NZX/ASX release
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# Market update: Increase in Heartland Bank impairment expense

Heartland Group Holdings Limited (**Heartland**) (**NZX/ASX: HGH**) has today announced an impairment expense of $49.6 million[1] in its New Zealand bank, Heartland Bank Limited (**Heartland Bank**), for the six-month period ended 31 December 2024 (**1H2025**). This is in response to the impact of ongoing deterioration in economic conditions in New Zealand, and to derisk and reposition some of the New Zealand bank's lending portfolios.

This impairment expense relates predominantly to arrears within Heartland Bank's Motor Finance and business lending portfolios where collectability of customer arrears has been impacted by continued economic deterioration in New Zealand.

Although this is a substantial increase in impairment expense for Heartland Bank (up from $23.9 million in 1H2024[2]), this will significantly derisk and reposition the affected lending portfolios, and is in the long-term interests of the business, its customers and Heartland's shareholders.

The components of the $49.6 million Heartland Bank impairment expense are listed below and detailed later.

1. **Write-offs:** a $20.2 million impact from writing off arrears, net of expected recoveries. This includes an $12.1 million impact from writing-off arrears greater than 365 days past due in the Motor Finance and Open for Business (**O4B**) loan portfolios, and $8.1 million of business-as-usual write offs.
2. **Specific provisions:** $19.4 million specific provisions[3] expense predominantly for Asset Finance and older Business Relationship loan portfolios.
3. **Collective provisions:** $10.0 million collective provisions[4] expense for the Motor Finance, O4B and Asset Finance loan portfolios.

This New Zealand bank impairment expense will impact Heartland's net profit after tax (**NPAT**) for 1H2025. Heartland expects 1H2025 NPAT to be in the range of $2 million to $5 million, subject to completion of the 1H2025 interim review by Heartland's external auditors, which is substantially progressed.

Heartland Bank remains well capitalised with a total capital ratio of 14.8% as at 31 December 2024 and strong liquidity. The credit quality of its Reverse Mortgage and Livestock Finance portfolios remains strong.

The Australian bank, Heartland Bank Australia Limited, is unaffected and continues to perform well. Growth has returned in its Livestock Finance portfolio, while strong growth continues in its Reverse Mortgage portfolio. The transition from mostly wholesale funding to a wholesale and deposit funding mix is progressing well.

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[1] All figures are in NZD unless otherwise stated and remain subject to completion of interim review by Heartland's external auditors, which is substantially progressed.
[2] The six-month period ended 31 December 2023 (**1H2024**).
[3] Specific provisions are credit impairment provisions held against loans which are assessed individually.
[4] Collective provisions are credit impairment provisions held against a portfolio of loans which are assessed collectively.

While the Board is yet to declare an interim dividend, its current expectation is that the increased Heartland Bank impairment expense will not prevent Heartland from paying an interim dividend. The quantum of any dividend to be declared in respect of 1H2025 will be carefully determined by the Board based on Heartland's capital needs, return on equity accretive growth opportunities, balance sheet flexibility and financial performance.

## Impact of the recessionary operating environment

As anticipated by Heartland in recent market announcements, economic volatility in New Zealand has continued into the financial year ending 30 June 2025 (**FY2025**). During 1H2025, New Zealand economic conditions have significantly deteriorated. The latest GDP data from Stats NZ reveals a 1.0% fall for the September 2024 quarter. Taken together with a significant restatement of the June 2024 quarterly GDP result which saw the New Zealand economy shrink by 1.1%, this represents the largest six-month fall in GDP since mid-1991, excluding the COVID-19 period.

The magnitude of this recent contraction is reflected in other macroeconomic indicators, with unemployment in New Zealand rising to a four-year high of 5.1%[5], financial hardships up 19% year-on-year[6], and company liquidations in New Zealand up 39% year-on-year[7]. Within the market, consumer defaults increased by 39% annually[6] compared with 28% at June 2024[8], while business defaults increased 22% annually[6] compared with 5% at June 2024[8].

Construction and manufacturing are two of the sectors most affected by the recent deterioration – both are sectors Heartland Bank supports within its Asset Finance, O4B and older Business Relationship lending.

The continuing deterioration of economic conditions in New Zealand, particularly over 1H2025, is ultimately impacting the ability of Heartland Bank's Motor Finance, O4B, Asset Finance and Business Relationship customers in arrears to repay.

In response to this, Heartland Bank has increased provisions across affected portfolios and is writing off Motor Finance and O4B loans greater than 365 days past due (net of anticipated recoveries) in 1H2025.

## Write-offs

The $12.1 million net impact from writing off all arrears greater than 365 days past due in Heartland Bank's Motor Finance and O4B loan portfolios constitutes a $27.2 million write-off of these loans, less an $11.2 million release of collective provisions held against these loans, and an assumed $3.9 million recovery from continued collections efforts.[9] Of these arrears being written off, 77% are Motor Finance loans and 23% are O4B loans.

Writing off these arrears is expected to result in Heartland Bank's non-performing loan (**NPL**) ratio[10] decreasing from 3.65% as at 30 June 2024 to 3.40% as at 31 December 2024 and will enable more resources to continue to focus on addressing earlier stage arrears.

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[5] Stats NZ Unemployment Rate, February 2025.
[6] Centrix Market Report, January 2025.
[7] Companies Office Liquidation data, December 2024.
[8] Centrix Market Report, July 2024.
[9] This conservative estimated recovery rate of 31% is based on Heartland Bank's last six months recovery rate for secured Motor Finance loans more than 365 days past due and has only been applied to the secured Motor Finance loan book.
[10] The NPL ratio is calculated as total loan exposures greater than or equal to 90 days past due or impaired, divided by total loan exposures.

The $8.1 million in business-as-usual write-offs, net of expected recoveries, is across Heartland Bank's lending portfolios. This compares with $8.5 million in the six-month period to 30 June 2024.

### Specific provisions

The $19.4 million specific provisions expense is predominantly for Asset Finance and older Business Relationship lending within the transport, construction, forestry and agriculture sectors, where the probability of recovery has reduced substantially since June 2024.[11] This increase reflects the impact of the current economic deterioration on trading conditions in these sectors, security valuations, and overall recoverability prospects of NPLs within these portfolios.

The majority (69%) of these loans were originated prior to Heartland Bank updating its lending standards in 2020 and are loans which Heartland Bank no longer writes.

### Collective provisions

The $10.0 million collective provisions expense is due to the impact of the prolonged recessionary environment on loans within Heartland Bank's Motor Finance, O4B and Asset Finance portfolios. In particular, the economic deterioration for business lending (with reference to the increased rate of liquidations and receiverships in New Zealand) has resulted in an increase in estimated probabilities of default and an increase in the resulting loss. These are key inputs applied to model collective provisions.

### Changes to Heartland Bank's collections, recoveries and write-off strategies

Heartland Bank had historically taken a supportive and judgement-based approach to helping customers in arrears repay their loans, particularly through the COVID-19 period. This approach had worked well, particularly during more stable economic conditions and due to the markets Heartland Bank served. As the economy has deteriorated and Heartland Bank has grown, its arrears management practices, while remaining supportive, require a more proactive and prescriptive approach.

As a result, Heartland Bank has enhanced its collections, recoveries and write-offs strategies for its Motor Finance portfolio. Changes have included the adoption of a more prescriptive repossession policy. This sees Heartland Bank implement recovery action sooner in the collections cycle for customers in arrears unable or unwilling to work with Heartland Bank to develop corrective solutions. Recovery rate improvements are already flowing through.

Heartland Bank has also implemented a prescriptive write-off policy which requires write-off decisions to be made no later than the point at which a loan becomes 180 days past due and the repossession process has been completed, if not earlier.

Rather than mainly managing recovery activity internally, Heartland Bank is now engaging with debt collection agencies immediately post-write-off to enhance subsequent recovery.

Simultaneously, in Heartland Bank's older Business Relationship and older Rural Relationship portfolios, changes to risk-grading, security valuations, Heartland Bank's restructuring policy, and the strategy and timing of intervention measures are underway to strengthen NPL management.

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[11] Three Rural Relationship loans, including a single large loan, are also included.

## Looking forward

While there may be some positive economic tailwinds emerging in New Zealand during the second half of FY2025 (**2H2025**) from further interest rate reductions and a consequential increase in credit demand, it is expected economic conditions for New Zealand consumers and businesses will remain challenging. In particular, Heartland Bank expects trading conditions within the forestry, transport, agriculture and construction sectors to remain challenging through 2H2025. Heartland Bank will continue to proactively work with impacted customers.

With all future arrears in the Motor Finance and O4B portfolios managed under the new 180-day write-off policy, Heartland Bank is proactively managing Motor Finance and O4B loans currently between 180 and 364 days past due. Combined with the write-off of all Motor Finance and O4B loans greater than 365 days past due, this is expected to result in no arrears for this cohort by 30 June 2026.

If conditions deteriorate further than what is currently anticipated and provisioned within Heartland Bank's lending portfolios, then additional losses could result in 2H2025, of up to $8 million in write-offs (in addition to what is considered business as usual) and up to $5 million in specific provisions.

Heartland will report on its 1H2025 financial results, and provide a NPAT guidance range for FY2025, on 27 February 2025.

Heartland will hold an investor briefing at 11am NZDT today (18 February 2025) to discuss this announcement. Register to attend the briefing here: https://ccmediaframe.com/?id=IMC96OAT.

– ENDS –

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**About Heartland**

Heartland is a financial services group with operations in Australia and New Zealand. Heartland has a long history with roots stretching back to 1875 and is listed on the New Zealand and Australian stock exchanges (NZX/ASX: HGH).

Heartland's New Zealand business, Heartland Bank, provides customers with savings and deposit products, reverse mortgages, rural loans, car loans, business loans and online home loans. In Australia, Heartland Bank Australia offers competitive term deposits, is Australia's leading provider of reverse mortgages and provides specialist livestock finance through the StockCo brand.

Heartland's point of differentiation is its 'best or only' strategy – where it focuses on providing products which are the best or only of their kind through scalable digital platforms. Heartland is committed to delivering financial solutions through speed and simplicity, particularly via digital platforms which reduce the cost of onboarding and make it easier for customers to open accounts or apply for funds when they need it.

More: heartlandgroup.info