

NZX/ASX release
26 November 2024

Market update

Heartland Group Holdings Limited (**Heartland**) (NZX/ASX: **HGH**) today provides a trading update for the four months to 31 October 2024 (**YTD2025**).¹

As anticipated by Heartland in its recent financial results announcement dated 29 August 2024, the volatility experienced during the financial year ended 30 June 2024 (**FY2024**) has continued during YTD2025. Heartland continues to carefully manage credit quality and expects growth to return during the second half of FY2025 as interest rates reduce and credit demand strengthens.

Heartland remains committed to its stated ambitions for the financial year ending 30 June 2028 (**FY2028**), including to deliver an underlying return on equity between 12-14% while achieving an underlying net profit after tax (**NPAT**) of \$200 million by the end of FY2028. Heartland's pathway to achieving this is through simplification, core lending portfolio growth and capital efficiency.

NZ Banking

Heartland Bank Limited's (**Heartland Bank**) net interest margin (**NIM**) is improving and remains on track to achieve an exit NIM² greater than 4.00% in the financial year ending 30 June 2025 (**FY2025**).

Reverse Mortgages continued to perform well, experiencing annualised growth of 16.8% during YTD2025. As expected, however, growth in other sectors, primarily Motor Finance and Asset Finance, has been more challenging due to subdued demand in both markets.

The Motor Finance portfolio retracted 2.5% on an annualised basis during YTD2025. This is against the backdrop of a market which has seen a continuation of subdued new and used car sales through intermediaries, down 14.8% and 9.4% respectively between 1 January and 31 October 2024.³ An uplift in vehicle sales is anticipated as the economy recovers and consumer and business confidence returns.

The Asset Finance portfolio retracted 9.9% on an annualised basis during YTD2025 with limited capital investment taking place in the plant and equipment market and a significant increase in competition on price and credit appetite. Heartland Bank is holding firm to its credit quality and pricing strategy as it positions itself for market improvement. Subdued growth in YTD2025 has been exacerbated by the early repayment of an \$80 million wholesale funding facility by a client who is exiting the New Zealand market.

Economic conditions remain challenging, with Heartland Bank's business customers in particular continuing to report tough trading conditions. Monthly total business liquidations in New Zealand reached a 10-year high in September 2024.⁴ This trend has affected Heartland Bank's customers in the forestry and transportation sectors, with a number of firms entering liquidation in the first quarter of FY2025.

Both Motor Finance and Asset Finance arrears are elevated and are expected to remain this way for the rest of the 2024 calendar year. However, conditions are expected to start to improve in the third

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

quarter of FY2025 following the traditional post-Christmas arrears peak, and as the benefits of lower interest rates flow through. The prospects for the dairy sector are however much brighter given the stronger forecast payout and reducing interest rate environment.

In this context, Heartland Bank has taken new specific provisions of \$6.6 million in the first quarter of FY2025. As at 30 September 2024, Heartland Bank's overall non-performing loan ratio stood at 3.8%.

Good progress is being made towards realising the portfolio of Non-Strategic Asset (**NSA**) receivables which are no longer consistent with Heartland Bank's business writing strategy.⁵ Dedicated teams are now in place to execute on a realisation strategy, with preliminary discussions underway in respect of the potential divestment of certain NSA receivables portfolios.

Good progress also continues with Heartland Bank's digitalisation and automation programme of work.

AU Banking

Heartland Bank Australia Limited's (**Heartland Bank Australia**) transition from wholesale funding to retail deposit funding continues to progress successfully and remains on track to be largely complete by 30 June 2025. As at 31 October 2024, Heartland Bank Australia was 57% funded by retail deposits, providing the bank with the flexibility to be more competitive in the markets within which it operates.

Retail deposit flow and cost continue to track well, with greater direct-to-bank business being attracted. A new high interest online savings product is planned for release in the second half of FY2025.

Reverse Mortgages have performed well, with annualised growth of 14.5% during YTD2025. Strong ongoing demand continues to be driven by Australia's ageing population. A focus on process efficiency and an investment in resourcing will increase Heartland Bank Australia's ability to meet this demand and contribute to further growth in this portfolio. In YTD2025, Heartland Bank Australia has more than halved its time to originate loans, with further reductions expected over the coming year.

Livestock Finance (provided under the **StockCo** brand) retracted in YTD2025, down 8.1% excluding the A\$12 million repayment of a large non-performing loan in full. October and November 2024 saw a significant return in confidence across many regions. In November 2024, StockCo experienced its largest volume of sheep and lambs funded since October 2022. The increase in market confidence will be supported by product development and distribution network expansion, leading to portfolio growth in FY2025.

Looking forward

Looking towards the end of FY2025, while Heartland remains cautious in the near term, it expects growth in core lending to return as the New Zealand and Australian economies improve. Heartland expects to provide a NPAT guidance range for FY2025 in February 2025 as part of its interim financial results release.

– ENDS –

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Endnotes

¹ All financial results in this announcement are based on the unaudited financial statements of Heartland and its subsidiaries for YTD2025.

² FY2025 exit NIM is NIM for the month of June 2025.

³ Data sourced from Autograb for the period 1 January to 31 October 2024.

⁴ As reported in the Centrix Credit Insights Report October 2024.

⁵ NSAs do not reflect a structural change to Heartland's operations.