NZX/ASX release
27 February 2024

Heartland announces 1H2024 financial results

Heartland Group Holdings Limited (**Heartland**) (**NZX/ASX: HGH**) has announced its financial results for the six-month period ended 31 December 2023 (**1H2024**).

- Net profit after tax (**NPAT**) of $37.6 million. Underlying[1] NPAT of $52.7 million. NPAT decreased by $11.1 million (22.7%) and, on an underlying basis, decreased by $2.0 million (3.6%) compared with the six-month period ended 31 December 2022 (**1H2023**).[2]
- One-off or non-cash technical items had a $15.1 million net[3] impact on NPAT.
- Gross finance receivables (**Receivables**)[4] up 4.2%[5].
- Continued strong growth in New Zealand Reverse Mortgages (up 18.7%)[5] and Australian Reverse Mortgages (up 20.0%)[5].
- Solid growth in Asset Finance (up 8.9%)[5] and Motor Finance (up 6.4%)[5].
- Underlying impairment expense ratio decreased by 6 basis points (**bps**) to 0.23% compared with 1H2023.[6]
- Significant progress towards Heartland's ambitions to become a bank in Australia through the acquisition of Challenger Bank Limited (**Challenger Bank**).[7]
- Completion of Heartland Bank Limited's (**Heartland Bank**) core banking system upgrade in 1H2024 enabling accelerated digitalisation and automation.

In December 2023, Heartland announced revised NPAT guidance for the financial year ending 30 June 2024 (**FY2024**) due to:

- the expected A$3.5 million one-off FY2024 impact on underlying NPAT arising from the anticipated acquisition of Challenger Bank, positioning Heartland for its next stage of growth
- short-term operational performance challenges - a slower than expected start to FY2024 for Motor Finance and Australian Livestock Finance, and higher cost of funds
- Heartland Bank's response to issues affecting a subset of legacy lending.

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[1] Unaudited financial results are presented on a reported and underlying basis. Reported results are prepared in accordance with NZ GAAP and include the impacts of positive and negative one-offs, which can make it difficult to compare performance between periods. Underlying results (which are non-GAAP financial information) exclude the impact of fair value changes on equity investments held, the de-designation of derivatives, the Australian Bank Programme costs, increase in provisions for a subset of legacy lending, and any other impacts of one-offs. NPAT excluding only the impact of fair value changes on equity investments held, the de-designation of derivatives and the Australian Bank Programme costs was $41.2 million. This is intended to allow for easier comparability between periods and is used internally by management for this purpose. Refer to *Profitability* on page 5 for a summary of reported and underlying results. A detailed reconciliation between reported and underlying financial information, including details about 1H2024 one-offs, is set out on page 41 of the 1H2024 investor presentation (**IP**). General information about the use of non-GAAP financial measures is set out on page 4 and 36 of the 1H2024 IP.
[2] All comparative results are based on the unaudited half year consolidated financial statements of Heartland and its subsidiaries (the **Group**) for 1H2023.
[3] Includes tax impact on one-offs (as and where applicable).
[4] Receivables includes Reverse Mortgages.
[5] Annualised 1H2024 growth excluding the impact of changes in foreign currency exchange (**FX**) rates.
[6] Underlying impairment expense ratio refers to the impairment expense ratio calculated using underlying results. When calculated using reported results, the impairment expense ratio was 0.70%, up 41 bps compared with 1H2023. For more information, see page 4 of the 1H2024 IP.
[7] Subject to Reserve Bank of New Zealand (**RBNZ**) and Australian Prudential Regulation Authority (**APRA**) approval.

In what has been a mixed environment in which to operate, Heartland's 1H2024 result saw continued growth in most of its core lending portfolios[8], with good pipelines for further growth and to expand market share.

The acquisition of Challenger Bank is nearing completion with the regulatory approval process now in the final stages. When FY2024 guidance was provided, it excluded any costs related to the acquisition of Challenger Bank. As the acquisition nears completion, it was appropriate that guidance was updated to reflect the impact of Challenger Bank becoming part of Heartland. The impact to underlying NPAT for FY2024 is expected to be a net loss of A$3.5 million, reflecting underlying NPAT of Challenger Bank. This is expected to transition quickly to a profit-making position as material deposit raising occurs.

In preparation for completion, Challenger Bank is actively raising deposits. Recent success achieved by Challenger Bank in the Australian deposit market has exceeded Heartland's expectations. This will enable Heartland to optimise the advantage of a lower cost of funds post-acquisition completion. Heartland is confident of acquisition completion in the second half of FY2024 (**2H2024**).

The arrears experienced in a subset of longer dated Motor Finance loans are a result of operational issues in Heartland Bank's Collections & Recoveries area and do not reflect any underlying issues with the credit quality of the book. This is primarily a resourcing issue caused by illness, employee turnover due to overseas travel, and a focus on Heartland Bank's core banking system upgrade (which is now complete). This is being addressed through a specialised recruitment strategy and automation. Underlying impairments are otherwise performing as expected given the challenging economic conditions. Heartland's asset quality continues to shift towards loans with lower risk exposures.

Overall performance continues to demonstrate the resilience of Heartland's core lending portfolios and 'best or only' strategy. In particular, Australian Reverse Mortgages' market share increased to 41% as at 30 September 2023[9] and Motor Finance experienced growth of 6.4%[5] in a market where total new and used car sales in New Zealand were down by 12.2%[10]. In the long-term Heartland expects to continue its growth story. Organic growth is expected to improve in line with reduced inflation. Similarly, cost of funds and net interest margin (**NIM**) are expected to improve as interest rates ease.

One of Heartland's focuses in 1H2024 has been on continuing to position for future growth. Heartland has growth ambitions that will facilitate cost efficiency and return on equity (**ROE**) expansion. Specifically, Heartland's ambition is to achieve an underlying NPAT of $200 million and an underlying cost-to-income (**CTI**) ratio of less than 35% by the financial year ending 30 June 2028 (**FY2028**).

Heartland has various strategic initiatives underway to support the realisation of its FY2028 ambitions, including:

- expansion in Australia facilitated by the acquisition of Challenger Bank providing access to depositor funding and larger addressable markets
- increased digitalisation and automation to achieve frictionless service at a low cost
- continued growth across core lending portfolios.

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[8] Heartland's core lending portfolios are Reverse Mortgages, Motor Finance, Asset Finance and Livestock Finance.
[9] Up from 36% at 30 September 2022. Based on APRA authorised deposit-taking institution (**ADI**) Property Exposure and Heartland Finance data as at 30 September 2022 and 30 September 2023. This does not include data from non-ADI providers of reverse mortgages.
[10] Based on data from Turners, dated December 2023 (data sourced from Waka Kotahi NZ Transport Agency).

Key financial metrics

	Reported			Underlying[11]		
	1H2024	1H2023	Movement	1H2024	1H2023	Movement
NOI[12] ($m)	143.1	141.7	1.4	145.6	149.6	(4.1)
Operating expenses (**OPEX**) ($m)	66.5	63.4	3.0	63.5	63.9	(0.4)
NPAT ($m)	37.6	48.7	(11.1)	52.7	54.7	(2.0)
NIM	3.67%	3.97%	(29 bps)	3.67%	4.02%	(34 bps)
CTI ratio	46.5%	44.8%	170 bps	43.7%	42.7%	93 bps
Impairment expense ratio	0.70%	0.29%	41 bps	0.23%	0.29%	(6 bps)
ROE	7.3%	10.6%	(329 bps)	10.2%	12.1%	(183 bps)
Earnings per share (**EPS**)	5.3 cps	7.3 cps	(2.0 cps)	7.4 cps	8.2 cps	(0.8 cps)

Strategic vision

Heartland's strategic vision is to create sustainable growth and differentiation by providing products which are the 'best or only' of their kind, through scalable digital platforms. In December 2023, Heartland Bank was proud to be recognised for its strategy in the Deloitte Top 200 Awards as a finalist in the Best Growth Strategy category.

Heartland's strategy is underpinned by three pillars:

1. Frictionless Service at the Lowest Cost – reflected in a superior underlying CTI ratio
2. Expansion in Australia
3. Business as Usual Growth (reported on in *Business performance* from page 8).

Frictionless Service at the Lowest Cost – CTI ratio

Heartland measures efficiency through the CTI ratio. Through careful cost management, Heartland's costs were flat on 1H2023 and underlying OPEX decreased $0.4 million (0.6%). However, as a result of NIM compression which is expected to be temporary (see page 6), Heartland's underlying CTI ratio increased by 93 bps on 1H2023 to 43.7%.[13] Heartland's underlying CTI ratio remains significantly lower than the average CTI ratio of New Zealand's main domestic banks, and much more comparable to the average CTI ratio of Australia's major banks.[14] This demonstrates that Heartland has achieved a similar operating leverage to the major Australian banks.

Heartland's ambition is to achieve an underlying CTI ratio of less than 35% by FY2028 through revenue growth, cost discipline, and ongoing automation and digitalisation initiatives. In doing so, Heartland intends to provide customers with frictionless service and enable scalable growth. Increasing customer self-service and improving process efficiencies are key to achieving this.

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[11] See footnote 1.

[12] Net operating income (**NOI**) includes fair value gains/losses on investments.

[13] Underlying CTI ratio refers to the CTI ratio calculated using underlying results. When calculated using reported results, the CTI ratio was 46.5%, up 170 bps compared with 1H2023. See page 4 of the 1H2024 IP for more information about the use of the CTI ratio, a supplementary, non-GAAP measure.

[14] The average CTI ratio of New Zealand's main domestic non-major banks excluding Heartland (The Co-operative Bank, Kiwibank, SBS and TSB) was 70.7% for the 12 months to 30 September 2023 (data from the RBNZ Financial Strength Dashboard, valid as at 27 November 2023). The average CTI ratio of Australia's major banks (ANZ, CBA, NAB and Westpac) was 45.2% for their most recent respective annual reporting periods.

The upgrade of Heartland Bank's core banking system was completed in November 2023 and is an important enabler of increased levels of automation and digitalisation. Enhanced core system capability allows Heartland Bank to accelerate digital development and is expected to position Heartland Bank for greater scalability in the future.

Motor Finance digital platform enhancements continued through 1H2024, with Heartland Bank delivering four branded online origination platforms for dealer partners. This has progressed Heartland well towards delivering its stated goal of seven dealer origination platforms by the end of FY2024. Work on delivering a further four platforms is in progress. Through these online platforms, customers can purchase a vehicle conveniently from any device by selecting their vehicle, applying for finance, and receiving an approval in minutes.

Process automation continues, with a particular focus on Heartland Bank's Collections & Recoveries area. Resourcing issues caused by illness, employee turnover due to overseas travel and a focus on Heartland Bank's core banking system upgrade (which is now complete) in the Collections & Recoveries area have resulted in collection efforts being constrained. These challenges are being actively resolved, including through increased automation, and do not reflect any underlying credit quality issues. Automation is expected to improve internal workflows and reduce manual effort, thereby reducing friction for customers and employees. Activity underway includes upgrading the debt management and collections system, integration with core banking systems, introducing automation to workflows and some outbound calls, and making greater use of data and analytics to drive collections strategies.

Expansion in Australia

Considerable effort has been made in 1H2024 towards progressing Heartland's ambition to become a bank in Australia through the acquisition of Challenger Bank. While the acquisition remains subject to Reserve Bank of New Zealand (**RBNZ**) and Australian Prudential Regulation Authority (**APRA**) approval, the approval process is now in the final stages and Heartland is confident of completion in 2H2024.

Challenger Bank has commenced raising deposits ahead of being acquired by Heartland Bank and will continue to do so. This will enable Heartland to optimise the advantage of a lower cost of funds post-acquisition completion. In the seven-week period commencing 8 January 2024, retail deposit growth of $528 million was achieved, at a rate which is 1.34% lower than Heartland Australia's (comprising Heartland Australia Holdings Pty Ltd and its subsidiaries) current cost of funds.[15]

Subject to completion, the acquisition would make Heartland the only specialist bank provider of both reverse mortgages and livestock finance in Australia. The acquisition once completed is expected to support ongoing growth and enable expansion into new product segments in which Heartland Bank has specialist expertise, including in Motor Finance and Asset Finance. Heartland intends to leverage its extensive operational experience in New Zealand to drive expansion into Australia.

Heartland continued to be the leading Australian provider of reverse mortgages as its market share increased to 41% as at 30 September 2023.[9] Demand continues to increase for Reverse Mortgages on both sides of the Tasman, driven by continued cost-of-living pressures and a growing proportion of people aged 65 and over in both populations. As new trans-Tasman research by RMIT University suggests, ageing populations are expected to place significant strain on government and local authority resources.[16] As a result, households may need to draw more on their own resources. The Australian Treasury's 2020 Retirement Income Review reported that for most households aged 65

[15] Month to date January 2024 cost of funds for Heartland Australia (including StockCo Australia).
[16] *Ageing Well in Place: An Australian and New Zealand Perspective*, RMIT University.

and over, the family home is their largest asset. For those wishing to remain in their home as they age, a reverse mortgage can be a good solution to the financial barriers to ageing well in place.

Heartland's Australian Livestock Finance business, StockCo, is positioned to benefit from strong tailwinds in the Australian livestock sector. StockCo, is one of the largest specialist livestock finance providers in Australia. Becoming a bank will provide Heartland with a lower cost of funds to enable product enhancements which Heartland believes will provide a competitive advantage from which to gain market share. StockCo continues to work with and support its clients as they overcome the challenges of the last year, noting the recent livestock market price gains are expected to benefit both clients and StockCo's balance sheet.

Operating environment

Borrower demand and NIM are expected to improve as inflation eases and interest rates decline (see page 6).

The New Zealand general election, held in October 2023, is believed to have caused some uncertainty for many who delayed borrowing decisions until the new government and subsequent policy changes were confirmed. In the motor market, pre-election announcements to repeal the clean car discount scheme, and the consequent removal of internal combustion engine taxes on new vehicles from 31 December 2023, is believed to have caused consumers to delay new vehicle buying decisions until the 2024 calendar year. As expected, the end of January 2024 saw an increase in vehicle purchase enquiries, with normal trading patterns anticipated by Heartland to return towards the end of FY2024.

The adverse climatic conditions that affected Heartland's Australian Livestock Finance portfolio in 1H2024 are dissipating. After recent rainfall across the eastern states of Australia, the chance of drought is now reduced, and livestock prices are improving (see page 10).

The medium-term economic outlook is for improvement as higher interest rates drive down the rate of inflation. In addition, the labour market is proving to be more resilient than expected. Typically, however, credit outcomes tend to lag economic conditions, so similar credit outcomes are expected through the remainder of FY2024, before an improvement in FY2025, as the expected impact of more stable economic conditions and stronger consumer and business confidence is felt.

Financial results

Profitability

1H2024 reported results have been normalised to exclude one-off or non-cash technical items, including the following.[17]

1. Legacy hedge accounting impacts: a $4.3 million loss contributed by the derivatives that were de-designated from their prior hedge accounting relationships in the financial year ended 30 June 2022 (**FY2022**). The de-designation resulted in a pre-tax $16.7 million mark-to-market (**MTM**) accounting gain on these derivatives being recognised in FY2022. This MTM gain is subsequently unwound as a loss as the cashflows from these derivatives are realised, including a pre-tax $9.1 million loss recognised in the financial year ended 30 June 2023 (**FY2023**) and pre-tax $4.3 million in 1H2024.

[17] Refer to page 41 of the 1H2024 IP for an exhaustive list of 1H2024 one-offs and a detailed reconciliation between reported and underlying financial information.

2. Fair value gain on equity investment in Harmoney Corp Limited (**Harmoney**): a $1.9 million fair value gain was recognised on investment in Harmoney shares during 1H2024. The fair value as at 29 December 2023 was determined based on the closing last traded price of Harmoney shares on the Australian Stock Exchange of A$0.49 per share.
3. Australia Bank Programme costs: $2.3 million of transaction and other costs in relation to acquiring an ADI in Australia. In addition, $3.3 million of costs directly attributable to applying to become an ADI have been capitalised as an intangible asset in 1H2024.
4. Increase in provisions for a subset of legacy lending: a pre-tax $16.0 million increase in provisions to respond to issues affecting a subset of legacy lending (see page 7).

The impact of one-off items on the respective financial metrics is outlined in the table on page 3.

NOI

Total NOI was $143.1 million, an increase of $1.4 million (1.0%) from 1H2023.

Underlying NOI was $145.6 million, $4.1 million (2.7%) lower than in 1H2023. This was largely due to a $2.0 million (1.4%) decrease in net interest income, driven by a 34 bps decrease in underlying NIM compared with 1H2023 offset by $562.7 million (8.1%) higher average interest earning assets in 1H2024 than in 1H2023.

Underlying other operating income decreased by $2.0 million (23.1%) from 1H2023.

NIM

NIM[18] has been impacted by the following factors.

- Heightened competition in the New Zealand deposit market in 1H2024 as banks refinanced their drawings under the RBNZ Funding for Lending Programme[19], impacting Heartland Bank's cost of funds, thereby also contributing to NIM compression. Heartland Bank expects this to continue through the 2024 calendar year as RBNZ Funding for Lending Programme participants replace this funding with deposit funding.
- Increased growth in Reverse Mortgages.
- Heartland continuing to shift its portfolio composition towards lower risk exposures while higher margin legacy business lending and other forms of non-core and unsecured lending portfolios run off, noting that lower margin Asset Finance loans are taking longer to roll off as customers take longer to refinance assets.

In addition, Heartland intentionally delayed passing the full impact of successive interest rate increases onto New Zealand Reverse Mortgages and Australian Livestock Finance customers. While this did not maximise potential NIM, it was considered the socially responsible and more sustainable approach.

Careful pricing and margin management is in place to balance NIM and growth. Heartland expects NIM improvement in the 2025 calendar year as the deposit market eases and older Asset Finance and Motor Finance loans at lower rates continue to be repaid.

OPEX

OPEX was $66.5 million, an increase of $3.0 million (4.8%) on 1H2023. Underlying OPEX[17] decreased $0.4 million (0.6%).

[18] In the six months to 31 December 2023, underlying NIM contracted 33 bps from 30 June 2023.
[19] One of the monetary policy tools used by the RBNZ during the COVID-19 pandemic, which allowed eligible banks to borrow directly from the RBNZ at the official cash rate, to lower the funding costs for eligible banks.

CTI ratio

The underlying CTI ratio increased by 93 bps on 1H2023 to 43.7%.[20] While costs in 1H2024 were controlled, the CTI ratio was impacted by a decrease in NOI, largely due to NIM compression which Heartland expects to be temporary, with NIM improvement expected in the 2025 calendar year.

Impairment expense

Overall, underlying impairments continue to perform within expectations. Impairment expense was $24.0 million, $14.8 million (160.1%) up on 1H2023. On an underlying basis, impairment expense was $1.2 million (13.0%) down on 1H2023, reflecting the overall improvement in asset quality. Underlying impairment expense ratio decreased to 0.23% in 1H2024, down 6 bps compared with 1H2023.[21]

As advised in December 2023, Heartland Bank's $16.0 million (pre-tax) increase in provisions was taken to respond to issues affecting a subset of legacy lending as outlined below. While Heartland considered the increase in provisions was required out of prudence, it may not be utilised in full.

1. Legacy Business and Relationship lending: a $5.5 million increase in provisions held against this portfolio. This includes a $4.5 million increase in specific provisions against legacy loans in segments of the market to which Heartland Bank no longer lends where economic conditions have decreased confidence in collectability, and a $1.0 million collective provision.
2. Longer dated Motor Finance loans: a $10.5 million increase in collective provisions. This was reduced by $2.3 million to reflect write-offs experienced in 1H2024 against this cohort.

ROE

Underlying ROE was 10.2%, down 183 bps compared with 1H2023.[22] This is as a result of carrying more capital on average following the capital raise conducted in 1H2023.

Financial position

Total assets increased by $167.1 million (2.2%) during 1H2024, driven by a $143.7 million (4.2%)[23] increase in Receivables and a $51.5 million (8.2%) increase in liquid assets.

Borrowings[24] increased by $211.1 million (3.2%). Deposits increased by $82.7 million (2.0%), along with an increase in other borrowings of $128.4 million (5.1%) during 1H2024.

Net assets decreased by $9.7 million to $1,021.3 million. Net tangible assets (**NTA**) decreased by $24.0 million to $750.2 million, resulting in an NTA per share of $1.05 (30 June 2023: $1.09).

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[20] Underlying CTI ratio refers to the CTI ratio calculated using underlying results. When calculated using reported results, the CTI ratio was 46.5%, up 170 bps compared with 1H2023. See page 4 of the 1H2024 IP for more information about the use of the CTI ratio, a supplementary, non-GAAP measure.
[21] Underlying impairment expense ratio refers to the impairment expense ratio calculated using underlying results. When calculated using reported results, the impairment expense ratio was 0.70%, up 41 bps compared with 1H2023. For more information, see page 4 of the 1H2024 IP.
[22] Underlying ROE refers to ROE calculated using underlying results. When calculated using reported results, ROE was 7.3%, down 329 bps compared with 1H2023. For more information, see page 4 of the 1H2024 IP.
[23] Annualised 1H2024 growth excluding the impact of changes in FX rates.
[24] Includes retail deposits and other borrowings.

Business performance

New Zealand

New Zealand Reverse Mortgages

New Zealand Reverse Mortgages NOI was $23.8 million, an increase of $3.3 million (16.3%) compared with 1H2023. Receivables increased $83.9 million (18.7%)[25] to $972.5 million.

Older New Zealanders and Australians continue to feel the impact of cost-of-living pressures in retirement.[25] This has been reflected in the demand for and use of Reverse Mortgages. Average initial loan value has been steadily decreasing, from $90,287 at 31 December 2022 to $77,125 at 31 December 2023, as customers become more conservative with the amount being borrowed upfront. Demand for Heartland Bank's 'Easy Living Monthly Advance' option also increased, up 29% in December 2023 compared with the average monthly figure across FY2023.

At the start of FY2024, Heartland Bank made improvements to its online application form and processes, driving a higher volume of online applications and resulting in better customer outcomes – including a more efficient application experience. Accelerated growth is expected in 2H2024 as the benefits of these improvements continue to be realised, and as a result of demand from cashflow pressures being felt by older homeowners.

Motor Finance

Motor Finance NOI was $31.6 million, a decrease of $1.1 million (3.3%) compared with 1H2023. Motor Finance Receivables increased $50.6 million (6.4%)[20] to $1.6 billion.

Motor Finance experienced a slower than expected start to FY2024 as described on page 5 in a market where total new and used car sales in New Zealand were down by 12.2% in 1H2024[26]. Relative to the market, Heartland Bank's growth of 6.4%[25] was very pleasing.

Motor Finance NIM continues to be impacted by a shift in asset quality, competitive pressures, and as customers hold on to their vehicle loans for longer periods of time.

Heartland Bank continued to strengthen its distribution network of dealers and partnerships. In 1H2024, Heartland Bank renewed its partnerships with Jaguar Land Rover New Zealand and Auto Distributors (for Peugeot, Citroen and Opel) and announced a new partnership with MG Motor in New Zealand to launch MG Finance. Heartland Bank is now also one of Tesla's two preferred finance providers.[27]

Online Home Loans[28]

Online Home Loans NOI was $1.2 million, a decrease of $0.9 million (43.5%) compared with 1H2023. Online Home Loans Receivables increased $9.0 million (5.7%)[25] to $322.3 million.

While the rate of growth slowed, Receivables growth of 5.7%[25] remained well above the overall New Zealand market expansion in home lending over the period, which stood at 1.7%.[29] Heartland Bank has strong retention of existing customers – exceeding 90% for those customers whose fixed rates came up for review during 1H2024.

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[25] *Ageing Well in Place: An Australian and New Zealand Perspective*, RMIT University.
[26] Based on data from Turners, dated December 2023 (data sourced from Waka Kotahi NZ Transport Agency).
[27] Tesla preferred finance provider launched in February 2024.
[28] Excludes legacy Retail Mortgages.
[29] Based on RBNZ's *Registered banks and non-bank lending institutions: Sector lending (C5)* data at 31 December 2023 compared with 30 June 2023. Data accurate as at 31 January 2024.

Personal Lending

Personal Lending includes loans originated directly through Heartland Bank, and legacy portfolios originated by Harmoney in New Zealand and Australia. To manage risk in the current environment, this portfolio is not actively originating. Heartland's Harmoney personal loans channel is closed to new business and in run off.

Personal Lending NOI was $2.1 million, a decrease of $1.4 million (39.5%) compared with 1H2023. Personal Lending Receivables decreased by $13.0 million (54.9%)[25] to $34.1 million. Harmoney Receivables decreased by $4.5 million (86.2%)[25], made up of a decrease in the New Zealand Harmoney channel of $2.3 million (81.9%)[25] to $3.2 million, and a decrease in the Australian Harmoney channel of $2.3 million (90.9%)[25] to $2.7 million. Heartland originated personal lending decreased by $8.5 million (46.0%)[25] to $28.2 million in 1H2024.

Asset Finance

Asset Finance NOI was $14.3 million, a decrease of $0.6 million (4.1%) compared with 1H2023, largely as a result of lower margin loans taking longer to roll off as customers take longer to refinance assets. Refinance deferral by customers has also impacted growth, with Asset Finance Receivables increasing $30.6 million (8.9%)[25] to $713.3 million. However, against this backdrop, growth of 8.9% is strong.

Heartland Bank entered 2H2024 with a solid pipeline for further growth. Heartland Bank's focus remains on the freight transport and yellow goods sectors. Exposure to the forestry sectors continues to run down.

Business

Overall Business NOI was $14.1 million, a decrease of $1.6 million (10.4%) compared with 1H2023. Business Receivables decreased $39.1 million (13.5%)[25] to $534.5 million. This is made up of Wholesale Lending and Business Relationship.

Wholesale Lending includes floorplan lending to vehicle retailers and wholesale facilities to other lenders, including for medium enterprises that on-lend to their own customers in the consumer motor and business sectors. Wholesale Lending Receivables decreased $20.1 million (16.3%)[25] to $225.0 million, reflecting lower utilisation of floorplan lending limits as existing customers reduced stock levels to match consumer demand. Growth from new business is anticipated in 2H2024 as Heartland Bank continues to expand its Motor Finance dealer network, presenting Wholesale Lending opportunities with dealerships.

Business Relationship Receivables decreased $19.0 million (11.5%)[25] to $309.5 million, as this portfolio continues to transition from legacy loans to lower risk loans that are more cost efficient to transact.

Open for Business (**O4B**)

O4B NOI was $5.5 million, a decrease of $1.2 million (18.2%) compared with 1H2023. O4B Receivables decreased $18.2 million (30.9%)[25] to $98.9 million.

Rural

Overall Rural lending NOI was $16.8 million, a decrease of $0.2 million (1.2%) compared with 1H2023. Overall Rural portfolio Receivables decreased by $36.4 million (10.3%)[25] to $664.1 million. This is made up of Livestock Finance, Rural Relationship and Rural Direct.

The decrease in overall Rural portfolio Receivables was primarily driven by the normal seasonal fluctuations in Heartland's Livestock Finance Receivables which decreased by $31.9 million (33.1%)[25]

to $159.3 million. The portfolio performance was better than expected, in a market where overall livestock prices were down year-on-year. The outlook for 2H2024 is positive as Heartland Bank maintains its growth momentum with existing and new intermediaries.

Rural Relationship Receivables decreased by $8.2 million (3.8%)[25] to $416.2 million, reflecting Heartland Bank's continued transition away from large, complex, low margin lending.

Rural Direct includes Heartland's Sheep & Beef Direct and Dairy Direct digital platforms which provide online finance to well-geared and resilient sheep, beef and dairy farmers. Rural Direct Receivables increased by $3.7 million (8.6%)[25] to $88.6 million. Weak livestock price conditions and higher costs reduced confidence in the market and led to fewer farm sales, resulting in subdued growth of the portfolio.

Australia

Australian Reverse Mortgages

Australian Reverse Mortgages NOI was $26.2 million, an increase of $3.1 million (13.4%) compared with 1H2023. Australian Reverse Mortgages Receivables increased by $152.9 million (20.0%)[25] to $1.7 billion.

As in New Zealand, cost-of-living pressures are contributing to growth in Australian Reverse Mortgages and the way in which customers are using their Reverse Mortgages.[30] Cost-of-living requests (debt consolidation, supplementing income) have increased while lifestyle requests (car, travel) have softened. Home improvements and debt consolidation remain the top two loan purposes.

Growth is expected to remain strong in 2H2024 as older Australians seek to remain in their home as they age.

Australian Livestock Finance

Australian Livestock Finance NOI was $8.2 million, a decrease of $3.3 million (28.6%) compared with 1H2023. Receivables decreased $76.4 million (40.4%)[25] to $298.6 million.

Adverse weather conditions and drought concerns continued to negatively impact livestock prices in 1H2024. Many producers either consolidated debt with banks or destocked ahead of the drought and, in doing so, sold livestock at low prices. While other farmers with sufficient feed retained livestock for longer periods to gain weight and recoup value. This resulted in growth challenges and compressed Australian Livestock Finance NIM.

January and February are traditionally low trading months, however the market remains cautious yet optimistic ahead of autumn restocking, the reducing risk of drought and the recent improvements in lamb and cattle prices. Cattle prices are now above the 10- and 20-year averages. While Trade Lamb prices have nearly doubled over recent weeks and now sit above the 20-year average and slightly below the 10-year average.[31] Heartland expects a stronger performance from Australian Livestock Finance in 2H2024, with growth on a value basis.

Funding and liquidity

Heartland increased borrowings by $211.1 million (3.2%) to $6,838.5 million.

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[30] *Ageing Well in Place: An Australian and New Zealand Perspective*, RMIT University.
[31] Data from the National Livestock Reporting Service.

New Zealand

Heartland Bank increased borrowings by $217.3 million (4.6%) to $4,963.5 million.

Total deposits grew $82.7 million (2.0%) during 1H2024 to $4,213.8 million, which was driven by competitive pricing on targeted products, including Heartland Bank's Digital Saver offering which launched in October 2023.

Term deposits increased by $187.5 million (7.1%) during 1H2024, while call deposits and savings deposits decreased by $104.8 million (7.0%). The savings to total deposit ratio decreased from 17% to 15%, while call to total deposit ratio remained consistent during 1H2024.

Heightened competition is being experienced in the deposit market and is expected to continue through the 2024 calendar year as banks refinance their drawings under the RBNZ Funding for Lending Programme. Despite market competition resulting in a higher cost of funds, Heartland Bank's cost of funds has outperformed its key peer challenger banks in the first quarter of FY2024.[32]

Other borrowings increased by $134.6 million (21.9%) during 1H2024, largely due to an increase in the amount drawn down in Heartland Bank's committed auto warehouse facility by $149.5 million. This was partially offset by the decreased amount of Heartland Bank's issuance of short-term Commercial Paper.

A $100 million limit increase to Heartland Bank's committed auto warehouse facility was executed in September 2023 taking the total limit outstanding to $500 million.

With a regulatory capital ratio at 14.07%[33], Heartland Bank continues to operate significantly in excess of regulatory minimums and is well positioned to meet the RBNZ's future higher capital requirements. These requirements are for a core capital ratio of 11.50% and a total capital ratio of 16.00% by 1 July 2028.

Australia

Heartland Australia increased borrowings by A$4.2 million (0.2%) to A$1,736.7 million. Excluding StockCo Australia (comprising StockCo Australia Management Pty Ltd, StockCo Holdings 2 Pty Ltd and their subsidiaries), which was transferred from Heartland to Heartland Australia on 1 August 2023, borrowings increased by A$74.9 million (5.1%) from 1H2023 to A$1,557.1 million.

An A$50 million tap issue was completed in October 2023 and a further A$105 million tap Medium Term Note (**MTN**) was issued in December 2023. The proceeds were used to refinance another maturing facility and provide further Reverse Mortgage funding. The aggregate outstanding issuance under Heartland Australia's MTN programme was A$395 million as at 31 December 2023 (30 June 2023: A$240 million).

The aggregate senior limits of the two Reverse Mortgage securitisation warehouses were expanded by A$200 million during the period, providing Heartland Australia with access to A$1.77 billion of committed funding in aggregate.

StockCo Australia decreased borrowings by A$70.6 million (28.2%) to A$179.6 million[34], reflecting the current book size.

[32] Based on dashboard data from the RBNZ for the period July 2023 to September 2023.
[33] Heartland Bank's regulatory capital ratio decreased slightly to 14.07% as at 31 December 2023 (30 June 2023: 14.71%) driven by balance sheet growth and the FY2023 dividend payment.
[34] Excluding intercompany funding from Heartland Australia.

Heartland Australia has also made significant progress on negotiations with senior lenders to make existing securitisation facilities compliant with the Australian Prudential Standards for ADIs in anticipation of operating in Australia as a licenced bank.

Regulatory update

On 31 January 2024, New Zealand's Minister of Commerce and Consumer Affairs announced plans to review the:

- Credit Contracts and Consumer Finance Act 2003 to ensure it works effectively to protect vulnerable consumers without unnecessarily limiting access to credit. Consultation is expected over the coming months, including on removing prescriptive affordability requirements for lower-risk lending and reviewing the penalty and disclosure regimes.
- Financial Markets (Conduct of Financial Institutions) Amendment Act 2022 given concerns that it could result in disproportionate compliance costs.

Heartland Bank will monitor for further developments regarding any proposed changes.

The Commerce Commission is due to publish its preliminary findings from the market study into any factors that may affect competition for the supply or acquisition of personal banking services around March 2024, with the final report due by 20 August 2024.

The new depositor compensation scheme under the Deposit Takers Act 2023 is now expected to commence from mid-2025.

In Australia, Heartland is monitoring changes to Australian regulatory requirements for its existing businesses and is preparing for the acquisition of Challenger Bank, which is an APRA regulated ADI (including compliance with the Financial Accountability Regime).

Sustainability update

Heartland is preparing to meet the new Climate-Related Disclosures obligations introduced through the Financial Sector (Climate-Related Disclosures and Other Matters) Amendment Act 2021. Heartland's first climate statement is required as part of its full year reporting for FY2024. Heartland's sustainability strategy is built on three pillars: environment, people and financial wellbeing. Significant achievements in 1H2024 are outlined below.

- Heartland's Board established a Sustainability Committee to oversee Heartland's sustainability strategy and implementation plans.
- As part of funding Heartland's borrowers' transition to a net-zero economy, Australian Livestock Finance business, StockCo, announced a two-year pilot project with farmer-led software provider Ruminati. The software helps producers track and validate on-farm climate action across the supply chain. The partnership will allow StockCo to view its clients' on-farm emissions, and understand the client's strategy for farm management, climate risk mitigation and emission reduction strategies.
- Heartland Bank's Manawa Ako internship programme welcomed 30 Māori and Pasifika rangatahi (youth). The FY2024 programme received 80 applications – the greatest number of applications received since the programme was established in 2017.
- Heartland Bank was awarded Canstar New Zealand's Bank of the Year – Savings for the sixth year in a row, with five-star ratings awarded for its Direct Call Account (for the eighth year in a

row), 32-day Notice Saver Account (for the second year in a row), and 90-day Notice Saver Account.
- Australian Reverse Mortgage business, Heartland Finance, was awarded a Non-Bank of the Year Excellence Award at the Australian Mortgage Awards 2023 for the fourth year in a row.

Removal from FTSE Global Equity Index Series Small Cap Index

Heartland will be removed from the FTSE Global Equity Index Series Small Cap Index (**Index**) after close of business on Friday, 15 March 2024 (UK time), following the semi-annual review of the Index. Heartland wishes to ensure that all shareholders have this information, following some recent speculation in the market.

Heartland is being removed from the Index as it no longer meets the Index's liquidity requirement for existing constituent issuers to pass a monthly median turnover test based on their free float shares on issue. Heartland's best estimate is it is likely that less than 3% of its shares must be sold as a result of its removal from the Index.

The Index includes over 18,000 large, mid, small and micro-cap securities across 48 developed and emerging markets globally, with a wide range of modular indices available to target specific markets and market segments.

Interim dividend

Heartland is pleased to declare a 1H2024 interim dividend of 4.0 cps, down 1.5 cps on 1H2023. Heartland's interim dividend yield of 11.9%[35] compares with 8.7%[36] in 1H2023.

A slightly lower interim dividend is consistent with current earnings and previous payout ratios and does not reflect a change in policy.

The interim dividend will be paid on Wednesday 20 March 2024 (**Payment Date**) to shareholders on the company's register as at 5.00pm NZST on Wednesday 6 March 2024 (**Record Date**) and will be fully imputed.

Heartland has a Dividend Reinvestment Plan (**DRP**), giving eligible shareholders the opportunity to reinvest some or all of their dividend payments into new ordinary shares. The DRP will apply to the interim dividend with a 2.0% discount.[37] The DRP offer document and participation form is available on Heartland's website at heartlandgroup.info/investor-information/dividends.

Looking forward

Heartland's vision is to create sustainable growth and a superior underlying CTI ratio, providing digital banking products which are the best or only of their kind to markets it considers are underserved in New Zealand and Australia. By FY2028, its ambition is to achieve an underlying NPAT of $200 million and underlying CTI ratio of less than 35%. Heartland has various strategic initiatives

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[35] Total fully imputed dividends for 1H2024 (interim) and 2H2023 (final) divided by the closing share price as at 26 February 2024 of $1.17.
[36] Total fully imputed dividends for 1H2023 (interim) and 2H2022 (final) divided by the closing share price as at 24 February 2023 of $1.75.
[37] 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.

underway to support the realisation of its future growth ambitions.

Completing the Challenger Bank acquisition is the focal point for 2H2024 and a critical step in Heartland's strategy for expansion in the Australian market – and ultimately towards achieving its FY2028 ambitions. Recent success achieved by Challenger Bank in the Australian deposit market has exceeded Heartland's expectations and will enable Heartland to optimise the advantage of a lower cost of funds post-acquisition completion. The regulatory approval process for the Challenger Bank acquisition is nearing completion and Heartland is confident of completion in 2H2024.

In the long-term Heartland expects to continue its growth story. Organic growth is expected to improve in line with reduced inflation. Similarly cost of funds and NIM are expected to improve as interest rates ease.

While 2H2024 is expected to be challenging, Heartland is confident in the resilience of its core lending portfolios and 'best or only' strategy and anticipates accelerated organic growth in line with reduced inflation.

In particular, New Zealand and Australian Reverse Mortgages are expected to continue to perform well as Heartland meets the financial needs of ageing populations in both countries. Although competition has increased in Australia, this brings with it greater opportunities for increased awareness and acceptance of reverse mortgages as a solution to living a more comfortable retirement. Heartland's partnership with RMIT University continues through 2H2024 as it seeks to gain a more in-depth understanding of the factors which can impact an individual's ability to age well in place.

Core lending portfolio growth will be supported by accelerated digitalisation and automation, enabled by the completion of Heartland Bank's core banking system upgrade. Process automation and the development of more customer self-service functionality will contribute to enhanced efficiency and the removal of friction for employees and customers. Increased digitalisation, alongside ongoing cost discipline and revenue growth, underpins Heartland's ability to achieve a superior underlying CTI ratio and achieve scalable growth. This is what sets Heartland apart.

Heartland expects NPAT for FY2024 to be within the guidance range of $93 million to $97 million, excluding any impacts of fair value changes on equity investments held and the impact of the de-designation of derivatives and Australian Bank Programme transaction costs. Excluding the impact of the (non-cash) increase in provisions for a subset of legacy lending, and Challenger Bank NPAT, the underlying guidance range is $108 million to $112 million, reflecting Heartland's underlying operational performance (which is the basis upon which the underlying 1H2024 results are presented).

– ENDS –

The persons who authorised this announcement:
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About Heartland

Heartland is a financial services group with operations in Australia and New Zealand. Heartland has a long history with roots stretching back to 1875, and is listed on the New Zealand and Australian stock exchanges (NZX/ASX: HGH).

Heartland's New Zealand business, Heartland Bank, provides customers with savings and deposit products, online home loans, reverse mortgages, business loans, car loans and rural loans. In Australia, Heartland's main business is currently in reverse mortgages through Heartland Finance which is a market leader. Heartland also operates StockCo Australia, a specialist livestock financier, which was acquired by Heartland in May 2022. In October 2022, Heartland announced its intention to purchase Challenger Bank, a digital bank based in Melbourne, Australia, subject to obtaining the requisite regulatory approvals.

Heartland's point of differentiation is its 'best or only' strategy – where it focuses on providing products which are the best or only of their kind through scalable digital platforms. Heartland is committed to delivering financial solutions through speed and simplicity, particularly via digital platforms which reduce the cost of onboarding and make it easier for customers to open accounts or apply for funds when they need it.

More about Heartland: heartlandgroup.info