HEARTLAND

2022 Annual Shareholder Meeting: Chair's Address

1. Introduction

The financial year ended 30 June 2022 (**FY2022**) certainly presented its challenges. However, the Board and I are proud of the way in which Heartland Group Holdings Limited (**Heartland**) and its customers have continued to respond to the uncertainties presented to them.

After another year hampered by the ongoing effects of the pandemic, and with increasing challenges presented by the economic environment, I am pleased to be standing here today confirming yet another positive financial result for Heartland.

2. The year in review

In FY2022, Heartland achieved a record net profit after tax (**NPAT**) of $95.1 million. On an underlying basis, which excludes the impacts of one-offs and the acquisition of StockCo Holdings 2 Pty Ltd and StockCo Australia Management Pty Limited (together, **StockCo Australia**), this NPAT was $96.1 million, an increase of $8.2 million over the prior year (**FY2021**). This is another strong result for Heartland as it continues to deliver against its best or only strategy.

Heartland grew its gross finance receivables (**Receivables**)[1] by 15.3% to $6.2 billion during the year as a result of strong performance from its Rural lending, online Home Loans, Motor and Reverse Mortgages portfolios.

On an underlying basis, return on equity was up 59 basis points to 12.6%. Further, Heartland's net interest margin of 4.16% in FY2022 has been consistently higher than banking peers.[2]

During FY2022, Heartland achieved a significant milestone against its strategy for growth in Australia through the acquisition of StockCo Australia. StockCo Australia specialises in livestock finance for Australian cattle and sheep farmers, similar to Heartland Bank Limited's (**Heartland Bank**'s) Livestock Finance product in New Zealand.

Proceeds from Heartland's recent equity raise have been used to repay outstanding debt from the acquisition and will also support future growth ambitions.

Heartland also recently announced its intention to purchase Australian bank, Challenger Bank Limited, conditional only on regulatory approvals. Jeff Greenslade will discuss this in more detail.

Heartland continued to advance the digitalisation of its products and platforms. Achievements included a 120% increase in the number of Heartland Mobile App users in New Zealand, and the development of a digital platform to allow Australian Reverse Mortgage customers to view their loan balance and cash review or redraw facilities from their mobile phone, tablet or computer.

Progress has also been made against Heartland's sustainability framework, which I will discuss shortly.

[1] Receivables include Reverse Mortgages and StockCo Australia.
[2] KPMG FIPS Report June 2022.

3. Equity raise

In order to repay the StockCo Australia acquisition debt funding, and to fund future growth for Heartland's existing businesses in New Zealand and Australia, Heartland announced a $200 million equity raise on 23 August 2022. This was Heartland's first equity raise since 2017.

The equity raise comprised a $130 million fully underwritten placement (**Placement**) and a non-underwritten share purchase plan (**SPP**) offered to shareholders in New Zealand and Australia to raise up to $70 million. The SPP included the ability for Heartland to accept oversubscriptions at its discretion.

Heartland chose this offer structure due to the volatile market conditions, and its objective to further diversify its share register. A diversified share register would promote increased liquidity on both the NZX and ASX. This is important in driving long-term value for all shareholders, by attracting depth of investment and widening demand.

Pleasingly, the $130 million Placement was fully subscribed. The Placement was strongly supported by shareholders, and attracted significant bids from new institutional and retail investors who we welcome as shareholders. The SPP had raised a total of $68.6 million from shareholders. Thank you for your ongoing support and contribution to Heartland's strategic ambitions.

4. Sustainability

Moving to sustainability, significant progress has been made against each of Heartland's sustainability pillars. These are environmental conservation, social equity and economic prosperity.

Heartland is embedding sustainability as a strategic focus throughout the business, ensuring that it is operating in a way that is sustainable for the planet, customers, communities and shareholders.

Environmental conservation
Heartland's most recent Greenhouse Gas (**GHG**) emissions reporting period relates to FY2021. Pleasingly Heartland achieved a 31% absolute reduction in emissions for this period. 21% of this can be attributed to new ways of operating, while the remainder is a result of the impact of COVID-19.

Work is underway to ensure Heartland is in a position to report its GHG emissions for the financial year ending 30 June 2023 (**FY2023**) as part of its FY2023 financial reporting. From FY2023, Heartland's GHG emissions reporting will also include emissions attributed to customer activity enabled through lending.

The installation of EV charging stations at key office locations has commenced as Heartland continues to replace its vehicle fleet with hybrid alternatives. Through FY2022 Heartland also saw an increasing number of electric and hybrid vehicles being financed through its Motor portfolio.

Social equity
Social equity includes ensuring good conduct and culture practices are maintained to drive fair outcomes for customers, together with fostering a work environment that promotes diversity and inclusion, and making a positive difference in the community.

In FY2022 Heartland implemented processes and controls to prevent any connection to modern day slavery, whether through business practices, customer practices, or supply chain connections.

Heartland remains committed to doing the right thing for its customers, and was pleased to achieve Consumer Trusted accreditation for its New Zealand Reverse Mortgages for the fifth year in a row.

As part of its commitment to providing fair pay to its people, Heartland introduced pay gap reporting as part of a reporting register launched in March 2022. Heartland was one of only seven organisations to disclose its gender, Māori and Pasifika pay gap measures on the first day of the registry's launch. There is more to be done to close Heartland's pay gaps, and work is underway in this regard.

Heartland Bank was also proud to achieve the Rainbow Tick in line with concerted efforts by its people to focus on diversity, equity and inclusion.

Heartland has a strong history in New Zealand, dating back to 1875. So, it is our pleasure to be able to support the communities we operate in, through the Heartland Trust. The Heartland Trust is an independent registered charitable trust which is closely supported by Heartland and is a holder of Heartland shares.

During the year, the Heartland Trust made grants totalling more than $500,000 to support our communities, including in the areas of education, arts and culture, and mental health. The Trust continued its funding and support of the InZone Education Foundation, Auckland City Mission, Auckland University's Kupe Leadership Scholarship, the Auckland Writers Festival, WORD Christchurch Festival, Lifeline, and a number of high school and club 1st XV rugby teams across the country.

Economic prosperity
Economic prosperity was delivered though Heartland's products and ongoing digitalisation efforts.

Heartland Bank was once again named Canstar's "2022 Bank of the Year – Savings" for the fifth consecutive year, with awards also given for its Direct Call and Notice Saver accounts.

More than 40,000 New Zealanders and Australians have been able to live a more comfortable retirement through access to Heartland's Reverse Mortgages.

Furthermore, over 20,000 Heartland Bank customers are now using the Heartland Mobile App, which allows Heartland to pass cost savings on to its customers in the form of competitive rates.

For our shareholders, we were pleased to be able to pay a final dividend of 5.5 cents per share, bringing the total dividend for FY2022 to 11 cents per share. The full year payout ratio of 68% was consistent with the average over the last three years.

The total shareholder return (**TSR**) was 66.9% for the five-year period from 19 August 2017 – 19 August 2022. This compares with TSR of 56.7% for the NZX50 in the same period.

5. Outlook

The Board is confident in Heartland's ability to generate strong growth and profitability as it continues to deliver against its strategy to provide best or only products through scalable digital platforms – with further expansion expected in Australia.

While Heartland released its $9.6 million COVID-19 Overlay taken in the financial year ended 30 June

2020 (**FY2020**), it was considered prudent to create an Economic Overlay of $8.0 million due to the uncertainty and economic pressures facing businesses. The Economic Overlay will provide more resilience in areas such as Business Relationship lending and Asset Finance which have larger loan sizes.

Noting the ongoing volatility in the market, and the challenges of rapidly rising interest rates, Heartland affirms its NPAT for FY2023 to be in the range of $109 million to $114 million. This excludes any impact of fair value changes on equity investments held and the impact of the de-designation of derivatives.

6. Conclusion

I wish to conclude my address this afternoon by expressing my thanks and gratitude to my fellow directors for their wise counsel and support.

Thank you to Jeff Greenslade, Chris Flood and the Executive team who continue to provide strong leadership for Heartland through their diverse set of skills. I would also like to extend a very warm welcome to Leanne Lazarus who joined the Executive team as Heartland Bank CEO in August 2022.

On behalf of the Board and Executive team, I wish to thank our Heartland employees for their hard work and resilience which enabled an exceptional result this year.

Last but not least, I would like to thank you, our shareholders and customers, for supporting Heartland. We appreciate the confidence you place in us and we look forward to continuing the delivery of strong shareholder returns.

Thank you.

I will now ask Jeff Greenslade to address you.