HEARTLAND

Heartland Annual Meeting 2025: NZ Bank Chief Executive Officer's Address

1. Introduction

Kia ora koutou, hello everyone,

It is a privilege to join you in Ashburton for this year's Annual General Meeting, marking 150 years since Heartland Group Holdings Limited (**Heartland**) (**NZX/ASX: HGH**) and its subsidiaries' (the **Group**) beginnings in this community – a testament to our lasting partnership and heritage. As a region, Canterbury hosts 13% of New Zealand's population, but provides 26% of Heartland Bank Limited's (**Heartland Bank's**) deposits – punching twice above its weight in funding Heartland Bank's assets.

2. Business performance

Turning to the financial year that has been, as mentioned, financial year ended 30 June 2025 (**FY2025**) was a year of reset and change for the New Zealand bank.

At the beginning of FY2025, we faced some challenges, including the need to respond decisively to a changing economic environment. We took proactive steps to de-risk and reposition parts of our lending portfolio, resulting in a $49.6 million impairment expense. While this impacted our financial results for the first half of FY2025 (**1H2025**), it was in the long-term interests of our business, our customers and Heartland's shareholders.

Since then, we have:

- refined our core product sets – these are Reverse Mortgages (which continues to experience strong growth), Rural Finance, Motor Finance, Asset Finance, and Savings & Deposits
- focused on improving asset quality
- committed to greater cost discipline, and
- accelerated non-strategic asset (**NSA**) realisation to enable capital to be reallocated to high-return core lending products.

Today, Heartland Bank remains strong, stable, and well-capitalised.

We have also made changes to our leadership team to ensure we have the right expertise to drive sustainable growth within our core product sets and to accelerate digitalisation and automation, and deliver an outstanding customer and originator experience.

Our strategy is clear and well-defined, with a vision to be New Zealand's leading specialist bank. Underpinned by the three pillars – quality, efficiency, and growth, we are already beginning to see the benefits of this strategic reset.

3. Quality

As mentioned, we have refined our lending strategy to support quality, sustainable growth within our core product sets.

We have introduced new credit decisioning scorecards for Motor Finance and shifted our Motor Finance focus from lending originated through brokers, to lending through higher quality direct-to-consumer channels (known as Motor Direct), franchise dealers and branded distribution partners. The introduction of more prescriptive collections, recoveries and write-off strategies has had a positive effect on asset quality, as Greg and Andrew have described. We are still on track to have no Motor Finance arrears greater than 180 days past due by 30 June 2026.

For our Business Finance[1] customers, trading conditions have been challenging. This was reflected in arrears which increased through FY2025 and into the first quarter of the financial year ending 30 June 2026 (**FY2026**) (**1Q2026**), however we are now starting to see an improvement early in the second quarter of FY2026 (**2Q2026**). At the end of October, total Business Finance arrears were down $2.9 million, with non-performing loans down $5.9 million.

Our teams are still working closely with customers to support them through this period, and we expect to see further reduction in non-performing loans as we near the end of the calendar year. The portfolio remains well provisioned, reflecting the secured nature of this lending.

4. Efficiency

Our focus on efficiency is about disciplined cost management and efficient use of capital. It also describes our focus on automation to increase speed and ease for both our customers and employees.

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[1] Business Finance includes Asset Finance and Business Relationship. Excludes NSAs.

Costs increased in FY2025, primarily due to non-repeating benefits in the financial year ended 30 June 2024 (**FY2024**), investment in core functions to enable higher quality growth and to address additional regulatory oversight responsibilities arising from owning an Australian authorised deposit taking institution, and the amortisation of the core banking system upgrade which completed in late 2023. Cost growth stabilised in the second half of FY2025 and remained stable through 1Q2026.

We have actively managed our cost of funds to end FY2025 with a strong margin. Net interest margin (**NIM**) was 3.87%, with an exit NIM[2] of 4.13%. We are pleased to see this positive trend continue through 1Q2026 to 4.06%, with an exit NIM[3] of 4.08%.

Leveraging the completion of our core banking system upgrade in late 2023, we're continuing to invest in technology and automation to reduce manual ways of working, which limit how quickly and easily we can convert demand into new business. This investment means we will be able to deliver an even better experience for customers and enable scalable growth within our core lending portfolios.

5. Growth

The NZ bank's growth focus is on our specialist lending portfolios, where our customer value proposition is strongest.

- We are continuing to see great momentum in Reverse Mortgages, with Gross Finance Receivables (**Receivables**) up 14.0%[4] in 1Q2026, reflecting solid ongoing demand.
- Excluding Livestock Finance, which experienced the usual seasonal contraction, the Rural portfolio[5] grew by 6.1%[4] in 1Q2026.
- Subdued markets impacted growth within Motor Finance and Asset Finance. The recent Motor Finance retraction also reflects our shift to higher quality distribution channels, better positioning the portfolio for quality growth.

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[2] The FY2025 exit NIM is the NIM achieved on 30 June 2025 (rather than the average NIM for FY2025).
[3] The 1Q2026 exit NIM is the NIM achieved on 30 September 2025 (rather than the average NIM for 1Q2026).
[4] Annualised growth.
[5] Rural includes Rural Relationship, Rural Direct and Livestock Finance. Excludes NSAs.

Building on our strength as the reverse mortgage market leader, we launched Village Access Loans, expanding our offering to better serve older New Zealanders.

We have also leveraged our vehicle lending expertise by introducing Marac Marketplace, a new online platform that simplifies vehicle purchasing and financing, further strengthening our presence in the motor vehicle finance market.

As earlier covered, during FY2025 and FY2026, the NZ Bank's focus was – *and is* – on winding down assets that are no longer a strategic fit. This is progressing ahead of schedule, with several large rural and business exposures settled in full.

This accelerated progress, together with holding firm on the quality of business that we are willing to write, contributed to a retraction in Heartland Bank's lending portfolio over the year. These decisions were made with prudence – prioritising quality, stability and resilience.

6. Looking ahead

We have a clear focus for FY2026 of building on our strengths across our core portfolios:

- helping older New Zealanders achieve financial freedom through Reverse Mortgages
- supporting growth for farmers
- making it easier for customers to get on the road or invest in new assets
- offering competitive deposit rates, and
- investing in technology to enhance efficiency, scalability, and customer experience.

Finally, I want to extend a heartfelt thank you to this community and our shareholders for standing with us as we navigate change and position Heartland for continued success. Your commitment has been foundational to our success, from multiple building societies to a trans-Tasman banking group, and we are proud to call Ashburton home.

I will now hand over to Michelle Winzer to discuss the Australian bank.