

NZX/ASX release  
8 April 2024

## Heartland announces indicative regulatory approval of Challenger Bank acquisition, and NZ\$210m equity raise

Heartland Group Holdings Limited (**Heartland**) (NZX/ASX: **HGH**) is pleased to announce that it has received indicative regulatory approvals from the Australian Prudential Regulation Authority (**APRA**) and the Reserve Bank of New Zealand (**RBNZ**) for Heartland Bank Limited's (**Heartland Bank**) acquisition of Challenger Bank Limited (**Challenger Bank**) from Challenger Limited (ASX: **CGF**). Subject to receipt of final regulatory approvals, Heartland Bank expects to complete the acquisition of Challenger Bank on 30 April 2024 (**Completion**).

Heartland also announces a NZ\$210 million equity raise, the successful completion of which APRA and RBNZ's final regulatory approvals are conditional on. The equity raise comprises a NZ\$105 million underwritten placement (**Placement**) and a NZ\$105 million underwritten 1 for 6.85 accelerated non-renounceable entitlement offer (**Entitlement Offer**), described in detail below.

Proceeds from the equity raise will be used to finance the balance of the consideration payable for the Challenger Bank acquisition, support the expected regulatory capital requirements of Challenger Bank and Heartland Bank, and cater for near-term projected asset growth post-Completion.

Shortly after Completion, Heartland will transfer Heartland Australia Holdings Pty Limited and its subsidiaries (which include Heartland's existing Australian Reverse Mortgage business (Heartland Finance) and Livestock Finance business (StockCo Australia)) (together, **Heartland Australia**) to Challenger Bank. This is expected to occur on 2 May 2024.

### Becoming a bank in Australia

The acquisition is a critical step in Heartland's strategy for expansion in the Australian market and achieving its long-term growth ambitions. Heartland is already well-established in Australia through Heartland Australia. At 31 December 2023, together, Heartland's Australian Reverse Mortgage and Livestock Finance businesses had approximately NZ\$2 billion of gross finance receivables.

Completing the Challenger Bank acquisition will make Heartland Bank the first New Zealand registered bank to acquire an Australian Authorised Deposit-Taking Institution (**ADI**). Subject to Completion, under Heartland Bank's ownership, Challenger Bank will be rebranded to Heartland Bank (**Heartland Bank Australia**), providing a platform to extend Heartland's "best or only" strategy in Australia. Once Heartland Australia becomes part of Heartland Bank Australia, it will be the only specialist bank provider of both reverse mortgages and livestock finance in Australia.

To accelerate growth in Australia, Heartland will leverage Challenger Bank's foundation and funding platform, Heartland's successful track record in Australia, and its New Zealand product and distribution expertise. This will enable Heartland Bank Australia to expand into new product segments in which Heartland Bank has specialist expertise in New Zealand, such as Motor Finance and Asset Finance.<sup>1</sup>

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<sup>1</sup> Subject to meeting minimum return on equity (**ROE**) hurdles and APRA consultation.

Expansion will be enabled through access to retail deposits, allowing Heartland to optimise the advantage of a lower cost of funds. Challenger Bank continues to actively raise deposits ahead of being acquired by Heartland Bank and will continue to do so following Completion. Challenger Bank's retail deposit growth to date has exceeded Heartland's expectations. In the period between 30 December 2023 to 29 March 2024, Challenger Bank achieved retail deposit growth of A\$702 million at a rate that is 1.74% lower than Heartland Australia's current cost of funds.<sup>2</sup>

## Dividends

Having regard to the equity raise, acquisition of Challenger Bank and associated growth opportunities, the Board expects to target a total dividend payout ratio in the financial year ending 30 June 2024 of 50% of underlying net profit after tax. The Board will, as it has historically, actively manage dividend settings and carefully consider the declaration of any dividend based on Heartland's capital needs, ROE accretive growth opportunities, balance sheet flexibility and Heartland's financial performance.

## Board and Management updates

After 15 years at Heartland, Jeff Greenslade has indicated to the Board his intention to step down from his role as CEO of Heartland at the end of this calendar year. Jeff's tenure at Heartland included seeing through its formation in 2011, and receipt of Heartland Bank's RBNZ banking registration in 2012. Post-Completion, Jeff's focus as CEO will be on the strategic transition of Heartland in its role as a listed parent company of banks in two jurisdictions, the integration of Challenger Bank into the group, and the continued development of Heartland's business in Australia.

The Board is confident in the continuation of senior expertise within the Heartland group, and will work closely with Jeff on succession planning through the calendar year to ensure a successful transition.

Subject to Completion, which is expected to take place on 30 April 2024, the following Board and Management changes will occur.

- Geoff Summerhayes will resign from the Heartland Board and be appointed Chair of the new Heartland Bank Australia Board. The accompanying investor presentation provides more information about the proposed Heartland Bank Australia Board of Directors and Management team.
- Michelle Winzer has been appointed Chief Executive Officer of Heartland Bank Australia with a start date yet to be confirmed. Michelle will join Heartland Bank Australia from her role as Chief Executive Banking of RACQ Bank in Queensland. Michelle will bring more than 30 years' experience in banking and financial services, including as Chief Executive Officer of Bank of Melbourne, and senior roles at Bankwest, the Commonwealth Bank of Australia and Westpac.
- John Harvey will be appointed to the Heartland Board as Independent Non-Executive Director, and will remain on the Heartland Bank Board as Non-Independent Non-Executive Director.
- Ellie Comerford, who has served on Heartland Boards for more than seven years, has indicated her intention to resign from the Heartland Board on or around 30 June 2024.
- Chris Flood, currently Deputy Chief Executive Officer of Heartland, will be appointed Acting Chief Executive Officer of Heartland Bank Australia. Chris is expected to return to his role as Deputy Chief Executive Officer of Heartland later in the 2024 calendar year, allowing time for a comprehensive handover with Michelle.

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<sup>2</sup> The cost of funds benefit is calculated with reference to Heartland Australia's average cost of funds over January and February 2024.

Kerry Conway recently joined Heartland Bank as Chief Financial Officer on 4 March 2024 and will become a senior manager of Heartland Bank with effect from 8 April 2024. Andrew Dixson continues in his role as Group Chief Financial Officer of Heartland with responsibility for managing liquidity, funding and capital, corporate finance, including mergers and acquisitions, group tax, and investor relations within the Heartland group.

## Proposed equity raise

Heartland has announced a NZ\$210 million equity raise to facilitate the completion of the Challenger Bank acquisition. The proceeds of the equity raise will be used to:

1. finance the balance of the consideration payable for the Challenger Bank acquisition
2. support the expected regulatory capital requirements of Challenger Bank and Heartland Bank
3. cater for near term asset growth post-Completion.

The equity raise will comprise a NZ\$105 million underwritten Placement and a NZ\$105 million underwritten 1 for 6.85 pro-rata Entitlement Offer. The Placement and Entitlement Offer are fully underwritten by Jarden Partners Limited, with the exception of a pre-commitment received from Heartland's largest shareholder, Harrogate Trustee Limited, for approximately NZ\$14 million of the equity raise.

The Placement and Entitlement Offer will both be undertaken at a fixed price of NZ\$1.00 per new share, being a 18.0% discount to the last close price of NZ\$1.22 on 5 April 2024, and a 14.6% discount to the theoretical ex-rights price (**TERP**) of NZ\$1.1703<sup>3</sup>.

### Placement

The placement is underwritten by Jarden Partners Limited and will be conducted today through a bookbuild in which institutional and other select investors in New Zealand, Australia and a limited number of other jurisdictions will be invited to participate. The Placement has been underwritten at a fixed price of NZ\$1.00 per new share. The Placement will comprise 105 million new shares, which represents 11.3% of Heartland's shares on issue following completion of the equity raise. ASX settlement will take place on Friday 12 April, and NZX settlement and allotment of all new shares issued under the Placement will take place on Monday 15 April. New shares issued under the Placement will be ex-entitlement under the Entitlement Offer. A trading halt has been requested from NZX and ASX to facilitate the Placement.

### Entitlement Offer

Under the Entitlement Offer, eligible shareholders may apply for 1 new share for every 6.85 existing shares held at the dates and times described below, at an application price of NZ\$1.00 per new share. The Entitlement Offer will raise a total of approximately NZ\$105 million and be underwritten by Jarden Partners Limited at the same application price as the Placement of NZ\$1.00 per new share. The Entitlement Offer comprises the issue of approximately 105 million new shares which represents 11.3% of Heartland's shares on issue following completion of the equity raise.

The Entitlement Offer will be conducted in two parts – a component to institutional investors (**Institutional Entitlement Offer**) and a component to retail shareholders (**Retail Entitlement Offer**).

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<sup>3</sup> TERP is the Theoretical Ex-Rights Price at which Heartland ordinary shares would trade immediately after the ex-rights date for the offer. TERP is calculated with reference to Heartland's closing share price of NZ\$1.22 on 5 April 2024 and includes all new shares issued under the placement and the offer. TERP is a theoretical calculation only and the actual price at which Heartland ordinary shares will trade immediately after the ex-rights date for the offer will depend on many factors and may not be equal to TERP.

The Entitlement Offer is non-renounceable, and entitlements will not be tradeable or otherwise transferable.

Eligible shareholders under the Institutional Entitlement Offer include institutional and other selected investors in New Zealand, Australia and select international jurisdictions as at 7.00pm NZST (5.00pm AEST) on the Record Date of Tuesday 9 April 2024 (**Record Date**). The Institutional Entitlement Offer will be accelerated and will close on Monday 8 April 2024 for New Zealand, Australia, Hong Kong and Singapore and on Tuesday 9 April 2024 for all other eligible international jurisdictions.

The Retail Entitlement Offer will be offered to eligible retail shareholders with an address recorded in Heartland's share register in New Zealand or Australia as at 7.00pm NZST (5.00pm AEST) on the Record Date. The Retail Entitlement Offer will open on Thursday 11 April 2024, and close on Monday 22 April 2024 (unless extended). Provided they have taken up their full entitlement, eligible retail shareholders may also apply for additional new shares not taken up by other retail shareholders up to a maximum of 100% above their pro-rata entitlement.

The Offer Document accompanies this announcement and will be sent to eligible retail shareholders on Thursday 11 April 2024 and be available at [www.heartlandshareoffer.co.nz](http://www.heartlandshareoffer.co.nz) on the same day. This document contains the terms of the offer. Applications can be made through this website or as otherwise directed by Heartland.

New shares to be issued under both the Placement and the Entitlement Offer will rank equally in all respects with Heartland's existing ordinary shares on issue.

Heartland chose this offer structure as it requires certainty that sufficient funds are raised to complete the Challenger Bank acquisition and support expected regulatory requirements post-Completion. The offer structure supports an accelerated timetable relative to renounceable offers to ensure faster completion with the additional benefit of tighter pricing. For further details on why Heartland has selected this offer structure, please refer to the Offer Document that accompanies this announcement.

The Placement and Entitlement Offer also fulfils Heartland's 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. Through the Placement and the ability for retail shareholders to subscribe for additional new shares not taken up by other retail shareholders, Heartland endeavours to allow all shareholders that wish to maintain their pro-rata shareholdings through the equity raising, the ability to do so.

### Equity raise key dates

Event	Date <sup>4</sup>
Announcement of Equity Raising	Monday 8 April 2024
Record date for the Entitlement Offer	Tuesday 9 April 2024
<b>Institutional Entitlement Offer and Placement</b>	
Institutional Entitlement Offer and Placement opens	Monday 8 April 2024
Institutional Entitlement Offer and Placement closes (for institutional shareholders in New Zealand, Australia, Hong Kong and Singapore)	Monday 8 April 2024

<sup>4</sup> The dates set out in the table above (and any references to them in this announcement) are subject to change and are indicative only. All times and dates refer to NZ time (unless otherwise specified).

Institutional Entitlement Offer and Placement closes (for institutional shareholders in all other jurisdictions)	Tuesday 9 April 2024
Trading halt lifted and shares recommence trading on NZX and ASX on an 'ex-entitlement' basis	By 12.00pm NZST Tuesday 9 April 2024
ASX settlement	Thursday 11 April 2024
NZX settlement, allotment and commencement of trading of new shares	Friday 11 April 2024
<b>Retail Entitlement Offer</b>	
Retail Entitlement Offer opens	Thursday 11 April 2024
Offer Document dispatched to Eligible Retail Shareholders	Thursday 11 April 2024
Retail Entitlement Offer closes	Monday 22 April 2024
ASX and NZX settlement and allotment	Friday 26 April 2024
NZX commencement of trading of new shares	Friday 26 April 2024
ASX commencement of trading of new shares	Monday 29 April 2024

## Investor briefing

Heartland will hold an investor briefing at 11.00am NZST. Register to attend the briefing here: <https://ccmediaframe.com/?id=JHLK8tIK>

– ENDS –

### The person(s) who authorised this announcement:

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## About Heartland

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).

Heartland's New Zealand business, [Heartland Bank](#), provides customers with savings and deposit products, online home loans, reverse mortgages, business loans, car loans and rural loans. 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. In October 2022, Heartland announced its intention to purchase Challenger Bank, a digital bank based in Melbourne, Australia, subject to obtaining the requisite regulatory approvals.

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: [heartlandgroup.info](http://heartlandgroup.info)

## About Challenger

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 authorised deposit-taking institution. Challenger Life Company Limited is Australia’s largest provider of annuities.

More about Challenger: [challenger.com.au](http://challenger.com.au)

## Currency

Unless otherwise stated, all references to “\$” are to the New Zealand dollar.

## Not an offer of securities in the United States

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