Disclosure Statement

For the six months ended 31 December 2024

HEARTLAND

BANK

Contents

General Information

This Disclosure Statement has been issued by Heartland Bank Limited (**HBL** or the **Bank**) and its subsidiaries (the **Banking Group**) for the six months ended 31 December 2024 in accordance with the Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order 2014 (as amended) (the **Order**). The financial statements of the Banking Group for the six months ended 31 December 2024 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.

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

Andrew Peter Dixson was appointed as a Non-Independent Non-Executive Director of HBL, effective 1 October 2024.

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

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 2024:

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

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

   c) the Bank had systems in place to monitor and control adequately the material risks of the Registered Bank's 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 2025 and has been signed by all the Directors.

B R Irvine (Chair)

S Tyler

E J Harvey

S M Ruha

K Mitchell

A P Dixson

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	362,732	227,944
Interest expense	3	213,779	122,485
Net interest income		**148,953**	**105,459**
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	4,312
Other income	4	2,869	1,075
Net operating income		**159,460**	**111,709**
Operating expenses	5	88,830	52,147
Profit before fair value loss on investments and investment property, losses on guaranteed future value products, impaired asset expense and income tax		**70,630**	**59,562**
Net fair value loss on investments and investment property		172	-
Losses on guaranteed future value products		1,174	-
Impaired asset expense	6	50,530	23,948
Profit before income tax		**18,754**	**35,614**
Income tax expense		5,431	10,044
Profit for the period		**13,323**	**25,570**
Other comprehensive 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 in a cash flow hedge relationship		(13,160)	(10,912)
Movement in fair value reserve		246	(20)
Movement in foreign currency translation reserve		4,824	-
Other comprehensive loss for the period, net of income tax		**(8,090)**	**(10,932)**
Total comprehensive income for the period		**5,233**	**14,638**

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.

Statement of Changes in Equity

For the six months ended 31 December 2024

$000's	Note	Share Capital	Common Control 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		**1,044,811**	**(81,660)**	**(1,682)**	**(4,653)**	**4,374**	**235,200**	**1,196,390**
Total comprehensive income for the period								
Profit for the period		-	-	-	-	-	13,323	13,323
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)**	**13,323**	**5,233**
Transactions with owner								
Dividends paid to owner	9	-	-	-	-	-	(15,000)	(15,000)
Total transactions with owner		**-**	**-**	**-**	**-**	**-**	**(15,000)**	**(15,000)**
Other movements		249	(249)	-	-	-	-	-
Balance as at 31 December 2024		**1,045,060**	**(81,909)**	**3,142**	**(4,407)**	**(8,786)**	**233,523**	**1,186,623**
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**
Transactions with owner								
Dividends paid to owner	9	-	-	-	-	-	(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**

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		376,557	627,969
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		41,702	34,897
Current tax asset		35,963	15,172
Intangible assets	10	260,572	264,493
Deferred tax asset		20,739	22,605
Total assets		**8,733,470**	**9,271,787**
Liabilities			
Collateral received		-	2,384
Deposits	8	6,094,332	5,967,239
Other borrowings	8	1,382,302	2,040,763
Derivative financial instruments	12	21,726	9,017
Due to related parties	11	2,995	7,653
Lease liabilities		16,031	17,776
Trade and other payables		28,156	30,565
Deferred tax liability		1,305	-
Total liabilities		**7,546,847**	**8,075,397**
Net assets		**1,186,623**	**1,196,390**
Equity			
Share capital	9	1,045,060	1,044,811
Retained earnings and other reserves		141,563	151,579
Total equity		**1,186,623**	**1,196,390**

Total interest earning and discount bearing assets		8,322,574	8,871,389
Total interest and discount bearing liabilities		7,438,262	7,969,810

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		210,402	179,527
Operating lease income received		2,828	2,645
Lending, credit fees and other income received		7,863	12,445
Operating inflows		**221,093**	**194,617**
Interest paid		(206,187)	(120,454)
Payments to suppliers and employees		(87,480)	(46,249)
Taxation paid		(19,386)	(25,116)
Operating outflows		**(313,053)**	**(191,819)**
Net cash flows applied to operating activities before changes in operating assets and liabilities		**(91,960)**	**2,798**
Collateral paid		(27,610)	(38,700)
Collateral received		11,820	16,440
Proceeds from sale of operating lease vehicles		1,265	1,219
Purchase of operating lease vehicles		(1,604)	(3,245)
Net decrease/(increase) in finance receivables		249,168	(114,109)
Net movement in deposits		94,783	78,428
Net movement in related party balances		(4,617)	(7,516)
Net cash flows from/(applied to) operating activities[1]		**231,245**	**(64,685)**
Cash flows from investing activities			
Purchase of property, plant and equipment and intangible assets		(1,123)	(12,724)
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		**205,773**	**(74,565)**
Cash flows from financing activities			
Proceeds from wholesale borrowings		146,960	592,522
Repayment of wholesale borrowings		(738,919)	(463,825)
Repayment of unsubordinated notes		(82,813)	-
Dividends paid	9	(15,000)	(43,000)
Payment of lease liabilities		(1,759)	(927)
Net cash flows (applied to)/from financing activities		**(691,531)**	**84,770**
Net decrease in cash held		**(254,513)**	**(54,480)**
Effect of exchange rates on cash and cash equivalents		3,101	-
Opening cash and cash equivalents		627,969	216,044
Closing cash and cash equivalents[2]		**376,557**	**161,564**

[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 Banking Group has $95.4 million (December 2023: $30.7 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		**13,323**	**25,570**
Add/(less) non-cash items:			
Depreciation and amortisation expense		8,457	4,632
Depreciation on lease vehicles		2,014	1,882
Capitalised net interest income and fee income		(150,371)	(51,556)
Impaired asset expense	6	51,038	24,939
Losses on guaranteed future value products		1,174	-
Fair value movements		(9,257)	(10,932)
Deferred tax		3,171	(3,939)
Other non-cash items		195	-
Total non-cash items		**(93,579)**	**(34,974)**
Add/(less) movements in operating assets and liabilities:			
Finance receivables		249,168	(115,100)
Operating lease vehicles		(667)	(2,463)
Other assets		(21,398)	(2,122)
Current tax		(20,791)	(15,854)
Derivative financial instruments		19,857	28,866
Deposits		94,783	78,428
Other liabilities		(9,451)	(27,036)
Total movements in operating assets and liabilities		**311,501**	**(55,281)**
Net cash flows from/(applied to) operating activities[1]		**231,245**	**(64,685)**

[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 Bank Limited (**HBL** or the **Bank**) and its controlled entities (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 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 Banking 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 Banking 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 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 Banking 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 Banking Group's results upon this adoption.

No amendments to the existing accounting standards which became effective from 1 July 2024 are material to the Banking 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 – Financial receivables measured at amortised cost and Note 15 – Asset quality 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 Banking Group's Disclosure Statement for the year ended 30 June 2024 contains detail on other estimates and judgements used.

Significant events and transactions

On 30 April 2024, the Banking 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 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 whose 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 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

Operating segment – Australian Banking Group was acquired through the acquisition of HBA 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 total assets balance within comparative information under this segment represents the amount reported in the Banking Group's Disclosure Statement as at 30 June 2024.

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 Banking 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	294	148,953
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	1,956	3,761
Net operating income	**35,128**	**29,161**	**2,135**	**29,506**	**16,132**	**45,148**	**2,250**	**159,460**
Operating expenses	2,183	3,003	4,630	4,409	1,575	26,550	46,480	88,830
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**	**(44,230)**	**70,630**
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**	**(44,402)**	**18,754**
Income tax expense	-	-	-	-	-	-	5,431	5,431
Profit/(loss) for the period	**14,486**	**26,158**	**(2,987)**	**(4,222)**	**12,061**	**17,660**	**(49,833)**	**13,323**
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**
Unaudited - December 2024								
Total assets	**1,775,511**	**1,286,009**	**300,047**	**1,227,952**	**755,057**	**3,178,345**	**210,549**	**8,733,470**
Total liabilities								**7,546,847**
Audited - June 2024								
Total assets	**1,608,282**	**1,068,154**	**339,110**	**1,306,689**	**720,339**	**3,415,495**	**813,718**	**9,271,787**
Total liabilities								**8,075,397**

3 Net interest income

$000's	Unaudited 6 Months to December 2024	Unaudited 6 Months to December 2023
Interest income		
Cash and cash equivalents	8,324	4,977
Investments measured at FVOCI	19,346	5,235
Investments measured at FVTPL	1,138	-
Finance receivables measured at amortised cost	185,990	169,139
Finance receivables - reverse mortgages	147,934	48,593
Total interest income[1]	**362,732**	**227,944**
Interest expense		
Deposits	164,159	110,232
Other borrowings	57,568	26,100
Net interest (income) on derivative financial instruments	(7,948)	(13,847)
Total interest expense[2]	**213,779**	**122,485**
Net interest income	**148,953**	**105,459**

[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 Other income

$000's	Unaudited December 2024	Unaudited December 2023
Rental income from investment properties	229	450
Insurance income[1]	68	240
Fair value (loss) on derivative financial instruments	(2,554)	(4,456)
Management fee income[2]	4,341	5,283
Fair value gain on non-derivative financial instruments[3]	438	-
Other (expense)	(110)	(359)
Foreign exchange gain/(loss)	457	(83)
Total other income	**2,869**	**1,075**

[1]Insurance income includes net income from Marac Insurance Limited (**MIL**), a subsidiary of HBL. MIL ceased writing insurance policies in 2020 with the periodic policies expected to complete run-off in 2025.

[2]Refer to Note 11 - Related party transactions and balances for further details.

[3]Includes realised and unrealised gain on HBA's government securities, bank bonds and floating rate notes measured at fair value through profit or loss.

5 Operating expenses

$000's	Unaudited 6 Months to December 2024	Unaudited 6 Months to December 2023
Personnel expenses[1]	45,683	27,969
Directors' fees	822	274
Superannuation	1,603	582
Depreciation - property, plant and equipment	889	907
Legal and professional fees	4,316	1,622
Advertising and public relations	1,787	1,005
Depreciation - right of use asset	1,863	1,111
Technology services	9,490	5,727
Telecommunications, stationery and postage	884	866
Customer administration costs	4,717	1,281
Customer onboarding costs	1,313	1,240
Occupancy costs	1,325	811
Amortisation of intangible assets	5,705	2,614
Other operating expenses[2]	8,433	6,138
Total operating expenses	**88,830**	**52,147**

[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 .

6 Impaired asset expense

$000's	Unaudited 6 Months to December 2024	Unaudited 6 Months to December 2023
Individually impaired asset expense	20,011	5,392
Collectively impaired asset expense	31,027	19,547
Total impaired asset expense excluding recovery of amounts previously written off to the income statement	**51,038**	**24,939**
Recovery of amounts previously written off to the income statement	(508)	(991)
Total impaired asset expense	**50,530**	**23,948**

Refer to Note 7 - Finance receivables measured at amortised cost and Note 15 – Asset quality for provision for impairment details.

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[1]	(79,474)	(76,321)
Less provision for losses on guaranteed future value products[2]	(1,174)	-
Net finance receivables measured at amortised cost	**3,902,427**	**4,266,946**

[1]Refer to Note 15 - Asset quality for further details.

[2]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 Banking 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 Bank'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 Bank have increased the probabilities of default and loss given default to align modelled inputs with more recent observations and data. The Bank 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 Bank'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 Bank'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.

$000's	Collectively Assessed Stage 1	Stage 2	Stage 3	Individually Assessed	Total
Unaudited - December 2024					
Total					
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
Total impaired asset expense excluding recovery of amounts previously written off to the income statement	**(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 - June 2024					
Total					
Impairment allowance as at 30 June 2023	**12,250**	**2,448**	**21,316**	**16,131**	**52,145**
Business combination under common control	936	9	175	-	1,120
Acquisition of subsidiary	167	-	-	-	167
Changes in loss allowance					
Transfer between stages[1]	(1,407)	(5,687)	5,005	2,089	-
New and increased provision (net of provision releases)[1]	2,429	8,434	24,944	11,780	47,587
Credit impairment charge	**1,022**	**2,747**	**29,949**	**13,869**	**47,587**
Write-offs	-	-	(17,180)	(7,518)	(24,698)
Effect of changes in foreign exchange rate	(14)	(7)	21	-	-
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

$000's	Collectively Assessed Stage 1	Stage 2	Stage 3	Individually Assessed	Total
Unaudited - December 2024					
Total					
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					
Total					
Gross finance receivables measured at amortised cost as at 30 June 2023	**3,690,564**	**182,180**	**81,246**	**52,955**	**4,006,945**
Acquisition of subsidiary	61,179	-	-	-	61,179
Business combination under common control	280,589	245	258	-	281,092
Transfer between stages	(261,444)	95,748	111,944	53,752	-
Additions	1,284,203	-	-	-	1,284,203
Deletions	(1,164,676)	(35,910)	(60,631)	(2,487)	(1,263,704)
Write-offs	(226)	(628)	(16,092)	(7,752)	(24,698)
Effect of changes in foreign exchange rate	(1,746)	(2)	(2)	-	(1,750)
Gross finance receivables measured at amortised cost as at 30 June 2024	**3,888,443**	**241,633**	**116,723**	**96,468**	**4,343,267**

Refer to Note 15 – Asset quality for further details.

8 Borrowings

$000's	Unaudited December 2024	Audited June 2024
Deposits		
Short-term interest bearing deposits	1,441,416	1,417,312
Non-interest bearing deposits	38,372	38,193
Term deposits	4,614,544	4,511,734
Total deposits	**6,094,332**	**5,967,239**
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	**7,476,634**	**8,008,002**

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**	**615,126**
Issue of debt	146,960	1,074,624
Repayment of debt	(821,732)	(996,898)
Total cash movements	**(674,772)**	**77,726**
Business combination under common control	-	1,341,420
Acquisition of debt from purchase of subsidiary	-	2,574
Capitalised interest and fee expense	(640)	3,779
Fair value movements	3,660	805
Foreign exchange and other movements	13,291	(667)
Total non-cash movements	**16,311**	**1,347,911**
Balance as at the end of the period	**1,382,302**	**2,040,763**

Unsubordinated notes

On 9 July 2024, $83.3 million (AU$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	1,030,260	565,430
Shares issued during the period	-	464,830
Closing balance	**1,030,260**	**1,030,260**

There were no new shares issued during the period.

Dividends paid

	Unaudited 6 Months to December 2024		Audited 12 Months to June 2024	
	Date Declared	$000's	Date Declared	$000's
Dividend to HGH	28 August 2024	15,000	28 August 2023	43,000
Dividend to HGH	-	-	26 February 2024	22,500
Total dividends paid		**15,000**		**65,500**

10 Intangible assets

$000's	Unaudited December 2024	Audited June 2024
Computer software		
Software - cost	92,308	88,533
Software under development	1,989	4,680
Accumulated amortisation	(42,861)	(37,443)
Net carrying value of computer software	**51,436**	**55,770**
Goodwill	209,136	208,723
Net carrying value of goodwill	**209,136**	**208,723**
Total intangible assets	**260,572**	**264,493**

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 Banking 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

(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 agreed terms. The transactions include the provision of 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.

The Trustees of Heartland Trust (**HT**) and certain employees of the Banking Group provided their time and skills to the oversight and operation of HT at no charge.

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

$000's	Unaudited 6 Months to December 2024	Unaudited 6 Months to December 2023
Heartland Group Holdings Limited		
Interest expense on deposits by HGH	(186)	-
Withdrawals of deposits	(15,500)	-
Dividends paid to HGH	(15,000)	(43,000)
Management fees paid to HGH	(3,613)	(5,682)
Management fees received from HGH	4,341	3,175

$000's	Unaudited 6 Months to December 2024	Unaudited 6 Months to December 2023
Australian Seniors Finance Pty Limited (ASF)		
Management fees received from ASF	-	2,108

(b) Due to related parties

$000's	Unaudited December 2024	Audited June 2024
Due to		
Heartland Group Holdings Limited	2,995	7,653
Total due to related parties	**2,995**	**7,653**

(c) Other balances with related parties

$000's	Unaudited December 2024	Audited June 2024
Heartland Group Holdings Limited		
Retail deposits owing to HGH	2,809	18,123

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 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 significant valuations are reported to the Banking Group's Board Audit 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 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. Equity securities are measured at FVOCI where they are not held for trading, the Banking 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 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 Banking 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.

On initial recognition 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 the transaction value (cash advanced plus accrued capitalised interest) for subsequent measurement. The Banking 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.

12 Fair value (continued)

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

Finance receivables - reverse mortgages (continued)

The Banking 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 Banking 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).

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 investments	-	(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	888,600	1,819	890,419
Additions - transfer from Seniors Warehouse Trust (**SWT**) to HBL	86,551	-	86,551
Additions - acquisition of HBA	635,609	-	635,609
Additions - transfer of HAH and its controlled entities from HGH to HBA	1,072,410	1,972	1,074,382
New loans	245,920	-	245,920
Repayments	(158,498)	-	(158,498)
Capitalised interest and fees	128,925	-	128,925
Purchase of investments	-	5,596	5,596
Other[1]	(1,699)	45	(1,654)
As at 30 June 2024	**2,897,818**	**9,432**	**2,907,250**

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

(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 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.

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.

12 Fair value (continued)

(b) Financial instruments not measured at fair value (continued)

Borrowings

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

Other financial assets and financial liabilities

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

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

		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	6,113,504	6,094,332	5,973,492	5,967,239
Other borrowings	Level 2	1,384,343	1,382,302	2,042,396	2,040,763
Total financial liabilities		**7,497,847**	**7,476,634**	**8,015,888**	**8,008,002**

Risk Management

13 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 for the year ended 30 June 2024.

14 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 statement of financial position, where investments exclude total equity investments and finance receivables measured at amortised cost are presented gross of provision for losses on guaranteed future value products as they do not give rise to credit risk exposure.

$000's	Unaudited December 2024
On balance sheet:	
Cash and cash equivalents	376,557
Investments	891,035
Finance receivables measured at amortised cost	3,903,601
Finance receivables - reverse mortgages	3,137,924
Derivative financial assets	5,168
Collateral paid	13,457
Other financial assets	3,513
Total on balance sheet credit exposures	**8,331,255**
Off balance sheet:	
Letters of credit, guarantee commitments and performance bonds	2,780
Undrawn facilities available to customers	587,046
Conditional commitments to fund at future dates	8,839
Total off balance sheet credit exposures	**598,665**
Total credit exposures	**8,929,920**

(b) Concentration of credit risk by geographic region

$000's	Unaudited December 2024
New Zealand	5,469,205
Australia	3,317,089
Rest of the world [1]	223,100
	9,009,394
Provision for impairment	(79,474)
Total credit exposures	**8,929,920**

[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.

14 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 2024
Agriculture	1,041,726
Forestry and fishing	101,957
Mining	10,967
Manufacturing	64,947
Finance and insurance	1,202,850
Wholesale trade	36,855
Retail trade and accommodation	369,070
Households	4,864,222
Other business services	312,797
Construction	303,786
Rental, hiring and real estate services	190,924
Transport and storage	408,713
Other	100,580
	9,009,394
Provision for impairment	(79,474)
Total credit exposures	**8,929,920**

(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 2024.

14 Credit risk exposure (continued)

(d) Credit exposure to individual counterparties (continued)

	Unaudited Number of Exposures As at December 2024	Unaudited Number of Exposures Peak End-of-Day over 6 Months to December 2024
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	1
15% to less than 20% of CET1 capital	1	-
20% to less than 25% of CET1 capital	-	-
25% to less than 30% of CET1 capital	-	1
30% to less than 35% 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 have a long-term credit rating of A- or A3 or above.	1	2
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.	-	-

15 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 commitments as the related allowances for ECL are not material to the Banking Group.

(a) Past due but not individually impaired

$000's	Corporate	Residential[1]	All Other	Total
Unaudited - December 2024				
Less than 30 days past due	52,276	6,365	47,366	106,007
At least 30 but less than 60 days past due	29,760	808	13,301	43,869
At least 60 but less than 90 days past due	13,244	809	8,002	22,055
At least 90 days past due	105,662	20,337	30,578	156,577
Total past due but not individually impaired	**200,942**	**28,319**	**99,247**	**328,508**

[1] Includes $23.4 million of past due finance receivables - reverse mortgages which are measured at FVTPL.

15 Asset quality (continued)

(b) Provision for impairment

$000's	Collectively Assessed Stage 1	Stage 2	Stage 3	Individually Assessed	Total
Unaudited - December 2024					
Corporate					
Impairment allowance as at 30 June 2024	**6,753**	**1,716**	**20,051**	**22,482**	**51,002**
Changes in loss allowance					
Transfer between stages[1]	(221)	(1,769)	1,619	371	-
New and increased provision (net of provision releases)[1]	1,086	5,769	9,402	19,640	35,897
Total impaired asset expense excluding recovery of amounts previously written off to the income statement	**865**	**4,000**	**11,021**	**20,011**	**35,897**
Write-offs	-	-	(10,114)	(11,705)	(21,819)
Effect of changes in foreign exchange rate	2	1	2	12	17
Impairment allowance as at 31 December 2024	**7,620**	**5,717**	**20,960**	**30,800**	**65,097**
Residential					
Impairment allowance as at 30 June 2024	**165**	**3**	**110**	**-**	**278**
Changes in loss allowance					
Transfer between stages[1]	(118)	-	-	118	-
New and increased provision (net of provision releases)[1]	59	(3)	-	(118)	(62)
Total impaired asset expense excluding recovery of amounts previously written off to the income statement	**(59)**	**(3)**	**-**	**-**	**(62)**
Effect of changes in foreign exchange rate	1	-	-	-	1
Impairment allowance as at 31 December 2024	**107**	**-**	**110**	**-**	**217**
All Other					
Impairment allowance as at 30 June 2024	**7,443**	**3,478**	**14,120**	**-**	**25,041**
Changes in loss allowance					
Transfer between stages[1]	(4,194)	(2,144)	6,338	-	-
New and increased provision (net of provision releases)[1]	1,488	2,690	11,025	-	15,203
Total impaired asset expense excluding recovery of amounts previously written off to the income statement	**(2,706)**	**546**	**17,363**	**-**	**15,203**
Write-offs	-	-	(26,094)	-	(26,094)
Effect of changes in foreign exchange rate	4	1	5	-	10
Impairment allowance as at 31 December 2024	**4,741**	**4,025**	**5,394**	**-**	**14,160**
Total					
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
Total impaired asset expense excluding recovery of amounts previously written off to the income statement	**(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**

[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.

15 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 2024					
Corporate					
Gross finance receivables as at 30 June 2024	**2,421,215**	**217,085**	**67,780**	**96,468**	**2,802,548**
Transfer between stages	(137,243)	58,496	37,762	40,985	-
Additions	339,051	-	-	79	339,130
Deletions	(443,165)	(32,935)	(23,207)	(16,177)	(515,484)
Write-offs	-	-	(10,114)	(11,705)	(21,819)
Effect of changes in foreign exchange rate	2,224	233	2	351	2,810
Gross finance receivables as at 31 December 2024	**2,182,082**	**242,879**	**72,223**	**110,001**	**2,607,185**
Residential					
Gross finance receivables as at 30 June 2024	**393,896**	**1,891**	**762**	-	**396,549**
Transfer between stages	(1,232)	(36)	95	1,173	-
Additions	24,213	-	-	-	24,213
Deletions	(102,324)	(1,849)	(152)	(1,173)	(105,498)
Write-offs	-	-	-	-	-
Effect of changes in foreign exchange rate	520	-	5	-	525
Gross finance receivables as at 31 December 2024	**315,073**	**6**	**710**	**-**	**315,789**
All Other					
Gross finance receivables as at 30 June 2024	**1,073,332**	**22,657**	**48,181**	-	**1,144,170**
Transfer between stages	(21,972)	1,729	20,243	-	-
Additions	325,655	-	-	-	325,655
Deletions	(363,382)	(4,353)	(15,910)	-	(383,645)
Write-offs	-	-	(26,094)	-	(26,094)
Effect of changes in foreign exchange rate	14	1	-	-	15
Gross finance receivables as at 31 December 2024	**1,013,647**	**20,034**	**26,420**	**-**	**1,060,101**
Total					
Gross finance receivables 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 as at 31 December 2024	**3,510,802**	**262,919**	**99,353**	**110,001**	**3,983,075**

15 Asset quality (continued)

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

The Banking Group's provision for impairment has increased by $3.2 million during the period as follows:

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

- A net increase in collective provisions of $5.8 million predominantly due to increase in provisions made against motor vehicles and business lending to corporate clients of $15.9 million as a result of diminished recoverability of these receivables attributable to depressed valuations of underlying securities, driven by further deterioration of economic conditions, partially offset by subsequent bad debt write-offs of $10.1 million.

- A net increase in individually assessed provisions of $8.3 million due to the transfer of $41.0 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.

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

The Banking Group's provision for impairment has reduced by $0.06 million. There has been no significant changes in gross exposures or staging of these exposures.

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

A net reduction in collective provisions of $10.9 million reflects:

- An increase in provisions of $15.2 million predominantly relating to motor vehicles lending as a result of diminished recoverability of these receivables attributable to depressed valuations of underlying motor vehicle securities held against these receivables, driven by further deterioration of economic conditions; and

- subsequent bad debt write-offs of $26.1 million which include the write-off of receivables and related increased provisions explained above.

(d) Other asset quality information

As at 31 December 2024 there were $0.294 million undrawn lending commitments available to counterparties for whom drawn balances are classified as individually impaired. As at 31 December 2024, the Banking Group had $2.031 million assets under administration.

16 Liquidity risk

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

$000's	Unaudited December 2024
Cash and cash equivalents	376,557
Investments	891,035
Total liquid assets	**1,267,592**
Undrawn committed bank facilities	165,775
Total liquid assets and committed undrawn funding	**1,433,367**

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 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 2024							
Non-derivative financial liabilities							
Deposits	975,920	3,892,706	1,060,146	169,224	129,796	-	6,227,792
Other borrowings	-	313,828	231,035	534,561	227,693	481,331	1,788,448
Due to related parties	-	2,995	-	-	-	-	2,995
Lease liabilities	-	2,221	2,247	3,918	9,187	-	17,573
Other financial liabilities	-	17,018	-	-	-	-	17,018
Total non-derivative financial liabilities	**975,920**	**4,228,768**	**1,293,428**	**707,703**	**366,676**	**481,331**	**8,053,826**
Derivative financial liabilities							
Inflows from derivatives	-	20,887	15,803	23,555	21,756	-	82,001
Outflows from derivatives	-	21,482	21,150	33,231	29,187	-	105,050
Total derivative financial liabilities	**-**	**595**	**5,347**	**9,676**	**7,431**	**-**	**23,049**
Undrawn facilities available to customers	587,046	-	-	-	-	-	587,046

17 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 2024							
Financial assets							
Cash and cash equivalents	376,557	-	-	-	-	-	376,557
Collateral paid	13,457						13,457
Investments	457,301	97,359	25,198	38,856	272,321	12,897	903,932
Derivative financial assets	-	-	-	-	-	5,168	5,168
Finance receivables measured at amortised cost	1,549,345	296,248	504,760	646,895	906,353	-	3,903,601
Finance receivables - reverse mortgages	3,137,924	-	-	-	-	-	3,137,924
Other financial assets	-	-	-	-	-	3,513	3,513
Total financial assets	**5,534,584**	**393,607**	**529,958**	**685,751**	**1,178,674**	**21,578**	**8,344,152**
Financial liabilities							
Deposits	3,204,599	1,573,589	1,014,835	155,534	107,403	38,372	6,094,332
Other borrowings	1,221,602	-	-	-	160,700	-	1,382,302
Derivative financial liabilities	-	-	-	-	-	21,726	21,726
Due to related parties	-	-	-	-	-	2,995	2,995
Lease liabilities	-	-	-	-	-	16,031	16,031
Other financial liabilities	-	-	-	-	-	17,018	17,018
Total financial liabilities	**4,426,201**	**1,573,589**	**1,014,835**	**155,534**	**268,103**	**96,142**	**7,534,404**
Effect of derivatives held for risk management	905,231	70,025	(191,490)	(380,946)	(402,820)	-	-
Net financial assets/(liabilities)	**2,013,614**	**(1,109,957)**	**(676,367)**	**149,271**	**507,751**	**(74,564)**	**809,748**

18 Concentrations of funding

(a) Concentration of funding by industry

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

$000's	Unaudited December 2024
Agriculture	112,889
Forestry and fishing	18,701
Mining	165
Manufacturing	16,862
Finance and insurance	2,315,924
Wholesale trade	9,062
Retail trade and accommodation	29,409
Households	4,465,336
Rental, hiring and real estate services	95,112
Construction	23,949
Other business services	340,321
Transport and storage	7,328
Other	41,576
Total borrowings	**7,476,634**

(b) Concentration of funding by geographical area

$000's	Unaudited December 2024
New Zealand	4,647,606
Australia	2,756,253
Rest of the world	72,775
Total borrowings	**7,476,634**

Other Disclosures

19 Capital adequacy and regulatory liquidity ratios - unaudited

The Reserve Bank of New Zealand (**RBNZ**) minimum regulatory capital requirements for banks have been established under the RBNZ Capital Adequacy Framework, outlined in the "Banking Prudential Requirements" (**BPRs**) documents. These documents are based on the international framework developed by the Bank for International Settlements Committee on Banking Supervision, commonly known as Basel III. These requirements define what is acceptable as capital and provide methods for measuring risks incurred by the banks in New Zealand. Basel III consists of three pillars:

- Pillar One covers the capital requirements for banks for credit, operational, and market risks;
- Pillar Two covers all other material risks not already included in Pillar One; and
- Pillar Three relates to market disclosure.

RBNZ Capital Adequacy Framework

Pursuant to the acquisition of Challenger Bank Limited (**CBL**), which was completed on 30 April 2024, RBNZ issued Conditions of Registration (**CoR**) for Heartland Bank Limited that modified how capital adequacy was to be calculated and applied after 1 July 2024. These included the requirement that Heartland Bank Limited must manage the capital requirements of the Banking Group and the New Zealand Banking Group in line with these CoR. Refer to New Zealand Banking Group disclosures – unaudited for further details.

The Banking Group has calculated its Risk Weighted Exposures (**RWEs**) and minimum regulatory capital requirements in accordance with the CoR and the BPR documents, where relevant. In doing so, the Banking Group has applied the following methodology:

- Calculated the total credit risk - Risk Weighted Assets (**RWAs**) for the New Zealand operations as per BPR130: Credit Risk RWAs;
- Calculated the total credit risk RWAs for HBA and its subsidiaries as per Australian Prudential Standard (**APS**)112 Capital Adequacy: Standardised Approach to Credit Risk and APS180 Capital Adequacy: Counterparty Credit Risk;
- Calculated the Banking Group's capital requirement for market risk exposure as per BPR140: Market Risk;
- Calculated the Banking Group's capital requirement for operational risk as per BPR150: Standardised Operational 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 and revaluation reserves.

Regulatory capital adequacy ratios are calculated by expressing capital as a percentage of RWEs. As a Condition of Registration, the Bank must comply with the following minimum requirements set by the RBNZ:

- Total capital of the Banking Group and New Zealand Banking Group must not be less than 11% of RWE[1]
- Tier 1 capital of the Banking Group and New Zealand Banking Group must not be less than 9% of RWE[1]
- CET1 capital of the Banking Group and New Zealand Banking Group must not be less than 6.5% of RWE[1]

[1] Includes the RBNZ's 2% capital overlay attached to the Bank's CoR.

In addition, if the Prudential Buffer Ratio (**PCR**) of the Banking Group 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 Bank's CoR.

Including the PCR, the Banking Group's minimum total capital requirement is 13.5%. 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 in New Zealand to gradually increase their Total Capital ratio to 16% by July 2028. The Banking Group's Total Capital ratio is 16.01% as at 31 December 2024, above this minimum requirement.

19 Capital adequacy and regulatory liquidity ratios - unaudited (continued)

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:

- 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;
- Support the future development and growth of the business; and
- Comply at all times with the regulatory capital requirements set by the RBNZ, whereas the Australian Banking Group, defined as consolidated group comprising HBA and its controlled entities incorporated in Australia, must comply at all times with the regulatory capital requirements set by APRA.

The Bank's Capital Management Framework includes its:

- Internal Capital Adequacy Assessment Process (**ICAAP**);
- Capital Stress Testing Policy; and
- Capital Management Plan (**CMP**)

The Banking Group has an ICAAP that complies with the requirements set out in BPR100 and follows its CoR. The ICAAP identifies the capital required to be held against other material risks, such as strategic business risk, reputational risk, regulatory risk, and additional credit risk. Stress testing conducted following the Capital Stress Testing Policy assists in this process.

The Banking Group actively monitors their capital adequacy through Group Asset and Liability Committee (**GALCO**) and report this regularly to the Board. This includes forecasting capital requirements to ensure that future capital requirements can be executed on time. The Banking Group uses a mix of capital instruments to reduce single-source reliance and optimise its mix of capital. The Board reviews the ICAAP, CMP, and Capital Stress Testing Policy annually.

19 Capital adequacy and regulatory liquidity ratios - unaudited (continued)

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 2024.

(a) Capital

$000's	Unaudited December 2024
Tier 1 Capital	
CET1 capital	
Paid-up ordinary shares issued by the Banking Group plus related share premium	1,045,060
Retained earnings (net of appropriations)	233,523
Accumulated other comprehensive income and other disclosed reserves[1]	(95,102)
Less deductions from CET1 capital	
Intangible assets	(260,587)
Deferred tax assets	(20,739)
Cash flow hedge reserve	8,786
Reverse Mortgage LVR greater than 100%[2]	(1,270)
Adjustment under the corresponding deductions approach - individual stakes exceeding 10%	(11,795)
Total CET1 capital	**897,876**
AT1 capital	-
Total Tier 1 capital	**897,876**
Tier 2 capital	
NZD subordinated notes[3]	100,000
Foreign exchange translation reserve	3,142
Total Tier 2 capital	**103,142**
Total capital	**1,001,018**

[1] Excludes Foreign exchange translation reserve which is included within Tier 2 Capital.

[2] Australian reverse mortgage LVRs for capital adequacy purposes are required to be calculated in accordance with APS112 Capital Adequacy: Standardised Approach to Credit Risk, which requires the property valuation to be the value at origination or, where relevant, on a subsequent formal revaluation. This has the effect of generally overstating LVRs in Australia as property values are not periodically updated (as compared to New Zealand) and therefore, some reverse mortgages in Australia are calculated with a LVR greater than 100% under this methodology. Had the Australian reverse mortgage property values been valued on the same basis as New Zealand reverse mortgage property values for LVR purposes, there would be no loans with LVR greater than 100%.

[3] Classified as a liability under NZ GAAP and excludes capitalised transaction costs.

(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.

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.

19 Capital adequacy and regulatory liquidity ratios - unaudited (continued)

(b) Capital structure (continued)

Reserves classified as CET1 capital

Fair value reserve	The 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, net of tax. Where the hedged item relating to the reserve is held against items which are not recorded at fair value on the balance sheet, the reserve is a deduction from CET1 capital.
Common control reserve	Common control reserve represents the difference between the consideration paid and the share capital of the transferred entities based on carrying amounts at the date of transfer.

Tier 2 capital

Tier 2 capital comprises foreign exchange translation reserve and subordinated debt securities as per BPR110: Capital Definitions.

Subordinated notes

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

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

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

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

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

Foreign exchange translation reserve

The foreign exchange reserve arises from the translation of financial statements of foreign operations into the presentation currency of the reporting entity. This reserve includes the cumulative gains and losses resulting from the translation of assets, liabilities, income, and expenses at different exchange rates.

19 Capital adequacy and regulatory liquidity ratios - unaudited (continued)

(c) Credit risk for the Banking Group

On balance sheet exposures

	Total Exposure After Credit Risk Mitigation $000's	Risk Weight %	Risk Weighted Exposure $000's
Unaudited - December 2024			
Sovereigns and central banks	492,633	0%	-
Multilateral development banks and other international organisations	205,265	0%	-
	53,497	20%	10,699
Public sector entities	135,324	20%	27,065
Banks	8,850	10%	885
	400,481	20%	80,096
	2,213	30%	664
	11,403	50%	5,702
Corporate	33,729	20%	6,746
	191,210	85%	162,528
	1,893,848	100%	1,893,848
	4,231	150%	6,346
Residential mortgages not past due	18,279	20%	3,656
	10,837	25%	2,709
	9,085	30%	2,725
	264,485	35%	92,570
	10,842	40%	4,337
	249	45%	112
	236	65%	153
Reverse mortgages	630,455	40%	252,182
	2,345,025	50%	1,172,513
	35,256	80%	28,205
	106,073	100%	106,073
	819	150%	1,228
Past due residential mortgages	597	80%	478
	3,581	100%	3,581
	16,407	150%	24,611
Other past due assets	4,011	20%	802
	7,638	30%	2,291
	69,894	100%	69,894
	60,978	150%	91,467
Equity holdings in the Business Growth Fund that qualify for 250% risk weight	-	250%	-
Equity holdings (not deducted from capital) included in the NZX50 or overseas equivalent index	-	300%	-
All other equity holdings (not deducted from capital)	1,087	400%	4,348
Other assets	1,405,393	100%	1,405,393
Non risk weighted assets	294,391	0%	-
Total on balance sheet exposures	**8,728,302**		**5,463,907**

19 Capital adequacy and regulatory liquidity ratios - unaudited (continued)

(c) Credit risk for the Banking Group (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
Unaudited - December 2024					
Commitments with certain drawdown as per APS 112	159,211	100%	159,211	50%	79,786
Performance-related contingency	2,780	50%	1,390	100%	1,390
Other commitments where original maturity is more than one year	338,693	50%	169,346	84%	141,833
Other commitments where original maturity is less than or equal to one year	732	20%	146	150%	219
Other commitments as per APS 112	97,248	40%	38,899	50%	19,257
Counterparty credit risk[1]					
Interest rate contracts	1,216,046	N/A	2,823	36%	1,028
Credit valuation adjustment	N/A	N/A	N/A	N/A	1,085
Total off balance sheet exposures	**1,814,710**		**371,815**		**244,598**

[1] The credit equivalent amount for market related contracts was calculated using the current exposure method.

Qualifying Central Counterparty (QCCP) exposures

	Trade exposure or collateral amount [1] $000's	Average Risk Weight %	Risk Weighted Exposure $000's
Unaudited - December 2024			
Bank as QCCP clearing member, clearing own trades	-	-	-
Collateral posted for clearing own trades	-	-	-
Bank as client of QCCP member, clearing trades through that member	-	-	-
Collateral posted for clearing via member bank	13,640	2%	273
Total QCCP exposures	**13,640**		**273**

[1] The Banking Group's total trade exposure includes cash in transit amounts at the end of the period.

19 Capital adequacy and regulatory liquidity ratios - unaudited (continued)

(d) Additional mortgage information – LVR range

In the table below, both New Zealand and Australian mortgage information is calculated in accordance with BPR131 loan to valuation ratio.

$000's	On Balance Sheet Exposures	Off Balance Sheet Exposures[1]	Total Exposures
Unaudited - December 2024			
Does not exceed 80%	3,443,460	323,016	3,766,476
Exceeds 80% and not 90%	5,940	265	6,205
Exceeds 90%	4,096	-	4,096
Total exposures	**3,453,496**	**323,281**	**3,776,777**

[1] Off balance sheet exposures means unutilised limits.

At 31 December 2024, there were no Welcome Home loans whose credit risk is mitigated by the Crown included in “Exceeds 90% residential mortgages”. For capital adequacy calculations only the value of the first mortgages over residential property is included in the LVR calculation, in accordance with BPR131: Standardised credit risk RWAs.

(e) Reconciliation of mortgage related amounts

$000's	Note	Unaudited December 2024
Gross finance receivables - reverse mortgages		3,137,924
Loans and advances - loans with residential mortgages	15(c)	299,675
Loans and advances - corporate lending secured on residential mortgages	15(c)	16,114
On balance sheet residential mortgage exposures subject to the standardised approach		**3,453,713**
Less: collective provision for impairment	15(b)	(217)
On balance sheet residential mortgage exposures after collective provision	19(d)	**3,453,496**
Off balance sheet mortgage exposures subject to the standardised approach	19(d)	323,281
Total residential exposures subject to the standardised approach	19(d)	**3,776,777**

(f) Credit risk mitigation

As at 31 December 2024 the Banking Group had $0.9 million of Welcome Home Loans (June 2024: $1.0 million), $19.8 million of Business Finance Guarantee Scheme (**BFGS**) loans (June 2024: $25.3 million) and North Island Weather Events (**NIWE**) loans of $27.7 million (June 2024: $30.9 million) whose credit risk is mitigated by the Crown.

The Banking Group also has eligible collateral paid from its correspondent banks in relation to derivatives it holds on its balance sheet, however no benefit has been attributed to the risk weighted assets held against these exposures.

(g) Operational risk

The Banking Group’s implied RWEs in the below table are calculated in accordance with BPR150: Standardised Operational Risk.

$000's	Implied Risk Weight Exposure	Total Operational Risk Capital Requirement
Unaudited - December 2024		
Operational risk	384,764	30,781

19 Capital adequacy and regulatory liquidity ratios - unaudited (continued)

(h) Market risk

Market risk is the risk that market interest rates or foreign exchange rates will change and impact on the Banking Group's earnings due to either mismatches between repricing dates of interest bearing assets and liabilities and/or differences between customer pricing and wholesale rates.

$000's	Implied Risk Weighted Exposure	Aggregate Capital Charge
Unaudited - December 2024		
Market risk end-of-period capital charge		
Equity risk	1,087	87
Interest rate risk	157,461	12,597
Foreign currency risk	1,095	88
Market risk peak end-of-period capital charges		
Equity risk	1,087	87
Interest rate risk	199,408	15,953
Foreign currency risk	1,373	110

The Banking Group's aggregate market exposure is derived in accordance with BPR140: Market risk exposure. Peak end-of-day capital charge disclosure is derived by taking the highest daily market exposure over the six months ended 31 December 2024. Interest rate, foreign exchange, and equity risks are calculated daily using a combination of static monthly and daily data sets.

Following the acquisition of CBL on 30 April 2024, the Banking Group calculated its interest rate risk relating to HBA under an agreed transitional arrangement that involved calculating HBA's interest rate risk on a best endeavours basis. The transitional arrangement concluded on 1 November 2024, with the Banking Group calculating its interest rate risk related to HBA in full compliance with BRP140 from that date.

(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 2024			
Total credit risk + equity	10,543,012	5,708,505	627,936
Operational risk	N/A	384,764	42,324
Market risk	N/A	159,643	17,561
Total	**10,543,012**	**6,252,912**	**687,821**

Total capital requirement in the above table is based on 9.0% RBNZ minimum total capital requirement effective 1 July 2024 and includes an additional 2% overlay imposed by the RBNZ.

19 Capital adequacy and regulatory liquidity ratios - unaudited (continued)

(j) Capital ratios

%	Unaudited December 2024	Unaudited December 2023
Capital ratios compared to minimum ratio requirements[1]		
Common Equity Tier 1 capital ratio	14.36%	12.04%
Minimum Common Equity Tier 1 capital ratio	6.50%	4.50%
Tier 1 capital ratio	14.36%	12.04%
Minimum Tier 1 capital ratio	9.00%	6.00%
Total capital ratio	16.01%	14.07%
Minimum Total capital ratio	11.00%	8.00%
Prudential capital buffer ratio		
Prudential capital buffer ratio	5.01%	6.04%
Buffer trigger ratio	2.50%	2.50%

[1] Effective 1 July 2024 the minimum Total and Tier 1 Capital Ratios increased from 8.0% to 9.0% and 6.0% to 7.0% respectively. In addition, the minimum ratios above include an additional 2.0% overlay imposed by RBNZ.

(k) Solo capital adequacy

%	Unaudited December 2024	Unaudited December 2023
Capital ratios		
Common Equity Tier 1 capital ratio	12.92%	11.91%
Tier 1 capital ratio	12.92%	11.91%
Total capital ratio	15.05%	13.94%

(l) Capital for other material risks

As at 31 December 2024, the Banking Group has identified no material risks requiring additional capital allocation (June 2024: nil).

(m) Regulatory liquidity ratios

RBNZ requires banks to hold minimum amounts of liquid assets to help ensure they effectively manage 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.

19 Capital adequacy and regulatory liquidity ratios - unaudited (continued)

(m) Regulatory liquidity ratios (continued)

Following the acquisition of CBL on 30 April 2024, the Banking Group calculated its liquidity ratios relating to HBA following an agreed transitional arrangement with the RBNZ for the period of six months from the date of acquisition of CBL, with the transitional arrangement ending on 1 November 2024 in line with CoR 11 and 11A. From 1 November 2024, the Banking Group has calculated its liquidity requirements relating to HBA in full compliance with the RBNZ's Liquidity Policy (**BS13**). In addition, enhancements identified through the transition period were applied retrospectively from 1 July 2024 to ratios calculated during the transitional period and, therefore, are captured in the values reported below, in full compliance with BS13.

	Unaudited Average for the 3 Months Ended December 2024	 September 2024
One-week mismatch ratio	16.11	18.97
One-month mismatch ratio	15.23	17.59
Core funding ratio	87.54	90.21

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

Insurance business

MIL, a subsidiary of HBL, ceased writing insurance policies in 2020 with the periodic policies expected to complete run-off in 2025.

As at 31 December 2024, the Banking Group's aggregate amount of insurance business comprises the total consolidated assets of MIL of $6.6 million (June 2024: $6.8 million), which represents 0.08% of the total consolidated assets of the Banking Group (June 2024: 0.07%).

Securitisation

As at 31 December 2024, the Banking Group had $1,171.2 million securitised assets (June 2024: $1,716.3 million).

The reduction in the Banking Group’s total securitised assets balance is mainly related to the repurchase of $359.0 million of motor vehicle loan receivables from HARWT by HBL.

The remaining reduction in securitised assets is mainly related to the repurchase of SWT2 reverse mortgage receivables of $97.7 million and repayment of StockCo Securitisation Trust 2022-1 (**StockCo Trust**) livestock finance receivables of $93.4 million.

There have been no other 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.

21 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, provisions have been made on a case by case basis.

Credit related commitments arising in respect of the Banking 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**

22 Events after reporting date

The Bank resolved to pay a cash dividend to its parent company HGH of $18.75 million on its ordinary shares 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 Banking Group's financial position, results of its operations or its state of affairs in subsequent periods.

New Zealand Banking Group disclosures - unaudited

For the six months ended 31 December 2024

Basis of preparation

These disclosures are presented for the New Zealand Banking Group (**"NZ Banking Group"**) for the six months ended 31 December 2024.

In accordance with the Conditions of Registration for Heartland Bank Limited, the NZ Banking Group is defined as all entities included in its Banking Group that are incorporated or otherwise established in New Zealand, but not including Marac Insurance Limited (**MIL**), which is consistent with the consolidation of subsidiaries for capital ratio calculations. As such, MIL and Heartland Bank Australia Limited (**HBA**) and its subsidiaries do not form part of the NZ Banking Group and are, therefore, excluded from consolidation for purposes of these disclosures.

The disclosures have been prepared based on the accounting policies that are consistent with the Banking Group interim financial statements, with the exception of principles of aggregation.

The Conditions of Registration contain specific requirements applicable to the NZ Banking Group. These disclosures are mainly focused on the NZ Banking Group's enterprise risk management including market, liquidity, balance sheet structure and operational risks, and contain relevant information that is considered appropriate by the Directors and is in accordance with the Conditions of Registration requirements for the NZ Banking Group applicable as at 31 December 2024.

These disclosures are presented in New Zealand dollars which is the NZ Banking Group's functional and presentation currency. Unless otherwise indicated, amounts are rounded to the nearest thousand dollars.

1. Enterprise Risk Management

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 2024.

New Zealand Banking Group disclosures - unaudited (continued)

2. Capital adequacy and regulatory liquidity ratios - unaudited

The RBNZ minimum regulatory capital requirements for banks have been established under the RBNZ Capital Adequacy Framework, outlined in the "Banking Prudential Requirements" (**BPRs**) documents. These documents are based on the international framework developed by the Bank for International Settlements Committee on Banking Supervision, commonly known as Basel III. These requirements define what is acceptable as capital and provide methods of measuring the risks incurred by the banks in New Zealand. Basel III consists of three pillars:

- Pillar One covers the capital requirements for banks for credit, operational, and market risks;
- Pillar Two covers all other material risks not already included in Pillar One; and
- Pillar Three relates to market disclosure.

RBNZ Capital Adequacy Framework

The NZ Banking Group has calculated its Risk Weighted Exposures (**RWEs**) and minimum regulatory capital requirements in accordance with the Conditions of Registration (**CoR**) and the BPR documents, where relevant. In doing so, the NZ Banking Group has applied the following methodology:

- Calculated the total credit risk as Risk Weighted Assets (**RWAs**) for the NZ Banking Group as per BPR 130: Credit Risk RWAs;
- Calculated the NZ Banking Group’s capital requirement for market risk exposure as per BPR140: Market Risk; and
- Calculated the NZ Banking Group's capital requirement for operational risk as per BPR150: Standardised Operational 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 RWEs. As a Condition of Registration (1AA), the NZ Banking Group must comply with the following minimum requirements set by the RBNZ:

- Total capital must not be less than 11% of RWE[1]
- Tier 1 capital must not be less than 9% of RWE[1]
- CET1 capital must not be less than 6.5% of RWE[1]
- NZ Banking Group capital must not be less than NZ$30m

[1] Includes the RBNZ’s 2% capital overlay attached to the Bank’s CoR.

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

Including the PCR, the NZ Banking Group's minimum total capital requirement is 13.5%. 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 in New Zealand to gradually increase their Total Capital ratio to 16% by July 2028. The NZ Banking Group's Total Capital ratio is 15.05% as at 31 December 2024. This means the revised Capital Framework (excluding any capital overlay) requires the NZ Banking Group to increase its Total Capital ratio by 0.95% over the transitional period.

New Zealand Banking Group disclosures - unaudited (continued)

2. Capital adequacy and regulatory liquidity ratios - unaudited (continued)

Capital management

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

The Bank’s objectives for the management of capital are to:

- 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;
- Support the future development and growth of the business; and
- Comply at all times with the regulatory capital requirements set by the RBNZ.

The Bank's Capital Management Framework includes its:

- Internal Capital Adequacy Assessment Process (**ICAAP**);
- Capital Stress Testing Policy; and
- Capital Management Plan (**CMP**)

The Bank has an ICAAP which complies with the requirements set out in BPR100 and is in accordance with its CoR. 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 Bank 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 NZ Banking Group uses a mix of capital instruments to reduce single source reliance and to optimise its 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 NZ Banking Group as at 31 December 2024.

New Zealand Banking Group disclosures - unaudited (continued)

2. Capital adequacy and regulatory liquidity ratios - unaudited (continued)

The capital adequacy tables set out below summarise the composition of regulatory capital and the capital adequacy ratios for the NZ Banking Group as at 31 December 2024.

a) Capital

$000's	December 2024
Tier 1 Capital	
CET1 capital	
Paid-up ordinary shares issued by the NZ Banking Group plus related share premium	1,045,060
Retained earnings (net of appropriations)	137,590
Accumulated other comprehensive income and other disclosed reserves	(9,638)
Less deductions from CET1 capital	
Intangible assets	(79,966)
Deferred tax assets	(20,740)
Cash flow hedge reserve	8,814
Adjustment under the corresponding deductions approach	
- Individual stakes exceeding 10%	(4,142)
- Investments in unconsolidated subsidiaries	(467,623)
Total CET1 capital	**609,355**
AT1 capital	-
Total Tier 1 capital	**609,355**
Tier 2 Capital	
Tier 2 capital instruments[1]	100,000
Total Tier 1 capital	**100,000**
Total capital	**709,355**

[1] Classified as a liability under NZ GAAP and excludes capitalised transaction costs. Refer to Note 19 - Capital adequacy and regulatory liquidity ratios of the Banking Group's interim financial statements for further details.

Refer to Note 19– Capital adequacy and regulatory liquidity ratios of the Banking Group's interim financial statements for further details for the capital structure.

New Zealand Banking Group disclosures - unaudited (continued)

2. Capital adequacy and regulatory liquidity ratios – unaudited (continued)

b) Credit risk

On balance sheet exposures

	Total Exposure After Credit Risk Mitigation $000's	Risk Weight %	Risk Weighted Exposure $000's
December 2024			
Sovereigns and central banks	27,760	0%	-
Multilateral development banks and other international organisations	205,265	0%	-
	53,497	20%	10,699
Public sector entities	135,324	20%	27,065
Banks	166,237	20%	33,247
	10,076	50%	5,038
Corporate	33,729	20%	6,746
	1,853,788	100%	1,853,788
Residential mortgages not past due	258,823	35%	90,588
	8,082	40%	3,233
Reverse mortgages	630,455	40%	252,182
	477,162	50%	238,581
	35,256	80%	28,205
	5,092	100%	5,092
Past due residential mortgages	3,520	100%	3,520
Other past due assets	4,011	20%	802
	7,638	30%	2,291
	69,894	100%	69,894
	26,653	150%	39,980
Equity holdings in the Business Growth Fund that qualify for 250% risk weight	-	250%	-
Equity holdings (not deducted from capital) included in the NZX50 or overseas equivalent index	-	300%	-
All other equity holdings (not deducted from capital)	1,087	400%	4,349
Other assets	1,395,863	100%	1,395,863
Non risk weighted assets	572,471	0%	-
Total on balance sheet exposures	**5,981,683**		**4,071,163**

New Zealand Banking Group disclosures - unaudited (continued)

2. Capital adequacy and regulatory liquidity ratios– unaudited (continued)

b) 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
December 2024					
Performance-related contingency	2,780	50%	1,390	100%	1,390
Other commitments where original maturity is more than one year	338,693	50%	169,346	84%	141,833
Other commitments where original maturity is less than or equal to one year	732	20%	146	150%	219
Counterparty credit risk[1]					
Interest rate contracts	1,216,046	N/A	2,823	36%	1,028
Credit valuation adjustment	N/A	N/A	N/A	N/A	1,085
Total off balance sheet exposures	**1,558,251**		**173,705**		**145,555**

[1]The credit equivalent amount for market related contracts was calculated using the current exposure method.

Qualifying Central Counterparty (QCCP) exposures

	Trade exposure or collateral amount[1] $000's	Average Risk Weight %	Risk Weighted Exposure $000's
December 2024			
Bank as QCCP clearing member, clearing own trades	-	-	-
Collateral posted for clearing own trades	-	-	-
Bank as client of QCCP member, clearing trades through that member	-	-	-
Collateral posted for clearing via member bank	13,640	2%	273
Total QCCP exposures	**13,640**		**273**

[1] The NZ Banking Group's total trade exposure includes cash in transit amounts at the end of the period.

c) Additional mortgage information - LVR range

$000's	On Balance Sheet Exposures	Off Balance Sheet Exposures[2]	Total Exposure
December 2024			
Does not exceed 80%	1,412,398	91,442	1,503,840
Exceeds 80% and not 90%	3,027	-	3,027
Exceeds 90%	2,965	-	2,965
Total exposures	**1,418,390**	**91,442**	**1,509,832**

[2]Off balance sheet exposures means unutilised limits.

2. Capital adequacy and regulatory liquidity ratios – unaudited (continued)

c) Additional mortgage information - LVR range (continued)

On 31 December 2024, there were no Welcome Home loans whose credit risk is mitigated by the Crown included in "Exceeds 90% residential mortgages". For capital adequacy calculations only the value of the first 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%.

d) Reconciliation of mortgage related amounts

$000's	December 2024
Gross finance receivables reverse mortgage	1,150,585
Loans and advances - loans with residential mortgages	257,704
Loans and advances – corporate lending secured on residential mortgage	10,225
On balance sheet residential mortgage exposure subject to the standardised approach	**1,418,514**
Less: collective provision for impairment	(124)
On balance sheet residential mortgage exposure after collective provision	**1,418,390**
Off balance sheet residential mortgage exposure subject to the standardised approach	91,442
Total residential exposures subject to the standardised approach	**1,509,832**

e) Credit risk mitigation

As at 31 December 2024, the NZ Banking Group had $0.9 million of Welcome Home Loans (June 2024: $1.0 million), $19.8 million of Business Finance Guarantee Scheme (**BFGS**) loans (June 2024: $25.3 million) and North Island Weather Events (**NIWE**) loans of $27.7 million (June 2024: $30.9 million) whose credit risk is mitigated by the Crown.

The NZ Banking Group also has eligible collateral paid from its correspondent banks in relation to derivatives it holds on its balance sheet, however no benefit has been attributed to the risk weighted assets held against these exposures.

f) Operational risk

NZ Banking Group's implied RWEs in the below table are calculated in accordance with BPR150: Standardised Operational Risk.

$000's	Implied Risk Weighted Exposure	Total Operational Risk Capital Requirement
December 2024		
Operational risk	338,248	27,060

New Zealand Banking Group disclosures - unaudited (continued)

2. Capital adequacy and regulatory liquidity ratios – unaudited (continued)

g) Market risk

Market risk is the risk that market interest rates or foreign exchange rates will change and impact on the NZ Banking Group's earnings due to either mismatches between repricing dates of interest-bearing assets and liabilities and/or differences between customer pricing and wholesale rates.

$000's	Implied Risk Weighted Exposure	Aggregate Capital Charge
December 2024		
Market risk		
Equity risk	1,087	87
Interest rate risk	157,460	12,597
Foreign currency risk	1,037	83
Market risk peak end-of-day capital charges		
Equity risk	1,087	87
Interest rate risk	199,408	15,953
Foreign currency risk	1,315	105

NZ Banking Group's aggregate market exposure is derived in accordance with BPR140. Peak end-of-day capital charge disclosure is derived by taking the highest daily market exposure over the six months ended 31 December 2024. Interest rate, foreign exchange, and equity risks are calculated daily.

h) Total capital requirement

$000's	Total Exposure After Credit Risk Mitigation	Risk Weighted Exposure or Implied Risk Weighted Exposure	Total Capital Requirement
December 2024			
Total credit risk + equity	7,539,934	4,216,718	463,839
Operational risk	N/A	338,248	37,207
Market risk	N/A	159,584	17,554
Total	**7,539,934**	**4,714,550**	**518,600**

Total capital requirement in the above table is based on 9.0% RBNZ minimum total capital requirement effective 1 July 2024 and includes an additional 2% overlay imposed by the RBNZ.

i) Capital for other material risks

As of 31 December 2024, the NZ Banking Group has identified no material risks requiring additional capital allocation (June 2024: nil).

New Zealand Banking Group disclosures - unaudited (continued)

2. Capital adequacy and regulatory liquidity ratios – unaudited (continued)

j) Capital ratio

%	December 2024	December 2023
Capital ratios compared to minimum ratio requirements[1]		
Common Equity Tier 1 Capital ratio	12.92%	12.04%
Minimum Common Equity Tier 1 Capital as per Conditions of Registration	6.50%	4.50%
Tier 1 Capital ratio	12.92%	12.04%
Minimum Tier 1 Capital as per Conditions of Registration	9.00%	6.00%
Total Capital ratio	15.05%	14.07%
Minimum Total Capital as per Conditions of Registration	11.00%	8.00%
Prudential capital buffer ratio		
Prudential capital buffer ratio	3.92%	6.04%
Buffer trigger ratio	2.50%	2.50%

[1] Effective 1 July 2024 the minimum Total Capital Ratios and Tier 1 Capital Ratios increased from 8.0% to 9.0% and 6.0% to 7.0% respectively. In addition, the minimum ratios above include an additional 2.0% overlay imposed by RBNZ.

k) Regulatory liquidity ratios - unaudited

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 1-month or 1-week period of stress. It is expressed as a ratio over the bank's total funding. The NZ Banking Group must maintain its 1-month and 1-week mismatch ratios above zero on a daily basis. The below 1-month and 1-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 NZ 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.

Refer to section 11B of the Conditions of Registration for further details.

	Average for 3 Months Ended 31 December 2024	Average for 3 Months Ended 30 September 2024
One-week mismatch ratio	11.23	10.05
One-month mismatch ratio	11.34	10.24
Core funding ratio	90.42	91.24

New Zealand Banking Group disclosures - unaudited (continued)

3. Credit exposure to individual counterparties

The NZ 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 NZ Banking Group's common equity tier one capital as at 31 December 2024.

	Number of Exposure As at December 2024	Number of Exposure Peak End-of-Day over 6 Months to December 2024
Exposure 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	-	-
15% to less than 20% of CET1 capital	-	-
20% to less than 25% of CET1 capital	1	-
25% to less than 30% of CET1 capital	-	-
30% to less than 35% of CET1 capital	-	1
With a long term credit rating of at least BBB- or Baa3, or its equivalent, and at most BBB+ or Baa1, or its equivalent:	-	-
Exposure 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

Conditions of Registration

The following changes to the Bank's Conditions of Registration (**CoR**) have occurred since the reporting date for the previous Disclosure Statement.

On 1 July 2024, HBL's conditions of registration were updated as follows:

Condition	Change Summary
1.	Total capital ratio requirements specific to the Banking Group have been changed. Capital requirements for the banking group were updated as follows: a) the Total capital ratio of the banking group is not less than 11%, as against 10%; b) the Tier 1 capital ratio of the banking group is not less than 9%, as against 8%;
1AA.	Capital requirements for the New Zealand banking group were updated as follows: a) the Total capital ratio of the New Zealand banking group is not less than 11%, as against 10%; b) the Tier 1 capital ratio of the New Zealand banking group is not less than 9%, as against 8%;
4A & 4C	Interim condition 4A relating to the reporting exemption now became redundant and was removed to require compliance with all requirements set out in BS8 Connected Exposures. The existing condition of registration 4C was numbered as 4A accordingly.
11 & 11A	Conditions of registration 11 &11A came into force six months after the date of completion of the acquisition transaction on 1 November 2024.
19–20	Bank's loan-to-value ratio (LVR) restrictions have been eased as follows: • from 5% limit for loans with LVR above 65% for investors, to 5% limit for loans with LVR above 70%, and • from 15% limit for loans with LVR above 80% for owner occupiers, to 20% limit for loans with LVR above 80%
28–29	Debt-to-income (**DTI**) restrictions were activated on the bank's qualifying new mortgage lending at settings of: • a 20% limit on new residential lending to investors with a DTI greater than 7; and • a 20% limit on new residential lending to owner-occupiers with a DTI greater than 6. Additionally, debt-to-income ratio and debt-to-income measurement period have been defined.

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 for the Bank and HBA on 29 October 2024.

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 2024 of Heartland Bank Limited (the "Bank") and the entities it controlled at 31 December 2024 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 statement of financial position as at 31 December 2024, the related statement of comprehensive income, statement of changes in equity and 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 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 Banking 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 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 and fair presentation 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

PricewaterhouseCoopers Auckland
26 February 2025

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 2024 (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 Bank's shareholder.

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 note 19 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 2024 or from time to time during the period (together, the "Banking Group"). 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 Banking 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.

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
26 February 2025

Auckland