HEARTLAND
GROUP

# Financial Statements

For the year ended 30 June 2025

# Contents

## General Information

These financial statements are issued by Heartland Group Holdings Limited (**HGH**) and its subsidiaries (the **Group**) for the year ended 30 June 2025.

**Name and address for service**

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

**Details of incorporation**

HGH was incorporated under the Companies Act 1993 on 19 July 2018.

## Auditor

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

## Other Material Matters

On 1 July 2025, the Depositor Compensation Scheme (**DCS**) came into effect under the Deposit Takers Act 2023. The DCS is a government-backed scheme, funded by deposit takers and administered by the Reserve Bank of New Zealand (**RBNZ**). In the event of a deposit taker's failure, the scheme covers each eligible depositor with deposits held in DCS-protected accounts up to $100,000 per deposit taker.

There are no other material matters relating to the business or affairs of the Group that are not disclosed in these consolidated financial statements which, if disclosed, would materially affect the decision of a person to subscribe for debt or equity instruments of which the Group is the issuer.

## Directors

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

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

There have been no other changes to the composition of the Board of Directors of the Group for the year ended 30 June 2025.

## Directors (continued)

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

**Chair – Board of Directors**
**Name:** Gregory Raymond Tomlinson
**Qualifications:** AME
**Type of Director:** Non-Independent Non-Executive Director
**Occupation:** Company Director

**External Directorships:** Alta Cable Holdings Limited, Chippies Vineyard Limited, Indevin Group Holdings Limited, Indevin Group Investments Limited, Indevin Group Limited, Mountbatten Trustee Limited, Nearco Stud Limited, Oceania Healthcare Limited, Pelorus Finance Limited, St Leonards Limited, Tomlinson Group Argenta GP Limited, Tomlinson Group NZ Limited, Tomlinson Holdings Limited, Tomlinson Group Investments Limited, Tomlinson Ventures Limited, Terra Vitae Vineyards Limited, Brandywine Vineyards Limited, Tomlinson Group HGH Limited.

**Name:** Simon Beckett
**Qualifications:** BSc (Hons), GAICD
**Type of Director:** Independent Non-Executive Director
**Occupation:** Company Director

**External Directorships:** ORDE Holdings Pty Ltd, ORDE Financial Pty Ltd, ORDE Capital Management Limited, ORDE Mortgage Custodian Pty Ltd, GeoSnapShot Pty Ltd, First Avenue Ventures Pty Ltd, First Avenue Capital Pty Ltd, Karia Technology Pty Ltd.

**Name:** Robert Bell
**Qualifications:** BBus
**Type of Director:** Independent Non-Executive Director
**Occupation:** Company Director

**External Directorships:** Liveheats Pty Ltd, 86 Elwood Pty Ltd, Home Finance Company PTE Limited, Moonova Payments Pty Ltd.

**Name:** Edward John Harvey
**Qualifications:** BCom, CA, CFInstD
**Type of Director:** Independent Non-Executive Director
**Occupation:** Company Director

**External Directorships** (excluding HGH subsidiaries): Napier Port Holdings Limited, Pomare Investments Limited, Port of Napier Limited.

**Name:** Kathryn Mitchell
**Qualifications:** BA, CMInstD
**Type of Director:** Independent Non-Executive Director
**Occupation:** Company Director

**External Directorships** (excluding HGH subsidiaries): Chambers@151 Limited, Christchurch International Airport Limited, Firsttrax Approvals Limited, Link Engine Management Limited, Link Engine Management International (NZ) Limited, Morrison Horgan Limited, The New Zealand Merino Company Limited, The A2 Milk Company Limited, Purepods Limited, MyRaceLab Limited, Link Engine Management (NZ) Limited, Link Engine Management USA Inc, Link Engine Management Pty Ltd, Link Engine Management EU B.V, Prorace Studio Limited, Link ECU Limited.

## Directors' Statements

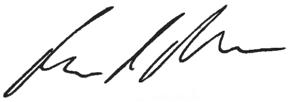
The financial statements are dated 20 August 2025 and have been signed by all Directors.

**G. R. Tomlinson (Chair)**

**E. J. Harvey**

**K. Mitchell**

**S. Beckett**



**R. Bell**

# STATEMENT OF COMPREHENSIVE INCOME

**For the year ended 30 June 2025**

| $000's | Note | June 2025 | June 2024 |
|---|---|---|---|
| Interest income: | | | |
| Effective interest method | 3 | 400,416 | 405,089 |
| Fair value through profit or loss | 3 | 305,449 | 255,943 |
| **Total interest income** | | **705,865** | **661,032** |
| Interest expense | 3 | 398,558 | 383,387 |
| **Net interest income** | | **307,307** | **277,645** |
| Operating lease income | 4 | 6,054 | 6,058 |
| Operating lease expense | 4 | 4,299 | 4,373 |
| **Net operating lease income** | | **1,755** | **1,685** |
| Lending and credit fee income | | 13,981 | 14,284 |
| Other (expense) | 5 | (1,776) | (2,946) |
| **Net operating income** | | **321,267** | **290,668** |
| Operating expenses | 6 | 192,543 | 139,386 |
| **Profit before net fair value gain/(loss) on equity investments and investment property, losses on guaranteed future value products, impaired asset expense and income tax** | | **128,724** | **151,282** |
| Net fair value gain/(loss) on equity investments and investment property | | 1,623 | (314) |
| Losses on guaranteed future value products | | 1,504 | — |
| Impaired asset expense | 8 | 71,638 | 46,423 |
| **Profit before income tax** | | **57,205** | **104,545** |
| Income tax expense | 9 | 18,392 | 29,996 |
| **Profit for the year** | | **38,813** | **74,549** |
| **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 | | (13,848) | (10,701) |
| Movement in fair value reserve | | 1,551 | 925 |
| Movement in foreign currency translation reserve | | (6,905) | 1,773 |
| **Items that will not be reclassified to profit or loss, net of income tax:** | | | |
| Movement in fair value of equity investments at fair value through other comprehensive income | | (1,805) | (3,152) |
| **Other comprehensive loss the year, net of income tax** | | **(21,007)** | **(11,155)** |
| **Total comprehensive income for the year** | | **17,806** | **63,394** |
| **Earnings per share** | | | |
| Basic earnings per share | 10 | 4.14 | 9.85 |
| Diluted earnings per share | 10 | 4.14 | 9.85 |

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

The accompanying notes form an integral part of the financial statements.

# STATEMENT OF CHANGES IN EQUITY

For the year ended 30 June 2025

| $000's | Note | June 2025 Share Capital | June 2025 Reserves | June 2025 Retained Earnings | June 2025 Total Equity | June 2024 Share Capital | June 2024 Reserves | June 2024 Retained Earnings | June 2024 Total Equity |
|---|---|---|---|---|---|---|---|---|---|
| **Balance at beginning of year** | | **1,018,954** | **(8,496)** | **227,411** | **1,237,869** | **800,712** | **6,240** | **224,052** | **1,031,004** |
| **Total comprehensive income for the year** | | | | | | | | | |
| Profit for the year | | – | – | 38,813 | 38,813 | – | – | 74,549 | 74,549 |
| Other comprehensive loss, net of income tax | 17 | – | (21,007) | – | (21,007) | – | (11,155) | – | (11,155) |
| **Total comprehensive income for the year** | | **–** | **(21,007)** | **38,813** | **17,806** | **–** | **(11,155)** | **74,549** | **63,394** |
| **Transactions with owners** | | | | | | | | | |
| Dividends paid | 16 | – | – | (46,665) | (46,665) | – | – | (71,190) | (71,190) |
| Dividends reinvestment plan | 16 | 9,321 | – | – | 9,321 | 13,476 | – | – | 13,476 |
| Transaction costs associated with capital raising | 16 | – | – | – | – | (6,254) | – | – | (6,254) |
| Share based payments | 28 | – | 721 | – | 721 | – | (2,816) | – | (2,816) |
| Share issuance | 16 | – | – | – | – | 210,255 | – | – | 210,255 |
| Vesting of share based payments | 28 | – | – | – | – | 765 | (765) | – | – |
| **Total transactions with owners** | | **9,321** | **721** | **(46,665)** | **(36,623)** | **218,242** | **(3,581)** | **(71,190)** | **143,471** |
| **Balance at end of the year** | | **1,028,275** | **(28,782)** | **219,559** | **1,219,052** | **1,018,954** | **(8,496)** | **227,411** | **1,237,869** |

The accompanying notes form an integral part of the financial statements.

# STATEMENT OF FINANCIAL POSITION

As at 30 June 2025

| $000's | Note | June 2025 | June 2024 |
|---|---|---|---|
| **Assets** | | | |
| Cash and cash equivalents | | 356,229 | 629,619 |
| Collateral paid | | 14,239 | — |
| Investments | 11 | 791,760 | 1,092,131 |
| Derivative financial instruments | 12 | 4,792 | 12,316 |
| Finance receivables measured at amortised cost | 13 | 3,711,450 | 4,266,946 |
| Finance receivables - reverse mortgages | 21 | 3,370,949 | 2,897,818 |
| Investment properties | | 4,390 | 3,660 |
| Operating lease vehicles | 14 | 15,561 | 18,261 |
| Right of use assets | 18 | 12,223 | 15,519 |
| Other assets | 18 | 43,233 | 35,185 |
| Current tax asset | | 35,449 | 16,767 |
| Intangible assets | 18 | 265,222 | 279,906 |
| Deferred tax asset | 9 | 21,953 | 23,727 |
| **Total assets** | | **8,647,450** | **9,291,855** |
| | | | |
| **Liabilities** | | | |
| Collateral received | | — | 2,384 |
| Deposits | 15 | 6,529,953 | 5,949,116 |
| Other borrowings | 15 | 825,454 | 2,040,763 |
| Derivative financial instruments | 12 | 20,660 | 9,017 |
| Lease liabilities | 18 | 14,390 | 17,776 |
| Trade and other payables | 18 | 36,620 | 34,930 |
| Deferred tax liability | 9 | 1,321 | — |
| **Total liabilities** | | **7,428,398** | **8,053,986** |
| **Net assets** | | **1,219,052** | **1,237,869** |
| | | | |
| **Equity** | | | |
| Share capital | 16 | 1,028,275 | 1,018,954 |
| Retained earnings and other reserves | 17 | 190,777 | 218,915 |
| **Total equity** | | **1,219,052** | **1,237,869** |

The accompanying notes form an integral part of the financial statements.

# STATEMENT OF CASH FLOWS

**For the year ended 30 June 2025**

| $000's | Note | June 2025 | June 2024 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Interest received | | 449,348 | 434,466 |
| Operating lease income received | | 5,417 | 5,288 |
| Lending, credit fees and other income received | | 11,337 | 9,345 |
| **Operating inflows** | | **466,102** | **449,099** |
| Interest paid | | (410,617) | (327,643) |
| Payments to suppliers and employees | | (179,419) | (130,662) |
| Taxation paid | | (31,420) | (46,842) |
| **Operating outflows** | | **(621,456)** | **(505,147)** |
| **Net cash flows applied to operating activities before changes in operating assets and liabilities** | | **(155,354)** | **(56,048)** |
| Collateral paid | | (42,680) | (67,120) |
| Collateral received | | 26,110 | 42,000 |
| Proceeds from sale of operating lease vehicles | | 2,561 | 2,219 |
| Purchase of operating lease vehicles | | (3,249) | (6,732) |
| Net decrease in finance receivables measured at amortised cost[1] | | 464,299 | 65,750 |
| Net (increase)/decrease in finance receivables - reverse mortgages | | (220,324) | 406,743 |
| Net movement in deposits | | 601,836 | 541,541 |
| **Net cash flows from operating activities** | | **673,199** | **928,353** |
| **Cash flows from investing activities** | | | |
| Purchase of property, plant and equipment and intangible assets | | (4,410) | (28,091) |
| Proceeds from investment securities | | 2,032,633 | 246,490 |
| Purchase of investment securities | | (1,725,205) | (637,399) |
| Cash acquired on acquisition of subsidiary | | — | 165,620 |
| Consideration adjustment related to acquisition of subsidiary | | 1,404 | — |
| Sale of equity investment | | 68 | — |
| Purchase of equity investment | | (252) | — |
| **Net cash flows from/(applied to) investing activities** | | **304,238** | **(253,380)** |
| **Cash flows from financing activities** | | | |
| Proceeds from wholesale borrowings | | 424,614 | 1,743,510 |
| Repayment of wholesale borrowings | | (1,311,047) | (2,362,786) |
| Proceeds from issue of unsubordinated notes | | — | 189,588 |
| Repayment of unsubordinated notes | | (321,347) | (123,764) |
| Proceeds from issue of subordinated debt | | — | 51,572 |
| Dividends paid | 16 | (37,344) | (57,714) |
| Payment of lease liabilities | | (3,723) | (3,044) |
| Net issue of share capital | 16 | — | 204,001 |
| **Net cash flows applied to financing activities** | | **(1,248,847)** | **(358,637)** |
| **Net (decrease)/increase in cash held** | | **(271,410)** | **316,336** |
| Effect of exchange rates on cash and cash equivalents | | (1,980) | 1,780 |
| Opening cash and cash equivalents | | 629,619 | 311,503 |
| **Closing cash and cash equivalents[2]** | | **356,229** | **629,619** |

[1]Cash flows during the year ended 30 June 2024 include proceeds from sale of reverse mortgage portfolio from the Group to Heartland Bank Australia Limited (**HBA**) prior to HBA's acquisition. Refer to Note 21 - Fair value for further details.

[2]At 30 June 2025, the Group has $66.3 million (2024: $176.0 million) of cash held by Trusts which may only be used for the purposes defined in the underlying Trust documents. Refer to Note 27 - Structured entities for definition of Trusts and further details.

The accompanying notes form an integral part of the financial statements.

## Statement of Cash Flows (continued)

For the year ended 30 June 2025

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

| $000's | Note | June 2025 | June 2024 |
|---|---|---|---|
| **Profit for the year** | | **38,813** | **74,549** |
| | | | |
| **Add/(less) non-cash items:** | | | |
| Depreciation and amortisation expense | | 17,145 | 12,129 |
| Depreciation on lease vehicles | 14 | 3,923 | 3,902 |
| Capitalised net interest income and fee income | | (278,849) | (186,389) |
| Impaired asset expense | 8 | 73,393 | 47,842 |
| Losses on guaranteed future value products | | 1,504 | — |
| Fair value movements | | (10,420) | (11,537) |
| Deferred tax | | 3,095 | (2,622) |
| Other non-cash items | | 2,821 | (3,110) |
| **Total non-cash items** | | **(187,388)** | **(139,785)** |
| | | | |
| **Add/(less) movements in operating assets and liabilities:** | | | |
| Finance receivables measured at amortised cost | | 464,299 | 65,750 |
| Finance receivables - reverse mortgages | | (220,324) | 406,743 |
| Operating lease vehicles | | (1,223) | (5,197) |
| Other assets | | (22,605) | 595 |
| Current tax | | (18,682) | (20,919) |
| Derivative financial instruments | | 19,167 | 26,060 |
| Deposits | | 601,836 | 541,541 |
| Other liabilities | | (694) | (20,984) |
| **Total movements in operating assets and liabilities** | | **821,774** | **993,589** |
| | | | |
| **Net cash flows from operating activities** | | **673,199** | **928,353** |

The accompanying notes form an integral part of the financial statements.

# Notes to the Financial Statements

For the year ended 30 June 2025

## 1 Financial statements preparation

### Reporting entity

The financial statements presented are the consolidated financial statements comprising Heartland Group Holdings Limited (**HGH**) and its controlled entities (the **Group**). Refer to Note 26 – Significant subsidiaries for further details.

HGH is a company incorporated in New Zealand under the Companies Act 1993 and a Financial Market Conduct (**FMC**) reporting entity for the purposes of the Financial Markets Conduct Act 2013 **(FMCA)**.

The Group is a designated climate reporting entity (**CRE**) and is required to produce annual mandatory group climate statements under the FMCA and Aotearoa New Zealand Climate Standards (**NZ CS**). A copy of the Climate Report will be available on HGH's website at **https:www.heartlandgroup.info/sustainability**, once issued. Refer to Note 22 - Enterprise risk management program for further details.

### Basis of preparation

The financial statements have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand (**NZ GAAP**), the New Zealand Exchange (**NZX**) Main Board Listing Rules and the Australian Securities Exchange (**ASX**) Listing Rules. The financial statements comply with New Zealand Equivalents to International Financial Reporting Standards (**NZ IFRS**) and other applicable Financial Reporting Standards as appropriate for profit-oriented entities. The financial statements also comply with International Financial Reporting Standards Accounting Standards (**IFRS Accounting Standards**) as issued by the International Accounting Standards Board.

The financial statements are presented in New Zealand dollars which is the Group's functional and presentation currency. Unless otherwise indicated, amounts are rounded to the nearest thousand dollars.

The financial statements have been prepared on a going concern basis after considering the Group's funding and liquidity position.

The accounting policies adopted have been applied consistently throughout the periods presented in these financial statements.

Certain comparative balances have been reclassified to align with the presentation used in the current financial year.

The Group has revised the presentation of individual line items and made the following changes in these financial statements including the comparative information for consistency with the current financial year presentation:

- Total Interest income of $661 million is disaggregated into two categories as interest calculated using the effective interest method of $405.1 million and interest derived from financial assets measured at fair value through profit or loss of $255.9 million in the statement of comprehensive income and Note 3 - Net interest income; and
- Collateral received of $2.4 million is presented separately from Trade and other payables in the statement of financial position. Collateral paid of $67.1 million and collateral received of $42.0 million are also presented separately from Payments to suppliers and employees within operating activities in the statement of cash flows.

These reclassifications have no impact on the overall financial performance, financial position or cash flows for the comparative year.

### Basis of measurement

The financial statements have been prepared on the basis of historical cost, except for certain financial instruments and investment properties, which are measured at their fair values as identified in the accounting policies set out in the accompanying notes to the financial statements.

## 1 Financial statements preparation (continued)

**Principles of consolidation**

The financial statements of the Group incorporate the assets, liabilities and results of all controlled entities. Controlled entities are all entities in which the Group is exposed to, or has rights to, variable returns from its involvement with the entities and has the ability to affect those returns through its power over the entities. Intercompany transactions, balances and any unrealised income and expense (except for foreign currency transaction gains or losses) between controlled entities are eliminated.

Assets and liabilities in a transactional currency that is not the New Zealand dollar, are translated at the exchange rates ruling at balance date. Revenue and expense items are translated at the average rate at the balance date. Exchange differences are taken to the statement of comprehensive income.

**Changes in accounting standards**

***Accounting standards issued and effective***

**Changes in accounting policy**

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

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

Refer to Note 12 - Derivative financial instruments for further details.

There have been no other changes to accounting policies or new or amended standards that are issued and effective that are expected to have a material impact on the Group.

***Accounting standards issued not yet effective***

***Presentation and Disclosure in Financial Statements (NZ IFRS 18)***

NZ IFRS 18 Presentation and Disclosure in Financial Statements (**NZ IFRS 18**) was issued in May 2024 to replace NZ IAS 1 Presentation of Financial Statements (**NZ IAS 1**) when applied.

NZ IFRS 18 will not have an impact on the recognition and measurement of items in the financial statements. However, it is expected to have a significant effect on their presentation and disclosure. These changes include categorisation and sub-totals in the statement of comprehensive income, aggregation/disaggregation and labelling of information, and disclosure of management defined performance measures.

NZ IFRS 18 will also result in consequential amendments to certain presentation and disclosure requirements in the financial statements and various IFRS Accounting Standards.

NZ IFRS 18 will be effective for the Group's reporting period beginning on 1 July 2027. The Group is currently assessing the impact and will disclose more detailed assessments in the future.

## 1 Financial statements preparation (continued)

**Changes in accounting standards (continued)**

***Accounting standards issued not yet effective (continued)***

***Amendments to the Classification and Measurement of Financial Instruments (the Amendments)***

The Amendments to NZ IFRS 9 and NZ IFRS 7 Financial Instruments: Disclosures (**NZ IFRS 7**) were issued in June 2024, in response to matters identified during the post-implementation review of the classification and measurement requirements of NZ IFRS 9.

The Amendments include guidance on classifying financial assets with non-recourse and social and corporate governance related features, clarification of recognition and derecognition timing for electronically settled financial instruments and disclosure requirements for investments designated as at fair value through other comprehensive income.

The Amendments will be effective for the Group's reporting period beginning on 1 July 2026. The Group is currently assessing the impact and will disclose more detailed assessment in the future.

Other new accounting standards, amendments to accounting standards and interpretations have been published that are not mandatory for the 30 June 2025 reporting periods and have not been early adopted by the Group. These standards, amendments or interpretations are not expected to have a material impact on the current or future reporting periods.

**Critical accounting estimates and judgements**

The preparation of the Group's financial statements requires the use of estimates and judgements. This note provides an overview of the areas that involve a higher degree of judgement or complexity. Detailed information about each of these estimates and judgements is included in the relevant notes together with the basis of calculation for each affected item in the financial statements.

- Provisions for impairment - The effect of credit risk is quantified based on the Group's best estimate of future cash repayments and proceeds from any security held or by reference to risk profile groupings, historical loss data and forward-looking information. Refer to Note 13 - Finance receivables measured at amortised cost for further details.
- Recognition of Banking Licence intangible asset - The recognition of Banking Licence intangible asset required judgement in determining external and internal costs directly attributable to the Group's joint application for an Australian Authorised Deposit-Taking Institution Licence with Heartland Bank Australia Limited. Judgement is also required to determine whether such costs fulfil the definition and recognition criteria of an intangible asset. Such costs include professional fees and costs of employee benefits arising directly from the licence application. Refer to Note 18 - Other balance sheet items for further details.
- Fair value of reverse mortgages - Fair value is quantified by the transaction price (cash advanced plus accrued capitalised interest). Judgement is applied in determining the appropriateness of the transaction price as fair value. Refer to Note 21 - Fair value for further details.
- Goodwill - The Group carries out impairment testing annually over the carrying value of goodwill of its cash generating units (CGU). Uncertainty is involved in estimating fair value less costs of disposal and judgement is applied in assumptions used to determine the recoverable amount of a CGU for impairment testing. Refer to Note 18 - Other balance sheet items for further details.
- Prior year acquisition of Heartland Bank Australia Limited (previously Challenger Bank Limited) – Fair value of the revised consideration transferred and fair values of the identifiable assets acquired and liabilities assumed. Judgement is applied in determining consideration and in the valuation of the acquiree's identifiable assets and liabilities assumed at the acquisition date. Refer to Note 19 – Acquisition for further details.

Assumptions made at each reporting date (e.g., the calculation of the provision for impairment and fair value adjustments) are based on best estimates as at that date. Although the Group has internal controls in place to ensure that estimates can be reliably measured, actual amounts may differ from these estimates. The estimates and judgements used in the preparation of the Group's financial statements are continually evaluated. They are based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity. Revisions to accounting estimates are recognised in the reporting period in which the estimates are revised and in any future periods affected.

## 1 Financial statements preparation (continued)

**Significant events**

On 27 June 2025, the Reserve Bank of New Zealand (**RBNZ**) approved Marac Insurance Limited (**MIL**) application to cancel its insurer licence and terminate MIL's statutory fund under the Insurance (Prudential Supervision) Act 2010 (**IPSA**).

Effective 27 June 2025, MIL is no longer licensed to carry out insurance business in New Zealand and is therefore no longer subject to the requirements of IPSA (which only apply to licensed insurers). In January 2020 MIL stopped underwriting insurance policies. Existing periodic policies written by MIL expired in January 2025.

**Financial assets and liabilities**

***Financial Assets***

Financial assets are classified based on:

- The business model within which the assets are managed; and
- Whether the contractual cash flows of the instrument represent solely payment of principal and interest (**SPPI**).

The Group determines the business model at the level that reflects how groups of financial assets are managed. When assessing the business model, the Group considers factors including how performance and risks are managed, evaluated and reported and the frequency and volume of, and reason for sales in previous periods.

Financial assets are classified into the following measurement categories:

| Financial Assets | Measurement Category | Note |
|---|---|---|
| **Government securities, bank bonds and floating rate notes** | Fair value through other comprehensive income (**FVOCI**) and fair value through profit or loss (**FVTPL**) | 11 |
| **Public sector securities and corporate bonds** | FVOCI | 11 |
| **Equity securities** | FVOCI and FVTPL | 11 |
| **Finance receivables – Reverse mortgages** | FVTPL | 21 |
| **Finance receivables** | Amortised cost | 13 |
| **Derivative financial instruments** | FVTPL | 12 |

*Financial assets measured at amortised cost*
Financial assets are measured at amortised cost if they are held within a business model whose objective is achieved through holding the financial asset to collect contractual cash flows which represent SPPI.

Financial assets at amortised cost are initially recognised at fair value and subsequently measured at amortised cost using the effective interest rate method.

*Financial assets measured at FVOCI*
Financial assets are measured at FVOCI if they are held within a business model whose objective is achieved both through collecting contractual cash flows which represent SPPI or selling the financial asset.

Financial assets at FVOCI are measured at fair value with unrealised gains and losses recognised in other comprehensive income except for interest income, impairment charges and foreign exchange gains and losses, which are recognised in profit or loss.

*Financial assets measured at FVTPL*
Financial assets are measured at FVTPL if:

- they are held within a business model whose objective is achieved through selling or repurchasing the financial asset in the near term, or forms part of a portfolio of financial instruments that are managed together and for which there is evidence of short-term profit taking; or
- the contractual cash flows of the financial asset do not represent SPPI on the principal balance outstanding; or
- they are designated at FVTPL upon initial recognition to eliminate or reduce an accounting mismatch.

Financial assets at FVTPL are measured at fair value with subsequent changes in fair value recognised in profit or loss.

## 1 Financial statements preparation (continued)

**Financial assets and liabilities (continued)**

***Financial Liabilities***

Financial liabilities are classified into the following measurement categories:

- those to be measured at amortised cost;
- those to be measured at FVTPL.

*Financial liabilities measured at amortised cost*
Financial liabilities are measured at amortised cost if they are not held for trading or designated at FVTPL.

Financial liabilities measured at amortised cost are accounted for using the effective interest rate method.

*Financial liabilities measured at FVTPL*
Financial liabilities are measured at FVTPL if:

- they are held for trading where the principal objective is achieved through selling or repurchasing the financial liability in the near term, or forms part of a portfolio of financial instruments that are managed together and for which there is evidence of short-term profit taking; or
- they are designated at FVTPL upon initial recognition to eliminate or reduce an accounting mismatch.

Financial liabilities at FVTPL are measured at fair value with subsequent changes in fair value recognised in profit or loss.

Further details of the accounting policy for each category of financial asset or financial liability mentioned above is set out in the note for the relevant item.

The Group's policies for determining the fair value of financial assets and financial liabilities are set out in Note 21 -Fair value.

**Recognition**

The Group initially recognises finance receivables and borrowings on the date that they are originated. All other financial assets and liabilities (including assets and liabilities designated at FVTPL) are initially recognised on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

**Derecognition**

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognised as a separate asset.

The Group enters into transactions whereby it transfers assets recognised on its statement of financial position but retains either all risks or rewards of the transferred assets or a portion of them. If all or substantially all risks and rewards are retained, then the transferred assets are not derecognised from the statement of financial position. Transfers of assets with the retention of all or substantially all risks and rewards include, for example, securitised assets and repurchase transactions.

Financial liabilities are derecognised when the obligation is discharged, cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, the exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, with the difference in the respective carrying amounts recognised in profit or loss.

# PERFORMANCE

## 2 Segmental analysis

Segment information is presented in respect of the Group's operating segments, consistent with those used for the Group's management and internal reporting. This information is presented in accordance with NZ IFRS and included in the measurement of segment profit or loss to enable the evaluation of the nature and financial effects of the Group's business activities and operating environment.

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

**Operating segments**

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

**Operating segments – New Zealand**

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

**Operating segment – Australia**

| | |
|---|---|
| **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, except for the geographical allocation between Australia and New Zealand. The Group does not rely on any single major customer for its revenue base.

During the year, the Group revised the disclosure of specific income and expenses included in the operating segment profit and concluded that personnel expenses are material for the CODM's assessment of operating segment performance and therefore, appropriate for disclosure as a separate line item. Comparative information within this note has been adjusted to align to the current year's basis for segmental analysis disclosure.

## 2 Segmental analysis (continued)

| $000's | Motor | Reverse Mortgages | Personal lending | Business | Rural | Australian Banking Group | Other | Total |
|---|---|---|---|---|---|---|---|---|
| *June 2025* | | | | | | | | |
| Net interest income | 69,467 | 55,861 | 5,187 | 49,144 | 32,686 | 94,749 | 213 | 307,307 |
| Lending and credit fee income | 5,298 | 2,472 | (187) | 3,595 | 511 | 2,292 | – | 13,981 |
| Net other income/(expense) | 765 | – | 10 | 1,085 | 1,469 | 641 | (3,991) | (21) |
| **Net operating income** | **75,530** | **58,333** | **5,010** | **53,824** | **34,666** | **97,682** | **(3,778)** | **321,267** |
| Personnel expenses | 5,524 | 2,030 | 3,289 | 5,762 | 2,253 | 21,458 | 58,031 | 98,347 |
| Other expenses | 1,653 | 3,516 | 2,089 | 1,394 | 869 | 30,796 | 53,879 | 94,196 |
| **Operating expenses** | **7,177** | **5,546** | **5,378** | **7,156** | **3,122** | **52,254** | **111,910** | **192,543** |
| **Profit/(loss) before fair value (loss)/gain on equity investments, impaired asset expense and income tax** | **68,353** | **52,787** | **(368)** | **46,668** | **31,544** | **45,428** | **(115,688)** | **128,724** |
| Net fair value (loss) on equity investments and investment property | – | – | – | – | – | – | 1,623 | 1,623 |
| Losses on guaranteed future value products | 1,504 | – | – | – | – | – | – | 1,504 |
| Impaired asset expense | 19,218 | – | 639 | 44,812 | 4,084 | 2,885 | – | 71,638 |
| **Profit/(loss) before income tax** | **47,631** | **52,787** | **(1,007)** | **1,856** | **27,460** | **42,543** | **(114,065)** | **57,205** |
| Income tax expense | – | – | – | – | – | 12,756 | 5,636 | 18,392 |
| **Profit/(loss) for the year** | **47,631** | **52,787** | **(1,007)** | **1,856** | **27,460** | **29,787** | **(119,701)** | **38,813** |
| **Total assets** | **1,687,763** | **1,233,272** | **178,625** | **853,011** | **731,819** | **3,169,630** | **793,330** | **8,647,450** |
| **Total liabilities**[1] | | | | | | | | **7,428,398** |
| *June 2024* | | | | | | | | |
| Net interest income | 58,909 | 46,586 | 5,156 | 62,090 | 34,652 | 68,617 | 1,635 | 277,645 |
| Lending and credit fee income | 3,908 | 2,651 | 198 | 3,935 | 374 | 3,218 | – | 14,284 |
| Net other income/(expense) | 1,194 | – | 543 | 1,145 | (443) | (839) | (2,861) | (1,261) |
| **Net operating income** | **64,011** | **49,237** | **5,897** | **67,170** | **34,583** | **70,996** | **(1,226)** | **290,668** |
| Personnel expenses | 3,475 | 1,800 | 4,099 | 7,436 | 2,510 | 21,215 | 26,594 | 67,129 |
| Other expenses | 1,153 | 3,566 | 2,726 | 1,677 | 671 | 20,563 | 41,901 | 72,257 |
| **Operating expenses** | **4,628** | **5,366** | **6,825** | **9,113** | **3,181** | **41,778** | **68,495** | **139,386** |
| **Profit/(loss) before fair value (loss)/gain on equity investments, impaired asset expense and income tax** | **59,383** | **43,871** | **(928)** | **58,057** | **31,402** | **29,218** | **(69,721)** | **151,282** |
| Fair value (loss) on equity investments | – | – | – | – | – | – | (314) | (314) |
| Losses on guaranteed future value products | – | – | – | – | – | – | – | – |
| Impaired asset expense | 24,329 | – | 1,476 | 17,527 | 2,428 | 663 | – | 46,423 |
| **Profit/(loss) before income tax** | **35,054** | **43,871** | **(2,404)** | **40,530** | **28,974** | **28,555** | **(70,035)** | **104,545** |
| Income tax expense | – | – | – | – | – | 7,644 | 22,352 | 29,996 |
| **Profit/(loss) for the year** | **35,054** | **43,871** | **(2,404)** | **40,530** | **28,974** | **20,911** | **(92,387)** | **74,549** |
| **Total assets** | **1,608,282** | **1,068,154** | **339,110** | **1,306,689** | **720,339** | **3,415,495** | **833,786** | **9,291,855** |
| **Total liabilities**[1] | | | | | | | | **8,053,986** |

[1]Total liabilities include $2,713 million (2024: $2,987 million) attributable to the Australian Banking Group segment.

## 3 Net interest income

***Policy***

Interest income and expense on financial instruments is measured using the effective interest rate method that discounts the financial instruments' future cash flows to their present value and allocates the interest income or expense over the life of the financial instrument. The effective interest rate is established on initial recognition of the financial assets or liabilities and is not subsequently revised. For financial instruments at amortised cost, the calculation of the effective interest rate includes all yield related fees and commissions paid or received that are an integral part of the underlying financial instrument.

Interest income is calculated based on the gross carrying amount of financial assets in stages 1 and 2 of the Group's expected credit losses (**ECL**) model and on the carrying amount net of the provision for ECL for financial assets in stage 3.

For financial instruments measured at FVTPL, interest is calculated based on the contractual rate. Fees and commissions related to the origination of these instruments are recognised within Lending and credit fee income and Operating expenses, respectively, at the time of the instruments initial recognition.

| **$000's** | **June 2025** | **June 2024** |
|---|---|---|
| **Interest Income** | | |
| ***Calculated using the effective interest method*** | | |
| Cash and cash equivalents | 12,302 | 12,952 |
| Investments measured at FVOCI | 33,152 | 12,082 |
| Finance receivables measured at amortised cost | 354,962 | 380,055 |
| **Total interest income calculated using the effective interest method** | **400,416** | **405,089** |
| ***Fair value through profit or loss*** | | |
| Investments measured at FVTPL | 7,416 | 4,186 |
| Finance receivables - reverse mortgages | 298,033 | 251,757 |
| **Total interest income on financial assets measured at FVTPL** | **305,449** | **255,943** |
| **Total interest income** | **705,865** | **661,032** |
| **Interest Expense** | | |
| ***Calculated using the effective interest method*** | | |
| Deposits | 311,922 | 240,758 |
| Other borrowings | 95,885 | 167,796 |
| **Total interest expense calculated using the effective interest method** | **407,807** | **408,554** |
| ***Fair value through profit or loss*** | | |
| Net interest (income) on derivative financial instruments | (9,249) | (25,167) |
| **Total net interest (income) on derivative financial instruments measured at FVTPL** | **(9,249)** | **(25,167)** |
| **Total interest expense** | **398,558** | **383,387** |
| **Net interest income** | **307,307** | **277,645** |

## 4 Net operating lease income

***Policy***

As a lessor, the Group retains substantially all the risks and rewards incidental to ownership of the assets and therefore, classifies the leases as operating leases. Rental income and expense from operating leases are recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term. Profits on the sale of operating lease assets are included as part of operating lease income. Current year depreciation and losses on the sale of operating lease assets are included as part of operating lease expenses. The leased assets are depreciated over their useful lives on a basis consistent with similar assets.

| $000's | June 2025 | June 2024 |
|---|---|---|
| **Operating lease income** | | |
| Lease income | 5,455 | 5,374 |
| Gain on disposal of lease assets | 599 | 684 |
| **Total operating lease income** | **6,054** | **6,058** |
| | | |
| **Operating lease expense** | | |
| Depreciation of lease assets | 3,923 | 3,902 |
| Direct lease costs | 376 | 471 |
| **Total operating lease expense** | **4,299** | **4,373** |
| | | |
| **Net operating lease income** | **1,755** | **1,685** |

## 5 Other income

*Policy*

**Rental income from investment properties**

Rental income from investment properties is recognised on a straight-line basis over the term of the relevant lease.

**Insurance income**

Insurance premium income and commission expense are recognised in profit or loss from the date of attachment of the risk over the period of the insurance contract. Claim expense is recognised in the profit or loss on an accrual basis once our liability to the policyholder has been confirmed under the terms of the contract.

**Fair value gain or loss on derivative financial instruments**

A fair value gain or loss associated with the effective portion of a derivative designated as a cash flow hedge is recognised initially in the hedging reserve. The ineffective portion of a fair value gain or loss and changes in the fair value of any derivatives not designated in a hedge relationship are recognised immediately in the statement of comprehensive income and disclosed within Other income. Refer to Note 12 - Derivative financial instruments for further details.

**Fair value gain or loss on non-derivative financial instruments**

A fair value gain or loss on certain non-derivative financial instruments are recognised in the statement of comprehensive income for financial instruments held at fair value through profit or loss. The cumulative gain or loss on debt instruments, recognised in other comprehensive income, is subsequently reclassified to profit or loss on disposal of the instrument. Refer to Note 11 – Investments for further details.

| $000's | June 2025 | June 2024 |
|---|---|---|
| Rental income from investment properties | 584 | 995 |
| Insurance income[1] | 63 | 209 |
| Fair value loss on derivative instruments measured at fair value[2] | (5,142) | (5,074) |
| Fair value gain/(loss) on non-derivative financial instruments[3] | 441 | (727) |
| Other income[4] | 1,943 | 4 |
| Foreign exchange gain | 335 | 1,647 |
| **Total other expense** | **(1,776)** | **(2,946)** |

[1]Insurance income includes net income from MIL. MIL ceased writing insurance policies in 2020, and coverage under all existing policies ended in January 2025. Refer to Significant events section within Note 1 - Financial statements preparation for further details.

[2]Includes a loss of $0.3 million (2024: $0.9 million gain) related to hedge ineffectiveness from cash flow hedge relationships. Refer to Note 12 - Derivative financial instruments for further details.

[3]Includes realised and unrealised losses on HBA's government securities, bank bonds and floating rate notes. Refer to Note 11 - Investments for further details.

[4]The increase in Other income for the year ended 30 June 2025 is primarily attributed to income generated from rural properties under the management of the Group.

## 6 Operating expenses

***Policy***

Operating expenses are recognised as the underlying service is rendered or over a period in which an asset is consumed or a liability is incurred.

| $000's | June 2025 | June 2024 |
|---|---|---|
| Personnel expenses[1] | 98,347 | 67,129 |
| Directors' fees | 2,196 | 1,507 |
| Superannuation | 3,594 | 2,088 |
| Depreciation - property, plant and equipment | 1,933 | 1,809 |
| Legal and professional fees[2] | 9,477 | 6,240 |
| Advertising and public relations | 3,137 | 3,017 |
| Depreciation - right of use asset | 3,703 | 3,252 |
| Technology services and communications | 20,960 | 14,386 |
| Customer administration costs | 11,117 | 11,876 |
| Customer onboarding costs | 2,730 | 2,717 |
| Occupancy costs | 3,038 | 2,588 |
| Amortisation of intangible assets | 11,509 | 5,516 |
| Other operating expenses[3] | 20,802 | 17,261 |
| **Total operating expenses** | **192,543** | **139,386** |

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

[2]Legal and professional fees include compensation of auditor which is disclosed in Note 7 - Compensation of auditor.

[3]Other operating expenses mainly comprise non-recoverable proportion of goods and services tax (**GST**), debt collection fees, insurance and project expenses.

## 7 Compensation of auditor

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

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

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

## 7 Compensation of auditor (continued)

The fees payable to the auditors, PricewaterhouseCoopers (**PwC**) and to the predecessor auditor of HBA and its controlled entities, Ernst & Young (**EY**), are outlined in the below table:

| $000's | June 2025 | June 2024 |
|---|---|---|
| **Fees paid to auditor - PwC** | | |
| **Audit and review of financial statements** | | |
| Current year[1] | 1,811 | 1,330 |
| Additional prior year[1] | 56 | 58 |
| **Total audit and review of financial statements** | **1,867** | **1,388** |
| | | |
| **Audit or review related services** | | |
| APRA regulatory reporting and Australian Financial Services Licence reporting assurance services - current year | 200 | – |
| APRA regulatory reporting and Australian Financial Services Licence reporting assurance services - additional for prior year | – | 22 |
| Insurance solvency return assurance services - current year | – | 4 |
| Insurance solvency return assurance services - additional for prior year | 4 | – |
| Registry assurance services | 12 | 11 |
| Trust deed reporting services | 3 | 3 |
| **Total audit or review related services** | **219** | **40** |
| | | |
| **Other assurance services and other agreed-upon procedures** | | |
| Greenhouse gas emissions assurance readiness assessment | – | 35 |
| Greenhouse gas emissions assurance services | 61 | 38 |
| **Total other assurance services and other agreed-upon procedures** | **61** | **73** |
| | | |
| **Other services** | | |
| Provision of executive reward survey report | 4 | – |
| **Total compensation paid to PwC** | **2,151** | **1,501** |
| | | |
| **Fees paid to auditor - EY** | | |
| **Audit and review of financial statements**[1] | **–** | 692 |
| **Audit or review related services** | | |
| APRA regulatory reporting and Australian Financial Services Licence reporting (assurance engagement) | – | 119 |
| **Other services**[2] | – | 332 |
| **Total compensation paid to EY** | **–** | **1,143** |
| | | |
| **Total compensation of auditor** | **2,151** | **2,644** |

[1]Fees are for both the audit of the annual financial statements and review of the interim financial statements. This includes limited assurance on disclosures of capital adequacy and regulatory liquidity requirements.

[2]Other services paid to EY in 2024 comprised actuarial services for reverse mortgages, actuarial services for stress testing, directors remuneration review, executive reward survey report, executive remuneration review, CPS 234 information security plan review, hedge accounting and other accounting advisory services, review of Australian banking policies and periodic assessment of StockCo funding facilities and facilitation of strategy review workshop. Except for the actuarial services for reverse mortgages stress testing, all other services were carried out prior to their appointment as external auditor.

## 8 Impaired asset expense

| $000's | June 2025 | June 2024 |
|---|---|---|
| Individually impaired asset expense | 24,730 | 13,705 |
| Collectively impaired asset expense | 48,663 | 34,137 |
| **Total impaired asset expense excluding recovery of amounts previously written off to the income statement** | **73,393** | **47,842** |
| | | |
| Recovery of amounts previously written off to the income statement | (1,755) | (1,419) |
| **Total impaired asset expense** | **71,638** | **46,423** |

Refer to Note –13 Finance receivables measured at amortised cost for provision for impairment details.

## 9 Taxation

*Policy*

**Income tax**

Income tax expense for the year comprises current tax and movements in deferred tax balances, including any adjustment required for prior years' tax expense. Income tax expense is recognised in profit and loss except to the extent that it relates to items recognised directly in other comprehensive income, in which case it is recognised in equity or other comprehensive income.

**Current tax**

Current tax is the expected tax payable or receivable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to the tax payable or receivable in respect of previous years. Current tax for current and prior years is recognised as a liability (or asset) to the extent that it is unpaid (or refundable).

**Deferred tax**

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for accounting purposes and the amounts used for taxation purposes. As required by NZ IAS 12 Income Taxes, a deferred tax asset is recognised only to the extent that it is probable that a future taxable profit will be available to realise the asset.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

**Goods and services tax (GST)**

Revenues, expenses and assets are recognised net of GST. As the Group is predominantly involved in providing financial services, only a proportion of GST paid on inputs is recoverable. The non-recoverable proportion of GST is treated as an expense or, if relevant, as part of the cost of acquisition of an asset.

**Income tax expense**

| $000's | June 2025 | June 2024 |
|---|---|---|
| **Income tax recognised in profit or loss** | | |
| **Current tax** | | |
| Current year | 16,722 | 35,997 |
| Adjustments for prior year | 2,520 | (879) |
| Tax at other rates | 973 | 590 |
| **Deferred tax** | | |
| Current year | 434 | (5,446) |
| Adjustments for prior year | (2,136) | (581) |
| Change in recognition of deferred tax | — | 372 |
| Tax at other rates | (121) | (57) |
| **Total income tax expense recognised in profit or loss** | **18,392** | **29,996** |
| **Income tax recognised in other comprehensive income** | | |
| **Current tax** | | |
| Investment securities at fair value in fair value reserve | 592 | 357 |
| Fair value movements in derivatives held in cash flow hedge reserve | (3,193) | (4,276) |
| **Total income tax benefit recognised in other comprehensive income** | **(2,601)** | **(3,919)** |

**Reconciliation of effective tax rate**

| | June 2025 | June 2024 |
|---|---|---|
| **Profit before income tax** | **57,205** | **104,545** |
| Tax at local income tax rate (NZ:28%, Australia:30%) | 16,868 | 29,797 |
| Adjusted tax effects of items not deductible | 1,140 | 1,287 |
| Adjustments for prior year | 384 | (1,460) |
| Change in recognition of deferred tax asset | — | 372 |
| **Total income tax expense** | **18,392** | **29,996** |

## 9 Taxation (continued)

**Deferred tax comprise the following temporary differences:**

| $000's | June 2025 | June 2024 |
|---|---|---|
| Employee entitlements | 3,253 | 2,636 |
| Share based payment | 202 | — |
| Provision for impairment | 20,881 | 21,528 |
| Intangibles and property, plant and equipment | (3,767) | (1,465) |
| Right of use assets | (3,536) | (4,180) |
| Lease liabilities | 4,152 | 4,834 |
| Deferred acquisition costs | (6) | (6) |
| Operating lease vehicles | (357) | (594) |
| Deferred income | (5,758) | (6,522) |
| Tax loss | 5,996 | 4,911 |
| Deductible prior year expense | — | 421 |
| Other temporary differences | (428) | 2,164 |
| **Total deferred tax** | **20,632** | **23,727** |
| **Opening balance of deferred tax** | **23,727** | **21,105** |
| Movement recognised in profit or loss | 1,823 | 6,084 |
| Transfer on acquisition of business | — | 820 |
| Utilisation of tax loss | (4,320) | (3,910) |
| Change in recognition of deferred tax asset | (598) | (372) |
| **Closing balance of deferred tax** | **20,632** | **23,727** |

**Imputation credit account**

| $000's | June 2025 | June 2024 |
|---|---|---|
| Imputation credits available for use in subsequent reporting periods | 48,761 | 46,427 |

## 10 Earnings per share

| | June 2025 | | | June 2024 | | |
|---|---|---|---|---|---|---|
| $000's | Earnings Per Share Cents | Net Profit After Tax $000's | Weighted Average No. of Shares 000's | Earnings Per Share Cents | Net Profit After Tax $000's | Weighted Average No. of Shares 000's |
| Basic Earnings | 4.14 | 38,813 | 936,613 | 9.85 | 74,549 | 757,046 |
| Diluted Earnings | 4.14 | 38,813 | 936,613 | 9.85 | 74,549 | 757,046 |

# FINANCIAL POSITION

## 11 Investments

***Policy***

Investments are classified into one of the following categories:

**Fair value through other comprehensive income**

Investments under this category are held within a business model whose objective is achieved both through collecting contractual cash flows or selling the financial asset. These investments include debt securities such as bank bonds, floating rate notes, public sector securities and corporate bonds, and equity securities where the Group has irrevocably elected at initial recognition to measure at FVOCI. These are initially measured at fair value, including transaction costs, and subsequently carried at fair value. Changes in fair value of these investments are recognised in other comprehensive income and presented within the fair value reserve.

The cumulative gain or loss on debt securities, recognised in other comprehensive income, is subsequently reclassified to the statement of comprehensive income on disposal and disclosed within Other income.

**Fair value through profit or loss**

Investments under this category are held within a business model whose objective is achieved through selling the financial asset. These investments include government securities, bank bonds, floating rate notes and equity securities and are measured at fair value plus transaction costs. Changes in fair value of these investments are recognised in profit or loss in the period in which they occur.

| $000's | June 2025 | June 2024 |
|---|---|---|
| **Investments measured at FVOCI** | | |
| Bank bonds | 276,287 | 270,581 |
| Public sector securities and corporate bonds | 500,658 | 101,235 |
| Equity investments | 5,664 | 7,575 |
| | | |
| **Investments measured at FVTPL** | | |
| Government securities, bank bonds and floating rate notes[1] | 2,174 | 706,840 |
| Equity investments | 6,977 | 5,900 |
| **Total investments** | **791,760** | **1,092,131** |

[1]Includes HBA's investments acquired prior to the acquisition of HBA by HBL on 30 April 2024. Effective 1 July 2024, HBA has adopted a business model whose objective is achieved through both the collection of contractual cash flows and the sale of debt securities. Accordingly, HBA's newly acquired debt securities have been measured at FVOCI, in alignment with the Group's policies. Refer to Note 21 - Fair value for further details.

## 12 Derivative financial instruments

***Policy***

The Group uses derivatives for risk management purposes. Derivatives held for risk management purposes are placed into hedges that either meet hedge accounting requirements, or economic hedges not placed into an accounting hedge relationship.

Derivatives are recognised at their fair value, with the derivatives being carried as assets when their fair value is positive and as liabilities when their fair value is negative.

Derivative instruments that do not qualify for hedge accounting are held as economic hedges. Changes in the fair value of any derivative instrument that does not qualify for hedge accounting are recognised immediately in the statement of comprehensive income and disclosed within Other income.

A hedged item is an asset, liability, firm commitment or highly probable forecast transaction that exposes the Group to risk of changes in fair value or cash flows, and that is designated as being hedged.

The criteria that must be met for a relationship to qualify for hedge accounting under NZ IFRS 9 include:

- the hedging relationship must be formally designated and documented at inception of the hedge,
- prospective effectiveness testing must be carried out at the inception of the hedging relationship, and on an on-going basis to ensure the hedge is effective, consistent with the originally documented risk management strategy, and
- the instruments or counterparty must be a third party external to the Group.

The Group documents, at the inception of the transaction, the relationship between hedged items and hedging instruments, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair value or cash flows of hedged items.

The Group determines whether an economic relationship between the hedged item and the hedging instrument exists based on an assessment of the qualitative characteristics of this hedged item and the hedged risk, supported by quantitative analysis. Close alignment of the critical terms of the hedged item and hedging instrument is also considered a strong indication of the presence of an economic relationship by the Group.

The Group establishes a hedge ratio by aligning the par amount of the exposure to be hedged and the notional amount of the interest rate swap designated as a hedging instrument and measures prospective hedge effectiveness at inception and on an ongoing basis using regression analysis. Hedge ineffectiveness is the extent to which the changes in the fair value of the derivative hedging instrument do not offset those of the hedged item.

If a hedging relationship ceases to meet the hedge effectiveness requirement relating to the hedge ratio while the risk management objective for that hedging relationship remains the same, the Group adjusts the hedge ratio so that it meets the qualifying criteria again, allowing the continuation of a hedging relationship.

Hedge ineffectiveness may arise from timing difference on repricing between the hedged item and the hedging instrument, difference in timing of their cash flows, or due to changes in the counterparties' credit risk affecting the fair value of hedging instruments.

If the hedge no longer meets the criteria for hedge accounting, it is discontinued prospectively from the date on which the qualifying criteria are no longer met. This includes instances when the hedging instrument expires or is sold, terminated or exercised.

## 12 Derivative financial instruments (continued)

***Policy (continued)***

**Fair value hedge accounting**

The Group applies fair value hedge accounting to hedge movements in the value of fixed interest assets and liabilities subject to interest rate risk.

Subsequent to initial designation, changes in the fair value of derivatives that are designated and qualify for fair value hedge accounting are recorded through profit or loss alongside any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

Where the hedged item is carried at amortised cost, the movement in fair value of the hedged item attributable to the hedged risk is made as an adjustment to the carrying value of the hedged asset or liability. When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, the adjustment to carrying amount of a hedged item carried at amortised cost is amortised to the statement of comprehensive income on an effective yield basis over the remaining period to maturity of the hedged item. Where a hedged item carried at amortised cost is derecognised from the balance sheet, the adjustment to the carrying amount of the asset or liability is immediately transferred to the statement of comprehensive income.

**Cash flow hedge accounting**

The Group applies cash flow hedge accounting to hedge the variability in highly probable forecast future cash flows attributable to interest rate risk on variable interest rate components of financial liabilities.

A fair value gain or loss associated with the effective portion of a derivative designated as a cash flow hedge is recognised initially in the hedging reserve. The ineffective portion of a fair value gain or loss is recognised immediately in the statement of comprehensive income.

When a hedging derivative expires or is sold, the hedge no longer meets the criteria for hedge accounting, the cumulative gain or loss on the hedging derivative remains in the cash flow hedging reserve until the forecast transaction occurs and affects income, at which point it is transferred to the corresponding income or expense line. If a forecast transaction is no longer expected to occur, the cumulative gain or loss on the hedging derivative previously reported in the cash flow hedging reserve is immediately transferred to the statement of comprehensive income.

The Group elected to apply NZ IFRS 9 to account for designated hedge relationships, transitioning from the previous accounting standard NZ IAS 39 prospectively from 1 July 2024. Refer to Changes in accounting policy section in the Note 1 – Financial statements preparation for further details.

The Group's approach to managing market risk, including interest rate risk, is disclosed in Note 25 – Interest rate risk. The Group actively manages residual interest rate risk from the net exposure of its underlying assets and liabilities, associated with the mismatch of the interest rate repricing profiles of its interest earning assets and interest bearing liabilities, by entering into interest rate swaps to hedge against movements in interest rates.

## 12 Derivative financial instruments (continued)

Interest rate swaps are bilateral derivative contracts with commitments to exchange one set of cash flows for another resulting in an economic exchange of interest rates without exchange of principal. Interest rate swap notional values indicate the volume of transactions outstanding at the end of the financial year and provide basis for comparison with instruments recognised on the balance sheet but do not necessarily indicate the amounts of future cash flows involved, therefore don't indicate the Group's exposure to credit or market risks. The fair values of derivative instruments and their notional values are set out in the below table.

| $000's | June 2025 Notional Principal | June 2025 Fair Value Assets | June 2025 Fair Value Liabilities | June 2024 Notional Principal | June 2024 Fair Value Assets | June 2024 Fair Value Liabilities |
|---|---|---|---|---|---|---|
| *Interest rate related contracts* | | | | | | |
| Held as economic hedges | – | – | – | 344,598 | 293 | 782 |
| Designated as cash flow hedges | 854,635 | 175 | 11,456 | 885,903 | 4,658 | 4,609 |
| Designated as fair value hedges | 349,100 | 4,617 | 9,203 | 424,502 | 7,365 | 3,626 |
| **Interest rate related contracts** | **1,203,735** | **4,792** | **20,659** | **1,655,003** | **12,316** | **9,017** |
| *Foreign currency related contracts* | | | | | | |
| Held as economic hedges | 1,044 | – | 1 | – | – | – |
| **Foreign currency related contracts** | **1,044** | **–** | **1** | **–** | **–** | **–** |
| **Total derivative financial instruments** | **1,204,779** | **4,792** | **20,660** | **1,655,003** | **12,316** | **9,017** |

Cash flow hedge accounting is applied to interest rate swaps designated as hedges of the Group's floating rate domestic borrowings and deposits by using 'receive floating / pay fixed' interest rate swaps to fix the cost of floating interest rate deposits and borrowings.

Fair value hedge accounting is applied to receive fixed interest rate swaps designated as hedges of interest rate risk arising from fixed-rate subordinated notes and retail bond, and to pay fixed interest rate swaps designated as hedges of interest rate risk arising from fixed-rate investment securities.

The following table shows the maturity and interest rate risk profiles of the interest rate swaps as hedging instruments in continuing fair value and cash flow hedge relationships.

| $000's | 0-6 Months | 6-12 Months | 1-2 Years | 2-5 Years | 5+ Years | Total |
|---|---|---|---|---|---|---|
| **June 2025** | | | | | | |
| **Interest rate risk** | | | | | | |
| **Cash flow hedge relationships** | | | | | | |
| *Pay fixed* | | | | | | |
| Nominal amounts | – | 60,000 | 422,741 | 371,894 | – | 854,635 |
| Average interest rate | – | 4.83% | 3.87% | 3.71% | – | |
| **Fair value hedge relationships** | | | | | | |
| *Pay fixed* | | | | | | |
| Nominal amounts | 5,000 | 10,000 | 21,500 | 212,600 | – | 249,100 |
| Average interest rate | 1.01% | 1.05% | 5.37% | 4.32% | – | |
| *Receive fixed* | | | | | | |
| Nominal amounts | – | – | – | 100,000 | – | 100,000 |
| Average interest rate | – | – | – | 4.30% | – | |
| **Total interest rate risk nominal amount** | **5,000** | **70,000** | **444,241** | **684,494** | **–** | **1,203,735** |

## 12 Derivative financial instruments (continued)

| $000's | 0-6 Months | 6-12 Months | 1-2 Years | 2-5 Years | 5+ Years | Total |
|---|---|---|---|---|---|---|
| **June 2024** | | | | | | |
| **Interest rate risk** | | | | | | |
| **Cash flow hedge relationships** | | | | | | |
| *Pay fixed* | | | | | | |
| Nominal amounts | 45,000 | 40,000 | 232,851 | 568,052 | – | 885,903 |
| Average interest rate | 5.20% | 5.15% | 4.71% | 4.59% | – | |
| **Fair value hedge relationships** | | | | | | |
| *Pay fixed* | | | | | | |
| Nominal amounts | 10,002 | 50,000 | 55,400 | 209,100 | – | 324,502 |
| Average interest rate | 1.63% | 0.73% | 0.47% | 4.59% | – | |
| Receive fixed | | | | | | |
| Nominal amounts | – | – | – | 100,000 | – | 100,000 |
| Average interest rate | – | – | – | 4.30% | – | |
| **Total interest rate risk nominal amount** | **55,002** | **90,000** | **288,251** | **877,152** | **–** | **1,310,405** |

The following table sets out the accumulated fair value adjustments arising from the corresponding fair value hedge relationships and the outcome of the changes in fair value of the hedged item as well as the hedging instruments used as the basis for recognising effectiveness.

| $000's | As at 30 June 2025<br>Carrying value | Accumulated amount of fair value hedge adjustment | For the year ended 30 June 2025<br>Gain/(loss) recognised in income statement |
|---|---|---|---|
| **Interest rate risk** | | | |
| Investments | 254,710 | 6,976 | 11,834 |
| Other borrowings | (102,876) | (2,749) | (3,470) |
| **Total** | **151,834** | **4,227** | **8,364** |
| **Interest rate swaps** | **(4,586)** | **(4,586)** | **(8,219)** |
| **Hedge ineffectiveness of financial instruments recognised in other income** | | | **145** |

| $000's | As at 30 June 2024<br>Carrying value | Accumulated amount of fair value hedge adjustment | For the year ended 30 June 2024<br>Gain/(loss) recognised in income statement |
|---|---|---|---|
| **Interest rate risk** | | | |
| Investments | 361,808 | (4,390) | 10,036 |
| Other borrowings | (99,706) | 721 | (4,610) |
| **Total** | **262,102** | **(3,669)** | **5,426** |
| **Interest rate swaps** | **3,739** | **3,739** | **(5,303)** |
| **Hedge ineffectiveness of financial instruments recognised in other income** | | | **123** |

## 12 Derivative financial instruments(continued)

The accumulated amount of fair value hedge adjustments included in the carrying amount of hedged items that have ceased to be adjusted for hedging gains and losses is nil (2024: nil).

The balance of the cash flow hedge reserve, amounts recognised in the reserve, and amounts transferred out of the reserve are shown in the following table.

| $000's | June 2025 | June 2024 |
|---|---|---|
| **Cash flow hedge reserve** | | |
| Balance at beginning of year | 4,374 | 15,075 |
| Transferred to the income statement | (3,690) | (744) |
| Net (loss)/gain from change in fair value | (13,351) | (14,233) |
| **Net movement before tax** | **(17,041)** | **(14,977)** |
| Tax on net movement in cash flow hedge reserve | 3,193 | 4,276 |
| **Balance at end of year** | **(9,474)** | **4,374** |

During the year ended 30 June 2025, a loss of $0.3 million (2024: $0.9 million gain) was recognised in fair value loss on derivative financial instruments in the statement of comprehensive income recorded within other income related to hedge ineffectiveness from cash flow hedge relationships.

There were no transactions for which cash flow hedge accounting had to be ceased as a result of the highly probable cash flows no longer being expected to occur (2024: nil).

There are $3.0 million of cumulative losses (2024: $2.5 million of cumulative gains) recognised in the cash flow hedge reserve on interest rate swaps for which hedge accounting is no longer applied on the basis that the associated variable cash flows are still expected to occur over the lifetime of the original hedge relationships. The associated cash flow hedge reserve is being released over the period of the original hedge relationship which has since been discontinued.

## 13 Finance receivables measured at amortised cost

***Policy***

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

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

| **$000's** | **June 2025** | **June 2024** |
|---|---|---|
| Gross finance receivables measured at amortised cost | 3,784,733 | 4,343,267 |
| Less provision for impairment | (71,779) | (76,321) |
| Less provision for losses on guaranteed future value products[1] | (1,504) | – |
| **Net finance receivables measured at amortised cost** | **3,711,450** | **4,266,946** |
| Due within one year | 1,068,661 | 1,050,448 |
| Due more than one year | 2,716,072 | 3,292,819 |
| Less provision for impairment | (71,779) | (76,321) |
| Less provision for losses on guaranteed future value products | (1,504) | – |
| **Net finance receivables measured at amortised cost** | **3,711,450** | **4,266,946** |

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

## 13 Finance receivables measured at amortised cost (continued)

*Policy*

**Impairment of finance receivables measured at amortised cost**

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

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

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

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

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

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

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

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

Where there has been a significant increase in credit risk.

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

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

**Credit quality of financial assets**

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

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

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

In determining whether credit risk has increased all available information relevant to the assessment of economic conditions at the reporting date are taken into consideration. To do this the Group considers its historical loss experience and adjusts this for current observable data based on a loss curve distribution.

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

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

## 13 Finance receivables measured at amortised cost (continued)

***Policy (continued)***

**Modification of contractual cash flows**

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

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

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

**Collectively assessed ECL (stage 1, 2 and 3)- New Zealand**

The Group's models for estimating ECL for each of its portfolios are based on the historical credit experience of those portfolios.The models assume that economic conditions remain static over time, and the provision is calculated as a point in time estimate. During the year, HBL has recalibrated the probabilities of default and loss given default to align modelled inputs with more recent observations and data. HBL had also determined that the likelihood of recovery for unsecured loans within Open for Business and Motor Finance portfolios with no established payment arrangements has significantly diminished, resulting in a full provision net of anticipated recoveries against those cohorts of loans. In addition, secured motor loans that are more than 365 days past due have been fully provisioned, net of expected recoveries from the sale of collateral.

Model overlays are required in circumstances where the existing inputs, assumptions and model techniques do not capture all risk factors relevant to the Group's lending portfolios. An overlay has been applied to allow for the ECL impacts of considering all possible outcomes (multiple economic scenarios or MES) on forward-looking loss rates. The overlay is determined by building distribution curves for each portfolio based on previous loss rates, which involves finding the probability for each loss rate based on historical loss experience. The MES-weighted loss rates for each portfolio are estimated by weighting all possible losses by their associated probabilities across the distribution curves. The MES-weighted loss rates are then compared against the base ECL rates for each portfolio, with the rate differential determined as the required adjustment for the portfolios.

The rate differential is then applied on each of the portfolios to derive the overlay. The total quantum of the overlay at 30 June 2025 is $3.16 million (2024: $1.78 million). This includes an overlay for geopolitical risk of $0.5 million (2024: nil), which represents the expected incremental losses arising from current global geopolitical uncertainty.

Judgement is applied in determining if the forward-looking loss rates represent the expected loss rates of the portfolios, noting that the actual performance of the portfolios may vary significantly from expectations. The below represents different components of the collective ECL, including the impact of incorporating forward-looking loss rates for MES and geopolitical overlay.

| | |
|---|---|
| Upside collective ECL (-10% shift) | $43.15m |
| Base collective ECL | $43.53m |
| MES-weighted collective ECL without geopolitical overlay | $46.19m |
| MES-weighted collective ECL with geopolitical overlay | $46.69m |

**Individually assessed ECL (stage 3)- New Zealand**

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 HBL's loans and associated ECL.

**ECL (stage 1,2 and 3) - Australia**

There have been no material changes to the ECL in HBA during the year ended 30 June 2025.

## 13 Finance receivables measured at amortised cost (continued)

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

| | Collectively Assessed | | | | |
|---|---|---|---|---|---|
| **$000's** | **Stage 1** | **Stage 2** | **Stage 3** | **Individually Assessed** | **Total** |
| ***June 2025*** | | | | | |
| **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] | (140) | (9,070) | 7,582 | 1,628 | — |
| New and increased provision (net of provision releases)[1] | 1,832 | 11,724 | 36,735 | 23,102 | 73,393 |
| **Credit impairment charge** | **1,692** | **2,654** | **44,317** | **24,730** | **73,393** |
| Write-offs | — | — | (55,494) | (22,417) | (77,911) |
| Effect of changes in foreign exchange rate | (24) | — | — | — | (24) |
| **Impairment allowance as at 30 June 2025** | **16,029** | **7,851** | **23,104** | **24,795** | **71,779** |
| ***June 2024*** | | | | | |
| **Impairment allowance as at 30 June 2023** | **13,009** | **2,463** | **21,499** | **16,295** | **53,266** |
| Changes in loss allowance | | | | | |
| Transfer between stages[1] | (769) | (5,687) | 4,478 | 1,978 | — |
| New and increased provision (net of provision releases)[1] | 1,954 | 8,422 | 25,739 | 11,727 | 47,842 |
| **Credit impairment charge** | **1,185** | **2,735** | **30,217** | **13,705** | **47,842** |
| Write-offs | — | — | (17,451) | (7,518) | (24,969) |
| Effect of changes in foreign exchange rate | — | (1) | 16 | — | 15 |
| Acquisition of subsidiary | 167 | — | — | — | 167 |
| **Impairment allowance as at 30 June 2024** | **14,361** | **5,197** | **34,281** | **22,482** | **76,321** |

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

## 13 Finance receivables measured at amortised cost (continued)

***Impact of changes in gross finance receivables measured at amortised cost on allowance for ECL***

| $000's | Collectively Assessed | | | | |
|---|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | Individually Assessed | Total |
| ***30 June 2025*** | | | | | |
| **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 | (216,671) | 79,265 | 103,381 | 34,025 | – |
| Additions | 1,255,780 | – | – | – | 1,255,780 |
| Deletions | (1,564,666) | (83,543) | (67,653) | (16,182) | (1,732,044) |
| Write-offs | – | – | (55,494) | (22,417) | (77,911) |
| Effect of changes in foreign exchange rate | (3,290) | (493) | – | (576) | (4,359) |
| **Gross finance receivables measured at amortised cost as at 30 June 2025** | **3,359,596** | **236,862** | **96,957** | **91,318** | **3,784,733** |
| ***30 June 2024*** | | | | | |
| **Gross finance receivables measured at amortised cost as at 30 June 2023** | **4,070,598** | **182,470** | **81,294** | **53,118** | **4,387,480** |
| Acquisition of subsidiary | 61,179 | – | – | – | 61,179 |
| Transfer between stages | (261,729) | 95,866 | 112,111 | 53,752 | – |
| Additions | 1,284,203 | – | – | – | 1,284,203 |
| Deletions | (1,269,748) | (36,077) | (60,382) | (2,592) | (1,368,799) |
| Write-offs | (226) | (628) | (16,305) | (7,810) | (24,969) |
| Effect of changes in foreign exchange rate | 4,166 | 2 | 5 | – | 4,173 |
| **Gross finance receivables measured at amortised cost as at 30 June 2024** | **3,888,443** | **241,633** | **116,723** | **96,468** | **4,343,267** |

**Impact of changes in gross exposures on loss allowances**

The Group's provision for impairment had a net reduction by $4.5 million during the year ended 30 June 2025 due to:

- A net reduction in collective provisions of $6.8 million reflecting:
  - An increase in provisions of $48.7 million predominantly relating to motor vehicles and business lending as a result of diminished recoverability and declining credit quality of these receivables attributed to further deterioration of economic conditions; and
  - subsequent bad debt write offs of $55.5 million which include the write -off of receivables and related increased provisions explained above.
- A net increase in individually assessed provisions of $2.3 million due to the transfer of $34.0 million total receivables within the business portfolio into this category which resulted in additional provisions of $24.7 million made against these loans due to the worsening economic conditions and declining security valuations caused by reduced demand. This is partially offset by subsequent bad debt write-offs of $22.4 million.

As at 30 June 2025, there were $0.86 million undrawn lending commitments available to counterparties for whom drawn balances are classified as individually impaired (2024: $0.03 million).

As at 30 June 2025, the contractual amount outstanding on loans to customers written off during the year and are still subject to enforcement activity was $19.12 million (2024: nil).

## 14 Operating lease vehicles

***Policy***

Operating lease vehicles are stated at cost less accumulated depreciation.

Operating lease vehicles are depreciated on a straight-line basis over their expected useful life after allowing for any residual values. The estimated lives of these vehicles vary up to five years. Vehicles held for sale are not depreciated but are tested for impairment.

| $000's | June 2025 | June 2024 |
|---|---|---|
| **Cost** | | |
| Opening balance | 26,191 | 22,913 |
| Additions | 3,416 | 6,732 |
| Disposals | (4,721) | (3,454) |
| **Closing balance** | **24,886** | **26,191** |
| | | |
| **Accumulated depreciation** | | |
| Opening balance | 7,930 | 5,947 |
| Depreciation charge for the year | 3,923 | 3,902 |
| Disposals | (2,528) | (1,919) |
| **Closing balance** | **9,325** | **7,930** |
| | | |
| Opening net book value | 18,261 | 16,966 |
| **Closing net book value** | **15,561** | **18,261** |

The future minimum lease payments receivable under operating leases not later than one year is $4.240 million (2024: $5.037 million), within one to five years is $4.758 million (2024: $7.192 million) and over five years is nil (2024: $0.002 million).

## 15 Borrowings

***Policy***

Borrowings and deposits are initially recognised at fair value including incremental direct transaction costs. They are subsequently measured at amortised cost using the effective interest method.

The Group hedges interest rate risk on certain debt issues. When fair value hedge accounting is applied to fixed rate debt issues, the carrying values are adjusted for changes in fair value related to the hedged risks.

The Group also uses repurchase agreements as a source of short term wholesale funding. The cash consideration received is recognised as a liability (Repurchase agreements) within Other borrowings.

Repurchase agreements are designated at FVTPL when they are managed as part of a trading portfolio, otherwise they are measured at amortised cost. The difference between the sale price and the repurchase price is recognised within interest expense.

| $000's | June 2025 | June 2024 |
|---|---|---|
| **Deposits** | | |
| Short-term interest bearing deposits | 1,417,823 | 1,399,189 |
| Non-interest bearing deposits | 38,369 | 38,193 |
| Term deposits | 5,073,761 | 4,511,734 |
| **Total deposits** | **6,529,953** | **5,949,116** |
| | | |
| **Other borrowings** | | |
| Unsubordinated notes | 128,747 | 458,019 |
| Subordinated notes | 156,854 | 153,732 |
| Securitised borrowings | 520,048 | 1,369,394 |
| Certificates of deposit | 19,805 | 59,618 |
| **Total other borrowings** | **825,454** | **2,040,763** |
| **Total deposits and other borrowings** | **7,355,407** | **7,989,879** |
| | | |
| Due within one year | 6,244,476 | 6,150,044 |
| Due more than one year | 1,110,931 | 1,839,835 |
| **Total deposits and other borrowings** | **7,355,407** | **7,989,879** |

Deposits and unsubordinated notes rank equally and are unsecured.

**Unsubordinated notes**

Unsubordinated notes include long-term retail bond and medium term notes. Medium term notes are issued in Australian dollars to eligible non-retail investors in compliance with applicable laws.

The Group has the following unsubordinated notes on issue at balance sheet date:

| Retail bond and medium term notes $000's | Frequency of interest repayment | June 2025 | June 2024 | Maturity date |
|---|---|---|---|---|
| NZ $20 million | Semi-annually | 20,298 | 20,302 | 27 March 2028 |
| AU $45 million[1] | Quarterly | – | 49,974 | 9 July 2024 |
| AU $30 million[1] | Quarterly | – | 33,285 | 9 July 2024 |
| AU $220million[1] | Quarterly | – | 242,543 | 13 May 2025 |
| AU $100 million | Quarterly | 108,449 | 111,915 | 5 October 2027 |
| **Total retail bond and medium term notes** | | **128,747** | **458,019** | |

[1]The repayment of the medium term notes was predominantly funded through retail deposits raised by HBA.

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

## 15 Borrowings (continued)

**Subordinated notes**

**NZD Subordinated notes**

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

*Interest payable*

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

*Early Redemption*

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

*Ranking*

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

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

**AUD Subordinated notes**

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

*Interest payable*

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

*Early Redemption*

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

*Ranking*

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

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

## 15 Borrowings (continued)

### Securitised borrowings

The Group had the following securitised borrowings outstanding as at 30 June 2025:

| Securitisation facility $000's | Currency | June 2025 Limit AUD | June 2025 Limit NZD | June 2025 Drawn | June 2024 Limit AUD | June 2024 Limit NZD | June 2024 Drawn | Maturity date |
|---|---|---|---|---|---|---|---|---|
| Heartland Auto Receivable Warehouse Trust (**HARWT**)[1] | NZD | — | 320,000 | 158,640 | — | 600,000 | 484,422 | 26 August 2026 |
| Seniors Warehouse Trust No.2 (**SWT2**)[2] | AUD | 260,000 | 280,687 | 230,133 | 750,000 | 821,198 | 596,669 | 8 May 2056 |
| StockCo Securitisation Trust 2021-1 (**StockCo**)[3] | AUD | — | — | — | 250,000 | 273,733 | 155,581 | Not applicable |
| Atlas 2020-1 Trust (**Atlas**)[4] | AUD | — | — | 131,275 | — | — | 132,722 | 24 September 2050 |
| **Total securitisation borrowings** | | | **600,687** | **520,048** | | **1,694,931** | **1,369,394** | |

[1]HARWT reduced its securitisation facility limit and partially repaid its securitised borrowings following the repurchase of its securitised assets by HBL during the year. Refer to Note 27 - Structured entities for further details.

[2]SWT2 reduced its securitisation facility limit as part of execution of its date-based calls and scheduled repayments of its securitised borrowings, in compliance with Australian Prudential Standard APS 120 Securitisation.

[3]StockCo facility undrawn limit was cancelled and drawn balance was fully repaid on 30 April 2025. Refer to Note 27 - Structured entities for further details.

[4]Atlas is a closed securitisation trust due to its predefined asset composition and outstanding borrowings balance, fixed throughout its operational life. As such, there is no facility limit applicable to Atlas issued notes.

- HARWT notes issued to investors are secured over motor vehicle loans.
- StockCo notes issued to investors were secured over livestock loans.
- SWT2 and Atlas notes issued to investors are secured over reverse mortgage loans.

### Net debt reconciliation

The below table sets out net cash and non-cash changes in liabilities arising from financing activities.

| $000's | June 2025 | June 2024 |
|---|---|---|
| **Balance as at beginning of year** | **2,040,763** | **2,496,375** |
| Proceeds from wholesale borrowings | 424,614 | 1,743,510 |
| Repayment of wholesale borrowings | (1,311,047) | (2,362,786) |
| Proceeds from issue of unsubordinated notes | — | 189,588 |
| Repayment of unsubordinated notes | (321,347) | (123,764) |
| Proceeds from issue of subordinated debt | — | 51,572 |
| **Total cash movements** | **(1,207,780)** | **(501,880)** |
| Acquisition of debt from purchase of subsidiary | — | 2,574 |
| Capitalised interest and fee expense | (3,354) | 30,791 |
| Fair value movements | 3,470 | 805 |
| Foreign exchange and other movements | (7,645) | 12,098 |
| **Total non-cash movements** | **(7,529)** | **46,268** |
| **Balance as at the end of year** | **825,454** | **2,040,763** |

## 16 Share capital and dividends

***Policy***

Ordinary shares are classified as equity, incremental costs directly attributable to the issue of ordinary shares and share options are recognised as a deduction from equity, net of any tax effect.

| 000's | June 2025 Number of Shares | June 2024 Number of Shares |
|---|---|---|
| **Issued shares** | | |
| Opening balance | 930,561 | 709,658 |
| Shares issued during the year | — | 211,868 |
| Shares issued - dividend reinvestment plan | 9,539 | 9,035 |
| **Closing balance** | **940,100** | **930,561** |

The Group issued 6,857,950 new shares at $1.04 per share ($7.1 million) on 20 September 2024 and 2,680,562 shares at $0.81 per share ($2.2 million) on 21 March 2025 under the dividend reinvestment plan (**DRP**) for the year (2024: 4,790,946 new shares at $1.69 per share ($8.1 million) on 22 September 2023 and 4,243,768 new shares at $1.27 per share ($5.4 million) on 20 March 2024 under the DRP for the year).

During the year ended 30 June 2024 HGH completed a capital raise which comprised an institutional share placement (**Placement**) and a 1 for 6.85 accelerated non-renounceable entitlement offer (**Entitlement Offer**), offered to eligible institutional shareholders (**Institutional Entitlement Offer**) and eligible retail shareholders (**Retail Entitlement Offer**). HGH issued 131,949,647 shares for total proceeds of $131.9 million on 15 April 2024 under the Institutional Entitlement Offer and 79,102,644 shares at $1.00 per share ($79.1 million) on 26 April 2024 under the Retail Entitlement Offer. The total value of shares issued was $210.0 million with $6.3 million of transaction costs recognised in relation to this share issuance.

On 19 September 2023, HGH issued a further 1,275,194 shares at $0.60 per share ($0.8 million) under the Long Term Incentive Scheme of HGH (**LTI Scheme**), of which 459,070 shares at $1.74 per share ($0.8 million) were acquired by HGH pursuant to the buyback offer to the participants to fund the tax liability arising for those participants upon receipt of shares under the LTI Scheme.

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

**Dividends paid**

| | June 2025 | | | June 2024 | | |
|---|---|---|---|---|---|---|
| | Date Declared | Cents Per Share | $000's | Date Declared | Cents Per Share | $000's |
| Final dividend | 28 August 2024 | 3.0 | 27,918 | 28 August 2023 | 6.0 | 42,579 |
| Interim dividend | 26 February 2025 | 2.0 | 18,747 | 26 February 2024 | 4.0 | 28,611 |
| **Total dividends paid** | | | **46,665** | | | **71,190** |

## 17 Other reserves

| $000's | Employee Benefit Reserve | Foreign Currency Translation Reserve (FCTR) | Fair Value Reserve | Cash Flow Hedge Reserve | Total |
|---|---|---|---|---|---|
| *June 2025* | | | | | |
| Balance as at 30 June 2024 | – | (6,665) | (6,205) | 4,374 | (8,496) |
| Movements attributable to net investments in foreign operations | – | (6,905) | – | – | (6,905) |
| Movements attributable to changes in fair value of debt investments at FVOCI | – | – | 2,143 | – | 2,143 |
| Movements attributable to cash flow hedges | – | – | – | (17,041) | (17,041) |
| Movements attributable to changes in fair value of equity investments at FVOCI | – | – | (1,805) | – | (1,805) |
| Income tax effect | – | – | (592) | 3,193 | 2,601 |
| **Total other comprehensive income/(loss) net of income tax** | **–** | **(6,905)** | **(254)** | **(13,848)** | **(21,007)** |
| Share based payments[1] | 721 | – | – | – | 721 |
| **Balance as at 30 June 2025** | **721** | **(13,570)** | **(6,459)** | **(9,474)** | **(28,782)** |
| *June 2024* | | | | | |
| Balance as at 30 June 2023 | 3,581 | (8,438) | (3,978) | 15,075 | 6,240 |
| Movements attributable to net investments in foreign operations | – | 1,773 | – | – | 1,773 |
| Movements attributable to changes in fair value of debt investments at FVOCI | – | – | 1,282 | – | 1,282 |
| Movements attributable to cash flow hedges | – | – | – | (14,977) | (14,977) |
| Movements attributable to changes in fair value of equity investments at FVOCI | – | – | (3,152) | – | (3,152) |
| Income tax effect | – | – | (357) | 4,276 | 3,919 |
| **Total other comprehensive income/(loss) net of income tax** | **–** | **1,773** | **(2,227)** | **(10,701)** | **(11,155)** |
| Share based payments | (2,816) | – | – | – | (2,816) |
| Vesting of share based payments | (765) | – | – | – | (765) |
| **Balance as at 30 June 2024** | **–** | **(6,665)** | **(6,205)** | **4,374** | **(8,496)** |

[1] Includes fair value of equity instruments in respect of a proposed issuance of performance rights. Refer to Note 28 - Staff share ownership arrangements for further details.

**Employee benefit reserve**
Includes amounts which arise on the recognition of the Group's fair value estimate of equity instruments expected to vest under share-based compensation plan.

**FCTR**
Exchange differences arising on translation of the Group's foreign operations are accumulated in the Foreign currency translation reserve and recognised in other comprehensive income. The cumulative amount is reclassified to profit or loss when a foreign operation is disposed of.

**Fair value reserve**
Includes changes in the fair value of investment securities measured at fair value through other comprehensive income, net of tax. For debt securities, these changes are reclassified to the profit or loss when the asset is disposed. For equity securities, these changes are not reclassified to the profit or loss when the asset is disposed.

**Cash flow hedge reserve**
This includes fair value gains and losses associated with the effective portion of the designated cash flow hedging instruments, net of tax.

## 18 Other balance sheet items

*Policy*

Property, plant and equipment are stated at cost less accumulated depreciation and impairment (if any). Depreciation is calculated on a straight line basis to write off the net cost or revalued amount of each asset over its expected life to its estimated residual value.

| $000's | June 2025 | June 2024 |
|---|---|---|
| **Other assets** | | |
| Trade receivables | 9 | 194 |
| GST receivables | 8,541 | 4,402 |
| Prepayments | 9,412 | 6,218 |
| Property, plant and equipment | 21,713 | 22,031 |
| Other receivables | 3,558 | 2,340 |
| **Total other assets** | **43,233** | **35,185** |

*Policy*

**Intangible assets**

*Intangible assets with finite useful lives*

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

*Software-as-a-Service (SaaS) arrangements*

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

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

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

**Goodwill**

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

## 18 Other balance sheet items (continued)

| $000's | June 2025 | June 2024 |
|---|---|---|
| **Computer software** | | |
| Software - cost | 77,360 | 88,533 |
| Software under development | 1,823 | 5,692 |
| Accumulated amortisation | (33,181) | (37,443) |
| **Net carrying value of computer software** | **46,002** | **56,782** |
| | | |
| Goodwill | 204,819 | 208,723 |
| **Net carrying value of goodwill** | **204,819** | **208,723** |
| | | |
| Banking licence | 14,401 | 14,401 |
| **Total intangible assets** | **265,222** | **279,906** |

*Banking Licence*

On 30 April 2024 Heartland Group Holdings Limited acquired 100% of the shares of HBA, holder of a full Australian Authorised Deposit-Taking Institution (**ADI**) Licence. HGH and HBA jointly applied to APRA for approval to expand the range of products HBA offers and to amend HBA's APRA approved business plan to integrate with HGH's existing Australian based financial services business.

Costs directly attributable to the licence application have been recognised as Banking Licence intangible asset as the Banking Licence will have an indefinite life with no foreseeable limit to the period over which the asset will generate benefits for the business.

*Goodwill*

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

During the year, the Group finalised goodwill recognised from the acquisition of HBA (refer to Note 19 – Acquisition for further details).

Pursuant to the acquisition of HBA, HBA and the Australian reverse mortgage lending and livestock financing businesses were transferred into HBA (collectively the **Australian businesses**). During the year ended 30 June 2025, HBA underwent a corporate simplification and the operational integration of the Australian reverse mortgage and livestock finance receivable portfolios with HBA. The performance of the Australian businesses is no longer managed and monitored as separate business units but rather aggregated and monitored as a collective business. This has resulted in the allocation of goodwill to one single HBA CGU (2024: the group of CGUs represented by the Australian businesses).

| CGU | Goodwill | |
|---|---|---|
| **$000's** | **June 2025** | **June 2024** |
| Heartland Bank Limited | 29,799 | 29,799 |
| Heartland Bank Australia Limited (previously, group of CGUs) | 175,020 | 178,924 |
| **Total goodwill** | **204,819** | **208,723** |

## 18 Other balance sheet items (continued)

*Goodwill (continued)*

Impairment testing of goodwill

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

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

The recoverable amount of the CGU was determined on a value in use (**VIU**) basis using a discounted cash flow methodology. The model uses a five-year cash flow forecast based on the latest budget approved by the Board and extended out based on long term growth rates. The long-term growth rate applied to the future cash flows after year five of the forecast was 2.0%, and a discount rate of 12.5% for HBL was applied which reflect both past experience and external sources of information. An impairment would only arise where the discount rate exceeds 14.0% and the terminal growth rate falls to 1.0% or below concurrently. Alternatively, goodwill may be impaired if projected cash flows for the terminal period are reduced by at least 25%. Both scenarios are considered highly unlikely.

Heartland Bank Australia (**HBA**) CGU (2024: the group of CGUs comprising the CGUs of Heartland Bank Australia Limited, Heartland Australia Holdings Pty Limited and StockCo Australia Group) - $175.0 million

Management have adopted fair value less costs of disposal (FVLCD) as the primary approach to assessing the recoverable amount of the CGU. The key assumptions used in the FVLCD determination were price-earnings (P/E) multiple and normalised current year earnings.

The P/E multiples used were sourced from publicly available data associated with comparable Australian Financial Services companies to HBA, as well as comparable transactions within the Australian banking industry within the past 12 months. The P/E multiples observed for these businesses and transactions were in a range of 13.7x to 19.8x with an average multiple of 16.4x. Management have used a multiple of 14x, with a 2.5% cost of disposal used for the business. Had management used a multiple of 12x, or reduced the normalised current year earning by 15%, the recoverable amount would still exceed the carrying amount of goodwill recorded at the 30 June 2025.

No impairment losses have been recognised against the carrying amount of goodwill for the year ended 30 June 2025 (2024: nil).

***Policy***

**Employee benefits**

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

| $000's | June 2025 | June 2024 |
|---|---|---|
| **Trade and other payables** | | |
| Trade and other payables | 16,636 | 17,158 |
| Insurance liability | 556 | 645 |
| Employee benefits | 16,949 | 12,951 |
| Other tax payables | 2,479 | 4,176 |
| **Total trade and other payables** | **36,620** | **34,930** |

## Other balance sheet items (continued)

*Policy*

**Leases**

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

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

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

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

| $000's | June 2025 | June 2024 |
|---|---|---|
| **Right of use assets** | | |
| Balance at beginning of year | 15,519 | 12,318 |
| Depreciation charge for the year, included within depreciation expense in the income statement | (3,703) | (3,252) |
| Additions to right of use assets | 407 | 6,453 |
| **Total right of use assets** | **12,223** | **15,519** |
| | | |
| **Lease liability** | | |
| Current | 3,542 | 3,689 |
| Non-current | 10,848 | 14,087 |
| **Total lease liability** | **14,390** | **17,776** |
| **Interest expense relating to lease liability** | **569** | **693** |

## 19 Acquisition

***Policy***

**Business combination**

The Group accounts for business combinations using the acquisition method when the acquired set of activities and assets meets the definition of a business and control is transferred to the Group. In determining whether a particular set of activities and assets is a business, the Group assesses whether the set of assets and activities consists of inputs and processes applied to those inputs that have the ability to contribute to the creation of outputs.

The consideration transferred in the acquisition and any contingent consideration to be transferred are generally measured at fair value, as are the identifiable net assets acquired. Goodwill is initially measured at cost (being the excess of the aggregate of the consideration transferred over the fair value of the net assets acquired) and is tested annually for impairment. Any gain on a bargain purchase is recognised in profit or loss immediately. If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see below), or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognised as of that date. The measurement period is the period from the date of acquisition to the date the Group obtains complete information about facts and circumstances that existed as of the acquisition date, and does not exceed twelve months. Transaction cost related to the acquisition is recognised as an expense in profit or loss when incurred with the exception of costs to issue debt or equity securities.

On 30 April 2024 the Group completed the acquisition of 100% shareholding in HBA from Challenger 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 year ended 30 June 2025, 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) resulting in goodwill reduction from A$21.19 million (NZ$23.20 million) to A$19.90 million (NZ$21.80 million).

The final goodwill as at the reporting date has been allocated to the Heartland Australia Bank Limited CGU (refer to Note 18 - Other balance sheet items for further details).

## 19 Acquisition (continued)

Details of the fair values of the assets and liabilities acquired and the final goodwill arising from the acquisition of HBA are set out as follows:

| **$000's** | **Fair value recognised on acquisition** |
|---|---|
| **Assets** | |
| Cash and cash equivalents | 292,211 |
| Investments | 367,739 |
| Finance receivables measured at amortised cost | 61,179 |
| Finance receivables - reverse mortgages | 635,609 |
| Provision for impairment | (167) |
| Deferred tax asset | 820 |
| Other assets | 860 |
| **Total assets** | **1,358,251** |
| | |
| **Liabilities** | |
| Deposits | 1,249,375 |
| Other borrowings | 2,574 |
| Trade and other payables | 2,916 |
| **Total liabilities** | **1,254,865** |
| | |
| **Net assets acquired** | **103,386** |
| | |
| Final goodwill arising on acquisition | 21,801 |
| | |
| **Fair value of consideration** | **126,591** |
| Purchase price adjustment | (1,404) |
| **Total cash consideration transferred** | **125,187** |

## 20 Related party transactions and balances

***Policy***

A person or entity is a related party under the following circumstances:

(a) A person or a close member of that person's family if that person:
- i) has control or joint control over HGH;
- ii) has significant influence over HGH; or
- iii) is a member of the key management personnel of HGH.

(b) An entity is related to HGH if any of the following conditions applies:
- i) the entity and HGH are members of the same group;
- ii) one entity is an associate or joint venture of the other entity;
- iii) both entities are joint ventures of the same third party;
- iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
- v) the entity has a post-employment benefit plan for the benefit of employees of either HGH or an entity related to HGH.
- vi) the entity is controlled, or jointly controlled by a person identified in (a); and
- vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of entity (or of a parent of the entity).

### (a) Transactions with key management personnel

Key management personnel (**KMP**), are those who, directly or indirectly, have authority and responsibility for planning, directing and controlling the activities of the Group. This includes all executive staff and Directors.

KMP and their related parties receive personal banking and financial investment services from the Group in the ordinary course of business. The terms and conditions, for example interest rates and collateral, and the risks to the Group are comparable to transactions with other employees and did not involve more than the normal risk of repayment or present other unfavourable features.

All other transactions with KMP's and their related parties are conducted in the ordinary course of business on commercial terms and conditions.

| $000's | June 2025 | June 2024 |
|---|---|---|
| **Transactions with key management personnel**[1] | | |
| Interest expense | (15) | (69) |
| **Total transactions with key management personnel** | **(15)** | **(69)** |
| | | |
| **Key management personnel compensation** | | |
| Short-term employee benefits | (3,043) | (3,317) |
| Post-employment benefits[2] | (4,106) | (106) |
| Other long-term benefits | (198) | – |
| Termination benefits[2] | (1,875) | – |
| Share-based plan benefit | (400) | – |
| **Total key management personnel compensation** | **(9,622)** | **(3,423)** |
| | | |
| **Due from/(to) key management personnel**[1] | | |
| Borrowings - deposits | (145) | (1,231) |
| **Total due to key management personnel** | **(145)** | **(1,231)** |

[1]These transactions and balances include those with key management personnel, their close family members, and/or entities controlled/jointly controlled by them.

[2]Post-employment benefits and termination benefits during the year ended 30 June 2025 are retirement and disestablishment payments to certain key management personnel.

## 20 Related party transactions and balances (continued)

**(b) Transactions with related parties**

HGH is the ultimate parent company of the Group.

Entities within the Group have regular transactions with each other on agreed terms. The transactions include the provision of administrative services and customer operations. Banking facilities are provided by HBL to other Group entities on normal commercial terms as with other customers. There is no lending from subsidiaries within the Group to HGH.

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

| $000's | June 2025 | June 2024 |
|---|---|---|
| **Heartland Trust (HT)** | | |
| Payment to HT for providing goods and services | 10 | – |
| Dividends paid | 325 | 650 |

HT held 6,504,266 shares in HGH (2024: 6,504,266 shares).

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

## 21 Fair value

***Policy***

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

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

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

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

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

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

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

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

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

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

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

**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). Refer to Note - 11 Investments for more details.

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

**Investments in equity securities**

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

## 21 Fair value (continued)

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

**Finance receivables - reverse mortgages**

The Group classifies and measures the reverse mortgage portfolio at FVTPL under NZ IFRS 9 as 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.

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

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

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

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

**Derivative financial instruments**

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

## 21 Fair value (continued)

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

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

| $000's | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| ***June 2025*** | | | | |
| **Assets** | | | | |
| Investments | 784,988 | – | 6,772 | 791,760 |
| Derivative financial instruments | – | 4,792 | – | 4,792 |
| Finance receivables - reverse mortgages | – | – | 3,370,949 | 3,370,949 |
| **Total financial assets measured at fair value** | **784,988** | **4,792** | **3,377,721** | **4,167,501** |
| **Liabilities** | | | | |
| Derivative financial instruments | – | 20,660 | – | 20,660 |
| **Total financial liabilities measured at fair value** | **–** | **20,660** | **–** | **20,660** |
| ***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 levels in the fair value hierarchy in the year ended 30 June 2025 (2024: nil).

## 21 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 |
|---|---|---|---|
| **June 2025** | | | |
| As at 30 June 2024 | 2,897,818 | 9,432 | 2,907,250 |
| New loans | 643,735 | — | 643,735 |
| Repayments | (424,626) | — | (424,626) |
| Capitalised Interest and fees | 283,600 | — | 283,600 |
| Purchase of investments | — | 251 | 251 |
| Fair value loss on investment | — | (2,805) | (2,805) |
| Other[3] | (29,578) | (106) | (29,684) |
| **As at 30 June 2025** | **3,370,949** | **6,772** | **3,377,721** |
| **June 2024** | | | |
| As at 30 June 2023 | 2,403,810 | 11,484 | 2,415,294 |
| Sale of SWT portfolio to HBA[1] | (631,345) | — | (631,345) |
| Additions - acquisition of HBA[2] | 635,609 | — | 635,609 |
| New loans | 552,073 | — | 552,073 |
| Repayments | (335,429) | — | (335,429) |
| Capitalised Interest and fees | 261,318 | — | 261,318 |
| Purchase of investments | — | 1,059 | 1,059 |
| Fair value (loss) on investment | — | (3,152) | (3,152) |
| Other[3] | 11,782 | 41 | 11,823 |
| **As at 30 June 2024** | **2,897,818** | **9,432** | **2,907,250** |

[1]Represents reverse mortgage portfolio sold to HBA on 24 April 2024, prior to its acquisition. Refer to Note 27 - Structured entities.

[2]Refer to Note 19 - Acquisition.

[3]Represents foreign currency translation differences for the assets.

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

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

**Cash and cash equivalents**

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

**Finance receivables measured at amortised cost**

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

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

## 21 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 Group for debt of similar maturities.

**Other financial assets and financial liabilities**

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

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

| | June 2025 | | | June 2024 | | |
|---|---|---|---|---|---|---|
| **$000's** | **Fair Value Hierarchy** | **Total Fair Value** | **Total Carrying Value** | **Fair Value Hierarchy** | **Total Fair Value** | **Total Carrying Value** |
| **Assets** | | | | | | |
| Finance receivables measured at amortised cost | Level 3 | 3,823,238 | 3,711,450 | Level 3 | 4,146,692 | 4,266,946 |
| **Total financial assets** | | **3,823,238** | **3,711,450** | | **4,146,692** | **4,266,946** |
| **Liabilities** | | | | | | |
| Deposits | Level 2 | 6,554,765 | 6,529,953 | Level 2 | 5,955,369 | 5,949,116 |
| Other borrowings | Level 2 | 831,035 | 825,454 | Level 2 | 2,042,396 | 2,040,763 |
| **Total financial liabilities** | | **7,385,800** | **7,355,407** | | **7,997,765** | **7,989,879** |

## 21 Fair value (continued)

### (c) Classification of financial instruments

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

| $000's | FVOCI Equity | FVOCI Debt Securities | FVTPL | Amortised Cost | Total Carrying Value |
|---|---|---|---|---|---|
| ***June 2025*** | | | | | |
| **Assets** | | | | | |
| Cash and cash equivalents | — | — | — | 356,229 | 356,229 |
| Collateral paid | — | — | — | 14,239 | 14,239 |
| Investments | 5,664 | 776,945 | 9,151 | — | 791,760 |
| Finance receivables measured at amortised cost | — | — | — | 3,711,450 | 3,711,450 |
| Finance receivables - reverse mortgages | — | — | 3,370,949 | — | 3,370,949 |
| Derivative financial instruments | — | — | 4,792 | — | 4,792 |
| Other financial assets | — | — | — | 3,567 | 3,567 |
| **Total financial assets** | **5,664** | **776,945** | **3,384,892** | **4,085,485** | **8,252,986** |
| **Liabilities** | | | | | |
| Deposits | — | — | — | 6,529,953 | 6,529,953 |
| Other borrowings | — | — | — | 825,454 | 825,454 |
| Derivative financial instruments | — | — | 20,660 | — | 20,660 |
| Other financial liabilities | — | — | — | 17,192 | 17,192 |
| **Total financial liabilities** | **—** | **—** | **20,660** | **7,372,599** | **7,393,259** |
| ***June 2024*** | | | | | |
| **Assets** | | | | | |
| Cash and cash equivalents | — | — | — | 629,619 | 629,619 |
| Investments | 7,575 | 371,816 | 712,740 | — | 1,092,131 |
| Finance receivables measured at amortised cost | — | — | — | 4,266,946 | 4,266,946 |
| Finance receivables - reverse mortgages | — | — | 2,897,818 | — | 2,897,818 |
| Derivative financial instruments | — | — | 12,316 | — | 12,316 |
| Other financial assets | — | — | — | 2,534 | 2,534 |
| **Total financial assets** | **7,575** | **371,816** | **3,622,874** | **4,899,099** | **8,901,364** |
| **Liabilities** | | | | | |
| Collateral received | — | — | — | 2,384 | 2,384 |
| Deposits | — | — | — | 5,949,116 | 5,949,116 |
| Other borrowings | — | — | — | 2,040,763 | 2,040,763 |
| Derivative financial instruments | — | — | 9,017 | — | 9,017 |
| Other financial liabilities | — | — | — | 17,803 | 17,803 |
| **Total financial liabilities** | **—** | **—** | **9,017** | **8,010,066** | **8,019,083** |

# Risk Management

## 22 Enterprise risk management program

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

The Group's RMS&F addresses RBNZ prudential risk management requirements and aligns with HBA's own Risk Management Strategy document that addresses APRA regulatory requirements.

**Role of the Board and the Board Audit and Risk Committee**

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

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

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

**Internal Audit**

The Internal Audit function for New Zealand is maintained within HBL and made available to HGH while HBA has its own Internal Audit function. Internal Audit is allowed full, free and unfettered access to any and all of the organisation's records, personnel and physical properties deemed necessary to accomplish its activities. The Internal Audit functions and other assurance roles have unfettered access to the Group's Boards as required.

The objective of the Group's Internal Audit functions is to provide independent, objective assurance over the internal risk control framework and compliance with policies. In certain circumstances, Internal Audit will provide risk and control advice to Management provided the work does not impede the independence of the Internal Audit functions. The functions assist the Group in accomplishing its objectives by bringing a systematic and disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

The HGH BARC and the HBA BAC each approve the respective annual internal audit programmes (as applicable), which are developed in consultation with Management. A regular cycle of review is implemented to cover all areas of the business, focused on assessment, management and control of risks identified. The audit plan takes into account cyclical review of various business units and operational areas, as well as identified areas of higher identified risk. The audit methodology is designed to meet the International Standards for the Professional Practice of Internal Auditing of The Institute of Internal Auditors.

## 22 Enterprise risk management program (continued)

**Group Asset and Liability Committee (GALCO)**

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

- Ensuring compliance of the Group's risk limits and governance requirements.
- Ensuring robust governance over HBA's and the New Zealand Banking Group's 12-month funding plans and alignment with the Group's strategic funding plan.
- Recommending financial risk management policies for approval and changes to financial risk tolerances to BARC and the Board.
- Development of the Group's Contingency Funding Plan (**CFP**) and review of HBA's CFP.
- Setting the strategic direction for asset and liability management, to be reflected in the asset and liability management policy.
- Monitoring, assessing and proactively reacting to trends in the economy, interest rates, and foreign exchange rates to limit any potential adverse impact on earnings.
- Developing and recommending the Group's hedging strategy.

**HBL Executive Risk Committee (ERC)**

The ERC comprises a minimum of three members of the executive leadership team who are direct reports to the HBL CEO. The ERC has responsibility for overseeing the internal control environment to ensure that residual risk is consistent with the Group's risk appetite. The ERC generally meets 6 times a year, and minutes are made available to the BARC. ERC's specific responsibilities include the ongoing monitoring of risks which individually or collectively comprise the Board's risk appetite, and oversight over the management of operational, compliance and credit risks, including regulatory oversight and conduct risk within the Group.

During the year ended 30 June 2025 the ERC approved the establishment of the Product Governance Committee (**PGC**) responsible for overseeing and guiding the development, management and optimisation of HBL's product offerings and pricing strategies. This includes overseeing the development and launch of new product offerings and the positioning of existing products in the market.

Members of the PGC include a minimum of two direct reports to the HBL CEO and meetings are held not less than four times per calendar year. The ERC monitors and ensures that the PGC's purpose, responsibilities, and performance remain appropriate.

**Three lines of defence model**

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

- The first line of defence is the business line management of the identification, management and mitigation of the risks associated with the products and processes of the business. This accountability includes regular testing and attestation of the adequacy and effectiveness of controls and compliance with the Group's policies.
- The second line of defence is the Enterprise Risk function, responsible for the overall management of enterprise risk. It incorporates key processes including governance oversight, risk and control self-assessment (**RCSA**), incident management, targeted independent evaluation of the adequacy and effectiveness of the internal control framework and the attestation process.
- The third line of defence provides independent assurance on the design and effectiveness of the risk frameworks, the effectiveness of the first and second lines of defence, and the effectiveness of the Group's policies, procedures, and systems. The third line assurance incorporates the internal audit function and extends to any other independent review activities.

The Group categorises its key risks as financial and non-financial, reflecting its overarching approach to risk management. Financial risks comprise profit risk, balance sheet risk, funding, liquidity and market risks. Non-financial risks are operational in nature and include continuity risk, conduct and compliance risk, and people risk.

## 22 Enterprise risk management program (continued)

**Financial risks**

*Profit risk*

Profit risk is the risk of failing to achieve financial performance levels, targets and market expectations which may result in reputational damage, financial loss, higher cost of capital, and a diminished capacity to raise capital.

*Balance sheet risk*

Balance sheet risk encompasses capital risk and credit risk. Capital risk refers to the risk of failing to meet or maintain regulatory capital requirements, capital quality standards, or a satisfactory external credit rating, which could impair the Group's ability to absorb business shocks and raise capital. Credit risk is the risk that a borrower fails to meet their obligations when due, resulting in loss of principal and interest, disruption to cash flows, increased collection costs, and consequent impacts on profitability. Refer to Note 23 - Credit risk exposure for further details.

*Liquidity and funding risk*

Liquidity and funding risks refer to the risk of being unable to secure sufficient, appropriately diversified funding with suitable tenor and pricing, or to meet payment obligations as they fall due. Refer to Note 24 - Liquidity and funding risk for further details.

*Market risk*

Market risk is the possibility of experiencing losses or gains due to factors affecting the overall performance of financial markets in which the Group is exposed. The primary market risk exposures for the Group are interest rate risk and foreign exchange risk. The risk arises from potential changes in market interest rates or foreign exchange rates that could adversely affect the Group's earnings. This may result from unfavourable movements in exchange rates or, in the case of interest rate risk, from mismatches between the repricing dates of interest-bearing assets and liabilities and/or differences between customer pricing and wholesale funding rates.

*Interest rate risk*

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

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

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

*Foreign exchange risk*

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

FX risk has the below components:

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

## 22 Enterprise risk management program (continued)

**Financial risks (continued)**

*Foreign exchange risk (continued)*

- Balance sheet translation risk - arises from monetary assets and liabilities denominated in foreign currencies. Movements in FX rates change the equivalent value of foreign currency-denominated assets and liabilities through the entity's reported profit.

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

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

The Group's sensitivity to movements in the FX rates arises mainly from the translation of the profit generated by its Australian subsidiaries and the AUD-denominated monetary assets and liabilities. The Group's FX sensitivity analysis is based on the Australian subsidiaries' annual profit representing an annual exposure to profit translation risk. Additionally, it incorporates the exposure related to the Group's AUD-denominated cash balance as at 30 June 2024, which is excluded from the total exposure as at 30 June 2025, as it was fully hedged through an FX forward contract as at the reporting date.

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

| $000's | Impact on profit before tax | Impact on equity | Impact on profit before tax | Impact on equity |
|---|---|---|---|---|
| | As at 30 June 2025 | | As at 30 June 2024 | |
| AUD/NZD exchange rate - increase 1% | (295) | (212) | (173) | (124) |
| AUD/NZD exchange rate - decrease 1% | 301 | 217 | 176 | 127 |

*Counterparty credit risk*

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

The Group has on-going credit exposure associated with:

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

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

**Non-financial risks**

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

## 22 Enterprise risk management program (continued)

**Non-financial risks (continued)**

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

**Climate-related risks**

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

*Risk Management*

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

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

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

*Governance*

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

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

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

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

*Strategy*

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

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

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

The Group assesses the impact of climate-related risks on its financial position and performance. Although climate change introduces an element of uncertainty, the Group has determined that climate-related risks do not have a material impact on the judgements, assumptions, and estimates for the year ended 30 June 2025 (2024: same). HGH will release its Climate Report for the year ended 30 June 2025 by 30 September 2025, providing further details on the Group's approach to climate-related risks.

## 23 Credit risk exposure

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

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

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

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

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

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

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

**Reverse mortgage loans and negative equity risk**

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

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

**Business Finance Guarantee Scheme**

HBL, along with other registered banks in New Zealand, has entered into a Deed of Indemnity with the New Zealand Government to implement the New Zealand Government's Business Finance Guarantee Scheme (the Scheme). The purpose of the Scheme is to provide short term credit to eligible small and medium size businesses, who have been impacted by the economic effects of COVID-19. The scheme allowed banks to lend to a maximum of $5 million for a maximum of five years. The New Zealand Government will guarantee 80% of any loss incurred (credit risk) with HBL holding the remaining 20%. The Scheme concluded on 30 June 2021. As at 30 June 2025 HBL had a total exposure of $32.1 million (2024: $42.2 million) to its customers under this Scheme.

**North Island Weather Events (NIWE) Loan Guarantee Scheme**

On 31 July 2023, HBL entered into a Deed of Indemnity with the New Zealand Government to implement the North Island Weather Events Loan Guarantee Scheme. The supported loans are intended to assist New Zealand businesses to manage the impacts of the North Island Weather Events (during Auckland Anniversary weekend 2023). The facility limit for each supported loan must not exceed $10 million for a maximum of 5 years. The New Zealand Government will guarantee 80% of any loss incurred (credit risk) with HBL holding the remaining 20%. The Scheme concluded on 30 June 2025. As at 30 June 2025 HBL had supported loans under this scheme of $31.7 million ( 2024: $33.2 million).

## 23 Credit risk exposure (continued)

### Maximum exposure to credit risk at the relevant reporting dates

The following table represents the maximum credit risk exposure, without taking into account any collateral held. The 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 | June 2025 | June 2024 |
|---|---|---|
| **On balance sheet:** | | |
| Cash and cash equivalents | 356,229 | 629,619 |
| Collateral paid | 14,239 | — |
| Investments | 779,119 | 1,078,656 |
| Finance receivables measured at amortised cost | 3,712,954 | 4,266,946 |
| Finance receivables - reverse mortgages | 3,370,949 | 2,897,818 |
| Derivative financial assets | 4,792 | 12,316 |
| Other financial assets | 3,567 | 2,534 |
| **Total on balance sheet credit exposures** | **8,241,849** | **8,887,889** |
| | | |
| **Off balance sheet:** | | |
| Letters of credit, guarantee commitments and performance bonds | 5,507 | 3,130 |
| Undrawn facilities available to customers | 565,735 | 554,307 |
| Conditional commitments to fund at future dates | 11,095 | 9,947 |
| **Total off balance sheet credit exposures** | **582,337** | **567,384** |
| | | |
| **Total credit exposures** | **8,824,186** | **9,455,273** |

### Concentration of credit risk by geographic region

| $000's | June 2025 | June 2024 |
|---|---|---|
| New Zealand | 5,407,089 | 5,800,275 |
| Australia | 3,313,862 | 3,514,691 |
| Rest of the world | 175,014 | 216,628 |
| | **8,895,965** | **9,531,594** |
| Provision for impairment | (71,779) | (76,321) |
| **Total credit exposures** | **8,824,186** | **9,455,273** |

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

# 23 Credit risk exposure (continued)

### Concentration of credit risk by industry sector

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

| $000's | June 2025 | June 2024 |
|---|---|---|
| Agriculture | 1,076,425 | 1,084,047 |
| Forestry and fishing | 81,038 | 113,264 |
| Mining | 9,397 | 10,276 |
| Manufacturing | 58,203 | 69,799 |
| Finance and insurance | 1,044,209 | 1,754,662 |
| Wholesale trade | 35,177 | 40,561 |
| Retail trade and accommodation | 362,335 | 376,927 |
| Households | 4,960,991 | 4,715,535 |
| Other business services | 331,264 | 294,445 |
| Construction | 274,653 | 338,998 |
| Rental, hiring and real estate services | 182,361 | 196,329 |
| Transport and storage | 377,937 | 431,665 |
| Other | 101,975 | 105,086 |
| | **8,895,965** | **9,531,594** |
| Provision for impairment | (71,779) | (76,321) |
| **Total credit exposures** | **8,824,186** | **9,455,273** |

### Credit risk grading

The Group's finance receivables are monitored either by account behaviour (**Behavioural portfolio)** or a regular assessment of their credit risk grade based on an objective review of defined risk characteristics (**Judgemental portfolio**).

The Judgemental portfolio consists mainly of business and rural lending where an on-going and detailed working relationship with the customer has been developed while the Behavioural portfolio consists of consumer, retail and smaller business receivables.

Judgemental loans are individually risk graded based on loan status, financial information, security and debt servicing ability. Exposures in the Judgemental portfolio are credit risk graded by an internal risk grading mechanism where grade 1 is the strongest risk. Grade 8 and grade 9 are the weakest risk grades where a loss is probable. Behavioural loans are managed based on their arrears status.

All loans past due but not impaired have been categorised into three impairment stages (see Note 13 – Finance receivables measured at amortised cost) which are in most cases based on arrears status. If a Judgemental loan is risk graded 6 or above it will be classified as stage 2 as a minimum and carry a provision based on lifetime ECL.

## 23 Credit risk exposure (continued)

**Credit risk grading (continued)**

| | Collectively Assessed | | | | |
|---|---|---|---|---|---|
| **$000's** | **Stage 1** | **Stage 2** | **Stage 3** | **Individually Assessed** | **Total** |
| *June 2025* | | | | | |
| **Judgemental portfolio** | | | | | |
| Grade 1 - Very Strong | 256,835 | – | – | – | 256,835 |
| Grade 2 - Strong | 10,593 | 18,369 | – | – | 28,962 |
| Grade 3 - Sound | 32,226 | 73 | – | – | 32,299 |
| Grade 4 - Adequate | 431,796 | 8,614 | 5,737 | – | 446,147 |
| Grade 5 - Acceptable | 873,047 | 15,664 | 2,561 | – | 891,272 |
| Grade 6 - Monitor | – | 118,996 | 3,628 | – | 122,624 |
| Grade 7 - Substandard | – | 46,529 | 28,951 | – | 75,480 |
| Grade 8 - Doubtful | – | – | 40 | 62,786 | 62,826 |
| Grade 9 - At risk of loss | – | – | 52 | 25,764 | 25,816 |
| Total Judgemental portfolio | 1,604,497 | 208,245 | 40,969 | 88,550 | 1,942,261 |
| Total Behavioural portfolio | 1,755,099 | 28,617 | 55,988 | 2,768 | 1,842,472 |
| **Gross finance receivables measured at amortised cost** | **3,359,596** | **236,862** | **96,957** | **91,318** | **3,784,733** |
| Provision for impairment | (16,029) | (7,851) | (23,104) | (24,795) | (71,779) |
| **Total finance receivables measured at amortised cost** | **3,343,567** | **229,011** | **73,853** | **66,523** | **3,712,954** |
| Undrawn facilities available to customers | 260,302 | 4,806 | 1,090 | – | 266,198 |
| *June 2024* | | | | | |
| **Judgemental portfolio** | | | | | |
| Grade 1 - Very Strong | 183,354 | – | – | – | 183,354 |
| Grade 2 - Strong | 40,557 | – | – | – | 40,557 |
| Grade 3 - Sound | 167,230 | 5,556 | 536 | – | 173,322 |
| Grade 4 - Adequate | 505,177 | 14,142 | 6,940 | – | 526,259 |
| Grade 5 - Acceptable | 977,495 | 41,505 | 36,206 | – | 1,055,206 |
| Grade 6 - Monitor | – | 120,611 | 12,028 | – | 132,639 |
| Grade 7 - Substandard | – | 47,328 | 17,225 | – | 64,553 |
| Grade 8 - Doubtful | – | – | 141 | 88,549 | 88,690 |
| Grade 9 - At risk of loss | – | – | 166 | 6,633 | 6,799 |
| Total Judgemental portfolio | 1,873,813 | 229,142 | 73,242 | 95,182 | 2,271,379 |
| Total Behavioural portfolio | 2,014,630 | 12,491 | 43,481 | 1,286 | 2,071,888 |
| **Gross finance receivables measured at amortised cost** | **3,888,443** | **241,633** | **116,723** | **96,468** | **4,343,267** |
| Provision for impairment | (14,361) | (5,197) | (34,281) | (22,482) | (76,321) |
| **Total finance receivables measured at amortised cost** | **3,874,082** | **236,436** | **82,442** | **73,986** | **4,266,946** |
| Undrawn facilities available to customers | 272,829 | 1,805 | 904 | – | 275,538 |

## 23 Credit risk exposure (continued)

**Collateral held**

The Group employs a range of policies and practices to mitigate credit risk and has internal policies on the acceptability of specific classes of collateral. Collateral is held as security to support credit risk on finance receivables and enforced in satisfying the debt in the event contractual repayment obligations are not met. The collateral held for mitigating credit risk for the Group's lending portfolios is outlined below.

*Reverse mortgage and Residential mortgage loans*

Reverse mortgage loans are secured by a first mortgage over a residential property which is typically a customer's primary residential dwelling, residential investment property or holiday home. Residential mortgage loans are secured by a residential mortgage over an owner-occupied property located in an approved urban area.

*Corporate lending*

Business lending including rural lending is typically secured by way of a charge over property and/or specific security agreement over relevant business assets, and, where considered appropriate, a general security agreement to provide the ability to control cash flows.

*Other lending*

Other lending comprises personal loans, primarily motor loans, which are secured by a motor vehicle or a boat; and other shorter term smaller personal loans which are predominantly unsecured.

The Group analyses the coverage of the loan portfolio which is secured by the collateral it holds.

Coverage is measured by the value of security as a proportion of loan balance outstanding and classified as follows:

| | |
|---|---|
| **Fully secured** | Greater or equal to 100% |
| **Partially secured** | 1% - 99.9% |
| **Unsecured** | No security held |

The Group's loan portfolio have the following coverage from collateral held on credit impaired loans:

| | Corporate | Residential | All other |
|---|---|---|---|
| ***June 2025*** | | | |
| Fully secured | 15 % | 100 % | 45 % |
| Partially secured | 82 % | — % | 36 % |
| Unsecured | 3 % | — % | 19 % |
| **Total** | **100 %** | **100 %** | **100 %** |
| ***June 2024*** | | | |
| Fully secured | 47 % | 100 % | 69 % |
| Partially secured | 37 % | — % | 10 % |
| Unsecured | 16 % | — % | 21 % |
| **Total** | **100 %** | **100 %** | **100 %** |

## 24 Liquidity and funding risk

Liquidity risk is the risk that the Group will be unable to obtain the necessary funds to meet its financial obligations as they fall due, leading to an inability to support its regular business activities and comply with regulatory liquidity requirements. The timing mismatch of cash flows and the related liquidity risk in all banking operations are closely monitored by the Group.

Measurement of liquidity risk is designed to ensure that the Group has the ability to generate or obtain sufficient cash in a timely manner and at a reasonable price to meet its financial commitments on a daily basis without compromising its operations or financial health.

Funding risk is the risk of excessive reliance on a particular funding source, which may lead to increased overall funding costs or challenges in raising funds. Effective management of funding risk requires maintaining a diverse and stable funding base to ensure the Group can meet its financial obligations under varying conditions.

The Group's exposure to liquidity risk is governed by a policy approved by the Board and managed by GALCO. This policy sets out the nature of the risk which may be taken and aggregate risk limits, that the GALCO must observe. Within this, the objective of the GALCO is to derive the most appropriate strategy for the Group in terms of a mix of assets and liabilities given its expectations of future cash flows, liquidity constraints and capital adequacy. The GALCO employs asset and liability cash flow modelling to determine appropriate liquidity and funding strategies.

The Group has developed a CFP to enable prompt and decisive action during liquidity and funding crises, ensuring the effective implementation of contingency measures. The CFP outlines defined roles and responsibilities, as well as procedures and plans to address disruptions to the Group's ability to meet its liquidity and funding requirements.

HBA manages its own domestic liquidity and funding requirements in accordance with its own liquidity policy and the policies of the Group. HBA's liquidity policy is also overseen by APRA.

In March 2020, the Bank was onboarded by the RBNZ as an approved counterparty and executed a 2011 Global Master Repo Agreement providing an additional source for intra-day liquidity for the Group if required.

The Group holds the following liquid assets and committed funding sources for the purpose of managing liquidity risk:

| **$000's** | **June 2025** | **June 2024** |
|---|---|---|
| Cash and cash equivalents | 356,229 | 629,619 |
| Investments | 779,119 | 1,078,656 |
| **Total liquid assets** | **1,135,348** | **1,708,275** |
| | | |
| Undrawn committed bank facilities | 211,914 | 465,600 |
| **Total liquid assets and committed undrawn funding** | **1,347,262** | **2,173,875** |

## 24 Liquidity and funding risk (continued)

**Contractual liquidity profile of financial liabilities**

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

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

| $000's | On Demand | 0-6 Months | 6-12 Months | 1-2 Years | 2-5 Years | 5+ Years | Total |
|---|---|---|---|---|---|---|---|
| *June 2025* | | | | | | | |
| **Non-derivative financial liabilities** | | | | | | | |
| Deposits | 1,024,455 | 3,834,210 | 1,460,828 | 188,042 | 153,551 | — | 6,661,086 |
| Other borrowings | — | 27,760 | 251,581 | 193,519 | 202,745 | 363,390 | 1,038,995 |
| Lease liabilities | — | 2,152 | 1,998 | 3,985 | 7,471 | 114 | 15,720 |
| Other financial liabilities | — | 17,192 | — | — | — | — | 17,192 |
| **Total non-derivative financial liabilities** | **1,024,455** | **3,881,314** | **1,714,407** | **385,546** | **363,767** | **363,504** | **7,732,993** |
| **Derivative financial liabilities** | | | | | | | |
| Inflows from derivatives | — | 16,604 | 14,385 | 22,991 | 17,795 | — | 71,775 |
| Outflows from derivatives | — | 20,283 | 19,922 | 30,997 | 22,100 | — | 93,302 |
| **Total derivative financial liabilities** | **—** | **3,679** | **5,537** | **8,006** | **4,305** | **—** | **21,527** |
| Undrawn facilities available to customers | 565,735 | — | — | — | — | — | 565,735 |
| *June 2024* | | | | | | | |
| **Non-derivative financial liabilities** | | | | | | | |
| Collateral received | — | 2,384 | — | — | — | — | 2,384 |
| Deposits | 893,531 | 3,256,750 | 1,740,935 | 115,870 | 95,356 | — | 6,102,442 |
| Other borrowings | — | 205,029 | 305,010 | 1,304,185 | 217,942 | 443,513 | 2,475,679 |
| Lease liabilities | — | 2,158 | 2,212 | 4,043 | 10,610 | 640 | 19,663 |
| Other financial liabilities | — | 17,803 | — | — | — | — | 17,803 |
| **Total non-derivative financial liabilities** | **893,531** | **3,484,124** | **2,048,157** | **1,424,098** | **323,908** | **444,153** | **8,617,971** |
| **Derivative financial liabilities** | | | | | | | |
| Inflows from derivatives | — | 20,407 | 7,570 | 14,491 | 30,423 | — | 72,891 |
| Outflows from derivatives | — | 22,877 | 8,750 | 15,832 | 31,551 | — | 79,010 |
| **Total derivative financial liabilities** | **—** | **2,470** | **1,180** | **1,341** | **1,128** | **—** | **6,119** |
| Undrawn facilities available to customers | 554,307 | — | — | — | — | — | 554,307 |

## 25 Interest rate risk

The Group's market risk is derived primarily of exposure to interest rate risk, predominantly from raising funds through the retail and wholesale deposit market, the debt capital markets and committed and uncommitted bank funding, securitisation of receivables, and offering loan finance products to the commercial and consumer market in New Zealand and Australia.

The Group's exposure to market risk is governed by a policy approved by the Board and managed by the GALCO. This policy sets out the nature of risk which may be taken and aggregate risk limits, and the GALCO must conform to this. The objective of the GALCO is to derive the most appropriate strategy for the Group in terms of the mix of assets and liabilities given its expectations of the future and the potential consequences of interest rate movements, liquidity constraints and capital adequacy.

The objective of the Group's interest rate risk policies is to limit underlying net profit after tax (**NPAT**) volatility. The measurement comprises net interest income the Group generates from its interest earning assets and interest bearing liabilities.

The exposure to net interest income comes from a reduction in margins on interest earning assets or interest bearing liabilities and is managed when setting rates by taking into consideration wholesale rates, liquidity premiums, as well as appropriate lending credit margins.

Sensitivity to interest rates arises from mismatches in the interest rate characteristics of interest bearing assets and the corresponding liability funding. One of the main causes of these mismatches is timing differences in the repricing of assets and liabilities. These mismatches are actively managed as part of the overall interest rate risk management process in accordance with the Group's policy.

An analysis of the Group's sensitivity is based on the values of the interest bearing assets and liabilities as at the reporting date, and measures the prospective impact on the net profit after tax and equity from movements in market interest rates by 100 basis points (**BP**), presented in the below table:

| $000's | Impact on NPAT | Impact on equity | Impact on NPAT | Impact on equity |
|---|---|---|---|---|
| | As at 30 June 2025[1] | | As at 30 June 2024 | |
| Market interest rates - 100 basis points increase | 9,424 | 9,424 | 255 | 255 |
| Market interest rates - 100 basis points decrease | (9,424) | (9,424) | (255) | (255) |

[1]Increase in interest rate sensitivity is driven by changes in the Group's funding composition - specifically longer repricing periods - resulting from its transition from floating wholesale to retail funding sources with unhedged interest rate risk exposure.

The Group also manages interest rate risk by:

- Monitoring trends in interest rates to limit any potential adverse impact on earnings;
- Monitoring maturity profiles and seeking to match the re-pricing of assets and liabilities;
- Monitoring interest rates daily and regularly (at least monthly) reviewing interest rate exposures; and
- Entering into derivatives to hedge against movements in interest rates.

## 25 Interest rate risk (continued)

### Contractual repricing analysis

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

| $000's | 0-3 Months | 3-6 Months | 6-12 Months | 1-2 Years | 2+ Years | Non-Interest Bearing | Total |
|---|---|---|---|---|---|---|---|
| *June 2025* | | | | | | | |
| **Financial assets** | | | | | | | |
| Cash and cash equivalents | 356,229 | — | — | — | — | — | 356,229 |
| Collateral paid | 14,239 | — | — | — | — | — | 14,239 |
| Investments | 442,404 | — | 14,761 | 56,220 | 265,734 | 12,641 | 791,760 |
| Derivative financial assets | — | — | — | — | — | 4,792 | 4,792 |
| Finance receivables measured at amortised cost | 1,512,404 | 328,880 | 445,418 | 604,968 | 819,780 | — | 3,711,450 |
| Finance receivables - reverse mortgages | 3,370,949 | — | — | — | — | — | 3,370,949 |
| Other financial assets | — | — | — | — | — | 3,567 | 3,567 |
| **Total financial assets** | **5,696,225** | **328,880** | **460,179** | **661,188** | **1,085,514** | **21,000** | **8,252,986** |
| **Financial liabilities** | | | | | | | |
| Deposits | 3,107,945 | 1,670,886 | 1,409,173 | 174,359 | 129,221 | 38,369 | 6,529,953 |
| Other borrowings | 666,594 | — | — | — | 158,860 | — | 825,454 |
| Derivative financial liabilities | — | — | — | — | — | 20,660 | 20,660 |
| Lease liabilities | — | — | — | — | — | 14,390 | 14,390 |
| Other financial liabilities | — | — | — | — | — | 17,192 | 17,192 |
| **Total financial liabilities** | **3,774,539** | **1,670,886** | **1,409,173** | **174,359** | **288,081** | **90,611** | **7,407,649** |
| Effect of derivatives held for risk management | 860,941 | 93,460 | (108,267) | (444,536) | (401,598) | — | — |
| **Net financial assets/(liabilities)** | **2,782,627** | **(1,248,546)** | **(1,057,261)** | **42,293** | **395,835** | **(69,611)** | **845,337** |

## 25 Interest rate risk (continued)

**Contractual repricing analysis (continued)**

| $000's | 0-3 Months | 3-6 Months | 6-12 Months | 1-2 Years | 2+ Years | Non-Interest Bearing | Total |
|---|---|---|---|---|---|---|---|
| *June 2024* | | | | | | | |
| **Financial assets** | | | | | | | |
| Cash and cash equivalents | 629,619 | — | — | — | — | — | 629,619 |
| Investments | 4,461 | 605,518 | 154,873 | 57,641 | 256,163 | 13,475 | 1,092,131 |
| Derivative financial assets | — | — | — | — | — | 12,316 | 12,316 |
| Finance receivables measured at amortised cost | 1,869,269 | 393,187 | 589,162 | 797,035 | 618,293 | — | 4,266,946 |
| Finance receivables - reverse mortgages | 2,897,818 | — | — | — | — | — | 2,897,818 |
| Other financial assets | — | — | — | — | — | 2,534 | 2,534 |
| **Total financial assets** | **5,401,167** | **998,705** | **744,035** | **854,676** | **874,456** | **28,325** | **8,901,364** |
| **Financial liabilities** | | | | | | | |
| Collateral received | 2,384 | — | — | — | — | — | 2,384 |
| Deposits | 2,733,266 | 1,334,469 | 1,659,617 | 109,708 | 73,864 | 38,192 | 5,949,116 |
| Other borrowings | 1,883,541 | — | — | — | 157,222 | — | 2,040,763 |
| Derivative financial liabilities | — | — | — | — | — | 9,017 | 9,017 |
| Lease liabilities | — | — | — | — | — | 17,776 | 17,776 |
| Other financial liabilities | — | — | — | — | — | 17,803 | 17,803 |
| **Total financial liabilities** | **4,619,191** | **1,334,469** | **1,659,617** | **109,708** | **231,086** | **82,788** | **8,036,859** |
| Effect of derivatives held for risk management | 1,219,913 | (145,235) | (277,771) | (405,932) | (390,975) | — | — |
| **Net financial assets/(liabilities)** | **2,001,889** | **(480,999)** | **(1,193,353)** | **339,036** | **252,395** | **(54,463)** | **864,505** |

The tables above illustrate the periods in which the cash flows from interest rate swaps are expected to occur and affect profit or loss.

# Other Disclosures

## 26 Significant subsidiaries

| Significant subsidiaries | Country of incorporation and place of business | Nature of business | Proportion of ownership and voting power held June 2025 | June 2024 |
|---|---|---|---|---|
| Heartland Bank Limited | New Zealand | Bank | 100% | 100% |
| VPS Properties Limited | New Zealand | Investment property holding company | 100% | 100% |
| Marac Insurance Limited[1] | New Zealand | Insurance services | 100% | 100% |
| Heartland Bank Australia Limited | Australia | Bank | 100% | 100% |
| Heartland Australia Holdings Pty Limited | Australia | Financial services | 100% | 100% |
| Heartland Australia Group Pty Limited | Australia | Financial services | 100% | 100% |
| Australian Seniors Finance Pty Limited | Australia | Management services | 100% | 100% |
| StockCo Holdings 2 Pty Limited | Australia | Financial services | 100% | 100% |
| StockCo Australia Management Pty Limited | Australia | Management services | 100% | 100% |

[1]Effective 27 June 2025, MIL is no longer licensed to carry out insurance business in New Zealand. Refer to Significant events section within Note 1 - Financial statements preparation for further details.

## 27 Structured entities

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

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

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

| $000's | June 2025 | June 2024 |
|---|---|---|
| Deposits | 476,489 | 389,388 |

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

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

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

| $000's | June 2025[1] | June 2024 |
|---|---|---|
| Cash and cash equivalents | 14,450 | 43,646 |
| Finance receivables measured at amortised cost | 171,336 | 540,075 |
| Other borrowings | (183,062) | (550,144) |

[1]The reduction in HARWT securitised assets balance is mainly related to the repurchase of $368.7 million of motor vehicle loan receivables from HARWT by HBL and a reduction in its securitisation facility limit from $600 million to $320 million during the year. Refer to Note 15 – Borrowings for further details.

## 27 Structured entities (continued)

### (c) Seniors Warehouse Trust No.2 (SWT Trust) and Australian Seniors Finance Settlement Trust (ASF Trust)

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

| $000's | June 2025[1] | June 2024 |
|---|---|---|
| Cash and cash equivalents | 32,210 | 68,316 |
| Finance receivables - reverse mortgages | 407,275 | 852,119 |
| Other borrowings | (417,809) | (787,373) |

[1]The reduction in the SWT Trust securitised assets balance is mainly related to the repurchase of $444.8 million of reverse mortgage receivables by HBA and a reduction in SWT2 securitisation facility limit from $821 million (A$750 million) to $281 million (A$260 million) as part of execution of its date-based calls (a repurchase of the remaining securitised assets on a predetermined date before their full repayment or maturity) during the year. Refer to Note 15 – Borrowings for further details.

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

Atlas Trust was set up on 11 September 2020 as part of ASF's reverse mortgage business similar to the existing SWT2 Trust and ASF Trust. The Trustee for the Trust is BNY Trust Company of Australia Limited and the Trust Manager is ASF. The balances of Atlas Trust are represented as follows:

| $000's | June 2025 | June 2024 |
|---|---|---|
| Cash and cash equivalents | 19,681 | 16,322 |
| Finance receivables - reverse mortgages | 148,993 | 152,156 |
| Other borrowings | (144,949) | (144,635) |

### (e) StockCo Securitisation Trust 2022-1 (StockCo Trust)

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

| $000's | June 2025[1] | June 2024 |
|---|---|---|
| Cash and cash equivalents | – | 47,704 |
| Finance receivables measured at amortised cost | – | 171,960 |
| Other borrowings | – | (211,046) |

[1]StockCo Trust securitisation facility limit was cancelled on 18 November 2024, with subsequent full repayment of its securitised borrowings and repurchase of livestock finance receivables by HBA during the year.

## 28 Staff share ownership arrangements

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

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

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

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

As at the date of these financial statements, the Group has designed a new share-based compensation plan which certain senior employees will be invited to participate in going forward.

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

#### Heartland performance rights plan (PR plan)

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

#### 2025 (non-CEOs) tranche

The performance rights were issued subject to the participants' continued employment with the Group until the measurement date and the Group achieving its financial measures, strategic objectives and culture and conduct objectives, over the period commencing 1 July 2022 and ending on 30 June 2025. The targets are dynamic and may be adjusted by the Board from time to time in order to account for unanticipated capital changes during the performance period. The measurement date is the business day following the date on which the Group announces its full year results for the financial year ended 30 June 2025.

| | June 2025<br>PR Plan<br>Number of Rights | June 2024<br>PR Plan<br>Number of Rights |
|---|---|---|
| Opening balance | 6,417,476 | 7,853,640 |
| Vested | — | (1,275,194) |
| Issued | — | — |
| Forfeited / unvested[1] | (5,268,328) | (160,970) |
| **Closing balance** | **1,149,148** | **6,417,476** |

[1]The 2024 (CEOs) and 2024 (non-CEOs) tranches did not vest. The 2025 (CEOs) tranche was forfeited pursuant to the departure of the participants.

### (b) Effect of share-based payment transactions

| $000's | June 2025 | June 2024 |
|---|---|---|
| **Award of Shares** | | |
| PR Plan[1] | 721 | (2,816) |
| **Total expense / (income) recognised** | **721** | **(2,816)** |

[1]Includes share-based payment expense for the year ended 30 June 2025 in relation to a proposed issuance of a new tranche of performance rights in exchange for services received during the period under a new share-based compensation plan. The fair value of the performance rights is estimated at 30 June 2025 and will be revalued upon establishment of grant date.

## 28 Staff share ownership arrangements (continued)

### (b) Effect of share-based payment transactions (continued)

The fair value of each tranche of performance rights issued under the PR Plan were measured at nil as at 30 June 2025 based on the TSR performance of each respective tranche from its commencement date (2024: nil).

As at 30 June 2025 nil share scheme awards remain unvested and not expensed.

### (c) Number of rights outstanding

| | June 2025 | | June 2024 | |
|---|---|---|---|---|
| | Rights Outstanding | Remaining Years | Rights Outstanding | Remaining Years |
| PR Plan - 2024 | — | — | 3,548 | — |
| PR Plan - 2025 | 1,149 | — | 2,869 | 1 |
| **Total** | **1,149** | | **6,417** | |

## 29 Securitisation, funds management and other fiduciary activities

### Funds management and other fiduciary activities

The Group, through Heartland PIE Fund Limited, controls, manages and administers the Heartland PIE Fund and its products (Heartland Call PIE and Heartland Term Deposit PIE). Refer to Note 27 - Structured entities for further details. The Heartland PIE Fund deals with HBL in the normal course of business, in the HBL's capacity as Registrar of the Fund and also invests in HBL's deposits. The Group is considered to control the Heartland PIE Fund, and as such the Heartland PIE Fund is consolidated within the financial statements of the Group.

## 30 Concentrations of funding

### (a) Concentration of funding by industry

ANZSIC codes have been used as the basis for categorising customer and investee industry sectors.

| $000's | June 2025 | June 2024 |
|---|---|---|
| Agriculture | 114,988 | 104,818 |
| Forestry and fishing | 14,038 | 18,745 |
| Manufacturing | 46 | 178 |
| Mining | 17,809 | 17,698 |
| Finance and insurance | 1,864,156 | 3,008,066 |
| Wholesale trade | 6,618 | 10,207 |
| Retail trade and accommodation | 32,053 | 30,410 |
| Households | 4,669,968 | 4,287,925 |
| Rental, hiring and real estate services | 62,663 | 101,495 |
| Construction | 25,517 | 28,914 |
| Other business services | 461,519 | 337,560 |
| Transport and storage | 6,509 | 6,512 |
| Other | 79,523 | 37,351 |
| **Total borrowings** | **7,355,407** | **7,989,879** |

### (b) Concentration of funding by geographical area

| $000's | June 2025 | June 2024 |
|---|---|---|
| New Zealand | 4,545,940 | 4,921,410 |
| Australia | 2,731,585 | 3,005,336 |
| Rest of the world | 77,882 | 63,133 |
| **Total borrowings** | **7,355,407** | **7,989,879** |

## 31 Offsetting financial instruments

The Group offsets financial assets and financial liabilities and reports the net balance in the balance sheet where there is currently a legally enforceable right to set off and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

The Group enters into contractual arrangements with counterparties to manage the credit risks associated primarily with over-the-counter derivatives. The Group has entered into credit support annexes (**CSAs**) which form a part of International Swaps and Derivatives Association (**ISDA**) Master Agreement, in respect of certain exposures relating to derivative transactions. As per these CSAs, the Group or the counterparty needs to collateralise the market value of outstanding derivative transactions. As at 30 June 2025, the Group has paid $14.24 million of cash collateral (2024: received $2.38 million) against derivative assets. Cash collateral includes amounts of cash obtained to cover the net exposure between the counterparty in the event of default or insolvency. The cash collateral received is not netted off against the balance of derivative assets disclosed in the statement of financial position.

The following table sets out financial assets and financial liabilities which have not been offset but are subject to enforceable master netting agreements (or similar arrangements) and the related amounts not offset in the balance sheet. Financial instruments refer to amounts that are subject to relevant close out netting arrangements under a relevant ISDA agreement. ISDA and similar master netting arrangements do not meet the criteria for offsetting in the statement of financial position because under such agreements the counterparties typically have the right to offset only following an event of default, insolvency or bankruptcy or following other pre-determined events.

| | Effects of offsetting on the balance sheet | | | Related amounts not offset | | |
|---|---|---|---|---|---|---|
| **$000's** | **Gross amount** | **Gross amounts set off in the balance sheet** | **Net amounts reported in the balance sheet** | **Financial Instruments** | **Cash collateral** | **Net amount** |
| ***June 2025*** | | | | | | |
| Derivative financial assets | 4,792 | – | 4,792 | (4,792) | – | – |
| **Total financial assets** | **4,792** | **–** | **4,792** | **(4,792)** | **–** | **–** |
| Derivative financial liabilities | 20,660 | – | 20,660 | (4,792) | (14,239) | 1,629 |
| **Total financial liabilities** | **20,660** | **–** | **20,660** | **(4,792)** | **(14,239)** | **1,629** |
| ***June 2024*** | | | | | | |
| Derivative financial assets | 12,316 | – | 12,316 | (9,017) | (2,384) | 915 |
| **Total financial assets** | **12,316** | **–** | **12,316** | **(9,017)** | **(2,384)** | **915** |
| Derivative financial liabilities | 9,017 | – | 9,017 | (9,017) | – | – |
| **Total financial liabilities** | **9,017** | **–** | **9,017** | **(9,017)** | **–** | **–** |

## 32 Contingent liabilities and commitments

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

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

| $000's | June 2025 | June 2024 |
|---|---|---|
| Letters of credit, guarantee commitments and performance bonds | 5,507 | 3,130 |
| **Total** | **5,507** | **3,130** |
| | | |
| Undrawn facilities available to customers | 565,735 | 554,307 |
| Conditional commitments to fund at future dates | 11,095 | 9,947 |
| **Total commitments** | **576,830** | **564,254** |

## 33 Events after reporting date

The Group approved a fully imputed final dividend of 2 cents per share on 20 August 2025.

Effective 1 July 2025, the New Zealand Depositor Compensation Scheme (**DCS**) came into effect and will be funded by deposit takers. The Group will be subject to a regulatory levy, which the Crown may impose at its discretion if there is a shortfall in the DCS scheme funds in the event of a deposit taker failure.

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

# Independent auditor's report

**To the shareholders of Heartland Group Holdings Limited**

## Our opinion

In our opinion, the accompanying consolidated financial statements (the financial statements) of Heartland Group Holdings Limited (the Company), including its subsidiaries (the Group), present fairly, in all material respects, the financial position of the Group as at 30 June 2025, its financial performance, and its cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) and International Financial Reporting Standards Accounting Standards (IFRS Accounting Standards).

### What we have audited

The Group's financial statements comprise:

- the statement of financial position as at 30 June 2025;
- the statement of comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, comprising material accounting policy information and other explanatory information.

## Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand) (ISAs (NZ)) and International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report.

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

### Independence

We are independent of the Group in accordance with Professional and Ethical Standard 1 International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand) (PES 1) issued by the New Zealand Auditing and Assurance Standards Board and the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with these requirements.

In our capacity as auditor and assurance practitioner, our firm provides review and other assurance services. Our firm also provided an executive reward survey report to the Group. In addition, certain partners and employees of our firm may deal with the Group on normal terms within the ordinary course of trading activities of the business. The firm has no other relationship with, or interests in, the Group.

## Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current year. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

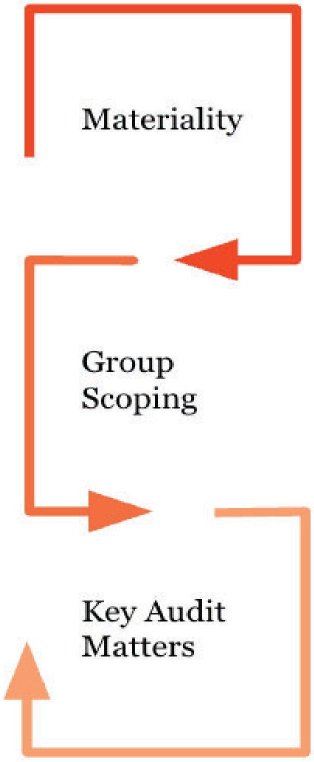
| Description of the key audit matter | How our audit addressed the key audit matter |
|---|---|
| **Provision for impairment of finance receivables**<br>As disclosed in note 13 of the financial statements, the impairment allowance totalled $71.8 million at 30 June 2025.<br>For the determination of the collectively assessed impairment allowance, this requires the use of credit risk methodologies that are applied in models using the Group's historical experience of the correlations between defaults and losses, borrower creditworthiness, segmentation of customers or portfolios and the application of forward looking multiple economic scenarios. The assumptions we focused our audit on included those with greater levels of management judgement and for which variations have the most significant impact on the impairment allowance.<br>For finance receivables that meet specific risk based criteria, the impairment allowance is individually assessed by the Group.<br>These impairment allowances are measured using probability weighted scenarios which are intended to reflect a range of reasonably possible outcomes, and incorporate assumptions such as estimated future cash proceeds expected to be recovered from the realisation of security held as collateral by the Group.<br>We considered this a key audit matter due to the significant inherent estimation uncertainty present in the determination of the impairment allowance. | We obtained an understanding of control activities over the Group's impairment allowance, and for certain control activities assessed whether they are appropriately designed. For controls relevant to our planned audit approach we tested, on a sample basis, whether they operated effectively, throughout the financial year.<br>In addition, we, along with our credit risk modelling expert, performed the following procedures, amongst others, on a targeted or sample basis, on the Group's collectively assessed impairment allowance:<br>● Assessed the appropriateness of the methodology inherent in the models used against the requirements of NZ IFRS 9 *Financial Instruments*;<br>● Challenged and assessed the appropriateness of the collectively assessed impairment allowance inclusive of the impacts of any post model adjustments;<br>● Tested the accuracy of the collectively assessed impairment allowance calculation; and<br>● Tested the completeness and accuracy of critical data elements used in the calculations.<br>With respect to individually assessed impairment allowances we:<br>● For a sample of business and rural loans not identified as impaired, considered the borrowers latest information available to the Group to assess the credit risk grade rating allocated to the borrower as to whether the borrower could be identified as impaired, a critical data element which involves significant management judgement; and<br>● For loans where an impairment allowance was individually assessed, we considered the borrower's latest financial information, value of security held as collateral and probability weighted scenario outcomes (where applicable) to test the basis of measuring the impairment allowance.<br>We considered the impacts of events occurring subsequent to balance date on the impairment allowances.<br>We also assessed the reasonableness of the disclosures against the requirements of the accounting standards. |
| **Fair value of finance receivables - reverse mortgages**<br>The Group's fair value of finance receivables – reverse mortgages ("Reverse mortgages") totalled $3.4 billion at 30 June 2025 as disclosed in note 21 of the financial statements. Reverse mortgages are held at fair value through profit or loss.<br>The Group records the estimated fair value of the Reverse mortgages at transaction price (cash advanced plus accrued capitalised interest), on the basis that no reliable fair value can be estimated as there is no relevant | Our audit procedures included assessing the design and implementation of controls relating to the Group's assessment of the fair value of Reverse mortgages.<br>In addition, our audit procedures included:<br>● Assessing the reasonableness of the Group's approach to estimating the fair value based on the transaction price against the requirements of the accounting standards;<br>● Assessing whether there was evidence of a relevant active market or observable inputs in which to establish fair value using a market approach; |

| Description of the key audit matter | How our audit addressed the key audit matter |
|---|---|
| active market and the fair value cannot be reliably estimated using other valuation techniques, as permitted under the accounting standards.<br>To assess whether the transaction price remains an appropriate proxy for fair value, the Group considers the impact on discounted future cash flows of changes in the risk profile and expectations of performance since origination, including possible outflows under the no negative equity guarantee provided by the Group to the borrower. High interest rates and volatility in house prices, combined with the economic outlook, increases the possibility of outflows under the no negative equity guarantee. Accordingly, we consider this to be a key audit matter. | • Engaging our internal actuarial expert to assess the Group's estimate of the value of discounted future cash flows from the Reverse mortgages, including any expected outflows under the no negative equity guarantee and comparing this to the transaction price of Reverse mortgages (carrying value) to assess any potential shortfall (a shortfall would indicate the transaction price was overstated);<br>• Testing the completeness and accuracy of a sample of critical data elements used as inputs to the value of discounted future cash flows;<br>• Assessing the reasonableness of key assumptions (such as future house prices, voluntary exits, interest rate margins, future interest rates) used in the value of discounted future cash flows; and<br>• Considering the appropriateness of the disclosures against the requirements of the accounting standards. |
| **Heartland Bank Australia Limited goodwill impairment assessment**<br>The carrying amount of the Heartland Bank Australia Limited goodwill as at 30 June 2025, as disclosed in note 18 of the financial statements, amounted to $175.0 million.<br>The carrying value of goodwill is a key audit matter as it is a significant intangible asset in the Group's statement of financial position. At balance date an impairment assessment is required which uses an estimate of the recoverable amount that is dependent on future earnings.<br>Previously, the goodwill was allocated to a group of cash generating units (CGUs) representing the Australian reverse mortgage lending and the Australian livestock financing businesses. In the current year, the Group has determined the goodwill for this group of CGUs should be allocated to a single Heartland Bank Australia Limited CGU at which impairment is assessed due to the corporate simplification and operational integration of the Australian business, and the way goodwill is monitored internally.<br>The Group used the Fair Value Less Costs of Disposal (FVLCD) approach to determine the recoverable amount of the Heartland Bank Australia Limited CGU.<br>FVLCD is based on a price-earnings multiples approach using normalised current year earnings.<br>The key assumptions used in the FVLCD are:<br>• Price-earnings multiple; and<br>• Normalised current year earnings. | We held discussions with management to understand the assumptions used in the determination of the single CGU and the goodwill impairment assessment.<br>Our audit procedures also included the following:<br>• Assessing judgements made in respect of the determination of the CGU, taking into account the corporate simplification and operational integration of the Group's Australian business;<br>• Obtaining an understanding of the business processes and controls applied by management in performing the impairment assessment;<br>• Assessing the appropriateness of using a FVLCD approach against the requirements of the accounting standards;<br>• Engaging our internal valuation expert to assess management's valuation methodology and key assumptions, including comparable price-earnings multiples;<br>• Assessing the appropriateness of the normalised current year earnings, as well as comparing these to the FY26 forecast earnings approved by the Board for reasonableness;<br>• Obtaining and evaluating management's sensitivity analyses to ascertain the impact of reasonably possible changes in key assumptions on the recoverable amount; and<br>• Considering the appropriateness of disclosures against the requirements of the accounting standards. |

| Description of the key audit matter | How our audit addressed the key audit matter |
| --- | --- |
| **Operation of financial reporting information technology (IT) systems and controls**<br>The Group's operations and financial reporting processes are dependent on IT systems for the capture, processing, storage and extraction of significant volumes of transactions which is critical to the recording of financial information and the preparation of the Group's financial statements. In addition, the Group changed to a new general ledger system in the current year. Accordingly, we consider this to be a key audit matter.<br>In common with other groups with banking subsidiaries, access management controls are important to ensure both access and changes made to applications and data are appropriate. Ensuring that only appropriate staff have access to IT systems, that the level of access itself is appropriate, and that access is periodically monitored, are key controls in mitigating the potential for fraud or error as a result of a change to an application or underlying data.<br>The Group's controls over IT systems are intended to ensure that:<br>• New systems or changes to existing systems operate as intended and are authorised;<br>• Access to process transactions or change data is appropriate and maintains an intended segregation of duties;<br>• The use of privileged access to systems and data is restricted and monitored; and<br>• IT processing is approved and where issues arise they are resolved. | For material financial statement transactions and balances, our procedures included obtaining an understanding of the business processes, IT systems used to generate and support those transactions and balances, associated IT application controls, and IT dependencies in manual controls. Our procedures included evaluating and testing the design and operating effectiveness of certain controls over the continued integrity of the IT systems that are relevant to financial reporting.<br>This involved assessing, where relevant to the audit:<br>• Change management: the processes and controls used to develop, test and authorise changes to the functionality and configurations within systems;<br>• System development: the project disciplines which ensure that significant developments or implementations are appropriately tested before implementation and that data is converted and transferred completely and accurately;<br>• Security: the access controls designed to enforce segregation of duties, govern the use of generic and privileged accounts, or ensure that data is only changed through authorised means; and<br>• IT operations: the controls over certain IT batch processes used to ensure that any issues that arise are managed appropriately.<br>Where we identified design or operating effectiveness matters relating to IT systems and application controls relevant to our audit, we performed alternative or additional audit procedures. |

## Our audit approach

### Overview




The overall group materiality is $5.2 million, which represents approximately 0.75% of interest income.

We chose interest income as the benchmark because, in our view, it best reflects the activity and performance of the Group which now includes an enlarged banking operation in Australia. Interest income is a proxy for revenue which is a generally accepted benchmark

Following our assessment of the risk of material misstatement, full scope audits were performed for two (NZ Banking Group and Australia Banking Group) of the three identified components based on their financial significance. Specified audit procedures and analytical review procedures were performed on the remaining component (the Company).

As reported above, we have four key audit matters, being:

- Provision for impairment of finance receivables
- Fair value of finance receivables – reverse mortgages
- Heartland Bank Australia Limited goodwill impairment assessment
- Operation of financial reporting information technology (IT) systems and controls

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

### Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance about whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall Group materiality for the financial statements as a whole as set out above. These, together with qualitative considerations, helped us to determine the scope of our audit, the nature, timing and extent of our audit procedures, and to evaluate the effect of misstatements, both individually and in the aggregate, on the financial statements as a whole.

### How we tailored our group audit scope

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

We performed a full scope audit of the Group's two financially significant components. The full scope audit of the Australia Banking Group component was performed by a PwC network firm operating under our instructions.

Our involvement with the PwC network firm auditing the Australia Banking Group component included the following:

- issuing Group audit instructions;
- meeting with the component audit team and reviewing their audit findings;
- inspecting audit working papers;
- attending key management and audit committee meetings; and
- maintaining regular communication throughout the audit and appropriately directing their audit.

Specified audit procedures and analytical review procedures were performed on the remaining component.

By performing these procedures, together with the procedures performed on the consolidation and intercompany eliminations, we have obtained sufficient and appropriate audit evidence regarding the financial information of the Group to provide a basis for our opinion on the Group's financial statements.

## Other information

The Directors are responsible for the other information. The other information comprises the information included in the Annual Report, but does not include the financial statements and our auditor's report thereon, and the Heartland Climate Report 2025. The Annual Report and Heartland Climate Report 2025 is expected to be made available to us after the date of this auditor's report.

Our opinion on the financial statements does not cover the other information and we will not express any form of audit opinion or assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

When we read the other information not yet received, if we conclude that there is a material misstatement therein, we are required to communicate the matter to the Directors and use our professional judgement to determine the appropriate action to take.

## Responsibilities of the Directors for the financial statements

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

In preparing the financial statements, the Directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern, and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

## Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements, as a whole, are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (NZ) and ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located at the External Reporting Board's website at:

https://www.xrb.govt.nz/standards/assurance-standards/auditors-responsibilities/audit-report-1-1/

This description forms part of our auditor's report.

## Who we report to

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

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

For and on behalf of

PricewaterhouseCoopers | Auckland
20 August 2025