HEARTLAND

NZX/ASX release
24 August 2021

Heartland announces full year NPAT of $87.0 million

(or $87.9 million on an underlying basis after removing the impacts of one-offs)

Heartland Group Holdings Limited (**Heartland**) (**NZX/ASX: HGH**) is pleased to announce a net profit after tax (**NPAT**) of $87.0 million for the financial year ended 30 June 2021 (**FY2021**), an increase of $15.1 million (20.9%) compared with the financial year ended 30 June 2020 (**FY2020**)[1]. On an underlying[2] basis, FY2021 NPAT was $87.9 million, an increase of $11.0 million (14.3%) compared with the FY2020 underlying NPAT.

Highlights for FY2021

- NPAT of $87.0 million, up 20.9% ($15.1 million). Underlying NPAT of $87.9 million, up 14.3% ($11.0 million) on FY2020 underlying NPAT.
- One-off items had a $0.8 million net[3] impact on NPAT, consisting of $4.1 million of one-off net gains and $6.9 million of one-off expenses (net of tax).
- Gross finance receivables (**Receivables**)[4] of $5.0 billion, up 7.9%[5] ($368.5 million).
- Return on equity (**ROE**) of 11.9%, up 144 basis points (**bps**).
- Net interest margin (**NIM**)[6] of 4.35%, up 2 bps.
- Net interest income (**NII**) of $233.5 million, up 7.8%.
- Cost to income (**CTI**) ratio of 46.8%, up 1.5 percentage points (**pps**). Underlying CTI ratio of 44.8%, down 0.1 pps, and CTI ratio of 43.9% for the second half of FY2021 (**2H2021**).
- Impairment expense as a percentage of average receivables decreased from 0.65% in FY2020 to 0.31% in FY2021.
- FY2021 final dividend of 7.0 cents per share (**cps**), taking FY2021 total dividend to 11.0 cps – an increase of 4.0 cps from FY2020 due to the easing of restrictions imposed by the Reserve Bank of New Zealand (**RBNZ**) on distributions by banks in New Zealand.
- Earnings per share (**EPS**) of 14.9 cps, up 2.4 cps.
- Heartland Bank Limited (**Heartland Bank**) remains one of two Australasian banks to have no reduction or adverse change to its ratings or outlook by Fitch Ratings since January 2020.
- Further digitalisation and continuous integration of product applications and platforms in New Zealand and Australia.
- New Zealand Reverse Mortgages awarded Consumer Trusted Accreditation (fourth consecutive year).
- Australian Reverse Mortgages awarded Your Magazine's 5-Star Lender Award and InfoChoice's Best Reverse Mortgage Award.
- Heartland Bank awarded Canstar Savings Bank of the Year 2021 (fourth consecutive year), and 5-Star Ratings for Outstanding Value for its Direct Call and YouChoose accounts.
- Heartland Bank became the National Foundation for Deaf and Hard of Hearing's first Hearing Accredited Workplace.

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[1] All comparative results are based on the audited full year consolidated financial statements of Heartland and its subsidiaries (the **Group**) for FY2020.

[2] Underlying results exclude the impacts of one-offs. Refer to the Profitability section on pages 3 and 4 for details about FY2021 one-offs. A detailed reconciliation between reported and underlying financial information is set out on page 33 of the accompanying FY2021 investor presentation. General information about the use of non-GAAP financial measures is set out on page 2 of that presentation.

[3] Includes tax impact on one-offs.

[4] Receivables include Reverse Mortgages.

[5] Excluding the impact of changes in foreign currency exchange (**FX**) rates.

[6] NIM is calculated based on average gross interest earning assets.

Strategic vision

Heartland's strategic vision is to create sustainable growth and differentiation through providing best or only products via scalable digital platforms. There are four strategic elements to the fulfilment of this:

1. Business as Usual growth (reported on below)
2. Frictionless Service at the Lowest Cost
3. Expansion in Australia
4. Acquisitions which fit with and add value to the above.

Frictionless Service at the Lowest Cost

Heartland's digital strategy reached a stage of maturity where digitalisation is now embedded, as opposed to being a separate activity.

Digitalisation began with the front-end – online mobile platforms providing access for customers. This allowed Heartland to extend reach beyond the constraints of physical distribution while also reducing onboarding costs. These platforms have been integrated into business units as the prime means of distribution. The next stage is to create scale and take out friction, i.e. processes that cause customer inconvenience and delay.

Providing frictionless service at each stage of a customer's journey not only eases inconvenience, but also removes costly operational processes. This produces a virtuous circle of enhanced customer experience and reduced operational costs, allowing Heartland to provide customers with better value through lower rates or time-savings.

Heartland Home Loans demonstrates this in action. Through the provision of an online-only application with automated decisioning, identity verification and documentation, the cost of onboarding is significantly reduced. This allows savings to be passed on to the borrower through low mortgage rates and allows customers to apply as and when they want. In this way, Heartland is providing frictionless service at the lowest cost.

Expansion in Australia

Growth in Australia is a strategic priority.

Heartland has helped more than 22,000 Australians to live a more comfortable retirement by releasing equity from their homes, and recently achieved a significant milestone as the Reverse Mortgage loan book surpassed A$1 billion. Research by the Royal Melbourne Institute of Technology (**RMIT**) University, supported by Heartland, found that 90% of Australians wish to age in their homes, but that limited superannuation and the rising cost of living is restricting their ability to do so.[7] As Australasia's leading provider of reverse mortgages (with market share in Australia recently increasing from 28.5%[8] to 29.3%[9]), there is substantial opportunity for Heartland to support a greater number of older Australians.

Heartland's product offerings will continue to expand, including adjustments to the age requirements for Heartland's Reverse Mortgage to enable access to funds sooner – applications can now be accepted for couples where someone aged 60 or over has a partner aged 55-59. In February 2021, Heartland launched Well-Life Loans to help those aged 60 and over to get an extra financial boost when taking their next step in life, without having to mortgage the family home.

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[7] Reverse mortgages: Financing ageing in place, RMIT University, cur.org.au/cms/wp-content/uploads/2020/11/financing-ageing-in-place.pdf.

[8] Based on APRA ADI Property Exposure and Heartland Seniors Finance data as at 31 December 2020.

[9] Based on APRA ADI Property Exposure and Heartland Seniors Finance data as at 31 March 2021.

Heartland continues to explore expansion into other asset classes in Australia both through existing relationships with intermediaries that lend to businesses and consumers, as well as Heartland's own digital platforms. Further opportunities where Heartland has a compelling service and/or product proposition will also be progressed where available.

Operating environment

New Zealand and Australia continue to experience flow on effects from the pandemic, through border closures, restrained supply-chains and lockdowns. In addition, there is evidence of rising inflation and increasing costs of employment.

Subdued growth in the first half of FY2021 (**1H2021**) reflected reduced business and consumer confidence. 2H2021 achieved higher levels of growth across most portfolios. Any direct adverse impacts of the pandemic have been absorbed within business as usual impairments, noting that the demographics most affected by COVID-19 are under-represented in Heartland's customer base.[10]

Heartland Bank was one of 14 providers of the Government's Business Finance Guarantee Scheme (**BFGS**), brought in to provide access to funds for businesses affected by the pandemic. Heartland's BFGS book is at $60.3 million.

Heartland's COVID-19 economic overlay of $9.6 million, taken in respect of FY2020, remains unutilised. The overlay does not represent any actual losses, but was taken to provide a buffer against any future losses that the uncertainty of COVID-19 may give rise to. The overlay remains in place.

Heartland continues to exercise a degree of caution. Heartland's COVID-19 economic overlay remains available to be applied to any losses as a consequence of the pandemic. For further discussion, see the 'Impact of COVID-19' section on page 5.

Financial results

Profitability

NPAT was $87.0 million, a $15.1 million (20.9%) increase on FY2020. Underlying NPAT was $87.9 million, a $11.0 million (14.3%) increase on FY2020.

ROE was 11.9%, up 144 bps from FY2020. Underlying ROE was 12.0%, up 86 bps from FY2020.

EPS was 14.9 cps, up 2.4 cps from FY2020. Underlying EPS was 15.1 cps, up 1.8 cps from FY2020.

FY2021 one-offs included in the reported result

1. *Fair value gain on equity investment in Harmoney Corp Limited (**Harmoney**)*:[11] A $3.9 million fair value gain was recognised on Heartland's equity investment in Harmoney. Harmoney listed on the ASX, and the NZX as a foreign exempt listing, in November 2020, with approximately 72% of shares (including those owned by Heartland, other major shareholders, employees and directors) subject to escrow arrangements. The fair value as at 30 June 2021 takes into consideration the impact of the restriction imposed by the escrow arrangements on observed trading volumes and market prices (including bid

[10] Heartland's total exposure to the retail, accommodation and transport (excluding road freight transport) industries at 30 June 2021, based on borrower ANZSIC codes, was 2.68%, 1.71% and 1.19% respectively. Heartland's exposure to customers aged 15-24 years (those most affected by increases in unemployment) at 30 June 2021 was 4.35% in Motor and 1.47% in personal lending.

[11] Refer to Note 20 – Fair Value (page 42) in the FY2021 Heartland Financial Statements for further detail.

and ask spreads) of Harmoney's shares.

2. *Fair value gain on investment property*: A $0.7 million fair value gain was recognised following updated external valuations received on Heartland Bank's investment property portfolio.

3. *Fair value loss on equity investment in Fuelled Limited (**Fuelled**):* A $0.5 million fair value loss was recognised following Heartland Bank acquiring the remaining shares in Fuelled in April 2021.

4. *Voluntarily accelerated amortisation of intangible assets*: A $4.3 million expense was recognised, reflecting an acceleration of amortisation of software assets held on the balance sheet.

5. *Write-off and provisioning of aged suspense account items*: $1.7 million of aged legacy suspense account transactions were written off or provisioned where collectability is uncertain.

6. *Other non-recurring expenses*: $0.9 million.

The impact of these one-off items on the respective financial metrics is outlined in the table below.

	Reported			**Underlying**		
	FY2021	FY2020	Movement	FY2021	FY2020	Movement
NOI[12] ($m)	251.2	235.3	15.8	247.1	229.8	17.3
Operating expenses	117.7	106.8	10.9	110.8	103.2	7.5
NPAT ($m)	87.0	72.0	15.1	87.9	76.9	11.0
NIM	4.35%	4.33%	2 bps	4.35%	4.33%	2 bps
NIM excl. liquid assets[13]	4.69%	4.59%	10 bps	4.69%	4.59%	10 bps
CTI ratio	46.8%	45.4%	1.5 pps	44.8%	44.9%	(0.1 pps)
Impairment expense ratio	0.31%	0.65%	(34 bps)	0.31%	0.44%	(13 bps)
ROE	11.9%	10.5%	144 bps	12.0%	11.1%	86 bps
EPS	14.9 cps	12.5 cps	2.4 cps	15.1 cps	13.3 cps	1.8 cps

Income

Total NOI was $251.2 million, an increase of $15.8 million (6.7%) from FY2020.

Underlying NOI was $247.1 million, $17.3 million (7.5%) higher than FY2020. This was largely due to a $16.8 million (7.8%) increase in NII, driven by $366.2 million (7.3%) higher average interest earning assets in FY2021 than FY2020, and a 2 bps increase in NIM compared with FY2020 to 4.35%.

Underlying other operating income increased by $0.4 million (3.1%) compared with FY2020, primarily due to a higher treasury result.

[12] Net operating income (**NOI**) includes fair value gains/losses on investments.
[13] NIM is calculated based on average gross interest earning assets excluding liquid assets.

Expenses

Operating expenses were $117.7 million, an increase of $10.9 million (10.2%) on FY2020. Excluding the impact of one-offs (described above), underlying operating expenses were $110.8 million, $7.5 million (7.3%) higher compared with FY2020.

Higher underlying operating expenses were primarily due to the following.

1. A $6.7 million (12.2%) increase in staff expenses. On average, Heartland employed 63 more full-time equivalent (**FTE**) employees in permanent or fixed term roles compared with FY2020 to provide additional support to customers in response to COVID-19, and to support digital and technology capability, enabling Heartland to accelerate its evolution as a digitally-led financial services group. The teams are now well resourced to deliver on Heartland's strategic objectives, and the number of people employed in response to COVID-19 has been reduced.

2. A $2.1 million (17.1%) increase in IT and communication expenses (as a result of software amortisation and licencing costs for additional FTE).

3. Other non-recurring expenses: $0.9 million.

The CTI ratio increased to 46.8%, up 1.5 pps compared with FY2020. The underlying CTI ratio remained flat at 44.8%, a 0.1 pps decrease on prior year. Heartland's continued focus on creating end-to-end processing efficiencies through digitalisation has resulted in the underlying CTI ratio trending downwards in 2H2021, at 43.9% in 2H2021 vs 45.8% in 1H2021.

Impairment expense

Impairment expense was $15.0 million, a $14.4 million decrease (49.1%) on FY2020. On an underlying basis, which excludes the impact of the $9.6 million COVID-19 economic overlay in FY2020, impairment expense was $4.8 million (24.4%) lower than FY2020. This was mainly due to remediation activity in 1H2021 together with retraction in the Harmoney and personal lending portfolios which attract higher rates of provisioning.

Impairment expense in 2H2021 was $5.5 million higher than 1H2021, reflecting the benefit of post COVID-19 remediation activity which occurred in the 1H2021 together with a return to more normal levels of asset growth and associated provisioning in 2H2021.

Impact of COVID-19

The impact of COVID-19 on Heartland's portfolios has been more benign than initially forecast, and the COVID-19 economic overlay remains unutilised. However, there remains significant uncertainty. In particular, the continued prevalence of COVID-19 (including the emergence of new variants), vaccination rates, lockdowns in Australia and now in New Zealand, and continued uncertainty regarding when borders will re-open.

Furthermore, economic stimulus has given rise to the potential for inflationary pressures, a steepening interest rate environment, and a higher cost of labour and inputs in the medium term. In the circumstances, a release of the COVID-19 economic overlay is not appropriate at this stage and the overlay has been retained in full.

Financial position

Total assets increased by $365.0 million (6.9%) during FY2021, driven by a $371.8 million (8.0%) increase in Receivables.

Receivables growth was experienced primarily in Motor, Australian Reverse Mortgages, Asset Finance, Business Relationship, digital Home Loans and New Zealand Reverse Mortgages, partly offset by decreases in

Harmoney and other personal lending, Rural Relationship, Open for Business (**O4B**) and Livestock. Momentum in lending and a strong pipeline supported growth in 2H2021 of $312.4 million (13.4%)[14], a significant uplift from $59.3 million (2.5%)[15] in 1H2021.

Borrowings[16] increased by $332.0 million (7.3%). Funding other than deposits increased $412.7 million, mainly driven by an increase in wholesale and securitised funding. This resulted in deposits decreasing $80.7 million. See further information under 'Funding and liquidity' on page 8.

Net assets increased by $61.7 million to $761.7 million. Net tangible assets (**NTA**) increased by $68.3 million to $678.4 million, resulting in an NTA per share of $1.16 (30 June 2020: $1.05).

Business performance

Asset Finance[17]

Asset Finance lending NOI was $28.5 million, an increase of $6.6 million (30.1%) compared with FY2020.

Asset Finance Receivables increased $71.9 million (14.4%) to $570.9 million, reflecting Heartland Bank's focus on this portfolio through deepening and expanding the intermediary network, and distributor/vendor and point of sale support. Strong demand from partners in the transport and logistics sector assisted growth following increased demand in the aftermath of the COVID-19 restrictions.

Business Relationship

Business Relationship lending NOI was $26.1 million, an increase of $1.0 million (4.1%) compared with FY2020.

Business Relationship Receivables increased $58.7 million (11.8%)[18] to $555.1 million. Through the BFGS, Heartland supported more than 150 businesses to access over $60 million in funding to meet their business needs. In addition, Heartland Bank also provided a funding facility to Go Car Finance in 2H2021 for its New Zealand loan book. This aligns with its strategy to diversify distribution in motor vehicle finance.

The residual portfolio's continued downward trend reflects Heartland's strategy to reduce non-core low margin Relationship lending or risk concentrations.

O4B

O4B NOI was $14.6 million, a decrease of $0.2 million (1.1%) compared with FY2020.

O4B Receivables decreased $10.8 million (6.9%)[19] to $144.5 million. COVID-19 disruptions and the availability of Government-backed funding for small businesses slowed down O4B growth from 2H2020. This trend continued in 1H2021, resulting in O4B Receivables decreasing $14.4 million (9.3%)[19] to $140.7 million.

2H2021 saw growth of $3.6 million in line with improved business confidence and economic sentiment, which is expected to fuel return to pre-COVID-19 levels of growth.

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[14] Annualised 2H2021 growth including the impact of changes in FX rates.
[15] Annualised 1H2021 growth including the impact of changes in FX rates.
[16] Includes retail deposits and other borrowings.
[17] Previously referred to as Business Intermediated.
[18] Excluding the impact of changes in FX rates.
[19] Excluding the impact of changes in FX rates.

Motor

Motor NOI was $69.2 million, an increase of $8.6 million (14.2%) compared with FY2020. Motor Receivables increased $168.1 million (14.9%) to $1,293.7 million. The growth was mainly from the Motor dealer book via car dealerships, brokers and partnerships such as Kia Finance and Jaguar/Land Rover Financial Services. In July 2021, a new vehicle finance service iOWN, provided exclusively by Heartland Bank, was launched in partnership with Auto Distributors New Zealand Limited (**ADNZ**) enabling the purchase of a new or used Peugeot or Citroen from authorised dealerships.

Harmoney and other personal lending

Harmoney NOI was $16.6 million, a decrease of $4.8 million (22.4%) compared with FY2020.

Harmoney Receivables decreased by $79.9 million (37.7%)[16], with the New Zealand Harmoney portfolio contracting $69.1 million (47.4%) to $76.7 million, while the Australian Harmoney portfolio decreased by $5.2 million (9.5%)[16] to $48.8 million. Both New Zealand and Australian portfolios continued to contract in FY2021 as a result of high repayments combined with greater utilisation by Harmoney of its own on-balance sheet funding facilities. Heartland is in the latter stages of completing its transition to offer Harmoney on-balance sheet funding facilities in both New Zealand and Australia.

Home Loans

Following a successful pilot, Heartland's digital Home Loans product was launched in October 2020 with conservative lending criteria targeting high quality applicants. Loan drawdowns slowed over the summer holiday period in 1H2021, however strong application rates have continued in 2H2021. Online enquiries totalled $895.2 million and more than $200 million was approved from applications received during FY2021.

Growth in the Home Loans market was supported by Heartland's low interest rates, currently market-leading for 2- and 3-year fixed rates, as well as for its standard floating rate. In addition, Heartland launched a new revolving credit home loan product in 2H2021 with the lowest rate in the market at the time. Momentum in the book is pleasing, with the book expected to continue growing beyond the current rate of $12 million a month.

Converting applications to drawdowns is driven by the time taken to process refinances from other banks and, in particular, the struggle faced by approved purchasers to find and secure their desired property in a buoyant market.

Rural

Rural lending NOI was $32.2 million, an increase of $1.5 million (4.7%) compared with FY2020.

Rural Receivables decreased by $19.0 million (3.1%) to $586.6 million. Rural Relationship Receivables reduced by $13.1 million (2.7%) to $477.3 million, while Livestock Receivables decreased by $5.9 million (5.1%) to $109.4 million. The downward trend reflects Heartland's strategy to reduce non-core low margin Rural Relationship lending.

Whilst in its infancy, the Sheep & Beef Direct platform has seen a pleasing volume of high-quality applications since its launch in late 2020. At 5 August 2021, eligible applications totalled $48.0 million, with $40.5 million approved online and $30.4 million drawn down.

New Zealand Reverse Mortgages

New Zealand Reverse Mortgages NOI was $24.4 million, an increase of $0.9 million (3.6%) compared with FY2020. Excluding the impact of one-offs (described above) from FY2020, underlying NOI increased $0.4 million (1.5%) compared with FY2020.

New Zealand Reverse Mortgages had a record year for new business, up 30.4% from FY2020 where the final quarter (**Q4**) was impacted by COVID-19, and 26.2% ahead of FY2019. Performance was driven by investment in marketing to increase awareness, education and lead nurturing activity, supported by lower interest rates and higher property prices.

Receivables increased by $41.6 million (7.4%) to $601.5 million, impacted by elevated repayments in 1H2021 due to:

- comparatively lower repayments in Q4 of FY2020 with property sales restricted by COVID-19 related lockdowns and the built-up demand associated with this
- a buoyant property market with higher sales volumes.

Australia

Australian Reverse Mortgages NOI was $36.2 million, an increase of $1.9 million (5.5%) compared with FY2020.

Australian Reverse Mortgages Receivables increased by $92.7 million (9.5%)[20] to $1,071.4 million, although impacted by historically high repayments due to a combination of factors, including:

- comparatively lower repayments in Q4 of FY2020 with property sales restricted by COVID-19 related lockdowns
- a buoyant property market in 1H2021
- seniors moving in with family and pooling financial resources
- higher value homes being more cost effective to sell and downsize compared with 'average' homes.

Heartland's Reverse Mortgages received support from mortgage aggregators in Australia, including partnerships with Australian Finance Group, Choice Aggregation and PLAN Australia.

Funding and liquidity

New Zealand

Heartland Bank increased borrowings by $94.4 million (2.6%), primarily as a result of an increase in other borrowings of $144.2 million (40.2%) which partly offset a decrease in deposits of $49.7 million (1.5%).

Money market borrowings for short term funding and liquidity management purposes increased by $110.2 million and secured funding increased by $42.6 million.

Heartland Bank continues its focus on reducing risk concentrations in its deposit book while shifting the mix towards lower rate call deposits where Heartland is relatively underweight. This resulted in the call to total deposit ratio increasing to 30% as at 30 June 2021 (30 June 2020: 25%).

Heartland Bank's savings products have also received market recognition, being awarded Canstar's Bank of the Year – Savings Award in 2021 (fourth consecutive year), and Canstar's 5-Star Rating for Outstanding Value Savings Account for its Direct Call (sixth consecutive year) and YouChoose accounts (second consecutive year). Heartland Bank also expanded its savings products with the introduction of a 32-day Notice Saver account.

Heartland Bank decreased total liquidity by $99.1 million (13.7%) primarily due to a $72.5 million (18.6%) decrease in investments for liquidity management purposes.

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[20] Excluding the impact of changes in FX rates.

Heartland Bank increased its committed auto warehouse facility from $150 million to $300 million in May 2020, and its target holding of cash and cash equivalents in response to the uncertain economic and liquidity impacts of COVID-19 in 2H2020, which it continued to maintain in 2H2021. As a result, Heartland Bank holds liquidity well in excess of regulatory minimums.

Heartland Bank's capital position has progressively increased during 2H2021, reflecting its continued strong profitability and the RBNZ restrictions on distributions imposed in 2H2020. Heartland Bank's regulatory capital ratio was 13.88% as at 30 June 2021 (30 June 2020: 12.67%), well in excess of regulatory minimums and providing a strong platform for Heartland Bank to meet RBNZ's future higher capital requirements.

Australia

The Heartland Australia group (comprising Heartland Australia Holdings Pty Ltd and its subsidiaries) increased borrowings by A$247.6 million (29.1%), largely as a result of A$36 million further drawdowns of the existing warehouse funding, new issuance of a A$75 million MTN and, in a first-of-its-kind transaction, a A$142 million new long-term mortgage-backed syndicated loan for the Australian Reverse Mortgage business funded by established offshore institutional investors. This transaction achieved another milestone in executing Heartland's strategy to diversify type, source and tenor of its Australian funding and, importantly, evidences market liquidity to existing warehouse funders.

The Heartland Australia group continues to successfully execute on its strategic funding programme to cater for strong growth in its portfolios, with a further A$45 million MTN issued in July 2021, adding further diversity to the funding base.

Heartland Australia group has access to A$1.25 billion of committed funding in aggregate. Further expansion of existing warehouse funding through increased senior limits and the introduction of mezzanine funding is well advanced, and focus will continue to be on sourcing optimal long-term duration matched funding.

Regulatory update

A significant volume of regulatory change has been signalled, including changes to the New Zealand Credit Contracts and Consumer Finance Act 2003 and the Credit Contracts and Consumer Finance Regulations 2004 (**CCCFA**), the Financial Markets (Conduct of Institutions) Amendment Bill (**Conduct Bill**), Australia's new Design and Distribution Obligations, the Deposit Takers Bill, and the RBNZ capital implementation review.

On 1 October 2021, changes to the CCCFA will come into force. These changes touch on a number of aspects of Heartland's processes for promotion, origination and fulfilment of its consumer loans. In particular, Heartland will require more information to satisfy itself as to suitability and affordability. Heartland will employ technologies that will allow this to be done in a seamless and user-friendly way.

In Australia, issuers and distributors of certain financial products are required to comply with new Design and Distribution Obligations which come into force on 5 October 2021. The main impact requires Australian Seniors Finance Pty Ltd to prepare 'Target Market Determinations' for its Reverse Mortgage and Well-Life Loan products, and review its existing processes in relation to marketing, third-party distribution, record keeping, and ongoing monitoring and assurance activities.

Following the conclusion of Phase 2 of the review of the Reserve Bank of New Zealand Act 1989 (**RBNZ Act**), new legislation (to be known as the Deposit Takers Act) is now being developed to strengthen the regulatory framework for all institutions that take deposits (including Heartland Bank), and introduce a new deposit insurance scheme, overseen by the RBNZ. An exposure draft of the Deposit Takers Act is expected to be available for submission later this year, and Heartland will continue to monitor progress.

The RBNZ published the finalised bank capital adequacy requirements, outlined in the new Banking Prudential Requirements (**BPRs**) documents on 17 June 2021. The new BPRs come into force from October 2021 and provide further detail regarding the upcoming increased bank capital requirements. Increases in capital will be phased in over a seven-year period, starting from 1 July 2022, requiring minimum total capital ratio to gradually be increased from the current 10.5% to 16.0% (Heartland Bank is currently at 13.88%).

Sustainability update

Heartland made significant progress in its sustainability strategy in FY2021, including announcing its Greenhouse Gas (**GHG**) emissions reduction targets in March. Heartland's sustainability framework sets out the three pillars of its strategy to ensure it is operating sustainably for the communities it serves, the environment and its stakeholders – those pillars are environmental conservation, social equity and economic prosperity.

Key achievements in each area of sustainability are noted below. More information and goals for the year ahead will be included in Heartland's FY2021 Annual Report, to be published on 27 September 2021 and available at shareholders.heartland.co.nz.

Environmental conservation

- Ambitious emissions reduction targets set to reduce GHG emissions by 35% by 2026.
- Reduction in vehicle fleet size by 7%, and transition to a primarily hybrid and electric fleet underway.
- Established an internal Green Team to champion environmental initiatives and drive change.
- Digitalising paper-based customer letters.

Social equity

- Completion of Heartland's Conduct and Culture Work Plan.
- Heartland Bank became New Zealand's first Hearing Accredited Workplace.
- Heartland Trust[21] grants totalled $448,183 to community groups and organisations.
- Implementation of Heartland's Iho Pūmanawa recruitment strategy which supports more equitable recruitment and selection outcomes.
- A 3% increase in the number of Heartland employees who identify as Māori to 7%, compared with 2% industry average.

Economic prosperity

- Launched Rocket, an app for school leavers designed to bridge financial literacy gaps in New Zealand.
- Developed a self-serve online home loan application, passing cost-savings to customers in the form of market-leading rates.
- To-date, enabled more than 40,000 seniors across New Zealand and Australia to release equity from their homes to live a more comfortable retirement.
- Sheep & Beef Direct self-serve online application launched allowing farmers to apply in minutes for finance to buy or refinance a sheep or beef farm – saving time, and providing increased finance options for farmers.
- Delivered total shareholder return (**TSR**) of 107.2% over the last five years (20 August 2016 – 20 August 2021), compared with the NZX50 Index TSR of 81.9% in the same period.

[21] The Heartland Trust is a registered charitable trust which is independent from, but closely supported by, Heartland and Heartland Bank.

Final dividend

Heartland is pleased to declare a FY2021 final dividend of 7.0 cps, up 4.5 cps from FY2020 due to the easing of restrictions imposed by the RBNZ on distributions by banks in New Zealand. The dividend yield of 7.1%[22] compares with 8.2%[23] in FY2020.

The final dividend will be paid on Wednesday 15 September 2021 (**Payment Date**) to shareholders on the company's register as at 5.00pm on Wednesday 1 September 2021 (**Record Date**) and will be fully imputed. Heartland has a Dividend Reinvestment Plan (**DRP**), giving eligible shareholders the opportunity to reinvest some or all of their dividend payments into new ordinary shares. The DRP will apply to the final dividend with a 2.0% discount.[24] The DRP offer document and participation form is available on Heartland's shareholder website at shareholders.heartland.co.nz/shareholder-resources/dividends.

Looking forward

The second half of FY2021 saw growth exceed expectations. Initial anticipation was for this momentum to continue into the financial year ending 30 June 2022 (**FY2022**). However, the duration of the current lockdown may impact on this. Higher growth in Reverse Mortgages, Home Loans and the transition of Harmoney to an on-balance sheet model will result in NIM contracting. However this will also drive an offsetting benefit of reduced impairment expenses, reflecting improved quality of the lending portfolio. The CTI ratio trend downwards as a result of ongoing digitalisation and automation is expected to continue.

FY2022 will see Heartland continuing to extend its best or only product reach through its digital platforms. At the same time, frictionless service at each stage of the journey will provide better customer experience.

Noting uncertainties associated with the ongoing impacts of COVID-19, Heartland expects its NPAT for FY2022 to be in the range of $93 million to $96 million.

– ENDS –

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

Jeff Greenslade
Chief Executive Officer
M 027 382 0023

Andrew Dixson
Chief Financial Officer
M 021 263 2666

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

For media enquiries, please contact:
Nicola Foley
Head of Communications
M 027 345 6809
E nicola.foley@heartland.co.nz

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[22] FY2021 total fully imputed dividends divided by the closing share price as at 20 August 2021 of $2.16.
[23] FY2020 total fully imputed dividends divided by the closing share price as at 16 September 2020 of $1.19.
[24] That is, the strike price under the DRP will be 98.0% of the volume weighted average sale price of Heartland shares over the five trading days following the Record Date. For the full details of the DRP and the Strike Price calculation, refer to Heartland Group Holdings Limited DRP offer document dated 10 December 2018.