NZX/ASX release
27 February 2025

Heartland announces 1H2025 results

Heartland Group Holdings Limited (**Heartland**) (**NZX/ASX: HGH**) has announced a net profit after tax (**NPAT**) of $3.6 million for the six-month period ended 31 December 2024 (**1H2025**). On an underlying basis[1], 1H2025 NPAT was $10.7 million.

Heartland's reduced 1H2025 NPAT reflects an increase in net operating income (**NOI**) (up $12.0 million or 8.4% on the six month period ended 31 December 2023 (**1H2024**) to $155.1 million), supported by strong performance by the Australian bank, Heartland Bank Australia Limited (**Heartland Bank Australia**), offset by active derisking and repositioning of some of the New Zealand bank, Heartland Bank Limited's (**Heartland Bank**), non-performing loans (**NPL**) which contributed to a significantly higher impairment expense. The result was also impacted by an increase in operating expense (**OPEX**), up $31.6 million (47.5%) in 1H2025. However, this includes a $11.4 million uplift related to the regulatory and operational requirements of the Australian business becoming an authorised deposit-taking institution (**ADI**), $2.8 million in additional depreciation and amortisation primarily related to Heartland Bank's core banking system upgrade and $7.7 million related to one-off expenses.[2]

Overview

- Strong Reverse Mortgage growth continued in both countries, with Receivables[3] up 15.3%[4] in New Zealand and 15.0%[5] in Australia. The Australian Reverse Mortgage business achieved record new business in 1H2025 of $193 million, up 4.1% from 1H2024.
- Livestock market confidence returning in Australia, flowing through to increased application volumes and livestock purchases in Heartland Bank Australia's Livestock Finance business.
- Heartland Bank Australia's transition to becoming funded primarily by deposits was substantially progressed in 1H2025, with deposits now making up 60% of funding, and having a positive effect on net interest margin (**NIM**). When NIM is adjusted for the impact of the ADI acquisition (**rebase NIM**), the exit rebase NIM for 1H2024 was 2.64%, up 49 basis points (**bps**) to 3.13% by 1H2025.
- Heartland Bank's NIM has remained stable in 1H2025, but is expected to expand in the six month period ending 30 June 2025 (**2H2025**), with the exit NIM for the financial year ending 30 June 2025 (**FY2025**) expected to be above 4.00%.
- Heightened focus on simplification within Heartland Bank, with clear realisation strategies in place for Non-Strategic Assets (**NSAs**).
- OPEX is at peak investment and expected to moderate by the end of FY2025.
- Heartland remains well capitalised with strong liquidity and no changes to credit ratings.
- Interim dividend of 2.0 cps.

	NPAT	NIM[6]	CTI (cost-to-income) ratio	Receivables
Reported	**$3.6m** ↓ 90.4% on 1H2024	**3.41%** ↓ 26 bps on 1H2024	**63.2%** ↑ 1676 bps on 1H2024	**$7.1b** ↓ 3.9%[4] on 1H2024
Underlying[1]	**$10.7m** ↓ 79.8% on 1H2024	**3.41%** ↓ 26 bps on 1H2024	**57.6%** ↑ 1390 bps on 1H2024	**10.9%** CAGR 1H2021-1H2025[7]

Note: *All figures in NZD unless otherwise stated. Endnotes are located at the end of this announcement.*

NZ banking

The New Zealand bank, Heartland Bank, is focused on achieving sustainable and profitable growth in its core lending portfolios of Reverse Mortgages, Rural Lending, Motor Finance and Asset Finance as it rationalises all other lending against meeting return on equity (**ROE**) thresholds.

This includes continuing its shift away from unsecured lending and large relationship lending. The remaining Harmoney Corp Limited (**Harmoney**) portfolio (New Zealand and Australia) was sold in 1H2025.

Lending portfolio performance

Heartland Bank's primary business of Reverse Mortgages had strong performance in 1H2025. Receivables were up $82 million (15.3%)[4] from 30 June 2024 to $1.2 billion as at 31 December 2024, as Heartland Bank continued to support older New Zealanders to live a more comfortable retirement through access to the equity in their home.

Heartland Bank's Rural Lending portfolios performed better than anticipated in 1H2025, despite usual seasonal contractions. Rural Lending Receivables were down $42 million (11.7%)[4] from 30 June 2024 to $668 million as at 31 December 2024. This includes Rural Relationship, Rural Direct and Livestock Finance.

Within the Livestock Finance portfolio, new intermediary distribution partnerships onboarded in the six month period to 30 June 2024 (**2H2024**) mitigated seasonal contraction in the book, amidst the backdrop of a market where sheep numbers in New Zealand continued to fall.[8] The New Zealand Farmgate Milk Price outlook for the 2025 calendar year is positive as global demand increases. This is expected to flow through to growth in Heartland Bank's Livestock Finance portfolio in 2H2025.

Motor Finance Receivables were down $32 million (3.9%) from 30 June 2024 to $1.6 billion as at 31 December 2024. However, growth through Heartland Bank's direct channels was up 20.1% from 30 June 2024, driven by an increase in marketing activity and Heartland Bank's partnership with Tesla as one of two preferred finance providers.

Challenging economic conditions impacted growth in Heartland Bank's other lending portfolios. See pages 26 and 27 of the accompanying FY2025 Investor Presentation (**IP**).

NIM

	1H2024	2H2024	1H2025	1H2025 exit	FY2025 exit expectation
NZ banking	3.81%	3.74%	3.78%	**3.89%**	**>4.00%**

Heartland Bank's NIM was 3.78%, down just 3 bps from 1H2024. The declining interest rate environment in New Zealand, and subdued credit demand, has triggered significant pricing competition in the market through 1H2025.

NIM remains forecast to exit FY2025[9] at greater than 4%. This will be driven by:

- continued underlying NIM improvement in fixed rate portfolios, primarily in Motor Finance and Asset Finance as customers with lower margin loans repay
- a focus on sustainable lending growth in Heartland Bank's Reverse Mortgage, Rural and Motor Finance portfolios, combined with active management of NSAs
- further cost of funds benefits from a reducing interest rate environment.

Asset quality

In response to the impact of ongoing deterioration in economic conditions in New Zealand, and to derisk and reposition some of its lending portfolios, Heartland Bank increased its impairment expense to $49.6 million (up from $23.9 million in 1H2024). Although this is a substantial increase, it will significantly derisk and reposition the affected lending portfolios, and is in the long-term interests of the business, its customers and Heartland's shareholders.

Details of this impairment expense are outlined within Heartland's announcement dated 18 February 2025. The announcement also includes details of enhancements to Heartland Bank's Motor Finance collections, recoveries and write-offs strategies, and changes underway to strengthen the NPL management of Heartland Bank's older Business Relationship and older Rural Relationship portfolios.

Despite New Zealand's particularly challenging recessionary environment, the credit quality of Heartland Bank's Reverse Mortgage and Rural Lending portfolios is strong (refer to pages 23 and 24 of the IP). In Reverse Mortgages, the weighted average current loan-to-value (**LVR**) is 24.6%[10] and only 0.2% of loans have an LVR over 75%. In Rural Lending, of the 6.8% Rural Lending NPL ratio, just 0.5% is attributable to loans originated post-2020 (when Heartland Bank updated its lending standards to move away from larger Rural Relationship lending). For Motor Finance NPLs, lending originated post-2020 is performing better than loans originated prior to and inclusive of 2020, with a loss rate[11] of 2.7%, compared to 10.8% for loans originated prior to and inclusive of 2020.

Costs

Heartland Bank's OPEX was $63.1 million, up $10.9 million or 21.0% from 1H2024 (underlying OPEX was $62.1 million, up $10.5 million or 20.4%, from 1H2024). Increased costs were the result of:

- $3.4 million related to the reallocation of staff support functions from Heartland to Heartland Bank as required for post-ADI acquisition regulatory requirements
- $2.1 million related to the capitalisation of staff costs for Heartland Bank's core banking system upgrade and lower discretionary payments to staff in the financial year ended 30 June 2024
- a $2.1 million investment in capability and capacity in key areas including within Collections, Finance and Technology
- amortisation of $2.8 million for Heartland Bank's core banking system upgrade which began in July 2024 (this will add approximately $5.4 million of non-cash operating expenditure per annum over a seven-year period).

As a result, and exacerbated by net interest income remaining flat on 1H2024 (up $0.1 million on 1H2024 to $105.6 million in 1H2025), Heartland Bank's CTI ratio was 54.9% (the underlying CTI ratio was 53.2%).

An additional $3.0 million of OPEX is expected to be incurred in 2H2025. This includes recruitment costs in relation to expansion in Heartland Bank's credit and collections functions in 1H2025 to more effectively manage arrears moving forward, and implementation costs related to enhanced fraud management tools to meet industry-wide anti-scam commitments. This critical expenditure will contribute to an elevated CTI ratio for FY2025.

AU banking

Following the acquisition of the ADI and subsequent integration of Heartland's existing Australian businesses into the ADI, what is now Heartland Bank Australia is a substantially different business in 1H2025 than it was in 1H2024.

This makes comparability with the prior corresponding period difficult. This is detailed below.

Lending portfolio performance

Heartland Bank Australia's Reverse Mortgages portfolio experienced strong growth in 1H2025 with Receivables up $138 million (15.0%)[5] from 30 June 2024 to $2.0 billion as at 31 December 2024 despite heightened competition in the equity release market. The portfolio achieved record new business in 1H2025 of $193 million, up 4.1%[12] from 30 June 2024.

Through a concerted effort to improve process efficiencies, Heartland Bank Australia saw a 74% reduction in Reverse Mortgage application turnaround times, enabling capacity for growth and improved customer satisfaction. This has been supported by the strength of Heartland Bank Australia's partnerships and broker network which have contributed significantly to new business volumes in 1H2025. Momentum has continued into 2H2025 – January 2025 was a record month for new customer loans and further drawdowns.

Increased confidence has returned to the Australian livestock market as seasonal conditions have improved. Key market indicators are trending upwards and global demand for Australian beef has increased (driven by a weakened Australian dollar, and a herd rebuild taking place in the USA and commencing in South America).

Heartland Bank Australia's Livestock Finance business, StockCo, has seen good application volumes and livestock purchases as a result. Receivables were relatively flat, down just $1 million (1.0%)[5] from 30 June 2024 to $272 million as at 31 December 2024. In the second quarter of FY2025, StockCo saw the largest volume of livestock purchases per head since the second quarter of the financial year ended 30 June 2022. The increased application volumes experienced in November and December 2024 are expected to continue and have been enabled by operational improvements, including the way in which Livestock Finance applications are processed.

NIM

	1H2024 (rebase)	2H2024	1H2025	1H2025 exit	FY2025 exit expectation
AU banking	2.40%	2.52%	2.75%	**3.13%**	**> 3.60%**

Heartland Bank Australia's 1H2025 NIM was 2.75%, down 37 bps from 1H2024. This was due primarily to the inclusion of liquid assets from the ADI, which earn a lower yield than receivables, following acquisition completion in May 2024. On a comparable basis, NIM was up 35 bps from the 1H2024 rebase NIM of 2.40%.

NIM expansion is expected to accelerate in 2H2025, with FY2025 exit NIM expected to be greater than 3.60%.

NIM expansion in 1H2025 was driven by Heartland Bank Australia's transition from its sole reliance on wholesale funding to a mix of predominantly deposits supported by wholesale funding, growth in receivables and deposit spread management. The transition to being funded primarily by deposits is very well progressed with deposits now making up 60% of funding, expected to be above 80% by the end of FY2025.

The funding mix transition continues to have a positive effect on Heartland Bank Australia's cost of funds. As at 31 December 2024, Heartland Bank Australia's cost of funds was 5.75% (compared with 6.50% as at 31 December 2023), 75 bps lower than pre-ADI acquisition levels.

Heartland Bank Australia is further diversifying its funding mix with the recent launch of a new savings account, MySavings, on 1 February 2025. MySavings is an online call account designed to help Australians maximise their savings in a way that is simple and easy, without conditions to achieve the advertised interest rate. Heartland Bank Australia is also broadening its deposit distribution model through new intermediary partnerships.

Asset quality

Asset quality for Heartland Bank Australia remains strong. For Australian Reverse Mortgages, the weighted average current LVR is 24.0%[10] and only one loan has an LVR over 75%.

In a difficult operating environment, Heartland Bank Australia has improved asset quality, particularly in its Livestock Finance business where NPLs have seen a reduction from $70.5 million or 3.26% (as at 30 June 2024) to $40.4 million or 1.77% (as at 31 December 2024), without any write-offs occurring, demonstrating the resilience of the market and Heartland Bank Australia's customers.

Heartland Bank Australia continued to work proactively with Livestock Finance customers during difficult trading conditions. Through active management, Livestock Finance NPLs reduced materially, down 57.3% from 1H2024. The impairment expense ratio was up 5 bps from 2H2024 due to a $0.8 million provision for a large Livestock Finance customer exposure.

The sale of the Harmoney Australia personal loans book resulted in a provision release of $0.2 million and simplification of the balance sheet.

Costs

Heartland Bank Australia's OPEX was $26.6 million, up $12.4 million or 87.2% from 1H2024 (underlying OPEX was $25.5 million, up $11.4 million or 80.5%, from 1H2024). $7.2 million of the increased costs related to the cost base of the ADI on acquisition. Costs have increased $4.2 million since acquisition of the ADI, reflecting investment to uplift Heartland's businesses which were transferred to the ADI and are now under prudential regulation, and renewal costs related to the core banking system.

Costs are expected to remain stable in 2H2025. Heartland Bank Australia now expects its FY2025 underlying CTI ratio to be approximately 51%.

While Heartland Bank Australia is investing for sustainable and profitable growth, expense discipline remains a priority. As part of its post-ADI acquisition simplification activity, Heartland Bank Australia is winding down unnecessary legal entities within its structure. This will avoid duplication of costs and complexity of operations and regulatory oversight.

Group strategy

Heartland's fundamental purpose is to maximise shareholder value. This means ensuring capital is allocated to the parts of the business that generate strong returns, measured by ROE.

Across its two banks, the core specialist banking products are Deposits, Reverse Mortgages and Rural Lending, with the addition of Motor Finance for the New Zealand bank. See page 8 of the accompanying 1H2025 IP for more detail. With a clear focus on specialist banking products, Heartland has an opportunity to enable better lives for New Zealanders and Australians.

Non-Strategic Assets (NSAs)

The reallocation of capital from NSAs, will contribute to the simplification of the business, enabling capital to be deployed into value accretive activity. The majority of these NSAs are New Zealand assets which Heartland Bank has accumulated overtime to its current state of maturity, and are no longer a strategic fit for the organisation. Heartland Bank now has in place clear realisation strategies for its pool of NSAs. Through realisation of these NSAs, underlying capital can be redeployed to support Heartland Bank's growth ambitions in its specialist core banking portfolios.

See pages 9 and 10 of the 1H2025 IP for more information about the NSAs and realisation strategies.

Outlook

Interim dividend

Acknowledging the support of its shareholders and its strong capital settings, and despite a challenging operating environment, Heartland has declared a 1H2025 interim dividend of 2.0 cps, down 2.0 cps on 1H2024. Heartland's interim dividend yield of 7.9%[13] compares with 11.9%[14] in 1H2024.

Having regard to Heartland's next stage of growth, the Board continues to expect to target a total dividend payout ratio of at least 50% of underlying NPAT in FY2025. The Board will, as it has historically, actively manage dividend settings and carefully consider the declaration of any dividends based on Heartland's capital needs, ROE accretive growth opportunities, balance sheet flexibility and financial performance.

The interim dividend will be paid on Friday 21 March 2025 (**Payment Date**) to shareholders on the company's register as at 5.00pm NZDT on Friday 7 March 2025 (**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 final dividend with no discount.[15] The DRP offer document and participation form is available on Heartland's website at heartlandgroup.info/investor-information/dividends.

FY2025 outlook

NZ banking

Heartland Bank's priorities are sustainable and profitable growth within its core lending portfolios (accompanied by a continued focus on NIM expansion – with FY2025 exit NIM expected to be greater than 4%), uplifting the quality of its Motor Finance and business lending portfolios through simplification and uplifting credit risk management, and identifying efficiency through digitalisation and automation to manage costs.

This includes identifying opportunities to address unique banking needs of New Zealanders within its areas of specialty, such as Reverse Mortgages. Heartland Bank is launching a new product designed to allow people to access the equity in their home to enable the purchase of a retirement village property. The new Village Access Loan product is being piloted with a premier provider of aged care living solutions.

New Zealand economic conditions are expected to remain challenging in 2H2025. In particular, Heartland Bank expects trading conditions within the forestry, transport, agriculture contractor and construction sectors to remain challenging. While continuation of strong growth in Reverse

Mortgages is anticipated, moderated growth is expected in other core lending portfolios as the economy recovers.

As advised in Heartland's 18 February 2025 announcement, if conditions deteriorate further than what is currently anticipated and provisioned within Heartland Bank's lending portfolios, then additional losses could result in 2H2025, of up to $8 million in write-offs (in addition to what is considered business as usual) and up to $5 million in specific provisions.

AU banking

Australian economic conditions are varied and expected to pick up in 2H2025. Through its focus on business growth, service excellence and distribution diversification, Heartland Bank Australia is well positioned for sustainable and profitable growth through FY2025 and beyond.

Confidence is improving for farmers, driven primarily by price improvement in both beef and lamb. Heartland Bank Australia has seen positive signs of growth for StockCo continuing in January and February 2025, with a good pipeline of growth for the remainder of FY2025. The focus for the StockCo business in 2H2025 is on building brand awareness through key industry partnerships and new product innovation. Heartland Bank Australia also launched a new targeted Feedlot Finance product to test a potential opportunity in the market, and is partnering with Auctions Plus to provide livestock finance at the point of sale on the Auctions Plus platform.

Demand for Reverse Mortgages continues to be robust, driven through higher cost of living pressures, an ageing population and increased value in residential homes. Competition is intensifying with non-banks and fintech innovators expanding in the market. Heartland Bank Australia is continuing to refine and further improve its Reverse Mortgage operational processes to remain competitive while continuing to offer a premium product.

Margin benefits are expected by the end of FY2025 as Heartland Bank Australia's funding transition nears completion (expected to be greater than 80% deposit funding by the end of FY2025), with a more diversified deposit distribution model in place.

FY2025 guidance

Heartland expects underlying NPAT for FY2025 to be at least $45 million. 2H2025 one-offs are expected to include fair value changes on equity investments held and any other one-off non-recurring expenses that arise. Heartland expects the difference between reported and underlying FY2025 NPAT to reduce in 2H2025.

FY2028 ambitions

Heartland recognises the need to meet its FY2028 ambitions and remains confident in doing so despite near term financial impacts. At its FY2025 results announcement, Heartland will provide a detailed overview of the plans underway to meet these ambitions.

– ENDS –

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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, reverse mortgages, online home loans, business loans, car loans and rural loans. In Australia, Heartland Bank Australia offers competitive term deposits, is Australia's leading provider of reverse mortgages and provides specialist livestock finance through the StockCo brand.

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: heartlandgroup.info

Endnotes

[1] 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 for 1H2025 (which are non-GAAP financial information) exclude the impact of one-off regulatory assurance costs arising in relation to the acquisition of Heartland Bank Australia, one-off staff exit costs, the de-designation of derivatives, the fair value changes on equity investments held, and other non-recurring income. The use of underlying results is intended to allow for easier comparability between periods and is used internally by management for this purpose. In the accompanying IP, refer to page 6 for a summary of reported and underlying results, page 7 for details about 1H2025 one-offs, page 46 for details about 1H2024 one-offs and page 45 for general information about the use of non-GAAP financial measures. The 1H2025 financial statements are unaudited, but have been reviewed by Heartland's external auditor, PricewaterhouseCoopers.
[2] For details about 1H2025 one-offs, see page 6 of the IP.
[3] Gross Finance Receivables (**Receivables**) includes Reverse Mortgages.
[4] Annualised growth.
[5] Annualised growth excluding the impact of changes in foreign exchange (**FX**) rates.
[6] Net interest margin (**NIM**) is calculated as net interest income over average gross interest earning assets.
[7] Compound annual growth rate (**CAGR**) for the period 31 December 2019 to 31 December 2024.
[8] Beef + Lamb New Zealand Stock Number Survey, as at 30 June 2024, published August 2024.
[9] The FY2025 exit NIM is the NIM expected to be achieved on 30 June 2025 (rather than the average NIM for FY2025).
[10] LVR calculated using indexed valuation.
[11] Loss rate is defined as either 180 days past due with no losses experienced or written-off.
[12] Including the impact of changes in FX rates.
[13] Total fully imputed dividends for 1H2025 (interim) and 2H2024 (final) divided by the closing share price as at 25 February 2025 of $0.88.
[14] Total fully imputed dividends for 1H2024 (interim) and 2H2023 (final) divided by the closing share price as at 26 February 2024 of $1.17.
[15] That is, the strike price under the DRP will be 100% 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 available at www.heartlandgroup.info/investor-information/dividends.