

Heartland Annual Meeting 2023: Chair's Address

1. Introduction

I acknowledged earlier that this is the first Annual General Meeting since the very sad passing of Geoff Ricketts in March this year. As a founding Director, Geoff played an instrumental role in bringing Heartland Group Holdings Limited (**Heartland** or the **Group**) together and establishing the successful trans-Tasman financial services organisation that it is today. Geoff will be remembered as an esteemed leader who was generous with his time and wisdom. Geoff leaves an incredible legacy.

The Board of Directors (the **Board**) and I are proud of the way in which Heartland and its customers demonstrated resilience through the financial year ended 30 June 2023 (**FY2023**). I am pleased to be standing here today confirming Heartland's performance for FY2023, which I believe Geoff would have been proud of.

2. The year in review

On behalf of the Board, I can report that in FY2023, Heartland achieved a net profit after tax (**NPAT**) of \$95.9 million, an increase of \$0.7 million on the financial year ended 30 June 2022 (**FY2022**). On an underlying¹ basis, this result was \$110.2 million, an increase of \$14.1 million over the prior year.

Heartland's underlying results exclude the impacts of one-off and technical non-cash items such as fair value changes on equity investments and the de-designation of derivatives. Underlying results are intended to allow for easier comparability between periods as these items are not considered part of business as usual activity and therefore are not representative of Heartland's core earnings.

This is another strong result for Heartland, driven by growth in gross finance receivables (**Receivables**)² of 10.1% to \$6.8 billion³ across Heartland's core lending portfolios.

Underlying return on equity (**ROE**) was 11.9%, down 68 basis points compared with FY2022.⁴ This reflects a strengthened capital position following Heartland's equity raise in the first half of the financial year, positioning the business well for future growth opportunities.

¹ Financial results are presented on a reported and underlying basis. Reported results are prepared in accordance with NZ GAAP and include the impacts of positive and negative one-offs, which can make it difficult to compare performance. Underlying results (which are non-GAAP financial information) exclude any impacts of one-offs. This is intended to allow for easier comparability between periods, and is used internally by management for this purpose. A detailed reconciliation between reported and underlying financial information, including details about FY2023 one-offs, is set out in Heartland's FY2023 full year results investor presentation available at heartlandgroup.info. General information about the use of non-GAAP financial measures is also available in that presentation.

² Receivables includes Reverse Mortgages.

³ Excludes the impact of changes in foreign currency exchange rates.

⁴ Underlying ROE refers to ROE calculated using underlying results. When calculated using reported results, ROE was 10.4%, down 169 bps. See page 4 of Heartland's FY2023 Investor Presentation available at www.heartlandgroup.info for more information about the use of ROE, a supplementary, non-GAAP measure.

Heartland's net interest margin (**NIM**) has consistently remained higher than its banking peers.⁵ This trend continued in FY2023 with an underlying NIM of 4.00%. Through proactive portfolio pricing and margin management, Heartland's NIM stabilised in the second half of FY2023. Focus will remain on careful management of asset quality, margin and growth as the high interest rate environment continues to impact on borrower demand and credit quality.

Heartland continued to solidify its position in the Australian market. StockCo Australia completed its first full year as part of the Group and performed well in a challenging environment. Meanwhile, Heartland's Australian Reverse Mortgages business continued to increase its market share to 39.9%, up from 34.7% as at 30 June 2022.⁶

In October last year, Heartland signed a share purchase agreement for the acquisition of Challenger Bank Limited (**Challenger Bank**), conditional only on receipt of the necessary regulatory approvals. As we continue to actively work through the regulatory approval process, we eagerly anticipate the growth opportunities that will be possible upon completion. Jeff Greenslade will discuss in more detail the Australian growth strategy, including the proposed Challenger Bank acquisition.

As demonstrated in Receivables growth, Heartland Bank Limited (**Heartland Bank**) continued to perform well. This was supported by the recognition Heartland Bank received for its savings products and online home loans. Heartland Bank was awarded Canstar New Zealand's Savings Bank of the Year Award for the sixth year in a row, while its Online Home Loans received the Outstanding Value Home Lender award.

Digitalisation of Heartland's products and platforms continued. Achievements included a 65% increase in the number of Heartland Mobile App users in New Zealand. As part of its commitment to digitalisation and the efficiency of its operations, Heartland's ambition is to reduce its underlying cost to income ratio to less than 35% by the financial year ending 30 June 2028 (**FY2028**). Jeff will address this shortly.

Progress has also been made against Heartland's sustainability framework. In this regard, I am pleased to announce that at the beginning of October, Michael Drumm, previously Group Chief Operating Officer was appointed to the new role of Chief Compliance & Sustainability Officer at Heartland Bank. Michael has responsibility for creating a dedicated regulatory affairs and compliance function within Heartland Bank, and progressing the various initiatives within Heartland's sustainability framework.

3. Sustainability

Heartland's three-pillar sustainability framework is focused on sustainable practices which minimise Heartland's environmental impact, positively contribute to its communities, and enhance the lives of its people and customers.

Environment

Under the *Environment* pillar, Heartland has made a commitment to support the just transition to a net-zero economy. Heartland's unaudited operational Greenhouse Gas (**GHG**) emissions for FY2023 saw a 17% reduction on the base year for the financial year ended 30 June 2019. Heartland intends

⁵ KPMG FIPS Report June 2023.

⁶ Based on APRA ADI Property Exposure and Heartland Finance data as at 30 June 2022 and 30 June 2023.

to set a long-term GHG emission reduction target plan in FY2024, including Scope 3 financed emissions.

Heartland developed an environmental risk screening tool to understand the sustainability of its larger business and rural borrowers by reference to environmental, climate, reputational and regulatory factors. This tool is now being used in the credit decisioning process.

Furthermore, Heartland is phasing out lending on diesel passenger vehicles and more than doubled the proportion of new generation vehicles funded through its Motor Finance portfolio in FY2023.

People

The *People* pillar is focused on supporting Heartland's people to grow, thrive, and be empowered to achieve Heartland's goals together. It also describes Heartland's commitment to caring for customers and the communities in which it operates.

FY2023 was Heartland's second year of reporting pay gap information for gender, Māori and Pasifika. Heartland remains committed to ensuring it monitors recruitment, pay levels and remuneration to ensure it is fair and unbiased. There is more to be done to close Heartland's pay gaps, and we will continue to report on these metrics annually.

Heartland invests in attracting and developing talent, with a particular focus on the younger demographic. This is important given that 49% of Heartland's employees are under 35 years old. Heartland's Manawa Ako internship programme for Māori and Pasifika youth is a key initiative in this space. The programme has welcomed more than 110 interns since inception in 2017, with many having continued in employment with Heartland after the conclusion of the internship.

In line with concerted efforts by its people to focus on diversity, equity and inclusion, Heartland's Accessibility employee group was formed to champion accessibility within Heartland, with the goal of achieving the NZ Accessibility Tick.

As many of our shareholders will be familiar, Heartland has a long history in New Zealand dating back to 1875. So, we are delighted 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. Since becoming the Heartland Trust in the financial year ended 30 June 2012, the Heartland Trust has donated more than \$4.3 million to New Zealand community groups and organisations – a figure we are very proud of.

During FY2023 alone, the Heartland Trust made grants totalling more than \$710,000 in the areas of education, arts and culture, and mental health. The Heartland Trust continued its funding and support of the InZone Education Foundation, Auckland City Mission, WORD Christchurch Festival, and a number of high school and club 1st XV rugby teams across the country. Donations in FY2023 included \$45,000 towards disaster relief efforts following the effects of the Auckland flooding and Cyclone Gabrielle in the Hawke's Bay.

Financial Wellbeing

Activities under the *Financial wellbeing* pillar intend to support the financial wellbeing of Heartland's customers and communities. This was delivered through Heartland's products and ongoing digitalisation efforts.

The current economic environment and cost of living has left more New Zealanders experiencing financial difficulties. Heartland is committed to supporting its customers during this difficult time and

continues to offer the Heartland Extend product which enables customers in arrears to make their existing loan repayments more manageable.

Furthermore, we are pleased to share that more than 48,000 New Zealanders and Australians have been able to live a more comfortable retirement with a Heartland Reverse Mortgage.

Heartland has extended digital access to its Australian Reverse Mortgage customers through the release of its Heartland Finance Mobile App, allowing these customers to manage their loan from their mobile devices. Heartland intends to provide app access to its New Zealand Reverse Mortgage customers in FY2024.

4. Shareholder return

For our shareholders, we were pleased to be able to pay a final dividend of 6.0 cents per share, bringing the total dividend for FY2023 to 11.5 cents per share. The full year payout ratio of 85% compares to the average over the last three years of 76%.

This continues our track record of delivering for shareholders. Since first listing on the NZX in 2011, Heartland has paid more than \$514 million in dividends to its shareholders.

5. Outlook

The year ahead will be significant for Heartland as it seeks to complete the acquisition of Challenger Bank and continues its commitment to digitalisation and frictionless service for customers.

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.

Heartland expects NPAT for FY2024 to be within the guidance range of \$116 million to \$122 million, excluding any impacts of fair value changes on equity investments held, the impact of the de-designation of derivatives, and any costs related to the acquisition and integration of Challenger Bank. As the acquisition nears completion, guidance will be updated to reflect the impact of Challenger Bank becoming part of Heartland.

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 and the Executive team who continue to provide strong leadership for Heartland.

On behalf of the Board and Executive team, I wish to thank Heartland's 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.