

NZX/ASX release  
10 May 2021

## Strong trend continues for Heartland Group performance: Guidance update

This update on Heartland Group Holdings Limited's (**Heartland**) (NZX/ASX: HGH) financial performance falls outside of Heartland's usual reporting practice. However, Heartland considers a guidance update appropriate given the uncertainty which remains as to New Zealand's resilience to the economic impact of the COVID-19 pandemic and the timing of the economic recovery.

All financial results in this announcement are based on the unaudited financial statements of Heartland and its subsidiaries for the nine months to 31 March 2021 (**YTD**). Relative growth rates are annualised, and include the impact of changes in foreign exchange rates.

### Financial update

Heartland has achieved a net profit after tax (**NPAT**) of \$21.0 million for the three months ended 31 March 2021 (**3Q2021**), bringing YTD NPAT to \$65.1 million (or \$64.3 million on an underlying basis, excluding the impacts of one-offs as detailed in Heartland's announcement of its results for the six months to 31 December 2020 (**1H2021**)).

Underlying return on equity (**ROE**) was 11.9% (annualised YTD NPAT as a percentage of average equity), flat on 1H2021 underlying ROE.

Momentum in lending increased in 3Q2021, with gross finance receivables (including reverse mortgages) growing \$158.6 million (13.7%), a significant uplift from \$59.3 million (2.5%) in 1H2021, resulting in a YTD growth of \$218.0 million (6.2%).

Growth was experienced in Motor, both New Zealand and Australian Reverse Mortgages and Business Intermediated. Current Home Loans pipeline momentum remains strong, with \$580 million approved online and \$30.3 million drawn down YTD. Heartland recently expanded its Home Loans offering with the provision of a Revolving Credit facility at New Zealand's lowest rate.

Heartland maintained net interest margin (**NIM**) of 4.30% in the nine months to 31 March 2021, up 2 basis points on 1H2021.

The underlying cost to income (**CTI**) ratio for 3Q2021 was 44.1%, bringing the underlying YTD CTI ratio to 45.3% (1H2021: 45.9%). The reduction in the underlying CTI ratio during 3Q2021 demonstrates Heartland's continuous focus on creating end-to-end processing efficiencies through ongoing digitalisation.

Impairments continue to perform strongly with a YTD impairment expense ratio (annualised impairment expense as a percentage of average receivables) of 0.27% (1H2021: 0.19%). The increase is due to higher than usual repayments in 1H2021, combined with significantly stronger growth in receivables in 3Q2021 compared with 1H2021.

### General update

Heartland's digital strategy is evolving further, becoming embedded in operations. What this means is the removal of friction and the prioritisation of speed in delivering service which enhances customer experience and results in processing efficiencies. The online platform for Home Loans is an

example of this, where Heartland is currently able to offer the most competitive mortgage rates and will soon offer even lower rates, passing on the benefits of digital banking directly to New Zealand home owners. Ultimately, it will also be demonstrated in reductions in the CTI.

On 31 March 2021, the Reserve Bank of New Zealand (**RBNZ**) announced that it was easing dividend restrictions which were put in place in April 2020 (and extended in November 2020), to allow banks to pay up to 50% of their NPAT to shareholders. The 50% dividend restriction will remain in place until 1 July 2022, at which point the RBNZ intends to remove the restrictions entirely (subject to no significant worsening of economic conditions).

Harmony's transition of its funding model from a peer-to-peer off-balance sheet model to wholesale securitised on-balance sheet funding via warehouse structures is well advanced, and the transition of Heartland's facilities with Harmony is progressing well.

Despite continued elevated levels of uncertainty regarding the economic impact of COVID-19, Heartland's economic overlay of \$9.6 million taken in respect of the financial year ended 30 June 2020 remains unutilised. Heartland's Board continues to consider the need for this overlay as part of Heartland's upcoming year-end financial results process for 30 June 2021 (**FY2021**).

## Looking forward

Provided current trends continue as expected and economic conditions remain stable, Heartland now expects NPAT for FY2021 to be in the range of \$85 million to \$86 million. This updated NPAT forecast range does not include any release of Heartland's economic overlay, which remains under continuous review by Heartland's Board, and on which no decision has been made.

– ENDS –

### **For further information, please contact the person(s) who authorised this announcement:**

Jeff Greenslade  
Chief Executive Officer  
027 382 0023  
[jeff.greenslade@heartland.co.nz](mailto:jeff.greenslade@heartland.co.nz)

Andrew Dixon  
Chief Financial Officer  
021 263 2666  
[andrew.dixon@heartland.co.nz](mailto:andrew.dixon@heartland.co.nz)

Address: Level 3, Heartland House, 35 Teed Street, Newmarket, Auckland, New Zealand