

Heartland Annual Meeting 2024: Chief Executive Officer's Address

1. Introduction

Good afternoon and welcome all,

I would like to thank our shareholders, Boards, Management teams and employees for their ongoing support of Heartland Group Holdings Limited (**Heartland**) (**NZX/ASX: HGH**) which has enabled the achievement of several strategic milestones amidst a backdrop of challenging economic conditions. We are now well positioned to capitalise on opportunities in our chosen markets as economic recovery progresses.

I am extremely honoured in the Board's faith in appointing me as Heartland Chief Executive Officer (**CEO**). I have been with Heartland for more than 14 years in various roles, including for the past four years as Group Chief Financial Officer.

In my time at Heartland, I have been fortunate to have been part of each significant building block of the business, including the initial merger in 2011, New Zealand bank registration in 2012 and Heartland's listing on the NZX and ASX. I have also been involved in the execution of every major strategic acquisition, including the Reverse Mortgage businesses in 2014, StockCo Australia in 2022 and Challenger Bank Limited (**Challenger Bank**) (now Heartland Bank Australia Limited (**Heartland Bank Australia**)) this year.

As Greg described, Heartland's role as the parent company of two banks has evolved. With it, the role of CEO has changed and is different to that held previously.

We now have two specialist banks with their own boards, and exceptional teams led by great leaders in Leanne Lazarus and Michelle Winzer respectively.

Heartland's role as the listed parent company will encompass broader group strategy, corporate finance, investor relations, capital allocation and strategic and risk management oversight of each bank.

As the interface between our internal businesses and the external market, the fundamental purpose of Heartland is to maximise shareholder value. My immediate focus therefore is addressing Heartland's return on equity (**ROE**) and, in doing so, ensuring that capital is allocated to the parts of our business that generate strong returns. This discipline is paramount in an environment of standardised prescriptive capital requirements. Capital is one of our most precious resources, and it must be utilised efficiently.

The successful completion of two capital raises during the past two years has enabled key strategic acquisitions in StockCo Australia, our Australian Livestock Finance business, and Heartland Bank Australia.

This, alongside our existing Reverse Mortgage businesses, has set a solid foundation from which to achieve our long-term ambitions.

As acknowledged by Greg, we appreciate the support and patience shown by our shareholders in completing these acquisitions. Despite the tough trading conditions the business has experienced, we remain positive about livestock market recovery, in-train product and distribution initiatives, and the successful transition of our Australian funding base from purely wholesale to around 90% deposits by the end of the financial year ending 30 June 2025 (**FY2025**) which will provide a strong margin uplift and unlock growth opportunities.

Our Reverse Mortgage businesses remain well positioned as product and service leaders in their respective markets. We expect strong demand to continue for reverse mortgages, supported by a growing demographic need. We are committed to being the retirement finance provider of choice and plan to grow the market and secure more of it with a broader product offering and enhanced distribution network.

2. Non-Strategic Assets

A key part of simplifying our business and improving ROE is the reallocation of capital from assets we have identified as non-strategic. These are a pool of assets that Heartland Bank Limited (**Heartland Bank**) has accumulated over time during its journey to date¹. As the business has matured, these are no longer a strategic fit for the organisation and do not contribute positively to Heartland Bank's ROE.

The total value of these assets at 30 June 2024 was \$217.8 million, out of total assets of \$9.3 billion.

We have commenced development of realisation strategies and will report on these assets separately in FY2025 to provide greater transparency. This will allow underlying capital to be redeployed to support value accretive growth within Heartland Bank.

3. FY2028 ambitions

While we remain cautious in the near term, we expect growth in core lending to return, and asset quality metrics to stabilise as economic recovery progresses during FY2025. We are already experiencing an improvement in our net interest margin, and these factors will support our ambitions for the financial year ending 30 June 2028 (**FY2028**) as we enter the financial year ending 30 June 2026 (**FY2026**).

Our stated FY2028 ambition is for the Group to deliver a return on equity between 12-14% while achieving a net profit after tax of \$200 million.

The pathway to achieving this is through simplification and product excellence. We will continue to be different, enable better lives for New Zealanders and Australians through our specialist banking products, and continue to make things easier for our people and customers.

Achieving this ambition will involve:

- 10% p.a. gross finance receivables (**Receivables**)² growth in our core lending products
- returning net interest margin above 4% through a focus on best or only products

¹ Non-Strategic Assets do not reflect a structural change to Heartland's operations.

² Receivables includes Reverse Mortgages.

- cost containment through automation, leading to an improved cost to income ratio – targeting less than 35%
- an efficient assessment of credit, management of arrears, and collections and recoveries to maintain high asset quality and improve our impairment expense ratio.

4. Conclusion

In conclusion, our fundamental purpose is to maximise shareholder value. This means ensuring activity is driven toward value accretive outcomes, measured by ROE. To do this, we must focus on where capital is deployed and how efficiently it is utilised.

I am pleased to now hand firstly to Leanne Lazarus, followed by Michelle Winzer, to provide updates on our respective New Zealand and Australian bank strategies.