HEARTLAND GROUP

Heartland Annual Meeting 2024: Heartland Bank New Zealand CEO's Address

1. Introduction and FY2024 summary

Kia ora koutou, hello everyone,

As noted by Greg, the financial year ended 30 June 2024 (**FY2024**) was challenging economically. For Heartland Bank Limited (**Heartland Bank**), while Reverse Mortgages continued to perform extremely well, we saw a reduced level of growth from what we typically see in our Motor Finance and Asset Finance portfolios.

Buying or upgrading to a new car was deprioritised for many New Zealanders – this was clear as total new and used car sales by dealers in the New Zealand market were down 12.7%[1]. In comparison, Heartland Bank's Motor Finance portfolio saw 3.8% growth. Similarly, in Asset Finance, high interest rates and difficult trading conditions meant lower margin loans continued to take longer to roll off as customers took longer to refinance assets. This portfolio still saw pleasing growth of 8%.

As customers responded to the challenging environment, we did see a deterioration in non-performing loans, within Motor Finance and Asset Finance and an increase in provisions. We spoke about this in detail within our FY2024 results announcement in August and described the May and June deterioration in domestic economic conditions and the impact this had on additional specific and collective provisions.

The recent reduction in the rate of inflation and the associated fall in the Official Cash Rate signals a positive change for the New Zealand economy. While this is encouraging, the projected unemployment rate and the lag between interest rates and business outcomes means we expect some volatility to continue through the financial year ending 30 June 2025 (**FY2025**) for the New Zealand bank.

Our ongoing investment in operational process efficiency and systems automation is having a positive effect on arrears management. Alongside this, we are continuing to support customers through the last stage of this economic downturn.

We have been diligently ensuring the fundamentals are in place to restore growth when the economy turns. We are doing this through our process automation and digital programme of work, and through simplification, which I'll discuss shortly.

Strategically, we are incredibly proud of what we achieved in the last year. We completed the upgrade of our core banking system. This was a multi-year investment and really sets us up for success in terms of our ability to continue to effectively service our customers and improve our digitalisation efforts.

[1] Based on data from Turners, dated June 2024 (data sourced from Waka Kotahi NZ Transport Agency).

We also became the first New Zealand bank to acquire an Australian bank. With this privilege comes a greater responsibility to ensure integration and oversight of the Heartland New Zealand Banking Group, including Heartland Bank Australia Limited (**Heartland Bank Australia**) and its subsidiaries.

Greg and Andrew have both discussed the evolution of the group following the milestone acquisition. This requires a change in the way we do things across all entities, and ensuring we have the foundations in place to achieve our strategic ambitions.

In New Zealand, we are focused on simplification and efficiency.

2. FY2025 focus

Simplification

By simplifying the New Zealand business, we intend to accelerate growth in our strategic, core lending portfolios, and generate better returns.

This is about enabling us to focus on the portfolios that we know have a good return and will allow us to restore profitability. Business and Rural lending gross finance receivables (**Receivables**)[2] made up about $190 million of the $217 million of Non-Strategic Assets[3] (**NSAs**) at 30 June. Our strategy to manage these loans is to sell or run down the portfolios over a responsible period.

NIM[4] expansion and cost reduction

Expanding our margin and cost reduction are key areas of focus for the New Zealand bank in FY25.

We started to see an improvement in NIM at the end of FY2024. Our underlying[5] exit NIM, the NIM on 30 June 2024, was 3.92%. By the end of FY2025, we expect NIM to be 4%. We are confident we'll get there through a number of measures.

Our active management of NSAs and increasing our focus on core lending will contribute to this. As will continued improvement in our fixed rate portfolios, mostly Motor Finance and Asset Finance, and cost of funds benefits as interest rates reduce further.

On costs, while we expect our cost to income (**CTI**) ratio to increase in FY2025, we have a clear strategy and plan in place to reduce costs through digitalisation initiatives and structural efficiencies. Our aim is to extend our best or only strategy to our CTI ratio and become the lowest cost provider for the products we offer.

3. Conclusion

Heartland Bank has a long history of helping New Zealanders with their finances and in doing things differently. We have proven there is strength in our best or only strategy and in the addressable markets we operate in.

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[2] Receivables as at 30 June 2024 excluding provisions.
[3] NSAs do not reflect a structural change to Heartland Group Holding Limited's (**Heartland**'s) operations.
[4] Net interest margin (**NIM**) is calculated as net interest income over average gross interest earning assets.
[5] Underlying NIM refers to NIM calculated using underlying results.

- A recent research paper funded by the Retirement Commission reported that about 25%[6] of New Zealand households have low retirement income and limited options to access liquid wealth but hold substantial equity in the owner-occupied homes. We are proud to offer Reverse Mortgages as a financial solution for this audience and our ageing population.
- Most households need a vehicle, which we can support access to through Motor Finance.
- We also have a growing opportunity within New Zealand's infrastructure and agricultural sectors to provide specialised finance solutions through our Asset Finance and Livestock Finance products.

As we simplify our business and continue our digitalisation programme, we are setting a strong foundation to contribute towards meeting the Heartland's ambitions for the financial year ended 30 June 2028 (**FY2028**).

Thank you to Heartland's shareholders and our New Zealand bank customers for your support. I will now hand over to Michelle to discuss the Australian bank.

[6] Source: "Do New Zealand home equity release schemes provide value for money?", Motu Economic and Public Policy Research.