FY2023 Half year results

HEARTLAND GROUP

28 February 2023

Important notice

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Non-GAAP measures

This presentation contains references to non-GAAP measures including underlying profit or loss, underlying ROE, underlying CTI ratios and underlying EPS. A reconciliation between reported and the non-GAAP measure of underlying financial information is included on page 41.

Because Heartland complies with accounting standards, investors know that comparisons can be made with confidence between reported profits and those of other companies, and there is integrity in Heartland's reporting approach. These non-GAAP figures are provided as a supplementary measure for readers to assess Heartland's performance alongside NZ GAAP reported measures, where one-offs, both positive and negative, can make it difficult to compare profits between years. However, these non-GAAP measures do not have standardised meanings prescribed by GAAP and should not be viewed in isolation nor considered a substitute for measures reported in accordance with NZ GAAP.

Non-GAAP financial information has not been subject to review by PricewaterhouseCoopers, Heartland's external auditor.

All amounts are in New Zealand dollars unless otherwise indicated. Financial data in this presentation is as at 31 December 2022 unless otherwise indicated. Any other financial information provided as at a date after 31 December 2022 has not been audited or reviewed by any independent registered public accounting firm.

Contents

1H2023 highlights

Jeff Greenslade
Chief Executive Officer
Heartland Group

Presentation of results

Financial results in this investor presentation are presented on a reported and underlying basis.

- **Reported results** are prepared in accordance with NZ GAAP and include the impacts of one-offs, both positive and negative, which can make it difficult to compare performance between periods.
- **Underlying results** exclude the impacts of fair value changes on equity investments held, the de-designation of derivatives, and other one-offs. This is intended to allow for easier comparability between periods, and is used internally by management for this purpose.

Adjustments for underlying results impact net operating income (**NOI**), operating expenses (**OPEX**), net profit after tax (**NPAT**), net interest margin (**NIM**) and earnings per share (**EPS**). Return on equity (**ROE**) and cost to income (**CTI**) ratio are supplementary, non-GAAP measures that may be used by investors, industry analysts and others in assessing and benchmarking profitability and performance against the industry and/or other companies. A GAAP and non-GAAP comparative is provided for each of these measures.

Refer to Appendix 3 on page 41 for a detailed reconciliation between reported and underlying financial information, including details about one-offs in the periods covered in this investor presentation.

General information about the use of non-GAAP financial measures is set out on page 2 of this investor presentation.

Financial highlights

		REPORTED	UNDERLYING
Financial performance	Net Interest Income	$138.9m ↑ 12.1% vs 1H2022	$140.8m ↑ 13.6% vs 1H2022
	Other Operating Income (**OOI**)[1]	$2.8m ↓ 58.6% vs 1H2022	$8.9m ↑ 28.3% vs 1H2022
	OPEX	$63.4m ↑ 10.8% vs 1H2022	$63.9m ↑ 13.3% vs 1H2022
	Impairment Expense	$9.2m ↑ 8.3% vs 1H2022	$9.2m ↑ 8.3% vs 1H2022
	Tax Expense	$20.4m ↑ 17.3% vs 1H2022	$21.8m ↑ 15.8% vs 1H2022
	NPAT[2]	$48.7m ↑ 2.4% vs 1H2022	$54.7m ↑ 16.2% vs 1H2022
	NIM	3.97% ↓ 34 bps vs 1H2022	4.02% ↓ 29 bps vs 1H2022 ↓ 8 bps vs 2H2022
	CTI Ratio	44.8% ↑ 94 bps vs 1H2022	42.7% ↓ 40 bps vs 1H2022
	Impairment Expense Ratio[3]	0.29% ↓ 4 bps vs 1H2022	
Financial return	ROE	10.6% ↓ 166 bps vs 1H2022	12.1% ↓ 7 bps vs 1H2022
	EPS	7.3 cps ↓ 0.8 cps vs 1H2022	8.2 cps ↑ 0.2 cps vs 1H2022
Financial position	Gross Finance Receivables (**Receivables**)[4]	$6,460m ↑ 10.1%[5] vs June 2022	
	Borrowings	$6,329m ↑ 2.6% vs June 2022	
	Equity	$1,016m ↑ 25.6% vs June 2022	
	Equity/Total Assets	13.7% ↑ 2.3 pps vs June 2022	

[1] OOI includes fair value gains/losses on investments. [2] Refer to Appendix 3 for a reconciliation between reported and underlying NPAT result. [3] Impairment expense as a percentage of average Receivables.
[4] Receivables also includes Reverse Mortgages and StockCo Australia. [5] Annualised 1H2023 growth excluding the impact of changes in foreign currency exchange (**FX**) rates.

Operating environment

Overall credit quality remains good, benefitting from Heartland's continued move towards higher quality and lower risk assets.

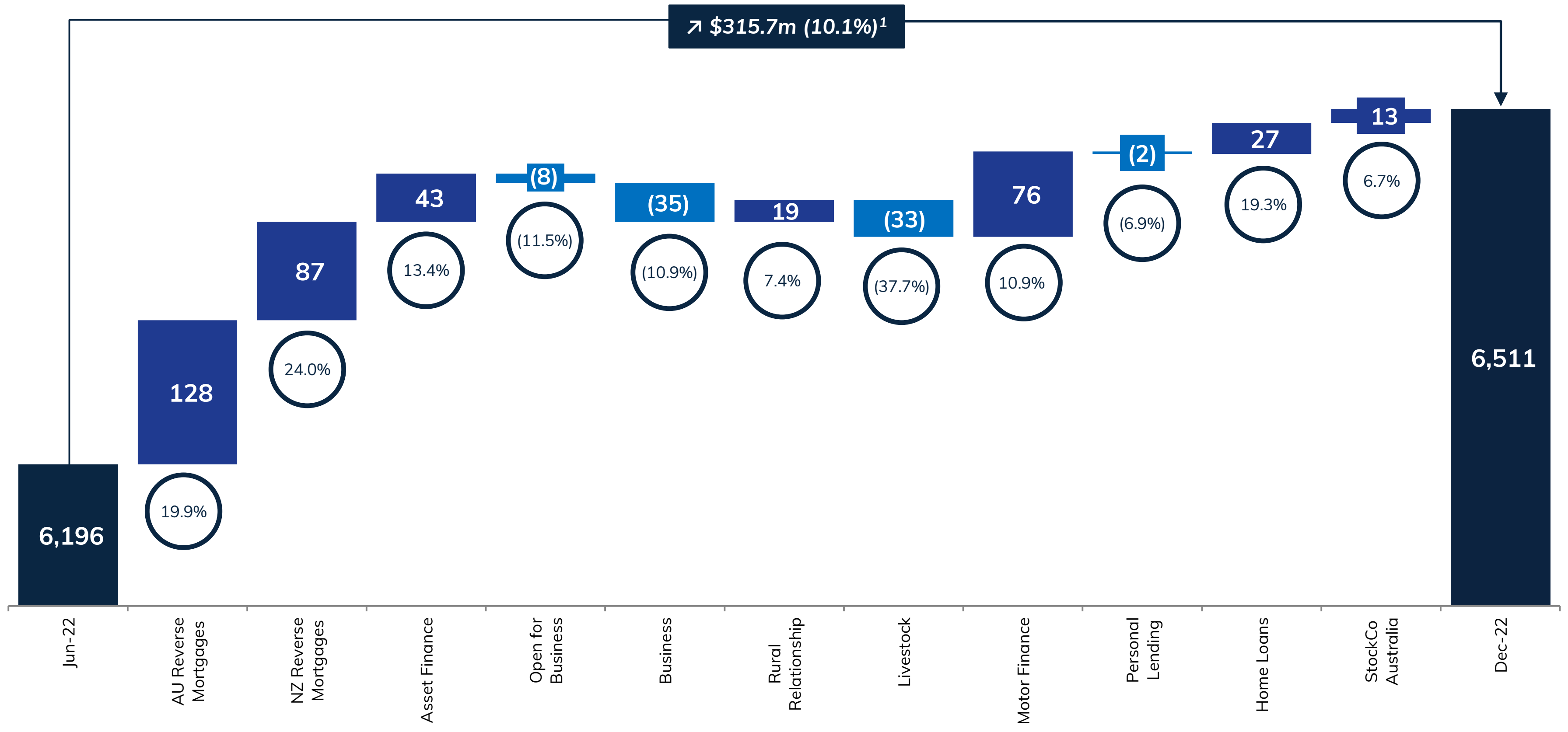
Reverse Mortgages have remained resilient to economic conditions, particularly to changes in house prices and rising interest rates, with conservative loan-to-value ratios (**LVRs**). Reverse Mortgage weighted average LVRs as at 31 December 2022 were 19.7% in NZ and 20.0% in AU.

The percentage of the Motor book in arrears increased from 3.17% at 30 June 2022 to 3.99% at 31 October 2022. However, this has since moderated with the percentage of the Motor book arrears falling to 3.73% by 31 December 2022, reflecting the return to pre-COVID-19 levels of arrears at this point in the financial year for the portfolio. The subsequent seasonal increase in January 2023 was at a similar level to January 2022.

Heartland intentionally delayed passing the full impact of rising cash rate increases onto some borrower customers, and, in the case of Reverse Mortgages, did not pass on the full increases. With depositors, Heartland was quick to pass on the benefits of the rising cash rate.

Heartland's Economic Overlay of $8.0 million taken in the financial year ended 30 June 2022 (**FY2022**) remains unchanged at 31 December 2022. The Economic Overlay is considered a sufficient buffer against the potential impacts of a future deterioration in the economic environment.

The banking industry has yet to harness the full benefit of technology. Heartland's objective is to differentiate through a continuous focus on reducing its cost of onboarding and customer service via automation and self-service. This will drive an easier and faster customer experience, and contribute to reductions in the CTI ratio.

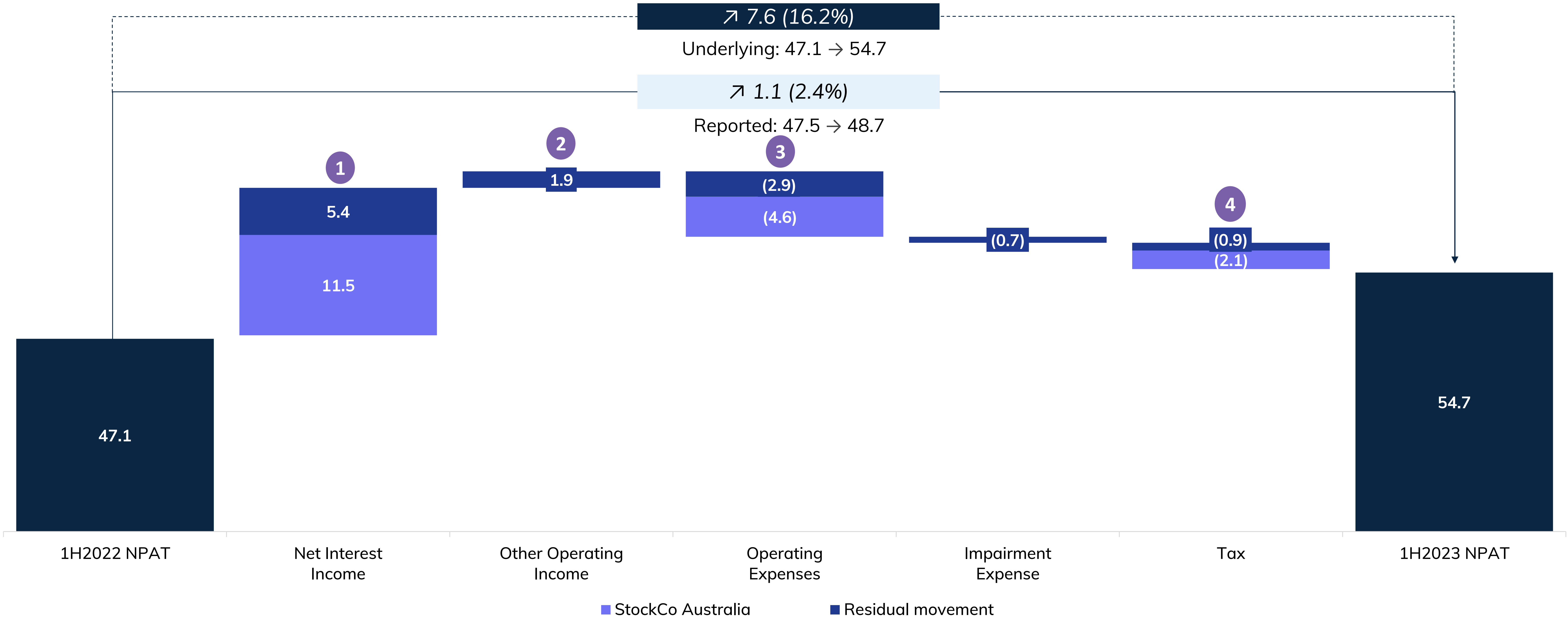


[1] Annualised 1H2023 growth excluding the impact of changes in FX rates.
Note: The graph shows 1H2023 growth in Receivables by portfolio excluding the impact of changes in FX rates. All figures in NZ$m.

Financial results

Andrew Dixson
Chief Financial Officer
Heartland Group

Growth in profitability

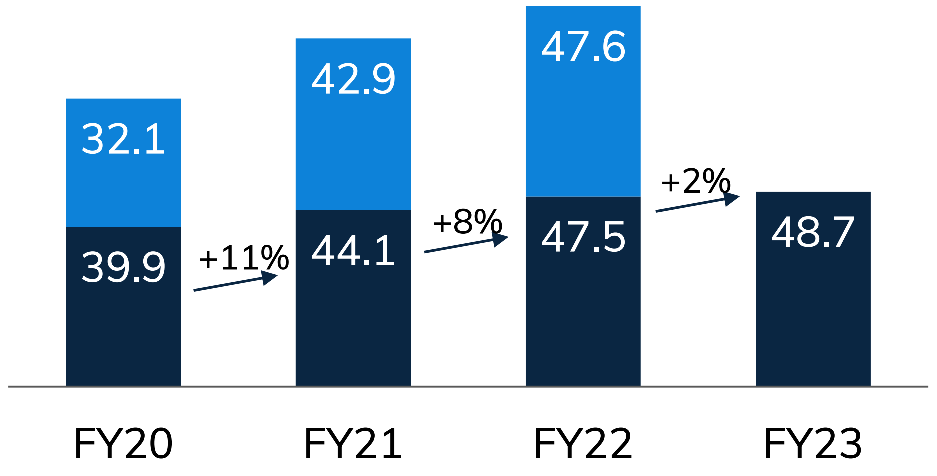


1 1H2023 one-offs: $1.9 million interest expense on bridging loan to acquire StockCo Australia.
2 1H2022 one-offs: ($0.1 million) net fair value gain on equity investments. 1H2023 one-offs: (i) $3.6 million hedge accounting impacts, (ii) $2.4 million net fair value loss on equity investments.
3 1H2022 one-offs: $0.9 million other non-recurring items. 1H2023 one-offs: ($0.5 million) other non-recurring items.
4 1H2022 one-offs: (i) $1.2 million non-recurring adjustments, (ii) $0.2 million tax impact on one-offs. 1H2023 one-offs: $1.4 million tax impact on one-offs.

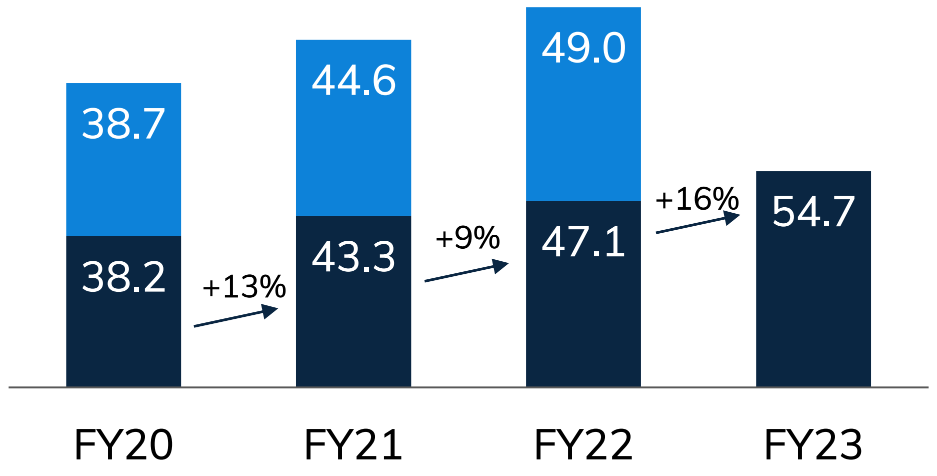
Note: All figures in NZ$m. Refer to Appendix 3 for a reconciliation between reported and underlying NPAT result. Chart is not to scale.

Key performance measures

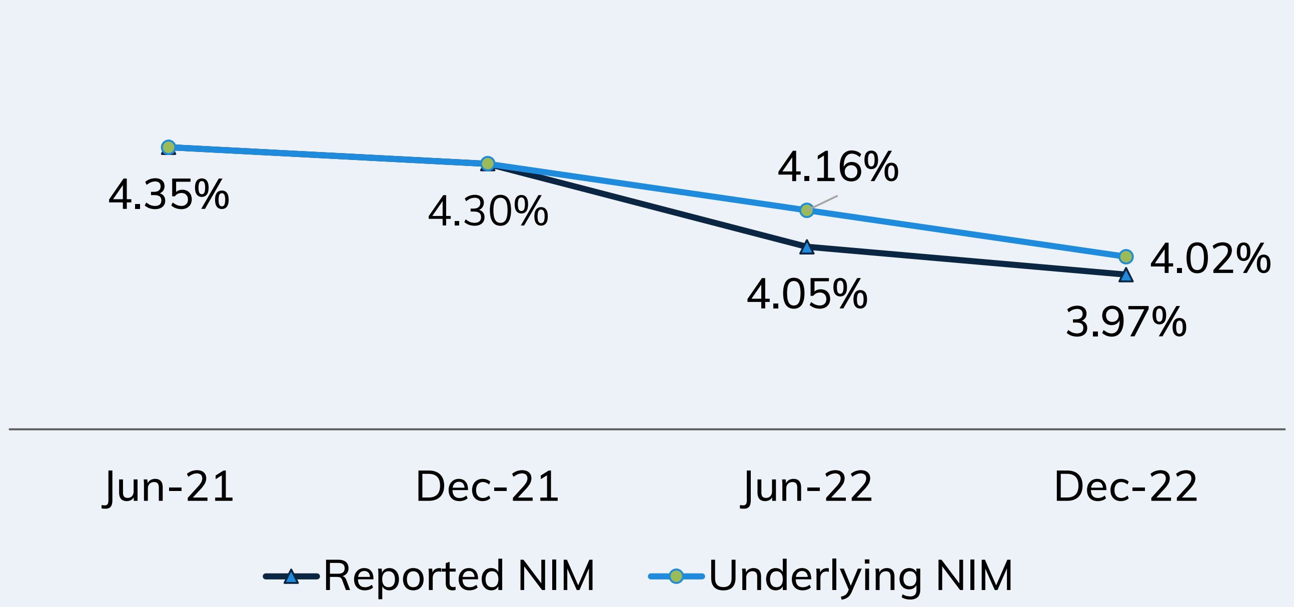
NPAT ($ million)



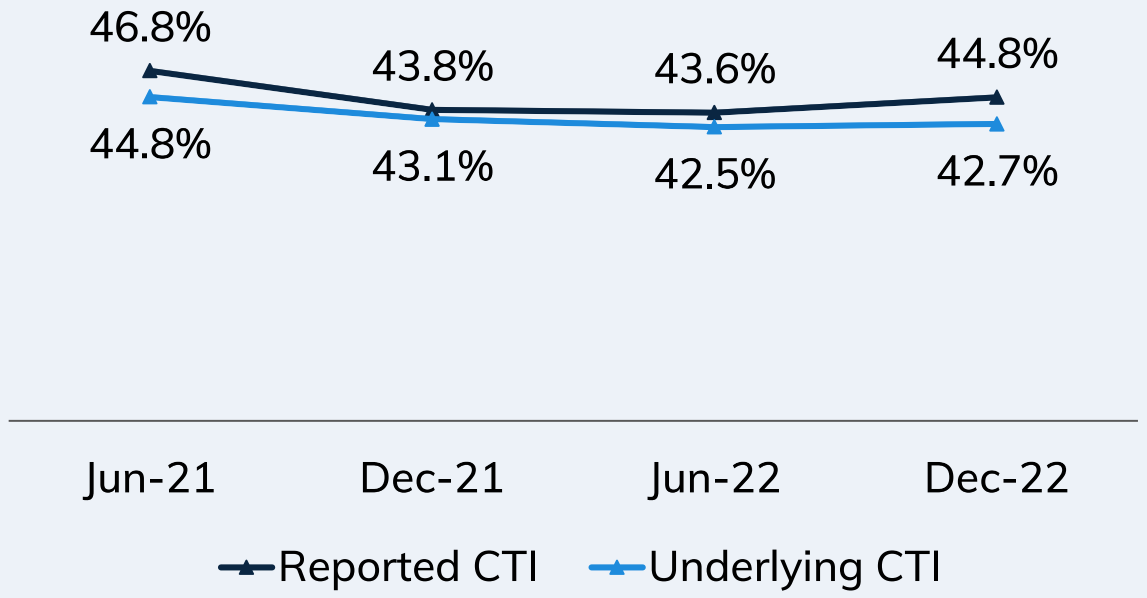
Underlying NPAT ($ million)



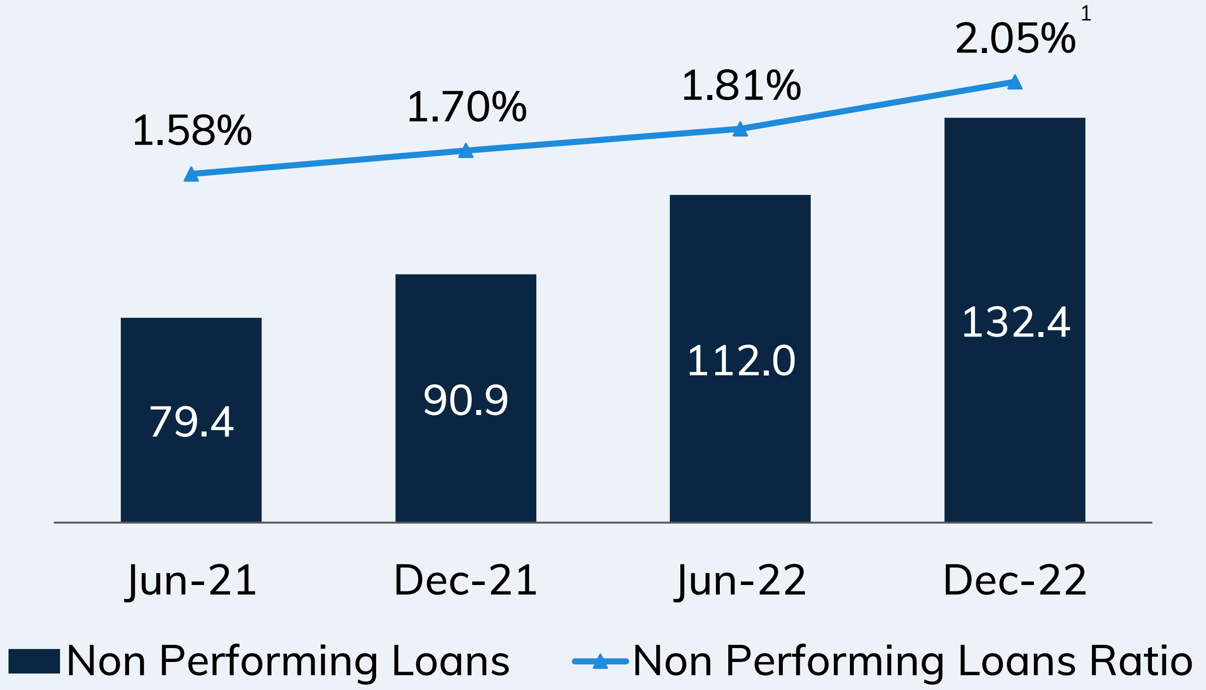
NIM



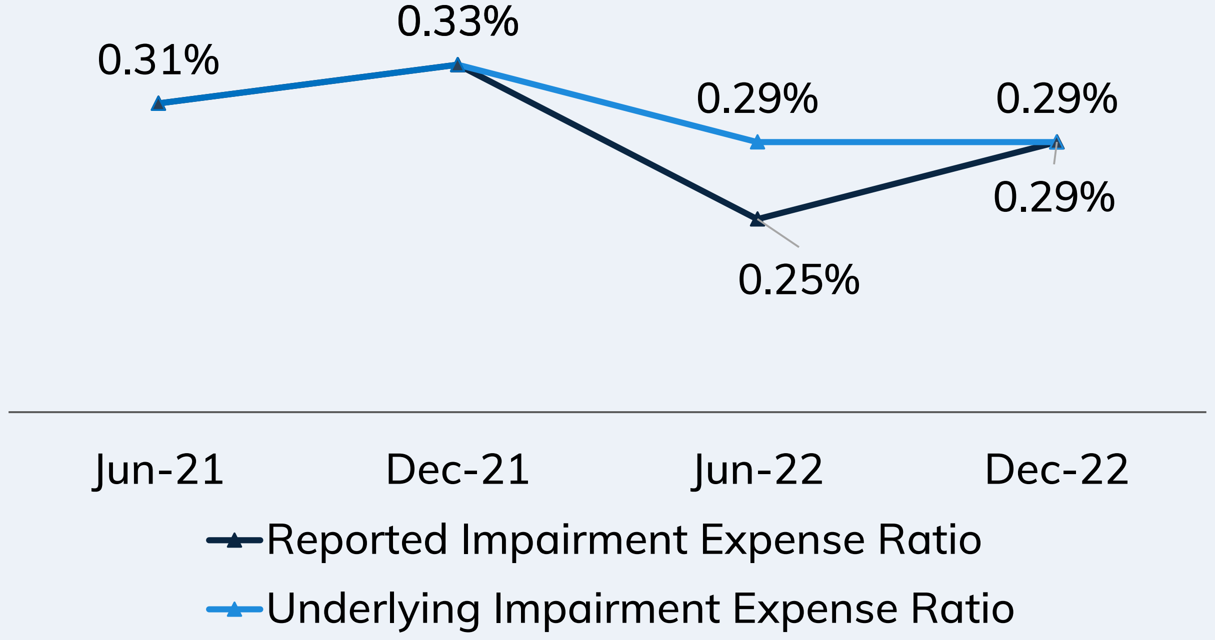
CTI



Non Performing Loans



Impairment Expense Ratio



Note:

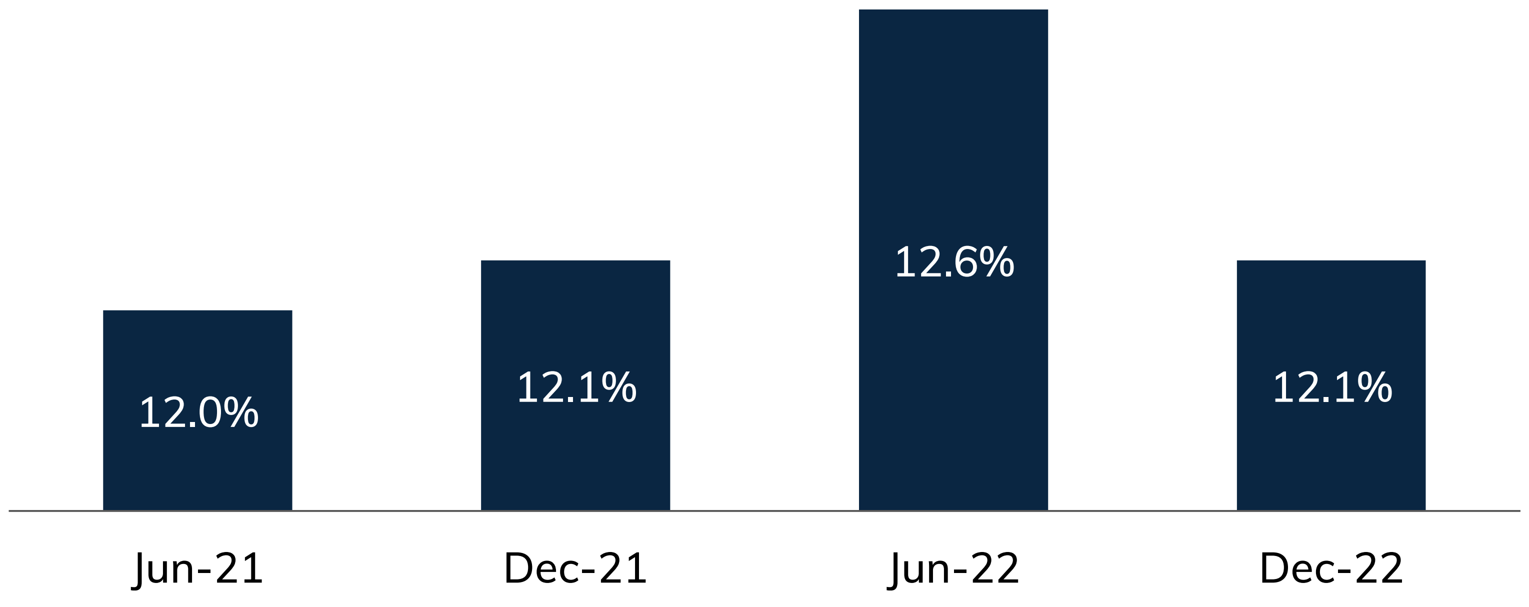
- NIM is calculated as net interest income/average gross interest earning assets.
- Impairment expense ratio is calculated as impairment expense/average gross finance receivables.
- Underlying CTI ratio and impairment expense ratio exclude one-off impacts. Refer to Appendix 3 for a reconciliation between reported and underlying result.

[1] Increase in non performing loans is primarily driven by Business and Motor. In Business, the increase was driven by several large exposures with strong security and longer-term remediation plans in place. In Motor, the increase reflects the impact rising costs have had on customers' household budgets. However, this has since moderated with arrears falling to 3.73% in December 2022 (from 3.99% at 31 October 2022), reflecting the return to pre-COVID-19 levels of arrears at this point in the financial year for the portfolio.

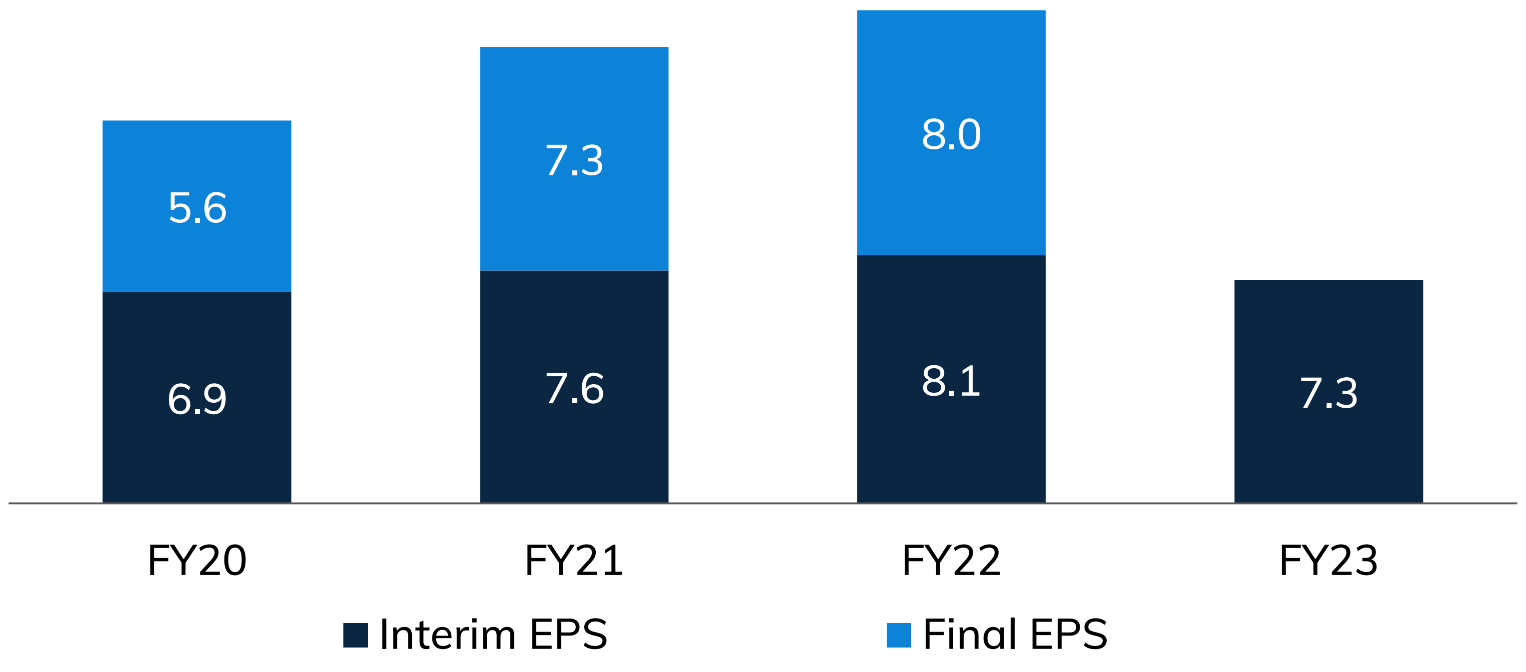
Shareholder return

- Underlying return on equity (**ROE**) 12.1% (down 7 bps vs 1H2022).[1]
- Earnings per share (**EPS**) of 7.3 cps, down 0.8 cps compared with 1H2022.
- Underlying EPS of 8.2 cps (up 0.2 cps vs 1H2022).
- Interim dividend of 5.5 cps, flat on 1H2022.
- Dividend yield of 8.7%[2] (1H2022: 7.4%[3]).
- Heartland's Dividend Reinvestment Plan (**DRP**) will apply to the interim dividend with a 2.0% discount.[4]

Underlying ROE

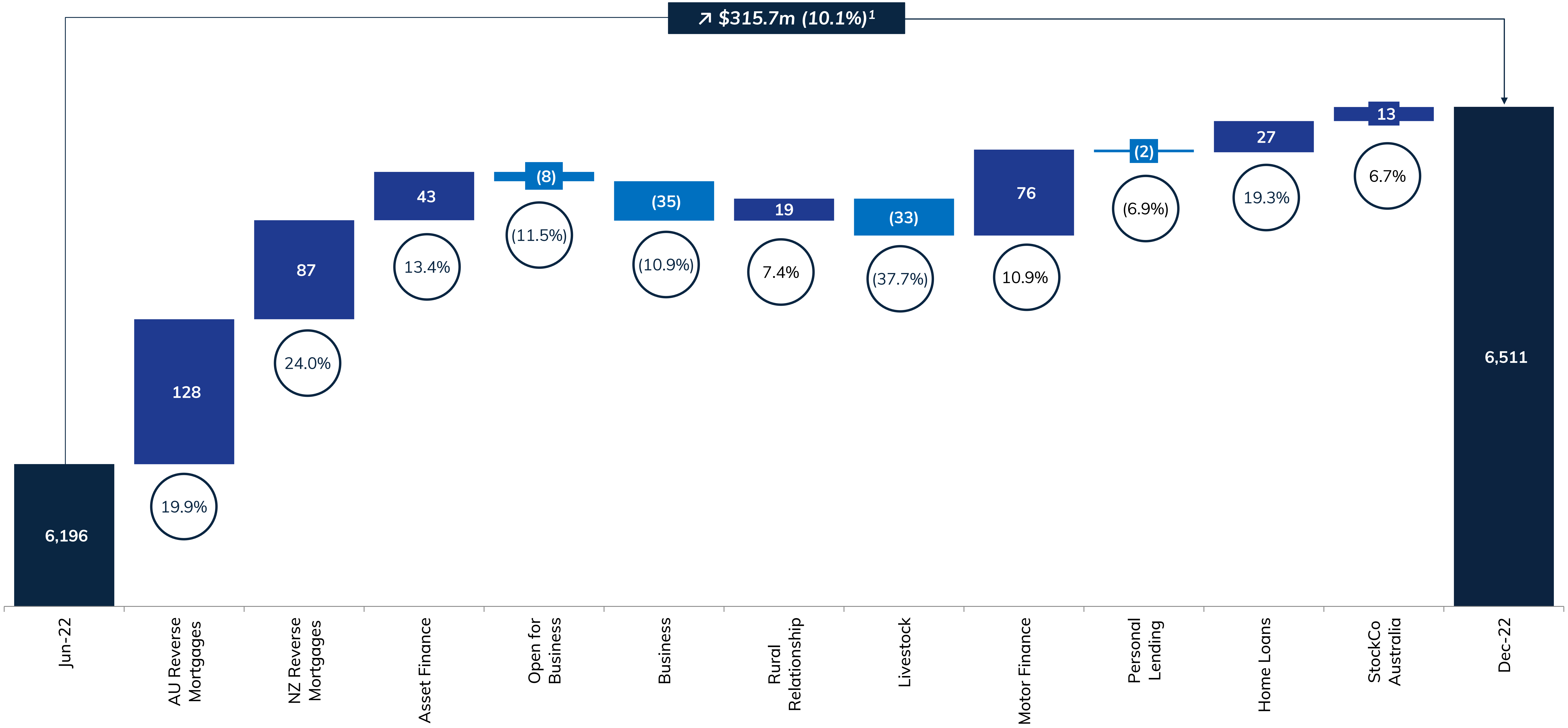


Earnings per share (cps)



[1] Underlying ROE refers to ROE calculated using underlying results. When calculated using reported results, ROE was 10.6%, down 166 bps. See page 5 for more information about the use of ROE, a supplementary, non-GAAP measure. [2] Total fully imputed dividends for 1H2023 (interim) and 2H2022 (final) divided by the closing share price as at 24 February 2023 of $1.75. [3] Total fully imputed dividends for 1H2022 (interim) and 2H2021 (final) divided by the closing share price as at 14 February 2022 of $2.35. [4] That is, the strike price under the DRP will be 98.0% of the volume weighted average sale price of Heartland shares over the five trading days following the Record Date. For the full details of the DRP and the Strike Price calculation, refer to the Heartland DRP offer document dated 10 December 2018.

Growth in Receivables



Note: The graph shows 1H2023 growth in Receivables by portfolio excluding the impact of changes in FX rates. All figures in NZ$m.

[1] Annualised 1H2023 growth excluding the impact of changes in FX rates.

Strategic update

Jeff Greenslade
Chief Executive Officer
Heartland Group

Strategic progress

Heartland's strategic vision is to provide **best or only products via scalable digital platforms**, achieved through the four pillars below.

Business as usual growth

Heartland Bank experienced the **highest growth rate in retail deposits of all main and domestic banks in NZ for Q1 of FY2023.**[1]

Heartland Bank awarded **Canstar NZ's Bank of the Year – Savings** for fifth consecutive year.[2]

Expanded Online Home Loans criteria to permit lending against terraced homes and townhouses.

Introduced a **Guaranteed Future Value product across the Opel vehicle range.**

Frictionless service at the lowest cost

Heartland Bank Mobile App users up 46% from July 2022.

Calls per customer to Motor, Deposits and Business teams reduced by 7% from July to December 2022.

Underlying CTI ratio reduced from 43.1% in 1H2022 to 42.7% in 1H2023.[3]

Core banking system upgrade almost complete.

Expansion in Australia

$198.6 million raised through 2022 equity raise to retire bridge debt and fund growth ambitions for existing businesses.

AU Reverse Mortgage **market share of 35.9%** at 30 September 2022.[4]

Substantially completed the **integration of StockCo Australia** into Heartland.

Acquisitions

Repaid A$158 million StockCo Australia acquisition finance facility using proceeds from the equity raise.

Signed a conditional **share purchase agreement for the purchase of Challenger Bank Limited** (Challenger Bank).

[1] Based on balance sheet data from the RBNZ for the first quarter (**Q1**) of FY2023. [2] Awarded July 2022. [3] Underlying CTI ratio refers to the CTI ratio calculated using underlying results. When calculated using reported results, the CTI ratio was 44.8%, up 94 bps. See page 5 for more information about the use of the CTI ratio, a supplementary, non-GAAP measure. [4] Based on APRA ADI Property Exposure and Heartland Finance data as at 31 March 2022.

Challenger Bank acquisition

On 20 October 2022, Heartland announced it had signed a conditional share purchase agreement for the purchase of Challenger Bank, an established ADI, from Challenger Limited (**ASX: CGF**). Completion under the share purchase agreement remains subject to obtaining the requisite regulatory approvals.

The benefits of this acquisition include:

- access to a deep and efficient pool of funding to support ongoing growth
- potential uplift in margin, to the extent that retail funding rates are less than wholesale rates
- a platform to extend Heartland's 'best or only' strategy in Australia.

Heartland's vision is to create a sustainable and profitable digital bank serving sectors of the Australian market which Heartland considers are under-serviced by major banks (including older Australians, rural Australia and small businesses). Heartland already holds strong positions in Australia with Reverse Mortgages and Livestock Finance. Further expansion is intended by leveraging Heartland's experience and expertise in New Zealand to offer additional products in the Australian market (including Auto Finance, Asset Finance and Online Home Loans).

- Additional transaction costs are expected in 2H2023 in relation to obtaining an ADI licence, including for the completion of the Challenger Bank acquisition.
- Heartland will provide further information to the market on the Challenger Bank acquisition as updates become available.

challenger

Sustainability

Heartland's sustainability framework is built on three key pillars: environmental conservation, social equity and economic prosperity.

Environmental Conservation

FY2022 emissions show a 56% absolute reduction in Greenhouse Gas emissions from FY2019 baseline.[1]

Lending to new generation vehicles comprised 14% of all vehicle lending in 1H2023.

Launched a green vehicle lending rate in December 2022.

Undertook ANZSIC[2] code analysis to understand Heartland's exposure to customers in high emitting industries, and industries susceptible to governmental regulations in NZ's journey to carbon-zero by 2050.

Social equity

Rainbow Tick accreditation renewed and several LGBTTQIA+ education workshops delivered across NZ.

The Manawa Ako internship welcomed 25 Māori and Pasifika interns in its sixth intake.

Celebrated the diversity of Heartland's people through various events, including Te Wiki o Te Reo Māori (Māori Language Week), Diwali and several Pasifika language weeks.

Economic prosperity

Heartland Bank consistently offered market leading and competitive deposit rates, **enabling New Zealanders to grow their savings in a high cost of living environment**.

Developed a refix comparison calculator for Online Home Loans, allowing potential applicants to see how much could be saved by refinancing with Heartland Bank.

Delivered **shareholder return** as described on page 11.

[1] Unaudited, and partially referable to COVID-19.
[2] Australian and New Zealand Standard Industrial Classification (**ANZSIC**).

NZ divisional summary

Leanne Lazarus
Chief Executive Officer
Heartland Bank

NZ Reverse Mortgages

- New Zealand Reverse Mortgages net operating income (**NOI**) was up 33.4% from 1H2022.
- Receivables increased $87.4 million (24.0%) to $808.7 million.
- Strong demand and growth continues due to:
  - a reverse mortgage being a solution to the ongoing strain placed on older home owners by cost of living pressures
  - increased awareness and acceptance of reverse mortgages
  - nurturing of a lead pool which has been built over a decade
  - Heartland being recognised as New Zealand's leading reverse mortgage provider.

$20.5m

NET OPERATING INCOME

As at 31 December 2022

+33.4%

increase since 1H2022

$808.7m

RECEIVABLES

As at 31 December 2022

+24.0%

annualised growth since June 2022

NZ Reverse Mortgages portfolio analytics

Average loan size	$122,751
Weighted average borrowers' age	78
Average origination LVR	10.0%
Weighted average LVR	19.7%
Proportion of the loan book over 75% LVR	0.0%
Number of loans in the book over 75% LVR	0
1H2023 origination	$109m (+$33m vs 1H2022)
Total repayments in 1H2023	$51m (+$5m vs 1H2022)
1H2023 repayment rate	14.0% (vs 15.2% in 1H2022)
Compounded annual growth rate[1]	13.4%
Repayments from vintage loans (+11 years)	31.4% (vs 36.0% in 1H2022)

$809m

NZ Reverse Mortgages

+$87m (24.0%)[2]

vs June 2022

[1] Compounded annual growth rate for the period 1 January 2018 – 31 December 2022.
[2] Annualised growth.

Asset Finance[1]

- Asset Finance NOI was down 4.8% from 1H2022.
- Receivables increased $42.7 million (13.4%) to $676.3 million.
- NIM deteriorated due to the impact of interest rate changes required to maintain competitive pricing in an aggressive market, and the lag in time taken to fully reprice fixed rate loans. NOI is expected to improve once market rates stabilise.
- Sustained growth stemmed from demand in core asset segments: trucks, trailers and yellow goods.
- Weaker demand from the logging sector offset by strong activity in logistics and further expansion of intermediary partnership model.

$14.9m **-4.8%**

NET OPERATING INCOME | decrease since 1H2022

As at 31 December 2022

$676.3m **+13.4%**

RECEIVABLES | annualised growth since June 2022

As at 31 December 2022

[1] Previously referred to as Business Intermediated.

Business

- Business includes floorplan lending to vehicle retailers and wholesale facilities to other lenders. The portfolio includes what was previously known as Business Relationship.
- Receivables decreased $34.7 million (10.9%) to $595.5 million.
- Negative movement driven by lower floorplan utilisation as stock inventory levels remained impacted by global supply chain and erratic shipping conditions.
- This position is expected to improve in 2H2023 as stock arrivals continue through 2023.
- The portfolio is also expected to benefit as larger legacy loans run down, contributing to a book that is lower risk, with low cost origination and superior margins.

$15.8m

NET OPERATING INCOME

As at 31 December 2022

+1.6%

increase since 1H2022

$595.5m

RECEIVABLES

As at 31 December 2022

-10.9%

annualised decrease since June 2022

Open for Business

- 1H2023 saw a decrease of $0.5 million (6.8%) in O4B NOI.
- Receivables decreased $8.2 million (11.5%)[1] to $133.0 million.
- A strategy reset occurred in Q2 following a change in the demand profile through COVID-19, and the sensitivities that small-to-medium enterprises are experiencing due to changing macro-economic conditions.
- Amortisation is expected to outperform growth for the remainder of FY2023.

$6.7m

NET OPERATING INCOME

As at 31 December 2022

-6.8%

decrease since 1H2022

$133.0m

RECEIVABLES

As at 31 December2022

-11.5%[1]

annualised decrease since June 2022

[1] Excluding the impact of changes in FX rates.

Motor Finance

- Motor Finance NOI was down 9.9% from 1H2022.
- Receivables increased $75.9 million (10.9%) to $1.46 billion as early repayments slowed.
- NIM was impacted by competitor activity, and by the change in portfolio mix of business, where 75% of business came from the quality end of the market. This is expected to have a positive impact on impairments in 2H2023.
- Motor arrears, while increasing in the first four months of 1H2023, have returned to pre-COVID-19 levels of arrears at this point in the financial year for the portfolio.
- Growth has been a product of market share gains at the higher quality end of the market.
- Total new and used car sales in the New Zealand market declined by 8.6%[1] compared with 1H2022. Motor is expected to continue to outperform the market in 2H2023.
- Increased lending to new generation vehicles (comprising 14% of all vehicle lending in 1H2023) and launched a green vehicle lending rate in December 2022.
- Ongoing development and enhancements to the Motor digital platforms are expected to contribute to improved efficiency, customer experience and growth for the portfolio in 2H2023.

$32.7m | **-9.9%**

NET OPERATING INCOME | decrease since 1H2022

As at 31 December 2022

$1.46b | **+10.9%**

RECEIVABLES | annualised growth since June 2022

As at 31 December 2022

[1] Based on data from the Motor Industry Association of New Zealand on new and used vehicle sales from motor vehicle dealers.

Personal Lending

- Personal Lending includes loans originated directly through Heartland Bank, and those originated by Harmoney Corp Limited (**Harmoney**) in New Zealand and Australia.
- Heartland personal loans have increased $9.1 million (52.9%) to $43.4 million.
- Heartland's Harmoney personal loans channel is closed to new business and running down.
- The **New Zealand Harmoney channel** decreased $6.8 million (73.6%) to $11.6 million.
- The **Australian Harmoney channel** decreased by $4.6 million (72.8%)[1] to $7.9 million.

$3.4m

NET OPERATING INCOME

As at 31 December 2022

-35.4%

decrease since 1H2022

$62.8m

RECEIVABLES

As at 31 December 2022

-6.9%[1]

annualised decrease since June 2022

[1] Excluding the impact of changes in FX rates.

Online Home Loans[1]

- Online Home Loans[1] Receivables increased $27.6 million (19.9%) in 1H2023 to $302.3 million.
- The reduction in the rate of book growth was driven by the sharp decline in property sales and new mortgage volumes in New Zealand.[2]
- Conversion rates improved towards the end of 1H2023 due to platform updates made off the back of the CCCFA amendments which came into effect in July 2022. These updates have increased approval automation and reduced the friction involved in verifying approvals.
- Online Home Loans criteria was expanded to permit lending against terraced homes and townhouses. This change is expected to support a 10% uplift in lending volumes compared with the previous restriction to standalone homes only.

$2.1m — NET OPERATING INCOME

+267.2% — increase since 1H2022

As at 31 December 2022

$302.3m — RECEIVABLES

+19.9% — annualised increase since June 2022

As at 31 December 2022

[1] Excludes legacy Retail Mortgages.
[2] Based on data from the Real Estate Institute of New Zealand, and on RBNZ data on new residential mortgage lending by borrower type.

Rural

- Overall **Rural portfolio** Receivables decreased by $13.3 million (3.8%) to $675.8 million. Driven from the normal seasonal fluctuations in **Livestock** Receivables which decreased by $32.6 million (37.7%) to $139.0 million, offset in part by **Rural** Receivables increasing by $19.4 million (7.4%) to $536.8 million.
- Strong pasture growth late in the season is expected to support cattle restocking, and additional intermediary partnerships will push utilisation up into 2H2023.
- Activity in Rural Receivables continues to be mainly targeted to Heartland's niche Rural Direct segments (providing finance specifically for sheep, beef and dairy farmers).

$16.9m

NET OPERATING INCOME

As at 31 December 2022

+9.2%

increase since 1H2022

$675.8m

RECEIVABLES

As at 31 December 2022

-3.8%

annualised decrease since June 2022

AU divisional summary

Chris Flood
Deputy Chief Executive Officer
Heartland Group

AU Reverse Mortgages

- Receivables increased by $128.0 million (19.9%)[1] to $1.40 billion.
- Growth was driven by:
  - increased debt consolidation and cost of living requests
  - customers looking to enjoy retirement with modest lifestyle spending following the relaxation of COVID-19 lockdowns
  - growing acceptance of use of reverse mortgages to support ageing in place
  - targeted marketing to new and existing customers to increase uptake and interest, leading to record settlements in key months.
- Growth is expected to continue in 2H2023 as ongoing improvements and efficiencies are made to the application, approval and loan maintenance process.

$23.1m

NET OPERATING INCOME

As at 31 December 2022

+21.5%

increase since 1H2022

$1.40b

RECEIVABLES

As at 31 December 2022

+19.9%[1]

annualised growth since June 2022

[1] Excluding the impact of changes in FX rates.

AU Reverse Mortgages portfolio analytics

Average loan size	A$156,497
Weighted average borrowers' age	77
Average origination LVR	11.7%
Weighted average LVR	20.0%
Proportion of the loan book over 75% LVR	0.1%
Number of loans in the book over 75% LVR	3
1H2023 origination	$169m (+$58m vs 1H2022)
Total repayments in 1H2023	A$97m (+A$21m vs 1H2022)
1H2023 repayment rate	16.7% (vs 15.1% in 1H2022)
Compounded annual growth rate[1]	18.5%
Repayments from vintage loans (+11 years)	17.2% (vs 18.5% in 1H2022)

A$1,269m

AU Reverse Mortgages

+A$116m (20.0%)[2]

vs June 2022

[1] Compounded annual growth rate for the period 1 January 2018 – 31 December 2022.

[2] Annualised growth.

StockCo AU

- StockCo Australia Receivables increased $12.5 million (6.7%) in 1H2023 to $385.6 million.
- Growth was supported by strong onboarding of new clients, and increased facility limit requirements and usage.
- Growth slowed due to adverse weather conditions, the rising interest rate environment, and stock value.
  - Weather conditions across eastern Australia impacted on livestock movement and activity in 1H2023.
  - Rising interest rates contributed to a reduction in profitability as rates were managed to ensure competitiveness.
  - The value of livestock softened during late 2022, resulting in lower dollars per head on the balance sheet. While stock value was offset by higher unit numbers, this had an impact on growth expectations. However, as experienced in the past, these temporary market price volatilities are not expected to have a material impact on the quality of the book.
- Low export demand, driven by COVID-19 lockdowns across China, is expected to ease and result in strong demand for protein.
- Work is underway to develop a white label offering to complement StockCo Australia's existing distribution strategy and support ongoing growth through 2H2023.

$13.4m

NET OPERATING INCOME

As at 31 December 2022

$385.6m **+6.7%**

RECEIVABLES annualised increase since June 2022

As at 31 December 2022

Funding, liquidity, capital & regulatory update

Andrew Dixson
Chief Financial Officer
Heartland Group

NZ funding and liquidity

Heartland Group

Heartland increased borrowings by $158.3 million (2.6%) to $6,329.1 million.

New Zealand

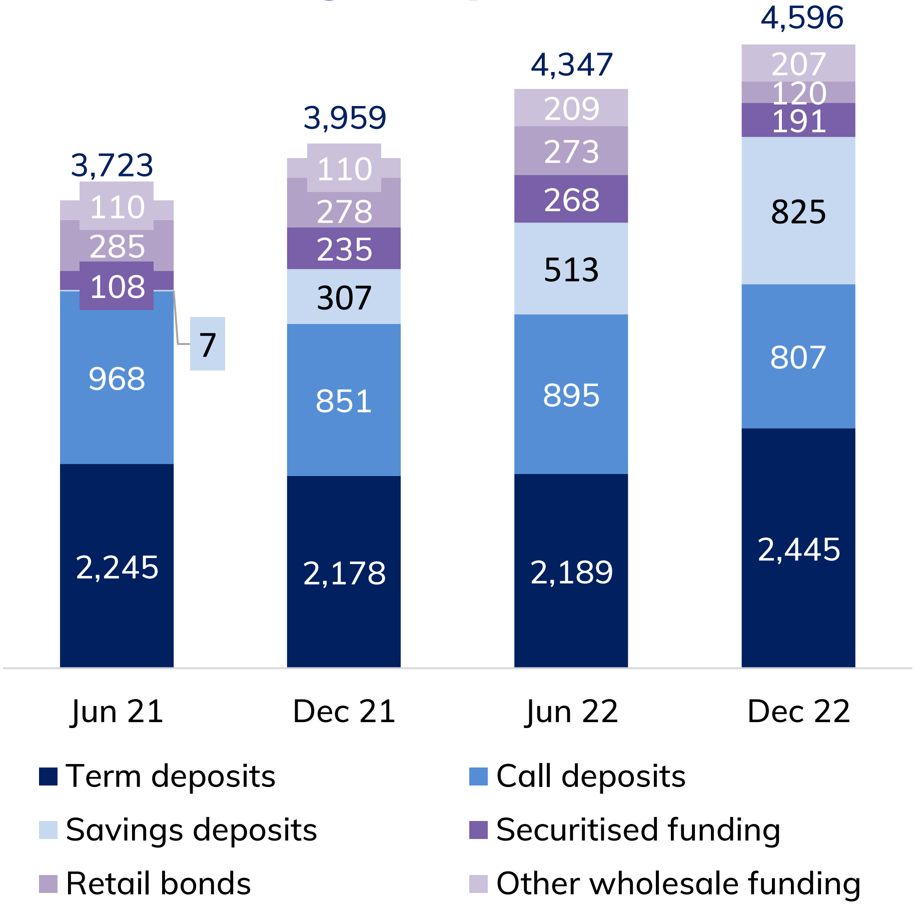
- Heartland Bank increased borrowings by $249.7 million (5.7%) to $4,596.3 million.
  - Deposits grew $480.5 million (13.4%) to $4,077.7 million, driven by competitive pricing on targeted products, including Heartland's Notice Saver offerings which both received Canstar New Zealand recognition in the half.[2]
  - In Q1 of FY2023, Heartland Bank experienced the highest growth rate in retail deposits of all main and domestic banks in NZ.[1]
  - Other borrowings decreased by $230.8 million (30.8%), largely due to the maturity of $150 million retail bond, as well as the amount drawn down in Heartland Bank's committed auto warehouse facility decreasing by $76.6 million.
- Total liquidity strengthened, increasing by $146.9 million (23.4%) to $774.8 million.
- Heartland Bank holds liquidity well in excess of regulatory minimums and maintains strong regulatory liquidity ratios.

Core funding ratio
91.2%
as at Dec 22
vs 75% regulatory minimum
↑ 1.0 pps vs Jun 22

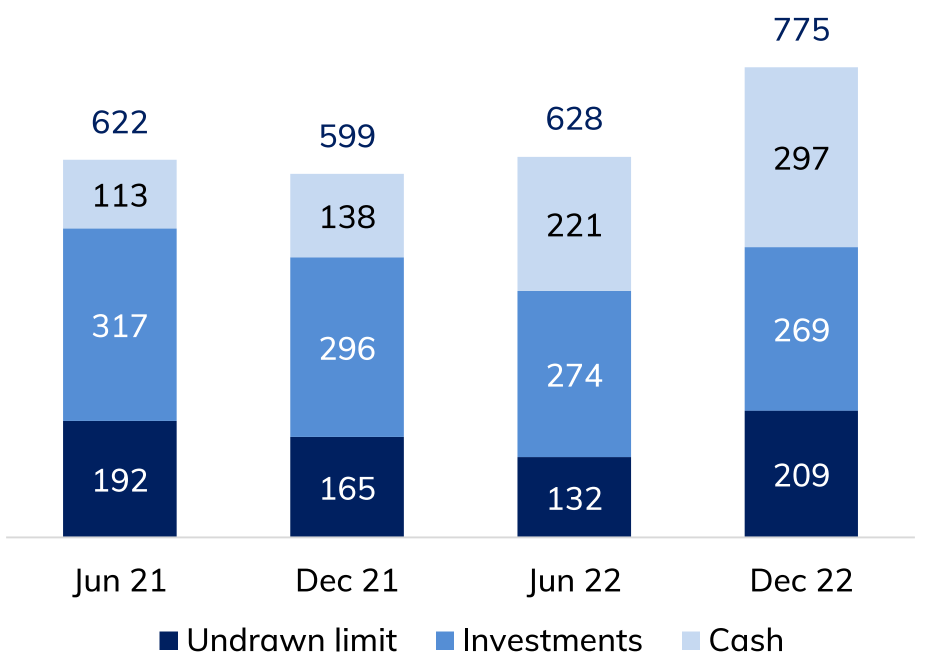
1-week mismatch
10.22%
as at Dec 22
vs 0% regulatory minimum
↑ 3.1 pps vs Jun 22

1-month mismatch
9.82%
as at Dec 22
vs 0% regulatory minimum
↓ 2.9 pps vs Jun 22

Heartland Bank
Funding Composition[3] $m



Heartland Bank
Liquidity Composition $m



[1] Based on balance sheet data from the RBNZ.
[2] Awarded July 2022. [3] Includes intercompany deposits.

AU funding and liquidity

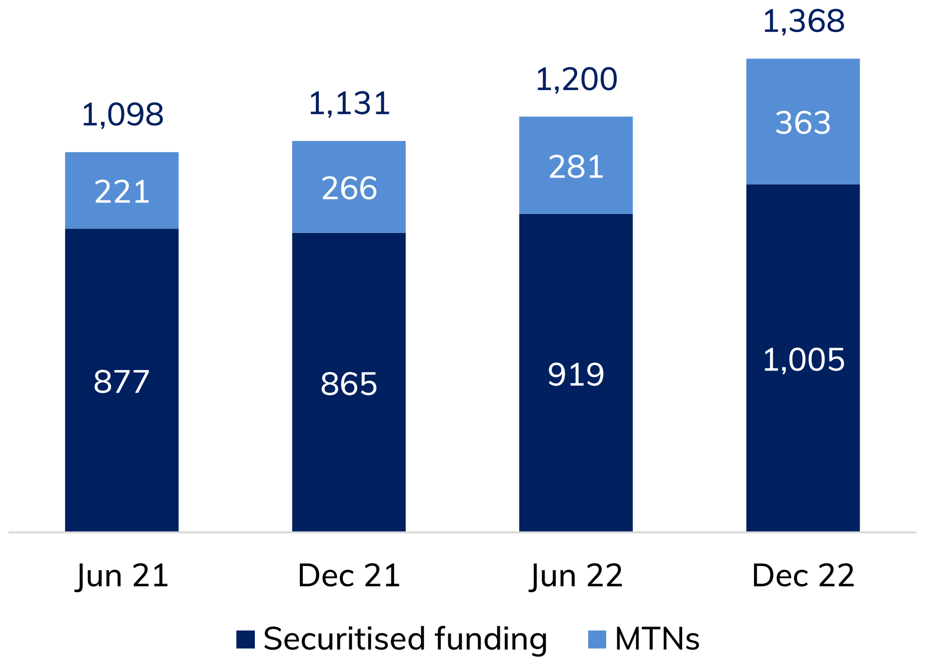
Heartland Australia[1]

- Heartland Australia increased borrowings by A$167.8 million (14.0%) to A$1,368.0 million.
- Heartland Australia continues to successfully execute on its strategic funding programme to cater for strong growth in its portfolios.
- A A$30 million tap issue was completed in August 2022 and a further A$50 million Medium Term Note (**MTN**) was issued in October 2022, taking the aggregate outstanding issuance under Heartland Australia's MTN programme to A$360 million as at 31 December 2022.
- Maturity of Reverse Mortgage securitisation warehouses were extended by two and three years, and aggregate senior limits were expanded by A$50 million, providing additional headroom to fund future growth in the portfolio. This provides Heartland Australia with access to A$1.49 billion of committed funding in aggregate.

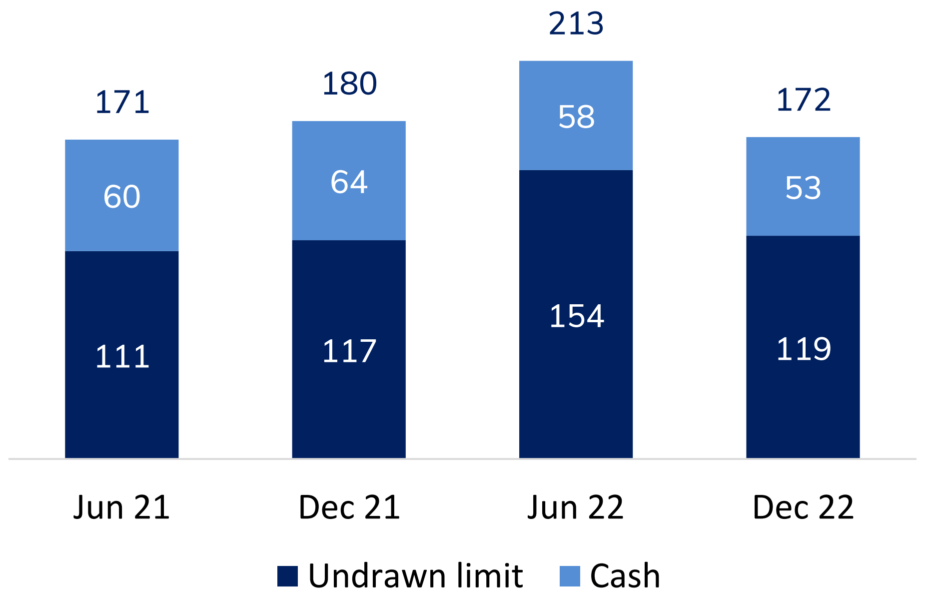
StockCo Australia[2]

- StockCo Australia increased borrowings by A$15.0 million (4.6%) to A$344.2 million.

Heartland Australia Funding Composition A$m



Heartland Australia Liquidity Composition A$m



[1] Comprised of Heartland Australia Holdings Pty Ltd and its subsidiaries.
[2] Comprised of StockCo Australia Management Pty Ltd, StockCo Holdings 2 Pty Ltd and their subsidiaries.

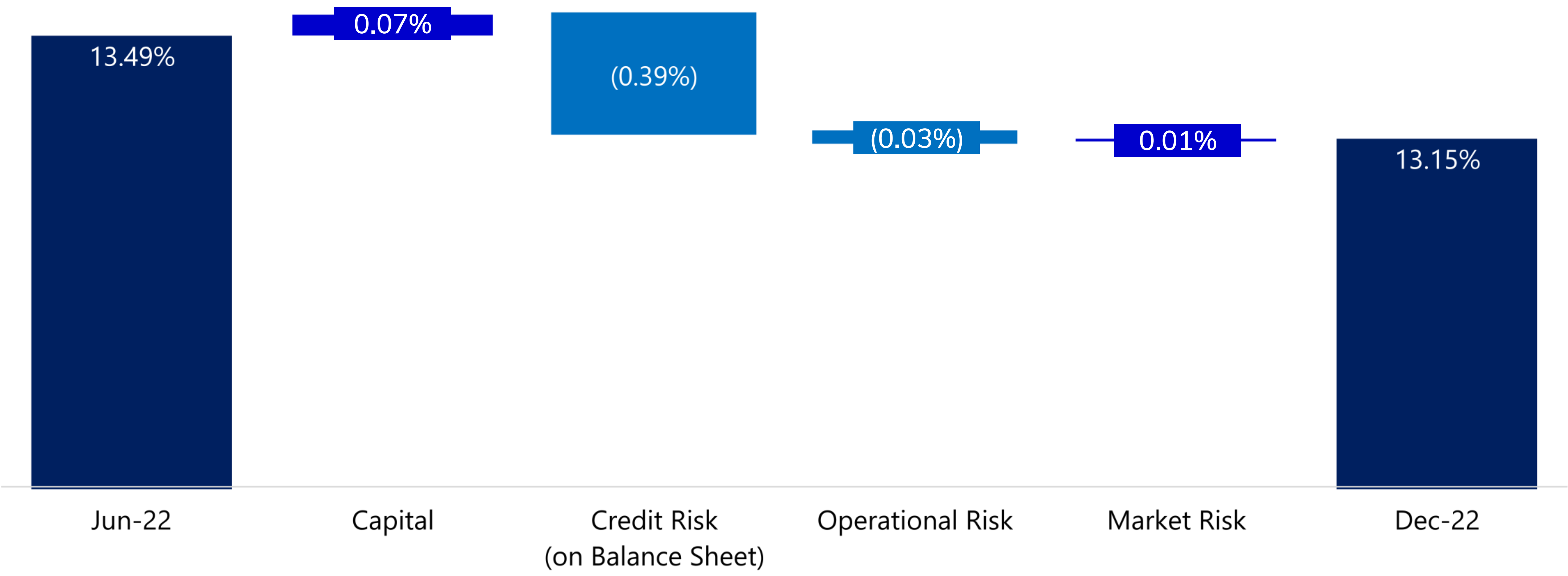
Capital

- Heartland Bank's regulatory capital ratio reduced to 13.15% as at 31 December 2022 (30 June 2022: 13.49%) following the removal of any bank dividend restrictions by the RBNZ on 1 July 2022. Heartland Bank continues to operate significantly in excess of regulatory minimums and is well positioned to meet the RBNZ's future higher capital requirements.
- The RBNZ future capital requirements are for a core capital ratio of 11.50% and a total capital ratio of 16.00% by 1 July 2028.
- In order to accelerate this journey, diversify its capital base and accommodate future projected growth, Heartland Bank is considering an offer of Tier 2 Capital notes.

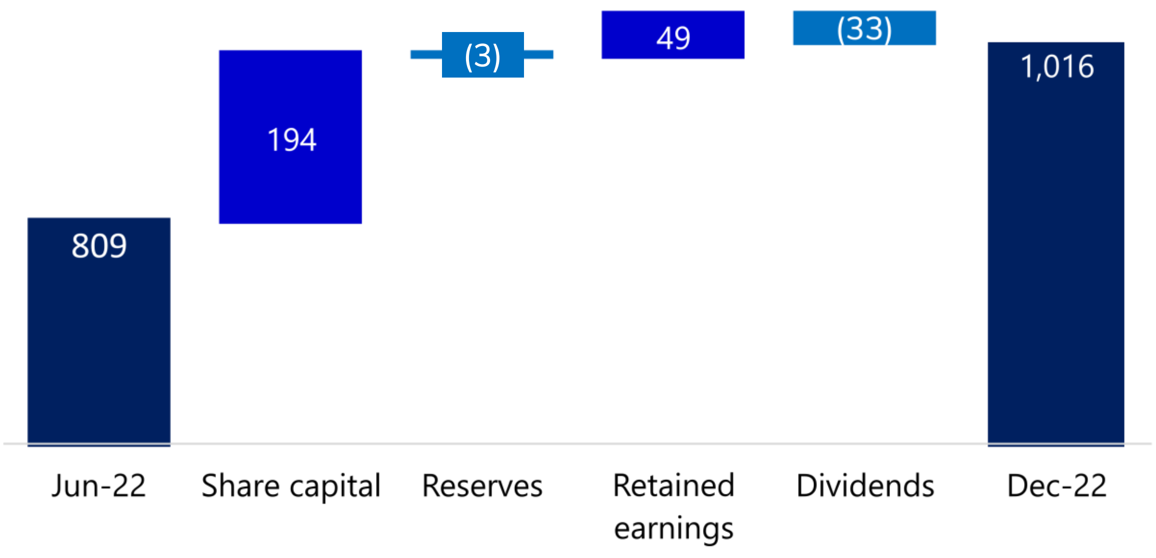
Heartland Bank considers offer of subordinated notes

- Heartland Bank is considering making an offer of up to $75 million (with the right to accept oversubscriptions of up to an additional $50 million at Heartland Bank's discretion) of unsecured subordinated notes (**Notes**) to New Zealand investors and certain overseas institutional investors. See the accompanying 1H2023 results announcement for more detail.
- No money is currently being sought and applications for the Notes cannot currently be made. If Heartland Bank offers the Notes, the offer will be made in accordance with the Financial Markets Conduct Act 2013.

Heartland Bank Capital Ratio

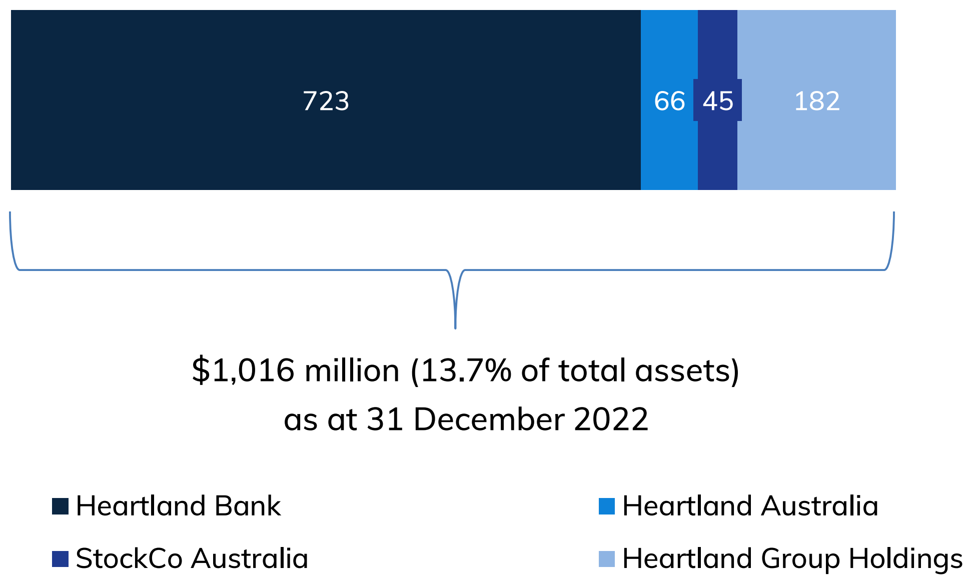


Heartland Capital Movement $m



Note: 1. Increase in share capital is primarily as a result of a $198.7 million equity raise completed in September 2022. 2. Retained earnings includes current NPAT.

Heartland Capital Allocation $m



Regulatory update

Heartland continues to monitor the significant volume of regulatory change.

Key changes include:

- changes to the New Zealand Credit Contracts and Consumer Finance Act 2003 and the Credit Contracts and Consumer Finance Regulations 2004
- the Financial Markets (Conduct of Financial Institutions) Amendment Act 2022, which comes into force in early 2025
- the Deposit Takers Bill, including the introduction of a depositor compensation scheme, was introduced to Parliament on 22 September 2022
- the New Zealand government's work to implement a legislative framework for a new consumer data right, with a decision announced in November 2022 to designate banks into the new regime first
- the implementation of mandatory climate related disclosures, with Heartland's first reporting period being its financial year ending 30 June 2024.

See the accompanying 1H2023 results announcement for further detail about upcoming regulatory change.

Outlook

Jeff Greenslade
Chief Executive Officer
Heartland Group

Looking forward

- The pleasing result in 1H2023 highlights the resilience of Heartland's product portfolios despite the ongoing current economic challenges in New Zealand and Australia. Strong growth continued in core portfolios, though softened elsewhere due to suppressed credit demand.
- It is currently anticipated that 2H2023 will deliver a similar result to 1H2023 on an underlying basis. In particular, continued growth is expected in Motor and Asset Finance. Usual seasonal fluctuations are expected to contribute to a better half for StockCo Australia and Heartland Bank's Rural portfolio in New Zealand. Increased demand is expected for Reverse Mortgages in both countries where the product has proven to offer a good solution for many seniors wanting to live a more comfortable retirement, especially as the cost of living rises.
- Heartland's NIM is expected to stabilise at its current level as Heartland continues to proactively manage portfolio pricing and margin in competitive markets.
- Efficiencies through digitalisation and the upgrade of Heartland Bank's core banking system are critical pathways to a lower CTI ratio. As the results demonstrate, Heartland continues to grow its revenue line, contributing favourably to its CTI ratio. However, ultimate efficiency requires that costs are also addressed. This will remain a focus of Heartland's through 2H2023.
- The remainder of the 2023 calendar year will be significant for Heartland as it progresses towards the completion of the acquisition of Challenger Bank, therefore becoming an ADI in Australia, and realises the benefits this will provide its existing Australian businesses Heartland Finance and StockCo Australia – as well as future product opportunities.

NPAT for FY2023

Heartland expects NPAT for FY2023 to be in the range of $109 million to $114 million, excluding any impacts of fair value changes on equity investments held and the impact of the de-designation of derivatives.

Appendices

Appendix 1: Financial performance

	Reported				Underlying			
$m	**1H2023**	**1H2022**	**Change ($)**	**Change (%)**	**1H2023**	**1H2022**	**Change ($)**	**Change (%)**
Net Operating Income[1]	141.7	130.7	11.0	8.4%	149.6	130.8	18.8	14.4%
Operating Expenses	63.4	57.3	6.2	10.8%	63.9	56.4	7.5	13.3%
Impairment Expense	9.2	8.5	0.7	8.3%	9.2	8.5	0.7	8.3%
Profit Before Tax	**69.0**	**64.9**	**4.1**	**6.4%**	**76.5**	**65.9**	**10.6**	**16.1%**
Tax Expense	20.4	17.4	3.0	17.3%	21.8	18.8	3.0	15.8%
Net Profit After Tax	**48.7**	**47.5**	**1.1**	**2.4%**	**54.7**	**47.1**	**7.6**	**16.2%**

Net Interest Margin	3.97%	4.30%	(34 bps)		4.02%	4.30%	(29 bps)	
Cost to Income Ratio	44.8%	43.8%	94 bps		42.7%	43.1%	(40 bps)	
Impairment Expense Ratio[2]	0.29%	0.33%	(4 bps)		0.29%	0.33%	(4 bps)	
Return on Equity	10.6%	12.2%	(166 bps)		12.1%	12.1%	(7 bps)	
Earnings per Share	7.3 cps	8.1 cps	(0.8 cps)		8.2 cps	8.0 cps	0.2 cps	

[1] Includes fair value movements.
[2] Impaired asset expense as a percentage of average Receivables.

Appendix 2: Financial position

$m	31 December 2022	30 June 2022	Movement ($m)	Movement (%)
Liquid Assets	655	585	70	11.9%
Gross Finance Receivables	6,460	6,196	264	4.3%
Provisions	(54)	(52)	(2)	(3.2%)
Other Assets	377	362	15	4.2%
Total Assets	**7,438**	**7,090**	**348**	**4.9%**
Retail Deposits	4,071	3,593	478	13.3%
Other Borrowings	2,259	2,578	(320)	(12.4%)
Total Funding	6,329	6,171	158	2.6%
Other Liabilities	93	111	(18)	(16.1%)
Equity	1,016	809	207	25.6%
Total Equity & Liabilities	**7,438**	**7,090**	**348**	**4.9%**

Appendix 3: Reconciliation of reported with underlying results

1H2023 one-offs included in the reported result:

- *Hedging*: a $3.6 million loss was recognised in relation to derivatives that were de-designated from prior hedge accounting relationships in FY2022.
- *Valuation of equity investment in Harmoney*: a $2.4 million fair value loss was recognised on investment in *Harmoney*.
- *Bridging loan:* a $1.9 million interest expense was recognised for a A$158m bridging loan taken by Heartland to acquire StockCo Australia, which was fully repaid in September 2022.
- *Other non-recurring expenses:* ($0.5 million).

1H2022 one-offs included in the reported result:

- *Valuation of equity investment in Harmoney*: a $0.2 million fair value gain was recognised on the shares acquired during the period.
- *Valuation of other investments*: a $0.3 million fair value loss was recognised on Heartland Bank's rights over a profit-sharing arrangement with a customer.
- *Prior period tax adjustments*: a $1.2 million release of tax provisions relating to prior periods.
- *Other non-recurring expenses*: $0.9 million.

$m	1H2023	1H2022	Movement ($m)	Movement (%)
Reported NOI	**141.7**	**130.7**	**11.0**	**8.4%**
Less:				
Hedge accounting impacts	(3.6)	-	(3.6)	
Net fair value gain/(loss) on investments	(2.4)	(0.1)	(2.4)	
StockCo Australia acquisition bridging loan	(1.9)	-	(1.9)	
Underlying NOI	**149.6**	**130.8**	**18.8**	**14.4%**
Reported OPEX	**63.4**	**57.3**	**6.2**	**10.8%**
Less:				
Other non-recurring items	(0.5)	0.9	(1.4)	
Underlying OPEX	**63.9**	**56.4**	**7.5**	**13.3%**
Reported impairment expense	**9.2**	**8.5**	**0.7**	**8.3%**
Reported NPAT	**48.7**	**47.5**	**1.1**	**2.4%**
Less:				
Post-tax impact of one-offs	(6.0)	(0.7)	(5.3)	
Tax adjustments relating to prior periods	-	1.2	(1.2)	
Underlying NPAT	**54.7**	**47.1**	**7.6**	**16.2%**
Less:				
StockCo Australia NPAT	4.8	-	4.8	
Underlying NPAT excluding StockCo Australia	**49.9**	**47.1**	**2.8**	**5.9%**
Reported NIM	3.97%	4.30%	(34 bps)	
Underlying NIM	**4.02%**	**4.30%**	**(29 bps)**	
Reported CTI	44.8%	43.8%	94 bps	
Underlying CTI	**42.7%**	**43.1%**	**(40 bps)**	
Reported ROE	10.6%	12.2%	(166 bps)	
Underlying ROE	**12.1%**	**12.1%**	**(7 bps)**	

Thank you

For Heartland's 1H2023 results announcement, please see **heartlandgroup.info**

HEARTLAND GROUP