HEARTLAND
BANK

Disclosure Statement

For the year ended 30 June 2025

Contents

General Information

This Disclosure Statement has been issued by Heartland Bank Limited (**HBL** or the **Bank**) and its subsidiaries (the **Banking Group**) for the year ended 30 June 2025 in accordance with the Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order 2014 (as amended) (the **Order**). The financial statements of the Banking Group for the year ended 30 June 2025 form part of, and should be read in conjunction with, this Disclosure Statement.

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

Name and address for service

The name of the Registered Bank is Heartland Bank Limited.

The Banking Group consists of the Bank and all of its subsidiaries.

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

The address for service of the ultimate parent, Heartland Group Holdings Limited (**HGH**), is Level 3, 35 Teed Street, Newmarket, Auckland 1023.

Details of incorporation

The Bank was incorporated under the Companies Act 1993 on 30 September 2010.

Interests in 5% or more of voting securities of the Bank

Name	Percentage held
Heartland Group Holdings Limited	100%

Heartland Group Holdings Limited has the ability to appoint 100% of Directors, subject to Reserve Bank of New Zealand (**RBNZ**) restrictions and RBNZ Director approval.

Priority of Creditors' Claims

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

Guarantee Arrangements

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

Pending Proceedings or Arbitration

There are no pending legal proceedings or arbitrations concerning any member of the Banking Group at the date of Disclosure Statement that may have a material adverse effect on the Bank or the Banking Group.

Auditor

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

Directors

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

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

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

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

The Directors of the Bank and their details at the time this Disclosure Statement was signed were:

Chairman – Board of Directors

Name:	Bruce Robertson Irvine
Qualifications:	BCom, LLB, FCA, CFInstD
Type of Director:	Independent Non-Executive Director
Occupation:	Company Director

External Directorships: Air Rarotonga Limited, Amaia Day Spa (Tonga) Limited, Amaia Luxury Spa Limited, B R Irvine Limited, Blackbyre Horticulture Limited, Bowdens Mart Limited, MG Sustainable Operations Limited, Chambers @151 Limited, Clipper Investments (2002) Limited, Cockerill and Campbell (2007) Limited, Embassy Hotels Limited, GZ Capital Limited, GZ NZ Limited, GZ RES Limited, Hansons Lane International Holdings Limited, Hawling Holdings Limited, House of Travel Holdings Limited, Kaipaki Holdings Limited, Kaipaki Properties Limited, Lake Angelus Holdings Limited, Market Fresh Wholesale Limited, Market Gardeners Limited, MG Group Holdings Limited, MG Marketing Limited, MG New Zealand Limited, Monarch Hotels Limited, Noblesse Oblige Limited, Paradise Islands Limited, Phimai Holdings Limited, Quitachi Limited, Scenic Hotels (Karapiro) Limited, Scenic Hotels (Hamilton) Limited, Scenic Hotel Punakaiki Limited, Scenic Circle Convention Services Limited, Scenic Hotel (Haast) Limited, Scenic Circle (Napier) Limited, Scenic Hotel Group Limited, Scenic Hotels (Ashburton) Limited, Scenic Hotels (International) Limited, Scenic Circle MLC Cafe & Bar Limited, Skope Industries Limited, Southland Produce Markets Limited, Stark Holdings (NZ) Limited, Wavell Resources Limited, Scenic Circle (Rotorua) Limited, Scenic Circle (Queenstown) Limited, Scenic Hotels Limited, Abalon Investments Limited, Scenic Hotels (Tonga) Limited, Waiho Investments Limited, Scenic Circle Hotels Management Services Limited, Scenic Hotel Collection New Zealand Limited, Scenic Hotels (Auckland) Limited, Scenic Hotels (Niue) Limited, Scenic Hotels (Kaikoura) Limited, Heartland Hotels Limited, Scenic (Franz Josef) Limited, Scenic Circle (Airedale) Limited, Scenic Circle (Bay Of Islands) Limited, Platinum Hotels Limited, Scenic Aviation Limited, Scenic Circle (Bay Of Plenty) Limited, Scenic Circle (Blenheim) Limited, Karma Finance Limited, Scenic Circle Hotels (Dunedin) Limited, Refined Hotels Limited, Scenic Hospitality Services Limited, Scenic Circle Glacier Country Hotel Limited, Mitchell Corp Contract Services Limited, Scenic Hotels Technology Limited, Scenic Hotels Contract Services Limited, Ezibed (2022) Limited, Mainstay International Hotels (NZ) (2022) Limited, Mainstay International Hotels (2022) Limited, Mitchell Corp New Zealand (2022) Limited, MLC Scenic Limited, Wagstaff Holdings Limited, Golden Chain (NZ) (2022) Limited, Sproule Ft Leinster Limited, Sproule Ft Marshland Limited, Paulsen Porto Limited.

Name:	Andrew Dixson
Qualifications:	BCom, DipCom, CA
Type of Director:	Non-Independent Non-Executive Director
Occupation:	Chief Executive Officer of Heartland Group Holdings

External Directorships: None

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

External Directorships: Napier Port Holdings Limited, Pomare Investments Limited, Port of Napier Limited.

Directors (continued)

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

External Directorships: 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.

Name: Shelley Maree Ruha
Qualifications: BCom, DipBank
Type of Director: Independent Non-Executive Director
Occupation: Company Director

External Directorships: Analey Holdings Limited, Analey Investments Limited, Analey Riverhead Limited, IT & Business Consulting Limited, New Zealand Rural Land Management GP Limited, Partners Group Holdings Limited, Partners Life Limited, 9 Spokes International Limited, Paysauce Limited, 9 Spokes Knowledge Limited, 9 Spokes Operations Limited, 9 Spokes Trustee Limited, 9 Spokes US Holdings Limited, Allied Farmers Limited, Allied Farmers (New Zealand) Limited, 5M No.2 Limited, Alf Nominees Limited, Allied Farmers Rural Limited, Allied Farmers Property Holdings Limited, Clearwater Hotel 2004 Limited, Lifestyles of New Zealand Queenstown Limited, Lonz 2008 Holdings Limited, Lonz 2008 Limited, NZ Farmers Livestock Finance Limited, QWF Holdings Limited, Rural Funding Solutionz Limited, UFL Lakeview Limited, Smartpay Holdings Limited.

Name: Simon Ross Tyler
Qualifications: MSc, BSc (Hons)
Type of Director: Independent Non-Executive Director
Occupation: Company Director

External Directorships: Nutrition for Health Limited, Global Horticulture Limited, Palliser Estate Wines of Martinborough Limited, NZ Bio Forestry Limited, Asteron Life Limited.

Conflicts of interest policy

All Directors are required to disclose to the Board any actual or potential conflicts of interest which may exist or is thought to exist upon appointment and are required to keep these disclosures up to date. The details of each disclosure made by a Director to the Board must be entered in the Interests Register.

Directors are required to take any necessary and reasonable measures to try to resolve the conflict and comply with the Companies Act 1993 by disclosing interests and restrictions on voting. Any Director with a material personal, professional or business interest in a matter being considered by the Board must declare their interest and, unless the Board resolves otherwise, may not be present during the boardroom discussions or vote on the relevant matter.

Interested transactions

There have been no transactions between the Bank or any member of the Banking Group and any Director or immediate relative or close business associate of any Director which either has been entered into on terms other than those which would in the ordinary course of business of the Bank or any member of the Banking Group be given to any other person of like circumstances or means, or could be reasonably likely to influence materially the exercise of the Directors' duties.

Audit committee composition

Members of the Bank's Audit Committee as at the date of this Disclosure Statement are as follows:

Simon Ross Tyler (Chairperson)	Independent Non-Executive Director
Edward John Harvey	Non-Independent Non-Executive Director
Bruce Robertson Irvine	Independent Non-Executive Director
Shelley Maree Ruha	Independent Non-Executive Director

Directors' Statements

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

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

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

   (b) the Disclosure Statement is not false or misleading.

2. During the year ended 30 June 2025:

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

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

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

This Disclosure Statement is dated 20 August 2025 and has been signed by all the Directors.

B. R. Irvine (Chair)

S. R. Tyler

E. J. Harvey

S. M. Ruha

K. Mitchell

A. P. Dixson

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 30 June 2025

$000's	Note	June 2025	June 2024
Interest income:			
Effective interest method	3	400,415	371,590
Fair value through profit or loss	3	305,449	135,203
Total interest income		**705,864**	**506,793**
Interest expense	3	398,770	284,405
Net interest income		**307,094**	**222,388**
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	11,724
Other income	5	5,093	2,718
Net operating income		**327,923**	**238,515**
Operating expenses	6	182,254	116,302
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		**145,669**	**122,213**
Net fair value gain/(loss) on equity investments and investment property		1,623	(1,595)
Losses on guaranteed future value products		1,504	–
Impaired asset expense	8	71,638	46,313
Profit before income tax		**74,150**	**74,305**
Income tax expense	9	22,494	21,785
Profit for the year		**51,656**	**52,520**
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)	(10,439)
Movement in fair value reserve		1,551	925
Movement in foreign currency translation reserve		(6,905)	(1,682)
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)	–
Other comprehensive loss for the year, net of income tax		**(21,007)**	**(11,196)**
Total comprehensive income for the year		**30,649**	**41,324**

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

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		**1,044,811**	**(83,621)**	**235,200**	**1,196,390**	**553,239**	**13,143**	**162,354**	**728,736**
Business combination under common control	16, 18	–	–	–	–	–	(85,568)	85,826	258
Total comprehensive income for the year									
Profit for the year		–	–	51,656	51,656	–	–	52,520	52,520
Other comprehensive loss, net of income tax	16	–	(21,007)	–	(21,007)	–	(11,196)	–	(11,196)
Total comprehensive income for the year		**–**	**(21,007)**	**51,656**	**30,649**	**–**	**(11,196)**	**52,520**	**41,324**
Transactions with owner									
Dividends paid to owner	15	–	–	(33,750)	(33,750)	–	–	(65,500)	(65,500)
Share issuance	15	–	–	–	–	491,572	–	–	491,572
Total transactions with owner		**–**	**–**	**(33,750)**	**(33,750)**	**491,572**	**–**	**(65,500)**	**426,072**
Other movements	16	249	(249)	–	–	–	–	–	–
Balance at end of the year		**1,045,060**	**(104,877)**	**253,106**	**1,193,289**	**1,044,811**	**(83,621)**	**235,200**	**1,196,390**

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		349,745	627,969
Collateral paid		14,239	–
Investments	10	791,760	1,092,131
Derivative financial instruments	11	4,792	12,316
Finance receivables measured at amortised cost	12	3,711,450	4,266,946
Finance receivables - reverse mortgages	20	3,370,949	2,897,818
Investment properties		4,390	3,660
Operating lease vehicles	13	15,561	18,261
Right of use assets	17	12,223	15,519
Other assets	17	43,130	34,897
Current tax asset		31,274	15,172
Intangible assets	17	250,821	264,493
Deferred tax asset	9	21,430	22,605
Total assets		**8,621,764**	**9,271,787**
Liabilities			
Collateral received		–	2,384
Deposits	14	6,532,794	5,967,239
Other borrowings	14	825,454	2,040,763
Derivative financial instruments	11	20,660	9,017
Due to related parties	19	792	7,653
Lease liabilities	17	14,390	17,776
Trade and other payables	17	33,064	30,565
Deferred tax liability	9	1,321	–
Total liabilities		**7,428,475**	**8,075,397**
Net assets		**1,193,289**	**1,196,390**
Equity			
Share capital	15	1,045,060	1,044,811
Retained earnings and other reserves	16	148,229	151,579
Total equity		**1,193,289**	**1,196,390**
Total interest earning and discount bearing assets		8,225,502	8,871,389
Total interest and discount bearing liabilities		7,319,879	7,972,194

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		449,347	368,533
Operating lease income received		5,417	5,288
Lending, credit fees and other income received		18,206	16,612
Operating inflows		**472,970**	**390,433**
Interest paid		(410,829)	(256,683)
Payments to suppliers and employees		(169,685)	(109,231)
Taxation paid		(31,131)	(41,691)
Operating outflows		**(611,645)**	**(407,605)**
Net cash flows applied to operating activities before changes in operating assets and liabilities		**(138,675)**	**(17,172)**
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/(increase) in finance receivables measured at amortised cost		464,299	(5,901)
Net (increase) in finance receivables - reverse mortgages		(220,324)	(166,821)
Net movement in deposits		586,554	559,209
Net movement in related party balances		(10,531)	(4,312)
Net cash flows from operating activities		**664,065**	**335,370**
Cash flows from investing activities			
Purchase of property, plant and equipment and intangible assets		(3,716)	(18,842)
Proceeds from investment securities		2,032,633	246,490
Purchase of investment securities		(1,725,205)	(637,399)
Cash acquired on business combination under common control		—	125,085
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		**304,932**	**(119,046)**
Cash flows from financing activities			
Proceeds from wholesale borrowings		424,614	998,688
Repayment of wholesale borrowings		(1,311,047)	(870,413)
Proceeds from issue of unsubordinated notes		—	24,364
Repayment of unsubordinated notes		(321,347)	(126,485)
Proceeds from issue of subordinated debt		—	51,572
Dividends paid	16	(33,750)	(65,500)
Payment of lease liabilities		(3,723)	(2,327)
Net issue of share capital	16	—	187,500
Net cash flows (applied to)/from financing activities		**(1,245,253)**	**197,399**
Net (decrease)/increase in cash held		**(276,256)**	**413,723**
Effect of exchange rates on cash and cash equivalents		(1,968)	(1,798)
Opening cash and cash equivalents		627,969	216,044
Closing cash and cash equivalents[1]		**349,745**	**627,969**

[1]At 30 June 2025, the Banking 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 28 - Structured entities for definition of the 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		**51,656**	**52,520**
Add/(less) non-cash items:			
Depreciation and amortisation expense		17,122	9,355
Depreciation on lease vehicles	13	3,923	3,902
Capitalised net interest income and fee income		(278,849)	(127,327)
Impaired asset expense	8	73,393	47,587
Losses on guaranteed future value products		1,504	—
Fair value movements		(10,420)	(8,712)
Deferred tax		2,496	(5,845)
Other non-cash items		1,630	4,211
Total non-cash items		**(189,201)**	**(76,829)**
Add/(less) movements in operating assets and liabilities:			
Finance receivables measured at amortised cost		464,299	(5,901)
Finance receivables - reverse mortgages		(220,324)	(166,821)
Operating lease vehicles		(1,223)	(5,197)
Other assets		(30,876)	(7,285)
Current tax		(16,102)	(22,864)
Derivative financial instruments		19,167	26,059
Deposits		586,554	559,209
Other liabilities		115	(17,521)
Total movements in operating assets and liabilities		**801,610**	**359,679**
Net cash flows from operating activities		**664,065**	**335,370**

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

1 Financial statements preparation

Reporting entity

The financial statements presented are the consolidated financial statements comprising Heartland Bank Limited (**HBL** or the **Bank**) and its controlled entities (the **Banking Group**). Refer to Note 27 – Significant subsidiaries for further details.

The Bank is a company incorporated in New Zealand under the Companies Act 1993, a registered bank under the Banking (**Prudential Supervision**) Act 1989 and a Financial Market Conduct (**FMC**) reporting entity for the purposes of the Financial Markets Conduct Act 2013 **(FMCA)**.

The Banking 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 21 - Enterprise risk management program for further details.

For purposes of these financial statements and this Disclosure Statement,

- the New Zealand Banking Group, as defined in the Bank's Conditions of Registration, refers to the consolidated group comprising HBL and its controlled entities incorporated in New Zealand but not including Marac Insurance Limited (**MIL**);
- the Australian Banking Group refers to the consolidated group comprising Heartland Bank Australia Limited (**HBA**) and its controlled entities incorporated in Australia; and
- the Banking Group refers to the consolidated group comprising the New Zealand Banking Group, Australian Banking Group and MIL.

Basis of preparation

The financial statements have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand (**NZ GAAP**) and with the requirements of the Financial Markets Conduct Act 2013. 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, and the Registered Bank Disclosure Statement (New Zealand Incorporated Registered Banks) Order 2014 (as amended) (the **Order**). 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 Banking 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 Banking 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 Banking 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 $506.8 million is disaggregated into two categories as interest calculated using the effective interest method of $371.6 million and interest derived from financial assets measured at fair value through profit or loss of $135.2 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.

1 Financial statements preparation (continued)

Basis of measurement

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

Principles of consolidation

The financial statements of the Banking Group incorporate the assets, liabilities and results of all controlled entities. Controlled entities are all entities in which the Banking 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 Banking 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 Banking 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 Banking Group's risk management strategies remain largely unchanged, management has updated the hedge documentation to be in compliance with NZ IFRS 9. As the purpose and types of hedge relationships remain the same as those before the adoption of NZ IFRS 9 hedge accounting requirements, in the absence of any need to rebalance on transition date, there is no significant impact on the Banking Group's results upon this adoption.

Refer to Note 11 - 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 Banking 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.

1 Financial statements preparation (continued)

Changes in accounting standards (continued)

Accounting standards issued not yet effective (continued)

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

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 Banking Group's reporting period beginning on 1 July 2027. The Banking Group is currently assessing the impact and will disclose more detailed assessments in the future.

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 Banking Group's reporting period beginning on 1 July 2026. The Banking 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 Banking 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 Banking 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 Banking 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 12 - Finance receivables measured at amortised cost 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 20 - Fair value for further details.
- Goodwill - The Banking Group carries out impairment testing annually over the carrying value of goodwill of its cash generating units (**CGUs**). Uncertainty is involved in estimating fair value less costs of disposal and judgement is applied in assumptions used to determine the recoverable amount of a CGU for impairment testing. Refer to Note 17 - 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 18 – 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 Banking 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 Banking 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 MIL's 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 Banking Group determines the business model at the level that reflects how groups of financial assets are managed. When assessing the business model, the Banking 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**)	10
Public sector securities and corporate bonds	FVOCI	10
Equity securities	FVOCI and FVTPL	10
Finance receivables – reverse mortgages	FVTPL	20
Finance receivables	Amortised cost	12
Derivative financial instruments	FVTPL	11

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 Banking Group's policies for determining the fair value of financial assets and financial liabilities are set out in Note 20 - Fair value.

Recognition

The Banking 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 Banking Group becomes a party to the contractual provisions of the instrument.

Derecognition

The Banking 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 Banking Group is recognised as a separate asset.

The Banking 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 Banking Group's operating segments, consistent with those used for the Banking 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 Banking 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 Banking Group's chief operating decision maker (**CODM**).The CODM, who is responsible for allocating resources and assessing business performance of the Banking Group, has been identified as the Banking Group's Chief Executive Officer (**CEO**) and direct reports.

Operating segments

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

Operating segments – New Zealand

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

Operating segment – Australia

Operating segment – Australian Banking Group was acquired through the acquisition of HBA on 30 April 2024 and transfer of HAH and its subsidiaries from HGH to HBA on 2 May 2024, with HBA assuming ownership over HGH's Australian reverse mortgage lending, specialist livestock finances and other financial services businesses. Refer to Note - 18 Acquisition for further details. The performance result of the Australian Banking Group segment for the year ended 30 June 2024 includes the period from the date of acquisition of HBA.

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 Banking Group does not rely on any single major customer for its revenue base.

During the year, the Banking 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[1]	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	–	307,094
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	2,878	6,848
Net operating income	**75,530**	**58,333**	**5,010**	**53,824**	**34,666**	**97,682**	**2,878**	**327,923**
Personnel expenses	5,524	2,030	3,289	5,762	2,253	21,458	44,578	84,894
Other expenses	1,653	3,516	2,089	1,394	869	30,796	57,043	97,360
Operating expenses	**7,177**	**5,546**	**5,378**	**7,156**	**3,122**	**52,254**	**101,621**	**182,254**
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**	**(98,743)**	**145,669**
Net fair value gain 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**	**(97,120)**	**74,150**
Income tax expense	–	–	–	–	–	12,756	9,738	22,494
Profit/(loss) for the year	**47,631**	**52,787**	**(1,007)**	**1,856**	**27,460**	**29,787**	**(106,858)**	**51,656**
Total assets	**1,687,763**	**1,233,272**	**178,625**	**853,011**	**731,819**	**3,169,630**	**767,644**	**8,621,764**
Total liabilities[2]								**7,428,475**
June 2024								
Net interest income	58,909	46,586	4,937	62,090	34,652	15,214	–	222,388
Lending and credit fee income	3,908	2,651	198	3,935	374	658	–	11,724
Net other income/(expense)	1,194	–	543	1,145	(443)	(762)	2,726	4,403
Net operating income	**64,011**	**49,237**	**5,678**	**67,170**	**34,583**	**15,110**	**2,726**	**238,515**
Personnel expenses	3,475	1,800	4,099	7,436	2,510	5,798	29,186	54,304
Other expenses	1,153	3,566	2,725	1,677	671	10,406	41,800	61,998
Operating expenses	**4,628**	**5,366**	**6,824**	**9,113**	**3,181**	**16,204**	**70,986**	**116,302**
Profit/(loss) before fair value (loss)/gain on equity investments, impaired asset expense and income tax	**59,383**	**43,871**	**(1,146)**	**58,057**	**31,402**	**(1,094)**	**(68,260)**	**122,213**
Fair value (loss) on equity investments	–	–	–	–	–	–	(1,595)	(1,595)
Losses on guaranteed future value products	–	–	–	–	–	–	–	–
Impaired asset expense	24,329	–	1,476	17,527	2,428	553	–	46,313
Profit/(loss) before income tax	**35,054**	**43,871**	**(2,622)**	**40,530**	**28,974**	**(1,647)**	**(69,855)**	**74,305**
Income tax (benefit)/expense	–	–	–	–	–	(1,705)	23,490	21,785
Profit/(loss) for the year	**35,054**	**43,871**	**(2,622)**	**40,530**	**28,974**	**58**	**(93,345)**	**52,520**
Total assets	**1,608,282**	**1,068,154**	**339,110**	**1,306,689**	**720,339**	**3,415,495**	**813,718**	**9,271,787**
Total liabilities[2]								**8,075,397**

[1] The result for the year ended 30 June 2024 includes Australian Reverse Mortgage loans acquired from Seniors Warehouse Trust (**SWT**) and subsequently sold to HBA post acquisition. Refer to Note 19 - Related party transactions and balances for further details.
[2] 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 Banking 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	12,301	10,739
Investments measured at FVOCI	33,152	12,082
Finance receivables measured at amortised cost	354,962	348,769
Total interest income calculated using the effective interest method	**400,415**	**371,590**
Fair value through profit or loss		
Investments measured at FVTPL	7,416	4,186
Finance receivables - reverse mortgages	298,033	131,017
Total interest income on financial assets measured at FVTPL	**305,449**	**135,203**
Total interest income	**705,864**	**506,793**
Interest Expense		
Calculated using the effective interest method		
Deposits	312,134	240,978
Other borrowings	95,885	68,332
Total interest expense calculated using the effective interest method	**408,019**	**309,310**
Fair value through profit or loss		
Net interest (income) on derivative financial instruments	(9,249)	(24,905)
Total net interest (income) on derivative financial instruments measured at FVTPL	**(9,249)**	**(24,905)**
Total interest expense	**398,770**	**284,405**
Net interest income	**307,094**	**222,388**

4 Net operating lease income

Policy

As a lessor, the Banking 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 11 - 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 10 - 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)
Management fee income[3]	7,181	5,591
Fair value gain/(loss) on non-derivative financial instruments[4]	441	(727)
Other income[5]	1,640	4
Foreign exchange gain	326	1,720
Total other income	**5,093**	**2,718**

[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 11 - Derivative financial instruments for further details.

[3]Refer to Note 19 - Related party transactions and balances for further details.

[4]Includes realised and unrealised losses on HBA's government securities, bank bonds and floating rate notes. Refer to Note 10 - Investments for further details.

[5]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 Banking 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]	84,894	54,304
Directors' fees	1,605	648
Superannuation	3,297	1,409
Depreciation - property, plant and equipment	1,910	1,676
Legal and professional fees[2]	8,708	4,488
Advertising and public relations	3,126	2,162
Depreciation - right of use asset	3,703	2,459
Technology services and communications	20,904	13,922
Customer administration costs	11,117	5,767
Customer onboarding costs	2,730	2,533
Occupancy costs	2,848	1,834
Amortisation of intangible assets	11,509	5,220
Management fees - related party[3]	7,229	9,003
Other operating expenses[4]	18,674	10,877
Total operating expenses	**182,254**	**116,302**

[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]Refer to Note 19 - Related party transactions and balances for further details.

[4]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 Banking 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.

It is the Banking 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 approved by the HGH Board Audit and Risk Committee.

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]	1,686	1,154
Additional for prior year[1]	56	29
Total audit and review of financial statements	**1,742**	**1,183**
Audit or review related services		
APRA regulatory reporting and Australian Financial Services Licence reporting assurance services	200	–
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**	**18**
Other assurance services and other agreed-upon procedures		
Greenhouse gas emissions assurance readiness assessment	–	35
Greenhouse gas emissions assurance services	49	38
Total other assurance services and other agreed-upon procedures	**49**	**73**
Other services		
Provision of executive reward survey report	4	–
Total compensation paid to PwC	**2,014**	**1,274**
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]	–	230
Total compensation paid to EY	**–**	**1,041**
Total compensation of auditor	**2,014**	**2,315**

[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, CPS 234 information security plan review, hedge accounting and other accounting advisory services and facilitation of strategy review workshop. Except for the actuarial services for 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	13,869
Collectively impaired asset expense	48,663	33,718
Total impaired asset expense excluding recovery of amounts previously written off to the income statement	**73,393**	**47,587**
Recovery of amounts previously written off to the income statement	(1,755)	(1,274)
Total impaired asset expense	**71,638**	**46,313**

Refer to Note 23 – Asset quality 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 Banking 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 Banking 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	21,383	27,551
Adjustments for prior year	2,561	248
Tax at other rates	973	(50)
Deferred tax		
Current year	247	(5,584)
Adjustments for prior year	(2,549)	(712)
Tax at other rates	(121)	(40)
Change in recognition of deferred tax	—	372
Total income tax expense recognised in profit or loss	**22,494**	**21,785**
Income tax expense 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		
Profit before income tax	**74,150**	**74,305**
Tax at local income tax rate (NZ:28%, Australia:30%)	21,613	20,706
Adjusted tax effect of items not deductible	869	1,172
Adjustments for prior year	12	(465)
Change in recognition of deferred tax asset	—	372
Total income tax expense	**22,494**	**21,785**

9 Taxation (continued)

Deferred tax comprises the following temporary differences:

$000's	June 2025	June 2024
Employee entitlements	2,886	1,901
Share based payment	90	—
Provision for impairment	20,880	21,528
Intangibles and property, plant and equipment	(3,777)	(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	(461)	1,777
Total deferred tax	**20,109**	**22,605**
Opening balance of deferred tax	**22,605**	**16,760**
Movement recognised in profit or loss	2,423	6,336
Transfer on acquisition of business	—	1,673
Deferred tax asset reclass	—	2,118
Utilisation of tax loss	(4,321)	(3,910)
Change in recognition of deferred tax asset	(598)	(372)
Closing balance of deferred tax	**20,109**	**22,605**

Financial Position

10 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 Banking 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 Banking Group's policies. Refer to Note 20 - Fair value for further details.

11 Derivative financial instruments

Policy

The Banking 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 Banking 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 Banking Group.

The Banking 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 Banking 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 Banking 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 Banking Group.

The Banking 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 Banking 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.

11 Derivative financial instruments (continued)

Policy (continued)

Fair value hedge accounting

The Banking 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 Banking 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 Banking 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 Banking Group's approach to managing market risk, including interest rate risk, is disclosed in Note 25 – Interest rate risk. The Banking 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.

11 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 Banking Group's exposure to credit or market risks. The fair values of derivative instruments and their notional values are set out in the below table.

	June 2025			June 2024		
$000's	**Notional Principal**	**Fair Value Assets**	**Fair Value Liabilities**	**Notional Principal**	**Fair Value Assets**	**Fair Value Liabilities**
Interest rate related contracts						
Held as economic hedges	–	–	–	344,598	293	782
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 Banking 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**

11 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.

	As at 30 June 2025		For the year ended 30 June 2025
$000's	Carrying value	Accumulated amount of fair value hedge adjustment	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**

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

11 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	14,710
Business combination under common control	–	103
Transferred to the income statement	(3,690)	(482)
Net loss from change in fair value	(13,351)	(14,233)
Net movement before tax	**(17,041)**	**(14,612)**
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.

12 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[1]	(71,779)	(76,321)
Less provision for losses on guaranteed future value products[2]	(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[1]	(71,779)	(76,321)
Less provision for losses on guaranteed future value products[2]	(1,504)	–
Net finance receivables measured at amortised cost	**3,711,450**	**4,266,946**

[1] Refer to Note 23 -Asset quality for further details.
[2] Represents provision for probable losses arising from guaranteed future value (**GFV**) portfolio of motor vehicle loans that have guaranteed residual value of the underlying security and optionality for customers to return the vehicle.

13 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).

14 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 Banking 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 Banking 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	1,420,664	1,417,312
Non-interest bearing deposits	38,369	38,193
Term deposits	5,073,761	4,511,734
Total deposits	**6,532,794**	**5,967,239**
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	**7,358,248**	**8,008,002**
Due within one year	6,247,317	6,168,167
Due more than one year	1,110,931	1,839,835
Total deposits and other borrowings	**7,358,248**	**8,008,002**

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 Banking 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 Banking Group actively engages facility providers in commercial negotiations including tenor extensions, increase in facility limits, refinancing arrangements, and other commercial terms. The Banking 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.

14 Borrowings (continued)

Subordinated notes

NZD Subordinated notes

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

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

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

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

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

AUD Subordinated notes

On 28 June 2024, HBA, a subsidiary of the Banking 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.

14 Borrowings (continued)

Securitised borrowings

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

Securitisation facility $000's	Currency	June 2025 Limit		Drawn	June 2024 Limit		Drawn	Maturity date
		AUD	NZD		AUD	NZD		
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 28 – 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 28 – 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**	**615,126**
Proceeds from wholesale borrowings	424,614	998,688
Repayment of wholesale borrowings	(1,311,047)	(870,413)
Proceeds from issue of unsubordinated notes	–	24,364
Repayment of unsubordinated notes	(321,347)	(126,485)
Proceeds from issue of subordinated debt	–	51,572
Total cash movements	**(1,207,780)**	**77,726**
Business combination under common control	–	1,341,420
Acquisition of debt from purchase of subsidiary	–	2,574
Capitalised interest and fee expense	(3,354)	3,779
Fair value movements	3,470	805
Foreign exchange and other movements	(7,645)	(667)
Total non-cash movements	**(7,529)**	**1,347,911**
Balances as at end of year	**825,454**	**2,040,763**

15 Share capital and dividends

Policy

Ordinary shares are classified as equity, incremental costs directly attributable to the issue of ordinary shares 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	1,030,260	565,430
Shares issued during the year	—	464,830
Closing balance	**1,030,260**	**1,030,260**

There were nil new shares issued during the period.

During the year ended 30 June 2024, HBL issued 187,500,000 shares at $1.00 to HGH as consideration for capital injection from HGH to fund HBL's acquisition of HBA and provide growth capital to the Banking Group, another 4,844,986 shares at $1.00 to HGH as consideration for the acquisition of the equity investment in Harmoney Corp Limited (**HMY**) from HGH and a further 272,485,225 shares to HGH as consideration for HAH and its subsidiaries transferred to HBA.

The issued and fully paid ordinary share capital is included in Common Equity Tier 1 (**CET1**) capital of the Banking Group. Refer to Note 29 - Capital adequacy and regulatory liquidity ratios - unaudited for further details.

Dividends paid

	June 2025		June 2024	
	Date Declared	$000's	Date Declared	$000's
Dividend to HGH	28 August 2024	15,000	28 August 2023	43,000
Dividend to HGH	26 February 2025	18,750	26 February 2024	22,500
Total dividends paid		**33,750**		**65,500**

16 Other reserves

$000's	Common Control Reserve	Foreign Currency Translation Reserve (FCTR)	Fair Value Reserve	Cash Flow Hedge Reserve	Total
June 2025					
Balance as at 30 June 2024	(81,660)	(1,682)	(4,653)	4,374	(83,621)
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)**
Other movements	(258)	9	–	–	(249)
Balance as at 30 June 2025	**(81,918)**	**(8,578)**	**(4,907)**	**(9,474)**	**(104,877)**
June 2024					
Balance as at 30 June 2023	–	–	(1,567)	14,710	13,143
Business combination under common control[1]	(81,660)	–	(4,011)	103	(85,568)
Movements attributable to net investments in foreign operations	–	(1,682)	–	–	(1,682)
Movements attributable to changes in fair value of debt investments at FVOCI	–	–	1,282	–	1,282
Movements attributable to cash flow hedges	–	–	–	(14,715)	(14,715)
Income tax effect	–	–	(357)	4,276	3,919
Total other comprehensive income/(loss) net of income tax	**–**	**(1,682)**	**925**	**(10,439)**	**(11,196)**
Balance as at 30 June 2024	**(81,660)**	**(1,682)**	**(4,653)**	**4,374**	**(83,621)**

[1]Movements represent the components of equity of the transferred entities and the resulting common control reserve. Refer to Note 18 - Acquisition for further details.

FCTR
Exchange differences arising on translation of the Banking 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.

Common control reserve
Common control reserve represents the difference between the consideration paid and the share capital of the transferred entities based on carrying amounts at the date of transfer.

17 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	8,571	4,376
Prepayments	9,399	6,091
Property, plant and equipment	21,713	22,009
Other receivables	3,438	2,227
Total other assets	**43,130**	**34,897**

Policy

Intangible assets

Intangible assets with finite useful lives

Software acquired or internally developed by the Banking 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 Banking 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 Banking Group capitalises costs incurred in configuring or customising certain suppliers' application software within specific cloud computing arrangements as intangible assets as the Banking 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 Banking 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 Banking Group (i.e., such services are not distinct from the Banking 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 Banking 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.

17 Other balance sheet items (continued)

$000's	June 2025	June 2024
Computer software		
Software - cost	77,360	88,533
Software under development	1,823	4,680
Accumulated amortisation	(33,181)	(37,443)
Net carrying value of computer software	**46,002**	**55,770**
Goodwill	204,819	208,723
Net carrying value of goodwill	**204,819**	**208,723**
Total intangible assets	**250,821**	**264,493**

Goodwill

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

During the year, the Banking Group finalised goodwill recognised from the acquisition of HBA during the year ended 30 June 2024 (refer to Note 18 – 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**

Impairment testing of goodwill

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

Heartland Bank Limited (**HBL**) CGU - $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 reflects 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.

17 Other balance sheet items (continued)

Goodwill (continued)

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	16,453	15,747
Insurance liability	556	645
Employee benefits	13,318	9,997
Other tax payables	2,737	4,176
Total trade and other payables	**33,064**	**30,565**

Policy

Leases

The Banking Group leases office space and car parks. 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 Banking 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 Banking 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	11,510
Depreciation charge for the year, included within depreciation expense in the income statement	(3,703)	(2,459)
Additions to right of use assets	407	6,468
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**	**689**

18 Acquisition

Policy

Business combination

The Banking 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 Banking Group. In determining whether a particular set of activities and assets is a business, the Banking 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 Banking 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 Banking 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.

Business combination under common control

Acquisitions which result in a business combination involving common control entities, are outside the scope of NZ IFRS 3 Business Combinations (**NZ IFRS 3**). Accordingly, predecessor value method has been applied by the Banking Group to account for such common control business combinations.

A business combination involving entities under common control is a business combination in which all the combining entities or subsidiaries are ultimately controlled by the same party and parties both before and after the business combination, and that control is not transitory. The assets and liabilities combined are recognised based on the carrying amounts at the date of transfer and no adjustments are made to reflect the fair values. These amounts include any goodwill and other fair value adjustments recorded at the consolidated level in respect of the transferred entity. The components of equity of the acquired entities are added to the same components within the Banking Group equity and any difference between the consideration paid and the share capital of the transferred entity is reflected within equity as a common control reserve.

On 30 April 2024 the Banking 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 17 - Other balance sheet items for further details).

18 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**

Transfer of HAH and its controlled entities

On 2 May 2024, HGH transferred to HBA 100% shareholding of its Australian subsidiaries, being Heartland Australia Holdings Pty Limited (HAH) and its controlled entities, under the requirements of the varied conditions of HBA's banking licence granted by APRA. Transfer of HAH and its controlled entities from HGH to HBA is a reorganisation of entities under common control where HBA, HAH and its controlled entities are under the ultimate control of HGH, before and after the transaction. NZ IFRS 3 does not apply to business combinations under common control.

The Banking Group elected to apply predecessor value method for the recognition of assets and liabilities of HAH and its controlled entities, including goodwill, at date of transfer. During the year ended 30 June 2024 HBL issued shares to HGH in exchange for HAH and its controlled entities transferred to HBA. Refer to Note 15 – Share capital and dividends for further details.

18 Acquisition (continued)

Details of the consolidated book values of the assets and liabilities of HAH and its controlled entities transferred from HGH to HBA are set out as follows:

$000's	Book value recognised on transfer
Assets	
Cash and cash equivalents	125,085
Investments	1,972
Finance receivables measured at amortised cost	279,971
Finance receivables - reverse mortgages	1,072,410
Right of use assets	6,337
Other assets	1,814
Goodwill	156,274
Intangible assets	1,557
Deferred tax asset	853
Total assets	**1,646,273**
Liabilities	
Other borrowings	1,341,419
Due to related parties	789
Lease liabilities	6,494
Tax liabilities	566
Trade and other payables	2,134
Total liabilities	**1,351,402**
Net assets	**294,871**
Equity	
Share capital	212,953
Retained earnings	85,826
Other reserves	(3,908)
Total equity	**294,871**

Common control reserve of $81.92 million was recognised from the transfer of assets and liabilities of HAH and its controlled entities. Refer to Note 16 - Other reserves for further details on equity movements from business combination under common control.

19 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 the Bank;
   ii) has significant influence over the Bank; or
   iii) is a member of the key management personnel of the Bank or HGH.

b) An entity is related to the Bank if any of the following conditions applies:
   i) the entity and the Bank 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 the Bank or an entity related to the Bank.
   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 Banking Group. This includes all executive staff and Directors.

KMP and their related parties receive personal banking and financial investment services from the Banking Group in the ordinary course of business. The terms and conditions, for example interest rates and collateral, and the risks to the Banking 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 income	221	159
Interest expense	(17)	(43)
Total transactions with key management personnel	**204**	**116**
Key management personnel compensation		
Short-term employee benefits	(6,971)	(2,820)
Post-employment benefits	(124)	(56)
Share-based plan benefit	(322)	–
Total key management personnel compensation	**(7,417)**	**(2,876)**
Due from/(to) key management personnel[1]		
Lending	2,227	2,918
Borrowings - deposits	(217)	(975)
Total due from key management personnel	**2,010**	**1,943**

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

19 Related party transactions and balances (continued)

(b) Transactions with related parties

The Banking Group's ultimate parent company is HGH.

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

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

SWT formed part of Australian Seniors Finance Pty Ltd (**ASF**) reverse mortgage business and was set up by ASF as an asset holding entity. During the year ended 30 June 2024, HBL purchased A$80 million (NZ$87 million) of reverse mortgage loans from SWT in the first half of the financial year and subsequently sold this portfolio to HBA post-acquisition. The transacted values approximated fair values at transaction dates.

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

$000's	June 2025	June 2024
Heartland Group Holdings Limited (HGH)		
Interest expense	212	219
Net (withdrawals)/deposits	(15,500)	17,900
Shares issued to HGH	–	491,572
Dividends paid to HGH[1]	(33,750)	(65,500)
Management fees paid to HGH	(7,229)	(9,003)
Management fees received from HGH	7,181	5,203
Acquisition of equity investments from HGH[1]	–	10,479
Transfer of HAH and its subsidiaries from HGH[2]	–	294,871

[1]Refer to Note 15 - Share capital and dividends for further details.
[2]Refer to Note 18 - Acquisition for further details.

$000's	June 2025	June 2024
Australian Seniors Finance Pty Limited (ASF)		
Management fees received from ASF[1]	–	388
Heartland Trust (HT)		
Payment to HT for providing goods and services	10	–

[1]Management fee disclosed for the year ended 30 June 2024 is in relation to services received by ASF for the period from 1 July 2023 to 2 May 2024, prior to the transfer of HAH and its controlled entities from HBA to HBA. Refer to Note 18 - Acquisition for further details.

(c) Due to related parties

$000's	June 2025	June 2024
Due to		
Heartland Group Holdings Limited	792	7,653
Total due to related parties	**792**	**7,653**

(d) Other balances with related parties

$000's	June 2025	June 2024
Heartland Group Holdings Limited		
Retail deposits owing to HGH[1]	2,841	18,123

[1]Included within Deposits on the Statement of financial position.

20 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 Banking Group determines fair value using other valuation techniques.

The Banking 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 Banking 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 Banking Group has an established framework in performing valuations required for financial reporting purposes including Level 3 fair values. The Banking Group regularly reviews and calibrates significant unobservable inputs and valuation adjustments in accordance with market participants' views. If external valuation specialists are engaged to measure fair values, the Banking Group assesses the evidence obtained from these specialists to support the conclusion of these valuations. All significant valuations are reported to the Banking Group's Board Audit Committee for approval prior to its adoption in the 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 - 10 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 Banking Group to measure at FVOCI. Investment in listed securities traded in liquid, active markets where prices are readily observable are measured under Level 1 of the fair value hierarchy with no modelling or assumptions used in the valuation. Equity securities are measured at FVOCI where they are not held for trading, the Banking Group doesn't have control or significant influence over the investee and where an irrevocable election is made to measure them at FVOCI. These securities are measured at fair value with unrealised gains and losses recognised in other comprehensive income except for dividend income which is recognised in profit or loss. Investments in unlisted equity securities are measured under Level 3 of the fair value hierarchy with the fair value being based on unobservable inputs using market accepted valuation techniques. Where appropriate, the Banking Group may apply adjustments to the above-mentioned techniques to determine fair value of an equity security to reflect the underlying characteristics. These adjustments are reflective of market participant considerations in valuing the said security.

20 Fair value (continued)

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

Finance receivables - reverse mortgages

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

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

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

The Banking Group will continue to 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).

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.

20 Fair value (continued)

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

$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).

20 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	888,600	1,819	890,419
Additions - transfer from SWT to HBL[1]	86,551	—	86,551
Additions - acquisition of HBA[2]	635,609	—	635,609
Additions - transfer of HAH and its controlled entities from HGH to HBA	1,072,410	1,972	1,074,382
New loans	245,920	—	245,920
Repayments	(158,498)	—	(158,498)
Capitalised Interest and fees	128,925	—	128,925
Purchase of investments	—	5,596	5,596
Other[3]	(1,699)	45	(1,654)
As at 30 June 2024	**2,897,818**	**9,432**	**2,907,250**

[1]Refer to Note 19 - Related party transactions and balances.

[2]Refer to Note 18 - Acquisition.

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

20 Fair value (continued)

(b) Financial instruments not measured at fair value

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

Cash and cash equivalents

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

Finance receivables measured at amortised cost

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

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

Borrowings

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

Other financial assets and financial liabilities

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

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

	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	6,557,613	6,532,794	Level 2	5,973,492	5,967,239
Other borrowings	Level 2	831,035	825,454	Level 2	2,042,396	2,040,763
Total financial liabilities		**7,388,648**	**7,358,248**		**8,015,888**	**8,008,002**

20 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 Banking Group:

$000's	FVOCI Equity	FVOCI Debt Securities	FVTPL	Amortised Cost	Total Carrying Value
June 2025					
Assets					
Cash and cash equivalents	–	–	–	349,745	349,745
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	–	–	–	3,447	3,447
Total financial assets	**5,664**	**776,945**	**3,384,892**	**4,078,881**	**8,246,382**
Liabilities					
Deposits	–	–	–	6,532,794	6,532,794
Other borrowings	–	–	–	825,454	825,454
Derivative financial instruments	–	–	20,660	–	20,660
Due to related parties	–	–	–	792	792
Other financial liabilities	–	–	–	17,009	17,009
Total financial liabilities	**–**	**–**	**20,660**	**7,376,049**	**7,396,709**
June 2024					
Assets					
Cash and cash equivalents	–	–	–	627,969	627,969
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	–	–	–	2,421	2,421
Total financial assets	**7,575**	**371,816**	**3,622,874**	**4,897,336**	**8,899,601**
Liabilities					
Collateral received	–	–	–	2,384	2,384
Deposits	–	–	–	5,967,239	5,967,239
Other borrowings	–	–	–	2,040,763	2,040,763
Derivative financial instruments	–	–	9,017	–	9,017
Due to related parties	–	–	–	7,653	7,653
Other financial liabilities	–	–	–	16,392	16,392
Total financial liabilities	**–**	**–**	**9,017**	**8,034,431**	**8,043,448**

Risk Management

21 Enterprise risk management program

The board of directors (the **Board**) sets and monitors the Banking 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 Banking Group's Enterprise Risk Management Program (**RMP**).

The Banking 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 Risk Committee

The Board, through its Board Risk Committee (**BRC**) is responsible for oversight and governance of the development of the RMP. The role of the BRC is to assist the Board to formulate its risk appetite, and to monitor the effectiveness of the RMP. The BRC has specific responsibilities over the following areas:

- The Board's Risk Appetite Statement (**RAS**).
- Heartland's Internal Capital Adequacy Assessment Program (**ICAAP**) including appropriate stress testing scenarios.
- The effectiveness of the RMS&F and internal compliance and risk related policies, including approval or variation of policies, procedures and standards.
- Respond to changes anticipated in the economic, business and regulatory environment.
- Conduct, culture and customer outcomes, including emerging risks and any areas of concern.
- Credit exposures of the Bank, including the Delegated Lending Authority Policy and Framework.
- Consideration of risks associated with pursuit of strategy.
- Forming a view on risk culture supporting effective management of risks.

The BRC consists of four non-executive directors, two of whom are independent. In addition, the HBL Chief Risk Officer (**CRO**) (or their nominee, subject to the Chair's prior approval) attends the BRC meetings, and the HBL CEO and the directors who are not members of the BRC are entitled to attend meetings and to receive copies of the BRC papers.

Board Audit Committee

The Board Audit Committee (**BAC**) focuses on financial reporting and application of accounting policies as part of the internal control and risk assessment framework. The BAC provides oversight of the independent evaluation of the effectiveness of RMS&F processes and ensure corrective action is taken. This work is supported by Internal Audit, which provides an independent assessment of the design, adequacy and effectiveness of internal controls. The BAC receives regular reports from Internal Audit.

Charters for both the BRC and the BAC ensure suitable cross representation to allow effective communication pertaining to identified issues with oversight by the Board. The HBL CRO has a direct reporting line to the Chair of the BRC. The Head of Internal Audit has a direct reporting line to the Chair of the BAC.

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 Banking Group's Boards as required.

The objective of the Banking 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 Banking 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 HBL BAC 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.

21 Enterprise risk management program (continued)

Group Asset and Liability Committee (GALCO)

The GALCO consists of members from HBL and HBA, providing consolidated oversight of the Banking Group's assets and liabilities across both HBL and HBA through:

- Ensuring compliance of the Banking 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 Banking Group's strategic funding plan.
- Recommending financial risk management policies for approval and changes to financial risk tolerances to BRC and the Board.
- Development of the Banking 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 Banking Group's hedging strategy.

Asset and Liability Committee (ALCO)

The ALCO is a New Zealand Banking Group management committee comprising the HBL CEO, HBL CFO, HBL CRO, HBL Chief Operating Officer (**COO**), HBL Group Treasurer and HBL General Manager Retail & Reverse Mortgages. The ALCO meets monthly and has responsibility for managing the New Zealand Banking Group's market risk, liquidity and funding risk, pricing, balance sheet structure and capital risk, in line with approved risk tolerances and policy guidance. ALCO provides senior management oversight through:

- Monitoring the performance and effectiveness of market risk management activities.
- Ensuring appropriate management through regular reporting, availability of experienced staff and adequacy of liquidity buffers.
- Monitoring and recommending changes in liquidity limits to GALCO and interest rate pricing levels for all funding products.
- Review of the New Zealand Banking Group's 12-month funding plan, cost of funds projections, internal liquidity stress testing assumptions and approval of new and existing liquidity early warning indicators.
- Approving changes to the HBL's hedging strategies in line with the Banking Group 's hedging strategy approved by GALCO.

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 Banking Group's risk appetite. The ERC generally meets 6 times a year, and minutes are made available to the BRC. 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 Banking 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.

21 Enterprise risk management program (continued)

Three lines of defence model

To ensure appropriate responsibility is allocated for the management, reporting and escalation of operational and compliance risk, the Banking 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 Banking 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 Banking Group's policies, procedures, and systems. The third line assurance incorporates the internal audit function and extends to any other independent review activities.

The Banking 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.

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 Banking 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 22 - 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 Banking Group is exposed. The primary market risk exposures for the Banking 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 Banking 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 Banking 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);

21 Enterprise risk management program (continued)

Financial risks (continued)

Interest rate risk (continued)

- 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 Banking Group's fair-valued assets, such as its liquid asset portfolio, which the fair value of is relied upon to support the Banking Group's funding requirements.

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

Foreign exchange risk

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

FX risk has the below components:

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

The Banking Group's investment of capital in foreign currency operations generates an exposure to changes in foreign exchange rates. The Banking 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 Banking Group incurs some non-traded foreign currency risk related to the potential repatriation of profits from its Australian subsidiaries.

The Banking 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 Banking 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 Banking 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 Banking 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 Banking 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

21 Enterprise risk management program (continued)

Financial risks (continued)

Counterparty credit risk

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

The Banking Group has on-going credit exposure associated with:

- Cash and cash equivalents;
- Finance receivables;
- Holding of investment securities; and
- Payments owed to the Banking 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 Banking 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.

The Banking 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 and BRC.

Climate-related risks

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

Risk Management

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

For HBL, climate-related risks primarily manifest as credit risk. HBL's business strategy outlines its credit appetite for business lending, reviewed at least annually with consideration given to climate-related risks. HBL's credit risk management processes incorporate consideration of climate-related risks for the HBL's large customers initially at onboarding and subsequently during annual reviews. Climate-related risks for HBL's portfolio-managed exposures are continually monitored.

HBL conducts an annual ICAAP to ensure adequate capital in relation to its risk profile, including climate-related risks. The Banking Group's Enterprise Operational Risk Assessment identifies and assists in the proactive management of the most critical operational risks, including climate-related risks, by establishing inherent and residual risk ratings to monitor risk exposure.

All Banking 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.

The Australian Banking Group's credit risk management processes also incorporate consideration of climate-related risks.

21 Enterprise risk management program (continued)

Climate-related risks (continued)

Risk Management (continued)

Governance

The Board is responsible for the Banking 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. HBL and HBA benefit from the work carried out by the HGH Sustainability Committee, the members of which are a director of each of HGH, HBL and HBA, although they have their own Boards of Directors and management teams.

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 Banking 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 Banking 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 Banking Group's operations.

The Banking 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 Banking Group assesses the impact of climate-related risks on its financial position and performance. Although climate change introduces an element of uncertainty, the Banking 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 Banking Group's approach to climate-related risks.

22 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 Banking 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 BRC also oversees the Banking Group's credit risk exposures to monitor overall risk metrics having regard to risk appetite set by the Board.

The BRC has authority from the Board for approval of all credit exposures. Lending authority has been provided by the BRC to the Banking Group'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 the BRC.

The Banking Group employs a credit risk oversight process of hindsighting loans to ensure that credit policies and the quality of credit processes are maintained.

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 Banking Group that the maximum repayment amount is limited to the net sale proceeds of the borrowers' property.

The Banking 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 Banking Group will accept for reverse mortgage lending, a key aspect of the Banking 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 (BFGS)

The Bank, 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 Bank holding the remaining 20%. The Scheme concluded on 30 June 2021. As at 30 June 2025 the Bank had a total exposure of $32.1 million (2024: $42.2 million) to its customers under this Scheme.

22 Credit risk exposure (continued)

North Island Weather Events (NIWE) Loan Guarantee Scheme

On 31 July 2023, the Bank 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 the Bank holding the remaining 20%. The Scheme concluded on 30 June 2025. As at 30 June 2025 the Bank had supported loans under this scheme of $31.7 million (2024: $33.2 million).

Maximum exposure to credit risk at the relevant reporting dates

The following table represents the maximum credit risk exposure, without taking into account any collateral held. The 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	349,745	627,969
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	3,447	2,421
Total on balance sheet credit exposures	**8,235,245**	**8,886,126**
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	**8,817,582**	**9,453,510**

Concentration of credit risk by geographic region

$000's	June 2025	June 2024
New Zealand	5,400,485	5,798,512
Australia	3,313,862	3,514,691
Rest of the world[1]	175,014	216,628
	8,889,361	**9,529,831**
Provision for impairment	(71,779)	(76,321)
Total credit exposures	**8,817,582**	**9,453,510**

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

22 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	1,037,725	1,753,013
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	101,855	104,972
	8,889,361	**9,529,831**
Provision for impairment	(71,779)	(76,321)
Total credit exposures	**8,817,582**	**9,453,510**

Credit exposures to connected persons

The Banking Group's methodology for calculating credit exposure concentrations is on the basis of actual credit exposures and calculated on a gross basis (net of individual credit impairment allowances and excluding advances of a capital nature) in accordance with the Bank's Conditions of Registration and the Reserve Bank's Connected Exposures Policy (**BS8**). Peak end-of-day aggregate credit exposures to connected persons has been derived using maximum end-of-day aggregate amount of credit exposure over the year and then dividing that amount by the Banking Group's Tier 1 capital as at 30 June 2025.

In accordance with its conditions of registration, the Banking Group must comply with all requirements set out in the RBNZ's standard BS8 Connected Exposures effective from 1 October 2023. Exposures to connected persons are not on more favourable terms than corresponding exposures to non-connected persons.

22 Credit risk exposure (continued)

Credit exposures to connected persons (continued)

	As at 30 June 2025	Peak End-of-Day for Year Ended 30 June 2025
Credit exposures to connected persons ($000's)	2,227	7,853
As a percentage of Tier 1 capital of the Banking Group at the end of the year	0.24%	0.84%
Credit exposures to non-bank connected persons ($000's)	2,227	7,853
As a percentage of Tier 1 capital of the Banking Group at the end of the year	0.24%	0.84%

As at 30 June 2025, the Banking Group had no aggregate contingent exposures to connected persons arising from unfunded contingent credit protection arrangements provided by any connected persons. The aggregate amount of the Banking Group's loss allowance for credit exposures to connected persons that are credit-impaired was nil at 30 June 2025.

Credit exposure to individual counterparties

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

The peak end-of-day aggregate concentration of credit exposure to individual counterparties has been calculated by determining the maximum end-of-day aggregate amount of credit exposure over the relevant six-month period and then dividing the amount by the Banking Group's CET1 capital at 30 June 2025.

	Number of Exposures as at 30 June 2025	Number of Exposure Peak End-of-day over 6 months to June 2025
Exposures to banks		
With a long-term credit rating of A- or A3 or above, or its equivalent:		
10% to less than 15% of CET1 capital	–	–
15% to less than 20% of CET1 capital	–	–
20% to less than 25% of CET1 capital	–	–
25% to less than 30% of CET1 capital	1	–
30% to less than 35% of CET1 capital	–	1
35% to less than 40% of CET1 capital	–	–
40% to less than 45% of CET1 capital	–	–
45% to less than 50% of CET1 capital	–	1
With a long-term credit rating of at least BBB- or Baa3, or its equivalent, and at most BBB+ or Baa1, or its equivalent	–	–
Exposures to non-banks		
Total number of exposures to non-banks that are greater than 10% to less than 15% of CET1 capital that have a long-term credit rating of A- or A3 or above.	–	1
Total number of exposures to non-banks that are greater than 10% to less than 15% of CET1 capital that do not have a long-term credit rating.	–	–

22 Credit risk exposure (continued)

Collateral held

The Banking 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 Banking 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 Banking 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 Banking 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%**

23 Asset quality

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

Corporate Business lending including rural lending.

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

All Other This relates primarily to consumer lending to individuals.

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

(a) Past due but not individually impaired

$000's	Corporate	Residential[1]	All Other	Total
June 2025				
Less than 30 days past due	43,924	7,455	38,193	89,572
At least 30 but less than 60 days past due	27,410	18,216	11,099	56,725
At least 60 but less than 90 days past due	37,678	3,175	5,503	46,356
At least 90 days past due	68,299	23,456	20,779	112,534
Total past due but not individually impaired	**177,311**	**52,302**	**75,574**	**305,187**
June 2024 Restated				
Less than 30 days past due	58,075	2,040	40,042	100,157
At least 30 but less than 60 days past due	28,021	993	16,461	45,475
At least 60 but less than 90 days past due	19,470	4,005	8,266	31,741
At least 90 days past due	71,021	22,460	46,276	139,757
Total past due but not individually impaired	**176,587**	**29,498**	**111,045**	**317,130**

[1]Residential finance receivables comprise $49.4 million (2024: $25.1 million) of past due finance receivables - reverse mortgages which are measured at FVTPL. The comparative amounts have been restated to include this class of past due assets that are not individually impaired.

(b) Credit risk grading

The Banking 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.

23 Asset quality (continued)

(b) Credit risk grading (continued)

All loans past due but not impaired have been categorised into three impairment stages (refer to Note 23 – Asset quality (c)) 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.

	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 amortised cost	(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 Asset quality (continued)

(c) Provision for impairment

Policy

Impairment of finance receivables measured at amortised cost

At each reporting date, the Banking 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 Banking 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 Banking Group has defined counterparty probabilities of default across consumer, retail, business and rural portfolios.

The Banking 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 Banking 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 Banking 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.

23 Asset quality (continued)

Policy (continued)

Credit quality of financial assets (continued)

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).

Modification of contractual cash flows

The Banking 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 Bank'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, the Bank has recalibrated the probabilities of default and loss given default to align modelled inputs with more recent observations and data. The Bank had also determined that the likelihood of recovery for 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 Bank'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.

23 Asset quality (continued)

(c) Provision for impairment (continued)

$000's	Collectively Assessed Stage 1	Stage 2	Stage 3	Individually Assessed	Total
June 2025					
Corporate					
Impairment allowance as at 30 June 2024	**6,753**	**1,716**	**20,051**	**22,482**	**51,002**
Changes in loss allowance					
Transfer between stages[1]	211	(5,318)	3,596	1,511	–
New and increased provision (net of provision releases)[1]	3,265	9,216	24,121	23,219	59,821
Credit impairment charge	**3,476**	**3,898**	**27,717**	**24,730**	**59,821**
Write-offs	–	–	(31,941)	(22,417)	(54,358)
Effect of changes in foreign exchange rate	(6)	–	–	–	(6)
Impairment allowance as at 30 June 2025	**10,223**	**5,614**	**15,827**	**24,795**	**56,459**
Residential					
Impairment allowance as at 30 June 2024	**165**	**3**	**110**	**–**	**278**
Changes in loss allowance					
Transfer between stages[1]	(117)	110	(110)	117	–
New and increased provision (net of provision releases)[1]	149	(113)	–	(117)	(81)
Credit impairment charge	**32**	**(3)**	**(110)**	**–**	**(81)**
Effect of changes in foreign exchange rate	(18)	–	–	–	(18)
Impairment allowance as at 30 June 2025	**179**	**–**	**–**	**–**	**179**
All Other					
Impairment allowance as at 30 June 2024	**7,443**	**3,478**	**14,120**	**–**	**25,041**
Changes in loss allowance					
Transfer between stages[1]	(234)	(3,862)	4,096	–	–
New and increased provision (net of provision releases)[1]	(1,582)	2,621	12,614	–	13,653
Credit impairment charge	**(1,816)**	**(1,241)**	**16,710**	**–**	**13,653**
Write-offs	–	–	(23,553)	–	(23,553)
Impairment allowance as at 30 June 2025	**5,627**	**2,237**	**7,277**	**–**	**15,141**
Total					
Impairment allowance as at 30 June 2024	**14,361**	**5,197**	**34,281**	**22,482**	**76,321**
Changes in loss allowance					
Transfer between stages[1]	(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**

[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.

23 Asset quality (continued)

(c) Provision for impairment (continued)

$000's	Collectively Assessed Stage 1	Stage 2	Stage 3	Individually Assessed	Total
June 2024					
Corporate					
Impairment allowance as at 30 June 2023	**11,089**	**1,337**	**8,530**	**16,131**	**37,087**
Business combination under common control	899	–	161	–	1,060
Changes in loss allowance					
Transfer between stages[1]	(1,074)	(2,655)	1,640	2,089	–
New and increased provision (net of provision releases)[1]	(4,147)	3,041	13,957	11,780	24,631
Credit impairment charge	**(5,221)**	**386**	**15,597**	**13,869**	**24,631**
Write-offs	–	–	(4,258)	(7,518)	(11,776)
Effect of changes in foreign exchange rate	(14)	(7)	21	–	–
Impairment allowance as at 30 June 2024	**6,753**	**1,716**	**20,051**	**22,482**	**51,002**
Residential					
Impairment allowance as at 30 June 2023	**127**	**–**	**–**	**–**	**127**
Acquisition of subsidiary	167	–	–	–	167
Changes in loss allowance					
Transfer between stages[1]	–	–	–	–	–
New and increased provision (net of provision releases)[1]	(129)	3	110	–	(16)
Credit impairment charge	**(129)**	**3**	**110**	**–**	**(16)**
Write-offs	**–**	**–**	**–**	**–**	**–**
Impairment allowance as at 30 June 2024	**165**	**3**	**110**	**–**	**278**
All Other					
Impairment allowance as at 30 June 2023	**1,034**	**1,111**	**12,786**	**–**	**14,931**
Business combination under common control	37	9	14	–	60
Changes in loss allowance					
Transfer between stages[1]	(333)	(3,032)	3,365	–	–
New and increased provision (net of provision releases)[1]	6,705	5,390	10,877	–	22,972
Credit impairment charge	**6,372**	**2,358**	**14,242**	**–**	**22,972**
Write-offs	–	–	(12,922)	–	(12,922)
Impairment allowance as at 30 June 2024	**7,443**	**3,478**	**14,120**	**–**	**25,041**
Total					
Impairment allowance as at 30 June 2023	**12,250**	**2,448**	**21,316**	**16,131**	**52,145**
Business combination under common control	936	9	175	–	1,120
Acquisition of subsidiary	167	–	–	–	167
Changes in loss allowance					
Transfer between stages[1]	(1,407)	(5,687)	5,005	2,089	–
New and increased provision (net of provision releases)[1]	2,429	8,434	24,944	11,780	47,587
Credit impairment charge	**1,022**	**2,747**	**29,949**	**13,869**	**47,587**
Write-offs	–	–	(17,180)	(7,518)	(24,698)
Effect of changes in foreign exchange rate	(14)	(7)	21	–	–
Impairment allowance as at 30 June 2024	**14,361**	**5,197**	**34,281**	**22,482**	**76,321**

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

23 Asset quality (continued)

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

$000's	Collectively Assessed				
	Stage 1	Stage 2	Stage 3	Individually Assessed	Total
June 2025					
Corporate					
Gross finance receivables as at 30 June 2024	**2,421,215**	**217,085**	**67,780**	**96,468**	**2,802,548**
Transfer between stages	(181,471)	73,510	75,595	32,366	–
Additions	967,341	–	–	–	967,341
Deletions	(1,059,550)	(70,015)	(37,261)	(15,012)	(1,181,838)
Write-offs	–	–	(31,941)	(22,417)	(54,358)
Effect of changes in foreign exchange rate	(2,842)	(488)	–	(575)	(3,905)
Gross finance receivables as at 30 June 2025	**2,144,693**	**220,092**	**74,173**	**90,830**	**2,529,788**
Residential					
Gross finance receivables as at 30 June 2024	**393,896**	**1,891**	**762**	**–**	**396,549**
Transfer between stages	(1,902)	258	(15)	1,659	–
Additions	30,396	–	–	–	30,396
Deletions	(205,702)	(1,775)	251	(1,170)	(208,396)
Effect of changes in foreign exchange rate	(448)	(5)	–	(1)	(454)
Gross finance receivables as at 30 June 2025	**216,240**	**369**	**998**	**488**	**218,095**
All Other					
Gross finance receivables as at 30 June 2024	**1,073,332**	**22,657**	**48,181**	**–**	**1,144,170**
Transfer between stages	(33,298)	5,497	27,801	–	–
Additions	258,043	–	–	–	258,043
Deletions	(299,414)	(11,753)	(30,643)	–	(341,810)
Write-offs	–	–	(23,553)	–	(23,553)
Gross finance receivables as at 30 June 2025	**998,663**	**16,401**	**21,786**	**–**	**1,036,850**
Total					
Gross finance receivables 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 as at 30 June 2025	**3,359,596**	**236,862**	**96,957**	**91,318**	**3,784,733**

23 Asset quality (continued)

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

	Collectively Assessed				
$000's	Stage 1	Stage 2	Stage 3	Individually Assessed	Total
June 2024					
Corporate					
Gross finance receivables as at 30 June 2023	**2,310,034**	**158,956**	**44,709**	**52,955**	**2,566,654**
Business combination under common control	278,680	–	176	–	278,856
Transfer between stages	(203,286)	73,059	76,475	53,752	–
Additions	672,083	–	–	–	672,083
Deletions	(634,764)	(14,834)	(50,932)	(2,487)	(703,017)
Write-offs	(36)	(96)	(2,647)	(7,752)	(10,531)
Effect of changes in foreign exchange rate	(1,496)	–	(1)	–	(1,497)
Gross finance receivables as at 30 June 2024	**2,421,215**	**217,085**	**67,780**	**96,468**	**2,802,548**
Residential					
Gross finance receivables as at 30 June 2023	**322,486**	**–**	**–**	**–**	**322,486**
Acquisition of subsidiary	61,074	–	–	–	61,074
Transfer between stages	(2,653)	1,891	762	–	–
Additions	24,588	–	–	–	24,588
Deletions	(11,356)	–	–	–	(11,356)
Write-offs	–	–	–	–	–
Effect of changes in foreign exchange rate	(243)	–	–	–	(243)
Gross finance receivables as at 30 June 2024	**393,896**	**1,891**	**762**	**–**	**396,549**
All Other					
Gross finance receivables as at 30 June 2023	**1,058,044**	**23,224**	**36,537**	**–**	**1,117,805**
Acquisition of subsidiary	105	–	–	–	105
Business combination under common control	1,909	245	82	–	2,236
Transfer between stages	(55,505)	20,798	34,707	–	–
Additions	587,532	–	–	–	587,532
Deletions	(518,556)	(21,076)	(9,699)	–	(549,331)
Write-offs	(190)	(532)	(13,445)	–	(14,167)
Effect of changes in foreign exchange rate	(7)	(2)	(1)	–	(10)
Gross finance receivables as at 30 June 2024	**1,073,332**	**22,657**	**48,181**	**–**	**1,144,170**
Total					
Gross finance receivables as at 30 June 2023	**3,690,564**	**182,180**	**81,246**	**52,955**	**4,006,945**
Acquisition of subsidiary	61,179	–	–	–	61,179
Business combination under common control	280,589	245	258	–	281,092
Transfer between stages	(261,444)	95,748	111,944	53,752	–
Additions	1,284,203	–	–	–	1,284,203
Deletions	(1,164,676)	(35,910)	(60,631)	(2,487)	(1,263,704)
Write-offs	(226)	(628)	(16,092)	(7,752)	(24,698)
Effect of changes in foreign exchange rate	(1,746)	(2)	(2)	–	(1,750)
Gross finance receivables as at 30 June 2024	**3,888,443**	**241,633**	**116,723**	**96,468**	**4,343,267**

23 Asset quality (continued)

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

The Banking Group's provision for impairment had a net reduction of $4.5 million during the year ended 30 June 2025 as follows:

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

A net increase in provision of $5.5 million due to:

- A net increase in collective provisions of $3.2 million predominantly due to increase in provisions made against motor vehicles and business lending to corporate clients of $35.1 million as a result of further deterioration of economic conditions and diminished recoverability and declining credit quality of these receivables, partially offset by subsequent bad debt write-offs of $31.9 million.
- A net increase in individually assessed provisions of $2.3 million due to the transfer of $32.4 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.

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

The Banking Group's provision for impairment has reduced by $0.1 million. There has been no significant change in gross exposures or staging of these exposures.

Impact of changes in gross exposures on loss allowances – All other exposures

A net reduction in collective provisions of $9.9 million reflects:

- An increase in provisions of $13.7 million predominantly relating to motor vehicles 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 $23.6 million which includes the write-off of receivables and related increased provisions during the year explained above.

(e) Other asset quality information

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 Banking Group had $3.16 million assets under administration (2024: $0.436 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).

24 Liquidity and funding risk

Liquidity risk is the risk that the Banking 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 Banking Group.

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

The Banking 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 Banking 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 Banking 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 Banking Group's ability to meet its liquidity and funding requirements.

The Australian Banking Group manages its own domestic liquidity and funding requirements in accordance with its own liquidity policy and the policies of the Banking 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 Banking Group if required.

The Banking 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	349,745	627,969
Investments in debt securities	779,119	1,078,656
Total liquid assets	**1,128,864**	**1,706,625**
Undrawn committed bank facilities	211,914	465,600
Total liquid assets and committed undrawn funding	**1,340,778**	**2,172,225**

24 Liquidity and funding risk (continued)

Contractual liquidity profile of financial liabilities

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

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

$000's	On Demand	0-6 Months	6-12 Months	1-2 Years	2-5 Years	5+ Years	Total
June 2025							
Non-derivative financial liabilities							
Deposits	1,027,303	3,834,210	1,460,828	188,042	153,551	–	6,663,934
Other borrowings	–	27,760	251,581	193,519	202,745	363,390	1,038,995
Due to related parties	–	792	–	–	–	–	792
Lease liabilities	–	2,152	1,998	3,985	7,471	114	15,720
Other financial liabilities	–	17,009	–	–	–	–	17,009
Total non-derivative financial liabilities	**1,027,303**	**3,881,923**	**1,714,407**	**385,546**	**363,767**	**363,504**	**7,736,450**
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	911,654	3,256,750	1,740,935	115,870	95,356	–	6,120,565
Other borrowings	–	205,029	305,010	1,304,185	217,942	443,513	2,475,679
Due to related parties	–	7,653	–	–	–	–	7,653
Lease liabilities	–	2,158	2,212	4,043	10,610	640	19,663
Other financial liabilities	–	16,392	–	–	–	–	16,392
Total non-derivative financial liabilities	**911,654**	**3,490,366**	**2,048,157**	**1,424,098**	**323,908**	**444,153**	**8,642,336**
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 Banking 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 Banking 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 Banking 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 Banking Group's interest rate risk policies is to limit underlying net profit after tax (**NPAT**) volatility. The measurement comprises net interest income the Banking 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 Banking Group's policy.

An analysis of the Banking 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]The increase in interest rate sensitivity is driven by changes in the Banking 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 Banking 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	349,745	—	—	—	—	—	349,745
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	—	—	—	—	—	3,447	3,447
Total financial assets	**5,689,741**	**328,880**	**460,179**	**661,188**	**1,085,514**	**20,880**	**8,246,382**
Financial liabilities							
Deposits	3,110,786	1,670,886	1,409,173	174,359	129,221	38,369	6,532,794
Other borrowings	666,594	—	—	—	158,860	—	825,454
Due to related parties	—	—	—	—	—	792	792
Derivative financial liabilities	—	—	—	—	—	20,660	20,660
Lease liabilities	—	—	—	—	—	14,390	14,390
Other financial liabilities	—	—	—	—	—	17,009	17,009
Total financial liabilities	**3,777,380**	**1,670,886**	**1,409,173**	**174,359**	**288,081**	**91,220**	**7,411,099**
Effect of derivatives held for risk management	860,941	93,460	(108,267)	(444,536)	(401,598)	—	—
Net financial assets/(liabilities)	**2,773,302**	**(1,248,546)**	**(1,057,261)**	**42,293**	**395,835**	**(70,340)**	**835,283**

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	627,969	—	—	—	—	—	627,969
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	—	—	—	—	—	2,421	2,421
Total financial assets	**5,399,517**	**998,705**	**744,035**	**854,676**	**874,456**	**28,212**	**8,899,601**
Financial liabilities							
Collateral received	2,384	—	—	—	—	—	2,384
Deposits	2,751,389	1,334,469	1,659,617	109,708	73,864	38,192	5,967,239
Other borrowings	1,883,541	—	—	—	157,222	—	2,040,763
Due to related parties	—	—	—	—	—	7,653	7,653
Derivative financial liabilities	—	—	—	—	—	9,017	9,017
Lease liabilities	—	—	—	—	—	17,776	17,776
Other financial liabilities	—	—	—	—	—	16,392	16,392
Total financial liabilities	**4,637,314**	**1,334,469**	**1,659,617**	**109,708**	**231,086**	**89,030**	**8,061,224**
Effect of derivatives held for risk management	1,219,913	(145,235)	(277,771)	(405,932)	(390,975)	—	—
Net financial assets/(liabilities)	**1,982,116**	**(480,999)**	**(1,193,353)**	**339,036**	**252,395**	**(60,818)**	**838,377**

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

26 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	1,866,998	3,026,189
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	79,522	37,351
Total borrowings	**7,358,248**	**8,008,002**

(b) Concentration of funding by geographical area

$000's	June 2025	June 2024
New Zealand	4,548,781	4,939,533
Australia	2,731,585	3,005,336
Rest of the world	77,882	63,133
Total borrowings	**7,358,248**	**8,008,002**

Other Disclosures

27 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
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.

28 Structured entities

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

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

The Banking Group controls the operations of the Heartland PIE Fund which is a portfolio investment entity that invests in the Banking 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 Banking Group continues to recognise the securitised assets and associated borrowings in the statement of financial position as the Banking Group remains exposed to and has the ability to affect variable returns from those assets and liabilities. Although the Banking 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 Banking 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 14 – Borrowings for further details.

28 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 14 – 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.

29 Capital adequacy and regulatory liquidity ratios - unaudited

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

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

RBNZ Capital Adequacy Framework

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

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

- Calculated the total credit risk - Risk Weighted Assets (**RWAs**) for the New Zealand operations as per BPR 130: Credit Risk RWAs;
- Calculated the total credit risk RWAs for HBA and its subsidiaries as per Australian Prudential Standard (**APS**)112 Capital Adequacy: Standardised Approach to Credit Risk (**APS112**) and APS180 Capital Adequacy: Counterparty Credit Risk (**APS180**);
- Calculated the Banking Group's capital requirement for market risk exposure as per BPR140: Market Risk; and
- Calculated the Banking Group's capital requirement for operational risk as per BPR150: Standardised Operational Risk.

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

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

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

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

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

Including the PCR, the Banking Group's minimum total capital requirement is 13.5%. On 5 December 2019 the RBNZ finalised their revised Capital Framework for banks which were not domestic systematically important banks (**non D-SIB**). This requires non D-SIB in New Zealand to gradually increase their Total Capital ratio to 16% by July 2028. The Banking Group's Total Capital ratio is 16.46% as at 30 June 2025, above this minimum requirement. As part of the phasing increase in capital buffers, from 1 July 2025 the conservative buffer will increase from 2.5% to 3.5%. The Banking Group's total PCR is 1.96% above this buffer.

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

Capital management

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

The Banking Group's objectives for the management of capital are to:

- Maintain a strong capital base to cover the inherent risks of the business in excess of that required by credit ratings agencies to maintain a strong credit rating;
- Support the future development and growth of the business; and
- Comply at all times with the regulatory capital requirements set by the RBNZ, whereas the Australian Banking Group must comply at all times with the regulatory capital requirements set by APRA.

The Bank's Capital Management Framework includes its:

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

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

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

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

The capital adequacy tables set out on the following pages summarise the composition of regulatory capital and the capital adequacy ratios for the Banking Group as at 30 June 2025.

(a) Capital

$000's	June 2025
Tier 1 Capital	
CET1 capital	
Paid-up ordinary shares issued by the Banking Group plus related share premium	1,045,060
Retained earnings (net of appropriations)	253,106
Accumulated other comprehensive income and other disclosed reserves[1]	(96,299)
Less deductions from CET1 capital	
Intangible assets	(250,836)
Deferred tax assets	(21,430)
Cash flow hedge reserve	9,474
Reverse Mortgage LVR greater than 100%[2]	(1,378)
Adjustment under the corresponding deductions approach - individual stakes exceeding 10%	(5,664)
Total CET1 capital	**932,033**
AT1 capital	–
Total Tier 1 capital	**932,033**
Tier 2 Capital	
NZD subordinated notes[3]	100,000
Foreign exchange translation reserve	(8,578)
Total Tier 2 capital	**91,422**
Total capital	**1,023,455**

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

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

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

(b) Capital structure

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

Ordinary shares

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

Retained earnings

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

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

(b) Capital structure (continued)

Reserves classified as CET1 capital

Fair value reserve	The fair value reserve comprises the changes in the fair value of investments, net of tax.
Cash flow hedge reserve	The hedging reserve comprises the fair value gains and losses associated with the effective portion of designated cash flow hedging instruments, net of tax. Where the hedge item relating to the reserve is held against items which are not recorded at fair value on the balance sheet, the reserve is a deduction from CET1 capital.
Common control reserve	Common control reserve represents the difference between the consideration paid and the share capital of the transferred entities based on carrying amounts at the date of transfer.

Tier 2 capital

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

Subordinated notes - Tier 2 capital

NZD Subordinated notes

Refer to Note 14 - Borrowings for further details.

Foreign exchange translation reserve

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

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

(c) Credit risk for the Banking Group

On balance sheet exposures

	Total Exposure After Credit Risk Mitigation $000's	Risk Weight %	Risk Weighted Exposure $000's
June 2025			
Sovereigns and central banks	403,785	0%	–
Multilateral development banks and other international organisations	195,857	0%	–
	14,101	20%	2,820
Public sector entities	135,945	20%	27,189
Banks	12,986	10%	1,299
	402,572	20%	80,514
	2,167	30%	650
	15,534	50%	7,767
Corporate	25,292	20%	5,058
	191,303	85%	162,607
	1,856,069	100%	1,856,069
	721	150%	1,081
Residential mortgages not past due			
	14,177	20%	2,835
	7,745	25%	1,936
	5,345	30%	1,604
	183,231	35%	64,131
	5,880	40%	2,352
	257	45%	116
	223	65%	145
Reverse mortgages	662,959	40%	265,184
	2,525,611	50%	1,262,805
	42,125	80%	33,700
	115,743	100%	115,743
	1,018	150%	1,527
Past due residential mortgages	3,094	100%	3,094
	20,079	150%	30,119
Other past due assets	5,890	20%	1,178
	7,800	30%	2,340
	73,205	100%	73,205
	53,640	150%	80,460
Equity holdings in the Business Growth Fund that qualify for 250% risk weight	–	250%	–
Equity holdings (not deducted from capital) included in the NZX50 or overseas equivalent index	–	300%	–
All other equity holdings (not deducted from capital)	6,962	400%	27,848
Other assets	1,346,348	100%	1,346,348
Non risk weighted assets	279,308	0%	–
Total on balance sheet exposures	**8,616,972**		**5,461,724**

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

(c) Credit risk for the Banking Group (continued)

Off balance sheet exposures

$000's	Total Exposure $000's	Credit Conversion Factor %	Credit Equivalent Amount $000's	Average Risk Weight %	Risk Weighted Exposure $000's
June 2025					
Direct credit substitute	2,697	100%	2,697	100%	2,697
Commitments with certain drawdown as per APS 112	157,925	100%	157,925	50%	79,582
Performance-related contingency	2,810	50%	1,405	100%	1,405
Other commitments where original maturity is more than one year	291,325	50%	145,662	82%	118,778
Other commitments where original maturity is less than or equal to one year	33	20%	7	29%	2
Other commitments that cancel automatically when the creditworthiness of the counterparty deteriorates or that can be cancelled unconditionally at any time without prior notice	31,398	0%	–	0%	–
Other commitments as per APS 112	96,149	40%	38,459	49%	18,819
Counterparty credit risk[1]					
Foreign exchange contracts	1,044	N/A	4	20%	1
Interest rate contracts	1,203,735	N/A	2,576	36%	936
Credit valuation adjustment	N/A	N/A	N/A	N/A	939
Total off balance sheet exposures	**1,787,116**		**348,735**		**223,159**

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

Qualifying Central Counterparty (QCCP) exposures

As at 30 June 2025, the Banking Group does not have any exposures arising from trades settled on Qualifying Central Counterparties.

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

(d) Additional mortgage information – LVR range

In the table below, both New Zealand and Australian mortgage information is calculated in accordance with BPR131: Standardised Credit Risk RWAs (**BPR131**) LVR.

$000's	On Balance Sheet Exposures	Off Balance sheet Exposures[1]	Total Exposures
June 2025			
Does not exceed 80%	3,581,181	343,865	3,925,046
Exceeds 80% and not 90%	5,688	117	5,805
Exceeds 90%	1,996	—	1,996
Total exposures for the Banking Group	**3,588,865**	**343,982**	**3,932,847**

[1]Off balance sheet exposures means unutilised limits.

At 30 June 2025, there were no Welcome Home loans whose credit risk is mitigated by the Crown included in "Exceeds 90% residential mortgages". For capital adequacy calculations only the value of the first mortgages over residential property is included in the LVR calculation, in accordance with BPR131.

(e) Reconciliation of mortgage related amounts

$000's	Note	June 2025
Gross finance receivables - reverse mortgages	20	3,370,949
Loans and advances - loans with residential mortgages	23(d)	206,333
Loans and advances - corporate lending secured on residential mortgages	23(d)	11,762
On balance sheet residential mortgage exposures subject to the standardised approach		**3,589,044**
Less: collective provision for impairment	23(c)	(179)
On balance sheet residential mortgage exposures after collective provision	29(d)	**3,588,865**
Off balance sheet mortgage exposures subject to the standardised approach	29(d)	343,982
Total residential exposures subject to the standardised approach		**3,932,847**

(f) Credit risk mitigation

As at 30 June 2025, the Banking Group had $0.9 million of Welcome Home Loans (2024: $1.0 million), $16.3 million of BFGS loans (2024: $25.3 million) and NIWE loans of $25.4 million (2024: $30.9 million) whose credit risk is mitigated by the Crown.

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

(g) Operational risk

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

$000's	Implied Risk Weighted Exposure	Total Operational Risk Capital Requirement
June 2025		
Operational risk	421,034	33,683

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

(h) Market risk

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

$000's	Implied Risk Weighted Exposure	Aggregate Capital Charge
June 2025		
Market risk end-of-period capital charge		
Equity risk	6,962	557
Interest rate risk	106,342	8,507
Foreign currency risk	2	—
Market risk peak end-of-period capital charge		
Equity risk	6,962	557
Interest rate risk	171,990	13,759
Foreign currency risk	997	80

The Banking Group's aggregate market exposure is derived in accordance with BPR140. Peak end-of-day capital charge disclosure is derived by taking the highest daily market exposure over the six months ended 30 June 2025. Interest rate, foreign exchange, and equity risks are calculated using a combination of static monthly and daily data sets.

(i) Total capital requirement

$000's	Total Exposure After Credit Risk Mitigation	Risk Weighted Exposure or Implied Risk Weighted Exposure	Total Capital Requirement
June 2025			
Total credit risk + equity	10,404,088	5,684,883	625,337
Operational risk	N/A	421,034	46,314
Market risk	N/A	113,306	12,464
Total	**10,404,088**	**6,219,223**	**684,115**

Total capital requirement in the above table is based on 9.0% RBNZ minimum and includes an additional 2.0% overlay in accordance with the Bank’s Conditions of Registration.

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

(j) Capital ratios

%	June 2025	June 2024
Capital ratios compared to minimum ratio requirements[1]		
Common Equity Tier 1 capital ratio	14.99%	13.86%
Minimum Common Equity Tier 1 capital ratio	6.50%	6.50%
Tier 1 capital ratio	14.99%	13.86%
Minimum Tier 1 capital ratio	9.00%	8.00%
Total capital ratio	16.46%	15.39%
Minimum Total capital ratio	11.00%	10.00%
Prudential capital buffer ratio		
Prudential capital buffer ratio	5.46%	5.39%
Buffer trigger ratio	2.50%	2.50%

[1] Effective 1 July 2024 the minimum Total and Tier 1 Capital Ratios increased from 8.0% to 9.0% and 6.0% to 7.0% respectively. In addition, the minimum ratios above include an additional 2.0% overlay in accordance with the Bank's Conditions of Registration.

(k) Solo capital adequacy

%	June 2025	June 2024
Capital ratios		
Common Equity Tier 1 capital ratio	13.69%	12.39%
Tier 1 capital ratio	13.69%	12.39%
Total capital ratio	15.88%	14.40%

(l) Capital for other material risks

As at 30 June 2025, the Banking Group has identified no material risks requiring additional capital allocation (2024: nil).

(m) Regulatory liquidity ratios

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

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

	Average for the 3 Months Ended	
	June 2025	March 2025
One-week mismatch ratio	13.66%	13.03%
One-month mismatch ratio	12.75%	12.09%
Core funding ratio	89.25%	86.50%

30 Securitisation, funds management and other fiduciary activities

Securitisation

The Banking Group securitises its motor vehicle loan receivables, reverse mortgage loans and livestock finance receivables as a funding and liquidity tool. Securitisation structured entities, controlled by the Banking Group are consolidated.

As at 30 June 2025, the Banking Group had $727.6 million securitised assets (2024: $1,716.31 million). Refer to Note 28 - Structured entities for further details.

There have been no other material changes to the Banking Group's involvement in securitisation activities, not already disclosed within these financial statements.

Insurance business

The Banking Group no longer conducts any insurance business following the cancellation of MIL's insurer license by RBNZ effective 27 June 2025. Refer to Significant events section within Note 1 - Financial statements preparation for further details.

Funds management and other fiduciary activities

The Banking 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). Note 28 - Structured entities has further details. The Heartland Cash and Term PIE Fund deals with the Bank in the normal course of business, in the Bank's capacity as Registrar of the Fund and also invests in the Bank's deposits. The Banking Group is considered to control the Heartland Cash and Term PIE Fund, and as such the Heartland Cash and Term PIE Fund is consolidated within the financial statements of the Banking Group.

Risk management

The Banking Group has in place policies and procedures to ensure that the fiduciary activities identified above are conducted in an appropriate manner. It is considered that these policies and procedures will ensure that any difficulties arising from these activities will not impact adversely on the Banking Group. The policies and procedures include comprehensive and prominent disclosure of information regarding products, and formal and regular review of operations and policies by management and internal auditors. Further information on the Banking Group's risk management policies and practices is included in Note 21 Enterprise risk management program .

Provision of financial services and asset purchases

Over the accounting period, financial services provided by the Banking Group to entities which were involved in the activities above (including trust, custodial, funds management and other fiduciary activities) were provided on arm's length terms and conditions and at fair value.

Any assets purchased from such entities have been purchased on arm's length terms and conditions and at fair value.

Peak aggregate funding to entities

The Banking Group did not provide any funding to entities conducting funds management and other fiduciary activities, or insurance product or marketing and distribution activities described in this note, during the year (2024: nil).

30 Securitisation, funds management and other fiduciary activities (continued)

The Bank provided the following funding in relation to securitisation entities.

	Peak end-of-day aggregate amount of funding provided ($000's)		Peak end-of-day aggregate amount of funding provided as a percentage of the Banking Group's Tier 1 Capital as at the end of the year	
	June 2025	June 2024	June 2025	June 2024
Total Trusts	1,248,334	1,412,358	133.9%	158.3%

For this purpose, peak ratio information was derived by determining the maximum end-of-day aggregate amount of funding over the financial year and then dividing that amount by the amount of the Banking Group's Tier 1 Capital as at the end of the year.

	Peak end-of-day aggregate amount of funding provided ($000's)		Peak end-of-day aggregate amount of funding provided as a percentage of the total assets of the individual entity as at the end of the year	
	June 2025	June 2024	June 2025	June 2024
HARWT[1]	373,185	531,639	196.7%	90.7%
SWT[1]	594,333	589,620	132.0%	67.6%
Atlas Trust	142,646	139,562	84.6%	82.8%
Stockco Trust[2]	140,940	173,083	N/A	78.2%

[1]Total assets as at 30 June 2025 were lower compared to the timing of the peak end-of-day aggregate amount of funding provided due to repurchase of securitised assets during the financial year ended 30 June 2025.

[2]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.

For this purpose, peak ratio information was derived by determining the maximum end-of-day aggregate amount of funding over the financial year and then dividing that amount by the amount of the entity's assets as at the end of the year.

31 Offsetting financial instruments

The Banking 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 Banking Group enters into contractual arrangements with counterparties to manage the credit risks associated primarily with over-the-counter derivatives. The Banking 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 Banking Group or the counterparty needs to collateralise the market value of outstanding derivative transactions. As at 30 June 2025, the Banking 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 Banking Group in the ordinary course of business will be subject to claims and proceedings against it whereby the validity of the claim will only be confirmed by uncertain future events. In such circumstances the contingent liabilities 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 Banking 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 Bank resolved to pay a cash dividend to its parent company HGH of $28.35 million on its ordinary shares 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 Banking 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 Banking Group's financial position, results of its operations or its state of affairs in subsequent periods.

Independent auditor’s report

To the shareholder of Heartland Bank Limited

Our opinion

In our opinion, the accompanying:

- financial statements, excluding the information disclosed in accordance with Schedules 4, 7, 9, 13, 14, 15 and 17 of the Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order 2014 (as amended) (the “Order”), of Heartland Bank Limited (the “Bank”), including the entities it controlled as at 30 June 2025 or from time to time during the financial year (the “Banking Group”), present fairly, in all material respects, the financial position of the Banking 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”); and
- information disclosed in accordance with Schedules 4, 7, 13, 14, 15 and 17 of the Order (the “Supplementary Information”), in all material respects:
  - presents fairly the matters to which it relates; and
  - is disclosed in accordance with those schedules.

What we have audited

- The Banking Group’s financial statements (the “Financial Statements”) required by clause 24 of the Order, comprising:
  - 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, excluding the information disclosed in accordance with Schedules 4, 7, 9, 13, 14, 15 and 17 of the Order within the statement of financial position and notes 21, 22, 23, 24, 25, 29 and 30, which includes material accounting policy information and other explanatory information.
- The Supplementary Information within the statement of financial position and notes 21, 22, 23, 24, 25, 29 and 30 of the Financial Statements for the year ended 30 June 2025 of the Banking Group.

We have not audited the information relating to capital adequacy and regulatory liquidity requirements disclosed in accordance with Schedule 9 of the Order within note 29 of the Financial Statements and our opinion does not extend to this information.

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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 and the Supplementary Information* 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 Banking 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 Banking Group on normal terms within the ordinary course of trading activities. The firm has no other relationship with, or interests in, the Banking 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 and the Supplementary Information of the current year. These matters were addressed in the context of our audit of the Financial Statements and the Supplementary Information as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Description of the key audit matter	How our audit addressed the key audit matter
Provision for impairment of finance receivables As disclosed in note 23 of the Financial Statements, the impairment allowance totalled $71.8 million at 30 June 2025. For the determination of the collectively assessed impairment allowance, this requires the use of credit risk methodologies that are applied in models using the Banking 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. For finance receivables that meet specific risk based criteria, the impairment allowance is individually assessed by the Banking Group. These impairment allowances are measured using probability weighted scenarios which are intended to reflect a range of reasonably possible outcomes, and incorporate assumptions such as estimated future cash proceeds expected to be recovered from the	We obtained an understanding of control activities over the Banking 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. In addition, we, along with our credit risk modelling expert, performed the following procedures, amongst others, on a targeted or sample basis, on the Banking Group's collectively assessed impairment allowance: • Assessed the appropriateness of the methodology inherent in the models used against the requirements of NZ IFRS 9 *Financial Instruments*; • Challenged and assessed the appropriateness of the collectively assessed impairment allowance inclusive of the impacts of any post model adjustments; • Tested the accuracy of the collectively assessed impairment allowance calculation; and • Tested the completeness and accuracy of critical data elements used in the calculations. With respect to individually assessed impairment allowances we:

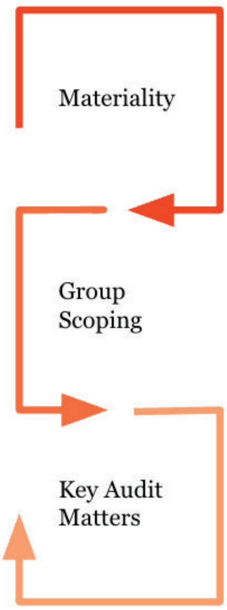
Description of the key audit matter	How our audit addressed the key audit matter
realisation of security held as collateral by the Banking Group. We considered this a key audit matter due to the significant inherent estimation uncertainty present in the determination of the impairment allowance.	● For a sample of business and rural loans not identified as impaired, considered the borrowers latest information available to the Banking Group to assess the credit risk grade rating allocated to the borrower as to whether the borrower could be identified as impaired, a critical data element which involves significant management judgement; and ● For loans where an impairment allowance was individually assessed, we considered the borrower's latest financial information, value of security held as collateral and probability weighted scenario outcomes (where applicable) to test the basis of measuring the impairment allowance. We considered the impacts of events occurring subsequent to balance date on the impairment allowances. We also assessed the reasonableness of the disclosures against the requirements of the accounting standards.
Fair value of finance receivables - reverse mortgages The Banking Group's fair value of finance receivables – reverse mortgages ("Reverse mortgages") totalled $3.4 billion at 30 June 2025 as disclosed in note 20 of the Financial Statements. Reverse mortgages are held at fair value through profit or loss. The Banking Group records the estimated fair value of the Reverse mortgages at transaction price (cash advanced plus accrued capitalised interest), on the basis that no reliable fair value can be estimated as there is no relevant active market and the fair value cannot be reliably estimated using other valuation techniques, as permitted under the accounting standards. To assess whether the transaction price remains an appropriate proxy for fair value, the Banking 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 Banking Group to the borrower. High interest rates and volatility in house prices, combined with the economic outlook, increases the possibility of outflows under the no negative equity guarantee. Accordingly, we consider this to be a key audit matter.	Our audit procedures included assessing the design and implementation of controls relating to the Banking Group's assessment of the fair value of Reverse mortgages. In addition, our audit procedures included: ● Assessing the reasonableness of the Banking Group's approach to estimating the fair value based on the transaction price against the requirements of the accounting standards; ● Assessing whether there was evidence of a relevant active market or observable inputs in which to establish fair value using a market approach; ● Engaging our internal actuarial expert to assess the Banking 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); ● Testing the completeness and accuracy of a sample of critical data elements used as inputs to the value of discounted future cash flows; ● Assessing the reasonableness of key assumptions (such as future house prices, voluntary exits, interest rate margins, future interest rates) used in the value of discounted future cash flows; and ● Considering the appropriateness of the disclosures against the requirements of the accounting standards.
Heartland Bank Australia Limited goodwill impairment assessment The carrying amount of the Heartland Bank Australia Limited goodwill as at 30 June 2025, as disclosed in note 17 of the	We held discussions with management to understand the assumptions used in the determination of the single CGU and the goodwill impairment assessment. Our audit procedures also included the following:

Description of the key audit matter	How our audit addressed the key audit matter
Financial Statements, amounted to $175.0 million. The carrying value of goodwill is a key audit matter as it is a significant intangible asset in the Banking 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. 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 Banking 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. The Banking Group used the Fair Value Less Costs of Disposal (FVLCD) approach to determine the recoverable amount of the Heartland Bank Australia Limited CGU. FVLCD is based on a price-earnings multiples approach using normalised current year earnings. The key assumptions used in the FVLCD are: ● Price-earnings multiple; and ● Normalised current year earnings.	● Assessing judgements made in respect of the determination of the CGU, taking into account the corporate simplification and operational integration of the Banking Group's Australian business; ● Obtaining an understanding of the business processes and controls applied by management in performing the impairment assessment; ● Assessing the appropriateness of using a FVLCD approach against the requirements of the accounting standards; ● Engaging our internal valuation expert to assess management's valuation methodology and key assumptions, including comparable price-earnings multiples; ● 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; ● Obtaining and evaluating management's sensitivity analyses to ascertain the impact of reasonably possible changes in key assumptions on the recoverable amount; and ● Considering the appropriateness of disclosures against the requirements of the accounting standards.
Operation of financial reporting information technology (IT) systems and controls The Banking 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 Banking Group's Financial Statements. In addition, the Banking Group changed to a new general ledger system in the current year. Accordingly, we consider this to be a key audit matter. In common with other banking entities, 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	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. This involved assessing, where relevant to the audit: ● Change management: the processes and controls used to develop, test and authorise changes to the functionality and configurations within systems; ● 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; ● 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

Description of the key audit matter	How our audit addressed the key audit matter
mitigating the potential for fraud or error as a result of a change to an application or underlying data. The Banking Group's controls over IT systems are intended to ensure that: ● New systems or changes to existing systems operate as intended and are authorised; ● Access to process transactions or change data is appropriate and maintains an intended segregation of duties; ● The use of privileged access to systems and data is restricted and monitored; and ● IT processing is approved and where issues arise they are resolved.	● IT operations: the controls over certain IT batch processes used to ensure that any issues that arise are managed appropriately. 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 Banking 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 Banking 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 the two identified components of the Banking Group (New Zealand and Australia).

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 and the Supplementary Information. 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 and the Supplementary Information are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the Financial Statements and the Supplementary Information.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall Banking Group materiality for the Financial Statements and the Supplementary Information, as a whole, as set out above. These, together with qualitative considerations, helped us to determine the scope of our audit, the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate, on the Financial Statements and the Supplementary Information, 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 and the Supplementary Information, as a whole, taking into account the structure of the Banking Group, the financial reporting processes and controls, and the industry in which the Banking Group operates.

We performed a full scope audit of the Banking Group's two components (New Zealand and Australia), which we considered are both financially significant in the context of the Banking Group. The full scope audit of the Australia component was performed by a PwC network firm operating under our instructions.

Our involvement with the PwC network firm auditing the Australia 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.

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 Banking Group to provide a basis for our opinion on the Banking Group's Financial Statements and the Supplementary Information.

Other information

The Directors are responsible for the other information. The other information comprises the information included in the Disclosure Statement presented in accordance with Schedule 2 of the Order on pages 3 to 6, 104, 115 to 127 (but does not include the Financial Statements, the Supplementary Information and our auditor's report thereon), the information included in the Disclosure Statement relating to capital adequacy and regulatory liquidity requirements disclosed in accordance with Schedule 9 of the Order within note 29, the information included in the Disclosure Statement relating to the New Zealand Banking Group disclosures and the Heartland Climate Report 2025 to be published at a later date. Other than the Heartland Climate Report 2025 which we will receive at a later date, we have received all the other information included in the Disclosure Statement.

Our opinion on the Financial Statements and the Supplementary Information does not cover the other information and we do not express any form of audit opinion or assurance conclusion thereon. We issue a separate limited assurance report on the information relating to capital adequacy and regulatory liquidity requirements disclosed in accordance with Schedule 9 of the Order.

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

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

When we read the Heartland Climate Report 2025, 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 Disclosure Statement

The Directors are responsible, on behalf of the Bank, for the preparation and fair presentation of the Financial Statements in accordance with clause 24 of the Order, NZ IFRS and IFRS Accounting Standards, and for such internal control as the Directors determine is necessary to enable the preparation of Financial Statements and the Supplementary Information that are free from material misstatement, whether due to fraud or error.

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

- all of the information prescribed in Schedule 2 of the Order; and
- the information prescribed in Schedules 4, 7, 9, 13, 14, 15 and 17 of the Order.

In preparing the Financial Statements, the Directors are responsible for assessing the Banking 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 Banking Group or to cease operations, or have no realistic alternative but to do so.

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

Our objectives are to obtain reasonable assurance about whether the Financial Statements and the Supplementary Information, 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 the Financial Statements and the Supplementary Information.

A further description of our responsibilities for the audit of the Financial Statements and the Supplementary Information 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 Bank's shareholder. Our 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 Bank and the Bank's shareholder, for our work, for this report, or for the opinions we have formed.

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

For and on behalf of

PricewaterhouseCoopers

PricewaterhouseCoopers | Auckland
20 August 2025

Independent Assurance Report

To the shareholder of Heartland Bank Limited

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

Our conclusion

We have undertaken a limited assurance engagement on Heartland Bank Limited's (the "Bank's") compliance, in all material respects, with clause 21 of the Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order 2014 (as amended) (the "Order") which requires information prescribed in Schedule 9 of the Order relating to capital adequacy and regulatory liquidity requirements to be disclosed in its full year Disclosure Statement for the year ended 30 June 2025 (the "Disclosure Statement"). The Disclosure Statement containing the information prescribed in Schedule 9 of the Order relating to capital adequacy and regulatory liquidity requirements will accompany our report, for the purpose of reporting to the Bank's shareholder.

Based on the procedures we have performed and the evidence we have obtained, nothing has come to our attention that causes us to believe that the Bank's information relating to capital adequacy and regulatory liquidity requirements, included in the Disclosure Statement in compliance with clause 21 of the Order and disclosed in note 29 of the financial statements, is not, in all material respects, disclosed in accordance with Schedule 9 of the Order.

Basis for conclusion

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

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

Directors' responsibilities

The Directors are responsible on behalf of the Bank for compliance with the Order, including clause 21 of the Order which requires information relating to capital adequacy and regulatory liquidity requirements prescribed in Schedule 9 of the Order to be included in the Disclosure Statement, for the identification of risks that may threaten compliance with that clause, controls that would mitigate those risks and monitoring ongoing compliance.

Our independence and quality management

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

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

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

Assurance practitioner's responsibilities

Our responsibility is to express a limited assurance conclusion on whether the Bank's information relating to capital adequacy and regulatory liquidity requirements, included in the Disclosure Statement in compliance with clause 21 of the Order is not, in all material respects, disclosed in accordance with Schedule 9 of the Order. SAE 3100 (Revised) requires that we plan and perform our procedures to obtain limited assurance about whether anything has come to our attention that causes us to believe that the Bank's information relating to capital adequacy and regulatory liquidity requirements, included in the Disclosure Statement in compliance with clause 21 of the Order, is not, in all material respects, disclosed in accordance with Schedule 9 of the Order.

In a limited assurance engagement, the assurance practitioner performs procedures, primarily consisting of discussion and enquiries of management and others within the entity, as appropriate, and observation and walk-throughs, and evaluates the evidence obtained. The procedures selected depend on our judgement, including identifying areas where the risk of material non-compliance with clause 21 of the Order in respect of the information relating to capital adequacy and regulatory liquidity requirements is likely to arise.

Given the circumstances of the engagement we:

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

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

Inherent limitations

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

A limited assurance engagement on the Bank's information relating to capital adequacy and regulatory liquidity requirements prescribed in Schedule 9 of the Order to be included in the Disclosure Statement in compliance with clause 21 of the Order does not provide assurance on whether compliance will continue in the future.

Use of report

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

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

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

PricewaterhouseCoopers
20 August 2025

Auckland

Historical Summary of Financial Statements

For the year ended 30 June 2025

$000's	Audited June 2025	Audited June 2024	Audited June 2023	Audited June 2022	Audited June 2021
Interest income	705,864	506,793	372,688	275,770	272,562
Interest expense	398,770	284,405	158,027	66,205	73,753
Net interest income	**307,094**	**222,388**	**214,661**	**209,565**	**198,809**
Other net income	20,829	16,127	12,458	33,704	15,006
Net operating income	**327,923**	**238,515**	**227,119**	**243,269**	**213,815**
Operating expenses	182,254	116,302	101,337	96,203	100,852
Profit before impaired asset expense and income tax	**145,669**	**122,213**	**125,782**	**147,066**	**112,963**
Net fair value gain/(loss) on investments and investment property	1,623	(1,595)	–	(315)	215
Losses on guaranteed future value products	1,504	–	–	–	–
Impaired asset expense	71,638	46,313	22,891	14,692	14,579
Profit before income tax	**74,150**	**74,305**	**102,891**	**132,059**	**98,599**
Income tax expense	22,494	21,785	28,389	36,068	27,090
Profit for the year	**51,656**	**52,520**	**74,502**	**95,991**	**71,509**
Dividends paid to equity holders	33,750	65,500	60,000	35,500	30,000

As at 30 June 2025

$000's	June 2025	June 2024	June 2023	June 2022	June 2021
Total assets	8,621,764	9,271,787	5,561,808	5,154,652	4,419,488
Individually impaired assets	91,318	96,468	52,955	66,183	38,143
Total liabilities	7,428,475	8,075,397	4,833,072	4,447,149	3,777,660
Total equity	1,193,289	1,196,390	728,736	707,503	641,828

The information presented in the above table has been extracted from audited financial statements of the Banking Group. The amounts for the periods from the financial year ended 30 June 2024 to the financial year ended 30 June 2021 are not comparable with the information presented for the year ended 30 June 2025 due to HBL's acquisition of HBA and transfer of HAH and its controlled entities from HGH to HBA during the year ended 30 June 2024. Refer to Note 18 - Acquisition for further details.

New Zealand Banking Group disclosures - unaudited

For the year ended 30 June 2025

Basis of preparation

These disclosures are presented for the New Zealand Banking Group ("**NZ Banking Group**") for the year ended 30 June 2025.

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

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

The CoR contains specific requirements applicable to the NZ Banking Group. These disclosures are mainly focused on the NZ Banking Group's enterprise risk management including market, liquidity, balance sheet structure and operational risks, and contain relevant information that is considered appropriate by the Directors and is in accordance with the CoR requirements for the NZ Banking Group applicable as at 30 June 2025.

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

1 Enterprise Risk Management

The board of directors (the **Board**) sets and monitors the NZ Banking 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**).

Refer to Note 21 - Enterprise risk management program of the Banking Group's financial statements for further information in relation to the role of the Board, the Board Risk Committee, the Executive Risk Committee, and the Internal audit function.

Asset and Liability Committee (ALCO)

The ALCO is a NZ Banking Group management committee comprising the HBL CEO, HBL CFO, HBL CRO, HBL Chief Operating Officer (**COO**), HBL Group Treasurer and HBL General Manager Retail & Reverse Mortgages. The ALCO has responsibility for managing the NZ Banking Group's market risk, liquidity and funding risk, pricing, balance sheet structure and capital risk, in line with approved risk tolerances and policy guidance . Refer to Note 21 - Enterprise risk management program of the Banking Group's financial statements for further information in relation to ALCO's responsibilities.

1 Enterprise Risk Management (continued)

The NZ Banking 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. Market risk is the possibility of experiencing losses or gains due to factors affecting the overall performance of financial markets in which the NZ Banking Group is exposed. The primary market risk exposures for the NZ Banking Group are interest rate risk and foreign exchange risk.

ALCO is responsible for providing senior management oversight of market risk by ensuring that adequate controls, processes and systems have been established to identify, measure and manage market risk.

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.

Refer to Note 21 - Enterprise risk management program of the Banking Group's Financial statements for further information in relation to the NZ Banking Group's 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 Banking 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 due to regulatory, cyber and other business interruption risks which may affect NZ Banking Group's ability to maintain continuity of service. 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.

Refer to Note 21 - Enterprise risk management program of the Banking Group's Financial statements for further information in relation to the roles and responsibilities for operational and compliance risk management.

Climate-related risks

Climate-related risks are integrated into the NZ Banking Group's overall risk management strategy and processes. Refer to Note 21 - Enterprise risk management program of the Banking Group's Financial statements for further information in relation to the climate-related risk management, governance and strategy.

New Zealand Banking Group disclosures - unaudited (continued)

2 Capital adequacy and regulatory liquidity ratios - unaudited

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

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

RBNZ Capital Adequacy Framework

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

- Calculated the total credit risk as Risk Weighted Assets (**RWAs**) for the NZ Banking Group as per BPR 130: Credit Risk RWAs;
- Calculated the NZ Banking Group's capital requirement for market risk exposure as per BPR140: Market Risk; and
- Calculated the NZ Banking Group's capital requirement for operational risk as per BPR150: Standardised Operational Risk.

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

Regulatory capital adequacy ratios are calculated by expressing capital as a percentage of RWEs. As a Condition of Registration (1AA), the NZ Banking Group must comply with the following minimum requirements set by the RBNZ:

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

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

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

Including the PCR the Banking Group's minimum total capital requirement is 13.5%. On 5 December 2019 the RBNZ finalised their revised Capital Framework for banks which were not domestic systematically important banks (**non D-SIB**). This requires non D-SIB banks in New Zealand to gradually increase their Total Capital ratio to 16% by July 2028. The NZ Banking Group's Total Capital ratio is 15.88% as at 30 June 2025, above this minimum requirement. This means the revised Capital Framework (excluding any capital overlay) requires the NZ Banking Group to increase its Total Capital ratio by 0.12% over the transitional period. As part of the phasing increase in capital buffers, from 1 July 2025 the conservative buffer will increase from 2.5% to 3.5%. The NZ Banking Group's total PCR is 1.19% above this buffer.

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

Capital management

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

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

- Maintain a strong capital base to cover the inherent risks of the business in excess of that required by credit ratings agencies to maintain a strong credit rating;
- Support the future development and growth of the business; and
- Comply at all times with the regulatory capital requirements set by the RBNZ.

The Bank's Capital Management Framework includes its:

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

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

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

The capital adequacy tables set out on the following pages summarise the composition of regulatory capital and the capital adequacy ratios for the NZ Banking Group as at 30 June 2025.

(a) Capital

$000's	June 2025
Tier 1 Capital	
CET1 capital	
Paid-up ordinary shares issued by the Banking Group plus related share premium	1,045,060
Retained earnings (net of appropriations)	140,423
Accumulated other comprehensive income and other disclosed reserves	(9,217)
Less deductions from CET1 capital	
Intangible assets	(74,737)
Deferred tax assets	(21,436)
Cash flow hedge reserve	9,474
Adjustment under the corresponding deductions approach	
- Investments in unconsolidated subsidiaries	(462,123)
Total CET1 capital	**627,444**
AT1 capital	—
Total Tier 1 capital	**627,444**
Tier 2 Capital	
Tier 2 capital instruments[1]	100,000
Total Tier 2 capital	**100,000**
Total capital	**727,444**

[1] Classified as a liability under NZ GAAP and excludes capitalised transaction costs. Refer to Note 29 - Capital adequacy and regulatory liquidity ratios - unaudited of the Banking Group's Financial statements for further details.

Refer to Note 29 - Capital adequacy and regulatory liquidity ratios - unaudited of the Banking Group's Financial statements for further details for the capital structure.

New Zealand Banking Group disclosures - unaudited (continued)

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

(b) Credit risk

On balance sheet exposures

	Total Exposure After Credit Risk Mitigation $000's	Risk Weight %	Risk Weighted Exposure $000's
June 2025			
Sovereigns and central banks	60,481	0%	–
Multilateral development banks and other international organisations	195,857	0%	–
	14,101	20%	2,820
Public sector entities	135,945	20%	27,189
Banks	199,907	20%	39,981
	14,239	50%	7,119
Corporate	25,292	20%	5,058
	1,813,286	100%	1,813,286
Residential mortgages not past due			
	178,345	35%	62,421
	5,133	40%	2,053
Reverse mortgages	662,959	40%	265,184
	521,187	50%	260,594
	42,125	80%	33,700
	4,965	100%	4,965
Past due residential mortgages	2,950	100%	2,950
Other past due assets	5,890	20%	1,178
	7,800	30%	2,340
	73,205	100%	73,205
	19,086	150%	28,629
Equity holdings in the Business Growth Fund that qualify for 250% risk weight	–	250%	–
Equity holdings (not deducted from capital) included in the NZX50 or overseas equivalent index	–	300%	–
All other equity holdings (not deducted from capital)	6,962	400%	27,848
Other assets	1,339,972	100%	1,339,972
Non risk weighted assets	558,296	0%	–
Total on balance sheet exposures	**5,887,983**		**4,000,492**

New Zealand Banking Group disclosures - unaudited (continued)

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

(b) Credit risk (continued)

Off balance sheet exposures

	Total Exposure $000's	Credit Conversion Factor %	Credit Equivalent Amount $000's	Average Risk Weight %	Risk Weighted Exposure $000's
June 2025					
Direct credit substitute	2,697	100%	2,697	100%	2,697
Performance-related contingency	2,810	50%	1,405	100%	1,405
Other commitments where original maturity is more than one year	291,325	50%	145,662	82%	118,778
Other commitments where original maturity is less than or equal to one year	33	20%	7	29%	2
Other commitments that cancel automatically when the creditworthiness of the counterparty deteriorates or that can be cancelled unconditionally at any time without prior notice	31,398	0%	—	0%	—
Counterparty credit risk[1]					
Foreign exchange contracts	1,044	N/A	4	20%	1
Interest rate contracts	1,203,735	N/A	2,576	36%	936
Credit valuation adjustment	N/A	N/A	N/A	N/A	939
Total off balance sheet exposures	**1,533,042**		**152,351**		**124,758**

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

Qualifying Central Counterparty (QCCP) exposures

As at 30 June 2025, the NZ Banking Group does not have any exposures arising from trades settled on Qualifying Central Counterparties.

(c) Additional mortgage information - LVR range

$000's	On Balance Sheet Exposures	Off Balance Sheet Exposures[2]	Total Exposure
June 2025			
Does not exceed 80%	1,411,786	89,908	1,501,694
Exceeds 80% and not 90%	4,330	—	4,330
Exceeds 90%	1,548	—	1,548
Total exposures	**1,417,664**	**89,908**	**1,507,572**

[2]Off balance sheet exposures means unutilised limits.

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

(c) Additional mortgage information - LVR range (continued)

At 30 June 2025, there were no Welcome Home loans whose credit risk is mitigated by the Crown included in "Exceeds 90% residential mortgages". For capital adequacy calculations only the value of the first mortgages over residential property is included in the LVR calculation, in accordance with BPR131.

(d) Reconciliation of mortgage related amounts

$000's	June 2025
Gross finance receivables - reverse mortgages	1,233,272
Loans and advances - loans with residential mortgages	177,218
Loans and advances - corporate lending secured on residential mortgages	7,349
On balance sheet residential mortgage exposures subject to the standardised approach	**1,417,839**
Less: collective provision for impairment	(175)
On balance sheet residential mortgage exposures after collective provision	**1,417,664**
Off balance sheet mortgage exposures subject to the standardised approach	89,908
Total residential exposures subject to the standardised approach	**1,507,572**

(e) Credit risk mitigation

As at 30 June 2025, the NZ Banking Group had $0.9 million of Welcome Home Loans (2024: $1.0 million), $16.3 million of BFGS loans (2024: $25.3 million) and $25.4 million of NIWE loans (2024: $30.9 million) whose credit risk is mitigated by the Crown.

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

(f) Operational risk

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

$000's	Implied Risk Weighted Exposure	Total Operational Risk Capital Requirement
June 2025		
Operational risk	343,312	27,465

(g) Market risk

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

$000's	Implied Risk Weighted Exposure	Aggregate Capital Charge
June 2025		
Market risk		
Equity risk	6,962	557
Interest rate risk	106,342	8,507
Foreign currency risk	2	—
Market risk peak end-of-period capital charge		
Equity risk	6,962	557
Interest rate risk	171,990	13,759
Foreign currency risk	939	75

New Zealand Banking Group disclosures - unaudited (continued)

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

(g) Market risk (continued)

NZ Banking Group's aggregate market exposure is derived in accordance with BPR140. Peak end-of-day capital charge disclosure is derived by taking the highest daily market exposure over the six months ended 30 June 2025. Interest rate, foreign exchange, and equity risks are calculated using a combination of static monthly and daily data sets.

(h) Total capital requirement

$000's	Total Exposure After Credit Risk Mitigation	Risk Weighted Exposure or Implied Risk Weighted Exposure	Total Capital Requirement
June 2025			
Total credit risk + equity	7,421,025	4,125,250	453,778
Operational risk	N/A	343,312	37,764
Market risk	N/A	113,306	12,464
Total	**7,421,025**	**4,581,868**	**504,006**

Total capital requirement in the above table is based on 9.0% RBNZ minimum and includes an additional 2.0% overlay in accordance with the Bank's Conditions of Registration.

(i) Capital for other material risks

As of 30 June 2025, the NZ Banking Group has identified no material risks requiring additional capital allocation (June 2024: nil).

(j) Capital ratios

%	June 2025	June 2024
Capital ratios compared to minimum ratio requirements[1]		
Common Equity Tier 1 capital ratio	13.69%	12.39%
Minimum Common Equity Tier 1 capital ratio	6.50%	6.50%
Tier 1 capital ratio	13.69%	12.39%
Minimum Tier 1 capital ratio	9.00%	8.00%
Total capital ratio	15.88%	14.40%
Minimum Total capital ratio	11.00%	10.00%
Prudential capital buffer ratio		
Prudential capital buffer ratio	4.69%	4.39%
Buffer trigger ratio	2.50%	2.50%

[1] Effective 1 July 2024 the minimum Total and Tier 1 Capital Ratios increased from 8.0% to 9.0% and 6.0% to 7.0% respectively. In addition, the minimum ratios above include an additional 2.0% overlay in accordance with the Bank's Conditions of Registration.

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

(k) Regulatory liquidity ratios - unaudited

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

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

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

	Average for the 3 Months Ended	
	June 2025	March 2025
One-week mismatch ratio	9.04%	8.36%
One-month mismatch ratio	9.05%	8.29%
Core funding ratio	92.31%	91.93%

3 Credit exposures to connected persons

The NZ Banking Group's methodology for calculating credit exposure concentrations is on the basis of actual credit exposures and calculated on a gross basis (net of individual credit impairment allowances and excluding advances of a capital nature) in accordance with the Bank's Conditions of Registration and the Reserve Bank's Connected Exposures Policy (**BS8**). Peak end-of-day aggregate credit exposures to connected persons has been derived using maximum end-of-day aggregate amount of credit exposure over the year and then dividing that amount by the NZ Banking Group's Tier 1 capital as at 30 June 2025.

In accordance with the section 4A of the CoR, the NZ Banking Group's aggregate credit exposures to all connected persons must not exceed 25% of NZ Banking Group's Tier 1 capital. Exposures to connected persons are not on more favourable terms than corresponding exposures to non-connected persons.

	As at 30 June 2025	Peak End-of-Day for Year Ended 30 June 2025
Credit exposures to connected persons ($000's)	2,752	6,481
As a percentage of Tier 1 capital of the NZ Banking Group at the end of the year	0.44%	1.03%
Credit exposures to non-bank connected persons ($000's)	2,227	4,463
As a percentage of Tier 1 capital of the NZ Banking Group at the end of the year	0.35%	0.71%

As at 30 June 2025, the NZ Banking Group had no aggregate contingent exposures to connected persons arising from unfunded contingent credit protection arrangements provided by any connected persons. The aggregate amount of the NZ Banking Group's loss allowance for credit exposures to connected persons that are credit-impaired was nil at 30 June 2025.

Credit exposure to individual counterparties

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

The peak end-of-day aggregate concentration of credit exposure to individual counterparties has been calculated by determining the maximum end-of-day aggregate amount of credit exposure over the relevant six month period and then dividing the amount by the NZ Banking Group's CET1 capital as at 30 June 2025.

New Zealand Banking Group disclosures - unaudited (continued)

3 Credit exposures to connected persons (continued)

Credit exposure to individual counterparties (continued)

	Number of Exposure as at 30 June 2025	Number of Exposure Peak End-of-Day over 6 months to 30 June 2025
Exposure to banks		
With a long-term credit rating of A- or A3 or above, or its equivalent:		
10% to less than 15% of CET1 capital	—	—
15% to less than 20% of CET1 capital	—	—
20% to less than 25% of CET1 capital	—	—
25% to less than 30% of CET1 capital	1	—
30% to less than 35% of CET1 capital	—	1
With a long-term credit rating of at least BBB- or Baa3, or its equivalent, and at most BBB+ or Baa1, or its equivalent	—	—
Exposure to non-banks		
Total number of exposures to non-banks that are greater than 10% to less than 15% of CET1 capital that have a long-term credit rating of A- or A3 or above.	—	—
Total number of exposures to non-banks that are greater than 10% to less than 15% of CET1 capital that do not have a long-term credit rating.	—	—

Related party transactions and balances

Transactions with related parties

The NZ Banking Group's ultimate parent company is HGH.

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

Amendments to Conditions of Registration

Changes in Conditions of Registration

Effective 1 July 2024, the Reserve Bank of New Zealand (**RBNZ**) amended the Bank's Conditions of Registration (**CoR**) as follows:

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

As at 30 June 2025, there have been no other changes to the Conditions of Registration.

Conditions of Registration

For Heartland Bank Limited

These conditions apply on and after 1 July 2024.

The registration of Heartland Bank Limited ("the bank") as a registered bank is subject to the following conditions:

1. That—

(a) the Total capital ratio of the banking group is not less than 11%;
(b) the Tier 1 capital ratio of the banking group is not less than 9%;
(c) the Common Equity Tier 1 capital ratio of the banking group is not less than 6.5%.

For the purposes of this condition of registration, —

"Total capital ratio", "Tier 1 capital ratio", and "Common Equity Tier 1 capital ratio" have the same meaning as in Subpart B2 of BPR100: Capital Adequacy, subject to the additional requirements on the calculation methodology specified in condition 1BAA.

1AA. That—

(a) the Total capital ratio of the New Zealand banking group is not less than 11%;
(b) the Tier 1 capital ratio of the New Zealand banking group is not less than 9%;
(c) the Common Equity Tier 1 capital ratio of the New Zealand banking group is not less than 6.5%;
(d) the Total capital of the New Zealand banking group is not less than $30 million.

For the purposes of this condition of registration, —

"Total capital ratio", "Tier 1 capital ratio", and "Common Equity Tier 1 capital ratio" have the same meaning as in Subpart B2 of BPR100: Capital Adequacy when the calculation methodology is applied with all references to "banking group" replaced by references to "New Zealand banking group";

"Total capital" has the same meaning as in BPR110: Capital Definitions when the capital adequacy calculation methodology in BPR100: Capital Adequacy is applied with all references to "banking group" replaced by references to "New Zealand banking group".

1A. That—

(a) the bank has an internal capital adequacy assessment process ("ICAAP") that accords with the requirements set out in Part D of BPR100: Capital Adequacy;
(b) under its ICAAP the bank identifies and measures its "other material risks" defined in Part D of BPR100: Capital Adequacy; and
(c) the bank determines an internal capital allocation for each identified and measured "other material risk".

1B. That, if the Prudential Capital Buffer (PCB) ratio of the banking group is 2.5% or less or the Prudential Capital Buffer (PCB) ratio of the New Zealand banking group is 2.5% or less, the bank must—

(a) according to the following table, limit the aggregate distributions of the bank's earnings, other than discretionary payments payable to holders of Additional Tier 1 capital instruments, to the percentage limit on distributions that corresponds to the banking group's PCB ratio; and

Lesser of banking group PCB ratio and New Zealand banking group PCB ratio	Percentage limit on distributions of the bank's earnings	Capital Buffer Response Framework stage
0% – 0.5%	0%	Stage 3
>0.5 – 1%	30%	Stage 2
>1 – 2%	60%	Stage 1
>2 – 2.5%	100%	None

Conditions of Registration (continued)

(b) comply with the Capital Buffer Response Framework requirements as set out in Part D of BPR120: Capital Adequacy Process Requirements.

For the purposes of this condition of registration, —

"prudential capital buffer ratio of the banking group" has the same meaning as "prudential capital buffer ratio" in Subpart B2 of BPR100: Capital Adequacy, subject to the additional requirements on the calculation methodology specified in condition 1BAA;

"prudential capital buffer ratio of the New Zealand banking group" has the same meaning as "prudential capital buffer ratio" in Subpart B2 of BPR100: Capital Adequacy, when the capital adequacy calculation methodology in BPR100: Capital Adequacy is applied with all references to "banking group" replaced by references to "New Zealand banking group";

"distributions", and "earnings" have the same meaning as in Subpart B2 of BPR100: Capital Adequacy;

an Additional Tier 1 capital instrument is an instrument that meets the requirements of B2.2(2)(a), (c) or (d) of BPR110: Capital Definitions.

1BAA. When calculating the "total RWA equivalents" in Subpart B2 of BPR100: Capital Adequacy as part of the formula for those ratios in conditions 1 (Total capital ratio, Tier 1 capital ratio, and Common Equity Tier 1 capital ratio) and 1B (Prudential Capital Buffer Ratio), the bank must do the following—

(a) as per A1.2 of BPR130: Credit Risk RWAs Overview, calculate the total RWAs for credit risk ("total credit risk RWAs") in the manner specified in section A1.3 of BPR130: Credit Risk RWAs Overview; and

(b) for all items which fall within the scope of section A1.3 of BPR130: Credit Risk RWAs Overview and which are exposures of the ADI or a subsidiary of the ADI, calculate risk-weighted assets for credit risk using the methodology set out in the following documents issued by APRA,—
  (i) APS 112 Capital Adequacy: Standardised Approach to Credit Risk; and
  (ii) APS 180 Capital Adequacy: Counterparty Credit Risk; and

(c) as per A2.1 of BPR140: Market Risk, calculate the aggregate capital charge for currency risk in the manner specified in Part C of BPR140: Market Risk; and

(d) when calculating the aggregate capital charge for currency risk as part of the total capital charge for market risk in accordance with BPR140: Market Risk, treat the excess (if any) of AUD-denominated assets of the ADI over AUD denominated liabilities of the ADI as an AUD structural foreign currency position in terms of section C1.2(1)(c) of BPR140: Market Risk.

For the purposes of this condition of registration, —

"the ADI" means the Authorised Deposit-taking Institution Challenger Bank Limited (ACN 106 842 371);

"APRA" means the Australian Prudential Regulation Authority;

"APS 112 Capital Adequacy: Standardised Approach to Credit Risk" means the Prudential Standard issued by APRA as amended or replaced from time to time;

"APS 180 Capital Adequacy: Counterparty Credit Risk" means the Prudential Standard issued by APRA as amended or replaced from time to time; and "AUD" means Australian Dollars.

1BA. That the bank must not make any distribution on a transitional AT1 capital instrument on or after the date on which on any conversion or write-off provision in the terms and conditions of the instrument is triggered due to either a loss absorption trigger event or a non-viability trigger event.

For the purposes of this condition of registration, "transitional AT1 capital instrument" has the meaning given in section A2.3 of BPR110: Capital Definitions and "loss absorption trigger event" and "non-viability trigger event" have the meanings given in sub-section C2.2(3) of BPR120: Capital Adequacy Requirements.

Conditions of Registration (continued)

1C. That:

(a) the bank must not include the amount of an Additional Tier 1 capital instrument or Tier 2 capital instrument issued on or after 1 July 2021 in the calculation of its capital ratios unless it has completed the notification requirements in Part B of BPR120: Capital Adequacy Process Requirements in respect of the instrument; and

(b) the bank meets the requirements of Part C of BPR120: Capital Adequacy Process Requirements in respect of regulatory capital instruments.

For the purposes of this condition of registration, —

an Additional Tier 1 capital instrument is an instrument that meets the requirements of subsection B2.2(2)(a) or (c) of BPR110: Capital Definitions;

a Tier 2 capital instrument is an instrument that meets the requirements of subsection B3.2(2)(a) or (c) of BPR110: Capital Definitions.

2. That the banking group does not conduct any non-financial activities that in aggregate are material relative to its total activities.

In this condition of registration, the meaning of “material” is based on generally accepted accounting practice.

3. That the banking group's insurance business is not greater than 1% of its total consolidated assets.

For the purposes of this condition of registration, the banking group's insurance business is the sum of the following amounts for entities in the banking group:

(a) if the business of an entity predominantly consists of insurance business and the entity is not a subsidiary of another entity in the banking group whose business predominantly consists of insurance business, the amount of the insurance business to sum is the total consolidated assets of the group headed by the entity; and

(b) if the entity conducts insurance business and its business does not predominantly consist of insurance business and the entity is not a subsidiary of another entity in the banking group whose business predominantly consists of insurance business, the amount of the insurance business to sum is the total liabilities relating to the entity's insurance business plus the equity retained by the entity to meet the solvency or financial soundness needs of its insurance business.

In determining the total amount of the banking group's insurance business—

(a) all amounts must relate to on balance sheet items only, and must comply with generally accepted accounting practice; and

(b) if products or assets of which an insurance business is comprised also contain a non-insurance component, the whole of such products or assets must be considered part of the insurance business.

For the purposes of this condition of registration,—

“insurance business” means the undertaking or assumption of liability as an insurer under a contract of insurance:

“insurer” and “contract of insurance” have the same meaning as provided in sections 6 and 7 of the Insurance (Prudential Supervision) Act 2010.

4. The bank must comply with all the requirements set out in the following document:
BS8 Connected Exposures 1 October 2023.

Conditions of Registration (continued)

4A. That the aggregate credit exposures of the New Zealand banking group to all connected persons must not exceed 25% of the New Zealand banking group's Tier 1 capital.

For the purposes of this condition of registration, —

"aggregate credit exposures" has the same meaning as in Part C of the Reserve Bank of New Zealand document entitled "Connected exposure policy" (BS8) dated October 2023, with "a banking group" in paragraph C.5(1) taken to refer to the New Zealand banking group.
"connected person" has the same meaning as in Subpart A.3 of the Reserve Bank of New Zealand document entitled "Connected exposure policy" (BS8) dated October 2023, but with the reference to "banking group" in paragraph A.3(3) replaced with a reference to "New Zealand banking group".

"Tier 1 capital" has the same meaning as in BPR110: Capital Definitions when the capital adequacy calculation methodology in BPR100: Capital Adequacy is applied with all references to "banking group" replaced with references to "New Zealand banking group".

5. That exposures to connected persons are not on more favourable terms (e.g. as relates to such matters as credit assessment, tenor, interest rates, amortisation schedules and requirement for collateral) than corresponding exposures to non-connected persons.

5A That exposures of the New Zealand banking group to connected persons are not on more favourable terms (e.g. as relates to such matters as credit assessment, tenor, interest rates, amortisation schedules and requirement for collateral) than corresponding exposures to non-connected persons.

For the purposes of this condition of registration, "connected person" has the same meaning as in Subpart A.3 of the Reserve Bank of New Zealand document entitled "Connected exposure policy" (BS8) dated October 2023, but with the reference to "banking group" in paragraph A.3(3) replaced with a reference to "New Zealand banking group".

6. That the bank complies with the following corporate governance requirements:
   (a) the board of the bank must have at least five directors;
   (b) the majority of the board members must be non-executive directors;
   (c) at least half of the board members must be independent directors;
   (d) an alternate director, —
      (i) for a non-executive director must be non-executive; and
      (ii) for an independent director must be independent;
   (e) at least half of the independent directors of the bank must be ordinarily resident in New Zealand;
   (f) the chairperson of the board of the bank must be independent; and
   (g) the bank's constitution must not include any provision permitting a director, when exercising powers or performing duties as a director, to act other than in what he or she believes is the best interests of the company (i.e. the bank).

For the purposes of this condition of registration, —

"independent,"—

(a) in relation to a person other than a person to whom paragraph (b) applies, has the same meaning as in the Reserve Bank of New Zealand document entitled "Corporate Governance" (BS14) dated July 2014; and
(b) in relation to a person who is the chairperson of the board of the bank, means a person who—
   (i) meets the criteria for independence set out in section 10 except for those in paragraph 10(1)(a) in BS14; and
   (ii) does not raise any grounds of concern in relation to the person's independence that are communicated in writing to the bank by the Reserve Bank of New Zealand:

"non-executive" has the same meaning as in the Reserve Bank of New Zealand document entitled "Corporate Governance" (BS14) dated July 2014.

Conditions of Registration (continued)

7. That no appointment of any director, chief executive officer, or executive who reports or is accountable directly to the chief executive officer, is made in respect of the bank unless:

    (a) the Reserve Bank has been supplied with a copy of the curriculum vitae of the proposed appointee; and
    (b) the Reserve Bank has advised that it has no objection to that appointment.

7A. That no appointment of any director, chief executive officer, or executive who reports or is accountable directly to the chief executive officer, is made in respect of the parent company of the bank unless:

    (a) the Reserve Bank has been supplied with a copy of the curriculum vitae of the proposed appointee; and
    (b) the Reserve Bank has advised that it has no objection to that appointment.

8. That a person must not be appointed as chairperson of the board of the bank unless:

    (a) the Reserve Bank has been supplied with a copy of the curriculum vitae of the proposed appointee; and
    (b) the Reserve Bank has advised that it has no objection to that appointment.

8A. That a person must not be appointed as chairperson of the board of the parent company of the bank unless:

    (a) the Reserve Bank has been supplied with a copy of the curriculum vitae of the proposed appointee; and
    (b) the Reserve Bank has advised that it has no objection to that appointment.

9. That the bank has a board audit committee, or other separate board committee covering audit matters, that meets the following requirements:

    (a) the mandate of the committee must include: ensuring the integrity of the bank's financial controls, reporting systems and internal audit standards;
    (b) the committee must have at least three members;
    (c) every member of the committee must be a non-executive director of the bank;
    (d) the majority of the members of the committee must be independent; and
    (e) the chairperson of the committee must be independent and must not be the chairperson of the bank.

    For the purposes of this condition of registration, "independent" and "non-executive" have the same meanings as in condition of registration 6.

10. That more than 75% of the bank's business is conducted in and from New Zealand.

10A. That more than 50% of the banking group's business is conducted in and from New Zealand.

11. That—

    (a) the one-week mismatch ratio of the banking group is not less than zero per cent at the end of each business day;
    (b) the one-month mismatch ratio of the banking group is not less than zero per cent at the end of each business day; and
    (c) the one-year core funding ratio of the banking group is not less than 75 per cent at the end of each business day.

    For the purposes of this condition of registration, the ratios identified must be calculated in accordance with the Reserve Bank of New Zealand documents entitled "Liquidity Policy" (BS13) dated July 2022 and "Liquidity Policy Annex: Liquid Assets" (BS13A) dated July 2022, subject to the additional requirements on the calculation methodology specified in condition 11A.

    This condition comes into force six months after the date of completion of the acquisition transaction.

    For the purpose of this condition of registration, the "acquisition transaction" means the bank's acquisition of Challenger Bank Limited and the transfer of Heartland Australia and its subsidiaries to sit under Challenger Bank as per the bank's BS15 application dated 17 October 2023.

Conditions of Registration (continued)

11A. When calculating the one-week mismatch ratio, one-month mismatch ratio and core funding ratio for the purpose of condition 11, the bank must vary the calculation methodology specified in BS13 and BS13A as follows—

(a) an asset denominated in Australian dollars and owned by the ADI or a subsidiary of the ADI qualifies as a primary or secondary liquid asset if—
  (i) it meets the conditions for liquid assets specified in Attachment B "Minimum liquidity holdings approach" of APS 210 Liquidity; and
  (ii) the bank includes it in the ratio calculations using the primary/ secondary classification and cover factors ("haircuts") set out in BS13A according to the following correspondence table:

Category in APS210 Attachment B	**Primary or secondary**	**BS13A category for determining haircuts**
2(a) notes and coins and settlement funds	Primary	Nil haircut
2(b) Commonwealth Government	Primary	New Zealand government securities
2(b) semi-government securities	Primary	Local authority securities
2(c) debt securities guaranteed by the Australian Government, or foreign sovereign governments	Secondary	Securities guaranteed by the New Zealand government
2(d) debt securities issued by supranationals and foreign governments	Primary	"Kauri" securities
2(e) bank bills, certificates of deposits (CDs) and debt securities issued by ADIs	Secondary	Registered bank securities
2(f) deposits (at call and any other deposits readily convertible into cash within two business days) held with other ADIs net of placements by other ADIs.	Primary	Nil haircut

(b) the eligibility limit on total RCDs specified in paragraph 12(b) of BS13A applies such that the maximum value of bank bills, certificates of deposit, and RCDs held by the banking group, after applying the haircuts, that is eligible to be included in secondary liquid assets is 2% of the banking group's total assets;

(c) in respect of non-market funding provided by a person or group of connected persons to the banking group that is treated as a single deposit for the purpose of the policy and is denominated exclusively in Australian dollars, the definitions of the size bands set out in Table 3 in BS13 must be read as referring to Australian dollars rather than New Zealand dollars;

(d) references in BS13 to "dollar amounts" are to New Zealand dollar amounts, and conversion from other currencies as needed to calculate New Zealand dollar aggregates must be carried out at the end-of-day exchange rates used by the bank in New Zealand; and

(e) references in the BS13 definitions to cash flows due in or out at close of business must be taken to refer to the business day relevant to the transaction, namely the New Zealand or Australian business day as appropriate.

This condition comes into force six months after the date of completion of the acquisition transaction.

For the purposes of this condition of registration,—

"the acquisition transaction" means the bank's acquisition of Challenger Bank Limited and the transfer of Heartland Australia and its subsidiaries to sit under Challenger Bank as per the bank's BS15 application dated 17 October 2023.

"the ADI" means the Authorised Deposit-taking Institution Heartland Bank Australia;

"APRA" means the Australian Prudential Regulation Authority; "APS 210 Liquidity" means the Prudential Standard issued by APRA as amended or replaced from time to time;

Conditions of Registration (continued)

11B. That—

(a) the one-week mismatch ratio of the New Zealand banking group is not less than zero per cent at the end of each business day;
(b) the one-month mismatch ratio of the New Zealand banking group is not less than zero per cent at the end of each business day; and
(c) the one-year core funding ratio of the New Zealand banking group is not less than 75 per cent at the end of each business day.

For the purposes of this condition of registration, the ratios identified must be calculated in accordance with the Reserve Bank of New Zealand documents entitled "Liquidity Policy" (BS13) dated July 2022 and "Liquidity Policy Annex: Liquid Assets" (BS13A) dated July 2022.

12. That the bank has an internal framework for liquidity risk management that is adequate in the bank's view for managing the banking group's liquidity risk and the New Zealand banking group's liquidity risk at a prudent level, and that, in particular:

(a) is clearly documented and communicated to all those in the organisation with responsibility for managing liquidity and liquidity risk;
(b) identifies responsibility for approval, oversight and implementation of the framework and policies for liquidity risk management;
(c) identifies the principal methods that the bank will use for measuring, monitoring and controlling liquidity risk; and
(d) considers the material sources of stress that the banking group and the New Zealand banking group might face, and prepares the bank to manage stress through a contingency funding plan.

13. That no more than 10% of total assets may be beneficially owned by a SPV.

For the purposes of this condition, —

"total assets" means all assets of the banking group plus any assets held by any SPV that are not included in the banking group's assets:

"SPV" means a person—
(a) to whom any member of the banking group has sold, assigned, or otherwise transferred any asset;
(b) who has granted, or may grant, a security interest in its assets for the benefit of any holder of any covered bond; and
(c) who carries on no other business except for that necessary or incidental to guarantee the obligations of any member of the banking group under a covered bond:
-
"covered bond" means a debt security issued by any member of the banking group, for which repayment to holders is guaranteed by a SPV, and investors retain an unsecured claim on the issuer.

14. That—

(a) no member of the banking group may give effect to a qualifying acquisition or business combination that meets the notification threshold, and does not meet the non-objection threshold, unless:
    (i) the bank has notified the Reserve Bank in writing of the intended acquisition or business combination and at least 10 working days have passed; and
    (ii) at the time of notifying the Reserve Bank of the intended acquisition or business combination, the bank provided the Reserve Bank with the information required under the Reserve Bank of New Zealand Banking Supervision Handbook document "Significant Acquisitions Policy" (BS15) dated December 2011; and

(b) no member of the banking group may give effect to a qualifying acquisition or business combination that meets the non-objection threshold unless:
    (i) the bank has notified the Reserve Bank in writing of the intended acquisition or business combination;
    (ii) at the time of notifying the Reserve Bank of the intended acquisition or business combination, the bank provided the Reserve Bank with the information required under the Reserve Bank of New Zealand Banking Supervision Handbook document "Significant Acquisitions Policy" (BS15) dated December 2011; and

Conditions of Registration (continued)

(iii) the Reserve Bank has given the bank a notice of non-objection to the significant acquisition or business combination.

For the purposes of this condition of registration, “qualifying acquisition or business combination”, “notification threshold” and “non-objection threshold” have the same meaning as in the Reserve Bank of New Zealand Banking Supervision Handbook document “Significant Acquisitions Policy” (BS15) dated December 2011.

15. That the bank is pre-positioned for Open Bank Resolution and in accordance with a direction from the Reserve Bank, the bank can—

(a) close promptly at any time of the day and on any day of the week and that effective upon the appointment of the statutory manager—
(i) all liabilities are frozen in full; and
(ii) no further access by customers and counterparties to their accounts (deposits, liabilities or other obligations) is possible;

(b) apply a de minimis to relevant customer liability accounts;

(c) apply a partial freeze to the customer liability account balances;

(d) reopen by no later than 9am the next business day following the appointment of a statutory manager and provide customers access to their unfrozen funds;

(e) maintain a full freeze on liabilities not pre-positioned for open bank resolution; and

(f) reinstate customers’ access to some or all of their residual frozen funds.

For the purposes of this condition of registration, “de minimis”, “partial freeze”, “customer liability account”, and “frozen and unfrozen funds” have the same meaning as in the Reserve Bank of New Zealand document “Open Bank Resolution (OBR) Prepositioning Requirements Policy” (BS17) dated June 2022.

16. That the bank has an Implementation Plan that—

(a) is up-to-date; and
(b) demonstrates that the bank’s prepositioning for Open Bank Resolution meets the requirements set out in the Reserve Bank document: “Open Bank Resolution Pre-positioning Requirements Policy” (BS17) dated June 2022.

For the purposes of this condition of registration, “Implementation Plan” has the same meaning as in the Reserve Bank of New Zealand document “Open Bank Resolution (OBR) Pre-positioning Requirements Policy” (BS17) dated June 2022.

17. That the bank has a compendium of liabilities that—

(a) at the product-class level lists all liabilities, indicating which are—
(i) pre-positioned for Open Bank Resolution; and
(ii) not pre-positioned for Open Bank Resolution;
(b) is agreed to by the Reserve Bank; and
(c) if the Reserve Bank’s agreement is conditional, meets the Reserve Bank’s conditions.

For the purposes of this condition of registration, “compendium of liabilities”, and “pre-positioned and non pre-positioned liabilities” have the same meaning as in the Reserve Bank of New Zealand document “Open Bank Resolution (OBR) Pre-positioning Requirements Policy” (BS17) dated June 2022.

18. That on an annual basis the bank tests all the component parts of its Open Bank Resolution solution that demonstrates the bank’s pre-positioning for Open Bank Resolution as specified in the bank’s Implementation Plan.

For the purposes of this condition of registration, “Implementation Plan” has the same meaning as in the Reserve Bank of New Zealand document “Open Bank Resolution (OBR) Pre-positioning Requirements Policy” (BS17) dated June 2022.

Conditions of Registration(continued)

19. That, for a loan-to-valuation measurement period ending on or after 31 December 2024, the total of the bank's qualifying new mortgage lending amount in respect of property-investment residential mortgage loans with a loan-to-valuation ratio of more than 70%, must not exceed 5% of the total of the qualifying new mortgage lending amount in respect of property-investment residential mortgage loans arising in the loan-to-valuation measurement period.

20. That, for a loan-to-valuation measurement period ending on or after 31 December 2024, the total of the bank's qualifying new mortgage lending amount in respect of non property-investment residential mortgage loans with a loan-to-valuation ratio of more than 80%, must not exceed 20% of the total of the qualifying new mortgage lending amount in respect of non property-investment residential mortgage loans arising in the loan-to-valuation measurement period.

21. That the bank must not make a residential mortgage loan unless the terms and conditions of the loan contract or the terms and conditions for an associated mortgage require that a borrower obtain the registered bank's agreement before the borrower can grant to another person a charge over the residential property used as security for the loan.

22. That, subject to conditions 2 and 3–

    (a) the parent company does not carry out any business other than the business of ownership or control of subsidiaries that operate banking business unless the Reserve Bank provides prior written non-objection. The business of ownership or control of subsidiaries that operate banking business is limited to:
        (i) holding investments in subsidiaries;
        (ii) holding properties used by Heartland group members;
        (iii) raising funds to invest in, or to provide support to its subsidiaries;
        (iv) raising funds to conduct activities permitted under these conditions;
        (v) investing funds (i.e. surplus capital) on behalf of the Heartland group;
        (vi) conducting the financial activities required for the purpose of carrying out activities permitted under these conditions;
        (vii) providing strategic analysis and setting strategic direction and priorities for the Heartland group;
        (viii) setting risk appetite for the Heartland group (acknowledging that subsidiaries within the Heartland group may set their own risk appetite within group risk tolerances);
        (ix) monitoring and managing compliance of subsidiaries with Heartland group strategic and risk settings;
        (x) providing corporate finance services to support the operation of the Heartland group;
        (xi) providing analysis, design, marketing, and digital delivery services to support product initiatives within the Heartland group;
        (xii) providing administration services to support the operation of the Heartland group); and
        (xiii) activities that must be undertaken to enable the bank to meet its obligations under its conditions of registration, activities that the parent company is required to undertake under a statute, listing rule or requirement of any governmental agency or regulatory body;

    (b) the parent company does not:
        (i) itself issue deposit liabilities;
        (ii) trade in financial instruments (other than for hedging for the purposes of carrying on the activities specified in conditions 22(b)(ii) to (vi));
        (iii) provide security over investments in its subsidiaries without the prior written non-objection from the Reserve Bank;
        (iv) provide guarantees of the obligations of its subsidiaries without the prior written non-objection from the Reserve Bank except the existing guarantees;
        (v) conduct any other business that is not in connection with the activities specified in conditions 22(a)(i) to (xiii);
        (vi) carry out activities that relate to undertaking a corporate centre role including banking group financial control, banking group treasury activities, banking group risk management, banking group settlements, banking group human resources, banking group financial reporting, banking group taxation and other banking group services such as company secretarial services; and
        (vii) carry out any activity that the Reserve Bank determines it may give rise to a prudential risk if retained by the parent company;

    (c) if the parent company carries out any business other than those permitted in writing, the Reserve Bank may make a recommendation to the Minister under section 77 of the Banking (Prudential Supervision) Act 1989 and the Minister may direct the Reserve Bank to cancel the bank's registration.

Conditions of Registration (continued)

In this condition of registration, –

"banking business" means:

(a) the business consists of, or to a substantial extent consists of, the borrowing and lending of money, or the provision of other financial services, or both; and
(b) any other business which the Reserve Bank considers as a type of banking business that would be carried out by a registered bank based on the determination criteria under the Banking (Prudential Supervision) Act 1989.

"existing guarantees" for the purpose of condition 22(c)(iv) means the guarantees that the parent company currently provides as at the date of completion of the acquisition transaction relating to the approximately AUD $290 million of Medium-Term Notes and AUD $20 million of bridge finance issued by Heartland Australia Group Pty Limited. "Heartland group" means the group of companies owned by Heartland Group Holdings Limited and it includes Heartland Group Holdings Limited itself.

23. That the business and affairs of the banking group are managed by, or under the direction or supervision of, the board of the bank.

24. That the employment agreement of the chief executive officer of the bank or person in an equivalent position (together "CEO") is with the bank, and the terms and conditions of the CEO's employment agreement are determined by, and any decisions relating to the employment or termination of employment of the CEO are made by, the board of the bank.

25. That all staff employed by the bank have their remuneration determined by (or under the delegated authority of) the board or the CEO of the bank and are accountable (directly or indirectly) to the CEO of the bank.

26. That Heartland Bank Australia complies with the requirements imposed on it by the Australian Prudential Regulation Authority.

27. That the total amount of the banking group's assets transferred or committed to be transferred to special purpose vehicles in securitisation structures is less than 20% of the banking group's total assets.

28. That, for a debt-to-income measurement period, the total of the bank's qualifying new mortgage lending amount in respect of property-investment residential mortgage loans with a debt-to-income ratio of more than 7, must not exceed 20% of the total of the qualifying new mortgage lending amount in respect of property-investment residential mortgage loans arising in the debt-to-income measurement period.

29. That, for a debt-to-income measurement period, the total of the bank's qualifying new mortgage lending amount in respect of non property-investment residential mortgage loans with a debt-to-income ratio of more than 6, must not exceed 20% of the total of the qualifying new mortgage lending amount in respect of non property-investment residential mortgage loans arising in the debt-to-income measurement period.

In these conditions of registration, —

"banking group" means Heartland Bank Limited (as reporting entity) and all other entities included in the group as defined in section 6(1) of the Financial Markets Conduct Act 2013 for the purposes of Part 7 of that Act.

"generally accepted accounting practice" has the same meaning as in section 8 of the Financial Reporting Act 2013.

"New Zealand banking group" means Heartland Bank Limited and all entities included in its banking group that are incorporated or otherwise established in New Zealand, but not including Marac Insurance Limited.

"parent company" means Heartland Group Holdings Limited (company number:6937955), the ultimate holding company of the bank duly incorporated and established in New Zealand.

In these conditions of registration, the version dates of the Reserve Bank of New Zealand Banking Prudential Requirement (BPR) documents that are referred to in the capital adequacy conditions 1 to 1C, or are referred to in turn by those documents or by Banking Supervision Handbook (BS) documents, are—

Conditions of Registration (continued)

BPR document	Version date
BPR100: Capital adequacy	1 July 2024
BPR110: Capital definitions	1 October 2023
BPR120: Capital adequacy process requirements	1 October 2023
BPR130: Credit risk RWAs overview	1 July 2024
BPR131: Standardised credit risk RWAs	1 July 2024
BPR132: Credit risk mitigation	1 July 2024
BPR133: IRB credit risk RWAs	1 July 2024
BPR134: IRB minimum system requirements	1 July 2024
BPR140: Market risk exposure	1 July 2024
BPR150: Standardised operational risk	1 July 2024
BPR151: AMA operational risk	1 July 2024
BPR160: Insurance, securitisation, and loan transfers	1 July 2024
BPR001: Glossary	1 October 2023

In conditions of registration 19 to 20,—

“loan-to-valuation ratio”, “non property-investment residential mortgage loan”,

“property-investment residential mortgage loan”, “qualifying new mortgage lending amount in respect of property investment residential mortgage loans”, and “qualifying new mortgage lending amount in respect of non property-investment residential mortgage loans” have the same meaning as in the Reserve Bank of New Zealand document entitled “Framework for Restrictions on High-LVR Residential Mortgage Lending” (BS19) dated October 2021.

“loan-to-valuation measurement period” means a period of six calendar months ending on the last day of the sixth calendar month.

In condition of registration 21, —

“residential mortgage loan” has the same meaning as in the Reserve Bank of New Zealand document entitled “Framework for Restrictions on High Debt-To-Income Residential Mortgage lending” (BS20) dated 3 April 2023.

In conditions of registration 28 and 29, —

"debt-to-income ratio", “debt-to-income measurement period”, “non property- investment residential mortgage loan”, “property-investment residential mortgage loan”, “qualifying new mortgage lending amount in respect of property-investment residential mortgage loans”, and “qualifying new mortgage lending amount in respect of non property-investment residential mortgage loans” have the same meaning as in the Reserve Bank of New Zealand document entitled “Framework for Restrictions on High Debt-To-Income Residential Mortgage lending” (BS20) dated 3 April 2023:

“debt-to-income measurement period” means—

(a) the initial period of six calendar months from the date of this conditions of registration (1 July 2024) ending on 31 December 2024; and

(b) thereafter, a rolling period of six calendar months ending on the last day of the sixth calendar month, the first of which ends on 31 January 2025 and covers the months of August, September, October, November and December 2024 and January 2025.

Conditions of Registration – Non Compliance

Conditions of Registration Non-Compliance

The Bank has not identified any material non-compliance with the conditions of registration since its last disclosure statement.

Credit Ratings

As at the date of signing this Disclosure Statement, the Bank's credit rating issued by Fitch Australia Pty Ltd (**Fitch Ratings**) was BBB stable. This BBB credit rating was issued on 14 October 2015 and is applicable to long term unsecured obligations payable in New Zealand, in New Zealand dollars. This BBB stable credit rating was affirmed by Fitch Ratings for the Bank and HBA on 29 October 2024.

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

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

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

Other Material Matters

Depositor Compensation Scheme

The Depositor Compensation Scheme (DCS) took effect from 1 July 2025 under the Deposit Takers Act 2023. The DCS is administered by the RBNZ whose address is 2 The Terrace, Wellington Central, Wellington 6140.

Certain Heartland Bank accounts are protected deposits under the DCS, which protects up to $100,000 per eligible depositor per deposit taker. For a list of Heartland Bank accounts protected by the DCS, please refer to Heartland Bank's website at https://www.heartland.co.nz/savings-and-deposits/depositor-compensation-scheme.

For detailed information about the DCS, please refer to the Reserve Bank of New Zealand's internet site at www.rbnz.govt.nz/dcs.

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