

Heartland Annual Meeting 2024: Heartland Bank Australia CEO's Address

1. Introduction

Good afternoon,

I have the great privilege of leading Heartland Bank Australia Limited (**Heartland Bank Australia**). I joined the business towards the end of July 2024, so will be taking more of a forward-looking approach today.

But first a bit about me. I have had over 30 years' experience in banking, with extensive experience in Australia's major banks, but most recently more experience in smaller banks. My strength is in leadership, business growth and a full understanding of the end-to-end process of our business. With that, I bring to Heartland Group Holdings Limited (**Heartland**) the best of the big bank disciplines, coupled with the dynamic customer-focused approach of a small bank.

I am very excited by the potential to deliver our best or only strategy to the Australian market, and know we have the capability and product offering to make a real difference.

2. Establishing a specialist Australian bank

Heartland completed its acquisition of Challenger Bank Limited (**Challenger Bank**) on 30 April 2024. Its existing businesses, Heartland Finance's Reverse Mortgages and StockCo Australia's (**StockCo**) Livestock Finance, were then transferred into the bank, which was subsequently rebranded to Heartland Bank Australia. We continue to offer Livestock Finance under the StockCo brand.

Since then, the focus has been on integration and bringing together the cultures of these three businesses. In doing so, we've identified, and will continue to identify, opportunities to remove duplication, improve processes, streamline what we do, and deliver faster time to service for our customers. These operational efficiencies will increase our capacity to do more.

This includes ensuring we have the right structure in place to provide value and exceptional service to customers, grow as a business and contribute towards Heartland's ambitions for the financial year ending 30 June 2028 (**FY2028**).

We recently welcomed some new roles to the leadership team, including a Chief Commercial Officer and Chief Technology & Operations Officer. These roles join the already existing strong executive team.

A large part of process improvement will be through digitalisation and automation. This is of course part of who we are and what we do across the Group. Our investment in digitalisation and automation is aimed at improving service delivery and enhancing the experience for our customers and our team.

Prior to the acquisition, Heartland relied on costly wholesale funding to fund its Australian businesses. This was a key driver for obtaining an authorised deposit taking institution (**ADI**) in

Australia. Transitioning Heartland Bank Australia's funding mix from 100% wholesale funding to predominantly retail funding is a key part of our ability to do more. Since completion, we have been originating and funding all lending through deposits on our own balance sheet while wholesale facilities continue to repay. So, we are well on track to meet our target of about 90% retail funding by the end of the financial year ending 30 June 2025 (**FY2025**).

The benefits of this transition will flow through to improvements in Heartland Bank Australia's underlying cost to income (**CTI**) ratio and underlying net interest margin (**NIM**).

3. Business growth

We have had incredible success with deposit raising to date. In fact, Challenger Bank's pre-acquisition deposit raising campaign exceeded Heartland's expectations and gave us a good head start on our funding mix transition. This of course sets us up well to fund future growth expectations.

We are working on opening up and diversifying our deposit distribution network, and are developing new deposit product ideas to bring to market in the coming months.

Similarly to the New Zealand bank, we are focused on keeping things simple. This means focusing on our existing specialist lending portfolios of Reverse Mortgages and Livestock Finance before looking to expand into new asset classes.

In the first half of the financial year ended 30 June 2024 (**FY2024**) livestock producers experienced one of the steepest and sharpest falls in livestock prices since the 1970s. This was the main driver for the decrease in Australian Livestock Finance gross finance receivables (**Receivables**) which were down \$103.0 million, or 27.5%¹, to \$272.0 million. Receivables balances stabilised in the second half of FY2024 as trading conditions in some states and the volatility in livestock prices eased. In the last three quarters of the year, we actually saw an increase in the total number of livestock financed, up from 578,000 on finance at the end of September 2023, to finish the year with 635,000 on finance at the end of June 2024.

Despite the extreme market and seasonal conditions that our StockCo customers have endured, the relatively low level of provisioning is an indication of the credit strength and resilience of the portfolio and the sector.

As Leanne has said for New Zealand, Livestock Finance is very reliant on the weather. We have seen an improvement, however, to set ourselves up for success we need to find ways where we can serve the needs of Australian food producers without such reliance on climatic conditions.

In bringing the Australian businesses together, we've taken the opportunity to deep dive into StockCo and specifically how we offer our Australian Livestock Finance. We are adapting to the conditions we are operating within, and the needs of the market to develop new livestock finance products and broaden our distribution model. We expect this to contribute to growth in FY2025.

When it comes to Reverse Mortgages, we have more opportunity than we currently have the capacity for. This is being driven primarily by Australia's ageing population. Our focus on process

¹ Excludes the impact of changes in foreign currency exchange rates.

efficiency will enable growth and help us to serve more customers. In fact, we have already more than halved our time to serve and hope to reduce this further over the coming year.

4. Conclusion

Looking beyond FY2025, Heartland Bank Australia is well positioned for growth. With the right structure in place, and as we continue to bed in new ways of working, we have a great opportunity to expand our business and become known as a leading specialist bank. I am incredibly proud of what we are achieving and the opportunity available for us to help more Australians with their specialist banking needs.

Thank you for your time.