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HEARTLAND

NZX/ASX release
23 August 2022

Heartland announces record FY2022 profit, and equity raising to retire bridge debt and fund growth ambitions for existing business

Heartland Group Holdings Limited (**Heartland**) (**NZX/ASX: HGH**) is pleased to announce a net profit after tax (**NPAT**) of $95.1 million for the financial year ended 30 June 2022 (**FY2022**), an increase of $8.1 million (9.3%) compared with the financial year ended 30 June 2021 (**FY2021**)[1]. On an underlying[2] basis, FY2022 NPAT was $96.1 million, an increase of $8.2 million (9.3%) compared with the FY2021 underlying NPAT.

Heartland is also pleased to announce a $200 million equity raise comprising a $130 million fully underwritten placement and a $70 million non-underwritten share purchase plan to shareholders in New Zealand and Australia, with the ability for Heartland to accept oversubscriptions at its discretion. Proceeds will be used to repay a A$158 million acquisition finance facility outstanding in relation to the recent acquisition of StockCo Holdings 2 Pty Ltd and StockCo Australia Management Pty Limited (together, **StockCo Australia**), and to provide additional growth capital for Heartland's existing businesses in Australia and New Zealand.

Highlights for FY2022

- NPAT of $95.1 million, up 9.3% ($8.1 million). Underlying NPAT of $96.1 million, up 9.3% ($8.2 million) on FY2021 underlying NPAT.
- One-off items had a $0.9 million net[3] impact on NPAT.
- Gross finance receivables (**Receivables**)[4] of $6.2 billion, up 15.3%[5] ($765.9 million).
- Return on equity (**ROE**) of 12.1%, up 21 basis points (**bps**). Underlying ROE of 12.6%, up 59 bps.
- Net interest margin (**NIM**)[6] of 4.16%, down 19 bps.
- Net interest income (**NII**) of $250.1 million, up 7.1%.
- Cost to income (**CTI**) ratio of 43.6%, down 3.2 percentage points (**pps**). Underlying CTI ratio of 42.5%, down 2.3 pps, and CTI ratio of 41.9% for the second half of FY2022 (**2H2022**).
- Impairment expense as a percentage of average receivables decreased from 0.31% in FY2021 to 0.25% in FY2022.[7] Underlying impairment expense of 0.29% benefitted from an improved book quality.
- FY2022 final dividend of 5.5 cents per share (**cps**), taking FY2022 total dividend to 11.0 cps – flat on FY2021, with a payout ratio consistent with the average over the last three years.
- Earnings per share (**EPS**) of 16.1 cps, up 1.2 cps.
- Completed the acquisition of StockCo Australia on 31 May 2022.

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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 FY2021.
[2] Underlying results exclude the impacts of StockCo Australia and one-offs. Refer to *Profitability* on page 5 for a summary of reported and underlying FY2022 results. A detailed reconciliation between reported and underlying financial information, including details about FY2022 one-offs, is set out in Appendix 3 on page 47 of the accompanying FY2022 investor presentation. General information about the use of non-GAAP financial measures is set out on page 3 of that presentation.
[3] Includes tax impact on one-offs.
[4] Receivables include Reverse Mortgages and StockCo Australia.
[5] Excludes the impact of StockCo Australia and changes in foreign currency exchange (**FX**) rates.
[6] NIM is calculated based on average gross interest earning assets and is adjusted for the impact of StockCo Australia.
[7] Reported impairment expense includes a $1.6 million benefit from the release of the $9.6 million COVID-19 Overlay, net of a new $8.0 million Economic Overlay.

- 120% increase in users of Heartland Bank Limited's (**Heartland Bank**) mobile app.
- Heartland Bank awarded Canstar Savings Bank of the Year 2022 (fifth consecutive year), and awards for its Direct Call, 32 Day Notice Saver and 90 Day Notice Saver accounts.
- New Zealand Reverse Mortgages awarded Consumer Trusted Accreditation (fifth consecutive year), and helped its 20,000th customer.
- Australian Reverse Mortgages business increased market share to 33.1%.[8]

Strategic vision

Heartland remains committed to its strategic vision to create sustainable growth and differentiation through best or only products delivered through scalable digital platforms. Fundamental to the execution of Heartland's vision are the following four strategic pillars:

1. Business as Usual Growth (reported on in *Business performance* from page 7)
2. Frictionless Service at the Lowest Cost
3. Expansion in Australia
4. Acquisitions.

Frictionless Service at the Lowest Cost

Heartland's focus on providing best or only products has evolved to providing those products through scalable digital platforms. This focus on digitalisation allows Heartland to deliver exceptional service and value for its customers. Reduced customer friction creates scale without costly processes, while delivering better service.

Through FY2022, Heartland developed new functionality for its digital platforms to enable increased self-service by customers. The number of users on Heartland Bank's mobile app increased by 120% in FY2022, and in June 2022, the average number of inbound calls per customer to Heartland Bank's main customer service phone lines reduced by more than 10% compared with June 2021. In addition, Heartland Finance recently launched its online customer portal, allowing Australian Reverse Mortgage customers to view their loan balance, cash reserve and redraw balances, and current interest rate. The Heartland Finance Mobile App launched soon after in August 2022.

A greater degree of self-service functionality development is planned for the financial year ended 30 June 2023 (**FY2023**), to deliver enhancements to Heartland's existing product platforms in New Zealand and Australia.

CTI ratio, as a measure of the efficiency of digitalisation, reduced from 44.8% in FY2021 to 42.5% in FY2022 on an underlying basis. Despite the possibility of volatility in the short term, Heartland is committed in the long term to reductions in the CTI.

Heartland has committed a significant degree of technology investment through FY2022, and considers it is at peak investment phase due to the upgrade of its core banking system. This upgrade is expected to provide Heartland with a stable long-term platform, leading to improved customer service.

Expansion in Australia

Heartland's focus on expansion in Australia is on:

1. growing its existing Australian Reverse Mortgages business;
2. growing Livestock Finance following the recent acquisition of StockCo Australia; and

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[8] Based on Australian Prudential Regulation Authority (**APRA**) ADI Property Exposure and Heartland Finance data as at 31 March 2022.

3. seeking other opportunities to expand Heartland's best or only strategy into Australia.
In FY2022, Heartland solidified its position as the leading provider of reverse mortgages in Australia, with an origination share of 74%[9]. Additionally, of the $3.3 billion of reverse mortgage loans reported in the Australian market, Heartland's market share was 33.1% at 31 March 2022 (up from 29.3% at 31 March 2021)[10]. The Australian market remains a significant opportunity for growth for Heartland, with the potential addressable market for reverse mortgages estimated to be $10-15 billion.[11]

Acknowledging increasing cost of living pressures, Heartland adjusted various specifications for its Well-Life Loan and Reverse Mortgage products to increase the eligible market. In January 2022, Heartland also launched Express Reverse Mortgages, a new streamlined loan targeting homeowners aged 60 to 70.

Acquisitions

StockCo Australia

On 31 May 2022, Heartland completed its acquisition of StockCo Australia, a leading livestock finance business based in Brisbane, Australia. Heartland's focus is to build on StockCo Australia's position as a market-leading provider of specialist livestock finance for cattle and sheep farmers across Australia. It intends to do this by delivering growth capital, digital enhancements, and expanding into new market segments. Read more about the acquisition of StockCo Australia on page 9.

Further opportunities for growth in Australia

Heartland is continuing to look for further opportunities in Australia as a key growth market, and has been exploring opportunities to establish or acquire an authorised deposit-taking institution (**ADI**) in Australia. 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 the potential for a digital bank which, once Heartland assets are transferred into it, would be profitable. This, together with Heartland's best or only strategy, provides the opportunity for a differentiated proposition.

To this end, Heartland has entered into a non-binding memorandum of understanding (**MoU**) with Avenue Hold Limited (**Avenue Hold**) in relation to the potential acquisition of Avenue Hold and its subsidiary Avenue Bank Limited (**Avenue Bank**). Avenue Bank is a restricted ADI. This means Avenue Bank may conduct banking business in Australia for a limited period and subject to specific restrictions. Avenue Bank is seeking to progress to becoming a full ADI.

Any establishment or acquisition by Heartland of an ADI in Australia would be subject to regulatory approvals.

Subject to regulatory approvals and transaction completion, Heartland's existing businesses in Australia would be transferred to sit in or under Avenue Bank, and this would be the vehicle for growth in Australia.

In accordance with the MoU, Heartland has made an initial subscription for A$5 million of capital in Avenue Hold. Heartland's due diligence review is continuing, as is negotiation of binding transaction documentation. Completion of any transaction is expected to be conditional upon a number of matters (which may include Heartland securing acquisition funding, Heartland being satisfied as to the likelihood of Avenue Bank progressing to being a full ADI, Avenue Hold shareholder support of the transaction, receipt of all necessary

[9] Based on APRA ADI Property Exposure and Heartland Finance data for the 12 months to 31 March 2022.
[10] Based on APRA ADI Property Exposure and Heartland Finance data as at 31 March 2021 and 31 March 2022.
[11] According to Deloitte at the 2021 Three Pillars Forum.

regulatory approvals (including from APRA and the Reserve Bank of New Zealand (**RBNZ**)), and the absence of any material adverse change).

Any requirements or conditions of regulatory approvals (including capital and liquidity requirements for the bank and relevant business of Heartland held below Heartland's top-level holding company in Australia, Heartland Australia Holdings Pty Limited (**HAH**)) will:
1. become known only as engagement with APRA and RBNZ progresses; and
2. be relevant to Heartland's decision to proceed with the transaction.

It is currently expected that completion of any acquisition would take place no earlier than the last quarter of FY2023, and possibly not until the first half of the financial year ending 30 June 2024 (**FY2024**). The consideration payable by Heartland on completion is expected to be A$49 million, subject to adjustments.

For regulatory reasons, Heartland would be required to hold any ADI in Australia through an Australian incorporated non-operating holding company (**NOHC**) which is approved and regulated by APRA. It is currently anticipated that HAH would be the appropriate vehicle to apply to APRA for authority to act as a NOHC. To pre-position HAH for this opportunity, Heartland is seeking the consent of the RBNZ for HAH to also act as the NOHC of Heartland Bank in New Zealand. This would not result in any change to Heartland Bank's beneficial ownership. This engagement with RBNZ is at an early stage.

Operating environment

The current operating environment continues to present challenges, with heightened geopolitical tensions and rising inflation contributing to increasing cost of living and rapidly rising interest rates.

Whilst businesses learned to operate with COVID-19 present, the flow-on effects from border restrictions and restrained supply chains continued in FY2022. New Zealand and Australia's borders remained largely closed to international travel until 2H2022. This has put pressure on industries, businesses and consumers on both sides of the Tasman, and resulted in higher transport and freight costs being passed on to consumers.

Increasing cost of living is evident in global inflation rates. Both New Zealand and Australia inflation rates are currently the highest for 30 years, at 7.3% and 6.1% respectively.[12] As a result, interest rates have risen rapidly – the RBNZ recently increased the Official Cash Rate to 3% in August 2022, its highest level since 2015, with further increases expected.

Heartland remains focused on ensuring support is provided to customers who may be struggling in the current environment. Notwithstanding these pressures, Heartland's loan portfolios have performed strongly. Underlying impairment expense ratio was 29 bps in FY2022, 2 bps lower than in FY2021.

Heartland's COVID-19 Overlay of $9.6 million, taken in the financial year ended 30 June 2020 (**FY2020**), has been released in full. The Overlay was taken to provide a buffer against any future losses that the uncertainty of COVID-19 may have given rise to. Heartland now has more certainty around those impacts than in 2020, and its lending portfolios have benefited from improved quality as the portfolio mix has moved towards higher quality and lower risk assets. The Overlay has not been utilised by Heartland, and there is no longer any basis for retaining it. However, given the above-mentioned uncertainty and economic pressures facing businesses, it has been considered prudent to create an Economic Overlay of $8.0 million. The Economic Overlay will provide more resilience in areas such as Business Relationship lending and Asset Finance which have larger loan sizes.

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[12] Inflation rates reflect Consumer Price Index figures for the 12 months ended 30 June 2022.

Risk

Heartland's portfolio mix has continued to move towards higher quality and lower risk assets.

For example, Heartland's Reverse Mortgage portfolios in New Zealand and Australia have grown considerably and continue to perform very strongly. Heartland's Home Loans portfolio has grown significantly – conservative lending standards mean that this book has performed very strongly and is expected to be highly resilient to house price reductions and other potential economic shocks. Livestock, which has historically proven to be a resilient portfolio, has also grown significantly. Motor has not only grown, but has also benefited from improved quality as the volume of new car business in that book continues to increase. At the same time, Heartland's Personal Loans portfolio has reduced.

Heartland's total (collective and specific) provisions as at 30 June 2022 were $52.0 million, with a coverage ratio of 1.24%. This is a reduction from the coverage ratio of 1.61% as at 30 June 2021, but is reflective of the improved quality and mix of Heartland's portfolios (including the growth of online Home Loans and Livestock Finance, and the reduction of the Harmoney Corp Limited (**Harmoney**) personal loans channel). This improved quality is evidenced by the percentage of Heartland's receivables that attract a lifetime expected credit loss provision reducing from 6.32% as at 30 June 2021, to 3.92% as at 30 June 2022.[13]

Financial results

Profitability

NPAT was $95.1 million, an $8.1 million (9.3%) increase on FY2021. Underlying NPAT was $96.1 million, a $8.2 million (9.3%) increase on FY2021.

ROE was 12.1%, up 21 bps from FY2021. Underlying ROE was 12.6%, up 59 bps from FY2021.

EPS was 16.1 cps, up 1.2 cps from FY2021. Underlying EPS was 16.3 cps, also up 1.2 cps from FY2021.

FY2022 reported results include StockCo Australia earnings contribution since the completion of the acquisition on 31 May 2022, and one-off items which should be considered when analysing the underlying result.[14]

Significant one-off items included in Heartland's FY2022 reported results are outlined below.

1. *Hedge accounting impacts:* A $16.7 million gain was recognised in relation to derivatives that were de-designated from hedge accounting relationships. Heartland's hedging strategy was economically very effective throughout FY2022, with interest rate swaps utilised to hedge fixed lending with tenors greater than 12 months to 3-month Bank Bill Reference Rate (**BKBM**), thus limiting volatility to future interest rate changes. However, 3-month BKBM ceased to be an identifiable risk for hedging relationships during FY2022. This resulted in balances held in the Cash Flow Hedge Reserve against these hedge relationships having to be released to the profit and loss for the 30 June 2022 period.

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[13] Heartland is not required to hold provisions in respect of its Reverse Mortgage portfolios, and so the coverage ratio does not include those portfolios. Heartland carries the Reverse Mortgage portfolios at fair value, which is currently determined to be the face value of those loans. There is potential for loss from those loans, however it is immaterial in the context of the face value of the loans, and does not impact Heartland's determination that fair value of those loans is their face value.

[14] Refer to Appendix 3 on page 47 of the accompanying FY2022 investor presentation for an exhaustive list of FY2022 one-offs and a detailed reconciliation between reported and underlying financial information.

2. *Impairment provisions:* The $9.6 million COVID-19 Overlay, originally raised in FY2020, remained entirely unutilised and was released in full. However, given the uncertainty of the current operating environment, it has been considered prudent to create a new $8.0 million Economic Overlay.

3. *Fair value loss on equity investment in Harmoney:* A $12.7 million net fair value loss was recognised on investment in Harmoney shares during FY2022. The fair value as at 30 June 2022 takes into consideration the closing market price of Harmoney shares on the ASX of A$0.71.

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

	Reported			**Underlying**		
	FY2022	FY2021	Movement	FY2022	FY2021	Movement
NOI[15] ($m)	267.6	251.2	16.4	262.0	247.1	14.9
Operating expenses ($m)	116.8	117.7	(0.9)	111.4	110.8	0.6
NPAT ($m)	95.1	87.0	8.1	96.1	87.9	8.2
NIM	4.05%	4.35%	(29 bps)	4.16%	4.35%	(19 bps)
NIM excl. liquid assets[16]	4.35%	4.69%	(33 bps)	4.47%	4.69%	(22 bps)
CTI ratio	43.6%	46.8%	(3.2 pps)	42.5%	44.8%	(2.3 pps)
Impairment expense ratio	0.25%	0.31%	(6 bps)	0.29%	0.31%	(2 bps)
ROE	12.1%	11.9%	21 bps	12.6%	12.0%	59 bps
EPS	16.1 cps	14.9 cps	1.2 cps	16.3 cps	15.1 cps	1.2 cps

Income

Total NOI was $267.6 million, an increase of $16.4 million (6.5%) from FY2021.

Underlying NOI was $262.0 million, $14.9 million (6.0%) higher than in FY2021. This was largely due to a $14.7 million (6.3%) increase in NII, driven by $599.5 million (11.2%) higher average interest earning assets in FY2022 than in FY2021, and a 19 bps decrease in underlying NIM compared with FY2021. Underlying other operating income remained stable year-on-year.

Expenses

Operating expenses were $116.8 million, a decrease of $0.9 million (0.8%) on FY2021. Excluding the impact of one-offs, the underlying operating expenses were $0.6 million (0.6%) higher compared with FY2021.

Higher underlying operating expenses were primarily due to a $2.8 million (19.2%) increase in IT and communication expenses, driven by software amortisation and licencing costs as a result of continued investments in technology and digital capabilities.

The CTI ratio decreased to 43.6%, down 3.2 pps compared with FY2021. The underlying CTI ratio decreased 2.3 pps to 42.5%.

Impairment expense

Impairment expense was $13.8 million, $1.2 million (7.7%) down on FY2021. This includes the net benefit of $1.6 million due to the release of Heartland's $9.6 million COVID-19 Overlay, partially offset by the newly

[15] Net operating income (**NOI**) includes fair value gains/losses on investments.
[16] Calculated based on average gross interest earning assets excluding liquid assets.

created $8.0 million Economic Overlay. Excluding this and the impacts of the acquisition of StockCo Australia, underlying impairment expense was $15.7 million, $0.7 million (4.9%) higher than in FY2021.

While the Receivables portfolio recorded strong growth during the year, impairment expense benefitted from an improved book quality as a result of the continued tilt of the portfolio mix towards lower risk assets.

Financial position

Total assets increased by $1,407.2 million (24.8%) during FY2022, driven by a $1,177.5 million (23.5%) increase in Receivables.

On an underlying basis, which excludes the impacts of the StockCo Australia acquisition and changes in FX rates, Receivables grew $765.9 million (15.3%) in FY2022. The unintended effects of changes to the New Zealand Credit Contracts and Consumer Finance Act 2003 and the Credit Contracts and Consumer Finance Regulations 2004 (**CCCFA**), introduced on 1 December 2021, initially resulted in a temporary slowdown, particularly in the Motor and Home Loans portfolios. Despite this, growth momentum recovered and strong growth was experienced across the majority of Heartland's portfolios. This was partly offset by the decrease in the Harmoney personal loans channel.

Borrowings[17] increased by $1,306.6 million (26.9%). On an underlying basis, which excludes the impacts of the StockCo Australia acquisition, borrowings increased by $804.9 million (16.5%), with deposits increasing by $409.1 million (12.8%), while other borrowings increased by $395.8 million (23.6%) during FY2022. See further information under *Funding and liquidity* on page 10.

Net assets increased by $47.0 million to $808.7 million. Net tangible assets (**NTA**) decreased by $111.7 million to $566.8 million, primarily due to growth in intangible assets as a result of the StockCo Australia acquisition, resulting in an NTA per share of $0.96 (30 June 2021: $1.16).

Business performance

Asset Finance

Asset Finance NOI was $30.6 million, an increase of $2.1 million (7.5%) compared with FY2021.

Asset Finance Receivables increased $62.6 million (11.0%) to $633.6 million. Despite the impacts of COVID-19, new business growth in FY2022 exceeded expectations as Heartland continues to build its intermediated partnership strategy and delivery processes. Demand from the logistics and other productive sectors remained resilient through variable conditions, and activity remains focused in these segments. Significant market share opportunities exist and will be pursued in FY2023.

Business

Business includes floorplan lending to vehicle retailers and wholesale facilities to other lenders. The portfolio includes what was previously known as Business Relationship.

Business NOI was $30.9 million, an increase of $4.9 million (18.6%) compared with FY2021.

Business Receivables increased $74.3 million (13.4%)[18] to $629.4 million. Growth in facility utilisation rates has been driven by strong underlying demand in motor vehicle sales combined with erratic shipping schedules. Heartland has onboarded new customers in this segment, and supported the growth strategies of wholesale borrowers in other sectors.

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[17] Includes retail deposits and other borrowings.
[18] Excluding the impact of changes in FX rates.

Open for Business

Open for Business (**O4B**) is Heartland's first digital platform that provides unsecured loans to the small-to-medium enterprise (**SME**) sector, with online approval possible within one minute.

O4B NOI was $13.7 million, a decrease of $0.8 million (5.8%) compared with FY2021.

O4B Receivables decreased $3.3 million (2.3%)[16] to $141.2 million. COVID-19 interrupted momentum in Heartland's O4B target market more severely than in other Business segments. Although there were signs of recovery early in FY2022, the arrival of the Omicron COVID-19 variant adversely impacted sector demand again. O4B growth in FY2023 will remain challenging as the SME sector struggles to accommodate difficult macro-economic, logistical, and labour conditions.

Motor Finance

Motor Finance NOI was $73.1 million, an increase of $3.9 million (5.6%) compared with FY2021. Motor Finance Receivables increased $90.8 million (7.0%) to $1.38 billion.

Growth was mainly from the Motor dealer book via car dealerships, brokers and partnerships such as Kia Finance, Jaguar/Land Rover Financial Services, and Peugeot/Citroen (through Auto Distributors New Zealand Limited (**Auto Distributors**) under the iOwn brand). Auto Distributors have also been appointed the distributors for Opel which arrives in late September 2022.

Growth in FY2022 was hindered by COVID-19 and the unintended effects of changes to the CCCFA introduced on 1 December 2021, which considerably reduced application automation rates and impacted conversion rates. Since implementing a new process for premium customers, application automation rates have started to increase.

Motor Finance portfolio performance returned to more normal levels in the last quarter of FY2022, recording a 194% increase in growth on the previous quarter, and producing an annualised growth rate of 7.4% for the quarter.

Personal Lending

Personal Lending includes loans originated directly through Heartland Bank, and those originated by Harmoney in New Zealand and Australia. Personal Lending NOI was $10.3 million, a decrease of $7.0 million (40.4%) compared with FY2021.

Personal Lending Receivables decreased by $67.3 million (50.9%)[19] to $64.9 million. Harmoney Receivables decreased by $94.9 million (75.6%)[19], made up of a decrease in the New Zealand Harmoney channel of $58.3 million (76.0%) to $18.4 million, and a decrease in the Australian Harmoney channel of $36.6 million (74.9%)[19] to $12.2 million.

Heartland had been in negotiations with Harmoney on proposed new wholesale facilities as Harmoney moved its funding model from a peer-to-peer off-balance sheet model to wholesale securitised on-balance sheet funding via warehouse structures. These negotiations ended in March 2022. Heartland's Harmoney personal loans channel is therefore running down.

From a risk perspective, Heartland is comfortable with the reduction in Personal Lending in the current environment.

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

Home Loans[20]

Home Loans NOI was $2.1 million (FY2021: $0.1 million). Home Loans Receivables increased $224.8 million (450.8%) to $274.7 million.

Rising interest rates drove a high volume of applications in FY2022, as customers sought to lock in competitive rates. Heartland's rates were frequently market-leading across standard residential mortgage products throughout the year.

Although growth in Q2 (1 October to 31 December 2021) was adversely impacted by the unintended effects of the CCCFA changes, Q3 (1 January to 31 March 2022) advertising saw a return to rapid growth, with the Home Loans book size increasing by $51.8 million. Heartland's commitment to decision new loan applications within 48 hours of receipt of all loan documentation has further disrupted a credit market in which longer timeframes have traditionally prevailed. Heartland has also experienced strong customer retention in a competitive market – the retention rate for customers whose fixed rates expired during 2H2022 was 91.1%.

Heartland Home Loans remains in a phase of rapid growth, and is targeting a book size of $495 million by the end of FY2023.

Rural

Rural lending NOI was $30.2 million, a decrease of $2.0 million (6.1%) compared with FY2021.

Overall Rural portfolio Receivables increased by $102.5 million (17.5%) to $689.1 million. Livestock Receivables increased by $62.3 million (57.0%) to $171.7 million, and Rural Receivables increased by $40.2 million (8.4%) to $517.4 million.

Heartland's Livestock business enjoyed record growth in FY2022, resulting from an increase in customers, and facility utilisation rates reaching a historic high. New and expanded partnership opportunities that were developed in FY2022 are expected to flow positively into FY2023.

Heartland's Sheep & Beef Direct platform has been a success story throughout FY2022, contributing 53% of total Rural new business. The product produced consistent growth, which confirmed the market niche it was developed for. FY2022 also saw the development of a similar product for dairy farmers, Dairy Direct, which is expected to grow consistently with Sheep & Beef Direct.

StockCo Australia

On 31 May 2022, Heartland completed the acquisition of StockCo Australia. StockCo Australia specialises in livestock finance for cattle and sheep farmers across Australia (74% cattle/26% sheep), with total assets of A$358 million, and a leading position in the market, estimated to be A$7 billion.[21]

The acquisition's total consideration (which includes A$1.6 million of deferred consideration payable subject to performance hurdles) was A$154.4 million, funded through a A$158 million bridge facility provided by a major Australasian financial institution. At the same time, a new long-term syndicated securitisation warehouse was executed, with A$300 million of senior funding provided by two major Australasian financial institutions.

Heartland's focus is to build on StockCo Australia's position as a market-leading provider of specialist livestock finance for cattle and sheep farmers across Australia.

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[20] Excludes legacy Retail Mortgages.

[21] Based on Australia Bureau of Statistics total rural debt and StockCo Australia data.

Transaction costs of $1.2 million were expensed in FY2022, and StockCo Australia contributed $1.4 million to FY2022 NPAT (excluding bridge finance costs). StockCo Australia is projected to contribute A$10 million to A$12 million to FY2023 NPAT.

New Zealand Reverse Mortgages

New Zealand Reverse Mortgages NOI was $32.5 million, an increase of $8.1 million (33.4%) compared with FY2021. Receivables increased $119.8 million (19.9%) to $721.3 million.

Growth was due to:

- strong new business particularly in 2H2022 (17.6% higher than in the first half of FY2022);
- increased awareness and acceptance of reverse mortgages as a solution to help older homeowners live a more comfortable retirement;
- cost of living increases placing pressure on retirees and a Reverse Mortgage being a solution; and
- continued enhancement of the product and application process.

The outlook for New Zealand Reverse Mortgages remains positive, with the pipeline sitting well above the previous corresponding period. As cost of living pressures continue and indebtedness in retirement increases, greater awareness and acceptance of reverse mortgages is expected to lead to increased demand through FY2023.

Australian Reverse Mortgages

Australian Reverse Mortgages NOI was $39.2 million, an increase of $3.0 million (8.2%) compared with FY2021.

Australian Reverse Mortgages Receivables increased by $163.8 million (15.2%)[22] to $1.24 billion, driven primarily by:

- the relaxation of COVID-19 lockdowns in Australia;
- growing acceptance of the use of reverse mortgages to age in place (i.e. for a person to remain in their home as they age);
- promotion by the Australian Federal Government of its Home Equity Access Scheme, normalising equity release options further; and
- targeted marketing to increase uptake and interest at key seasonal points across the year, leading to record applications and settlements in key months.

Heartland Reverse Mortgages Australia received four awards in FY2022, including Infochoice's Best Reverse Mortgage, and Australian Mortgage Awards' 'Most Effective Digital Strategy – Lender' Excellence Award for its digital focus.

Funding and liquidity

Heartland increased borrowings by $1,306.6 million (26.9%) to $6,170.7 million, contributed to by increases in New Zealand and Australia.

On an underlying basis, which excludes the impacts of the StockCo Australia acquisition, borrowings increased by $804.9 million (16.5%) to $5,669.0 million.

New Zealand

Heartland Bank increased borrowings by $624.2 million (16.8%) to $4,346.6 million.

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

Deposits[23] grew $377.6 million (11.7%) during FY2022 to $3,597.1 million, which was driven primarily by the launch of a 32 Day Notice Saver product early in the period and, more recently, a 90 Day Notice Saver product.

During the period, Heartland Bank significantly increased the number of active users of the Heartland Mobile App, providing an improved customer experience, and enabling employees to focus on providing higher value service. Heartland Bank was also pleased to be awarded Canstar's Savings Bank of the Year 2022 (for the fifth consecutive year), and to receive Canstar awards for its Direct Call and Notice Saver accounts.

Term deposits decreased by $55.5 million (2.5%), while call deposits decreased by $73.1 million (7.6%) during FY2022, with the call to total deposit ratio decreasing to 25% as at 30 June 2022 (30 June 2021: 30%).

Other borrowings increased by $246.6 million (49.0%), largely driven by increases in Heartland Bank's committed auto warehouse facility, whose limit was increased from $300 million to $400 million in September 2021, with the amount drawn down increasing by $159.6 million.

Heartland Bank's total liquidity remained stable, increasing by $6.4 million (1.0%) to $627.9 million, well in excess of regulatory minimums. Regulatory liquidity ratios remained strong.

Heartland Bank's capital position has progressively increased during FY2022, reflecting its continued strong profitability and partial removal of the RBNZ restrictions on distributions. Heartland Bank's regulatory capital ratio was 13.49% as at 30 June 2022 (30 June 2021: 13.88%), well in excess of regulatory minimums, and providing a strong platform for Heartland Bank to meet RBNZ's future higher capital requirements. These requirements are for a core capital ratio of 11.50% and a total capital ratio of 16.00% by 1 July 2028.

Australia

The Heartland Australia group (comprising Heartland Australia Holdings Pty Ltd and its subsidiaries) increased borrowings by A$102.6 million (9.3%) to A$1,200.2 million.

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 Medium Term Note (**MTN**) issued in July 2021, and a A$115 million MTN issued in May 2022 to refinance an existing A$100 million MTN and provide additional funding for future growth, taking the aggregate outstanding issuance under Heartland Australia's MTN programme to A$280 million as at 30 June 2022. Additionally, a A$30 million tap into an existing A$45 million funding line, maturing in July 2024, was issued in August 2022, adding further diversity to the funding base.

Maturity of reverse mortgage securitisation warehouses was extended by two and three years, and aggregate senior limits were expanded by A$100 million, providing additional headroom to fund future growth in the portfolio. This provides Heartland Australia group with access to A$1.35 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.

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[23] Includes intercompany deposits received by Heartland Bank (30 June 2022: $4.6 million; 30 June 2021: $36.1 million).

Proposed equity raise

Heartland has announced a $200 million equity raise. The proceeds of the equity raise will be used to:

1. repay a A$158 million acquisition finance facility outstanding in relation to the recent acquisition of StockCo Australia; and
2. provide additional growth capital for Heartland's existing businesses in both Australia and New Zealand.

The equity raise will comprise a $130 million fully underwritten placement (**Placement**) and a non-underwritten share purchase plan to shareholders in New Zealand and Australia to raise up to $70 million (**SPP**), with the ability for Heartland to accept oversubscriptions at its discretion.

The Placement is fully underwritten by Jarden Partners Limited, and will be conducted today through a bookbuild in which institutional and other selected investors in New Zealand, Australia and a limited number of other jurisdictions will be invited to participate. The Placement has been fully underwritten at a fixed price of $1.80 per new share, being a 12.8% discount to the ex-dividend adjusted last close price of $2.065 on 22 August 2022, and a 13.7% discount to the 5-day volume weighted average ex-dividend adjusted price of Heartland shares on the NZX ending on 22 August 2022. ASX settlement will take place on Friday 26 August, and NZX settlement and allotment of all new shares issued under the Placement will take place on Monday 29 August. A trading halt has been requested from NZX and ASX to facilitate the Placement.

Heartland also intends to undertake a non-underwritten SPP of $70 million to allow eligible shareholders with an address recorded in Heartland's share register that is in New Zealand or Australia at 7.00pm NZST (5.00pm AEST) on the Record Date of Monday 22 August 2022, to apply for up to $50,000/A$45,000 of new shares. Heartland has the ability to accept oversubscriptions at its discretion. Registered and beneficial shareholders outside of New Zealand and Australia are not eligible to participate in the SPP. New shares will be offered under the SPP at the lower of the price paid by investors in the Placement, and a 2.5% discount to the 5-day volume weighted average price of Heartland shares traded on the NZX during the five NZX trading days up to, and including, the closing date. The closing date for SPP applications by eligible shareholders is Monday 5 September 2022.

If the SPP is oversubscribed, applications will be scaled having regard to shareholdings at the Record Date, and otherwise at Heartland's discretion.

The SPP Offer Document will be sent to eligible shareholders on Thursday 25 August 2022 and will be available at www.heartlandshareoffer.co.nz on the same day. This document contains the final terms of the SPP Offer. Applications can be made through this website or as otherwise directed by Heartland.

Harrogate Trustee Limited, Heartland's largest shareholder, has committed to bid into the Placement with the intention of maintaining a minimum shareholding of 9.8% post completion of the proposed equity raise.

New shares to be issued under both the Placement and the SPP will rank equally in all respects with Heartland's existing ordinary shares on issue, but will not be eligible for the FY2022 final dividend with a record date of Friday 26 August 2022 (refer to page 15 for additional detail).

Heartland elected this offer structure due to the volatile market conditions to date in 2022, and its objective to further diversify its share register to promote increased liquidity on both the NZX and ASX. This is important in driving long-term value for all shareholders, by attracting depth of investment and widening demand. Heartland will endeavour to treat existing shareholders in eligible jurisdictions fairly through the Placement via an allocation policy that seeks, to the extent possible, to provide pro rata allocations to existing shareholders that bid for at least such into the Placement. Heartland is also utilising its placement capacity to increase the ability of shareholders to participate in the SPP the maximum amount possible under the NZX Listing Rules for a SPP without utilising placement capacity, being 5% of shares on issue and $15,000 per applicant. The SPP provides to participants the benefit of a downside pricing mechanism which is not available in pro rata structures.

Equity raise key dates[24]

SPP Offer Record Date	Monday 22 August
Announcement of equity raise and Placement bookbuild while Heartland is in trading halt	Tuesday 23 August
Announcement of results of Placement and trading halt lifted on NZX and ASX	Wednesday 24 August
SPP Offer Opening Date	Thursday 25 August
ASX Placement settlement	Friday 26 August
NZX Placement settlement	Monday 29 August
Allotment of new shares issued under the Placement	Monday 29 August
SPP Offer Closing Date	Monday 5 September
Announcement of results of SPP Offer	Thursday 8 September
NZX and ASX settlement	Friday 9 September
Allotment of new shares issued under the SPP Offer	Friday 9 September
SPP Offer shares commence trading on NZX	Friday 9 September
SPP Offer shares commence trading on ASX	Monday 12 September

Regulatory update

Heartland continues to monitor the significant volume of regulatory change.

Initial changes to the CCCFA came into force on 1 December 2021. Heartland Bank implemented new processes and technologies to enable it to comply with these changes, and continues to refine them. Additional CCCFA changes were announced in June 2022 (effective 7 July 2022). Following the completion of the New Zealand Government's investigation into the impact of the December 2021 changes, further amendments which seek to reduce the unintended impacts of the initial changes are expected to be implemented in March 2023.

The Financial Markets (Conduct of Financial Institutions) Amendment Act 2022 (**Conduct Act**) was passed in June 2022, and is planned to come into force in early 2025, following a transitional period. The Conduct Act applies to registered banks, licensed insurers and licensed non-bank deposit takers, and is regulated by the Financial Markets Authority (**FMA**). The Conduct Act introduces a new conduct licensing regime, the requirement to establish, implement, maintain and comply with a fair conduct programme, and the regulation of incentives (via new regulations which are yet to be consulted on). Incentives regulations will apply both to Heartland Bank and its intermediaries involved in the distribution of its products.

New legislation (to be known as the Deposit Takers Bill) is being developed to:
1. strengthen the regulatory framework for all institutions that take deposits (including Heartland Bank) through the strengthening of the RBNZ's supervision and enforcement powers; and
2. introduce a new depositor compensation scheme, overseen by the RBNZ.

An exposure draft of the Deposit Takers Bill is expected to be introduced to Parliament in the latter half of 2022.

[24] Dates are subject to change and are indicative only.

In June 2022, the RBNZ announced the remaining dividend restrictions placed on banks, in response to the impact of COVID-19, would be removed from 1 July 2022.

Continued preparation is underway to meet the Climate-Related Disclosures obligations introduced through the Financial Sector (Climate-related Disclosures and Other Matters) Amendment Act 2021, with Heartland's first climate statement required as part of reporting for the period ended 30 June 2024.

Sustainability update

Delivering sustainable profitability is a key tenet of Heartland's overarching purpose and is supported by Heartland's three pillars of sustainability: environmental, social and economic. Key achievements for FY2022 in each area of sustainability are noted below.

Environmental conservation

- Continued work towards hitting Heartland's ambitious emissions reduction targets, achieving a 31% absolute reduction in Greenhouse Gas (**GHG**) emissions (estimated to be 21% when the short-term impacts of COVID-19 are taken into account) in the two years to FY2021 (Heartland's most recent GHG emissions reporting period).
- Currently measuring Heartland's FY2022 GHG emissions. This will be completed during FY2023 so that Heartland will be in a position to report its FY2023 GHG emissions as part of its FY2023 financial reporting. From FY2023, Heartland's GHG emissions reporting will include emissions attributed to customer activity enabled though lending.
- Heartland is financing an increasing number of "new generation" (electric and hybrid) vehicles. During FY2022, 5% of vehicles financed in our Motor portfolio were new generation. However, that percentage increased steadily over the year and continues to climb as Heartland's key partners (including Kia, Peugeot, Citroen, Jaguar and Land Rover) increase their production of new generation vehicles.
- Conducted analysis of the physical risks (including flood, drought or other natural hazard risk) and transitional risks (including the potential for climate change related regulatory change, the ongoing availability of insurance, and changes in borrower behaviour and preferences) of two climate change scenarios over the medium- and long-term, to understand the potential impact of climate change on Heartland's portfolios, and support informed decision making going forward.
- Commenced the replacement of all fleet 4WD vehicles (23% of the fleet) with hybrid alternatives, with the aim of converting the majority of the fleet to hybrid or electric by the end of 2023.
- Contributed to the consultation process for the mandatory reporting regime for climate-related disclosures in New Zealand via memberships with the New Zealand Bankers Association (**NZBA**) and the Climate Leaders Coalition.

Social equity

- Introduced pay gap reporting for gender and ethnicity. Heartland's gender pay gap of 23% as at 31 January 2022 was 8% below the financial and insurance services industry average. Heartland's Māori and Pasifika pay gaps were 25% each. Pay gaps as at 30 June 2022 will be reported in the Annual Report published on 28 September 2022.
- Heartland Bank achieved the Rainbow Tick in November 2021.
- Heartland Bank was a finalist in the 2022 HRNZ Awards in the *Leader Māori HR* award category for its Manawa Ako internship programme.
- 93% of employees resonate with Heartland's mātāpono (values) as being important values to them.
- Heartland Trust[25] grants totalled $501,933 to community groups and organisations.

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

- Implemented processes and controls across Heartland to prevent any connection to modern day slavery, whether through Heartland practices, customer practices, or supply chain connections.

Economic prosperity

- Enabled more than 40,000 New Zealanders and Australians to live a more comfortable retirement through a reverse mortgage.
- Grew the Australian business through the acquisition of livestock financier StockCo Australia, which is expected to contribute A$10-12 million to FY2023 NPAT.
- Continued to offer customers cost savings through some of New Zealand's lowest mortgage rates with Heartland's self-serve online Home Loans application, despite a rapidly rising interest rate environment.
- Updated Heartland's Procurement Policy to connect it more closely with Heartland's sustainability framework, with the aim of promoting Heartland's values amongst new and existing supply-chain partners, and supporting a more diverse and inclusive network.
- Delivered total shareholder return (**TSR**) of 66.9% over the last five years (19 August 2017 – 19 August 2022), compared with the NZX50 Index TSR of 56.7% in the same period.

More information and goals for the year ahead will be included in Heartland's FY2022 Annual Report, to be published on 28 September 2022 and available at shareholders.heartland.co.nz.

Final dividend

Heartland is pleased to declare a FY2022 final dividend of 5.5 cps, taking the total FY2022 dividend to 11.0 cps (flat on 2021). This represents a full year payout ratio of 68% which compares to the average over the last three years of 69%. The dividend yield of 7.1%[26] is unchanged from FY2021[27].

The final dividend will be paid on Wednesday 14 September 2022 (**Payment Date**) to shareholders on the company's register as at 5.00pm on Friday 26 August 2022[28] (**Record Date**) and will be fully imputed.

Heartland's Dividend Reinvestment Plan (**DRP**), giving eligible shareholders the opportunity to reinvest some or all of their dividend payments into new ordinary shares, is suspended for the final dividend due to the proposed equity raise – see page 11.

Looking forward

The current economic environment presents the obvious challenges of rising inflation and rapidly rising interest rates, tempered somewhat by low unemployment, flowing through into business and consumer confidence.

To a meaningful extent, Heartland is insulated against these challenges due to expected levels of growth in Reverse Mortgages (driven by demographics) and Livestock (driven by global demand for protein).

The large number of residential mortgages in New Zealand coming off fixed rates during the course of the year should support ongoing growth of Home Loans. There is optimism that market share gains in Motor and Asset Finance are available to underpin growth in markets that have seen some supply disruptions and a decline in confidence. Similarly, Heartland's focus on parts of the rural market that are underserviced by

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[26] FY2022 total fully imputed dividends divided by the closing share price as at 19 August 2022 of $2.16.
[27] FY2021 total fully imputed dividends divided by the closing share price as at 20 August 2021 of $2.16.
[28] NZ RegCo granted Heartland a waiver from the five Business Day notice requirement under NZX Listing Rule 3.14.1 in relation to the final dividend.

larger banks, has the potential to offset the ongoing exit of larger rural relationship loans. However, this must be weighed against decreasing confidence levels in some sections of the market.

With regard to risk in this environment, while Heartland has released its COVID-19 Overlay, it has adopted an Economic Overlay of $8 million in order to provide coverage for a potential downside scenario. Alongside this, the portfolio mix has shifted towards higher quality loans, with a strong increase in particular of Reverse Mortgages, which are expected to continue to perform very well.

Efforts will continue to create efficiencies and frictionless service at the lowest cost. It will also be a very important year for Heartland's Australian strategy – the first full year with StockCo Australia as a member of the Group, and in progressing Heartland's pathway to becoming a bank through obtaining an ADI licence in Australia.

Heartland expects NPAT for FY2023 to be within the guidance range of $109 million to $114 million, excluding any impacts of fair value changes on equity investments held.

– ENDS –

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Currency
Unless otherwise stated, all references to "$" are to the New Zealand dollar.

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