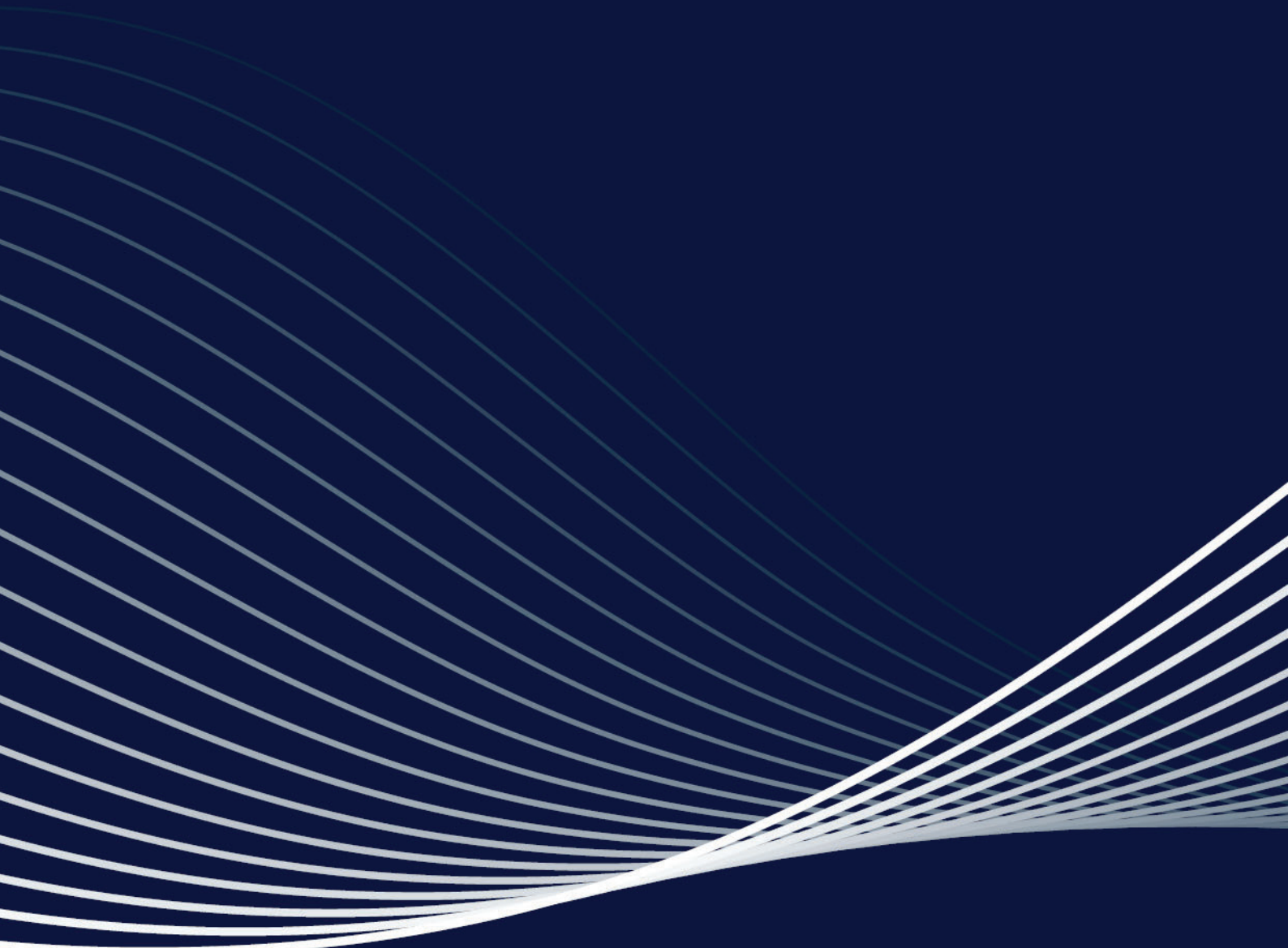


Financial Statements

For the year ended 30 June 2026



HEARTLAND
— GROUP —

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General Information

These financial statements are issued by Heartland Group Holdings Limited (**HGH**) and its subsidiaries (the **Group**) for the year ended 30 June 2026.

Name and address for service

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

Details of incorporation

HGH is a company incorporated in New Zealand under the Companies Act 1993 on 19 July 2018. The shares in HGH are listed on the New Zealand Exchange (**NZX**) main board and the Australian Securities Exchange (**ASX**) under a foreign exempt listing.

Auditor

PricewaterhouseCoopers

PwC Tower, Level 27
15 Customs Street West
Auckland 1010

Directors

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

There have been no changes to the composition of the Board of Directors of HGH for the year ended 30 June 2026.

Directors (continued)

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

Chair – Board of Directors

Name: [Gregory Raymond Tomlinson](#)
Qualifications: AME
Type of Director: Non-Independent Non-Executive Director
Occupation: Company Director

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

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

External Directorships: ORDE Holdings Pty Ltd, ORDE Financial Pty Ltd, ORDE Capital Management Limited, ORDE Mortgage Custodian Pty Ltd, ORDE Securitisation Management Pty Ltd, First Avenue Ventures Pty Ltd, First Avenue Capital Pty Ltd, Karia Technology Pty Ltd, Fund2Market Holdings Pty Ltd.

Name: [Robert Bell](#)
Qualifications: BBus
Type of Director: Independent Non-Executive Director
Occupation: Company Director

External Directorships: Liveheats Pty Ltd, 86 Elwood Pty Ltd, Moonova Payments Pty Ltd.

Name: [Edward John Harvey](#)
Qualifications: BCom, CA, CFinD
Type of Director: Independent Non-Executive Director
Occupation: Company Director

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

Name: [Kathryn Mitchell](#)
Qualifications: BA, CMInstD
Type of Director: Independent Non-Executive Director
Occupation: Company Director

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

Directors' Statements

The financial statements are dated 19 August 2026 and have been signed by all Directors.



G. R. Tomlinson (Chair)



E. J. Harvey



K. Mitchell



S. Beckett



R. Bell

Statement of Comprehensive Income

For the year ended 30 June 2026

\$000's	Note	June 2026	June 2025
Interest income:			
Effective interest method	3	334,717	400,416
Fair value through profit or loss	3	329,926	305,449
Total interest income		664,643	705,865
Interest expense	3	326,734	398,558
Net interest income		337,909	307,307
Operating lease income	4	4,777	6,054
Operating lease expense	4	3,398	4,299
Net operating lease income		1,379	1,755
Lending and credit fee income		12,507	13,981
Other income/(expense)	5	7,074	(1,776)
Net operating income		358,869	321,267
Operating expenses	6	195,977	192,543
Profit before net fair value gain on equity investments, investment property, losses on guaranteed future value products, impaired asset expense and income tax		162,892	128,724
Net fair value gain on equity investments and investment property		3,055	1,623
Losses on guaranteed future value products		—	1,504
Impaired asset expense	8	33,534	71,638
Profit before income tax		132,413	57,205
Income tax expense	9	39,186	18,392
Profit for the year		93,227	38,813
Other comprehensive income/(loss)			
Items that are or may be reclassified subsequently to profit or loss, net of income tax:			
Effective portion of change in fair value of derivative financial instruments in a cash flow hedge relationship	17	5,570	(13,848)
Movement in fair value of debt investments at fair value through other comprehensive income (FVOCI)	17	313	1,551
Movement in foreign currency translation reserve	17	64,021	(6,905)
Items that will not be reclassified to profit or loss, net of income tax:			
Movement in fair value of equity investments at FVOCI	17	(1)	(1,805)
Other comprehensive income/(loss) for the year, net of income tax		69,903	(21,007)
Total comprehensive income for the year		163,130	17,806
Earnings per share			
Basic earnings per share	10	9.89	4.14
Diluted earnings per share	10	9.89	4.14

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

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

Statement of Changes in Equity

For the year ended 30 June 2026

\$000's	Note	June 2026				June 2025			
		Share Capital	Reserves	Retained Earnings	Total Equity	Share Capital	Reserves	Retained Earnings	Total Equity
Balance at beginning of year		1,028,275	(28,782)	219,559	1,219,052	1,018,954	(8,496)	227,411	1,237,869
Total Comprehensive income/(loss) for the year									
Profit for the year		—	—	93,227	93,227	—	—	38,813	38,813
Other comprehensive income/(loss), net of income tax	17	—	69,903	—	69,903	—	(21,007)	—	(21,007)
Total comprehensive income for the year		—	69,903	93,227	163,130	—	(21,007)	38,813	17,806
Transactions with owners									
Dividends paid	16	—	—	(51,789)	(51,789)	—	—	(46,665)	(46,665)
Dividend reinvestment plan	16	5,603	—	—	5,603	9,321	—	—	9,321
Share based payments	27	—	787	—	787	—	721	—	721
Total transactions with owners		5,603	787	(51,789)	(45,399)	9,321	721	(46,665)	(36,623)
Transfer on disposal of equity investments at FVOCI	17	—	6,052	(6,052)	—	—	—	—	—
Balance at end of the year		1,033,878	47,960	254,945	1,336,783	1,028,275	(28,782)	219,559	1,219,052

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

Statement of Financial Position

As at 30 June 2026

\$000's	Note	June 2026	June 2025
Assets			
Cash and cash equivalents		385,268	356,229
Collateral paid		5,129	14,239
Investments	11	820,300	790,044
Derivative financial instruments	12	5,034	4,792
Finance receivables measured at amortised cost	13	3,418,184	3,711,450
Finance receivables - reverse mortgages	20	4,358,190	3,370,949
Investment properties		3,890	4,390
Operating lease vehicles	14	16,280	15,561
Right-of-use assets	18	12,070	12,223
Other assets	18	49,026	44,949
Current tax asset		8,496	35,449
Intangible assets	18	277,634	265,222
Deferred tax asset	9	15,618	21,953
Total assets		9,375,119	8,647,450
Liabilities			
Deposits	15	7,156,768	6,529,953
Other borrowings	15	790,541	825,454
Derivative financial instruments	12	10,966	20,660
Lease liabilities	18	14,253	14,390
Trade and other payables	18	65,439	36,620
Deferred tax liability	9	369	1,321
Total liabilities		8,038,336	7,428,398
Net assets		1,336,783	1,219,052
Equity			
Share capital	16	1,033,878	1,028,275
Retained earnings and other reserves	17	302,905	190,777
Total equity		1,336,783	1,219,052

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

Statement of Cash Flows

For the year ended 30 June 2026

\$000's	Note	June 2026	June 2025
Cash flows from operating activities			
Interest received		359,088	449,348
Operating lease income received		4,196	5,417
Lending, credit fees and other income received		10,204	11,337
Operating inflows		373,488	466,102
Interest paid		(318,589)	(410,617)
Payment for early extinguishment of borrowings		(2,271)	—
Payments to suppliers and employees		(191,231)	(179,419)
Taxation paid		(2,428)	(31,420)
Operating outflows		(514,519)	(621,456)
Net cash flows applied to operating activities before changes in operating assets and liabilities		(141,031)	(155,354)
Collateral paid		(27,300)	(42,680)
Collateral received		36,380	26,110
Proceeds from sale of operating lease vehicles	14	5,772	2,561
Purchase of operating lease vehicles	14	(8,972)	(3,249)
Net decrease in finance receivables measured at amortised cost		265,535	464,299
Net (increase) in finance receivables - reverse mortgages		(326,305)	(220,324)
Net movement in deposits		316,715	601,836
Net cash flows from operating activities		120,794	673,199
Cash flows from investing activities			
Purchase of property, plant and equipment and intangible assets		(3,504)	(4,410)
Proceeds from investment securities		812,386	2,032,633
Purchase of investment securities		(788,205)	(1,725,205)
Proceeds from sale of rural property assets and investment property		10,099	—
Proceeds from sale of equity investments		10,189	68
Purchase of equity investment		—	(252)
Consideration adjustment related to acquisition of subsidiary		—	1,404
Net cash flows from investing activities		40,965	304,238
Cash flows from financing activities			
Proceeds from wholesale borrowings	15	258,364	424,614
Repayment of wholesale borrowings	15	(239,968)	(1,311,047)
Repayment of unsubordinated notes	15	(113,559)	(321,347)
Dividends paid	16	(44,357)	(37,344)
Payment of lease liabilities		(3,674)	(3,723)
Net cash flows applied to financing activities		(143,194)	(1,248,847)
Net increase/ (decrease) in cash and cash equivalents		18,565	(271,410)
Effect of exchange rates on cash and cash equivalents		10,474	(1,980)
Opening cash and cash equivalents		356,229	629,619
Closing cash and cash equivalents¹		385,268	356,229

¹At 30 June 2026, the Group has \$75.6 million (2025: \$66.3 million) of cash held by structured asset holding entities (**Trusts**) which may only be used for the purposes defined in the underlying Trust documents. Refer to Note 26 - Structured entities for definition of trusts and further details.

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

Statement of Cash Flows(continued)

For the year ended 30 June 2026

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

\$000's	Note	June 2026	June 2025
Profit for the year		93,227	38,813
Add/(less) non-cash items:			
Depreciation and amortisation expense		16,546	17,145
Depreciation on lease vehicles	14	3,106	3,923
Capitalised net interest income and fee income		(297,256)	(278,849)
Impaired asset expense excluding bad debt recoveries	8	37,604	73,393
Losses on guaranteed future value products		—	1,504
Fair value movements		(3,055)	(10,420)
Deferred tax		5,552	3,095
Other non-cash items		(7,932)	2,821
Total non-cash items		(245,435)	(187,388)
Add/(less) movements in operating assets and liabilities:			
Finance receivables measured at amortised cost		265,535	464,299
Finance receivables - reverse mortgages		(326,305)	(220,324)
Operating lease vehicles		(3,825)	(1,223)
Other assets		(10,987)	(22,605)
Current tax		34,636	(18,682)
Derivative financial instruments		(9,936)	19,167
Deposits		316,715	601,836
Other liabilities		7,169	(694)
Total movements in operating assets and liabilities		273,002	821,774
Net cash flows from operating activities		120,794	673,199

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

Notes to the Financial Statements

For the year ended 30 June 2026

1 Financial statements preparation

Reporting entity

The financial statements presented are the consolidated financial statements comprising Heartland Group Holdings Limited (**HGH**) and its controlled entities (the **Group**). Refer to Note 25 – Significant subsidiaries for further details.

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

HGH 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 Statement 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.

Basis of preparation

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

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

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

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

The Group has revised the presentation and disclosure of certain line items within the financial statements to ensure consistency across financial periods presented. Refer to the relevant notes for further details. These revised presentations have no impact on the overall financial performance, financial position or cash flows for the comparative year.

Basis of measurement

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

Principles of consolidation

The financial statements of the Group incorporate the assets, liabilities and results of all controlled entities. Controlled entities are all entities in which the Group is exposed to, or has rights to, variable returns from its involvement with the entities and has the ability to affect those returns through its power over the entities. Intercompany transactions, balances and any unrealised gains or losses 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 (**NZD**) are translated at the exchange rates ruling at balance date. Revenue and expense items are translated at the average rate for the year. Exchange differences are taken to other comprehensive income within the statement of comprehensive income.

1 Financial statements preparation (continued)

Changes in accounting standards

Accounting standards issued and effective

Changes in accounting policy

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

Accounting standards issued not yet effective

The impact assessment below is yet to consider the potential implications as a result of the proposed merger with TSB Bank Limited (see Significant events below).

Except for the disclosure below, other amendments to existing NZ IFRSs and IFRS Accounting Standards are either irrelevant or not material to the financial statements of the Group.

Presentation and Disclosure in Financial Statements (NZ IFRS 18)

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

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

NZ IFRS 18 also results in consequential amendments to other various NZ IFRS Accounting Standards.

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

The Group will also consider relevant agenda decisions issued, updated and withdrawn by the IFRS Interpretations Committee and the International Accounting Standards Board as part of the assessment.

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

The Amendments to NZ IFRS 9 : Financial Instruments (**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 provide additional guidance on various areas in NZ IFRS 9 and introduce additional disclosure requirements in NZ IFRS 7. The areas that are relevant to the Group are:

- NZ IFRS 9: derecognition timing of financial liabilities settling through electronic payment systems. The Group plans to apply the exception introduced by the Amendments and derecognise financial liabilities upon initiating related payment instructions instead of on the dates when the funds are withdrawn from the Group's bank accounts.
- NZ IFRS 7: certain additional disclosures on disposal of equity investments at fair value through other comprehensive income.

The Amendments will be effective for the Group's reporting period beginning on 1 July 2026. The Group plans to apply the transition provision of the Amendments and apply any change prospectively.

IFRS 20 Regulatory Assets and Regulatory Liabilities (IFRS 20)

The IASB issued IFRS 20 in May 2026. The standard sets out the accounting requirements for entities subject to a specific type of rate regulations. This standard will become effective, if relevant to the Group, from its reporting period beginning on 1 July 2029. Management will consider the implications of this new standard in the future.

1 Financial statements preparation (continued)

Critical accounting estimates and judgements

The Group's financial statements requires the use of estimates and judgements, including the changes in accounting estimates during the year. 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 on finance receivables at amortised cost - The effect of credit risk is quantified based on the Group's best estimate of future cash repayments and proceeds from any security held or by reference to risk profile groupings, historical loss data and forward-looking information. Refer to Note 13 - Finance receivables measured at amortised cost for further details.
- Recognition of Banking Licence intangible asset - The recognition of Banking Licence intangible asset required judgement in determining external and internal costs directly attributable to the Group's joint application for an Australian Authorised Deposit-Taking Institution Licence with Heartland Bank Australia Limited (**HBA**). Judgement is also required to determine whether such costs fulfil the definition and recognition criteria of an intangible asset. Such costs include professional fees and costs of employee benefits arising directly from the licence application. Refer to Note 18 - Other balance sheet items for further details.
- Fair value of reverse mortgages - Judgement is applied in determining the appropriateness of the fair value. Refer to Note 20 - Fair value for further details, including the changes in accounting estimates during the year.
- Goodwill - The Group carries out impairment testing annually over the carrying value of goodwill of its cash generating units (**CGU**). Uncertainty is involved in estimating value in use and judgement is applied in assumptions used to determine the recoverable amount of a CGU for impairment testing. Refer to Note 18 - Other balance sheet items for further details.

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

Significant events and transactions

Realisation of Non-Strategic Assets (NSAs)

NSAs represent assets accumulated over time that are no longer aligned with the Group's current strategic focus or threshold return on equity objectives and do not contribute positively to performance. These assets are subject to active realisation strategies, with proceeds intended to be redeployed into higher-return core lending portfolios to optimise capital efficiency.

During the year ended 30 June 2026, the Group made significant progress in reducing its exposure to NSAs.

Key transactions completed during the year included:

- Accelerated exits from Rural, Business Relationships and Home loan borrowers through the settlements, sale of security and refinancing, included within finance receivables at amortised cost in the statement of financial position.
- Sale of one of two dairy farms, both previously included as property, plant and equipment under other assets in the statement of financial position, with the remaining farm now classified as an asset held for sale following a conditional offer at balance date.
- Continuous divestments of the Group's equity investments.

These realisations align with the Group's strategy to simplify its portfolio and focus on core operations. The financial impacts of these transactions, including any gains or losses on disposal, are reflected in the consolidated profit or loss for the year.

Reduction of regulatory capital overlay

The Reserve Bank of New Zealand has issued revised Conditions of Registration (**CoR**) to Heartland Bank Limited, effective from 1 March 2026. These revisions reduced the regulatory capital overlay applicable to the Banking Group and the New Zealand Banking Group from 2.00% to 0.50%.

1 Financial statements preparation (continued)

Significant events and transactions (continued)

Reduction of regulatory capital overlay (continued)

As a result, the minimum regulatory capital ratios for the Banking Group and the New Zealand Banking Group were reduced as follows:

- Total capital ratio: from 11.0% to 9.5%
- Tier 1 capital ratio: from 9.0% to 7.5%
- Common Equity Tier 1 capital ratio: from 6.5% to 5.0%

Proposed transaction with TSB Bank Limited

On 2 June 2026, the Group announced a conditional agreement to acquire all shares of TSB Bank Limited from Toi Foundation for \$620 million and subsequently merged Heartland Bank Limited with TSB Bank Limited to form TSB Heartland Bank Limited. The proposed transaction remains subject to Toi Foundation and Heartland shareholder approvals and the necessary regulatory approvals. The Group will account for this proposed transaction upon completion.

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

Financial assets and liabilities

Financial Assets

Financial assets are classified based on:

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

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

Financial assets are classified into the following measurement categories:

Financial Assets	Measurement Category	Note
Government securities, public sector securities, bank bonds, corporate bonds and floating rate notes	Fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL)	11
Equity securities	FVOCI and FVTPL	11
Finance receivables – Reverse mortgages	FVTPL	20
Finance receivables	Amortised cost	13
Derivative financial instruments	FVTPL	12

Financial assets measured at amortised cost

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

Financial assets at amortised cost are initially recognised at fair value plus incremental direct transaction costs and are 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.

1 Financial statements preparation (continued)

Financial assets and liabilities (continued)

Financial Assets (continued)

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 initially measured at fair value with subsequent changes in fair value recognised in profit or loss. Related transaction costs are expensed in the profit or loss.

Cash and cash equivalents

Cash and cash equivalents include demand deposits held with financial institutions and other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and subject to an insignificant risk of changes in value.

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 derivatives; or
- 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 initially measured at fair value with subsequent changes in fair value recognised in profit or loss.

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

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

Recognition

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

1 Financial statements preparation (continued)

Derecognition

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

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

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

Performance

2 Segmental analysis

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

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

Operating segments

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

Operating segments – New Zealand

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

Operating segment – Australia

Australian Banking Group	Australian Banking Group provides banking and financial services in Australia which consist of reverse mortgage lending, livestock finance and other financial services.
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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. Income tax for New Zealand is also included in Other.
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Finance receivables are allocated across the operating segments as assets. Liabilities are managed centrally and therefore are not allocated across the operating segments, except for the geographical allocation between Australia and New Zealand. The Group does not rely on any single major customer for its revenue base.

2 Segmental analysis (continued)

\$000's	Motor	Reverse Mortgages	Personal Lending	Business	Rural	Australian Banking Group	Other	Total
June 2026								
Net interest income	70,176	63,197	2,074	38,788	32,580	130,815	279	337,909
Lending and credit fee income	3,222	2,737	193	2,714	624	3,017	—	12,507
Net other income	754	—	9	896	270	4,719	1,805	8,453
Net operating income	74,152	65,934	2,276	42,398	33,474	138,551	2,084	358,869
Personnel expenses	6,260	2,218	3,128	4,343	2,419	28,027	51,421	97,816
Other expenses	1,789	5,445	1,064	785	1,161	35,511	52,406	98,161
Operating expenses	8,049	7,663	4,192	5,128	3,580	63,538	103,827	195,977
Profit/(loss) before net fair value gain on equity investments and investment property, losses on guaranteed future value products, impaired asset expense and income tax	66,103	58,271	(1,916)	37,270	29,894	75,013	(101,743)	162,892
Net fair value gain on equity investments and investment property	—	—	—	—	—	—	3,055	3,055
Losses on guaranteed future value products	—	—	—	—	—	—	—	—
Impaired asset expense	12,066	—	202	13,745	4,412	3,109	—	33,534
Profit/(loss) before income tax	54,037	58,271	(2,118)	23,525	25,482	71,904	(98,688)	132,413
Income tax expense	—	—	—	—	—	21,607	17,579	39,186
Profit/(loss) for the year	54,037	58,271	(2,118)	23,525	25,482	50,297	(116,267)	93,227
Total assets	1,724,400	1,440,707	43,143	670,182	680,559	4,161,570	654,558	9,375,119
Total liabilities¹								8,038,336

2 Segmental analysis (continued)

\$000's	Motor	Reverse Mortgages	Personal Lending	Business	Rural	Australian Banking Group	Other	Total
June 2025								
Net interest income	69,467	55,861	5,187	49,144	32,686	94,749	213	307,307
Lending and credit fee income	5,298	2,472	(187)	3,595	511	2,292	—	13,981
Net other income	765	—	10	1,085	1,469	641	(3,991)	(21)
Net operating income	75,530	58,333	5,010	53,824	34,666	97,682	(3,778)	321,267
Personnel expenses	5,524	2,030	3,289	5,762	2,253	21,458	58,031	98,347
Other expenses	1,653	3,516	2,089	1,394	869	30,796	53,879	94,196
Operating expenses	7,177	5,546	5,378	7,156	3,122	52,254	111,910	192,543
Profit/(loss) before fair value loss on equity investments, losses on guaranteed future value products, impaired asset expense and income tax	68,353	52,787	(368)	46,668	31,544	45,428	(115,688)	128,724
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	(114,065)	57,205
Income tax expense	—	—	—	—	—	12,756	5,636	18,392
Profit/(loss) for the year	47,631	52,787	(1,007)	1,856	27,460	29,787	(119,701)	38,813
Total assets	1,687,763	1,233,272	178,625	853,011	731,819	3,169,630	793,330	8,647,450
Total liabilities¹								7,428,398

¹Total liabilities include \$3,593 million (2025 \$2,713 million) attributable to the Australian Banking Group segment.

3 Net interest income

Policy

Interest income and expense on financial instruments at amortised cost or FVOCI is measured using the effective interest rate method, which 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 these financial instruments, 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. Costs of the deposit compensation levy are also included under interest expense on deposits.

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

For non-derivative financial assets measured at FVTPL, interest is calculated based on implied effective interest rate based on the initial fair value of the assets. For derivative instruments, the interest is accrued based on the agreed rates of corresponding pay legs and receive legs.

\$000's	June 2026	June 2025
Interest Income		
<i>Calculated using the effective interest method</i>		
Cash and cash equivalents	9,867	12,302
Investments measured at FVOCI	33,970	33,152
Finance receivables measured at amortised cost	290,880	354,962
Total interest income calculated using the effective interest method	334,717	400,416
 <i>Fair value through profit or loss</i>		
Investments measured at FVTPL	31	7,416
Finance receivables - reverse mortgages	329,895	298,033
Total interest income on financial assets measured at FVTPL	329,926	305,449
Total interest income	664,643	705,865
 Interest Expense		
<i>Calculated using the effective interest method</i>		
Deposits	268,746	311,922
Other borrowings	45,845	95,885
Total interest expense calculated using the effective interest method	314,591	407,807
 <i>Fair value through profit or loss</i>		
Net interest expense/(income) on derivative financial instruments	12,143	(9,249)
Total net interest expense/(income) on derivative financial instruments measured at FVTPL	12,143	(9,249)
Total interest expense	326,734	398,558
Net interest income	337,909	307,307

4 Net operating lease income

Policy

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

\$000's	June 2026	June 2025
Operating lease income		
Lease income	4,152	5,455
Gain on disposal of lease assets	625	599
Total operating lease income	4,777	6,054
Operating lease expense		
Depreciation of lease assets	3,106	3,923
Direct lease costs	292	376
Total operating lease expense	3,398	4,299
Net operating lease income	1,379	1,755

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.

Fair value gain or loss on derivative financial instruments

The Group does not apply hedge accounting on foreign exchange contracts. The gain or loss on foreign exchange forwards is included as part of foreign exchange gain/(loss) in other income. Hedging ineffectiveness arising from fair value hedges and cash flow hedges (see Note 12 - Derivative financial instruments) is presented in other income together with any fair value change of interest rate swaps not subject to any hedges.

Fair value gain or loss on non-derivative financial instruments

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

\$000's	June 2026	June 2025
Rental income from investment properties	296	584
Fair value gain/(loss) on derivative instruments measured at fair value	8	(5,142)
Fair value gain on non-derivative financial instruments ¹	7,016	441
Other income ²	1,847	2,006
Loss on early extinguishment of borrowings ³	(2,271)	—
Foreign exchange gain	178	335
Total other income/(expense)	7,074	(1,776)

¹ Includes (a) realised and unrealised gains/(losses) on investments in government securities, bank bonds and floating rate notes of \$0.1 million relating to HBA (2025: \$0.4 million) (See Note 11 - Investments for further details) and (b) fair value adjustment of \$6.9 million arising from a change in the broker commission estimate in the current year (see Note 20 - Fair value for further details).

² Other income for the year ended 30 June 2026 includes (a) \$1.1 million income generated from rural properties under management of the Group (2025: \$1.5 million), (b) a realised loss of \$0.8 million from the sale of a rural property/dairy farm (Refer to Note 1 - Financial statements preparation for further details) and (c) \$1.5 million use of money interest received from income tax prepayments.

³ Refer to Unsubordinated note section of Note 15 - Borrowings for further details.

6 Operating expenses

Policy

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

\$000's	June 2026	June 2025
Personnel expenses ¹	97,816	98,347
Directors' fees	2,201	2,196
Superannuation	4,169	3,594
Depreciation - property, plant and equipment	1,597	1,933
Legal and professional fees ²	15,098	9,477
Advertising and public relations	6,285	3,137
Depreciation - right-of-use assets	3,635	3,703
Technology services and communications	25,469	20,960
Customer administration costs	11,573	11,117
Customer onboarding costs	2,648	2,730
Occupancy costs	2,886	3,038
Amortisation of intangible assets	11,314	11,509
Other operating expenses ³	11,286	20,802
Total operating expenses	195,977	192,543

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

²Legal and professional fees include compensation of auditor which is disclosed in Note 7 - Compensation of auditor and \$5.5 million of acquisition-related expenses as disclosed in Note 1 - Financial statements preparation - Significant events.

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

7 Compensation of auditor

The fees payable to the auditors, PricewaterhouseCoopers (PwC) are outlined in the below table:

\$000's	June 2026	June 2025
Fees paid to auditor		
Audit and review of financial statements		
Current year ¹	1,920	1,811
Additional prior year ¹	68	56
Total audit and review of financial statements	1,988	1,867
Audit or review related services		
APRA regulatory reporting and Australian Financial Services Licence reporting assurance services - current year	242	200
Insurance solvency return assurance services - additional for prior year	—	4
Registry assurance services	12	12
Trust deed reporting services	4	3
Total audit or review related services	258	219
Other assurance services and other agreed-upon procedures		
Greenhouse gas emissions assurance services	64	61
Total other assurance services and other agreed-upon procedures	64	61
Other services		
Provision of executive reward survey report	—	4
Total compensation of auditor	2,310	2,151

¹Fees 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.

8 Impaired asset expense

\$000's	June 2026	June 2025
Individually impaired asset expense	25,864	24,730
Collectively impaired asset expense	11,740	48,663
Total impaired asset expense excluding recovery of amounts previously written off to the income statement	37,604	73,393
Recovery of amounts previously written off to the income statement	(4,070)	(1,755)
Total impaired asset expense	33,534	71,638

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

9 Taxation

Policy

Income tax

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

Current tax

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

Deferred tax

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

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

Goods and services tax (GST)

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

9 Taxation (continued)

Income tax expense

\$000's	June 2026	June 2025
Income tax recognised in profit or loss		
Current tax		
Current year	33,647	13,375
Adjustments for prior year	(13)	2,520
Deferred tax		
Current year	6,441	4,633
Adjustments for prior year	(889)	(2,136)
Total income tax expense recognised in profit or loss	39,186	18,392
Income tax recognised in other comprehensive income		
Current tax		
Investment securities at fair value and fair value hedge adjustments in fair value reserve	180	592
Fair value movements in derivatives held in cash flow hedge reserve	2,355	(3,193)
Deferred tax		
Movement in cash flow hedge reserve relating to terminated swap	(169)	—
Total income tax expense/(benefit) recognised in other comprehensive income	2,366	(2,601)
Reconciliation of tax expense and accounting profit		
Profit before income tax	132,413	57,205
Tax at local income tax rate (NZ:28%, Australia:30%)	38,514	16,868
Adjusted tax effects of items not deductible	1,574	1,140
Adjustments for prior year	(902)	384
Total income tax expense	39,186	18,392

9 Taxation (continued)

Deferred tax assets comprise the following temporary differences:

\$000's	June 2026	June 2025
Employee entitlements	4,405	3,253
Share based payment	413	202
Provision for impairment	16,007	20,881
Intangibles and property, plant and equipment	(5,632)	(3,767)
Right-of-use assets	(3,452)	(3,536)
Lease liabilities	4,074	4,152
Deferred acquisition costs	—	(6)
Operating lease vehicles	(528)	(357)
Deferred income	(4,866)	(5,758)
Tax loss	4,361	5,996
Other temporary differences	467	(428)
Total deferred tax	15,249	20,632
Opening balance of deferred tax	20,632	23,727
Movement recognised in profit or loss	(5,552)	(2,497)
Movement recognised in other comprehensive income	169	—
Change in recognition of deferred tax asset	—	(598)
Closing balance of deferred tax	15,249	20,632

Imputation credit account

\$000's	June 2026	June 2025
Imputation credits available for use in subsequent reporting periods	18,670	48,761

10 Earnings per share

	June 2026			June 2025		
\$000's	Earnings Per Share Cents	Net Profit After Tax \$000's	Weighted Average No. of Shares 000's	Earnings Per Share Cents	Net Profit After Tax \$000's	Weighted Average No. of Shares 000's
Basic Earnings	9.89	93,227	942,792	4.14	38,813	936,613
Diluted Earnings	9.89	93,227	942,792	4.14	38,813	936,613

Financial Position

11 Investments

Policy

Investments are classified into one of the following categories:

Fair value through other comprehensive income

This category includes (a) debt securities such as bank and corporate bonds, public sector bonds, and floating rate notes; and (b) equity securities. Debt securities are measured at FVOCI where such investments are held within the business model whose objective is achieved through both collecting contractual cash flows or selling the assets; and the collection of such cash flows represent solely payments of principal and interest on the principal amount outstanding. Equity securities are measured at FVOCI where the Group has irrevocably elected to account for these in such manner at initial recognition. Subsequent changes in fair value of these investments are recognised in other comprehensive income and accumulated in the fair value reserve.

The cumulative gain or loss on debt securities above is subsequently reclassified to other income/(expense) in the profit or loss upon subsequent disposal. The gain or loss on equity securities, however, is not reclassified to profit or loss upon disposal. The Group may elect to transfer such gain or loss to retained earnings when a sale occurs.

Fair value through profit or loss

Investments under this category are (a) those debt securities not measured at FVOCI described above or amortised cost (like the Group's lending to customers); and (b) equity securities where the Group does not elect to measure at FVOCI at initial recognition. These investments are measured at fair value at initial recognition. Any transaction costs are expensed as incurred in profit or loss.

Subsequent changes in fair value of these investments are recognised within profit or loss.

\$000's	June 2026	June 2025
Investments measured at FVOCI		
Bank bonds and floating rate notes	269,688	274,571
Public sector securities and corporate bonds	545,420	500,658
Equity investments	5,192	5,664
Investments measured at FVTPL		
Government securities, bank bonds and floating rate notes ¹	—	2,174
Equity investments	—	6,977
Total investments	820,300	790,044
Due within one year	215,469	206,841
Due more than one year	599,639	570,562
Total investments in debt securities	815,108	777,403

¹Includes HBA's investments acquired prior to the acquisition of HBA by HBL on 30 April 2024. Effective 1 July 2024, HBA 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 acquired debt securities since that date have been measured at FVOCI, in alignment with the Group's policies. Refer to Note 20 - Fair value for further details.

12 Derivative financial instruments

Policy

The Group uses derivatives for risk management purposes, designates certain derivatives into hedging relationships and applies hedge accounting that meets the hedge accounting criteria. The Group sometimes holds derivatives in economic hedge relationships where hedge accounting requirements are not met.

The Group uses these derivatives to manage interest rate risks and sometimes foreign exchange risk. The subjects under hedge management (hedged item) could be an asset, liability, firm commitment or highly probable forecast transaction that exposes the Group to a risk of changes in fair value or future cash flows.

Derivatives are measured 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.

Where derivatives are held as economic hedges, the changes in fair value are recognised immediately in profit or loss and presented within interest expense or other income/(expense) depending on the nature of risks being managed.

For hedge relationship subject to hedge accounting, the criteria that must be met for a relationship to qualify for hedge accounting under NZ IFRS 9 includes that the:

- hedging relationship consists only of eligible hedging instruments and eligible hedged items, for which both the instruments and hedge subjects must be with parties external to the Group,
- hedging relationship must be formally designated and documented at inception of the hedge, and
- prospective effectiveness testing must be carried out at the inception of the hedging relationship, and on an ongoing basis to ensure the hedge is effective, consistent with the originally documented risk management strategy and objective.

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

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

The Group establishes a hedge ratio by aligning the amount of the exposure to be hedged and the notional amount of the hedging instrument based on the observed economic relationship. It measures prospective hedge effectiveness at inception and on an ongoing basis using either regression analysis or critical term comparison. Hedge ineffectiveness is the extent to which the changes in the fair value of the hedging instrument do not offset those of the hedged item. This is measured through applying the cumulative dollar offset method with the use of hypothetical derivative (a derivative that would have critical terms that exactly match those of the hedged item).

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

Hedge ineffectiveness may arise from a timing difference in the repricing between the hedged item and the hedging instrument, or a difference in the timing of their cash flows. The counterparties' credit risk is not expected to result in material hedging ineffectiveness as all hedging instruments are collateralised and any underlying assets subject to hedges are of high credit rating.

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

12 Derivative financial instruments (continued)

Policy (continued)

Fair value hedge accounting

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

Subsequent to initial designation, changes in the fair value of derivatives that are designated and qualify for fair value hedge accounting are recorded in other income/(expense) within profit or loss alongside any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk (fair value hedge adjustment). Where the hedged item is carried at amortised cost, the fair value hedge adjustment is made to the carrying value of the hedged asset or liability.

The Group elects to amortise the fair value hedge adjustment when a hedge relationship is discontinued. Where a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, the fair value hedge adjustment is amortised to profit or loss on an effective yield basis over the remaining period to maturity of the hedged item. Where a hedged item is derecognised from the balance sheet, the fair value hedge adjustment is immediately transferred to profit or loss.

Cash flow hedge accounting

The Group applies cash flow hedge accounting to hedge the variability in future interest cash flows attributable to interest rate risk on variable interest rate components of current and highly probable future 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 cash flow hedge reserve. The ineffective portion of a fair value gain or loss is recognised immediately in other income/(expense) within the profit or loss. The fair value accumulated in the cash flow hedge reserve is subsequently reclassified to interest expense in the same periods during which the hedged expected future interest cash flows affect profit or loss.

When a hedging derivative is sold, or the hedge no longer meets the criteria for hedge accounting, the cumulative gain or loss on the hedging derivative remains in the cash flow hedge reserve until the forecast transaction occurs and affects profit or loss, at which point it is reclassified to the interest 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 hedge reserve is immediately reclassified to interest expense within the profit or loss.

The Group's approach to managing market risk, including interest rate risk, is disclosed in Note 24 – Interest rate risk. The Group actively manages residual interest rate risk from the net exposure of its underlying assets and liabilities, associated with the mismatch of the interest rate repricing profiles of its interest earning assets and interest bearing liabilities, by entering into interest rate swaps to hedge against movements in interest rates.

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 a basis for comparison with instruments recognised on the balance sheet but do not necessarily indicate the amounts of future cash flows involved, therefore don't indicate the Group's exposure to credit or market risks. The fair values of derivative instruments and their notional values are set out in the below table.

\$000's	June 2026			June 2025		
	Notional Principal	Fair Value Assets	Fair Value Liabilities	Notional Principal	Fair Value Assets	Fair Value Liabilities
<i>Interest rate related contracts</i>						
Designated as cash flow hedges	699,584	1,921	4,767	854,635	175	11,456
Designated as fair value hedges	329,978	3,113	6,199	349,100	4,617	9,203
Interest rate related contracts	1,029,562	5,034	10,966	1,203,735	4,792	20,659
<i>Foreign currency related contracts</i>						
Held as economic hedges	—	—	—	1,044	—	1
Foreign currency related contracts	—	—	—	1,044	—	1
Total derivative financial instruments	1,029,562	5,034	10,966	1,204,779	4,792	20,660

12 Derivative financial instruments (continued)

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

Fair value hedge accounting is applied to receive fixed interest rate swaps designated as hedges of interest rate risk arising from fixed-rate subordinated notes and 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 2026						
Interest rate risk						
Cash flow hedge relationships						
<i>Pay fixed</i>						
Nominal amounts	140,000	60,000	235,000	264,584	—	699,584
Average interest rate	4.12%	4.09%	3.36%	3.38%	—	
Fair value hedge relationships						
<i>Pay fixed</i>						
Nominal amounts	—	—	98,500	131,478	—	229,978
Average interest rate	—	—	4.35%	4.22%	—	
<i>Receive fixed</i>						
Nominal amounts	—	—	100,000	—	—	100,000
Average interest rate	—	—	4.30%	—	—	
Total interest rate risk nominal amount	140,000	60,000	433,500	396,062	—	1,029,562
\$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						
<i>Pay fixed</i>						
Nominal amounts	—	60,000	422,741	371,894	—	854,635
Average interest rate	—	4.83%	3.87%	3.71%	—	
Fair value hedge relationships						
<i>Pay fixed</i>						
Nominal amounts	5,000	10,000	21,500	212,600	—	249,100
Average interest rate	1.01%	1.05%	5.37%	4.32%	—	
<i>Receive fixed</i>						
Nominal amounts	—	—	—	100,000	—	100,000
Average interest rate	—	—	—	4.30%	—	
Total interest rate risk nominal amount	5,000	70,000	444,241	684,494	—	1,203,735

12 Derivative financial instruments (continued)

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

\$000's	As at 30 June 2026		For the year ended 30 June 2026
	Carrying value	Accumulated fair value hedge adjustment ¹	Hedging gain/(loss) recognised in income statement
Interest rate risk			
Investments	235,228	5,104	(2,234)
Other borrowings	(102,813)	(2,265)	484
Total	132,415	2,839	(1,750)
Interest rate swaps	(3,086)	(3,086)	1,540
Hedge ineffectiveness of financial instruments recognised in other income			(210)

\$000's	As at 30 June 2025		For the year ended 30 June 2025
	Carrying value	Accumulated fair value hedge adjustment ¹	Hedging 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

¹The figures relating to the hedged items represent the accumulated fair value hedge adjustments included in the fair value reserve or carrying value of other borrowings as appropriate. None of these adjustments relate to hedges which have been discontinued. Figures relating to the hedging instruments represent their accumulated fair value change.

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 (2025: 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 2026	June 2025
Cash flow hedge reserve		
Balance at beginning of year	(9,474)	4,374
Transferred to the income statement	2,861	(3,690)
Net (loss)/gain from change in fair value	4,895	(13,351)
Net movement before tax	7,756	(17,041)
Tax on net movement in cash flow hedge reserve	(2,186)	3,193
Balance at end of year	(3,904)	(9,474)

During the year ended 30 June 2026, a gain of \$0.3 million (2025: \$0.3 million loss) 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 (2025: nil).

There are \$3.4 million cumulative losses (2025: \$3.0 million cumulative losses) recognised in the cash flow hedge reserve on interest rate swaps for which hedge accounting is no longer applied on the basis that the associated variable cash flows are still expected to occur over the lifetime of the original hedge relationships. The associated cash flow hedge reserve is being released over the period of the original hedge relationship which has since been discontinued.

13 Finance receivables measured at amortised cost

Policy

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

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

\$000's	June 2026	June 2025
Gross finance receivables measured at amortised cost	3,473,710	3,784,733
Less provision for impairment	(54,022)	(71,779)
Less provision for losses on guaranteed future value products ¹	(1,504)	(1,504)
Net finance receivables measured at amortised cost	3,418,184	3,711,450
Due within one year	1,134,541	1,068,661
Due more than one year	2,339,169	2,716,072
Less provision for impairment	(54,022)	(71,779)
Less provision for losses on guaranteed future value products	(1,504)	(1,504)
Net finance receivables measured at amortised cost	3,418,184	3,711,450

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

13 Finance receivables measured at amortised cost (continued)

Policy

Impairment of finance receivables measured at amortised cost

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

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

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

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

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

Stage 1 - 12 months ECL (generally 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 (generally greater than 30 but less than 90 days past due)

Where there has been a significant increase in credit risk. Financial assets for which the credit grading has been downgraded to an underperforming category are also considered to have experienced 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. A default occurs where the customer is unlikely to repay their credit obligations in full without recourse by the Group to actions such as realising security. Indicators include a breach of contract with the Group such as a default on interest or principal payments, a borrower experiencing significant financial difficulties or observable economic conditions that correlate to defaults on an individual basis.

Credit quality of financial assets

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

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

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

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

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

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

13 Finance receivables measured at amortised cost (continued)

Policy (continued)

Modification of contractual cash flows

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

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

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

Collectively assessed expected credit loss (ECL) (stage 1, 2 and 3) - New Zealand

The Group estimated ECL for its lending portfolio measured at amortised cost using models based on historical credit performance and observed portfolio behaviour. The models are recalibrated across each period, which includes aligning model input of probabilities of default and loss given defaults with more recent observations and data. These models assume that economic conditions remain constant over time with the provision being calculated as a point-in-time estimate.

Accordingly, management applies model overlays or adjustments in circumstances where the existing inputs, assumptions, and model techniques do not capture all risk factors (e.g., geopolitical impacts) relevant to the Group's lending portfolios.

Model overlays have been applied in the following instances:

(a) Multiple macroeconomic scenarios (MES) and sensitivity analysis:

To incorporate a range of potential future economic outcomes, HBL applies a MES overlay. This approach estimates a distribution of possible credit loss outcomes by using historical loss curves for each portfolio, from which probability weighted loss rates are derived.

The MES framework considers four forward looking scenarios – upside, central, downside and severe downside – each reflecting differing degrees of economic improvement or deterioration relative to the modelled provision (point-in-time ECL). The difference between the MES probability weighted and point-in-time ECL represents the MES overlay required to the modelled provision.

MES	Description	Weighting applied as at 30 June 2026
Upside case	Reflect inputs and assumptions improving comparative to the current provisioning model.	7%
Central case	Reflect inputs and assumptions similar to the current provisioning model.	50%
Downside case	Reflect inputs and assumptions deteriorating comparative to the current provisioning model.	33%
Severe downside case	Reflect inputs and assumptions deteriorating severely comparative to the current provisioning model.	10%

Based on this, a loss rate for each scenario was calculated, weighted by the probability of that scenario, and applied to the receivables position.

At 30 June 2026, the MES overlay for the Group is \$2.3 million (2025: \$2.7 million).

13 Finance receivables measured at amortised cost (continued)

The following sensitivity table shows the difference between the reported provision based on the point-in-time estimate, and the ECL calculated for each scenario, assuming a 100% weightage for that case:

\$m	Increase/(decrease) in ECL as at 30 June 2026
100% upside case	(14.8)
100% central case	(3.4)
100% downside case	7.4
100% severe downside case	26.1
Total probability weighted ECL per the MES methodology	2.3

(b) Geopolitical overlay:

In addition to the MES overlay, HBL applies a further overlay to reflect heightened geopolitical risks. Geopolitical risk refers to the potential for adverse credit outcomes arising from global political and economic tensions that may not be captured within historical loss experience or baseline forward-looking scenarios. The overlay calculation include: (i) utilising publicly available crisis scenarios together with internal analysis, (ii) calculating the associated deterioration in losses expected for each scenario using regression models which connect economic factors and losses, (iii) applying these to HBL's portfolio, and (iv) probability weighting them.

At 30 June 2026, the geopolitical overlay is \$1.6 million (2025: \$0.5 million).

Individually assessed ECL (stage 3) - New Zealand

Individually assessed provisions are recognised for exposures where there is objective evidence of impairment and where HBL determines that the impact on expected future cash flows can be reliably estimated on a case-by-case basis.

These are predominantly within the Asset Finance and older Business Relationship lending portfolios within the transport, construction, forestry and agriculture sectors.

ECL (stage 1,2 and 3) - Australia

There have been no material changes to the critical estimates and judgements for ECL in HBA during the years ended 30 June 2026 and 30 June 2025.

13 Finance receivables measured at amortised cost (continued)

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

\$000's	Collectively Assessed			Individually Assessed	Total
	Stage 1	Stage 2	Stage 3		
June 2026					
Impairment allowance as at 30 June 2025	16,029	7,851	23,104	24,795	71,779
Changes in loss allowance					
Transfer between stages ¹	(1,632)	(7,163)	1,183	7,612	—
New and (decreased)/increased provision (net of provision releases) ¹	(1,469)	4,983	15,838	18,252	37,604
Credit impairment charge	(3,101)	(2,180)	17,021	25,864	37,604
Write-offs	—	—	(26,564)	(29,337)	(55,901)
Effect of changes in foreign exchange rate	42	36	—	462	540
Impairment allowance as at 30 June 2026	12,970	5,707	13,561	21,784	54,022
June 2025					
Impairment allowance as at 30 June 2024	14,361	5,197	34,281	22,482	76,321
Changes in loss allowance					
Transfer between stages ¹	(140)	(9,070)	7,582	1,628	—
New and increased provision (net of provision releases) ¹	1,832	11,724	36,735	23,102	73,393
Credit impairment charge	1,692	2,654	44,317	24,730	73,393
Write-offs	—	—	(55,494)	(22,417)	(77,911)
Effect of changes in foreign exchange rate	(24)	—	—	—	(24)
Impairment allowance as at 30 June 2025	16,029	7,851	23,104	24,795	71,779

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 decreased provision (net of provision releases) in the higher stage from which the loan moved.

13 Finance receivables measured at amortised cost (continued)

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

\$000's	Collectively Assessed			Individually Assessed	Total
	Stage 1	Stage 2	Stage 3		
30 June 2026					
Gross finance receivables measured at amortised cost as at 30 June 2025	3,359,596	236,862	96,957	91,318	3,784,733
Transfer between stages	(104,723)	(4,771)	42,556	66,938	—
Additions	1,324,419	—	—	—	1,324,419
Deletions	(1,357,229)	(140,941)	(73,844)	(46,090)	(1,618,104)
Write-offs	—	—	(26,564)	(29,337)	(55,901)
Effect of changes in foreign exchange rate	31,174	2,887	—	4,502	38,563
Gross finance receivables measured at amortised cost as at 30 June 2026	3,253,237	94,037	39,105	87,331	3,473,710
30 June 2025					
Gross finance receivables measured at amortised cost as at 30 June 2024	3,888,443	241,633	116,723	96,468	4,343,267
Transfer between stages	(216,671)	79,265	103,381	34,025	—
Additions	1,255,780	—	—	—	1,255,780
Deletions	(1,564,666)	(83,543)	(67,653)	(16,182)	(1,732,044)
Write-offs	—	—	(55,494)	(22,417)	(77,911)
Effect of changes in foreign exchange rate	(3,290)	(493)	—	(576)	(4,359)
Gross finance receivables measured at amortised cost as at 30 June 2025	3,359,596	236,862	96,957	91,318	3,784,733

Impact of changes in gross exposures on loss allowances

The Group's provision for impairment has decreased by \$17.8 million for the year ended 30 June 2026, driven by the following movements:

- A net reduction in collective provisions of \$14.8 million reflecting:
 - An increase in provisions of \$11.8 million predominantly relating to motor vehicles and business lending as a result of diminished recoverability and declining credit quality of these receivables attributed to further deterioration of economic conditions; and
 - subsequent bad debt write off of \$26.6 million against the loss allowance, which include the write-offs of receivables and related increased provisions explained above.
- Individually assessed provisions decreased by \$3.0 million during the year, following the transfer (net of repayments and exits) of approximately \$20.8 million of receivables into this category. This resulted in additional provisions of \$18.3 million on individually assessed loans, driven by borrower-specific credit deterioration and revised valuations of underlying securities. These increases were more than offset by bad debt write-offs of \$29.3 million against the loss allowance.

As at 30 June 2026, there were \$0.54 million undrawn lending commitments available to counterparties for whom drawn balances are classified as individually impaired (2025: \$0.86 million).

As at 30 June 2026, the contractual amount outstanding on loans to customers written off during the year and are still subject to enforcement activity was \$29.73 million (2025: \$19.12 million).

14 Operating lease vehicles

Policy

Operating lease vehicles are stated at cost less accumulated depreciation.

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

\$000's	June 2026	June 2025
Cost		
Opening balance	24,886	26,191
Additions	8,972	3,416
Disposals	(7,036)	(4,721)
Closing balance	26,822	24,886
Accumulated depreciation		
Opening balance	9,325	7,930
Depreciation charge for the year	3,106	3,923
Disposals	(1,889)	(2,528)
Closing balance	10,542	9,325
Opening net book value	15,561	18,261
Closing net book value	16,280	15,561

The future minimum lease payments receivable under operating leases not later than one year is \$4.0 million (2025: \$4.2 million), within one to five years is \$4.0 million (2025: \$4.8 million) and over five years is nil (2025: nil).

15 Borrowings

Policy

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

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

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

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

\$000's	June 2026	June 2025
Deposits		
Short-term interest bearing deposits	1,466,114	1,417,823
Non-interest bearing deposits	34,726	38,369
Term deposits	5,655,928	5,073,761
Total deposits	7,156,768	6,529,953
Other borrowings		
Unsubordinated notes	20,300	128,747
Subordinated notes	163,771	156,854
Securitised borrowings	557,301	520,048
Certificates of deposit	49,169	19,805
Total other borrowings	790,541	825,454
Total deposits and other borrowings	7,947,309	7,355,407
Due within one year	6,829,797	6,244,476
Due more than one year	1,117,512	1,110,931
Total deposits and other borrowings	7,947,309	7,355,407

Deposits, unsubordinated notes and certificates of deposit rank equally and are unsecured. The Depositor Compensation Scheme (DCS), established under the Deposit Takers Act 2023 and effective from 1 July 2025, provides protection for eligible depositors of the Bank of up to \$100,000 per depositor, in the unlikely event the Bank fails. The DCS applies only to eligible deposits held with the Bank in New Zealand. Deposits held with the Australian banking operations are not covered by the DCS but are separately protected under the Australian Financial Claims Scheme.

Unsubordinated notes

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

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

Retail bonds and medium term notes \$000's	Frequency of interest repayment	June 2026	June 2025	Maturity date
NZ \$20 million	Semi-annually	20,300	20,298	27 March 2028
AU \$100 million ¹	Quarterly	–	108,449	5 October 2027
Total retail bonds and medium term notes		20,300	128,747	

¹On 7 October 2025, AU\$100 million of unsubordinated notes were fully repaid prior to its maturity. Refer to Note 5 - Other income for the loss incurred on early extinguishment of the borrowing.

15 Borrowings (continued)

Subordinated notes

NZD Subordinated notes

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

Interest payable

The interest rate is a fixed rate of 7.51% for a period of 5 years until 28 April 2028, after which it will reset to the quarterly floating rate equal to the sum of the applicable 3-month Bank Bill Rate plus 3.2% Issue Margin. The quarterly payments 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 RBNZ prior written approval and HBL being solvent at the time.

Ranking

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

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

AUD Subordinated notes

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

Interest payable

The interest rate is a floating rate equal to the sum of the applicable 3-month Bank Bill Swap Rate plus 3.7% Issue Margin. The quarterly payments 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 Regulation Authority (**APRA**) prior written approval and HBA being solvent at the time.

Ranking

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

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

15 Borrowings (continued)

Securitised borrowings

The Group had the following securitised borrowings outstanding as at:

Securitisation facility \$000's	Currency	June 2026			June 2025			Maturity date
		Limit		Drawn	Limit		Drawn	
		AUD	NZD		AUD	NZD		
Heartland Auto Receivables Warehouse Trust 2018 -1 (HARWT) ¹	NZD	—	268,000	47,688	—	320,000	158,640	31 October 2027
Seniors Warehouse Trust No.2 (SWT2) ²	AUD	425,000	517,914	370,594	260,000	280,687	230,133	08 May 2056
Atlas 2020-1 Trust (Atlas) ³	AUD	—	—	139,019	—	—	131,275	24 September 2050
Total securitisation borrowings ⁴		785,914	557,301		600,687	520,048		

¹HARWT 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 26 - Structured entities for further details.

²On 4 December 2025, the Availability Period (being the period during which the undrawn balance is available for use) of the SWT2 facility was extended to 15 October 2027, while the maturity date remained unchanged. On 21 April 2026, SWT2 increased its securitisation facility limit from AU\$260 million to AU\$425 million.

³Atlas 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 revolving or committed facility, the amount drawn represents the reported outstanding balance of the Atlas-issued notes.

⁴HARWT notes issued to investors are secured over motor vehicle loans. SWT2 and Atlas notes issued to investors are secured over reverse mortgage loans.

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

Net debt reconciliation

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

\$000's	June 2026	June 2025
Balance as at beginning of year	825,454	2,040,763
Proceeds from wholesale borrowings	258,364	424,614
Repayment of wholesale borrowings	(239,968)	(1,311,047)
Repayment of unsubordinated notes	(113,559)	(321,347)
Total cash movements	(95,163)	(1,207,780)
Capitalised interest and fee expense	2,039	(3,354)
Fair value movements	(484)	3,470
Foreign exchange and other movements	58,695	(7,645)
Total non-cash movements	60,250	(7,529)
Balance as at the end of year	790,541	825,454

16 Share capital and dividends

Policy

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

	June 2026	June 2025
	Number of Shares	Number of Shares
000's		
Issued shares		
Opening balance	940,100	930,561
Shares issued - dividend reinvestment plan	5,107	9,539
Closing balance	945,207	940,100

HGH issued 2,443,526 new shares at \$0.93 per share (\$2.3 million) on 12 September 2025 and 2,663,608 new shares at \$1.25 per share (\$3.3 million) on 20 March 2026 under the dividend reinvestment plan (**DRP**) for the year (2025: 6,857,950 new shares at \$1.04 per share (\$7.1 million) on 20 September 2024 and 2,680,562 shares at \$0.81 per share (\$2.2 million) on 21 March 2025 under the DRP for the year). At 30 June 2026, HGH held 459,070 of the ordinary shares of HGH (30 June 2025: 459,070 ordinary shares). These shares are classified as treasury shares and are recognised as a deduction from equity.

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

Dividends paid

	June 2026			June 2025		
	Date Declared	Cents Per Share	\$000's	Date Declared	Cents Per Share	\$000's
Final dividend	20 August 2025	2.0	18,802	28 August 2024	3.0	27,918
Interim dividend	25 February 2026	3.5	32,987	26 February 2025	2.0	18,747
Total dividends paid			51,789			46,665

17 Other reserves

\$000's	Employee Benefit Reserve	Foreign Currency Translation Reserve (FCTR)	Fair Value Reserve	Cash Flow Hedge Reserve	Total
June 2026					
Balance as at 30 June 2025	721	(13,570)	(6,459)	(9,474)	(28,782)
Movements attributable to net investments in foreign operations ¹	—	64,021	—	—	64,021
Net movements attributable to changes in fair value of debt investments at FVOCI	—	—	493	—	493
Movements attributable to cash flow hedges	—	—	—	7,756	7,756
Movements attributable to changes in fair value of equity investments at FVOCI	—	—	(1)	—	(1)
Income tax effect	—	—	(180)	(2,186)	(2,366)
Total other comprehensive income net of income tax	—	64,021	312	5,570	69,903
Share based payments ²	787	—	—	—	787
Transfer on disposal of equity investments at FVOCI	—	—	6,052	—	6,052
Balance as at 30 June 2026	1,508	50,451	(95)	(3,904)	47,960
June 2025					
Balance as at 30 June 2024	—	(6,665)	(6,205)	4,374	(8,496)
Movements attributable to net investments in foreign operations	—	(6,905)	—	—	(6,905)
Movements attributable to changes in fair value of debt investments at FVOCI	—	—	2,143	—	2,143
Movements attributable to cash flow hedges	—	—	—	(17,041)	(17,041)
Movements attributable to changes in fair value of equity investments at FVOCI	—	—	(1,805)	—	(1,805)
Income tax effect	—	—	(592)	3,193	2,601
Total other comprehensive (loss) net of income tax	—	(6,905)	(254)	(13,848)	(21,007)
Share based payments ²	721	—	—	—	721
Balance as at 30 June 2025	721	(13,570)	(6,459)	(9,474)	(28,782)

¹The movement in FCTR is primarily driven by the depreciation of the NZD against the AUD on translation of the Group's Australian operations.

²Refer to Note 27 - Staff share ownership arrangements for further details.

17 Other reserves (continued)

Employee benefit reserve

Includes amounts which arise on the recognition of the Group's equity-settled share-based compensation.

FCTR

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

Fair value reserve

This includes unrealised fair value gain/(loss) on debt and equity investments measured at FVOCI and fair value hedge adjustments on certain such debt investments, net of any related fair value hedge adjustments and tax.

Where a debt investment is disposed of and related fair value changes previously recorded in equity are reclassified to profit or loss.

Where an equity investment is disposed of, related fair value changes are transferred directly to retained earnings.

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.

Where a swap that was previously subject to hedge designation is terminated early and the Group continues to hold the hedge items, any unamortised effective portion of the hedge adjustment is reclassified to profit or loss over the remaining term of the related hedged item.

18 Other balance sheet items

Policy

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

\$000's	June 2026	June 2025
Other assets		
Trade receivables	1,145	9
GST receivables	2,201	8,541
Prepayments ¹	21,765	9,412
Property, plant and equipment	6,503	21,713
Assets held for sale ²	7,513	—
Other receivables	9,899	5,274
Total other assets	49,026	44,949

¹The increase in prepayments reflects continued investment in technology uplift initiatives aimed at simplifying and automating processes, introducing new digital capabilities and supporting future growth.

²This balance includes a dairy farm that was subsequently sold on 14 July 2026. No impairment was recognised in respect of this sale.

Policy

Intangible assets

Intangible assets with finite useful lives

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

Software-as-a-Service (SaaS) arrangements

SaaS arrangements are service agreements that grant the Group the right to access the cloud provider's application software over the contract period.

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

Goodwill

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

18 Other balance sheet items (continued)

\$000's	June 2026	June 2025
Computer software		
Software - cost	79,890	77,360
Software under development	606	1,823
Accumulated amortisation	(44,622)	(33,181)
Net carrying value of computer software	35,874	46,002
 Goodwill	 227,359	 204,819
Net carrying value of goodwill	227,359	204,819
 Banking licence	 14,401	 14,401
Total intangible assets	277,634	265,222

Banking Licence

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

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

Goodwill

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

CGU	Goodwill	
\$000's	June 2026	June 2025
Heartland Bank Limited	29,799	29,799
Heartland Bank Australia Limited	197,560	175,020
Total goodwill	227,359	204,819

Impairment testing of goodwill

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

Heartland Bank Limited - \$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 four-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 four of the forecast was 2.5%, and a post-tax 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 35%. Both scenarios are considered highly unlikely.

Heartland Bank Australia - \$197.6 million

The recoverable amount of the CGU was determined on a VIU basis using a discounted cash flow methodology. The model uses a five-year cash flow forecast based on the latest three-year 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 3.0%, and a post-tax discount rate of 12.5% for HBA was applied which reflects both past experience and external sources of information. An impairment would only arise where the discount rate exceeds 13.0% and the terminal growth rate falls below zero concurrently. Alternatively, goodwill may be impaired if projected cash flows for the terminal period are reduced by approximately 20%. Both scenarios are considered highly unlikely.

No impairment losses have been recognised against the carrying amount of goodwill for the year ended 30 June 2026 (2025: nil).

18 Other balance sheet items (continued)

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.

Commissions

The Group pays commissions to brokers, distributors and dealers (**Intermediaries**) typically for their effort to bring in new loan business for certain loan products. Commissions are typically payable upon successful loan originations, but could be contingently payable in subsequent periods subject to certain conditions (e.g., increase in drawdown). Unless the Intermediaries render distinct services subsequent to loan origination, the Group recognises such commissions upon success of the loan applications (**Trail Commissions**). Any upfront commissions payable are measured on an undiscounted basis.

Trail commission liabilities relating to reverse mortgages are designated at fair value through profit or loss and represent the present value of expected future commission payments payable to Intermediaries in relation to successful loan applications. The liability is based on cash outflows estimated over the anticipated life of the underlying loans (affected by factors such as voluntary discharge rates, mortality rates and average interest rate) and discounted using an appropriate rate at initial recognition. Subsequent changes in inputs and assumptions will be recognised through profit or loss.

\$000's	June 2026	June 2025
Trade and other payables		
Trade and other payables	21,449	16,636
Insurance liability	543	556
Employee benefits	19,371	16,949
Other tax payables	1,980	2,479
Government levies	1,867	—
Commission payable	20,229	—
Total trade and other payables	65,439	36,620

18 Other balance sheet items (continued)

Policy

Leases

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

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

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

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

\$000's	June 2026	June 2025
Right-of-use assets		
Balance at beginning of year	12,223	15,519
Depreciation charge for the year, included within depreciation expense in the income statement	(3,635)	(3,703)
Additions to right-of-use assets	3,482	407
Total right-of-use assets	12,070	12,223
Lease liability		
Current	3,767	3,542
Non-current	10,486	10,848
Total lease liability	14,253	14,390
Interest expense relating to lease liability	825	569

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

(a) Transactions with key management personnel

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

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

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

\$000's	June 2026	June 2025
Transactions with key management personnel¹		
Interest income	1	—
Interest expense	(4)	(15)
Total transactions with key management personnel	(3)	(15)
Key management personnel compensation		
Short-term employee benefits	(2,730)	(3,043)
Post-employment benefits ²	(23)	(4,106)
Other long-term benefits	—	(198)
Termination benefits ²	—	(1,875)
Share-based plan benefit	(154)	(400)
Total key management personnel compensation	(2,907)	(9,622)
Due from/(to) key management personnel¹		
Lending	12	—
Borrowings - deposits	(96)	(145)
Total due to key management personnel	(84)	(145)

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

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

19 Related party transactions and balances (continued)

(b) Transactions with related parties

HGH is the ultimate parent company of the Group.

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

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

\$000's	June 2026	June 2025
Heartland Trust (HT)		
Donations to HT from:		
HARWT	5	3
HBL	181	5
Payment to HT by HBL for providing services	10	10
Dividends paid by HGH	358	325

HT held 6,504,266 shares in HGH (2025: 6,504,266 shares).

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

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 Group determines fair value using other valuation techniques.

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

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

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

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

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

(a) Financial instruments measured at fair value

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

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

Investments in debt securities

Investments in public sector securities and corporate bonds are stated at FVOCI or FVTPL, with the fair value being based on quoted market prices (Level 1 under the fair value hierarchy) or modelled using observable market inputs (Level 2 under the fair value hierarchy). Refer to Note 11 - Investments for more details.

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

Investments in equity securities

Investments in equity securities where the Group does not have control, joint control or significant influence are classified at FVTPL. However, where such securities are not held for trading, the Group could make an irrevocable election to measure them at FVOCI. Any unrealised gain or loss on an instrument under such election is recorded in other comprehensive income.

Investments in listed securities traded in liquid, active markets where prices are readily observable are measured under Level 1 of the fair value hierarchy with no modelling or assumptions used in the valuation. Investments in unlisted securities are measured under Level 3 of the fair value hierarchy with the fair value being based on unobservable inputs using market accepted valuation techniques. Where appropriate, the Group may apply adjustments to the above-mentioned techniques to determine the fair value of a 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 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.

The contractual terms of reverse mortgage loans do not give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding (**SPPI**). In particular:

- the borrower is not required to make regular repayments, with contractual cash flows only arising upon cessation of occupancy or voluntary repayment, meaning the timing and amount of cash flows are not fixed or determinable; and
- the loans include features such as a no negative equity guarantee and equity protection options, which expose the Group to risks beyond basic lending risks and result in contractual cash flows that may not represent solely principal and interest.

As the SPPI criterion is not met, the Group classifies these loans as measured at fair value through profit or loss

There are various factors affecting the fair value of reverse mortgages in addition to the initial capital advanced amount, for example, mortality and needs of the borrowers, change in house price, etc. In prior years, the Group considered the initial cash advanced amount to represent the fair value of the loan at initial recognition. This is on the basis that the terms entered into with borrowers are at market, and there is no other relevant active market that the Group could refer to establish a more reliable initial carrying value.

When measuring the fair value subsequently, at each balance date, the Group uses an actuarial method in an attempt 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 margins, and the no negative equity guarantee. This estimated proxy is highly subjective and a wide range of plausible values are possible. In this regard, the Group compares this proxy and the carrying value and examines whether the latter value has moved outside the original range of expectations.

Generally, the 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.

On this basis, the Group subsequently measures the loans at its initial recognised amount and capitalised interest.

Changes in accounting estimates

The Group continues to reassess the existence of a relevant active market and movements in expectations on an ongoing basis. Following the recent observations of market participants' views on how to price reverse mortgages, from 1 January 2026, the Group evaluates the fair value of its reverse mortgages by further incorporating the origination premium (by reference to its upfront and trail commissions payable to brokers). On this basis, all newly originated reverse mortgages are measured at initial cash advanced and origination premium at initial recognition. The origination premium element is re-evaluated subsequently by reference to the estimated churn of the borrowers. This change in estimate is applied prospectively.

The impact of this change in estimate is set out below:

- increase in Finance receivables - reverse mortgages of \$28.2 million;
- increase in Trade and other payables of \$20.2 million (Note 18 - Other balance sheet items);
- increase in fair value gain in Other income of \$6.9 million (Note 5 - Other income);
- decrease in Interest income of \$2.4 million (Note 3 - Net interest income); and
- decrease in Operating expenses of \$3.5 million (Note 6 - Operating expenses).

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).

20 Fair value (continued)

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

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

\$000's	Level 1	Level 2	Level 3	Total
June 2026				
Assets				
Investments	765,879	49,229	5,192	820,300
Derivative financial instruments	—	5,034	—	5,034
Finance receivables - reverse mortgages	—	—	4,358,190	4,358,190
Total financial assets measured at fair value	765,879	54,263	4,363,382	5,183,524
Liabilities				
Derivative financial instruments	—	10,966	—	10,966
Commission payable - reverse mortgages	—	—	20,229	20,229
Total financial liabilities measured at fair value	—	10,966	20,229	31,195
June 2025				
Assets				
Investments	783,272	—	6,772	790,044
Derivative financial instruments	—	4,792	—	4,792
Finance receivables - reverse mortgages	—	—	3,370,949	3,370,949
Total financial assets measured at fair value	783,272	4,792	3,377,721	4,165,785
Liabilities				
Derivative financial instruments	—	20,660	—	20,660
Total financial liabilities measured at fair value	—	20,660	—	20,660

There were no transfers between levels in the fair value hierarchy in the year ended 30 June 2026 (2025: nil).

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

\$000's	Finance Receivables - Reverse Mortgages	Investments	Total
June 2026¹			
As at 30 June 2025	3,370,949	6,772	3,377,721
New loans	921,488	—	921,488
Repayments	(598,605)	—	(598,605)
Capitalised interest and fees	339,646	—	339,646
Sale of investments	—	(2,222)	(2,222)
Fair value gain/(loss) ²	28,234	(16)	28,218
Foreign exchange gain on translation	296,478	658	297,136
As at 30 June 2026	4,358,190	5,192	4,363,382
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)	—	(2,805)	(2,805)
Foreign exchange (loss) on translation	(29,578)	(106)	(29,684)
As at 30 June 2025	3,370,949	6,772	3,377,721

¹In addition to the movement in Level 3 assets described above, the Group recognised a trail commission payable as a financial liability measured at fair value within Level 3 of the fair value hierarchy. This liability originated during the period as a result of the change in accounting estimate. Refer to the change in accounting estimate section within this note for further details.

²The fair value gain on reverse mortgages during the year includes \$8 million of upfront and \$20 million of trail commissions.

20 Fair value (continued)

(b) Financial instruments not measured at fair value

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

Cash and cash equivalents

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

Finance receivables measured at amortised cost

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

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

Borrowings

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

Other financial assets and financial liabilities

The fair value of 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.

\$000's	June 2026			June 2025		
	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	3,565,490	3,418,184	Level 3	3,823,238	3,711,450
Total financial assets		3,565,490	3,418,184		3,823,238	3,711,450
Liabilities						
Deposits	Level 2	7,162,135	7,156,768	Level 2	6,554,765	6,529,953
Other borrowings	Level 2	796,262	790,541	Level 2	831,035	825,454
Total financial liabilities		7,958,397	7,947,309		7,385,800	7,355,407

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 Group:

\$000's	FVOCI Equity	FVOCI Debt Securities	FVTPL	Amortised Cost	Total Carrying Value
June 2026					
Assets					
Cash and cash equivalents	—	—	—	385,268	385,268
Collateral paid	—	—	—	5,129	5,129
Investments	5,192	815,108	—	—	820,300
Finance receivables measured at amortised cost	—	—	—	3,418,184	3,418,184
Finance receivables - reverse mortgages	—	—	4,358,190	—	4,358,190
Derivative financial instruments	—	—	5,034	—	5,034
Other financial assets	—	—	—	11,044	11,044
Total financial assets	5,192	815,108	4,363,224	3,819,625	9,003,149
Liabilities					
Deposits	—	—	—	7,156,768	7,156,768
Other borrowings	—	—	—	790,541	790,541
Derivative financial instruments	—	—	10,966	—	10,966
Other financial liabilities	—	—	20,229	21,459	41,688
Total financial liabilities	—	—	31,195	7,968,768	7,999,963
June 2025					
Assets					
Cash and cash equivalents	—	—	—	356,229	356,229
Collateral paid	—	—	—	14,239	14,239
Investments	5,664	775,229	9,151	—	790,044
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	—	—	—	5,283	5,283
Total financial assets	5,664	775,229	3,384,892	4,087,201	8,252,986
Liabilities					
Deposits	—	—	—	6,529,953	6,529,953
Other borrowings	—	—	—	825,454	825,454
Derivative financial instruments	—	—	20,660	—	20,660
Other financial liabilities	—	—	—	14,983	14,983
Total financial liabilities	—	—	20,660	7,370,390	7,391,050

Risk Management

21 Enterprise risk management program

The board of directors (the **Board**) sets and monitors the Group's risk appetite across the material risk domains. Financial and non-financial risks parameters are determined by the Board and are then cascaded to management who are 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 (**RMS**).

The RMS describes the strategy and provides guidance for implementing a consistent and efficient approach to identify, evaluate and respond to the key risks that adversely affect Heartland Bank and ensure compliance towards its regulatory bodies. Heartland Bank Australia has a separate, but aligned, Risk Management Strategy that is adapted for the business context of Australia and prudential requirements of APRA.

Role of the Board and the Board Audit and Risk Committee

The role of the Board is to provide leadership and strategic guidance for the Group and its subsidiaries, effective oversight of the Group's management, and effective oversight of HBL and HBA. The Board may delegate some governance responsibility to the Board Audit Risk Committee.

Board Audit and Risk Committee (BARC)

The BARC is appointed by the Board made up of non-executive directors, the majority of whom are independent, and at least one such independent director must be a member of the Chartered Accountants of Australia and New Zealand or who has another recognised form of accounting or financial expertise set out in NZX's Governance Guidance Note. The BARC may have in attendance the HGH CEO, HBL Chief Financial Officer (**HBL CFO**), HBL Financial Controller, the HBL Chief Risk Officer (**CRO**), the Head of Internal Audit, and the external auditor, as it considers necessary. The Boards of HBL and HBA (and/or any Board Risk Committee established by them) are responsible for oversight of the risks associated with those entities, with the BARC monitoring material, emerging and strategic risks for HGH and its subsidiaries.

The role of the BARC is to monitor and provide assurance to the Board on the formulation and implementation of the risk appetite along with any other material, emerging, or strategic risks that are relevant to the Group and its subsidiaries. BARC is also responsible for the integrity of financial reporting and application of accounting policies and providing oversight of the internal audit function and external audit process. The Board and BARC are responsible for:

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

Internal Audit

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

The objective of the Group's Internal Audit functions is to provide independent, objective assurance over the internal risk control framework and compliance with policies. In certain circumstances, Internal Audit will provide risk and control advice to Management provided the work does not impede the independence of the Internal Audit functions.

The functions assist the Group in accomplishing its objectives by bringing a systematic and disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

The HGH BARC and the HBA BAC each reviews the respective annual internal audit plan, which is 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 considers a 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 is a management committee consisting of members from HBL and HBA which informs and supports the HGH BARC by providing consolidated oversight of risks of the Banking Group's assets and liabilities across both HBL and HBA in relation to market risk, liquidity risk, balance sheet structure and capital management through:

- Ensuring compliance of the 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 BARC and the Board;
- Developing 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; and
- Developing and recommending the Banking Group hedging strategy.

Executive Risk Committee (ERC)

The ERC is responsible for the management of the risk profiles and risk appetites for HBL and its subsidiaries, including regulatory oversight and conduct risk within the Banking Group. A key responsibility of the ERC is to monitor the effective implementation of the HGH and HBL RMS. ERC assists the BARC in its duties through providing information, reporting or other forms of assistance. 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 approved the establishment of the Product Governance Committee (**PGC**) who is responsible for overseeing and guiding the development, management and optimisation of HBL's product offerings and pricing strategies. This includes overseeing the development and launch of new product offerings and the positioning of existing products in the market.

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

Three lines of defence model

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

- The first line of defence are staff in all business units and support functions, including distribution, first line credit, operations, finance, treasury and technology, who own the risks and controls relevant to their area. These staff are responsible for the self-assessment of the risks and controls that exist within their business unit. The executive and senior business management must ensure that risk ownership is clearly defined and that the RMS is effectively implemented.
- The second line of defence is the risk management and compliance functions which have responsibility for managing enterprise risk overall. The second line provides governance oversight, support, risk and control self-assessments (**RCSA**). targeted independent assurance and challenge to Line 1 on risk and compliance subject matter. The Line 2 risk and compliance teams are resourced with adequately skilled staff with the technical knowledge and experience to implement or review the RMS and to report independently to the Board Committees. Line 2 do not own the underlying risks, nor do they make business decisions about risk management.
- The third line of defence provides independent assurance on the design and effectiveness of the risk frameworks, the effectiveness of the first and second lines of defence, and the effectiveness of the Group's policies, procedures, and systems. Line 3 Assurance incorporates the internal audit function and extends to any other independent review activities.

Material risks

The Group categorises its material risks as financial and non-financial, reflecting its overarching approach to risk management. Financial risks comprise strategy risk, capital risk, credit risk, liquidity risk, funding risk, and market risks. Non-financial risks are operational in nature and include business management risk, resilience risk, systems & cyber security risk, compliance risk, conduct risk and people risk.

21 Enterprise risk management program (continued)

Financial risks

Strategy risk

The risk of failure to meet financial performance levels, targets, and market expectations with the potential for reputational damage, financial loss, increased cost of capital and possibly reduced ability to raise capital.

Capital risk

The risk of failing to meet or maintain regulatory capital limits, quality of capital requirements or a satisfactory external credit rating, which impacts the ability to absorb business shocks and raise capital.

Credit risk

The risk that a borrower fails to fulfil their obligations when they fall due. The risk includes lost principal and interest, disruption to cash flows, and increased collection costs with flow on impacts to profitability. Credit risk also encompasses the risk of credit migration, i.e. credit ratings downgrades and the decline in value of collateral charged as security against lending. At a portfolio level, credit risk includes concentration risk arising from interdependencies between customers, and concentrations of exposures to geographical regions, customer groups, industry sectors, significant exposures to individual borrowers and product/portfolio types. Refer to Note 22 - Credit risk exposure for further details.

Liquidity risk

The risk that Heartland is unable to meet its payment obligations as they fall due (including financing, operational and depositor/creditor obligations). It includes the timing mismatch of cash flows from the maturity of financial assets and liabilities and the related liquidity risk this creates.

Funding risk

The risk that Heartland is unable to source sufficient funding with adequate diversity and with appropriate tenor and pricing.

Market risk (including interest rate risk and foreign exchange risk)

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

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

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

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;

21 Enterprise risk management program (continued)

Financial risks (continued)

Market risk (including interest rate risk and foreign exchange risk) (continued)

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

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

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

The Group's FX sensitivity analysis is based on the Australian subsidiaries' annual profit representing an annual exposure to profit translation risk.

The following sensitivity analysis measures the impact on the Group's net profit before tax and equity from a reasonably possible movement 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 2026		As at 30 June 2025	
AUD/NZD exchange rate - increase 1%	(498)	(358)	(295)	(212)
AUD/NZD exchange rate - decrease 1%	508	366	301	217

Non-financial risks

Non-financial risk is a broad risk category as it encapsulates all of Heartland's pervasive day to day operational risks including conduct, regulatory, third party, cyber and other business interruption risks which may affect Heartland's ability to maintain continuity of service. The term "operational risk" can also be used to describe the broad spectrum of all non-financial risks. Operational risk losses can occur because 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 Group's exposure to operational 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.

Systems and Cyber security risk

The risk that Heartland will fail to properly protect its systems and data from unauthorised access, use, disclosure, disruption, modification, or destruction.

Compliance risk

The risk that Heartland will fail to comply with applicable laws and regulations, including regulatory expectations, or that it will fail to meet internal policies and standards. This includes listing requirements for HGH, RBNZ prudential requirements for HBL, and other regulatory requirements.

21 Enterprise risk management program (continued)

Non-financial risks (continued)

Conduct risk

The risk of any action or omission by Heartland, or its subsidiaries, intermediaries or other agents, that does not meet the expectations of customers or other stakeholders and may also cause detriment to these parties. It can arise because employees or agents engage in unethical or improper behaviour. Consequences include negative impacts on Heartland's reputation, financial performance, and legal or regulatory standing.

People risk

The risk of a negative impact on Heartland as a result of issues related to its employees, including its reputation, financial performance, and legal or regulatory standing. This includes employee turnover, key person risk, prolonged unfilled vacancies, specific skill shortages, discrimination, harassment, or other forms of poor employee relations. It can also result from a failure to properly manage or control people risks, such as a lack of clear policies or adequate training.

Climate-related risks

The Group is increasingly considering and integrating climate-related risk into its overall risk management processes.

Risk Management

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

The Group's operational risk exposure to physical climate impacts is limited due to its small physical infrastructure footprint, predominantly digital operating model, and the predominantly low physical risk sites where the Group does have offices. The Group will begin to integrate climate-related credit risk into the ICAAP in FY2027.

All Group business units are required to review their RCSA at least annually. The RCSA primarily focuses on key operational risks and considers climate-related risks where relevant. The Group formalised its policies and controls for scope 1 and 2 GHG emissions measurement, monitoring and disclosure for FY2026. In future years, the Group will seek to expand its controls to scope 3 GHG emissions and enhance existing controls for other climate-related operational risks and credit risks.

Governance

The Board is responsible for setting the overarching strategic direction and risk appetite for the Group. The HGH Board has permanently constituted a Sustainability Committee, which has responsibility for advising and providing assurance to the HGH Board regarding the Group's progress against its sustainability strategy and meeting sustainability-related obligations, including climate-related risks and opportunities.

The management teams of HBL and HBA operationalise the assessment, management and reporting of the climate-related risks and opportunities for the Group and their respective banks. Both HBL and HBA utilise executive committees to support management in their climate-related activities (HBL's ERC and HBA's Management Sustainability Committee).

Strategy

The Group's transition plan is built upon three pillars:

- Integrate climate-related risk into lending decisions. The Group is building its capability to understand, monitor and manage climate-related risks in its lending decisions,
- Fund the Group's borrowers' transition to a net-zero economy: The Group seeks to provide customers with the finance and assets they require to transition to a low-emissions and climate-resilient future; and
- Embed sustainability into what the Group does; The Group is committed to operating its business in a more sustainable manner. This includes reducing its operational emissions to net-zero by FY2050 in line with the Paris Agreement.

The Group assesses the impact of climate-related risks on its financial position and performance. Although the Group faces both physical and transition risks, it has determined that those climate-related risks do not have a material impact on the judgements, assumptions, and estimates for the year ended 30 June 2026. HGH and HBL will release their Climate Statement for the year ended 30 June 2026 by 30 September 2026, providing further details on the Group's approach to identifying, assessing and managing 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 Group's credit risk exposures typically monthly. 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; and
- Changes to credit risk are actively monitored with regular credit reviews.

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

HBL's Board Risk Committee (**BRC**) has authority for approval of all credit exposures for New Zealand. Lending authority has been provided by the HBL 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 HBL's BRC.

The 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.

Counterparty credit risk

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

The Group has ongoing credit exposure associated with:

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

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

Reverse mortgage loans and negative equity risk

Reverse mortgage loans are a form of mortgage lending designed to meet the needs of eligible borrowers based on age criteria. These loans differ from 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 a result, there are no contractual incoming cash flows during the life of the loan and default risk is therefore not managed through ongoing payment performance, as is the case for conventional mortgages. Negative equity risk arises from the promise by the Group that the maximum repayment amount is limited to the net sale proceeds of the borrowers' property.

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

22 Credit risk exposure (continued)

Business Finance Guarantee Scheme

HBL, along with other registered banks in New Zealand, entered into a Deed of Indemnity with the New Zealand Government to implement the New Zealand Government's Business Finance Guarantee Scheme (**the BFGS Scheme**). The purpose of the BFGS Scheme was to provide short term credit to eligible small and medium-sized businesses, who had been impacted by the economic effects of COVID-19. The BFGS Scheme allowed banks to lend to a maximum of \$5 million for a maximum of five years. The New Zealand Government guarantees 80% of any loss incurred (credit risk) with HBL holding the remaining 20%. The BFGS Scheme concluded on 30 June 2021. As at 30 June 2026 HBL had a total approved exposure of \$15.6 million (2025: \$32.1 million) to supported loans subject to ongoing asset management and enforcement activities under the BFGS Scheme.

North Island Weather Events (NIWE) Loan Guarantee Scheme

On 31 July 2023, HBL entered into a Deed of Indemnity with the New Zealand Government to implement the North Island Weather Events Loan Guarantee Scheme. The supported loans are intended to assist New Zealand businesses to manage the impacts of the North Island Weather Events (during Auckland Anniversary weekend 2023). The facility limit for each supported loan must not exceed \$10 million for a maximum of 5 years. The New Zealand Government guarantees 80% of any loss incurred (credit risk) with HBL holding the remaining 20%. The Scheme concluded on 30 June 2025. As at 30 June 2026 HBL had supported loans under this scheme of \$27.0 million (2025: \$31.7 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 2026	June 2025
On balance sheet:		
Cash and cash equivalents	385,268	356,229
Collateral paid	5,129	14,239
Investments	815,108	777,403
Finance receivables measured at amortised cost	3,419,688	3,712,954
Finance receivables - reverse mortgages	4,358,190	3,370,949
Derivative financial assets	5,034	4,792
Other financial assets	11,044	5,283
Total on balance sheet credit exposures	8,999,461	8,241,849
Off balance sheet:		
Letters of credit, guarantee commitments and performance bonds	6,953	5,507
Undrawn facilities available to customers	779,458	565,735
Conditional commitments to fund at future dates	17,258	11,095
Total off balance sheet credit exposures	803,669	582,337
Total credit exposures	9,803,130	8,824,186

Concentration of credit risk by geographic region

\$000's	June 2026	June 2025
New Zealand	5,312,094	5,407,089
Australia	4,406,516	3,313,862
Rest of the world ¹	138,542	175,014
	9,857,152	8,895,965
Provision for impairment	(54,022)	(71,779)
Total credit exposures	9,803,130	8,824,186

¹These overseas assets are primarily NZD-denominated investments in AA+ (Standard & Poor's) and higher rated 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 customers and investees across industry sectors.

\$000's	June 2026	June 2025
Agriculture	1,102,377	1,076,425
Forestry and fishing	65,362	81,038
Mining	4,723	9,397
Manufacturing	43,543	58,203
Finance and insurance	716,297	701,850
Wholesale trade	28,266	35,177
Retail trade and accommodation	453,974	362,335
Households	5,926,048	4,960,991
Other business services	155,531	159,012
Construction	242,381	274,653
Rental, hiring and real estate services	178,513	182,361
Transport and storage	319,740	377,937
Public administration and safety ¹	529,590	514,611
Other	90,807	101,975
	9,857,152	8,895,965
Provision for impairment	(54,022)	(71,779)
Total credit exposures	9,803,130	8,824,186

¹Comparatives have been reclassified to align with current year classifications. Public administration and safety is now shown as a separate line item, previously included within Finance and Insurance and Other business services.

Credit risk grading

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

The Judgemental portfolio consists mainly of business and rural lending where an ongoing 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. Grade 1 loans represent the strongest credit quality and the lowest credit risk. Grades 8 and 9 represent the weakest credit quality and the highest credit risk. Behavioural loans are managed based on their arrears status.

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

22 Credit risk exposure (continued)

Credit risk grading (continued)

	Collectively Assessed				
\$000's	Stage 1	Stage 2	Stage 3	Individually Assessed	Total
June 2026					
Judgemental portfolio					
Grade 1 - Very Strong	71,657	—	—	—	71,657
Grade 2 - Strong	1,925	—	—	—	1,925
Grade 3 - Sound	50,263	—	—	—	50,263
Grade 4 - Adequate	553,637	2,803	6,753	—	563,193
Grade 5 - Acceptable	986,760	3,364	1,944	—	992,068
Grade 6 - Monitor	—	38,925	885	—	39,810
Grade 7 - Substandard	—	35,767	9,916	—	45,683
Grade 8 - Doubtful	—	—	126	65,610	65,736
Grade 9 - At risk of loss	—	—	33	17,899	17,932
Total Judgemental portfolio	1,664,242	80,859	19,657	83,509	1,848,267
Total Behavioural portfolio	1,588,995	13,178	19,448	3,822	1,625,443
Gross finance receivables measured at amortised cost	3,253,237	94,037	39,105	87,331	3,473,710
Provision for impairment	(12,970)	(5,707)	(13,561)	(21,784)	(54,022)
Total finance receivables measured at amortised cost	3,240,267	88,330	25,544	65,547	3,419,688
Undrawn facilities available to customers	265,281	3,694	1,107	—	270,082

June 2025¹

Judgemental portfolio					
Grade 1 - Very Strong	70,434	—	—	—	70,434
Grade 2 - Strong	4,511	—	—	—	4,511
Grade 3 - Sound	61,216	73	—	—	61,289
Grade 4 - Adequate	526,815	5,502	5,737	—	538,054
Grade 5 - Acceptable	941,521	5,303	2,561	—	949,385
Grade 6 - Monitor	—	150,838	3,628	—	154,466
Grade 7 - Substandard	—	46,529	28,951	—	75,480
Grade 8 - Doubtful	—	—	40	66,674	66,714
Grade 9 - At risk of loss	—	—	52	21,876	21,928
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

¹Comparative risk grading information related to Australian livestock portfolio has been reclassified to align with the current year presentation.

22 Credit risk exposure (continued)

Collateral held

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

Reverse mortgage and Residential mortgage loans

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

Corporate lending

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

Other lending

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

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

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

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

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

	Corporate	Residential	All other
June 2026			
Fully secured	17%	100%	36%
Partially secured	63%	—%	1%
Unsecured	20%	—%	63%
Total	100%	100%	100%
June 2025			
Fully secured	15%	100%	45%
Partially secured	82%	—%	36%
Unsecured	3%	—%	19%
Total	100%	100%	100%

23 Liquidity and funding risk

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

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

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

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

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

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

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

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

\$000's	June 2026	June 2025
Cash and cash equivalents	385,268	356,229
Investments in debt securities	815,108	777,403
Total liquid assets	1,200,376	1,133,632
Undrawn committed bank facilities	372,292	211,914
Total liquid assets and committed undrawn funding	1,572,668	1,345,546

23 Liquidity and funding risk (continued)

Contractual liquidity profile of financial liabilities

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

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

\$000's	On Demand	0-6 Months	6-12 Months	1-2 Years	2-5 Years	5+ Years	Total
June 2026							
Non-derivative financial liabilities							
Deposits	1,011,235	4,049,333	1,787,257	294,017	159,782	—	7,301,624
Other borrowings	—	76,994	25,579	566,550	56,106	250,607	975,836
Lease liabilities	—	2,280	2,312	4,432	5,682	1,975	16,681
Other financial liabilities	—	22,640	1,181	2,362	6,983	31,627	64,793
Total non-derivative financial liabilities	1,011,235	4,151,247	1,816,329	867,361	228,553	284,209	8,358,934
Derivative financial liabilities							
Inflows from derivatives	—	8,505	7,672	12,763	7,535	—	36,475
Outflows from derivatives	—	13,121	10,145	16,047	8,452	—	47,765
Total derivative financial liabilities	—	4,616	2,473	3,284	917	—	11,290
Undrawn facilities available to customers	779,458	—	—	—	—	—	779,458
June 2025							
Non-derivative financial liabilities							
Deposits	1,024,455	3,834,210	1,460,828	188,042	153,551	—	6,661,086
Other borrowings	—	27,760	251,581	193,519	202,745	363,390	1,038,995
Lease liabilities	—	2,152	1,998	3,985	7,471	114	15,720
Other financial liabilities	—	14,983	—	—	—	—	14,983
Total non-derivative financial liabilities	1,024,455	3,879,105	1,714,407	385,546	363,767	363,504	7,730,784
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

24 Interest rate risk

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

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

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

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

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

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

\$000's	Impact on NPAT	Impact on equity	Impact on NPAT	Impact on equity
	As at 30 June 2026		As at 30 June 2025	
Market interest rates - 100 basis points increase	9,602	9,602	9,424	9,424
Market interest rates - 100 basis points decrease	(9,602)	(9,602)	(9,424)	(9,424)

The Group also manages interest rate risk by:

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

24 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 2026							
Financial assets							
Cash and cash equivalents	385,268	—	—	—	—	—	385,268
Collateral paid	5,129	—	—	—	—	—	5,129
Investments	514,200	7,234	8,993	116,994	167,687	5,192	820,300
Derivative financial assets	—	—	—	—	—	5,034	5,034
Finance receivables measured at amortised cost	1,416,785	260,349	451,952	531,336	757,762	—	3,418,184
Finance receivables - reverse mortgages	4,358,190	—	—	—	—	—	4,358,190
Other financial assets	3,625	—	—	—	—	7,419	11,044
Total financial assets	6,683,197	267,583	460,945	648,330	925,449	17,645	9,003,149
Financial liabilities							
Deposits	3,290,428	1,678,241	1,727,490	277,998	147,885	34,726	7,156,768
Other borrowings	606,230	23,218	—	123,113	37,980	—	790,541
Derivative financial liabilities	—	—	—	—	—	10,966	10,966
Lease liabilities	—	—	—	—	—	14,253	14,253
Other financial liabilities	—	—	—	—	—	41,688	41,688
Total financial liabilities	3,896,658	1,701,459	1,727,490	401,111	185,865	101,633	8,014,216
Effect of derivatives held for risk management	577,394	98,116	(72,447)	(252,815)	(350,248)	—	—
Net financial assets/(liabilities)	3,363,933	(1,335,760)	(1,338,992)	(5,596)	389,336	(83,988)	988,933

24 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 2025							
Financial assets							
Cash and cash equivalents	356,229	—	—	—	—	—	356,229
Collateral paid	14,239	—	—	—	—	—	14,239
Investments	440,688	—	14,761	56,220	265,734	12,641	790,044
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	1,716	—	—	—	—	3,567	5,283
Total financial assets	5,696,225	328,880	460,179	661,188	1,085,514	21,000	8,252,986
Financial liabilities							
Deposits	3,107,945	1,670,886	1,409,173	174,359	129,221	38,369	6,529,953
Other borrowings	666,594	—	—	—	158,860	—	825,454
Derivative financial liabilities	—	—	—	—	—	20,660	20,660
Lease liabilities	—	—	—	—	—	14,390	14,390
Other financial liabilities	—	—	—	—	—	14,983	14,983
Total financial liabilities	3,774,539	1,670,886	1,409,173	174,359	288,081	88,402	7,405,440
Effect of derivatives held for risk management	860,941	93,460	(108,267)	(444,536)	(401,598)	—	—
Net financial assets/(liabilities)	2,782,627	(1,248,546)	(1,057,261)	42,293	395,835	(67,402)	847,546

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

Other Disclosures

25 Significant subsidiaries

Significant subsidiaries	Country of incorporation and place of business	Nature of business	Proportion of ownership and voting power held	
			June 2026	June 2025
Heartland Bank Limited	New Zealand	Bank	100%	100%
VPS Properties Limited	New Zealand	Investment property holding company	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%
StockCo Holdings 2 Pty Limited	Australia	Financial services	100%	100%
StockCo Australia Management Pty Limited	Australia	Management services	100%	100%

26 Structured entities

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

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

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

\$000's	June 2026	June 2025
Deposits	659,944	476,489

(b) Heartland Auto Receivables Warehouse Trust 2018-1 (HARWT)

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

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

\$000's	June 2026 ¹	June 2025
Cash and cash equivalents	13,302	14,450
Finance receivables measured at amortised cost	156,569	171,336
Other borrowings ¹	(165,380)	(183,062)

¹Include subordinated loan balance with HBL in accordance with the terms of the Trust Deed.

26 Structured entities (continued)

(c) Seniors Warehouse Trust No.2 (SWT2)

SWT2 was set up on 2 July 2019 as part of the Australian reverse mortgage business. It was originally established by Australian Seniors Finance Pty Limited (**ASF**) and was subsequently transferred to HBA on 30 May 2025. The trustee of the trust is AMAL Trustees Pty Ltd. and the trust manager is AMAL Management Services Pty Ltd. The balances of SWT2 are summarised as follows:

\$000's	June 2026 ¹	June 2025
Cash and cash equivalents	36,264	32,210
Finance receivables - reverse mortgages ¹	573,563	407,275
Other borrowings ²	(571,753)	(417,809)

¹The increase in the SWT2 securitised assets balance is mainly related to the sale of \$166.3 million of reverse mortgage receivables by HBA and a further drawdown on securitisation borrowings. The SWT2 securitisation facility limit increased from \$281 million (A\$260 million) to \$518 million (A\$425 million) as part of execution of its date-based calls (a repurchase of the remaining securitised assets on a predetermined date before their full repayment or maturity) during the year. Refer to Note 15 – Borrowings for further details.

²Include subordinated loan balance with HBA in accordance with the terms of the Trust Deed.

(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. It was subsequently transferred to HBA on 1 July 2025. 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 2026	June 2025
Cash and cash equivalents	25,985	19,681
Finance receivables - reverse mortgages	162,200	148,993
Other borrowings ¹	(153,903)	(144,949)

¹Include subordinated loan balances in accordance with the terms of the Trust Deed.

27 Staff share ownership arrangements

From time to time HGH operates various share-based compensation plans that issue tranches of performance rights (**Performance Rights**) which are equity-settled. Following the finalisation of the formal plan documents, HGH issued a new share-based compensation plan in December 2025 which qualifying senior management and employees were invited to participate in. The HGH Performance Share Rights Plan (**Plan**) was established to enhance the alignment of participants' interests with those of the Group's shareholders. The new plan replaces the HGH Performance Rights Plan (2016) which is now terminated. Subject to satisfaction of the performance hurdles and continued employment, at vesting each Performance Right converts to a HGH share at zero exercise price. If the base target is not met or the participant ceases to be an employee of the Group, the Performance Rights will lapse.

The fair value of each tranche is measured at grant date, which is the date where shared understanding is achieved between HGH and the participants.

(a) Share-based compensation plan details

Since the establishment of the new plan, HGH has issued one tranche.

FY2028 Tranche

The Performance Rights were issued subject to the participants' continued employment with the Group until the 11th trading day following the release of HGH's FY2028 financial results to NZX and ASX and the Group achieving its Financial Measures, and non-Financial Measures (Risk and Compliance Measures, and Conduct and Culture Measures), over the vesting period.

27 Staff share ownership arrangements (continued)

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

FY2028 Tranche (continued)

The tranche is divided into two equal pools that are linked to different financial measures. The first pool is linked to a total shareholder return (TSR) measure and the second is linked to a Return on Equity (ROE) measure. The quantum of vesting for both pools are variable and are dependent on achievements of the respective ranges of targets set for both TSR and ROE measures.

The fair value of the Performance Rights is determined by an independent third-party expert on grant date using valuation methods, such as Monte Carlo option pricing model. The valuation incorporates various assumptions, this include, but are not limited to, grant date share price, price volatility, probability of achieving future share price (applicable to TSR hurdle only), expected future dividend payments and trading restriction. At the end of each reporting period, the Group revises its estimate of the number of equity instruments to be duly vested based on its current expectation of achievement of employment condition, ROE hurdle, and non-Financial Measures. The impact of this revision from the prior estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the employee benefits reserve.

The movement of outstanding Performance Rights during the year is as follows:

	June 2026 PR Plan Number of Rights	June 2025 PR Plan Number of Rights
Opening balance	1,149,148	6,417,476
Vested	—	—
Issued	4,875,000	—
Forfeited / unvested ¹	(1,149,148)	(5,268,328)
Closing balance	4,875,000	1,149,148

¹The 2025(non-CEOs) tranche did not vest.

(b) Effect of share-based payment transactions

\$000's	June 2026	June 2025
Award of Shares		
Plan - FY2028 tranche ¹	787	721
Total expense recognised	787	721

¹The Group started recognising share-based payment expense of the FY2028 tranche during the year ended 30 June 2025 when the qualifying employees expected to obtain proposed Performance Rights in exchange for their services. The amount recorded in FY2025 was based on the estimated fair value of such rights as at 30 June 2025. The current year expense included a true-up adjustment based on the fair value of the Performance Rights measured on grant date following the finalisation and communication of the Plan.

The weighted average fair values of the FY2028 Tranche were \$0.46 and \$0.78 for each Performance Right linked to TSR measures and ROE measures, respectively.

(c) Number of rights outstanding

	June 2026 Rights Outstanding	Remaining Years	June 2025 Rights Outstanding	Remaining Years
000's				
PR Plan - 2025	—	—	1,149	—
Plan - FY2028	4,875	2.3	—	—
Total	4,875		1,149	

28 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 2026	June 2025
Agriculture	116,415	114,988
Forestry and fishing	25,880	14,038
Mining	125	46
Manufacturing	17,001	17,809
Finance and insurance	1,915,021	1,864,157
Wholesale trade	15,232	6,618
Retail trade and accommodation	48,323	32,053
Households	4,715,385	4,669,968
Rental, hiring and real estate services	66,791	62,663
Construction	22,503	25,517
Other business services	578,396	460,812
Transport and storage	7,183	6,509
Public administration and safety ¹	368,151	36,445
Other	50,903	43,784
Total borrowings	7,947,309	7,355,407

¹Comparatives have been reclassified to align with current year classifications. Public administration and safety is now shown as a separate line item, previously included within Other. The increase during the period primarily relates to deposits from Australian Government and government-related entities.

(b) Concentration of funding by geographical area

\$000's	June 2026	June 2025
New Zealand	4,281,904	4,545,940
Australia	3,593,872	2,731,585
Rest of the world	71,533	77,882
Total borrowings	7,947,309	7,355,407

29 Offsetting financial instruments

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

The Group enters into contractual arrangements with counterparties to manage the credit risks associated primarily with over-the-counter derivatives. The Group has entered into credit support annexes (**CSAs**) which form a part of International Swaps and Derivatives Association (**ISDA**) Master Agreement, in respect of certain exposures relating to derivative transactions. As per these CSAs, the Group or the counterparty needs to collateralise the market value of outstanding derivative transactions. As at 30 June 2026, the Group has paid \$5.13 million of cash collateral (2025: paid \$14.24 million) against derivative liabilities. 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 paid is not netted off against the balance of derivative liabilities 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		
	Gross amount	Gross amounts set off in the balance sheet	Net amounts reported in the balance sheet	Financial Instruments	Cash collateral	Net amount
\$000's						
June 2026						
Derivative financial assets	5,034	—	5,034	(5,034)	—	—
Total financial assets	5,034	—	5,034	(5,034)	—	—
Derivative financial liabilities	10,966	—	10,966	(5,034)	(5,129)	803
Total financial liabilities	10,966	—	10,966	(5,034)	(5,129)	803
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

30 Contingent liabilities and commitments

In the ordinary course of its business, the Group is subject to contingent risks and potential liabilities. The Group periodically undertakes reviews of historic products, services, processes and operational practices and addresses any customer complaints as part of its ongoing operational, risk management, governance, and assurance activities.

A provision will be recognised where the Group determines there is a probable likelihood of losses arising and where its potential loss can be reliably estimated.

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

\$000's	June 2026	June 2025
Letters of credit, guarantee commitments and performance bonds	6,953	5,507
Total	6,953	5,507
Undrawn facilities available to customers	779,458	565,735
Conditional commitments to fund at future dates	17,258	11,095
Total commitments	796,716	576,830

31 Events after reporting date

The Group approved a fully imputed final dividend of 3.5 cents per share on 19 August 2026.

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



Independent auditor's report

To the shareholders of Heartland Group Holdings Limited

Our opinion

In our opinion, the accompanying consolidated financial statements (the financial statements) of Heartland Group Holdings Limited (the Company), including its subsidiaries (the Group), present fairly, in all material respects, the financial position of the Group as at 30 June 2026, its financial performance, and its cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) and International Financial Reporting Standards Accounting Standards (IFRS Accounting Standards).

What we have audited

The Group's financial statements comprise:

- the statement of financial position as at 30 June 2026;
- the statement of comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, comprising material accounting policy information and other explanatory information.

Basis for opinion

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

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

Independence

We are independent of the Group in accordance with Professional and Ethical Standard 1 *International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)* issued by the New Zealand Auditing and Assurance Standards Board (PES 1) and the *International Code of Ethics for Professional Accountants (including International Independence Standards)* issued by the International Ethics Standards Board for Accountants (IESBA Code), as applicable to audits of financial statements of public interest entities. We have also fulfilled our other ethical responsibilities in accordance with PES 1 and the IESBA Code.

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

Key audit matters

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

Description of the key audit matter	How our audit addressed the key audit matter
Provision for impairment of finance receivables The Group's provision for impairment of finance receivables totalled \$54.0 million at 30 June 2026 as disclosed in note 13 of the financial statements. For the determination of the collectively assessed impairment allowance, this requires the use of credit risk methodologies that are applied in models using the Group's historical experience of the correlations between defaults and losses, borrower creditworthiness, segmentation of customers or portfolios and the application of forward looking multiple economic scenarios. For finance receivables that meet specific risk based criteria, the impairment allowance is individually assessed by the 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 realisation of security held as collateral by the Group. We considered this a key audit matter due to the significant inherent estimation uncertainty present in the determination of the impairment allowance.	We obtained an understanding of control activities over the Group's impairment allowance, and for certain control activities assessed whether they were 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 Group's collectively assessed impairment allowance: • Evaluated the methodology used in the models by comparing the model design and key requirements with the applicable requirements of NZ IFRS 9 <i>Financial Instruments</i>; • Evaluated the reasonableness of significant assumptions used in determining 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 • For selected critical data elements used in the calculations, agreed the inputs on a sample basis to the underlying supporting records. With respect to individually assessed impairment allowances we: • For a sample of business and rural loans not identified as impaired, considered the borrowers latest information available to the Group to assess the credit risk grade rating allocated to the borrower as to whether the borrower could be identified as impaired, a critical data element which involves significant management judgement; and • 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 Group's fair value of finance receivables – reverse mortgages ("Reverse mortgages") totalled \$4.4 billion at 30 June 2026 as disclosed in note 20 of the financial statements. Reverse mortgages are held at fair value through profit or loss.

Previously, the Group recorded the estimated fair value of Reverse mortgages at transaction price (cash advanced plus accrued capitalised interest), on the basis that no reliable fair value could be estimated as there was no relevant active market and the fair value could not be reliably estimated using other valuation techniques, as permitted under accounting standards.

From 1 January 2026, the Group changed its estimated fair value by further incorporating an origination premium (by reference to upfront and trail commissions payable to brokers), following recent observations of market participants views on how to price reverse mortgages.

To assess whether the transaction price and origination premium remain an appropriate proxy for fair value, the Group considers the impact on discounted future cash flows of changes in the risk profile and expectations of performance since origination, including possible outflows under the no negative equity guarantee provided by the Group to the borrower. High interest rates and volatility in house prices, combined with the economic outlook, increases the possibility of outflows under the no negative equity guarantee. Accordingly, we consider this to be a key audit matter.

Our audit procedures included assessing the design and implementation of controls relating to the Group's assessment of the fair value of Reverse mortgages.

In addition, our audit procedures included:

- Assessing the reasonableness of the Group's approach to estimating the fair value based on the transaction price and origination premium 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;
- Evaluated the appropriateness of the change to estimating the fair value of Reverse mortgages from 1 January 2026 by incorporating an origination premium and assessed the accounting treatment of this as a change in accounting estimate;
- Our internal actuarial expert assisted us in assessing the Group's estimate 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 and origination premium of Reverse mortgages (carrying value) to assess any potential shortfall (a shortfall would indicate the transaction price and origination premium was overstated);
- For a sample of critical data elements used in the discounted future cash flow estimate, agreed the inputs to the underlying supporting records;
- Assessing the reasonableness of key assumptions used in the value of discounted future cash flows and origination premium (such as future house price changes, voluntary exits, mortality and potential move into care rates, interest rate margins and discount rate); 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 amounted to \$197.6 million as at 30 June 2026, as disclosed in note 18 of the financial statements.

The carrying value of goodwill is a key audit matter as it is a significant intangible asset in the Group's statement of financial position. At balance date an impairment assessment is required which uses an estimate of the recoverable amount that is dependent on forecasting future earnings and determining valuation assumptions.

The Group has allocated the goodwill to the Heartland Bank Australia Limited cash generating unit (CGU), at which level impairment is assessed.

The Group used the Value in Use (VIU) approach to determine the recoverable amount of the CGU. The VIU uses a five-year forecast based on the latest three year budget approved by the Board of Directors and extended out based on long-term growth rates. The recoverable amount was compared to the carrying amount of the net assets of the Heartland Bank Australia Limited CGU.

Our audit procedures included the following:

- Assessing judgements made in respect of the determination of the CGU;
- Obtaining an understanding of the business processes and controls applied by management in performing the impairment assessment;
- Assessing the appropriateness of using a VIU approach against the requirements of the accounting standards;
- Assessed management's methodology and key assumptions, including forecasts of future performance, discount rate and terminal growth rate;
- 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 risk that the Group will fail to properly protect its systems and data from unauthorised access, use, disclosure, disruption, modification, or destruction is a key non-financial risk as disclosed in note 21 of the financial statements. The Group's financial reporting is highly dependent on IT systems that process significant volumes of transactions and support key financial reporting controls. Accordingly, the operation of IT systems and controls relevant to financial reporting require significant auditor attention.

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 manual controls. Our procedures included evaluating and testing the design and operating effectiveness of certain controls over 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;
- 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
- 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



Overall group materiality: \$6.1 million, determined with reference to approximately 5% of profit before tax.

We chose profit before tax as the benchmark because, in our view, it is the benchmark against which the performance of the Group is most commonly measured by users, and is a generally accepted benchmark.

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

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

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

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

Materiality

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

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

How we tailored our group audit scope

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

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

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

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

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

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

Other information

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

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of audit opinion or assurance conclusion thereon. We will issue a separate limited assurance report on the Scope 1 and Scope 2 greenhouse gas disclosures included in the Climate Statement.

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

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

Responsibilities of the Directors for the financial statements

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

This description forms part of our auditor's report.

Who we report to

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

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

For and on behalf of:



PricewaterhouseCoopers
19 August 2026

Auckland