Statement of Cash Flows

For the six months ended 31 December 2024

$000's	Note	Unaudited 6 Months to December 2024	Unaudited 6 Months to December 2023
Cash flows from operating activities			
Interest received		210,403	197,352
Operating lease income received		2,828	2,645
Lending, credit fees and other income received		5,021	4,882
Operating inflows		**218,252**	**204,879**
Interest paid		(206,007)	(158,266)
Payments to suppliers and employees		(99,415)	(62,426)
Taxation paid		(19,386)	(32,494)
Operating outflows		**(324,808)**	**(253,186)**
Net cash flows applied to operating activities before changes in operating assets and liabilities		**(106,556)**	**(48,307)**
Collateral paid		(27,610)	(38,700)
Collateral received		11,820	16,440
Proceeds from sale of operating lease vehicles		1,265	437
Purchase of operating lease vehicles		(1,604)	(2,463)
Net decrease/(increase) in finance receivables		249,168	(14,632)
Net movement in deposits		110,096	78,428
Net cash flows from/(applied to) operating activities[1]		**236,579**	**(8,797)**
Cash flows from investing activities			
Purchase of property, plant and equipment and intangible assets		(1,818)	(16,715)
Proceeds from investment securities		698,815	63,159
Purchase of investment securities		(493,077)	(125,000)
Consideration adjustment related to acquisition of subsidiary		1,404	-
Purchase of equity investment		(246)	-
Net cash flows from/(applied to) investing activities		**205,078**	**(78,556)**
Cash flows from financing activities			
Proceeds from wholesale borrowings		146,960	659,253
Repayment of wholesale borrowings		(738,919)	(731,228)
Proceeds from issue of unsubordinated notes		-	172,170
Repayment of unsubordinated notes		(82,813)	-
Dividends paid	9	(20,776)	(42,579)
Payment of lease liabilities		(1,759)	(1,206)
Net issue of share capital		-	7,915
Net cash flows (applied to)/from financing activities		**(697,307)**	**64,325**
Net decrease in cash held		**(255,650)**	**(23,028)**
Effect of exchange rates on cash and cash equivalents		3,101	(1,550)
Opening cash and cash equivalents		629,619	311,503
Closing cash and cash equivalents[2]		**377,070**	**286,925**

[1]Cash flows from operating activities do not include cash flows from wholesale borrowings which are included as part of financing activities.
[2]At 31 December 2024, the Group has $95.4 million (December 2023: $129.9 million) of cash held by structured asset holding entities (**Trusts**) which may only be used for the purposes defined in the underlying Trust documents.

Statement of Cash Flows (Continued)

For the six months ended 31 December 2024

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

$000's	Note	Unaudited 6 Months to December 2024	Unaudited 6 Months to December 2023
Profit for the period		**3,612**	**37,600**
Add/(less) non-cash items:			
Depreciation and amortisation expense		8,457	5,192
Depreciation on lease vehicles		2,014	1,882
Capitalised net interest income and fee income		(150,371)	(105,576)
Impaired asset expense	5	51,038	25,138
Losses on guaranteed future value products		1,174	-
Fair value movements		(9,257)	(12,929)
Deferred tax		3,316	(1,767)
Other non-cash items		195	859
Total non-cash items		**(93,434)**	**(87,201)**
Add/(less) movements in operating assets and liabilities:			
Finance receivables		249,168	(15,734)
Operating lease vehicles		(667)	(2,463)
Other assets		(20,721)	(4,833)
Current tax		(24,904)	(21,799)
Derivative financial instruments		19,857	28,867
Deposits		110,096	78,428
Other liabilities		(6,428)	(21,662)
Total movements in operating assets and liabilities		**326,401**	**40,804**
Net cash flows from/(applied to) operating activities[1]		**236,579**	**(8,797)**

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

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

Notes to the Interim Financial Statements

For the six months ended 31 December 2024

1 Interim Financial statements preparation

Basis of preparation

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

The interim financial statements do not include all notes of the type normally included the annual financial statements. Accordingly these interim financial statements should be read in conjunction with the financial statements for the year ended 30 June 2024.

The interim financial statements presented here are for the six months period ended 31 December 2024.

The interim financial statements have been prepared on the basis of historical cost, except for certain financial instruments and investment properties, which are measured at their fair values.

The interim financial statements have been prepared on a going concern basis.

Changes in accounting policy

The Group has elected to adopt NZ IFRS 9 Financial Instruments (**NZ IFRS 9**) to account for designated hedge relationships, transitioning from the previous accounting standard NZ IAS 39 Financial Instruments: Recognition and Measurement (**NZ IAS 39**) prospectively from 1 July 2024. There was no retrospective adjustment to the Group's results.

NZ IFRS 9 contains hedge accounting requirements introducing a more principles-based approach, which more closely aligns accounting with risk management activities and increases the eligibility of both hedge instruments and hedged items for hedge accounting.

NZ IFRS 9 requires a forward-looking assessment of hedge effectiveness at the inception of the hedge relationship and on an ongoing basis and removes the NZ IAS 39 requirement of a highly effective hedge relationship being within the 80% to 125% range. To comply with hedge effectiveness requirements, NZ IAS 39 requires the de-designation of an existing hedge relationship and re-designation of a new hedge relationship. NZ IFRS 9 requires the rebalancing of the existing hedge by adjusting a hedge ratio through altering the quantities of the hedge instrument or hedged item. Rebalancing is accounted for as a continuation of an existing hedge relationship.

While the Group's risk management strategies remain largely unchanged, management has updated the hedge documentation to be in compliance with NZ IFRS 9. As the purpose and types of hedge relationships remain the same as those before the adoption of NZ IFRS 9 hedge accounting requirements, in the absence of any need to rebalance on transition date, there is no significant impact on the Group's results upon this adoption.

No amendments to the existing accounting standards which became effective from 1 July 2024 are material to the Group. All other accounting policies adopted are consistent with those of the previous financial year ended 30 June 2024.

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

As at 31 December 2024, the most significant changes in judgement were in respect of the provision for impairment.

Refer to Note 7 - Finance receivables measured at amortised cost for further details.

There have been no other material changes to the use of estimates and judgements for the preparation of the interim financial statements since the reporting date of the previous financial statements. The Group's Financial Statements for the year ended 30 June 2024 contains detail on other estimates and judgements used.

Significant events and transactions

On 30 April 2024, the Group acquired 100% of the shares in Heartland Bank Australia Limited (**HBA**, previously Challenger Bank Limited). The consideration paid was subject to a completion adjustment based on the net asset movements and finalisation of other commercials since the determination date. The revised purchase consideration with respect to this acquisition was A$113.95 million (NZ$125.20 million) at the exchange rate of the dates of the acquisition and the completion adjustment.

During the six months ended 31 December 2024, the purchase price was finalised and a reduction of A$1.29 million (NZ$1.40 million) was made to the initial purchase consideration. The fair value of consideration reduced from A$115.24 million (NZ$126.60 million) to A$113.95 million (NZ$125.20 million). Goodwill reduced from A$21.19 million (NZ$23.21 million) to A$19.90 million (NZ$21.81 million).

All other significant events and transactions are disclosed in the notes to the interim financial statements.

Performance

2 Segmental analysis

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

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

Operating Segments

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

Operating segments – New Zealand

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

Operating segment – Australia

During the year ended 30 June 2024, the Group revised the composition of its reportable segments, following the acquisition of HBA by Heartland Bank Limited (**HBL**) on 30 April 2024 and transfer of Heartland Australia Holdings Pty Limited (**HAH**) and its subsidiaries from HGH to HBA on 2 May 2024, with HBA assuming ownership over HGH's Australian reverse mortgage lending, specialist livestock finances and other financial services businesses. The Group has subsequently aggregated previously reported Stockco Australia and Australia segments into one operating segment Australian Banking Group.

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

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

All other segments

Other	Operating expenses, such as premises, IT and support centre costs in New Zealand are not allocated to the New Zealand 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 Group does not rely on any single major customer for its revenue base.

2 Segmental analysis (continued)

$000's	Motor	Reverse Mortgages	Personal Lending	Business	Rural	Australian Banking Group	Other	Total
Unaudited - December 2024								
Net interest income	31,837	27,863	2,429	27,207	15,967	43,356	475	149,134
Lending and credit fee income/(expense)	2,673	1,298	(336)	1,803	246	1,062	-	6,746
Net other income/(expense)	618	-	42	496	(81)	730	(2,386)	(581)
Net operating income/(expense)	**35,128**	**29,161**	**2,135**	**29,506**	**16,132**	**45,148**	**(1,911)**	**155,299**
Operating expenses	2,183	3,003	4,630	4,409	1,575	26,550	55,731	98,081
Profit/(loss) before fair value loss on investments and investment property, losses on guaranteed future value products, impaired asset expense and income tax	**32,945**	**26,158**	**(2,495)**	**25,097**	**14,557**	**18,598**	**(57,642)**	**57,218**
Fair value loss on investments and investment property	-	-	-	-	-	-	172	172
Losses on guaranteed future value products	1,174	-	-	-	-	-	-	1,174
Impaired asset expense	17,285	-	492	29,319	2,496	938	-	50,530
Profit/(loss) before income tax	**14,486**	**26,158**	**(2,987)**	**(4,222)**	**12,061**	**17,660**	**(57,814)**	**5,342**
Income tax expense	-	-	-	-	-	-	1,730	1,730
Profit/(loss) for the period	**14,486**	**26,158**	**(2,987)**	**(4,222)**	**12,061**	**17,660**	**(59,544)**	**3,612**
Unaudited - December 2023								
Net interest income	29,531	22,534	2,948	32,101	17,012	34,619	3	138,748
Lending and credit fee income	1,413	1,314	72	1,335	154	1,618	-	5,906
Net other income/(expense)	644	-	486	452	(415)	-	(4,574)	(3,407)
Net operating income/(expense)	**31,588**	**23,848**	**3,506**	**33,888**	**16,751**	**36,237**	**(4,571)**	**141,247**
Operating expenses	2,067	2,549	3,486	4,624	1,663	11,211	40,898	66,498
Profit/(loss) before fair value gain on investments, impaired asset expense and income tax	**29,521**	**21,299**	**20**	**29,264**	**15,088**	**25,026**	**(45,469)**	**74,749**
Fair value (gain) on investments	-	-	-	-	-	-	(1,862)	(1,862)
Impaired asset expense	15,327	-	615	7,888	118	88	-	24,036
Profit/(loss) before income tax	**14,194**	**21,299**	**(595)**	**21,376**	**14,970**	**24,938**	**(43,607)**	**52,575**
Income tax expense	-	-	-	-	-	-	14,975	14,975
Profit/(loss) for the period	**14,194**	**21,299**	**(595)**	**21,376**	**14,970**	**24,938**	**(58,582)**	**37,600**
Unaudited - December 2024								
Total assets	**1,775,511**	**1,286,009**	**300,047**	**1,227,952**	**755,057**	**3,178,345**	**233,466**	**8,756,387**
Total liabilities								**7,543,772**
Audited - June 2024								
Total assets	**1,608,282**	**1,068,154**	**339,110**	**1,306,689**	**720,339**	**3,415,495**	**833,786**	**9,291,855**
Total liabilities								**8,053,986**

3 Net interest income

$000's	Unaudited 6 Months to December 2024	Unaudited 6 Months to December 2023
Interest income		
Cash and cash equivalents	8,325	6,367
Investments measured at FVOCI	19,346	5,235
Investments measured at FVTPL	1,138	-
Finance receivables measured at amortised cost	185,990	189,217
Finance receivables - reverse mortgages	147,934	118,703
Total interest income[1]	**362,733**	**319,522**
Interest expense		
Deposits	163,973	110,232
Other borrowings	57,574	84,558
Net interest (income) on derivative financial instruments	(7,948)	(14,016)
Total interest expense[2]	**213,599**	**180,774**
Net interest income	**149,134**	**138,748**

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

[2]Deposits and Other borrowings are measured at amortised cost, therefore interest expense incurred on these financial liabilities is calculated using the effective interest rate method. Net interest (income) 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 2024	Unaudited 6 Months to December 2023
Personnel expenses[1]	52,667	33,064
Directors' fees	1,096	635
Superannuation	1,874	987
Depreciation - property, plant and equipment	889	963
Legal and professional fees	4,812	2,694
Advertising and public relations	1,799	1,537
Depreciation - right of use asset	1,863	1,444
Technology services	9,507	5,958
Telecommunications, stationery and postage	886	983
Customer administration costs	4,717	5,022
Customer onboarding costs	1,313	1,354
Occupancy costs	1,475	1,254
Amortisation of intangible assets	5,705	2,785
Other operating expenses[2]	9,478	7,818
Total operating expenses	**98,081**	**66,498**

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

[2]Other operating expenses mainly comprise non-recoverable proportion of goods and services tax (**GST**), travel and insurance expenses.

5 Impaired asset expense

$000's	Unaudited 6 Months to December 2024	Unaudited 6 Months to December 2023
Individually impaired asset expense	20,011	5,390
Collectively impaired asset expense	31,027	19,748
Total impaired asset expense excluding recovery of amounts previously written off to the income statement	**51,038**	**25,138**
Recovery of amounts previously written off to the income statement	(508)	(1,102)
Total impaired asset expense	**50,530**	**24,036**

Refer to Note 7 - Finance receivables measured at amortised cost for provision for impairment details.

6 Earnings per share

	Earnings Per Share Cents	Net Profit After Tax $000's	Weighted Average No. of Shares 000's
Unaudited - December 2024			
Basic earnings	0.40	3,612	934,349
Diluted earnings	0.40	3,612	934,349
Unaudited - December 2023			
Basic earnings	5.30	37,600	713,414
Diluted earnings	5.30	37,600	713,414

Financial Position

7 Finance receivables measured at amortised cost

$000's	Unaudited December 2024	Audited June 2024
Gross finance receivables measured at amortised cost	3,983,075	4,343,267
Less provision for impairment	(79,474)	(76,321)
Less provision for losses on guaranteed future value products[1]	(1,174)	-
Net finance receivables measured at amortised cost	**3,902,427**	**4,266,946**

[1]Represents provision for probable losses arising from guaranteed future value (**GFV**) portfolio of motor vehicle loans that have guaranteed residual value of the underlying security and optionality for customers to return the vehicle.

The Group's models for estimating expected credit loss (**ECL**) for each of its portfolios are based on the historical credit experience of those portfolios and forward-looking information. The models assume that economic conditions remain static over time, and the provision is calculated as a point in time estimate. The continuing deterioration of economic conditions in New Zealand (low growth in GDP, unemployment, increased financial hardship and company liquidations), particularly over the six month period ended 31 December 2024, is ultimately impacting the ability of the Group's Motor Finance, Open for Business, Asset Finance and Business Relationship customers in arrears to repay outstanding balances on their loans. Consequently, the estimated ECL for those portfolios have increased (prior to subsequent write-off of loans) relative to 30 June 2024.

With regards to portfolios which are assessed collectively for credit impairment, the Group have increased the probabilities of default and loss given default to align modelled inputs with more recent observations and data. The Group had also determined that the likelihood of recovery for loans that are greater than 365 days past due within the Motor Finance and Open for Business portfolios have significantly diminished, resulting in a full provision net of anticipated recoveries against those cohorts of loans. These loans and associated increased ECL have also been written-off from the Group's receivables balances at 31 December 2024.

For loans which are assessed individually for credit impairment, these are predominantly within the Asset Finance and older Business Relationship lending portfolios within the transport, construction, forestry and agriculture sectors. The loss given default since 30 June 2024 for this subset of loans has increased significantly as a direct consequence of poor trading conditions and weaker security valuations since 30 June 2024, resulting in limited prospects of recovery. Accordingly, the provision has increased since 30 June 2024, with subsequent write-off of some of the Group's loans and associated ECL.

There have been no material changes to the ECL for the Australian Banking Group in the six months ended 31 December 2024.

7 Finance receivables measured at amortised cost (continued)

(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 losses.

	Collectively Assessed			Individually	
$000's	**Stage 1**	**Stage 2**	**Stage 3**	**Assessed**	**Total**
Unaudited - December 2024					
Impairment allowance as at 30 June 2024	**14,361**	**5,197**	**34,281**	**22,482**	**76,321**
Changes in loss allowance					
Transfer between stages[1]	(4,533)	(3,913)	7,957	489	-
New and increased provision (net of provision releases)[1]	2,633	8,456	20,427	19,522	51,038
Credit impairment charge	**(1,900)**	**4,543**	**28,384**	**20,011**	**51,038**
Write-offs	-	-	(36,208)	(11,705)	(47,913)
Effect of changes in foreign exchange rate	7	2	7	12	28
Impairment allowance as at 31 December 2024	**12,468**	**9,742**	**26,464**	**30,800**	**79,474**
Audited - 30 June 2024					
Impairment allowance as at 30 June 2023	**13,009**	**2,463**	**21,499**	**16,295**	**53,266**
Changes in loss allowance					
Transfer between stages[1]	(769)	(5,687)	4,478	1,978	-
New and increased provision (net of provision releases)[1]	1,954	8,422	25,739	11,727	47,842
Credit impairment charge	**1,185**	**2,735**	**30,217**	**13,705**	**47,842**
Write-offs	-	-	(17,451)	(7,518)	(24,969)
Effect of changes in foreign exchange rate	-	(1)	16	-	15
Acquisition of subsidiary	167	-	-	-	167
Impairment allowance as at 30 June 2024	**14,361**	**5,197**	**34,281**	**22,482**	**76,321**

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

7 Finance receivables measured at amortised cost (continued)

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

	Collectively Assessed			Individually	
$000's	**Stage 1**	**Stage 2**	**Stage 3**	**Assessed**	**Total**
Unaudited - December 2024					
Gross finance receivables measured at amortised cost as at 30 June 2024	**3,888,443**	**241,633**	**116,723**	**96,468**	**4,343,267**
Transfer between stages	(160,447)	60,189	58,100	42,158	-
Additions	688,919	-	-	79	688,998
Deletions	(908,871)	(39,137)	(39,269)	(17,350)	(1,004,627)
Write-offs	-	-	(36,208)	(11,705)	(47,913)
Effect of changes in foreign exchange rate	2,758	234	7	351	3,350
Gross finance receivables measured at amortised cost as at 31 December 2024	**3,510,802**	**262,919**	**99,353**	**110,001**	**3,983,075**
Audited - June 2024					
Gross finance receivables measured at amortised cost as at 30 June 2023	**4,070,598**	**182,470**	**81,294**	**53,118**	**4,387,480**
Acquisition of subsidiary	61,179	-	-	-	61,179
Transfer between stages	(261,729)	95,866	112,111	53,752	-
Additions	1,284,203	-	-	-	1,284,203
Deletions	(1,269,748)	(36,077)	(60,382)	(2,592)	(1,368,799)
Write-offs	(226)	(628)	(16,305)	(7,810)	(24,969)
Effect of changes in foreign exchange rate	4,166	2	5	-	4,173
Gross finance receivables measured at amortised cost as at 30 June 2024	**3,888,443**	**241,633**	**116,723**	**96,468**	**4,343,267**

Impact of changes in gross exposures on loss allowances

The Group's provision for impairment has increased by $3.2 million during the period due to:

- A net reduction in collective provisions of $5.1 million reflecting**:**
  - An increase in provisions of $31.1 million predominantly relating to motor vehicles and business lending as a result of diminished recoverability of these receivables attributable to depressed valuations of underlying securities, driven by further deterioration of economic conditions; and
  - subsequent bad debt write-offs of $36.2 million which include the write-off of receivables and related increased provisions explained above.
- A net increase in individually assessed provisions of $8.3 million due to the transfer of $42.2 million total receivables into this category which resulted in additional provisions of $20.0 million made against loans within the secured business lending portfolio as a result of deterioration of economic conditions and depressed valuations of underlying securities, partially offset by subsequent bad debt write-offs of $11.7 million.

8 Borrowings

$000's	Unaudited December 2024	Audited June 2024
Deposits		
Short-term interest bearing deposits	1,438,606	1,399,189
Non-interest bearing deposits	38,372	38,193
Term deposits	4,614,544	4,511,734
Total deposits	**6,091,522**	**5,949,116**
Other borrowings		
Unsubordinated notes	377,615	458,019
Subordinated notes	158,172	153,732
Securitised borrowings	821,460	1,369,394
Certificates of deposit and money market borrowings	25,055	59,618
Total other borrowings	**1,382,302**	**2,040,763**
Total deposits and other borrowings	**7,473,824**	**7,989,879**

Deposits and unsubordinated notes rank equally and are unsecured.

Movement in other borrowings

$000's	Unaudited December 2024	Audited June 2024
Balance as at the beginning of the period	**2,040,763**	**2,496,375**
Issue of debt	146,960	1,984,670
Repayment of debt	(821,732)	(2,486,550)
Total cash movements	**(674,772)**	**(501,880)**
Acquisition of debt from purchase of subsidiary	-	2,574
Capitalised interest and fee expense	(640)	30,791
Fair value movements	3,660	805
Foreign exchange and other movements	13,291	12,098
Total non-cash movements	**16,311**	**46,268**
Balance as at the end of the period	**1,382,302**	**2,040,763**

Unsubordinated notes

On 9 July 2024, $83.3 million (A$75 million) of unsubordinated medium-term notes (**MTN**) were fully repaid on maturity.

Securitised borrowings

Seniors Warehouse Trust 2 (**SWT2**) reduced its securitisation facility limit from A$750 million to A$450 million on 16 October 2024, which was further reduced to A$300 million on 16 January 2025 as part of execution of its date-based calls and scheduled repayments of its securitised borrowings, in compliance with Australian Prudential Standard 120 Securitisation.

StockCo Securitisation Trust 2022-1 (**StockCo Trust**) reduced its securitisation facility limit from A$250 million to A$150 million on 22 July 2024, which was further reduced to A$100 million with effect from 16 October 2024. On 18 November 2024, the StockCo Trust facility undrawn limit was cancelled.

Heartland Auto Receivables Warehouse Trust 2018-1 (**HARWT**) facility maturity date was extended to 26 August 2026 on 23 August 2024, with a reduction in its securitisation facility limit from $600 million to $500 million, which was further reduced to $320 million with effect from 24 December 2024.

9 Share capital and dividends

000's	Unaudited December 2024 Number of Shares	Audited June 2024 Number of Shares
Issued shares		
Opening balance	930,561	709,658
Shares issued during the period	-	211,868
Shares issued - dividend reinvestment plan	6,858	9,035
Closing balance	**937,419**	**930,561**

The Group issued 6,857,950 new shares at $1.04 per share ($7.1 million) on 20 September 2024 under the dividend reinvestment plan (**DRP**) for the period.

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

Dividends paid

	Unaudited 6 Months to December 2024			Audited 12 Months to June 2024		
	Date Declared	Cents Per Share	$000's	Date Declared	Cents Per Share	$000's
Final dividend	28 August 2024	3.0	27,918	28 August 2023	6.0	42,579
Interim dividend	-	-	-	26 February 2024	4.0	28,611
Total dividends paid			**27,918**			**71,190**

10 Intangible assets

$000's	Unaudited December 2024	Audited June 2024
Computer software		
Software - cost	92,308	88,533
Software under development	2,447	5,692
Accumulated amortisation	(42,861)	(37,443)
Net carrying value of computer software	**51,894**	**56,782**
Goodwill	209,136	208,723
Net carrying value of goodwill	**209,136**	**208,723**
Banking licence	14,401	14,401
Total intangible assets	**275,431**	**279,906**

Goodwill

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

CGU / Group of CGUs	Goodwill	
$000's	**Unaudited December 2024**	**Audited June 2024**
Heartland Bank Limited CGU	29,799	29,799
Heartland Bank Australia Limited Group of CGUs	179,337	178,924
Total goodwill	**209,136**	**208,723**

There was no indication of impairment and no impairment losses have been recognised against the carrying amount of goodwill for the six months ended 31 December 2024 (June 2024: nil).

11 Related party transactions and balances

Transactions with key management personnel

Key management personnel compensation during the six-months ended 31 December 2024 includes retirement and disestablishment payments of certain key management personnel that amounted to $5.9 million.

12 Fair value

(a) Financial instruments measured at fair value

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

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

Investments in debt securities

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

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

Investments in equity securities

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

Finance receivables - reverse mortgages

The Group has elected to account for the reverse mortgage portfolio as classified and measured at FVTPL under NZ IFRS 9. 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 and are classified and measured at FVTPL.

12 Fair value (continued)

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

Finance receivables - reverse mortgages (continued)

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

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

The Group does not consider that the actuarial estimate has moved outside of the original expectation range since the initial recognition. There has been no fair value movement recognised in profit or loss during the period (June 2024: nil). Fair value is not sensitive to the above assumptions due to the nature of reverse mortgage loans. In particular, given conservative origination loan-to-value ratio and security criteria, a material deterioration in house prices combined with a material increase in interest rates over a sustained period of time would likely need to occur before any potential impact to fair value.

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

Derivative financial instruments

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

12 Fair value (continued)

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

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

$000's	**Level 1**	**Level 2**	**Level 3**	**Total**
Unaudited - December 2024				
Assets				
Investments	895,177	-	8,755	903,932
Derivative financial instruments	-	5,168	-	5,168
Finance receivables - reverse mortgages	-	-	3,137,924	3,137,924
Total financial assets measured at fair value	**895,177**	**5,168**	**3,146,679**	**4,047,024**
Liabilities				
Derivative financial instruments	-	21,726	-	21,726
Total financial liabilities measured at fair value	**-**	**21,726**	**-**	**21,726**
Audited - June 2024				
Assets				
Investments	1,082,699	-	9,432	1,092,131
Derivative financial instruments	-	12,316	-	12,316
Finance receivables - reverse mortgages	-	-	2,897,818	2,897,818
Total financial assets measured at fair value	**1,082,699**	**12,316**	**2,907,250**	**4,002,265**
Liabilities				
Derivative financial instruments	-	9,017	-	9,017
Total financial liabilities measured at fair value	**-**	**9,017**	**-**	**9,017**

There were no transfers between any fair value hierarchy levels in the six months ended 31 December 2024 (June 2024: nil).

12 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 2024			
As at 30 June 2024	2,897,818	9,432	2,907,250
New loans	299,598	-	299,598
Repayments	(230,050)	-	(230,050)
Capitalised Interest and fees	150,720	-	150,720
Purchase of investments	-	246	246
Fair value loss on investment	-	(1,000)	(1,000)
Other[1]	19,838	77	19,915
As at 31 December 2024	**3,137,924**	**8,755**	**3,146,679**
Audited - June 2024			
As at 30 June 2023	2,403,810	11,484	2,415,294
Sale of Seniors Warehouse Trust (**SWT**) portfolio to HBA	(631,345)	-	(631,345)
Additions - acquisition of HBA	635,609	-	635,609
New loans	552,073	-	552,073
Repayments	(335,429)	-	(335,429)
Capitalised interest and fees	261,318	-	261,318
Purchase of investments	-	1,059	1,059
Fair value loss on investment	-	(3,152)	(3,152)
Other[1]	11,782	41	11,823
As at 30 June 2024	**2,897,818**	**9,432**	**2,907,250**

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

12 Fair value (continued)

(b) Financial instruments not measured at fair value

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

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

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

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

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

Other financial assets and financial liabilities
The fair value of other financial instruments is considered equivalent to their carrying value due to their short-term nature.

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

		Unaudited December 2024		Audited June 2024	
$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	3,894,183	3,902,427	4,146,692	4,266,946
Total financial assets		**3,894,183**	**3,902,427**	**4,146,692**	**4,266,946**
Liabilities					
Deposits	Level 2	6,110,695	6,091,522	5,955,369	5,949,116
Other borrowings	Level 2	1,384,343	1,382,302	2,042,396	2,040,763
Total financial liabilities		**7,495,038**	**7,473,824**	**7,997,765**	**7,989,879**

Risk Management

13 Enterprise risk management program

There have been no material changes in the Group's policies for managing risk, or material exposures to any new types of risk since the reporting date of the annual financial statements for the year ended 30 June 2024.

Other Disclosures

14 Contingent liabilities and commitments

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

Credit related commitments arising in respect of the Group's operations were:

$000's	Unaudited December 2024	Audited June 2024
Letters of credit, guarantee commitments and performance bonds	2,780	3,130
Total	**2,780**	**3,130**
Undrawn facilities available to customers	587,046	554,307
Conditional commitments to fund at future dates	8,839	9,947
Total commitments	**595,885**	**564,254**

15 Events after reporting date

The Group approved a fully imputed interim dividend of 2 cents per share on 26 February 2025.

There were no other events subsequent to the reporting period, not already disclosed within these interim financial statements, that would materially affect the Group's financial position, results of its operations or its state of affairs in subsequent periods.

Independent auditor's review report

To the shareholders of Heartland Group Holdings Limited

Report on the interim financial statements

Our conclusion
We have reviewed the interim financial statements of Heartland Group Holdings Limited (the "Company") and its controlled entities (the "Group"), which comprise the statement of financial position as at 31 December 2024, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the six month period ended on that date, and selected explanatory notes.

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim financial statements of the Group do not present fairly, in all material respects, the financial position of the Group as at 31 December 2024, and its financial performance and cash flows for the six month period then ended, in accordance with International Accounting Standard 34 *Interim Financial Reporting* ("IAS 34") and New Zealand Equivalent to International Accounting Standard 34 *Interim Financial Reporting* ("NZ IAS 34").

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

We are independent of the Group in accordance with the relevant ethical requirements in New Zealand relating to the audit of the annual financial statements, and we have fulfilled our other ethical responsibilities in accordance with these ethical requirements. In addition to our role as auditor, our firm carries out audit, review and other assurance related services. In addition, certain partners and employees of our firm may deal with the Group on normal terms within the ordinary course of trading activities. The provision of these other services and these relationships have not impaired our independence.

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

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

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

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

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

For and on behalf of:

PricewaterhouseCooopers   Auckland
26 February 2025