1H2024 Results

For the six-months ended
31 December 2023

HEARTLAND GROUP

Contents

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Highlights & strategic update

Jeff Greenslade
Chief Executive Officer Heartland Group

01

Presentation of results

Unaudited financial results in this investor presentation are presented on a reported and underlying basis.

- Reported results are prepared in accordance with NZ GAAP and include the impacts of one-offs, both positive and negative, which can make it difficult to compare performance between periods.
- Underlying results (which are non-GAAP financial information) exclude the impacts of fair value changes on equity investments held, the de-designation of derivatives, the ABP costs, increase in provisions for a subset of legacy lending, and any other impacts of one-offs. This is intended to allow for easier comparability between periods, and is used internally by management for this purpose.

Adjustments for underlying results impact net operating income (**NOI**), operating expenses (**OPEX**), net profit after tax (**NPAT**), net interest margin (**NIM**) and earnings per share (**EPS**). Underlying return on equity (**ROE**), underlying cost to income (**CTI**) ratio and underlying impairment expense ratio measures are supplementary, non-GAAP measures that may be used by investors, industry analysts and others in assessing and benchmarking profitability and performance against the industry and/or other companies. A GAAP and non-GAAP comparative is provided for each of these measures.

Refer to Appendix 3 on page 41 for a detailed reconciliation between reported and underlying financial information, including details about one-offs in the periods covered in this investor presentation.

General information about the use of non-GAAP financial measures is set out on page 36 of this investor presentation.

01

Solid performance despite economic headwinds

Resilience of core lending portfolios

- Continued Receivables growth in most core lending portfolios with good pipelines for further growth and to expand market share.
- Strong growth in Reverse Mortgages (NZ up 18.7%, AU up 20.0%)[1] .
- Solid growth in Asset Finance (up 8.9%)[1] and Motor Finance (up 6.4%)[1] – Motor Finance experienced growth in a market where total new and used car sales in NZ were down 12.2%[2].
- Heartland's funding, liquidity and capital positions remain strong.

Becoming a bank in Australia

- The acquisition of Challenger Bank is nearing completion with the regulatory approval process now in the final stages.[3]
- Recent success of Challenger Bank in the AU deposit market has exceeded Heartland's expectations. This will enable Heartland to optimise the advantage of a lower cost of funds post-acquisition completion.

Growth

- In the long-term Heartland expects to continue its growth story.
- Organic growth is expected to improve in line with reduced inflation. Similarly cost of funds and NIM are expected to improve as interest rates ease.

December 2023 revision to guidance

- The expected A$3.5 million one-off FY2024 impact on underlying NPAT arising from the anticipated acquisition of Challenger Bank, positioning Heartland for its next stage of growth.
- Short-term operational performance challenges – a slower than expected start to FY2024 for Motor Finance and AU Livestock Finance, and higher cost of funds.
- Heartland Bank's response to issues affecting a subset of legacy lending.

[1] Annualised 1H2024 growth excluding the impact of changes in FX rates. [2] Based on data from Turners, dated December 2023 (data sourced from Waka Kotahi NZ Transport Agency) [3] The acquisition of Challenger Bank remains subject to the requisite regulatory approvals.

Group financial highlights

	NPAT[2]	NIM	CTI ratio	Impairment expense ratio	ROE	EPS
Reported	**$37.6m** ↓ 22.7% vs 1H2023	**3.67%** ↓ 29 bps vs 1H2023	**46.5%** ↑ 170 bps vs 1H2023	**0.70%** ↑ 41 bps vs 1H2023	**7.3%** ↓ 329 bps vs 1H2023	**5.3 cps** ↓ 2.0 cps vs 1H2023
Underlying[1]	**$52.7m** ↓ 3.6% vs 1H2023	**3.67%** ↓ 34 bps vs 1H2023; ↓ 33 bps vs FY2023	**43.7%** ↑ 93 bps vs 1H2023	**0.23%** ↓ 6 bps vs 1H2023	**10.2%** ↓ 183 bps vs 1H2023	**7.4 cps** ↓ 0.8 cps vs 1H2023

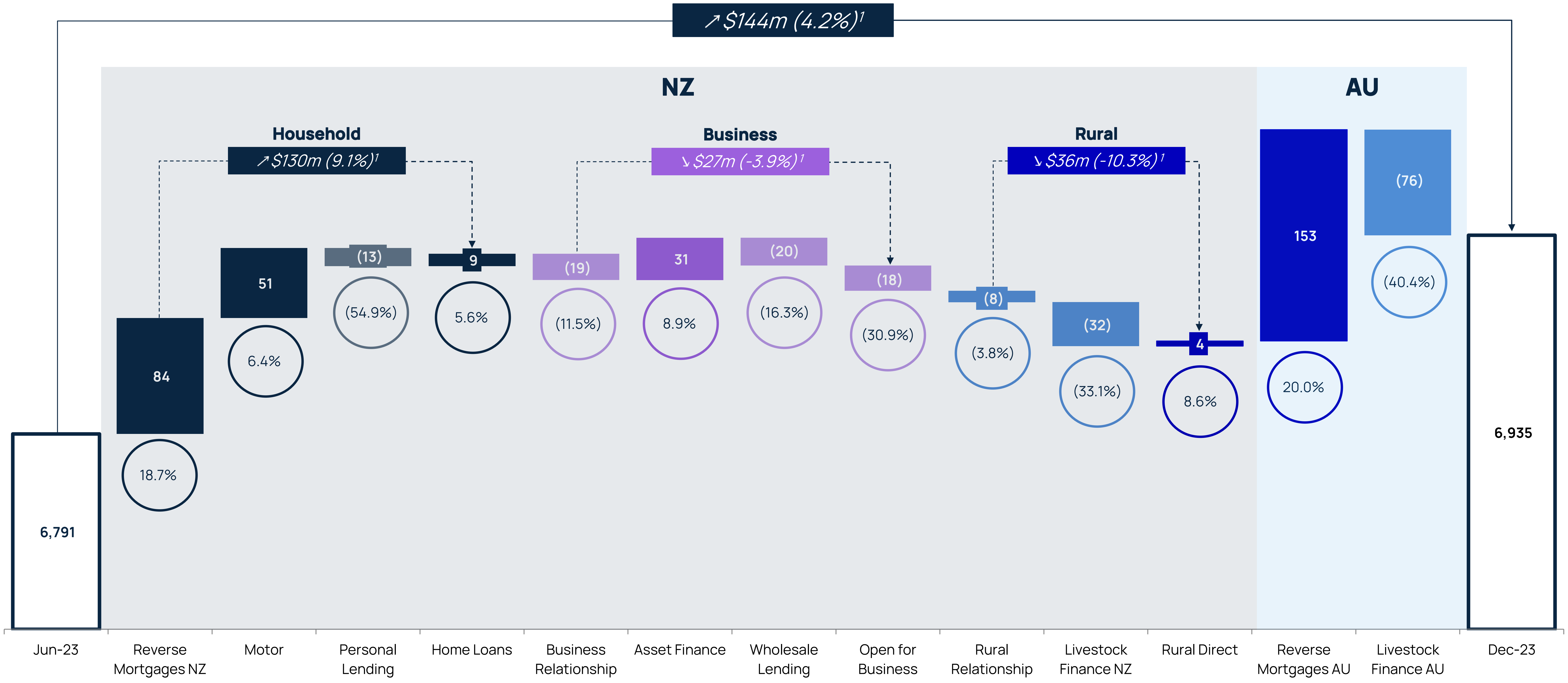
Receivables[3]	Borrowings	Equity	Interim dividend
$6,924m ↑ 4.2%[4] vs June 2023	$6,839m ↑ 3.2% vs June 2023	**$1,021m** ↓ 0.9% vs June 2023	**4.0 cps** ↓ 1.5 cps vs 1H2023

[1] Refer to Appendix 3 for a reconciliation between reported and underlying NPAT result. [2] NPAT excluding only the impact of fair value changes on equity investments held, the de-designation of derivatives and the ABP costs was $41.2 million.
[3] Receivables also includes Reverse Mortgages. [4] Annualised 1H2024 growth excluding the impact of changes in FX rates.

01

Business as Usual Growth

- Overall Receivables growth of 4.2%[1].
- Continued strong Reverse Mortgage growth (NZ up 18.7%, AU up 20.0%) [1].
- Motor Finance growth of 6.4%[1] in market where total new and used car sales in NZ were down 12.2%[2].



Note: The graph shows 1H2024 growth in Receivables by portfolio excluding the impact of changes in FX rates and intercompany balances. All figures in NZ$m.
[1]Annualised 1H2024 growth excluding the impact of changes in FX rates. [2] Based on data from Turners, dated December 2023 (data sourced from Waka Kotahi NZ Transport Agency).

FY2028 growth ambitions

FY2023 Result	FY2028 Ambition
Underlying NPAT $110m	Underlying NPAT $200m+
Underlying CTI ratio 42%	Underlying CTI ratio <35%

Strong growth in core lending

- Achievement of ambitions requires Receivables growth rates at historical levels only.

CTI ratio of less than 35%

- Underlying CTI ratio of 43.7%[1], remains significantly lower than the average CTI ratio of NZ's non-major domestic banks and much more comparable to the average CTI ratio of major AU banks.[2]
- Heartland Bank core banking system upgrade completed in 1H2024, enabling accelerated digitalisation.
- Motor digitalisation through the delivery of branded online origination platforms for Motor Finance dealer partners.
- Process automation with a focus on Heartland Bank's Collections & Recoveries area to improve internal workflows and reduce manual effort.

Australia

- Continues to be leading provider of reverse mortgages with market share of 41% at 30 September 2023 (up from 36% at 30 September 2022).[3]
- Positioned to benefit from structural tailwinds in AU Livestock sector.
- Subject to completion[4], the acquisition of Challenger Bank will:
  - make Heartland the only specialist bank provider of both reverse mortgages and livestock finance in AU
  - support ongoing growth and enable expansion into new product segments
  - enable Heartland to optimise the advantage of a lower cost of funds post-acquisition completion.
- Heartland intends to leverage its extensive operational experience in New Zealand to drive expansion into AU.

[1] Underlying CTI ratio excludes one-off impacts. Refer to Appendix 3 for a reconciliation between reported and underlying result. [2] The average CTI ratio of New Zealand's main domestic non-major banks excluding Heartland (The Co-operative Bank, Kiwibank, SBS and TSB) was 70.7% for the 12 months to 30 September 2023 (data from the RBNZ Financial Strength Dashboard, valid as at 27 November 2023). The average CTI ratio of Australia's major banks (ANZ, CBA, NAB and Westpac) was 45.2% for their most recent respective annual reporting periods. [3] Based on APRA ADI Property Exposure and Heartland Finance data as at 30 September 2022 and 30 September 2023. This does not include data from non-ADI providers of reverse mortgages. [4] The acquisition of Challenger Bank remains subject to requisite regulatory approvals.

02

Financial results, funding & liquidity

Andrew Dixson
Chief Financial Officer Heartland Group

Group financial results

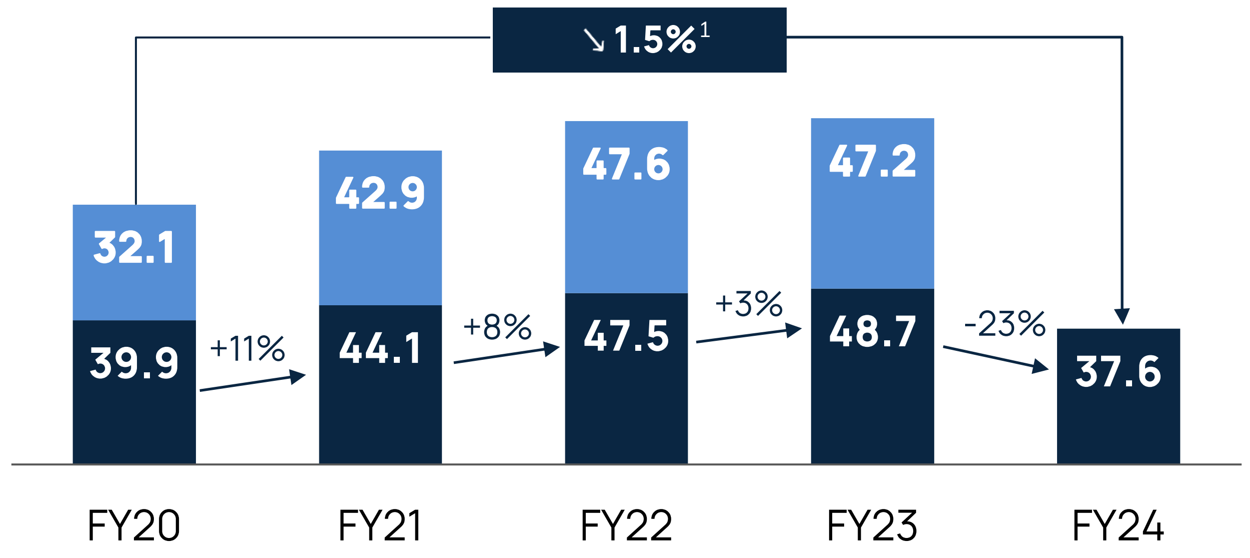
		Reported			Underlying		
Financial performance	NII	$138.7m	↓	0.1% vs 1H2023	$138.7m	↓	1.4% vs 1H2023
	OOI[1]	$4.4m	↑	54.9% vs 1H2023	$6.8m	↓	23.1% vs 1H2023
	NOI	$143.1m	↑	**1.0% vs 1H2023**	$145.6m	↓	**2.7% vs 1H2023**
	OPEX	$66.5m	↑	4.8% vs 1H2023	$63.9m	↓	0.6% vs 1H2023
	Impairment Expense	$24.0m	↑	160.1% vs 1H2023	$8.0m	↓	13.0% vs 1H2023
	Tax Expense	$15.0m	↓	26.5% vs 1H2023	$21.2m	↓	2.4% vs 1H2023
	NPAT[2]	$37.6m	↓	**22.7% vs 1H2023**	$52.7m	↓	**3.6% vs 1H2023**
	NIM	3.67%	↓	29bps vs 1H2023	3.67%	↓ ↓	34bps vs 1H2023 33 bps vs FY2023
	CTI	46.5%	↑	170 bps vs 1H2023	43.7%	↑	93 bps vs 1H2023
	Impairment Expense Ratio[3]	0.70%	↑	41 bps vs 1H2023	0.23%	↓	6 bps vs 1H2023
	ROE	7.3%	↓	329 bps vs 1H2023	10.2%	↓	183 bps vs 1H2023
	EPS	5.3 cps	↓	2.0 cps vs 1H2023	7.4 cps	↓	0.8 cps vs 1H2023

Financial Position	Receivables[4]	$6,924m	↑	4.2%[5] vs June 2023
	Borrowings	$6,839m	↑	3.2% vs June 2023
	Equity	$1,021m	↓	0.9% vs June 2023
	Equity/Total Assets	12.9%	↓	40 bps vs June 2023

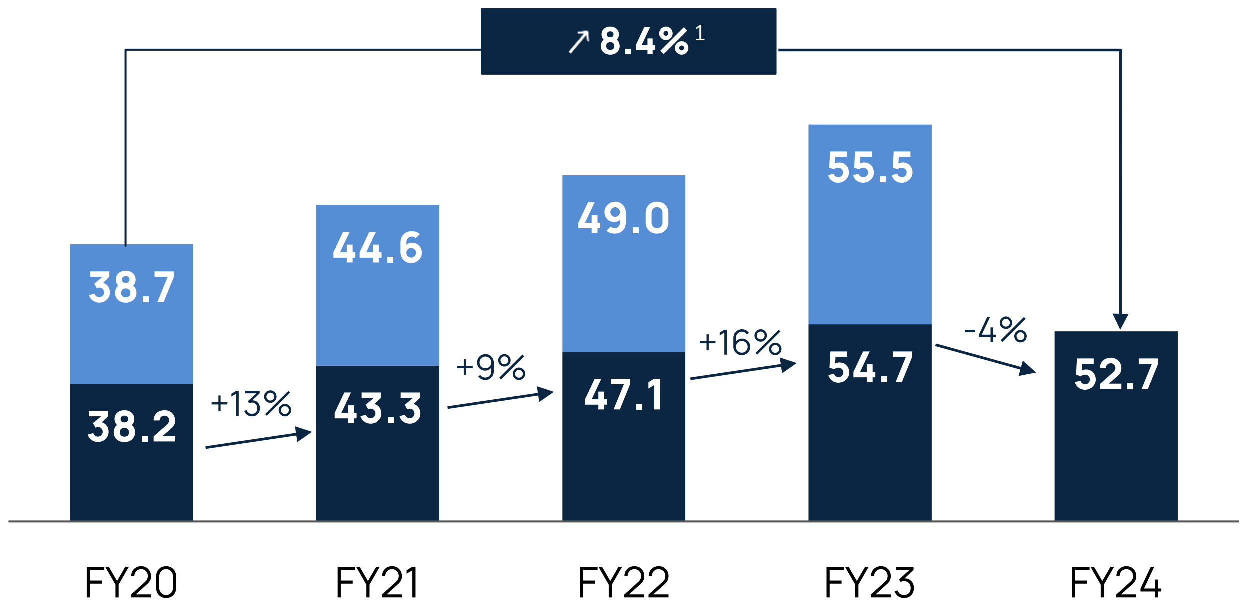
[1] OOI includes fair value gains/losses on investments. [2] Refer to Appendix 3 for a reconciliation between reported and underlying NPAT result. [3] Impairment expense as a percentage of average Receivables. [4] Receivables also includes Reverse Mortgages. [5] Annualised 1H2024 growth excluding the impact of changes in FX rates.

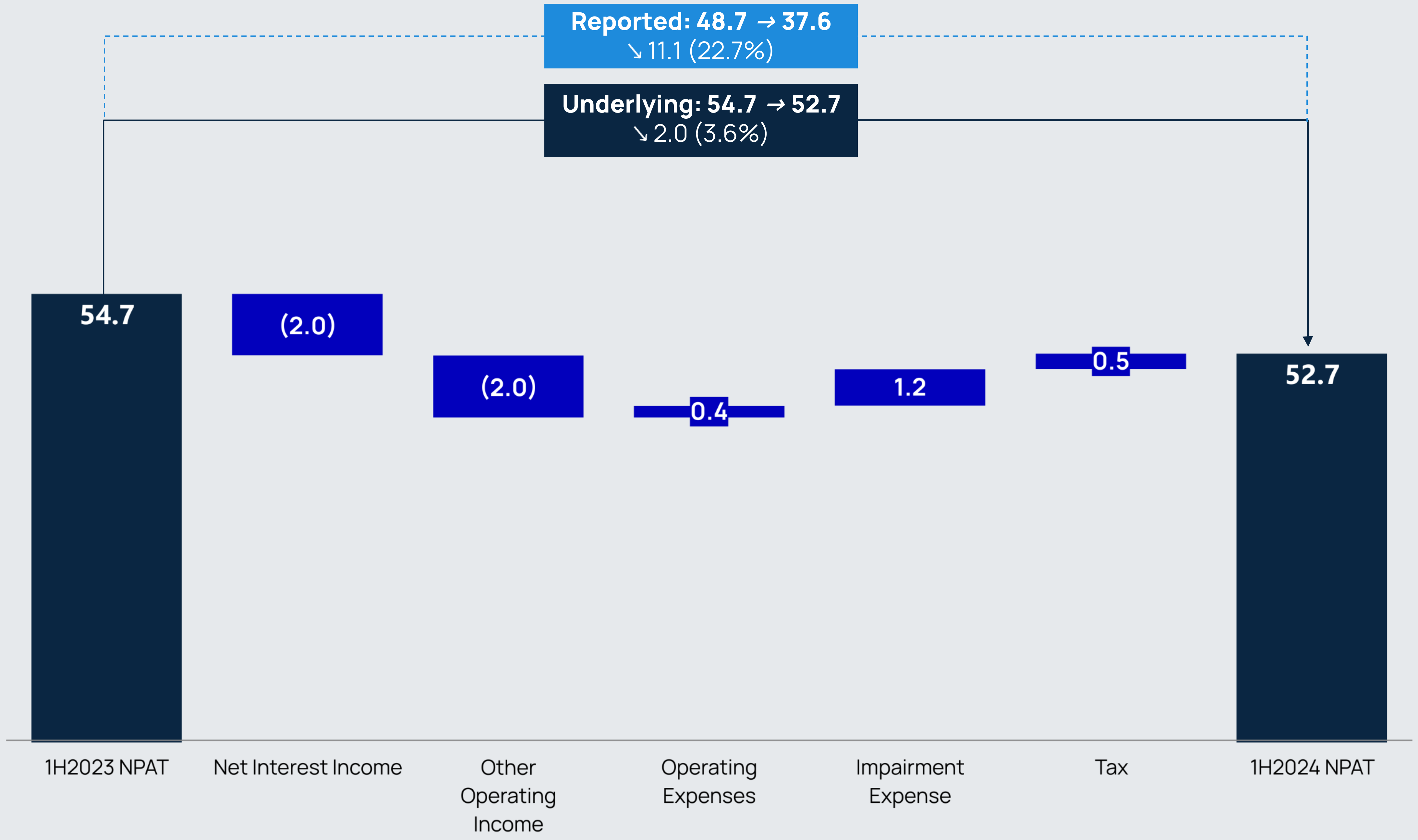
Growth in profitability

NPAT ($ million)



Underlying NPAT ($ million)

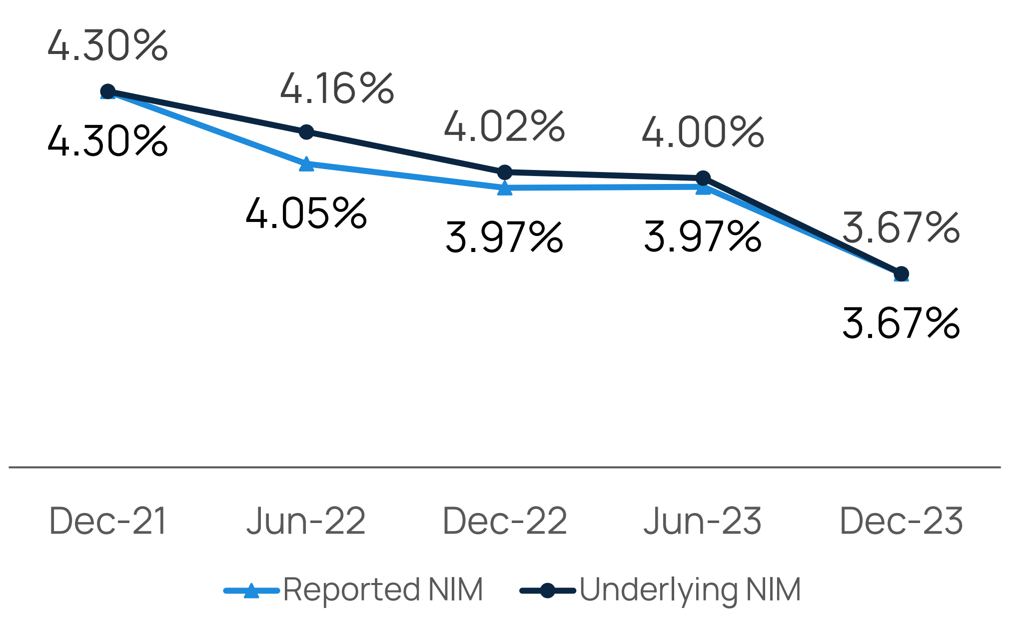




Note: All figures in NZ$m. Refer to Appendix 3 for a reconciliation between reported and underlying NPAT result.
[1]Compounded growth rate for the period 1H2020-1H2024.

Net interest margin

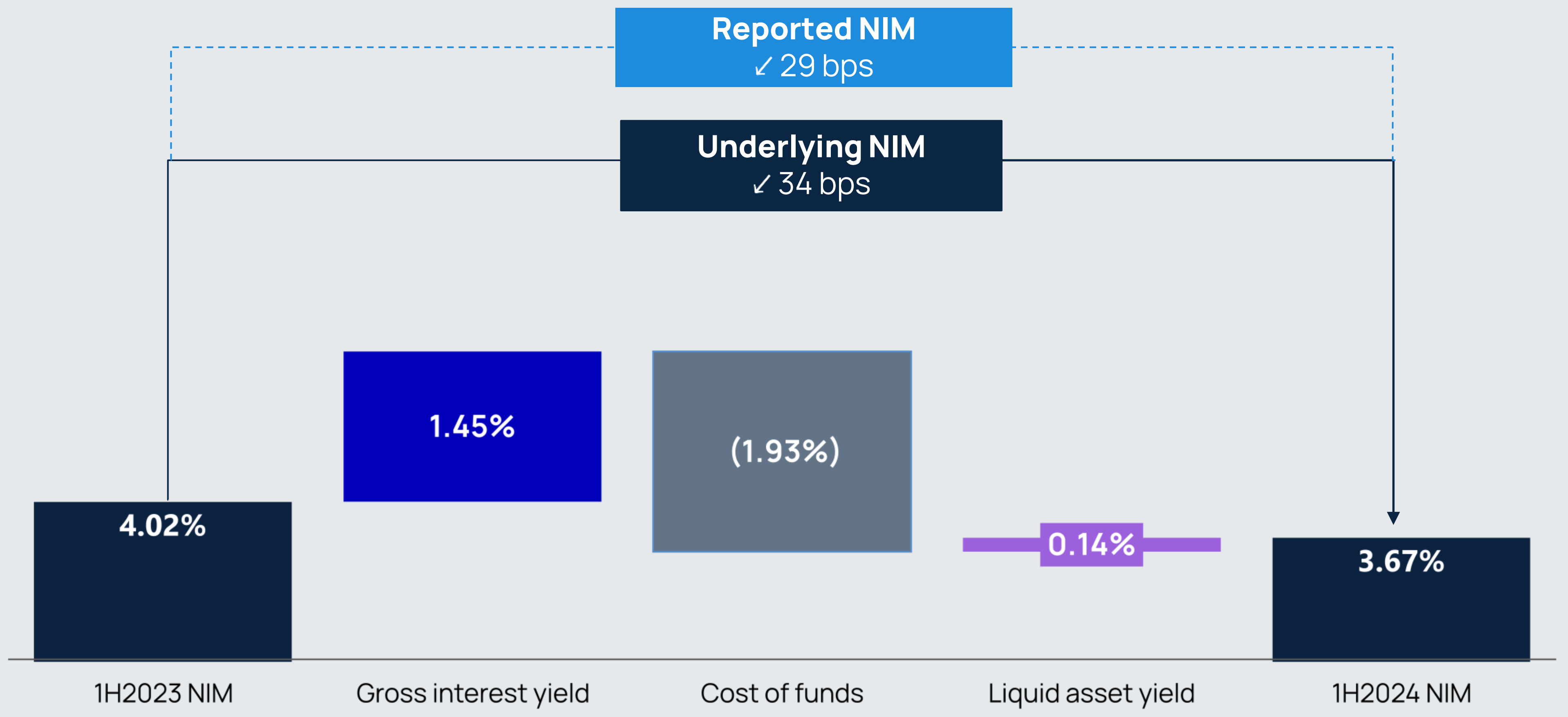
NIM



Underlying Gross interest yield
8.93%
NIM contribution ↗ 145bps[1]
vs 1H2023

Underlying Cost of funds
5.34%
NIM contribution ↘ 193bps[2]
vs 1H2023

Underlying Liquid assets yield
3.52%
NIM contribution ↗ 14bps[3]
vs 1H2023



FY24 NIM outlook

NIM compression expected to be temporary.

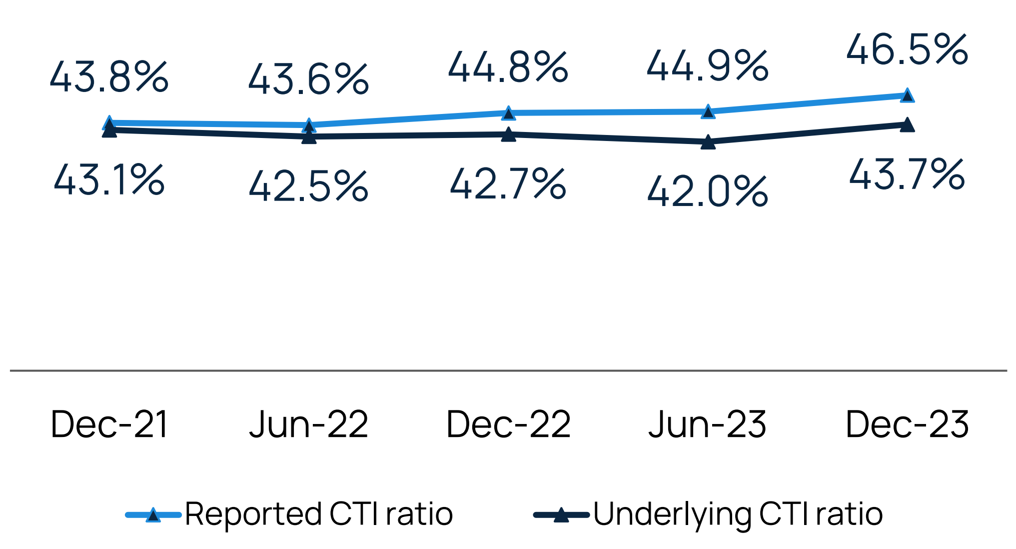
Improvements anticipated in CY2025 as competitive pressures in the deposit market ease and older Asset Finance and Motor Finance loans at lower rates continue to be repaid.

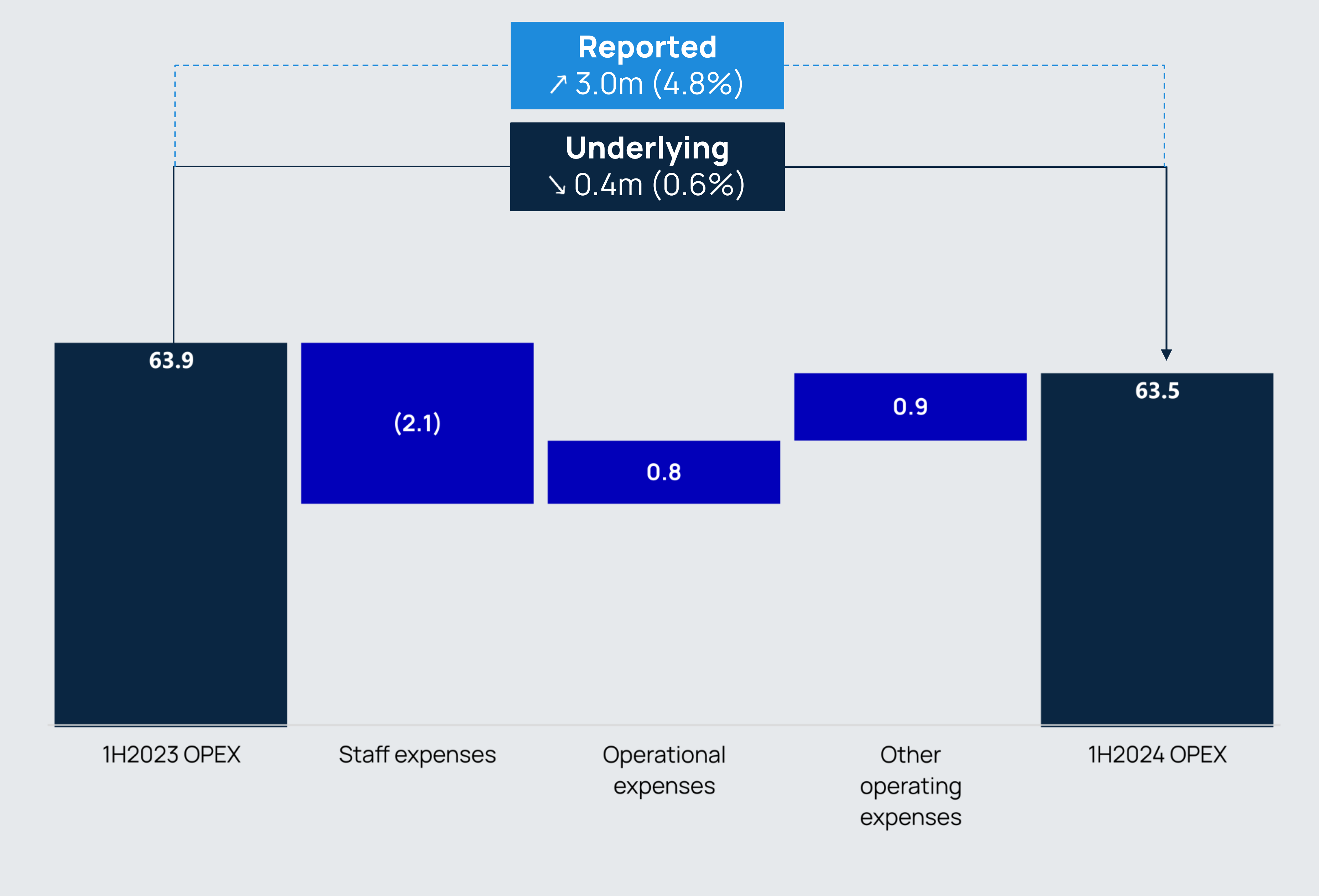
Note: NIM is calculated as net interest income/average gross interest earning assets.
[1] Underlying gross interest yield increased 157 bps vs 1H2023 to 8.93%, contributing to a 145 bps increase in NIM vs 1H2023. [2] Underlying cost of funds increased 217 bps vs 1H2023 to 5.34%, contributing to a 193 bps decrease in NIM vs 1H2023. [3] Underlying liquid asset yield increased 163 bps vs 1H2023 to 3.52%, contributing to a 14 bps increase in NIM vs 1H2023.

02

Cost to income ratio

CTI ratio





FY24 CTI ratio outlook

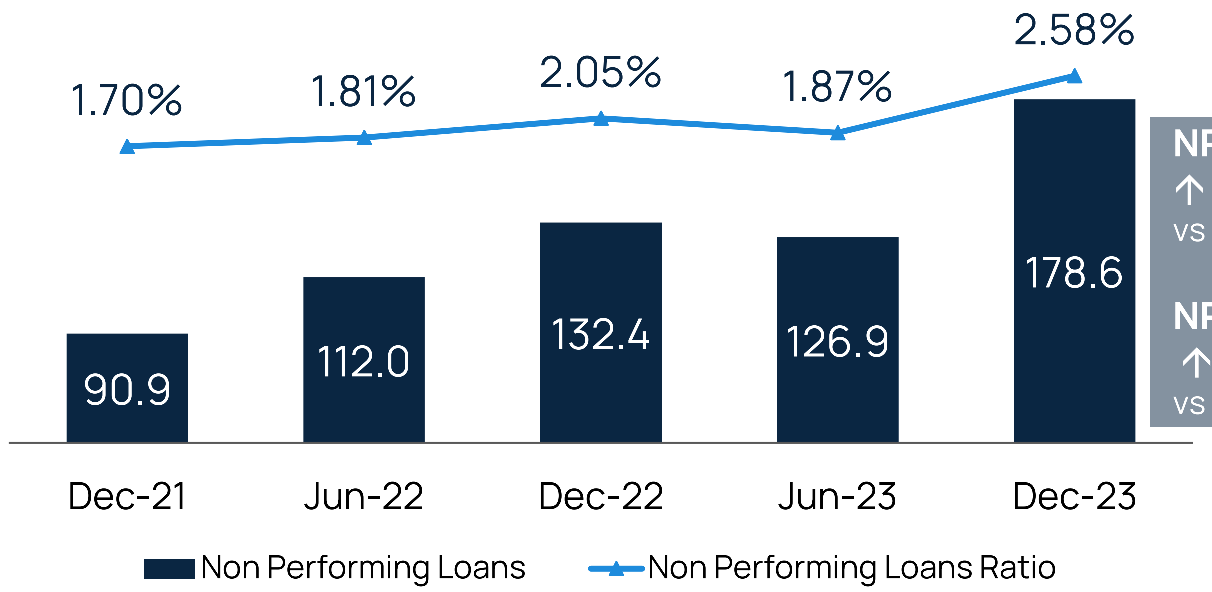
Expected to gradually improve, via continued cost discipline, revenue growth and digitalisation initiatives.

Note:
- CTI ratio is calculated as OPEX/NOI.
- Underlying CTI ratio excludes one-off impacts. Refer to Appendix 3 for a reconciliation between reported and underlying result.

02

Provisions

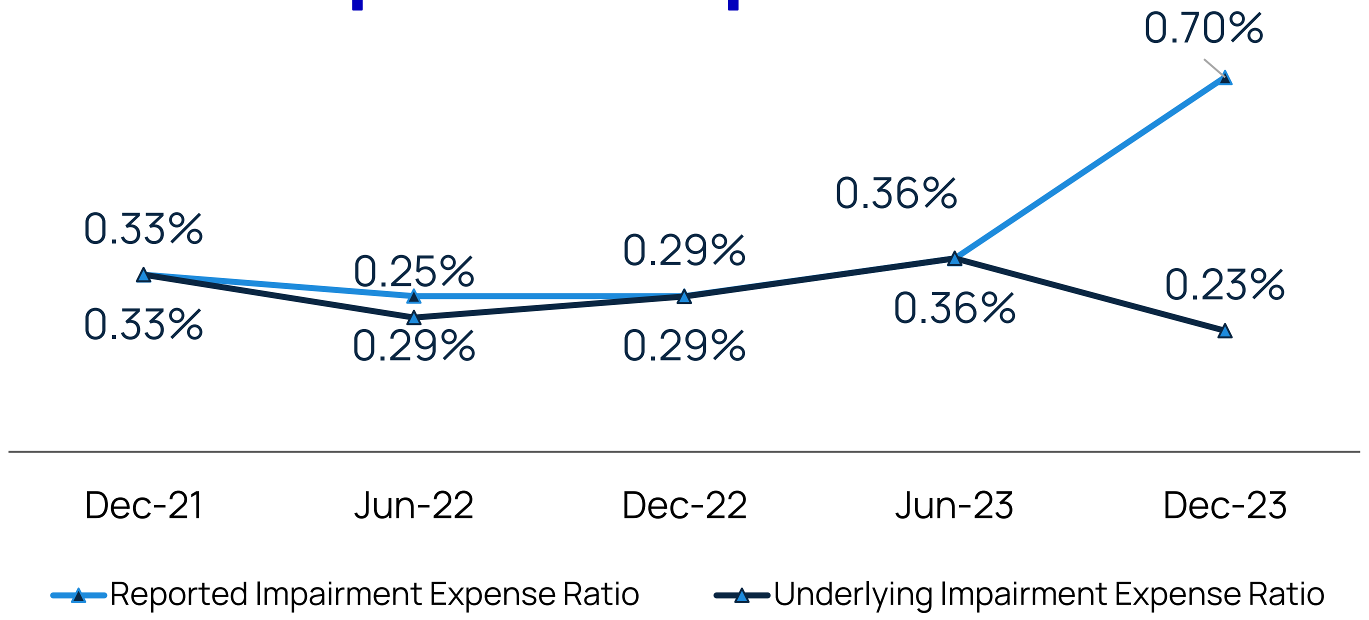
Non Performing Loans



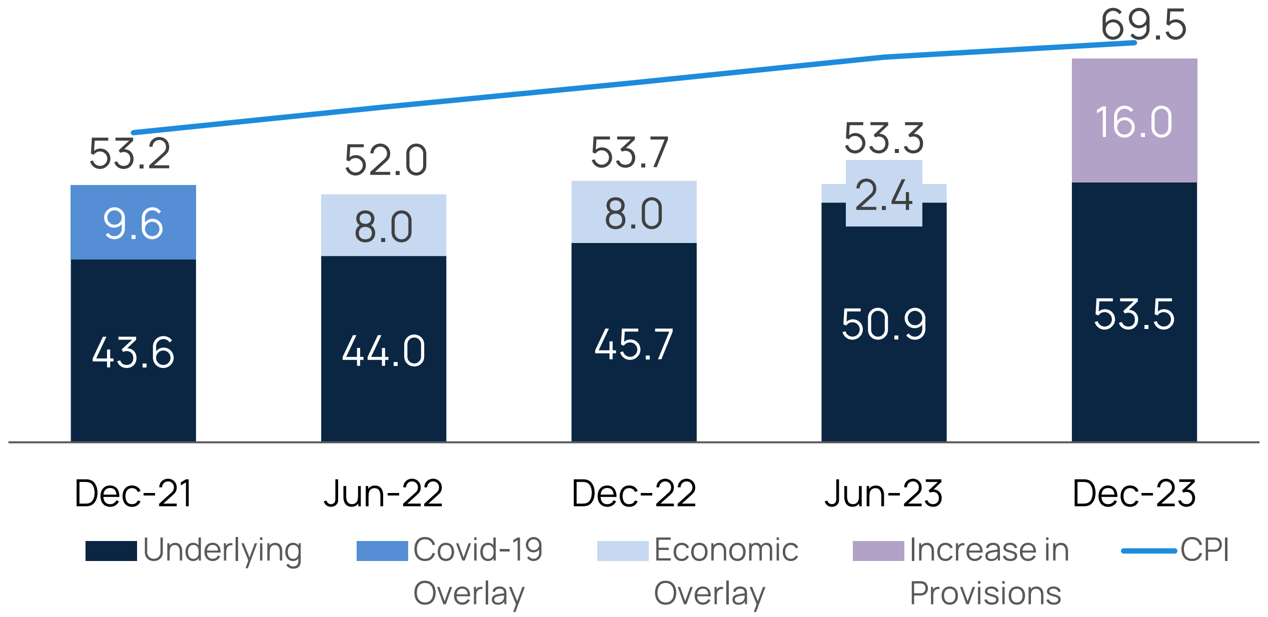
NPL
↑ 51.7m
vs 30 June 2023

NPL ratio
↑ 71 bps
vs 30 June 2023

Impairment Expense Ratio



Total Provisions



Legacy Business and Relationship lending: $5.5 million.

- $4.5 million increase in specific provisions against legacy loans in segments of the market Heartland Bank no longer lends to where economic conditions have decreased confidence in collectability.
- $1.0 million collective provision.

Longer standing Motor Finance loans: $10.5 million increase in collective provisions.

Note: Impairment expense ratio is calculated as impairment expense/average Receivables.

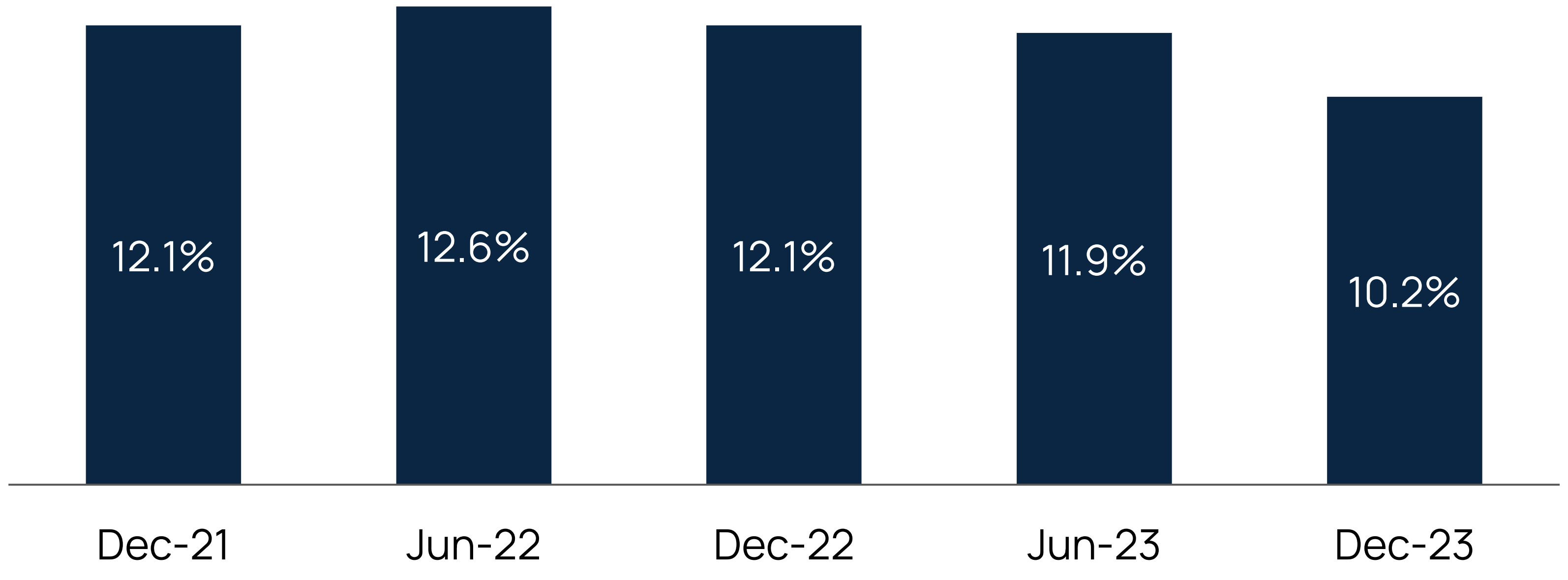
02

Shareholder return

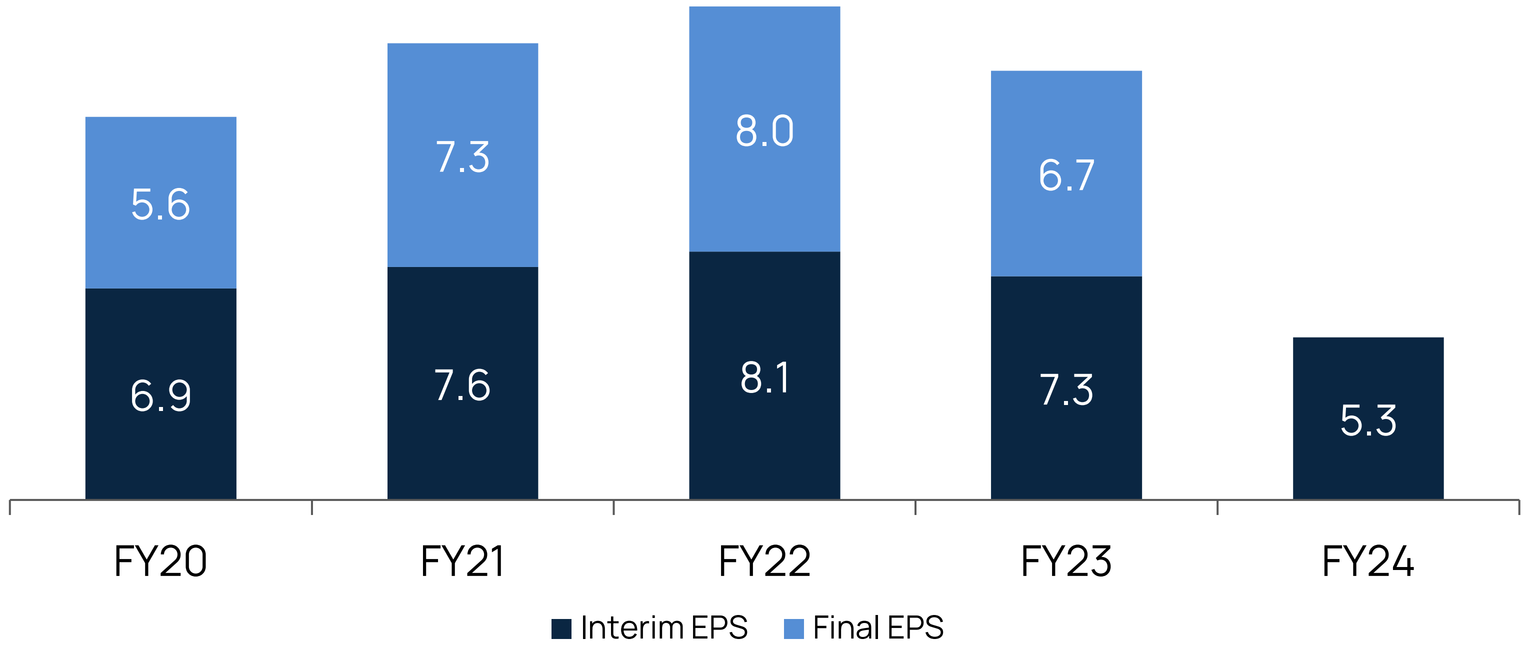
- Underlying ROE of 10.2% (down 183 bps vs 1H2023).[1]
- EPS of 5.3 cps, down 2.0 cps compared with 1H2023.
- Underlying EPS of 7.4 cps (down 0.8 cps vs 1H2023).
- Interim dividend of 4.0 cps, down 1.5 cps on 1H2023.

- Dividend yield of 11.9%[2] (1H2023: 8.7%[3]).
- A slightly lower interim dividend is consistent with current earnings and previous payout ratios and does not reflect a change in policy.
- Heartland's DRP will apply to the interim dividend with a 2.0% discount.[4]

Underlying ROE



EPS (cps)



[1] Underlying ROE refers to ROE calculated using underlying results. When calculated using reported results, ROE was 7.3%, down 329 bps. See page 4 for more information about the use of ROE, a supplementary, non-GAAP measure. [2] Total fully imputed dividends for 1H2024 (interim) and 2H2023 (final) divided by the closing share price as at 26 February 2024 of $1.17. [3] Total fully imputed dividends for 1H2023 (interim) and 2H2022 (final) divided by the closing share price as at 24 February 2023 of $1.75. [4] 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 the Heartland DRP offer document dated 10 December 2018.

Funding & liquidity

New Zealand

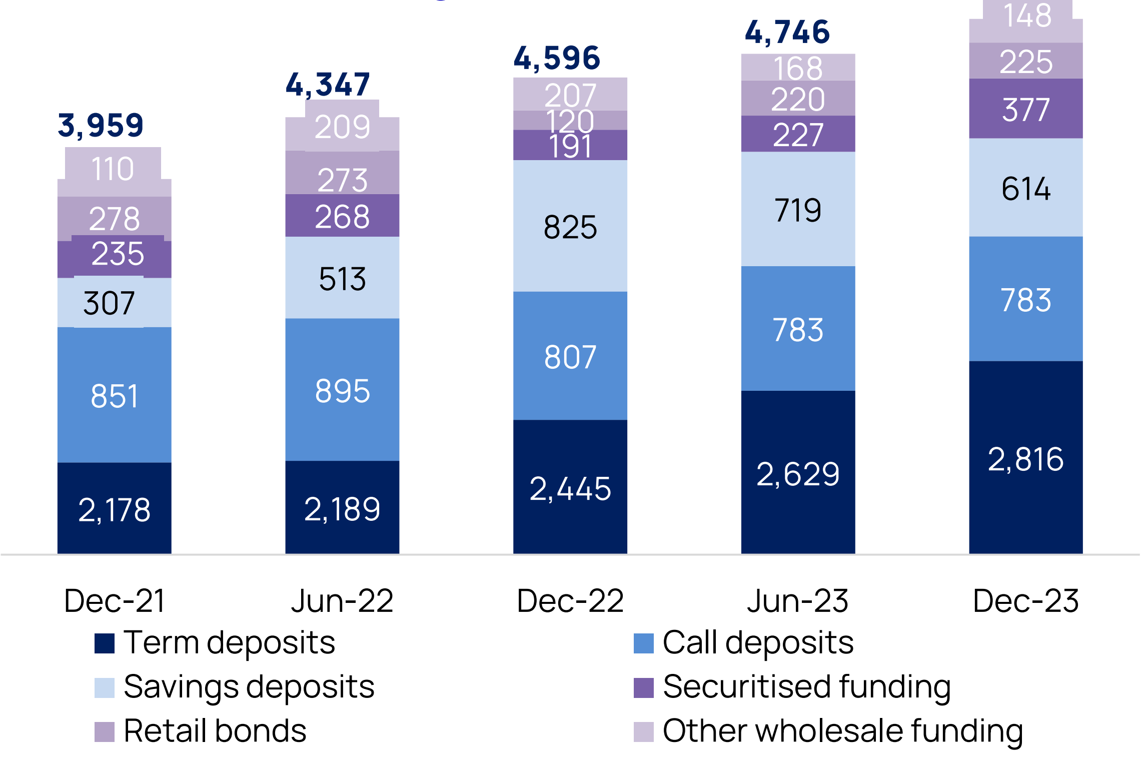
- Heartland Bank increased borrowings by $217.3 million (4.6%) to $4,963.5 million.
- Deposits grew $82.7 million (2.0%) to $4,213.8 million, driven by competitive pricing on targeted products, including Heartland's Notice Saver offerings, particularly the Digital Saver product which launched in October 2023.
- Despite market competition, Heartland Bank's cost of funds outperformed its key peer challenger banks in Q1.[1]
- Other borrowings increased by $134.6 million (21.9%), largely due to an increased drawdown in Heartland Bank's committed auto warehouse facility by $149.5 million. Partially offset by the decreased amount of Heartland Bank's issuance of short-term Commercial Paper.
- $100 million limit increase to Heartland Bank's committed auto warehouse facility was executed in September 2023 taking the total limit outstanding to $500 million.

Core funding Ratio
89.7%
as at Dec 23
vs 75% regulatory minimum
↑ 0.06 pps vs Jun 23

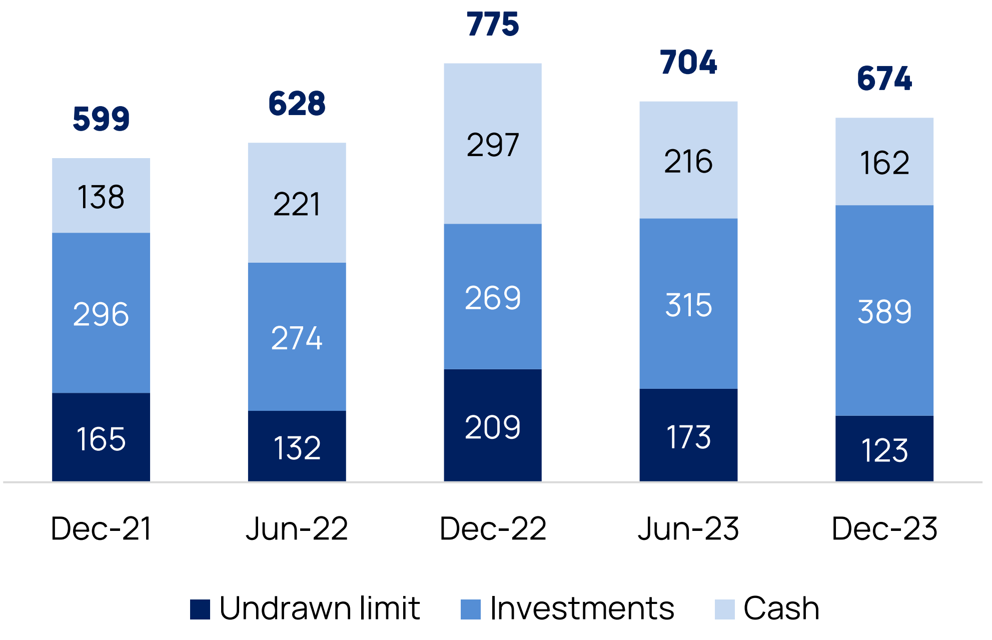
1-week Mismatch
8.52%
as at Dec 23
vs 0% regulatory minimum
↓ 0.17 pps vs Jun 23

1-month mismatch
8.11%
as at Dec 23
vs 0% regulatory minimum
↓ 0.23 pps vs Jun 23

HBL Funding Composition[2] $m



HBL Liquidity Composition $m



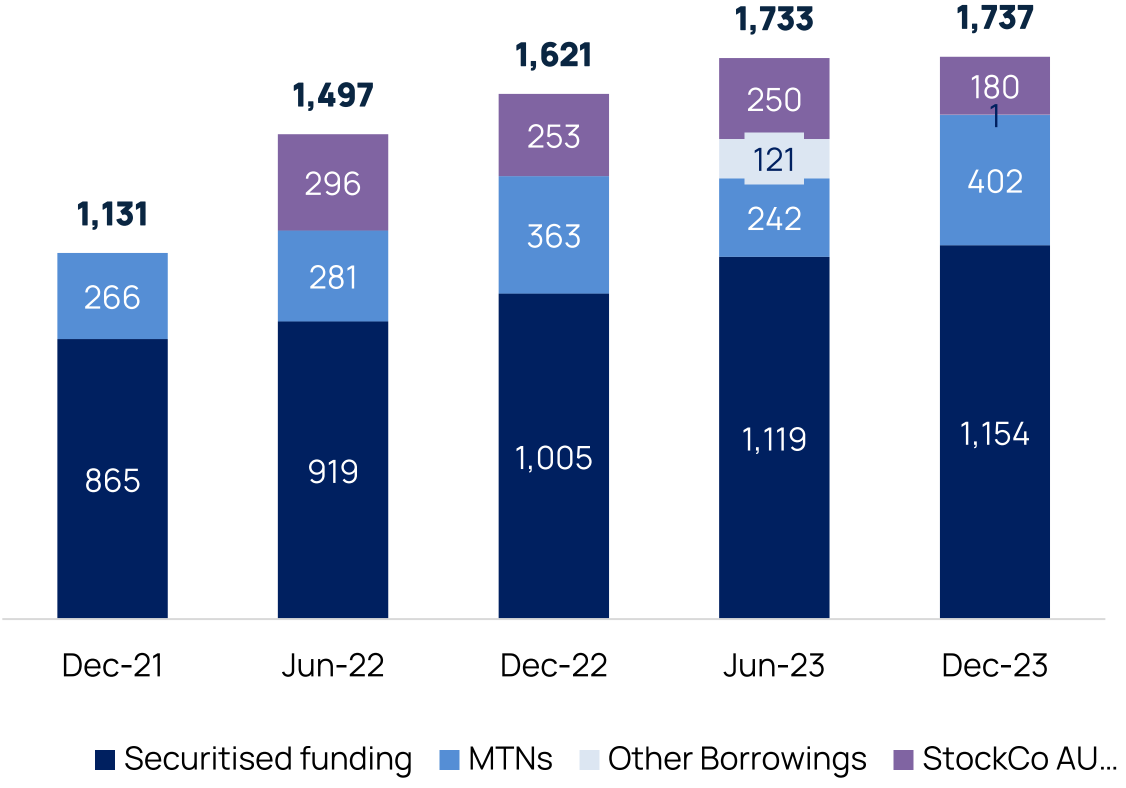
[1] Based on dashboard data from the RBNZ for the period July 2023-September 2023. [2] Includes intercompany deposits.

Funding & liquidity

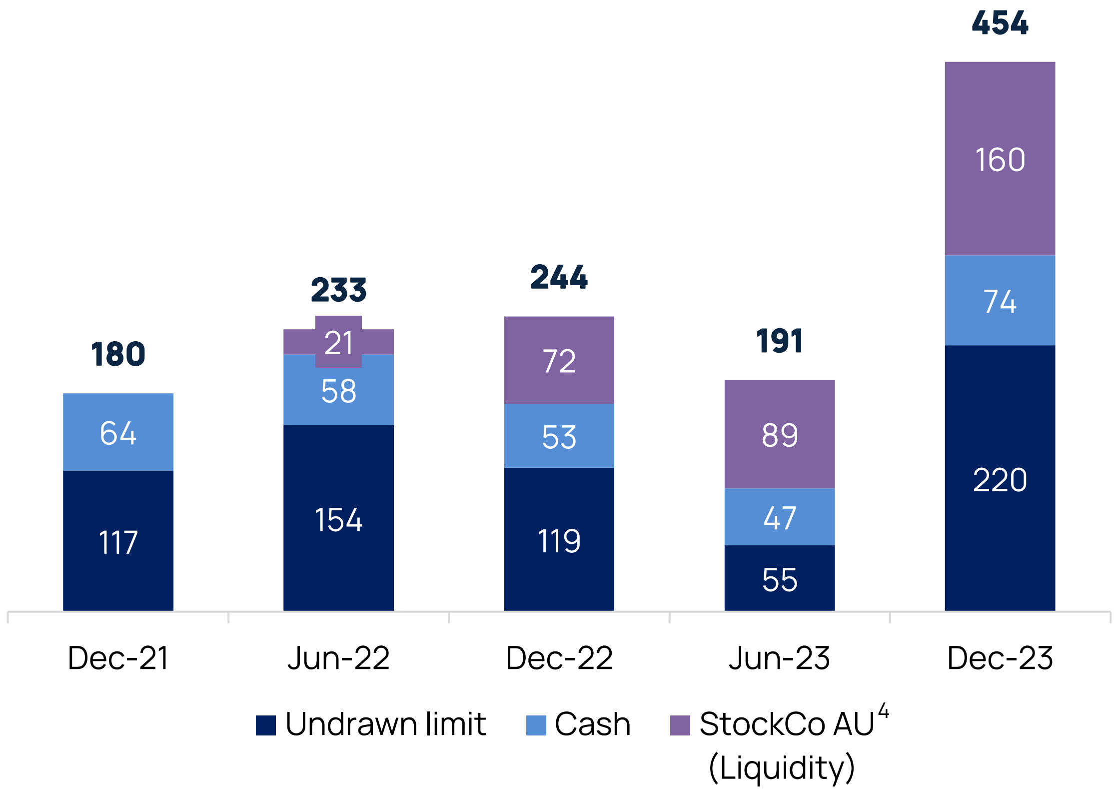
Australia

- Heartland Australia increased borrowings by A$4.2 million (0.2%) to A$1,736.7 million.
- Excluding StockCo Australia[1], borrowings increased by A$74.9 million (5.1%) to A$1,557.1 million.
- An A$50 million tap issue was completed in October 2023 and a further A$105 million tap MTN was issued in December 2023. The proceeds were used to refinance another maturing facility and provide further Reverse Mortgage funding.
- The aggregate outstanding issuance under Heartland Australia's MTN programme was A$395 million as at 31 December 2023.
- The aggregate senior limits of the two Reverse Mortgage securitisation warehouses were expanded by A$200 million, providing access to A$1.77 billion of committed funding in aggregate.
- StockCo Australia decreased borrowings by A$70.6 million (28.2%) to A$179.6 million[2], reflecting the current book size.

Heartland Australia Funding Composition[3] A$m



Heartland Australia Liquidity Composition[3] A$m

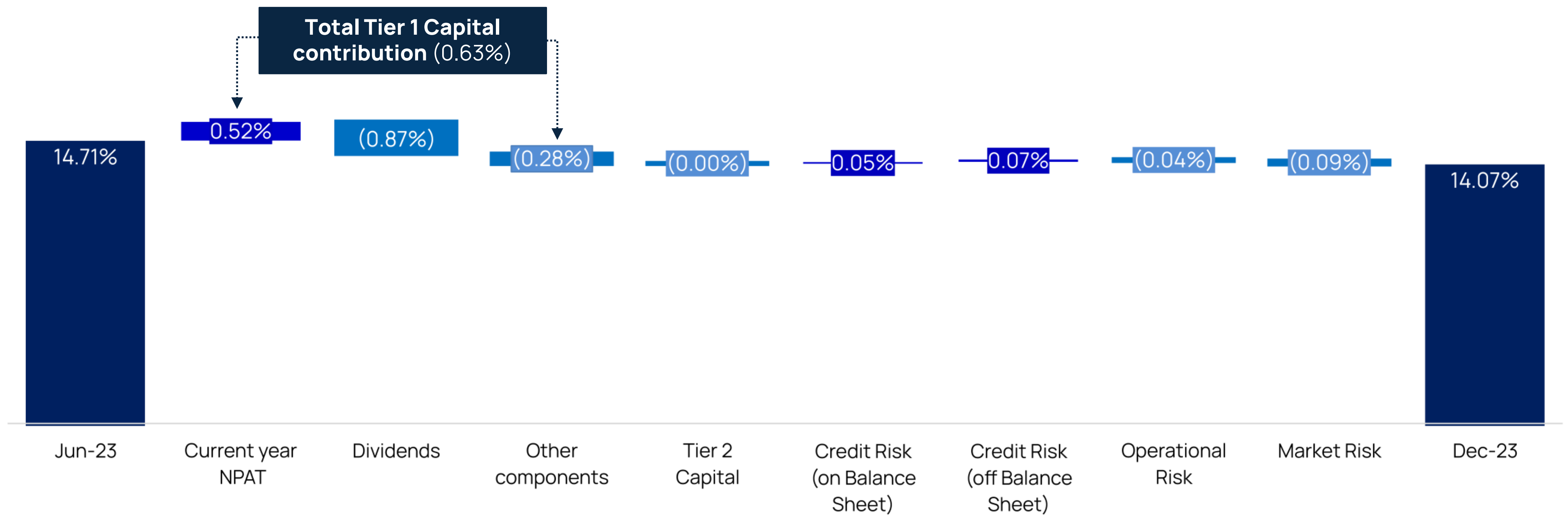


[1] StockCo Australia was transferred from Heartland to Heartland Australia on 1 August 2023. [2] Excluding intercompany funding from Heartland Australia. [3] For comparison purposes, StockCo Australia is included from the acquisition date of 31 May 2022. [4] Includes cash and undrawn limit of securitised funding.

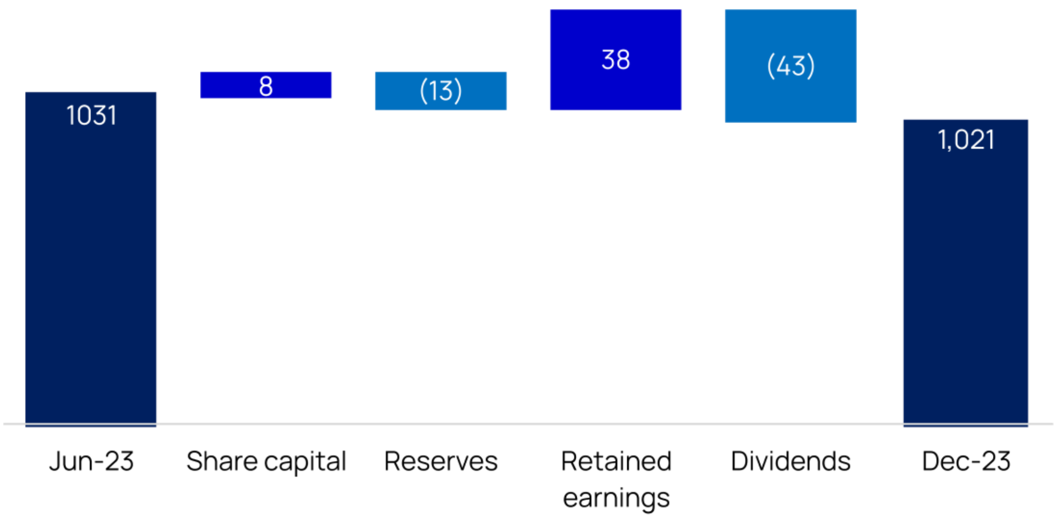
Capital

- With a regulatory capital ratio of 14.07%[1], Heartland Bank continues to operate significantly in excess of regulatory minimums and is well positioned to meet the RBNZ's future higher capital requirements.
- The RBNZ future capital requirements are for a core capital ratio of 11.50% and a total capital ratio of 16.00% by 1 July 2028.

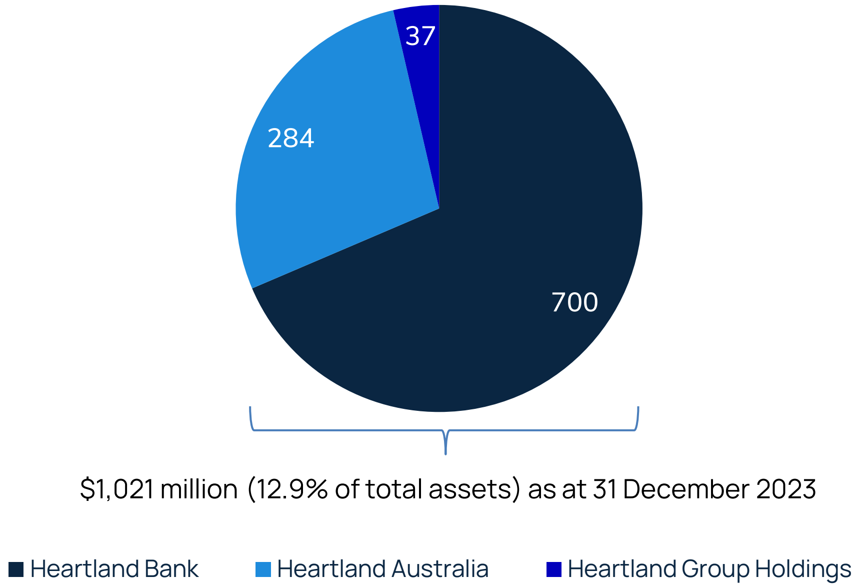
Heartland Bank Total Capital Ratio



Heartland Capital Movement $m



Heartland Capital Allocation $m



[1] Heartland Bank's regulatory capital ratio decreased slightly to 14.07% as at 31 December 2023 (30 June 2023: 14.71%) driven by balance sheet growth and the FY2023 dividend payment (paid on 20 September 2023).

Note:

- Retained earnings includes current NPAT.
- StockCo Australia was transferred from Heartland to Heartland Australia on 1 August 2023.
- RBNZ total capital ratio plus prudential capital buffer requirement of 10.50% as at 31 December 2023.

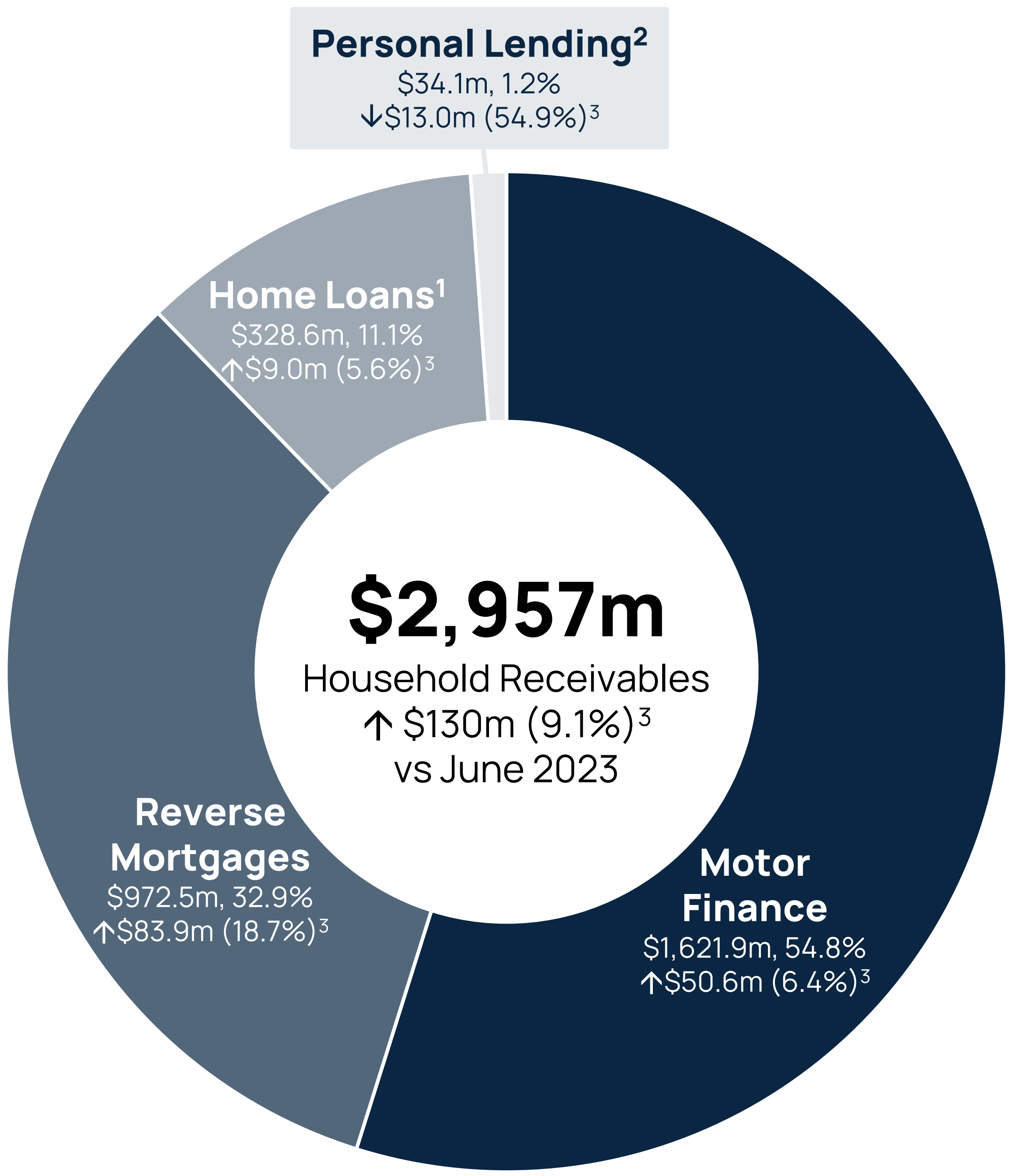
03

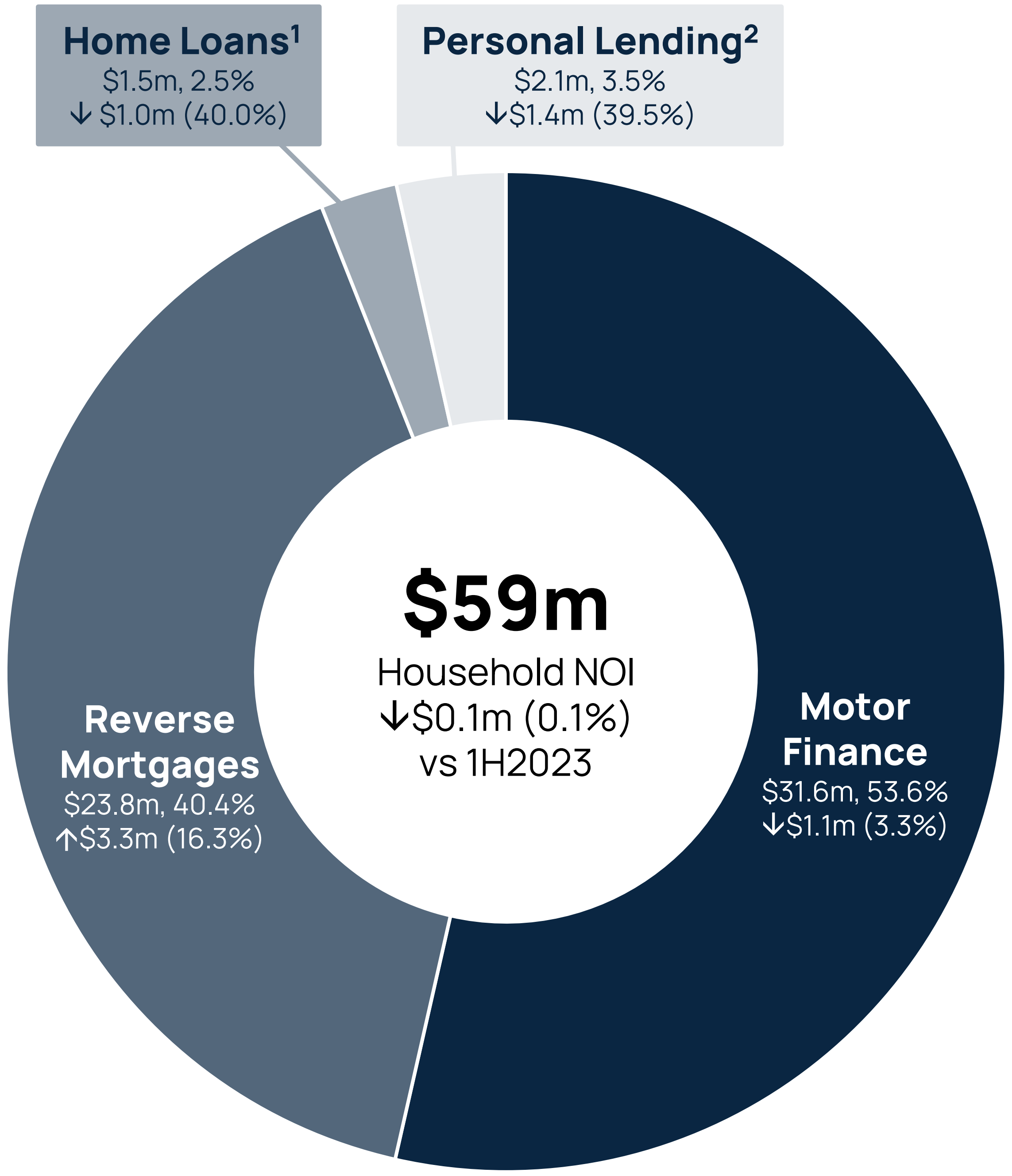
NZ divisional summary

Leanne Lazarus
Chief Executive Officer Heartland Bank

03

NZ Household





Reverse Mortgages

- Strong growth of 18.7%[3].
- Current demand driven by the ongoing cost-of-living strain placed on older homeowners.
- Accelerated growth expected in 2H2024.

Motor Finance

- Very pleasing growth of 6.4%[3] in a market where total new and used car sales in NZ were down 12.2%[4].
- Strengthened distribution network (including new partnerships with MG Motor and Tesla[5]).

Online Home Loans

- Growth of 5.7%[6] well above the overall NZ market expansion in home lending of 1.7%.[7]
- Retention exceeded 90% for customers whose fixed rates came up for renewal in 1H2024.

Personal Lending

- The portfolio is not actively originating.
- The Harmoney personal loans channel is closed to new business and in run off.

[1] Includes Online Home Loans and legacy Retail Mortgages. [2] Excluding the impact of changes in FX rates. [3] Annualised 1H2024 growth excluding the impact of changes in FX rates. [4] Based on data from Turners, dated December 2023 (data sourced from Waka Kotahi NZ Transport Agency). [5] Tesla preferred finance provider launched in February 2024. [6] Excludes legacy Retail Mortgages. [7] Based on RBNZ's *Registered banks and non-bank lending institutions: Sector lending (C5)* data at 31 December 2023 compared with 30 June 2023. Data accurate as at 31 January 2024.

Motor Finance & Collections position

Issue affecting a subset of longer dated loans

- Economic conditions impacting more severely on a subset of longer dated loans which arose from operational issues in Heartland Bank's Collections & Recoveries area and do not reflect any underlying issues with the credit quality of the book. This is primarily a resourcing issue, and these challenges are being actively resolved as described below.
- Resourcing issues were caused by illness, employee turnover due to overseas travel and a focus on Heartland Bank's core banking system upgrade (which is now complete).

Active resolution

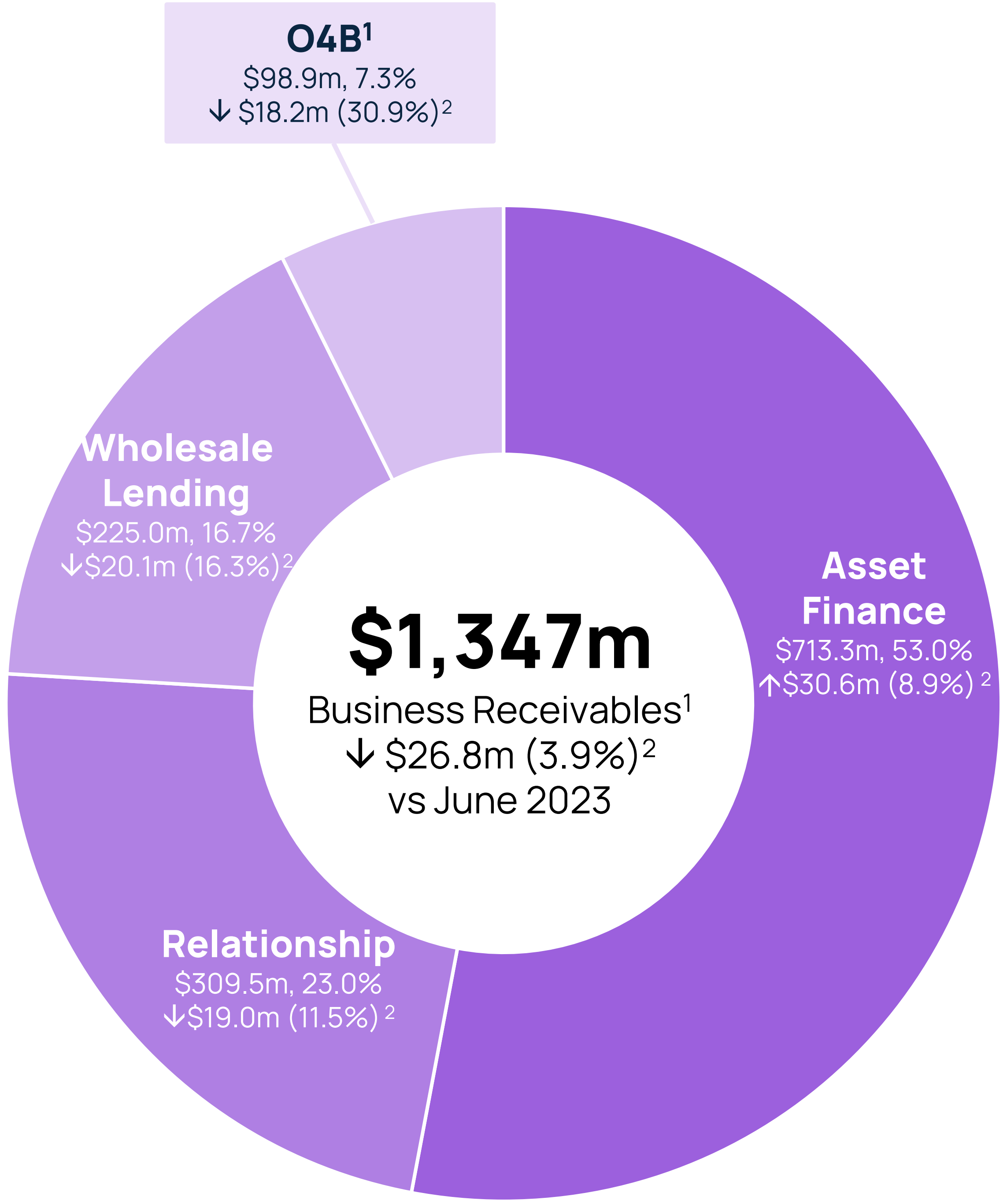
- Additional resourcing to full capacity.
- Specialised recruitment strategy underway for a more stable and experienced workforce, with increased regional focus.
- While Heartland Bank is addressing resourcing, it remains a challenge.
- Increased automation is required to improve internal workflows and reduce manual effort. This includes upgrading the debt management and collections system, integration with core banking systems, and making greater use of data and analytics to drive collections strategies.

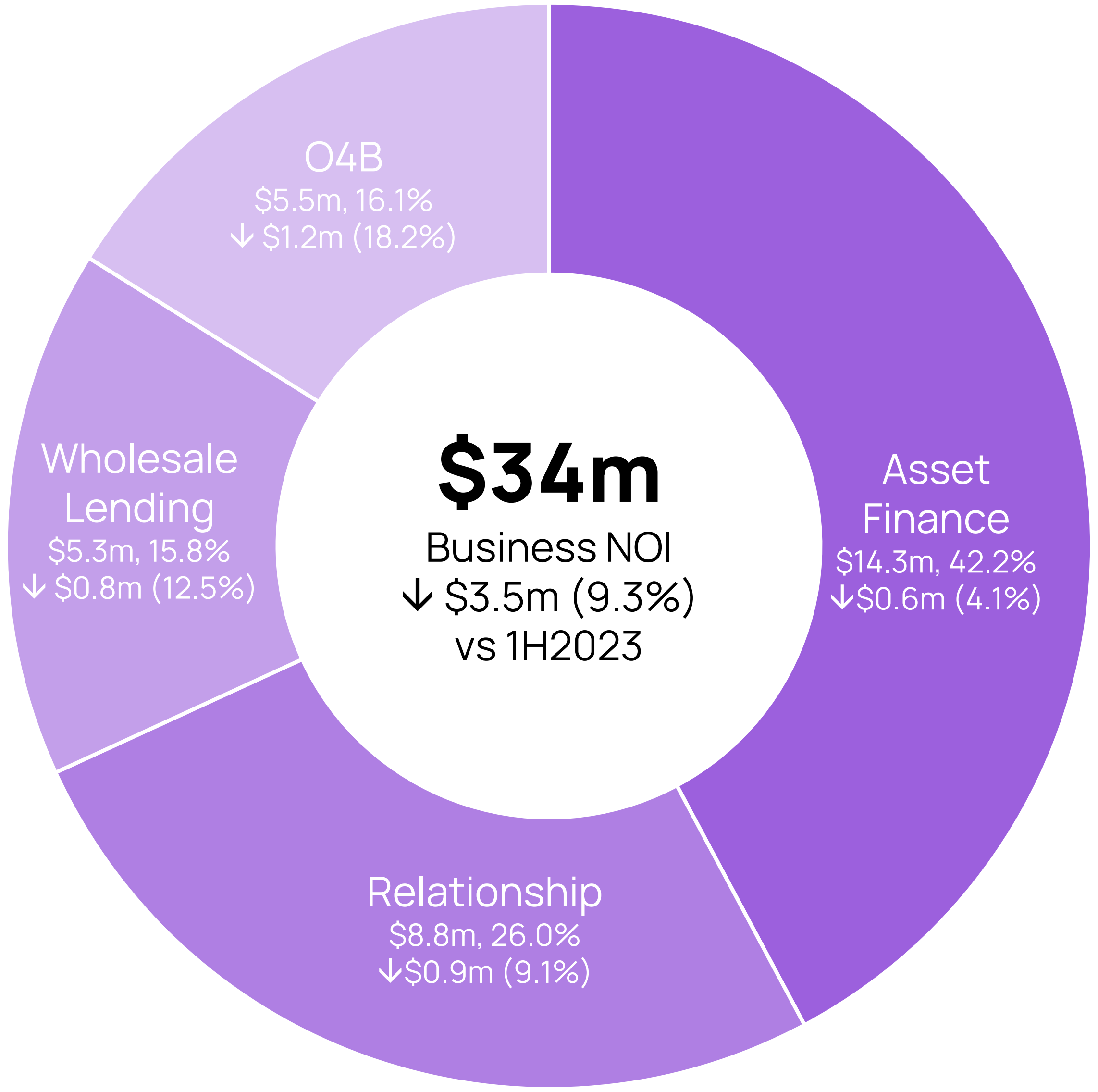
NZ Reverse Mortgages portfolio analytics

$972m NZ Reverse Mortgages +$84m (18.7%)[1] vs June 2023	**$135,139** Average loan size	**78** Weighted average borrowers' age	**16.7%** Compounded annual growth rate[2]
9.6% Average origination LVR	**22.8%** Weighted average LVR	**0.0%** Proportion of the loan book over 75% LVR	**0** Number of loans in the book over 75% LVR
$96m (-$13m vs 1H2023) 1H2024 origination	**$58m** (+$7m vs 1H2023) Total repayments in 1H2024	**12.9%** (vs 14.0% in 1H2023) 1H2024 repayment rate	**22.8%** (vs 31.4% in 1H2023) Repayments from vintage loans (+11 years)

[1] Annualised 1H2024 growth excluding the impact of changes in FX rates. [2] Compounded annual growth rate for the period 1 July 2018 – 30 December 2023.

NZ Business





Asset Finance

- Growth of 8.9%[2] is strong against a backdrop of lower margin loans taking longer to roll off as customers take longer to refinance assets.

Wholesale Lending

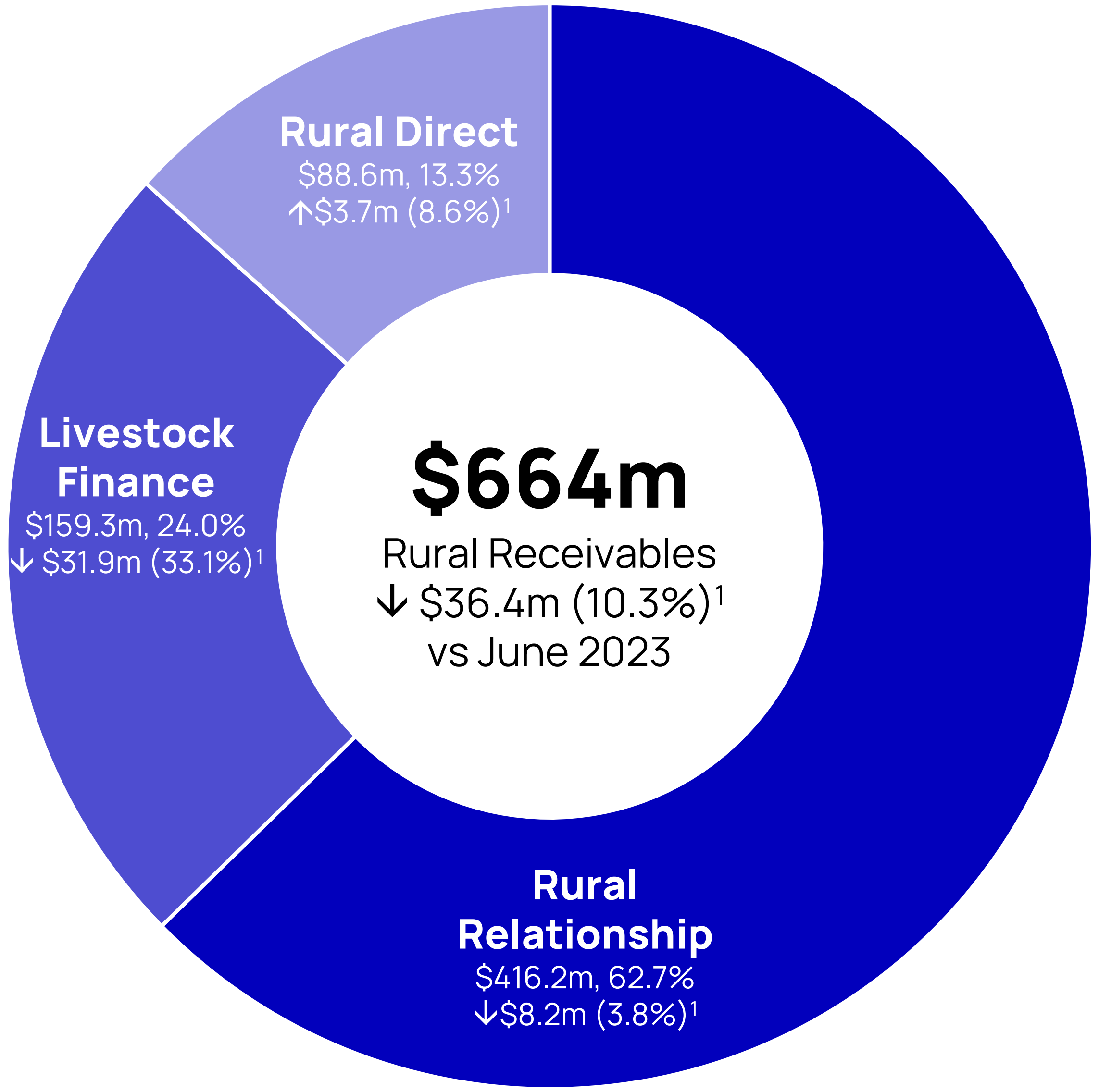
- Growth from new business is anticipated in 2H2024 as Heartland Bank continues to expand its Motor Finance dealer network, presenting Wholesale Lending opportunities with dealerships.

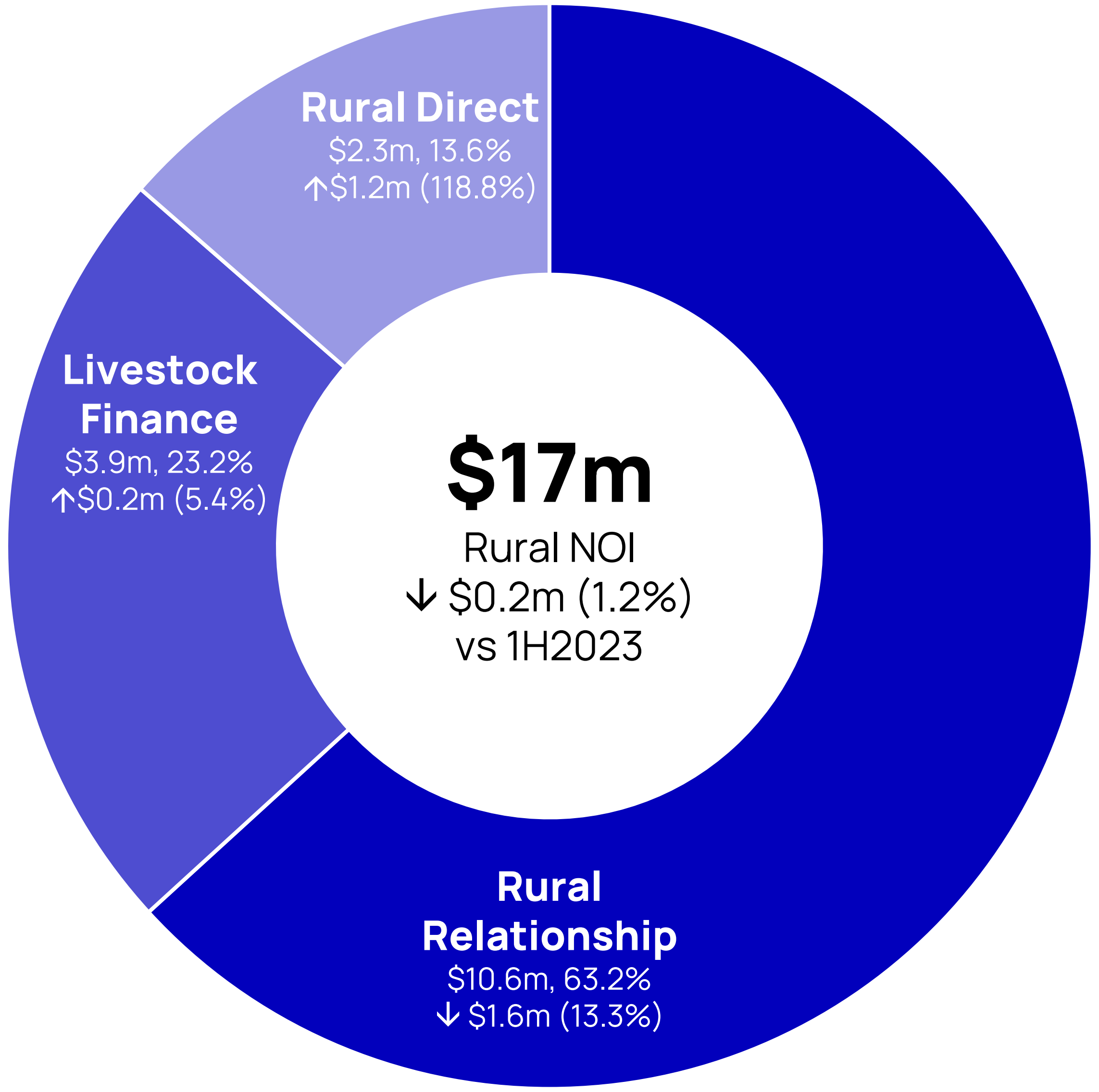
Relationship

- Includes legacy Business Relationship lending being run down as Heartland continues to transition to loans which present lower risk and are more cost efficient to transact.

[1] Excluding the impact of changes in FX rates. [2] Annualised 1H2024 growth excluding the impact of changes in FX rates.

NZ Rural





Livestock Finance

- Decrease in Receivables was driven by the normal seasonal fluctuations, with growth expected in 2H2024.

Rural Direct

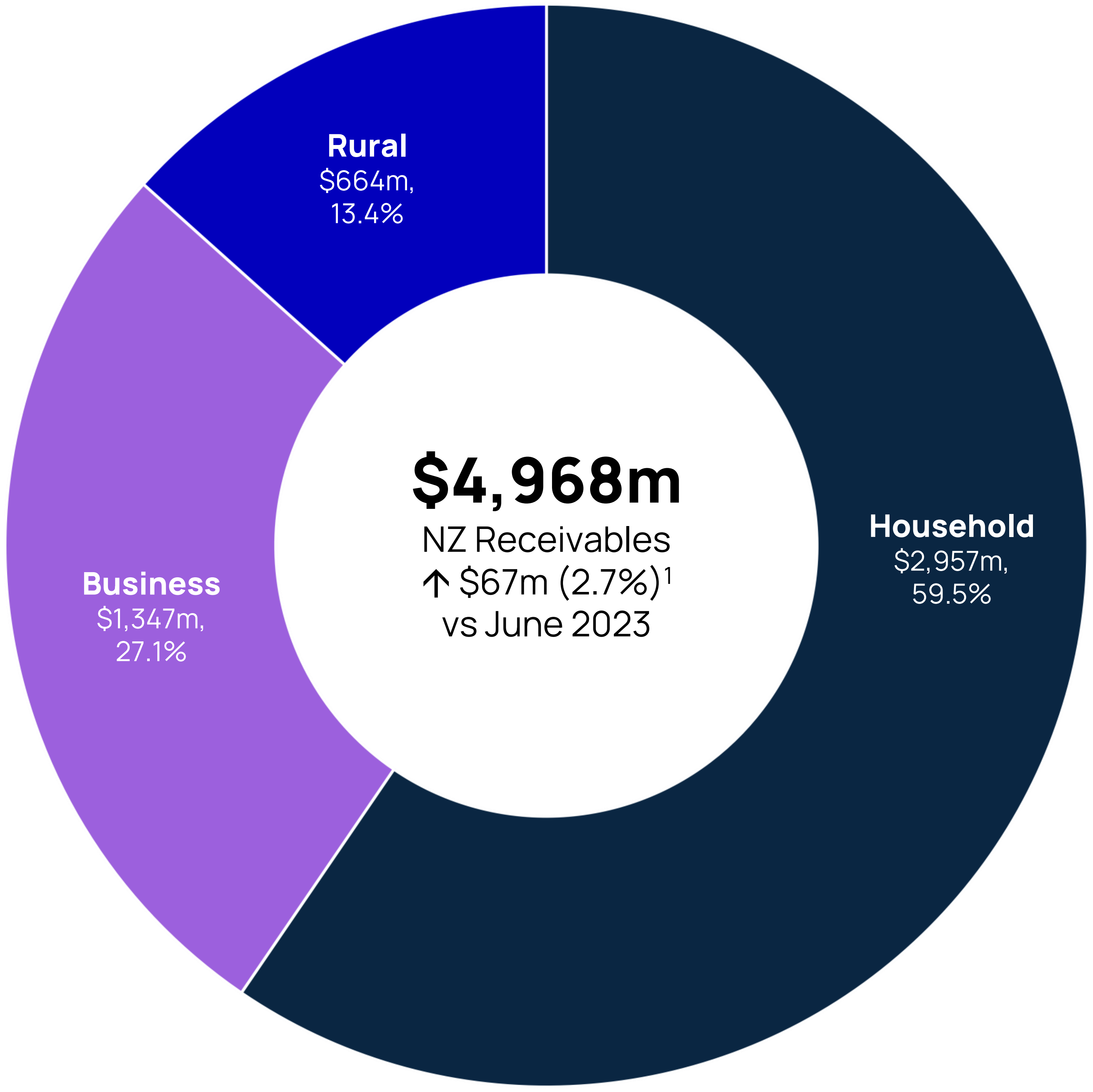
- Weak livestock price conditions and higher costs reduced confidence in the market and led to fewer farm sales, resulting in subdued growth.

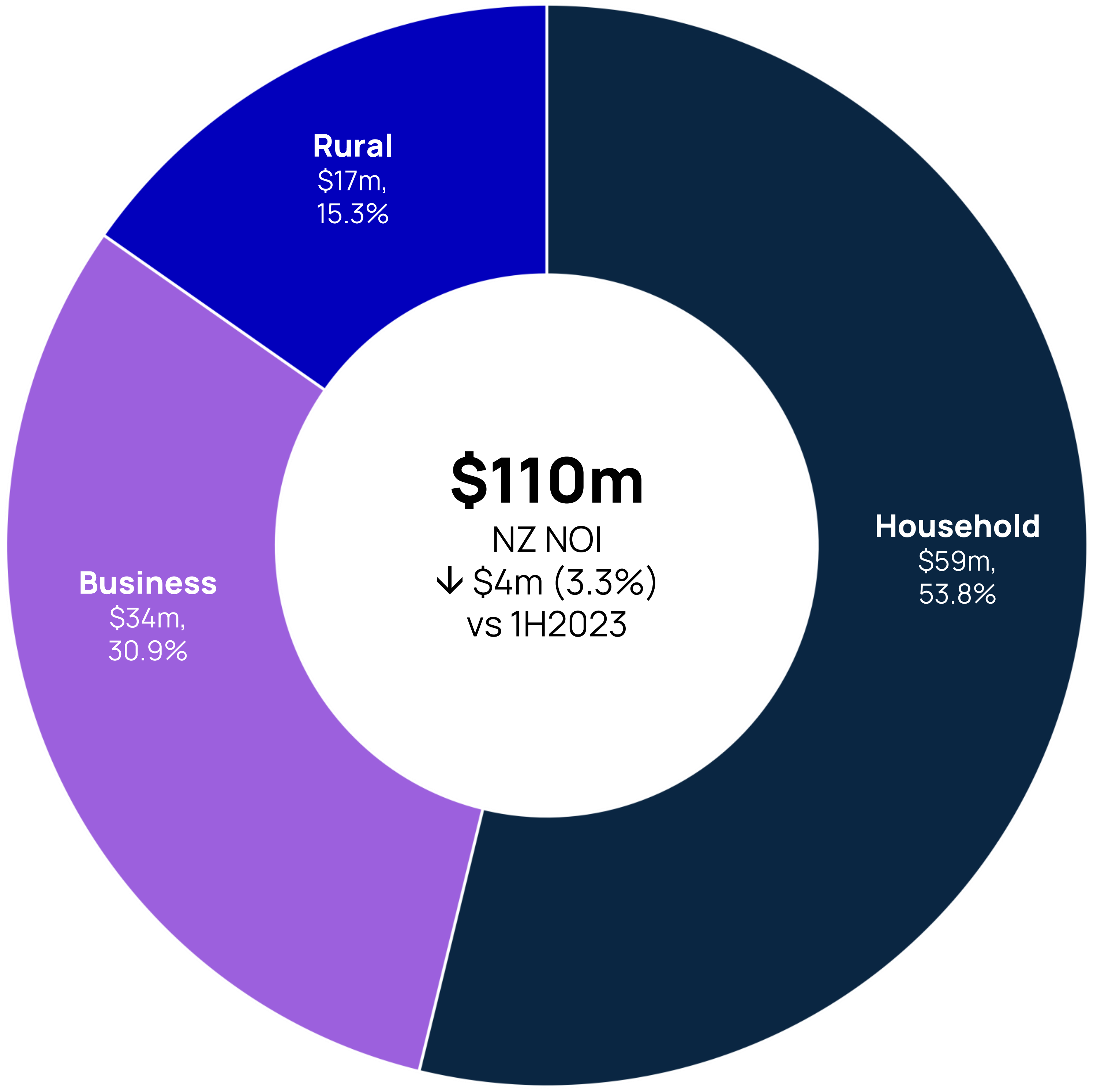
Rural Relationship

- Reduction in Receivables of $8.2 million due to the continued transition of the book away from large, complex, low margin lending.

[1]Annualised 1H2024 growth excluding the impact of changes in FX rates.

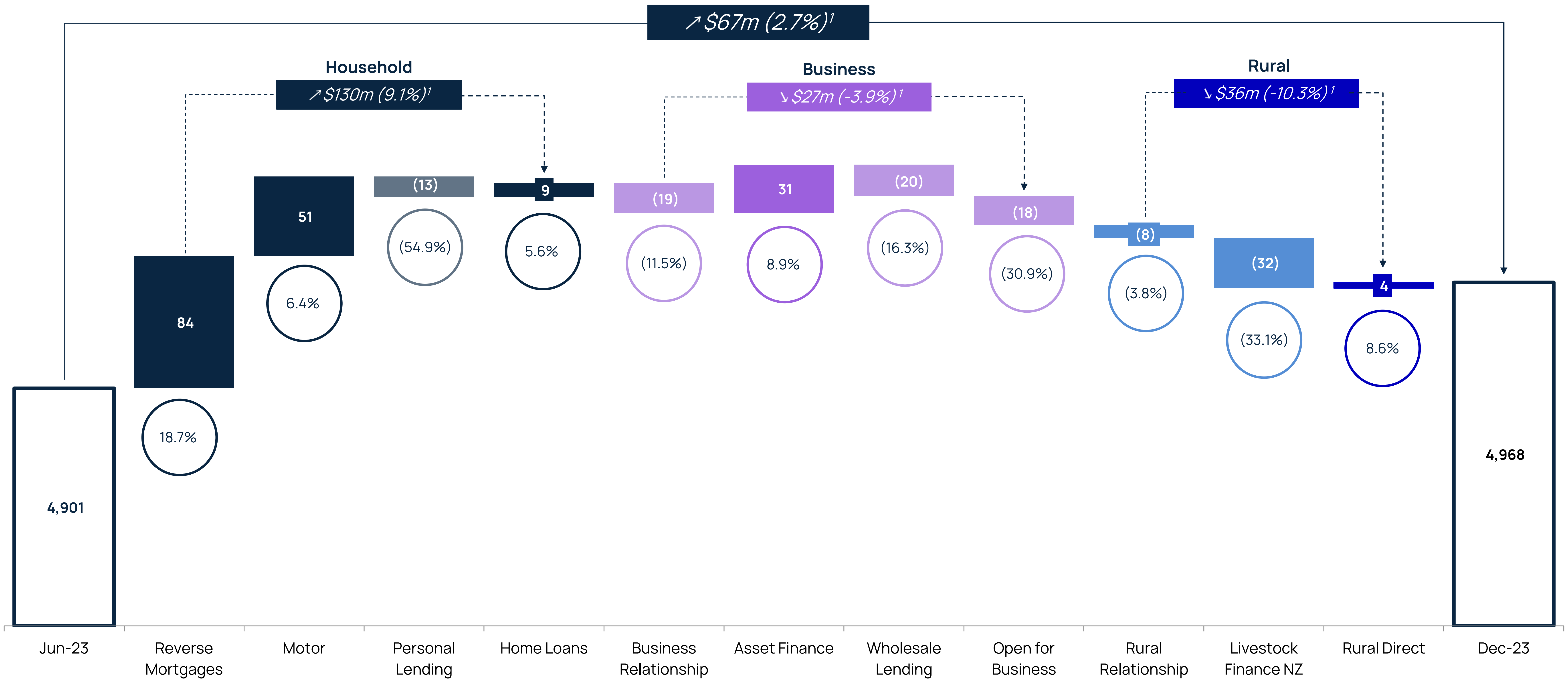
NZ divisional summary





Note: 1H2024 growth in Receivables by portfolio is excluding the impact of changes in FX rates and intercompany balances. All figures in NZ$m.
[1]Annualised 1H2024 growth excluding the impact of changes in FX rates.

NZ divisional summary



Note: The graph shows 1H2024 growth in Receivables by portfolio excluding the impact of changes in FX rates and intercompany balances. All figures in NZ$m.
[1]Annualised 1H2024 growth excluding the impact of changes in FX rates

04

AU divisional summary

Chris Flood
Deputy Chief Executive Officer Heartland Group

Preparation for completion of Challenger Bank acquisition[1]

Transaction related costs expected to be expensed in FY2024 which are one-off, non-recurring in nature and do not impact underlying performance.[2]

Premises leased in Melbourne and Sydney to accommodate growth.

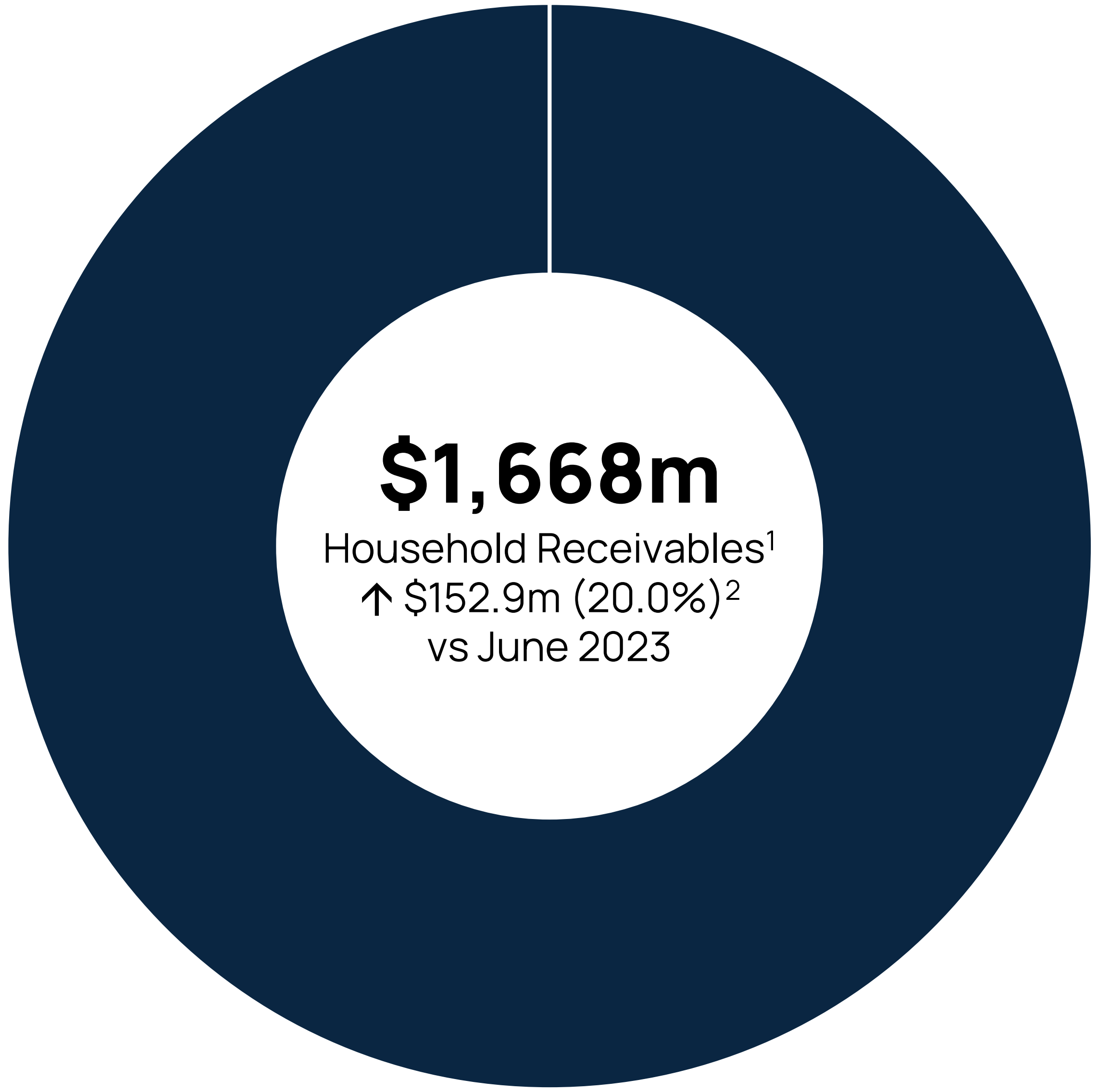
Recruitment of key roles well advanced to support bank operations, expansion ambitions and compliance with regulatory standards.

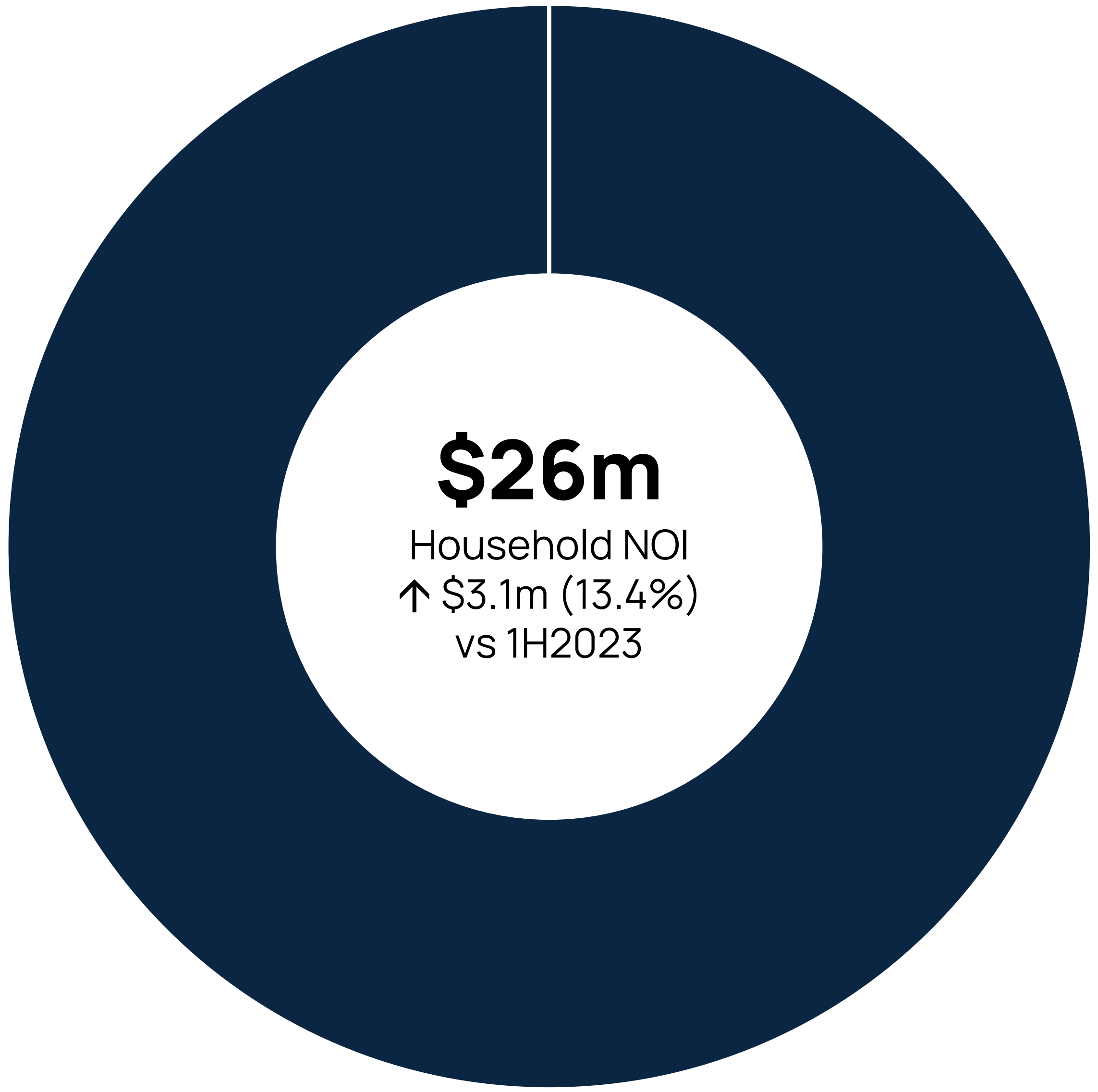
Early Challenger Bank AU deposit market experience exceeding Heartland expectations

- Challenger Bank is actively raising deposits ahead of being acquired by Heartland Bank and will continue to do so. This will enable Heartland to optimise the advantage of a lower cost of funds post-acquisition completion.
- Recent success of Challenger Bank in the AU deposit market has exceeded Heartland's expectations.
- In the seven-week period commencing 8 January 2024, retail deposit growth of $528 million was achieved, at a rate which is 1.34% lower than Heartland Australia's current cost of funds.[2]

[1] The acquisition of Challenger Bank remains subject to requisite regulatory approvals. [2] Month to date January 2024 cost of funds for Heartland Australia (including StockCo Australia). [2] Refer to ABP costs in Appendix 3.

AU Household





Reverse Mortgages[1]

- Strong growth of 20.0%.[2]
- Cost-of-living requests (debt consolidation, supplementing income) have increased while lifestyle requests (car, travel) have softened. Home improvements and debt consolidation remain the top two loan purposes.
- Growth is expected to remain strong in 2H2024 as older Australians seek to remain in their home as they age.

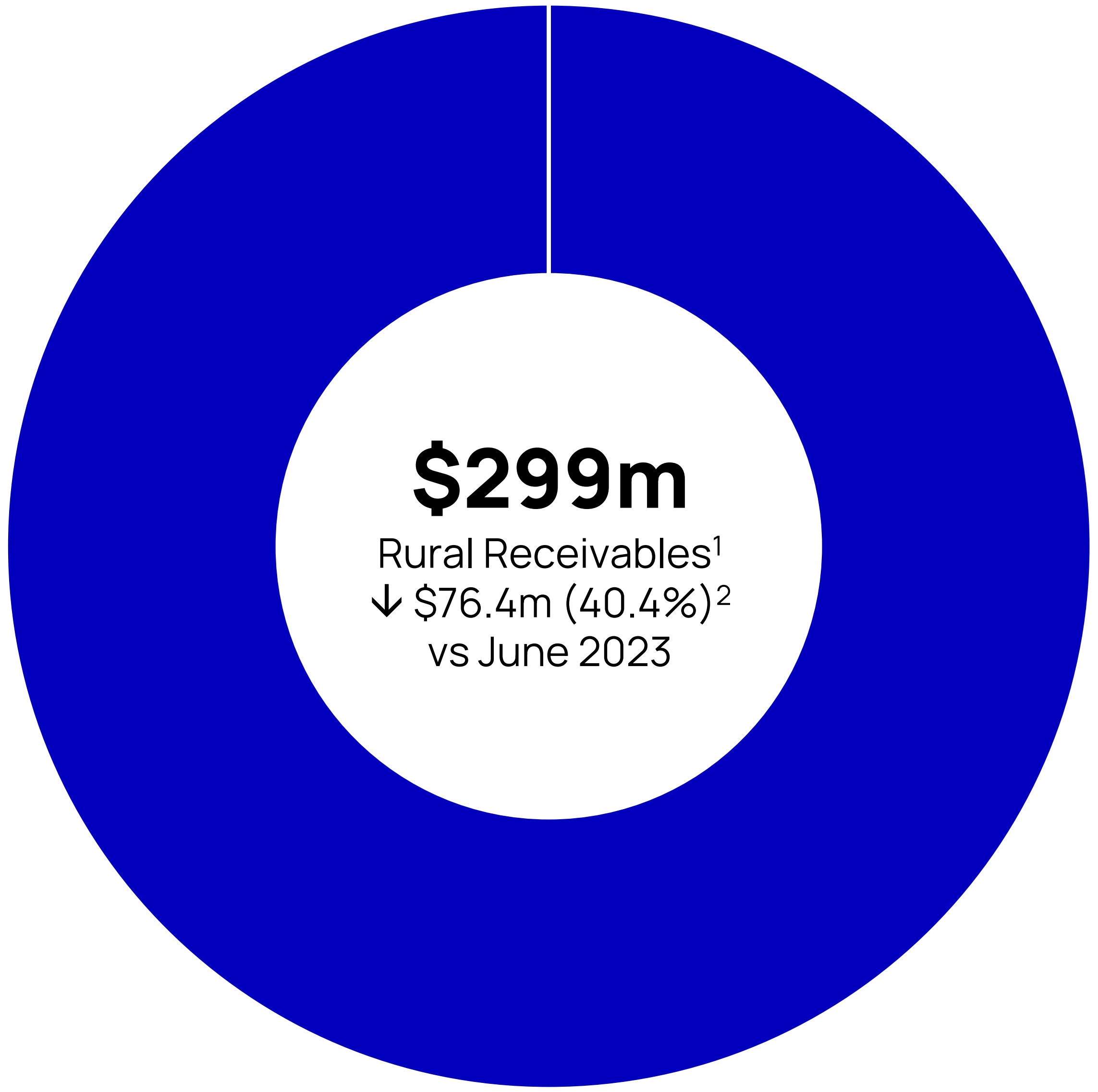
[1] Excluding the impact of changes in FX rates. [2] Annualised 1H2024 growth excluding the impact of changes in FX rates.

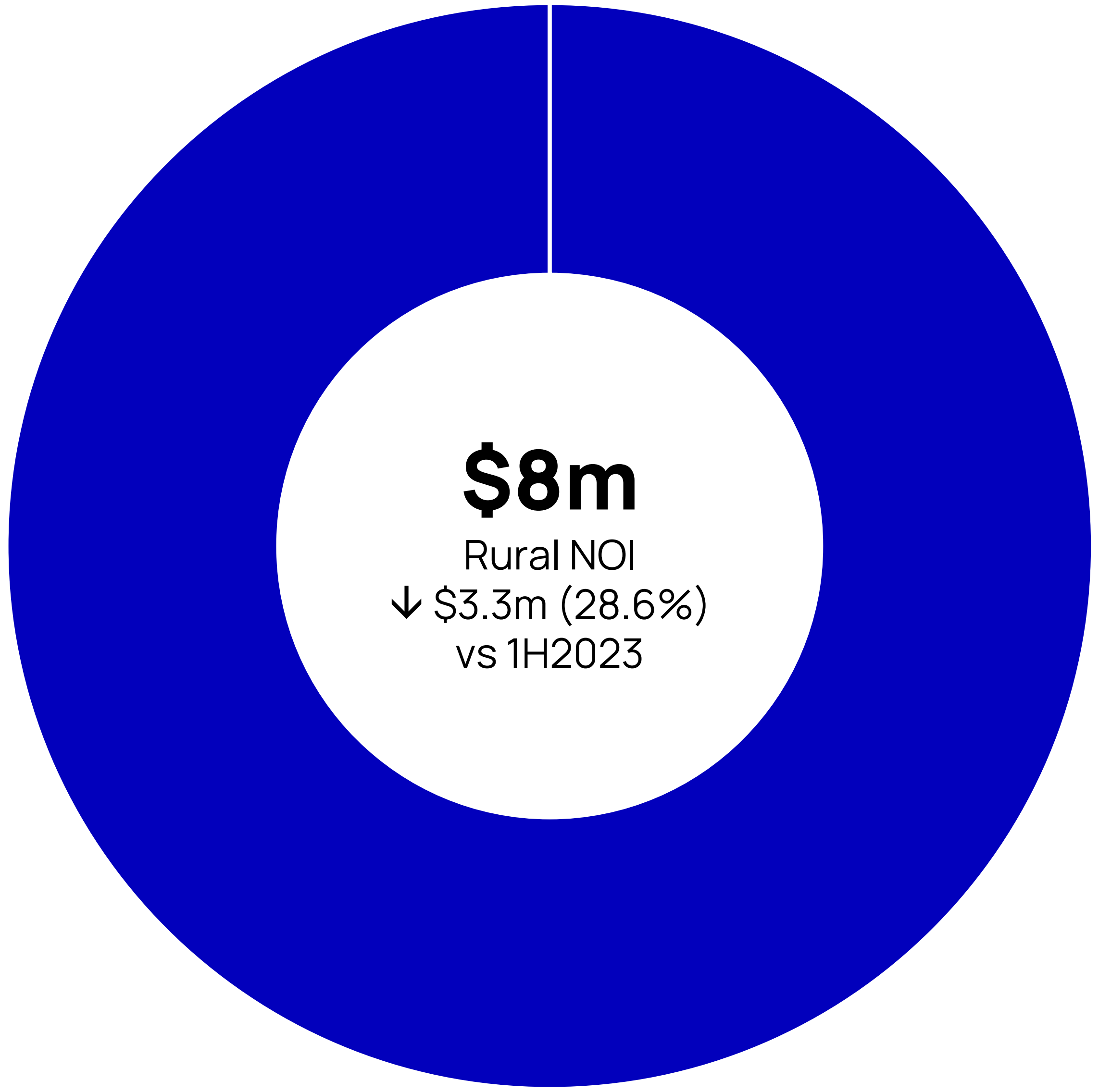
AU Reverse Mortgages portfolio analytics[1]

$1,668m AU Reverse Mortgages +$153m (20.0%)[3] vs June 2023	**$190,849** Average loan size	**77** Weighted average borrowers' age	**22.6%** Compounded annual growth rate[2]
11.9% Average origination LVR	**22.7%** Weighted average LVR	**0.1%** Proportion of the loan book over 75% LVR	**3** Number of loans in the book over 75% LVR
$185m (-$1m vs 1H2023) 1H2024 origination	**$104m** (-$3m vs 1H2023) Total repayments in 1H2024	**13.8%** (vs 16.7% in 1H2023) 1H2024 repayment rate	**16.1%** (vs 17.2% in 1H2023) Repayments from vintage loans (+11 years)

[1] Excluding the impact of changes in FX rates (where applicable). All figures in NZD. [2] Compounded annual growth rate for the period 1 July 2018 – 30 December 2023. [3] Annualised 1H2024 growth excluding the impact of changes in FX rates.

AU Rural



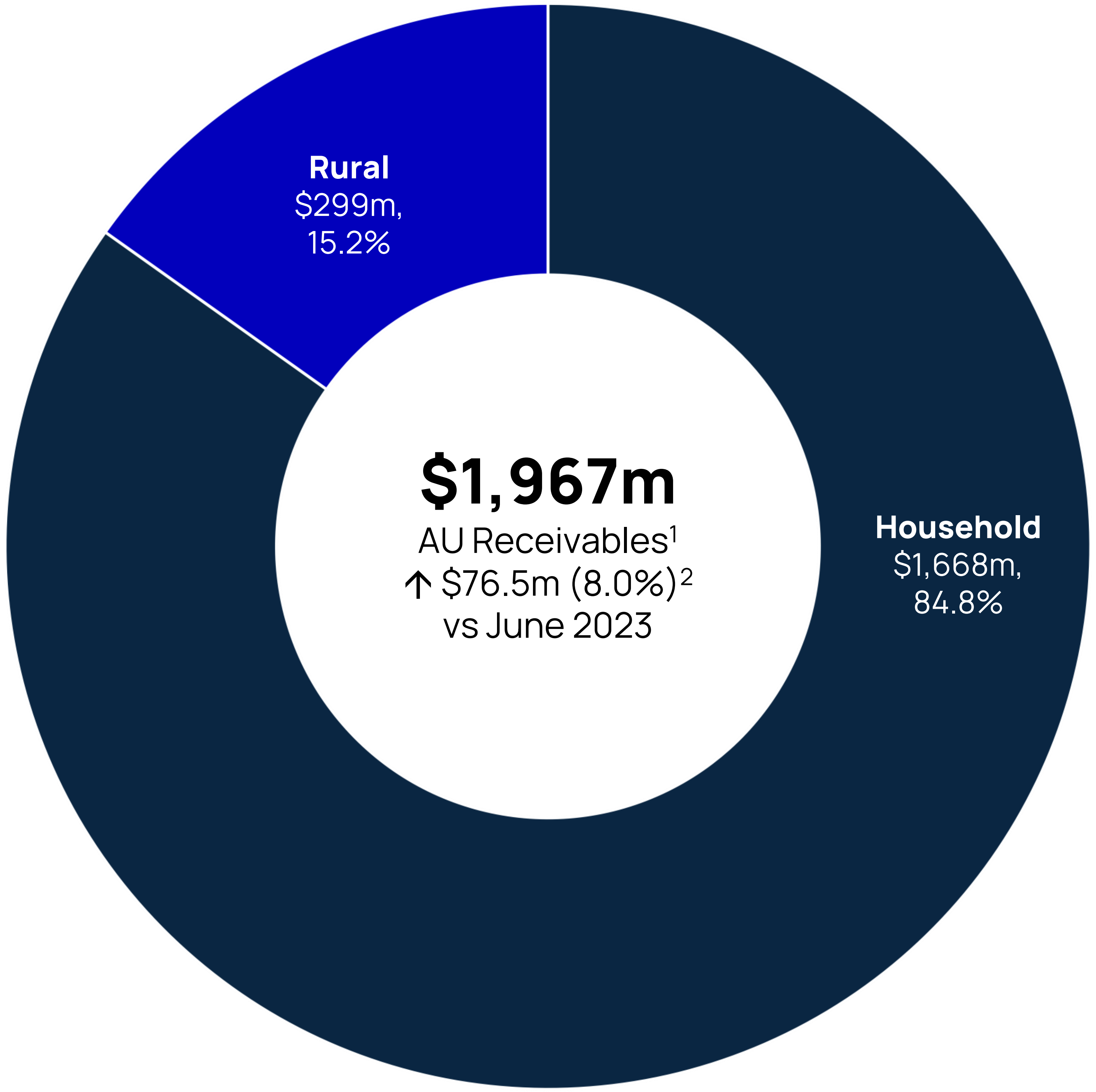


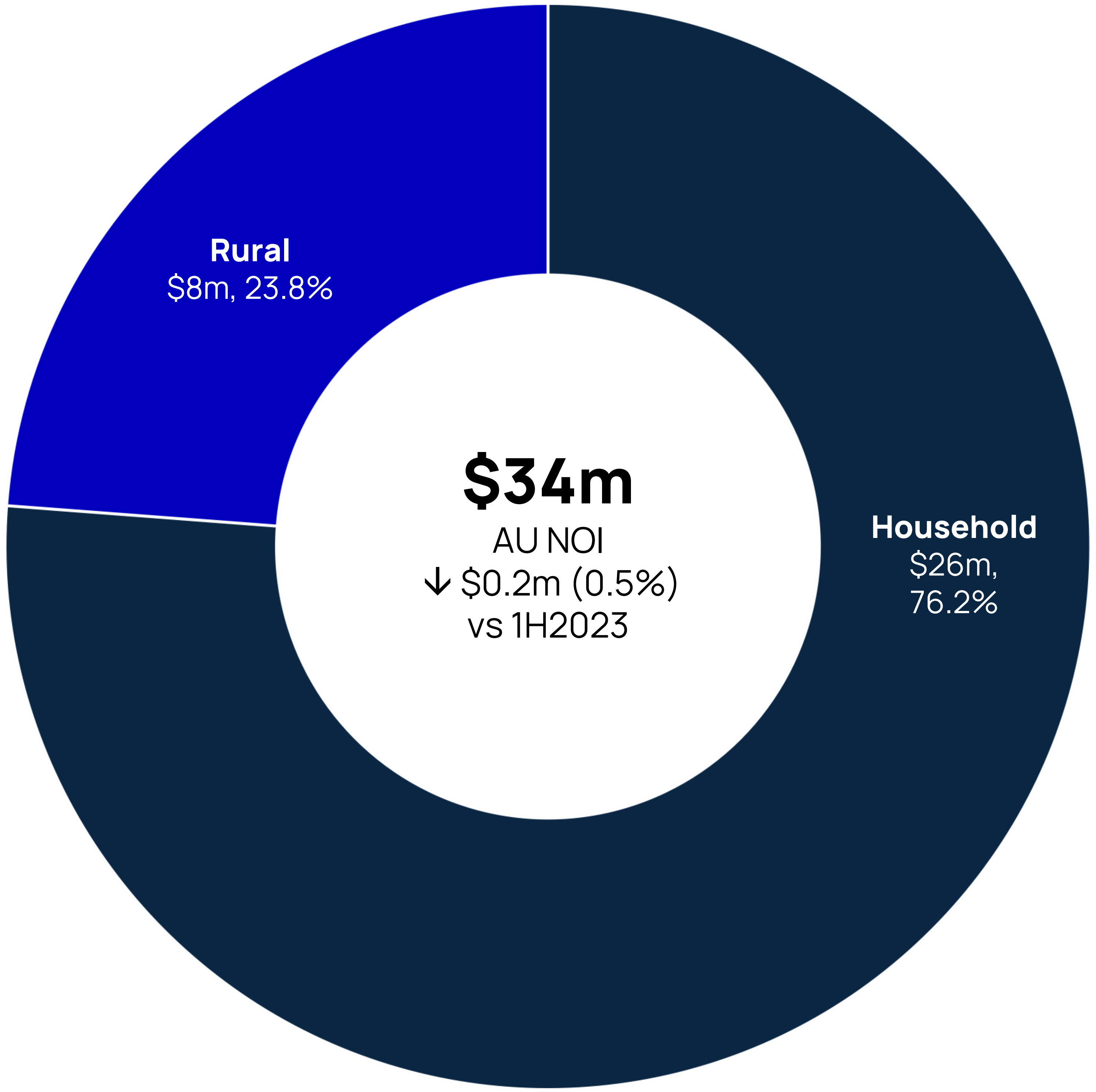
Livestock Finance

- Adverse weather conditions and drought concerns continued to negatively impact livestock prices in 1H2024.
- With the reducing risk of drought, livestock prices have improved. Cattle prices are now above the 10- and 20-year averages and Trade Lamb prices have nearly doubled over recent weeks and now sit above the 20-year average and slightly below the 10-year average.[3]
- Heartland expects a stronger performance in 2H2024, with growth on a value basis.

[1] Excluding the impact of changes in FX rates. [2] Annualised 1H2024 growth excluding the impact of changes in FX rates. [3] Data from the National Livestock Reporting Service.

AU divisional summary





[1] Excluding the impact of changes in FX rates. [2] Annualised 1H2024 growth excluding the impact of changes in FX rates.

05

Outlook

Jeff Greenslade
Chief Executive Officer Heartland Group

FY2024 outlook

Complete the acquisition of Challenger Bank within 2H2024[1]

- The focal point for 2H2024 and a critical step in Heartland's strategy for expansion in AU market – and ultimately towards achieving its FY2028 ambitions.

Growth expected through core lending portfolio resilience

- 2H2024 is expected to be challenging, however improved organic growth is anticipated in line with reduced inflation.
- Heartland is confident in the resilience of its core lending portfolios and 'best or only' strategy – with a particular focus on Reverse Mortgages.

Growth supported by digitalisation and cost discipline

- Heartland's ability to achieve a superior underlying CTI ratio over time and enable scalable growth is underpinned by increased digitalisation, cost discipline and revenue growth.
- Increased levels of digitalisation and automation enabled by Heartland Bank's core banking system upgrade, completed in 1H2024.

FY2024 NPAT

- Heartland expects NPAT for FY2024 to be within the guidance range of $93 million to $97 million, excluding any impacts of fair value changes on equity investments held and the impact of the de-designation of derivatives and ABP transaction costs.
- Excluding the impact of the (non-cash) increase in provisions for a subset of legacy lending, and Challenger Bank NPAT, the underlying guidance range is $108 million to $112 million, reflecting Heartland's underlying operational performance (which is the basis upon which the underlying 1H2024 results are presented).

[1] Subject to the requisite regulatory approvals.

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Disclaimer, glossary & appendices

Disclaimer

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Non-GAAP measures

This presentation contains references to non-GAAP measures including underlying profit or loss, underlying ROE, underlying CTI ratios and underlying EPS. A reconciliation between reported and the non-GAAP measure of underlying financial information is included on page 41.

Because Heartland complies with accounting standards, investors know that comparisons can be made with confidence between reported profits and those of other companies, and there is integrity in Heartland's reporting approach. These non-GAAP figures are provided as a supplementary measure for readers to assess Heartland's performance alongside NZ GAAP reported measures, where one-offs, both positive and negative, can make it difficult to compare profits between years. However, these non-GAAP measures do not have standardised meanings prescribed by GAAP and should not be viewed in isolation nor considered a substitute for measures reported in accordance with NZ GAAP.

Non-GAAP financial information has not been subject to review by PricewaterhouseCoopers, Heartland's external auditor.

All amounts are in New Zealand dollars unless otherwise indicated. Financial data in this presentation is as at 31 December 2023 unless otherwise indicated. Any other financial information provided as at a date after 31 December 2023 has not been audited or reviewed by any independent registered public accounting firm.

Glossary

ABP	Australia Bank Programme	NOI	Net operating income
ADI	Authorised deposit-taking institution	NPAT	Net profit after tax
APRA	Australian Prudential Regulation Authority	NPL	Non performing loan
bps	Basis points	O4B	Open for Business
Challenger Bank	Challenger Bank Limited	OOI	Other operating income
CPI	Consumers price index	OPEX	Operating expenses
cps	Cents per share	pps	Percentage points
CTI ratio	Cost to income ratio	RBNZ	Reserve Bank of New Zealand
DRP	Dividend Reinvestment Plan	Receivables	Gross Finance Receivables
EPS	Earnings per share	ROE	Return on Equity
FX	Foreign currency exchange	StockCo Australia	Comprised of StockCo Australia Management Pty Ltd, StockCo Holdings 2 Pty Ltd and their subsidiaries
Harmoney	Harmoney Corp Limited	CY2025	2025 calendar year (1 January to 31 December 2025)
Heartland	Heartland Group Holdings Limited or the **Company**	FY2024	Financial year ending 30 June 2024
Heartland Australia	Heartland Australia Holdings Pty Ltd and its direct and indirect wholly-owned subsidiaries	FY2028	Financial year ending 30 June 2028
Heartland Bank, HBL	Heartland Bank Limited	1H2020	First half of FY2020 (1 July to 31 December 2019)
LVR	Loan-to-value ratio	1H2023	First half of FY2023 (1 July to 31 December 2022)
MTN	Medium Term Note	1H2024	First half of FY2024 (1 July to 31 December 2023)
NII	Net interest income	2H2024	Second half of FY2024 (1 January to 30 June 2024)
NIM	Net interest margin	Q1	First quarter of FY2024 (1 July to 30 September 2023)

Sustainability

Heartland's sustainability framework is built on three key pillars: **environment**, **people** and **financial wellbeing**.

Heartland is making good progress to meet the new **Climate-Related Disclosures obligations in NZ**, with Heartland's first climate statement required as part of full year reporting for FY2024.

StockCo announced a **two-year pilot project with Australian farmer-led software provider Ruminati**, to help producers track and validate on-farm climate action across the supply chain.

Heartland Bank awarded **Canstar NZ's Bank of the Year – Savings** (sixth year in a row). Plus, **Five-star ratings** for Direct Call Account, 32-Day Notice Saver Account and 90-Day Notice Saver Account.

Heartland's Board established a Sustainability Committee to oversee Heartland's sustainability strategy and implementation plans.

The Manawa Ako internship welcomed 30 Māori and Pasifika interns in its sixth intake, with the **greatest number of applications** since programme establishment in 2017.

Heartland Finance, awarded a **Non-Bank of the Year Excellence Award at the Australian Mortgage Awards 2023** (fourth year in a row).

Appendix 1: Financial performance

	Reported				Underlying			
$m	**1H24**	**1H23**	**Change ($)**	**Change (%)**	**1H24**	**1H23**	**Change ($)**	**Change (%)**
NII	138.7	138.9	(0.2)	(0.1%)	138.7	140.8	(2.0)	(1.4%)
OOI[1]	4.4	2.8	1.5	54.9%	6.8	8.9	(2.0)	(23.1%)
NOI	**143.1**	**141.7**	**1.4**	**1.0%**	**145.6**	**149.6**	**(4.1)**	**(2.7%)**
OPEX	66.5	63.4	3.0	4.8%	63.5	63.9	(0.4)	(0.6%)
Impairment Expense	24.0	9.2	14.8	160.1%	8.0	9.2	(1.2)	(13.0%)
Profit Before Tax	52.6	69.0	(16.5)	(23.8%)	74.0	76.5	(2.5)	(3.2%)
Tax Expense	15.0	20.4	(5.4)	(26.5%)	21.2	21.8	(0.5)	(2.4%)
NPAT	**37.6**	**48.7**	**(11.1)**	**(22.7%)**	**52.7**	**54.7**	**(2.0)**	**(3.6%)**
NIM	3.67%	3.97%	(29 bps)		3.67%	4.02%	(34 bps)	
CTI	46.5%	44.8%	170 bps		43.7%	42.7%	93 bps	
Impairment Expense Ratio[2]	0.70%	0.29%	41 bps		0.23%	0.29%	(6 bps)	
ROE	7.3%	10.6%	(329 bps)		10.2%	12.1%	(183 bps)	
EPS	5.3 cps	7.3 cps	(2.0 cps)		7.4 cps	8.2 cps	(0.8 cps)	

[1] Includes fair value movements. [2] Impaired asset expense as a percentage of average Receivables.

Appendix 2: Financial position

$m	31 Dec 2023	30 June 2023	Movement ($m)	Movement (%)
Liquid Assets	678	627	52	8.2%
Gross Finance Receivables	6,924	6,791	133	2.0%
Provisions	(70)	(53)	(16)	(30.5%)
Other Assets	382	383	(1)	(0.3%)
Total Assets	**7,914**	**7,747**	**167**	**2.2%**
Retail Deposits	*4,214*	*4,131*	*83*	*2.0%*
Other Borrowings	*2,625*	*2,496*	*128*	*5.1%*
Total Funding	6,839	6,627	211	3.2%
Other Liabilities	55	89	(34)	(38.6%)
Equity	1,021	1,031	(10)	(0.9%)
Total Equity & Liabilities	**7,914**	**7,747**	**167**	**2.2%**

06

Appendix 3: Reconciliation of reported with underlying results

1H2024 one-offs and non-cash technical items included in the reported result:

- *Hedging*: a $4.3 million loss was recognised in relation to derivatives that were de-designated from prior hedge accounting relationships in FY2022.
- *Valuation of equity investments*: a $1.9 million fair value gain was recognised on investment in Harmoney shares.
- *Other provisions:* $0.1 million of unwarranted legacy provisions were released.
- *ABP costs*: $2.3 million of transaction and other costs in relation to becoming an ADI in Australia. In addition, $3.3 million of costs directly attributable to applying to become an ADI have been capitalised as an intangible asset.
- *Other non-recurring expenses:* $0.8 million.
- *Impairment provision:* a $16.0 million increase in provisions to respond to issues affecting a subset of legacy lending.

1H2023 one-offs and non-cash technical items included in the reported result:

- *Hedging:* a $3.6 million loss was recognised in relation to derivatives that were de-designated from prior hedge accounting relationships in FY2022.
- *Valuation of equity investment in Harmoney:* a $2.4 million fair value loss was recognised on investment in Harmoney.
- *Bridging loan:* a $1.9 million interest expense was recognised for a A$158 million bridging loan taken by Heartland to acquire StockCo Australia, which was fully repaid in September 2022.
- *Other non-recurring expenses:* ($0.5 million).

$m	1H2024	1H2023	Movement ($)	Movement (%)
Reported NOI	**143.1**	**141.7**	**1.4**	**1.0%**
Less:				
Hedge accounting Impacts	(4.3)	(3.6)	(0.7)	
Net fair value gain/loss on investments	1.9	(2.4)	4.3	
StockCo Australia acquisition (bridging loan)	-	(1.9)	1.9	
Underlying NOI	**145.6**	**149.6**	**(4.1)**	**(2.7%)**
Reported OPEX	**66.5**	**63.4**	**3.0**	**4.8%**
Less:				
Legacy provisions and accruals	(0.1)	-	(0.1)	
ABP costs	2.3	-	2.3	
Other non-recurring items	0.8	(0.5)	1.2	
Underlying OPEX	**63.5**	**63.9**	**(0.4)**	**(0.6%)**
Reported impairment expense	**24.0**	**9.2**	**14.8**	**160.1%**
Less:				
Increase in provisions for a subset of legacy lending	16.0	-	16.0	
Underlying impairment expense	**8.0**	**9.2**	**(1.2)**	**(13.0%)**
Reported NPAT	**37.6**	**48.7**	**(11.1)**	**(22.7%)**
Less:				
Post-tax impact of one-offs	(15.1)	(6.0)	(9.1)	
Underlying NPAT	**52.7**	**54.7**	**(2.0)**	**(3.6%)**
Reported NIM	3.67%	3.97%	(29 bps)	
Underlying NIM	**3.67%**	**4.02%**	**(34 bps)**	
Reported CTI	46.5%	44.8%	170 bps	
Underlying CTI	**43.7%**	**42.7%**	**93 bps**	
Reported ROE	7.3%	10.6%	(329 bps)	
Underlying ROE	**10.2%**	**12.1%**	**(183 bps)**	

Thank you

Investor & media relations

Nicola Foley
Group Head of Communications
+64 27 345 6809
nicola.foley@heartland.co.nz

Investor information

For more information
heartlandgroup.info/investor-information

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