NZX/ASX release
16 April 2025

Heartland trading update

Heartland Group Holdings Limited (**Heartland**) (**NZX/ASX: HGH**) today provides a trading update for the three months to 31 March 2025 (**Q3**).

Heartland remains on track to achieve net profit after tax (**NPAT**) on an underlying basis for the financial year ending 30 June 2025 (**FY2025**) of at least $45 million.[1] Net interest margin (**NIM**) expanded 28 basis points in Q3 (relative to the six-month period ended 31 December 2024 (**1H2025**)), with improvement seen in both Heartland Bank Limited (**Heartland Bank**) and Heartland Bank Australia Limited (**Heartland Bank Australia**). Operating expenses (**OPEX**) in Q3 remained stable – both banks are on track to meet OPEX expectations for the six-month period ending 30 June 2025 (**2H2025**) (as detailed below). Cost management programmes are in place to improve operational efficiency moving forward.

Asset quality improvements are starting to show in Heartland Bank's Motor Finance portfolio following the introduction of more prescriptive collections and recoveries policies for the New Zealand bank as announced on 18 February 2025. As a result, early recovery efforts for the Motor Finance loans written off in February 2025 have exceeded expectations.

Heartland is focused on sustainable, profitable growth, and has seen compelling gross finance receivables (**Receivables**) growth in Reverse Mortgages and Livestock Finance in New Zealand and Australia.

	Heartland			NZ Banking			AU Banking		
	Reported	Underlying		Reported	Underlying		Reported	Underlying	
	Q3	Q3	Outlook	Q3	Q3	Outlook	Q3	Q3	Outlook
NPAT	**Q3:** $16.6m	**Q3:** $17.1m	**FY25:** ≥$45m	**Q3:** $10.2m **YTD:** $11.1m	**Q3:** $10.6m **YTD:** $13.8m	n/a	**Q3:** AU$7.9m **YTD:** AU$19.2m	**Q3:** AU$7.9m **YTD:** AU$19.9m	n/a
NIM	3.69%	3.69%	n/a	3.92%	3.92%	**2H25:** >3.90%	3.31%	3.31%	**2H25:** >3.30%
OPEX	$46.9m	$46.3m	n/a	$33.2m	$32.5m	**2H25:** $66.1m	AU$11.2m	AU$11.2m	**2H25:** AU$23.3m
CTI ratio	57.6%	56.8%	n/a	57.1%	56.0%	**2H25:** 57.5%	49.2%	49.2%	**2H25:** 47.8%
Impairment expense ratio	0.63%	0.63%	n/a	0.92%	0.92%	**2H25:** 0.85%	0.05%	0.05%	n/a

[1] Certain financial measures are presented on a reported and underlying basis. Reported financial measures 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 financial measures (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 (previously Challenger Bank Limited), 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. The Investor Presentation for Heartland's 1H2025 financial results released on 27 February 2025 includes at page 7 details of the 1H2025 one-offs and at page 45 general information about Heartland's use of non-GAAP financial measures.

NZ banking

Financial performance

Q3 NIM was 3.92%, up from 3.78% in 1H2025 and on track to meet 2H2025 NIM expectations of greater than 3.90% with an exit NIM[2] greater than 4.00%. NIM improvement in Q3 was driven by an improved cost of funds as term deposit pricing benefits flowed through.

OPEX in Q3 was $32.5 million and is on track to meet the 2H2025 outlook expectation of $66.1 million. A strategic cost management programme is in place to manage costs in 2H2025 and ensure a proactive long-term approach to resetting Heartland Bank's cost base.

As expected, the impairment expense ratio has reduced from its elevated 1H2025 position following the impairment expense announced on 18 February 2025. Heartland Bank's overall non-performing loan (**NPL**) ratio reduced by 9 basis points from 31 December 2024 to 3.31% as at 31 March 2025. 28% of Heartland Bank's NPLs are non-strategic asset (**NSA**) loans.

Strong growth has continued in Reverse Mortgages, with Receivables up $41.7 million (14.7%)[3] in Q3 to $1,192.3 million as at 31 March 2025. At the end of March, Heartland Bank launched the pilot of its new product, Village Access Loans – designed to offer older New Zealanders a solution to some of the barriers associated with moving into a retirement village.

Rural[4] Receivables were up $21.0 million (12.7%)[3] in Q3 to $688.9 million as at 31 March 2025. Included within this is Livestock Finance which was up $23.4 million (57.1%)[3] in Q3 to $189.9 million as at 31 March 2025, ahead of expectations and reflects increased livestock market prices and Heartland Bank's commitment to supporting more farmers with their specialist livestock trading needs. Livestock Finance growth is expected to increase further in the fourth quarter of FY2025 (**Q4**) due to the usual seasonal lift.

The retraction in Motor Finance Receivables slowed significantly in Q3, down $6.1 million (-1.6%)[3] to $1,592.3 million as at 31 March 2025, while the portfolio mix shifted towards increased loan volumes from branded franchise dealers. Growth in Heartland Bank's direct channels continued to perform well, up $2.0 million (10.1%)[3] in Q3.

Trading conditions within the forestry, transport, agriculture contractor and construction sectors remain challenging, affecting lending demand for Heartland Bank's Asset Finance portfolio.

Collections and recoveries progress

Heartland Bank's more prescriptive repossession policy, write-off policy and debt collection strategies (described in Heartland's announcement on 18 February 2025) are having a positive effect on Motor Finance arrears. More resources are now focused on earlier stage arrears which is reducing the number of loans moving into arrears and through the arrears cycle.

Early recovery efforts for the Motor Finance portfolio write-offs announced on 18 February 2025 have exceeded expectations. As at 31 March 2025, Heartland Bank had recovered $1.9 million (49%) of the $3.9 million of expected recoveries.

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[2] The 2H2025 exit NIM is the NIM expected to be achieved on 30 June 2025 (rather than the average NIM for 2H2025).

[3] Annualised growth.

[4] Rural lending includes Heartland Bank's Livestock Finance, Rural Direct and Rural Relationship portfolios.

As expected, due to the time required for vehicles to be repossessed and debt written off and transferred to a debt collection agency, NPLs totalling $3.5 million have rolled through to being greater than 365 days past due (**DPD**). Through repossession activity and business-as-usual write-offs, these arrears are expected to be cleared before 30 June 2025.

Consistent with Heartland Bank's expectations for Q3 (due to the traditional seasonal uplift, coupled with ongoing challenging economic conditions), the amount of Open for Business (**O4B**) loans greater than 90 DPD has remained relatively flat, up $0.3 million from 31 December 2024. Recovery activity continues as Heartland Bank works towards its commitment to having no O4B arrears greater than 365 DPD by 30 June 2026. As part of Heartland Bank's simplification and strategic move away from unsecured lending, O4B is no longer accepting new applications and is running down.

AU banking

Financial performance

Heartland Bank Australia's transition from its sole reliance on wholesale funding to a mix of predominantly deposits supported by wholesale funding continues to track to plan. As at 31 March 2025, deposits made up 70% of funding and are expected to be above 80% by the end of FY2025 with AU$370 million of wholesale funding expected to repay in Q4. This transition is supporting NIM expansion which was 3.31% in Q3, up from 2.75% in 1H2025 and on track to meet 2H2025 NIM expectations of greater than 3.30% with an exit NIM greater than 3.60%.

OPEX in Q3 was AU$11.2 million and is on track to meet the 2H2025 outlook expectation of AU$23.3 million. The underlying CTI ratio is improving (down from 56.4% in 1H2025 to 49.2% in Q3) as net interest income benefits from the funding mix transition and Receivables growth, and costs remain stable.

Reverse Mortgage growth remains strong, with Receivables up AU$87.1 million (19.7%)[3] in Q3 to AU$1,884.1 million as at 31 March 2025.

Livestock Finance Receivables were up AU$36.3 million (59.3%)[3] in Q3 to AU$285.0 million as at 31 March 2025, driven by a number of large customer transactions. Some confidence has returned to the market, alongside livestock market price improvements. Livestock Finance has a good pipeline of growth for Q4 which will be supported by the launch of Heartland Bank Australia's new partnership with AuctionsPlus, Australia's leading online agricultural marketplace.

Non-Strategic Assets (NSAs)

Good progress has been made against Q3 NSA realisation targets. Exit strategies have been refined, set and are now being accelerated.

The shortfall in actual to target realisation for Online Home Loans was a result of adopting retention strategies while several portfolio sale opportunities were finalised. Online Home Loans is now in run down after Heartland Bank closed applications to new customers on 18 March 2025. Heartland Bank's 1-year fixed rate[5] and floating interest rate remain available to existing Online Home Loans customers as they transition to alternative home loan providers when their current fixed rate terms come to an end.

– ENDS –

[5] Heartland Bank's 1-year fixed interest rate for Online Home Loans will not be available after 30 June 2025.

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About Heartland

Heartland is an Australasian financial services group providing specialist banking products to New Zealanders and Australians. Heartland is listed on the New Zealand and Australian stock exchanges under the HGH ticker (NZX/ASX: HGH). Through its various predecessors, Heartland has a long history with roots stretching back to Ashburton, New Zealand in 1875.

Heartland is the listed holding company for two banks – Heartland Bank in New Zealand and Heartland Bank Australia in Australia. Each bank is focused on providing specialist banking products to enable better lives for New Zealanders and Australians. In both countries, these products include Reverse Mortgages, Livestock Finance and Savings and Deposits. In New Zealand, Heartland Bank also offers Motor Finance and Asset Finance.

As the listed parent company, Heartland's role is to ensure capital is allocated to the parts of its business which generate strong returns, and to set the strategy and risk appetite within which the group operates. This enables Heartland to maximise shareholder returns and each bank to enhance the value it offers customers by helping more New Zealanders and Australians with their specialist banking needs.

More: heartlandgroup.info