

NZX/ASX release
20 October 2022

Heartland to purchase Challenger Bank in Australia, and provides lending growth update

Entry into acquisition documentation for Challenger Bank

Heartland Group Holdings Limited (**Heartland**) (NZX/ASX: HGH) is pleased to announce that it has signed a conditional share purchase agreement for the purchase of Challenger Bank Limited (**Challenger Bank**) from Challenger Limited (ASX: CGF). The share purchase agreement is subject to obtaining the requisite regulatory approvals.

Based in Melbourne, Australia, Challenger Bank is an established authorised deposit-taking institution (**ADI**) which offers customers a range of savings and lending products. Challenger Bank's products include government-guaranteed retail term deposits and home loans – its system is also capable of Reverse Mortgage origination. As at 30 June 2022, Challenger Bank had A\$89 million of retail lending, A\$17 million of corporate lending and A\$228 million of deposits.

Subject to completion, Heartland's existing Reverse Mortgage and Livestock businesses in Australia will be transferred to sit in or under Challenger Bank. The opportunity to grow these existing businesses in Australia either as part of a bank or a broader banking group is significant. Challenger Bank also affords further opportunities to expand Heartland's best or only products into Australia.

For regulatory reasons, Heartland will be required to hold Challenger Bank through an Australian incorporated non-operating holding company (**NOHC**) which is approved and regulated by the Australian Prudential Regulatory Authority (**APRA**). It is anticipated that Heartland's top-level holding company in Australia, Heartland Australia Holdings Pty Limited (**HAH**), would be the appropriate vehicle to apply to APRA for authority to act as a NOHC. Heartland continues to engage with the Reserve Bank of New Zealand (**RBNZ**) to obtain consent for HAH to also act as the NOHC of Heartland Bank Limited in New Zealand. Completion of the transaction is also conditional upon consent under the Financial Sector (Shareholdings) Act.

The consideration payable by Heartland on completion is expected to be approximately A\$36 million, subject to adjustments for net assets delivered at completion. Heartland's intention is to cover the costs of the acquisition through existing resources.

Strategic rationale

Heartland's strategic objective for expansion in Australia requires the establishment or acquisition of an ADI. Becoming a bank through an ADI in Australia would make possible a number of benefits:

- access to a deep and efficient pool of funding to support ongoing growth;
- potential uplift in margin, to the extent that retail funding rates are less than wholesale rates; and
- providing a platform to extend Heartland's best or only strategy into Australia.

The aim is to create a digital bank which, once Heartland assets are transferred to it, will be profitable. This, together with Heartland's best or only strategy, provides the opportunity for a differentiated proposition.

On 23 August 2022, Heartland announced it had entered into a non-binding memorandum of understanding with Avenue Hold Limited (**Avenue Hold**) for the potential acquisition of Avenue Hold and Avenue Bank Limited (**Avenue Bank**), a restricted ADI. Following that announcement, Heartland continued due diligence and negotiation of binding transaction documentation with Avenue Hold.

Since then, market conditions have changed. Heartland also became aware of Challenger Bank as an alternative opportunity. Heartland Board's assessment is that Challenger Bank is a stronger acquisition opportunity for Heartland's execution of its strategic objective for growth in Australia as it offers a full ADI licence. Challenger Bank has also recently undertaken a programme of significant investment to build out its digital capability, which fits with Heartland's digitalisation strategy.

Heartland has accordingly advised Avenue Hold that it will no longer be exploring the potential acquisition opportunity previously disclosed, and has discontinued due diligence and negotiations. Heartland made an initial subscription for A\$5 million of capital (circa 11%) in Avenue Hold. No decision has been made on the future of this shareholding. For accounting purposes, this investment is classified as fair value through other comprehensive income, with any change in value not impacting Heartland's net profit after tax.

Heartland was advised by Corrs Chambers Westgarth, Deloitte and Jarden in relation to the acquisition.

Business update

The first quarter of the financial year ending 30 June 2023 (**1Q2023**) has seen growth across key lending portfolios of Reverse Mortgages, Motor and Asset Finance.

Reverse Mortgages in both New Zealand and Australia maintained strong growth momentum, recording 24.4% and 19.3% annualised growth in 1Q2023 respectively. The Motor portfolio is starting to return to growth levels seen before the New Zealand Credit Contracts and Consumer Finance Act 2003 and the Credit Contracts and Consumer Finance Regulations 2004 (**CCCFA**) were amended with effect from 1 December 2021, recording 7.8% annualised growth in 1Q2023. Asset Finance recorded annualised growth of 10.3% in 1Q2023.

Other areas are performing satisfactorily, noting that the Livestock lending season has only just commenced.

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About Challenger Limited

Challenger Limited (**Challenger**) is an investment management firm focused on providing customers with financial security for a better retirement.

Challenger operates a fiduciary Funds Management division, an APRA-regulated Life division and an APRA regulated ADI, Challenger Bank Limited (**Challenger Bank**). Challenger Life Company Limited (**Challenger Life**) is Australia's largest provider of annuities.

Challenger Bank is an Australian-based digital bank offering customers a range of savings and lending products. This includes government-guaranteed retail term deposits and home loans. Challenger Bank, formally MyLifeMyFinance Limited, was acquired by Challenger in July 2021.

More about Challenger Bank: www.bankchallenger.com.au

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About Heartland Group Holdings Limited

Heartland Group Holdings Limited (**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) with a market cap in excess of NZ\$1 billion.

In Australia, Heartland's main business is currently in reverse mortgages through [Heartland Finance](#) which is a market leader. Heartland also operates [StockCo Australia](#), a specialist livestock financier, which was acquired by Heartland in May 2022. Heartland's New Zealand business, [Heartland Bank](#), provides customers with savings and deposit products, reverse mortgages, business loans, car loans and rural loans.

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 about Heartland: shareholders.heartland.co.nz

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