

# HEARTLAND

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## BANK

**Half Year Results to 31 December 2017**

**20 February 2018**



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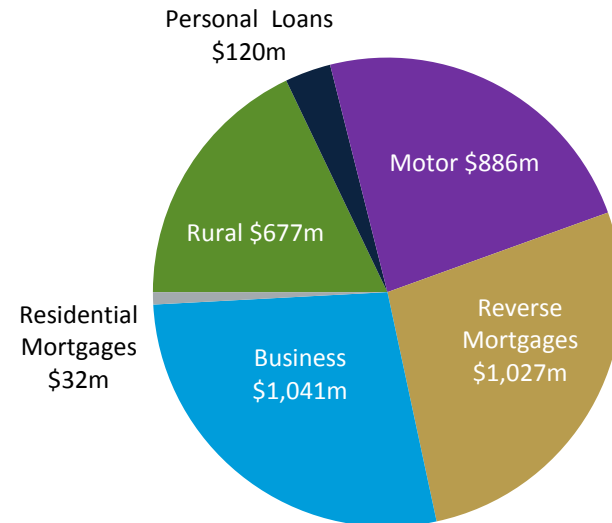
# Continued profitability and asset growth

## Highlights

- Net operating income up 13% on previous corresponding period
- Net profit after tax of \$31.1m, up 7% on previous corresponding period
- 13% annualised growth in net finance receivables from 30 June 2017
- Return on equity of 10.8%
- \$150m Retail Notes Issue
- \$59m Rights Issue

## Net Receivables – 31 December 2017

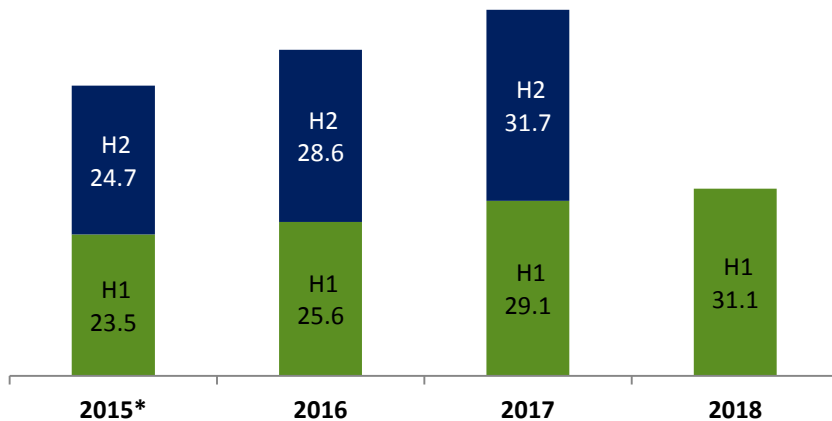
**\$3.8b**



# 7% growth in profitability

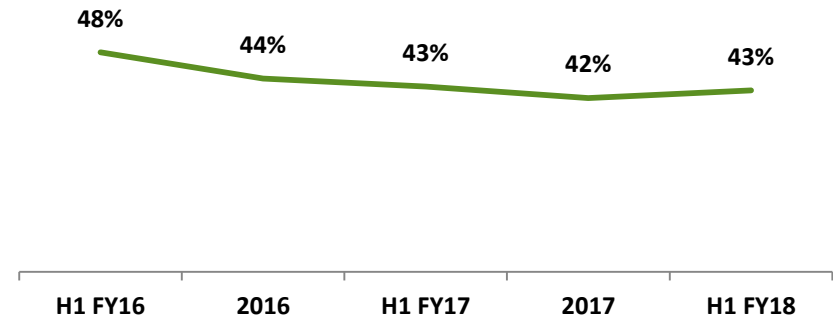
- 7% growth in profitability on previous corresponding period driven by asset growth
- Strong net interest margin maintained
- Profit down on previous half due to higher operating expenses associated with implementation of new banking system and higher impairment expense
- Cost to income ratio at 43% impacted by implementation costs in the period

## Net Profit After Tax (\$m)



\*Net profit after tax belongs to Heartland New Zealand Limited

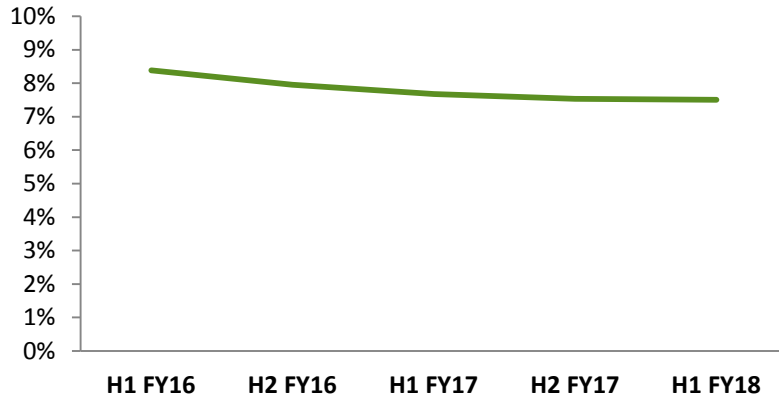
## Cost to Income Ratio



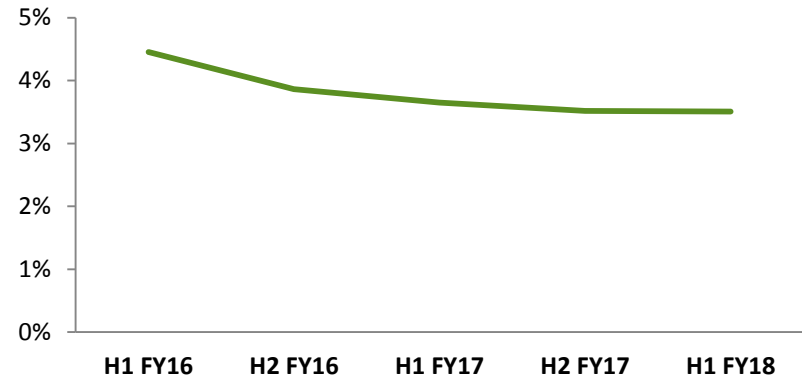
# Strong net interest margin maintained

- 13% increase in net operating income over previous corresponding period

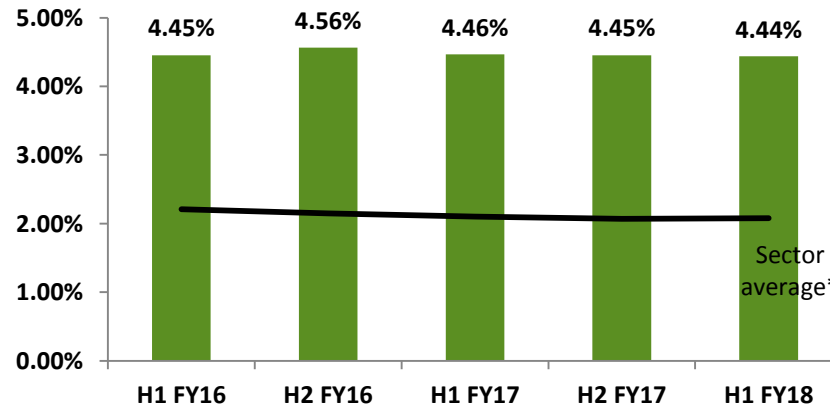
### Gross interest yield



### Cost of funds

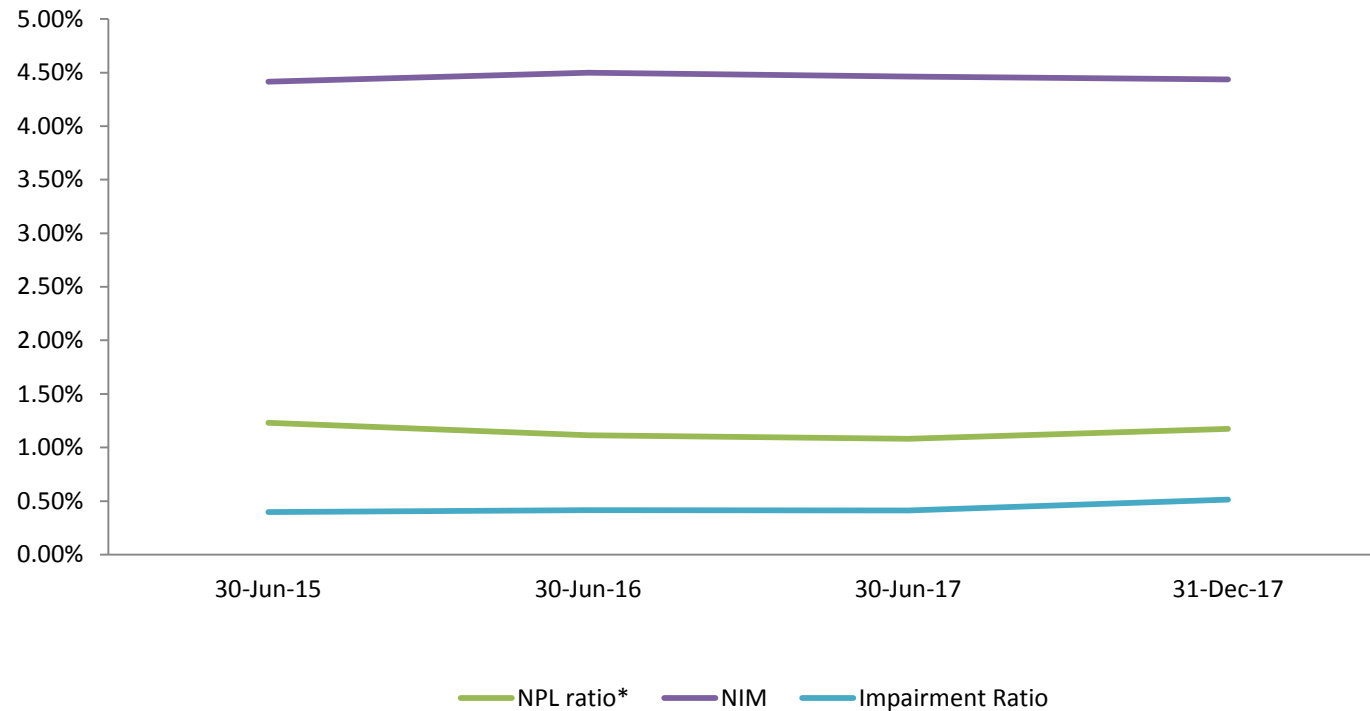


### Net interest margin



\* Source: KPMG Financial Institutions Performance Survey (FIPS) 2017.

# Impairment expense remains low given margin achieved



\* Non Performing Loans net of provisions / Net receivables

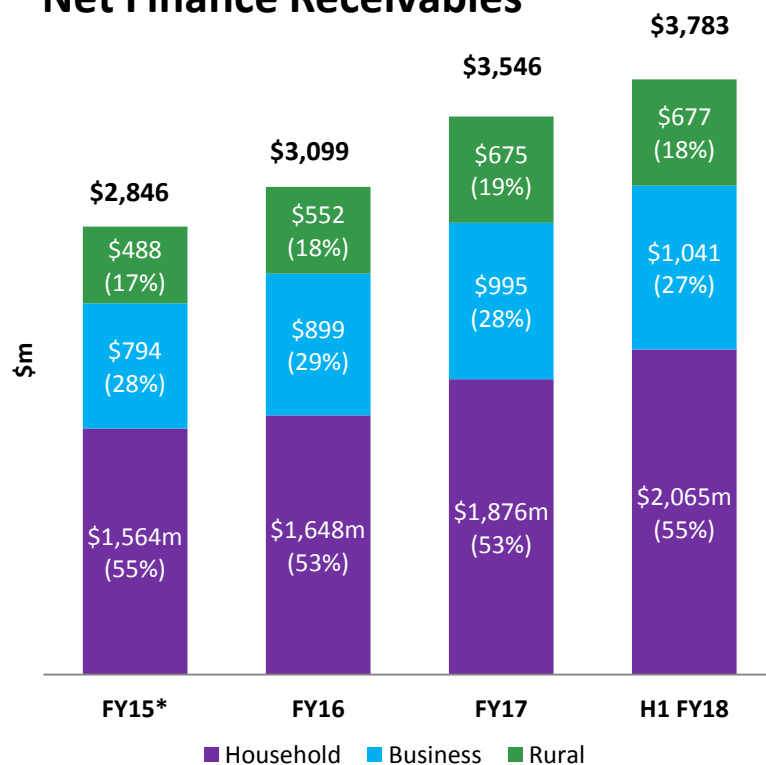
# Asset growth

13% annualised growth in net finance receivables from FY17

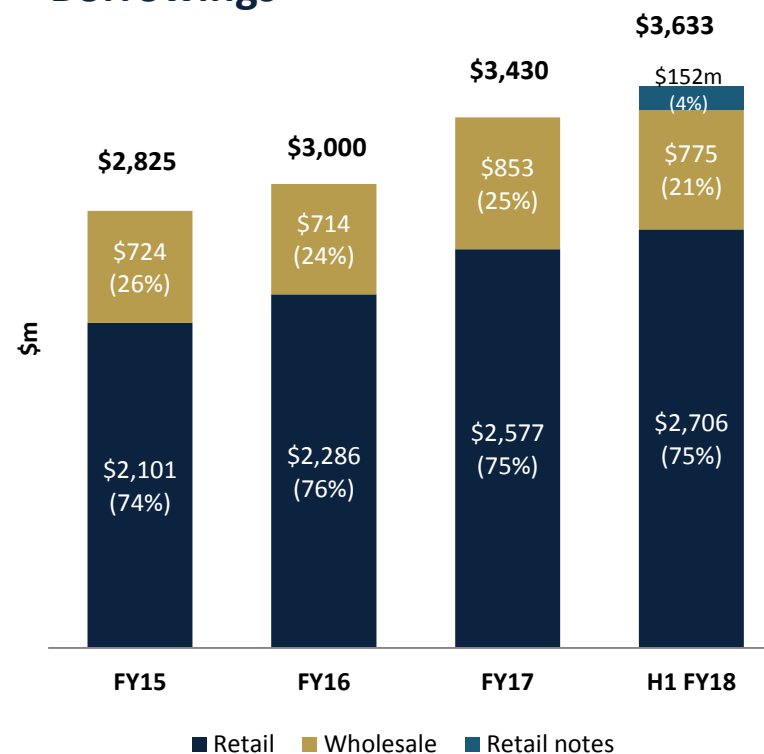
# Funding growth

10% annualised growth in retail deposits from FY17

## Net Finance Receivables



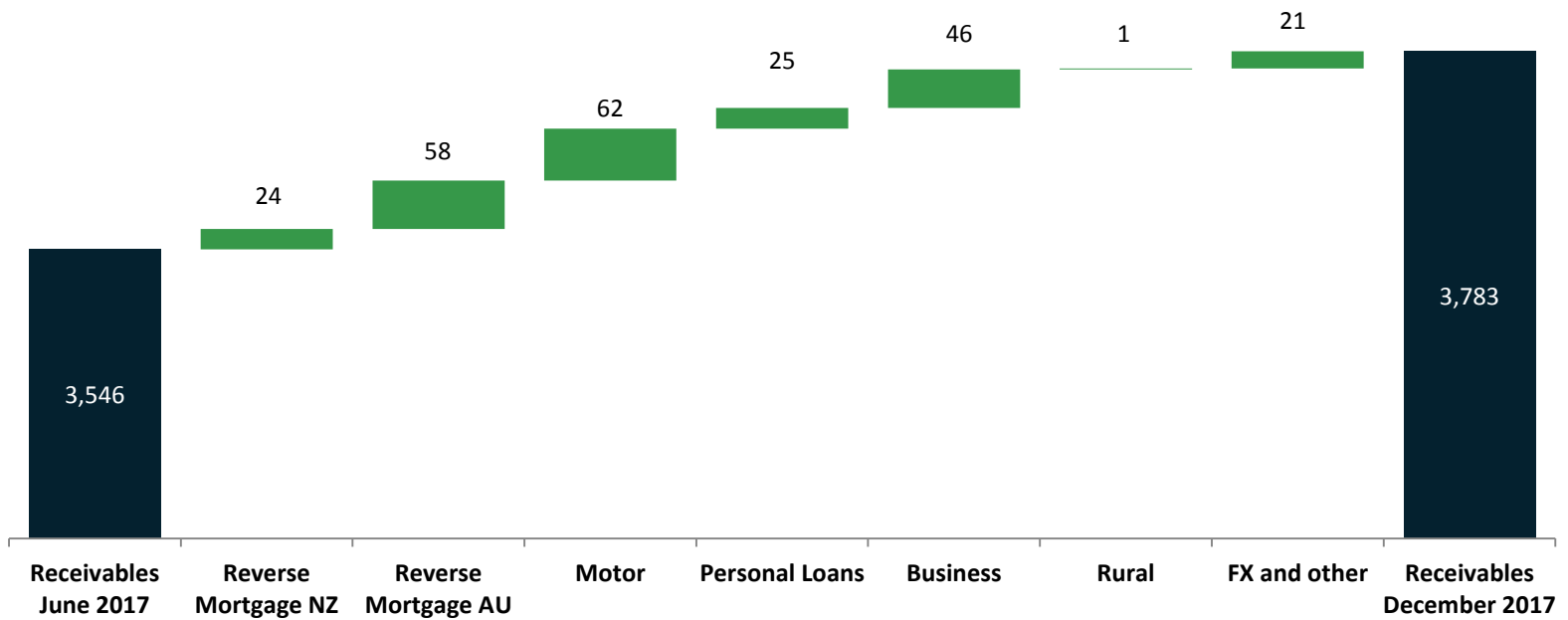
## Borrowings



\* Net Finance Receivables for Heartland New Zealand Limited

# Asset growth across all key divisions

## Receivables Movement FY18 (\$m)





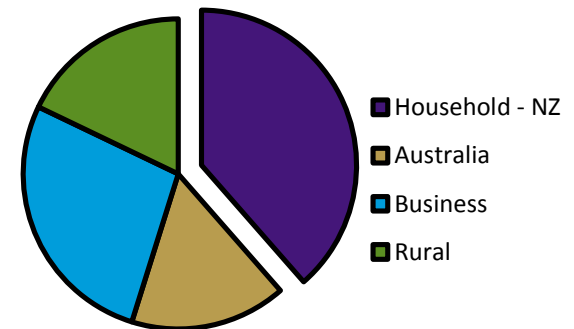
# Household – New Zealand

Household products offered in New Zealand comprise Reverse Mortgages, Motor and Personal lending.

- Net receivables of household lending increased 15% (annualised) to \$1,460m.
- Personal receivables increased 36% (annualised) to \$112m, due to growth in personal lending through Harmony.
- Growth in the Motor book of 15% (annualised) to \$886m, through increased use of branded partnerships.
- NZ Reverse Mortgages grew 12% (annualised) to \$430m due to increased brand awareness and digital distribution.

Strategy for growth going forward:

- Develop new branded relationships and awareness.
- Increase use of partnerships and intermediaries to allow for bespoke product offering.
- A continued focus on digital capabilities for targeted offering and enhanced customer experience.



NZ household receivables

**\$1,460m**

↑15% (annualised)

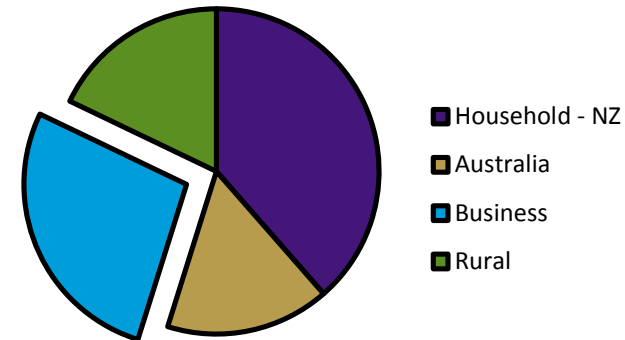
# Business – New Zealand

Strong growth in net operating income from business lending of 14% to \$26.3m underpinned by growth in net receivables of 9% (annualised) to \$1.0b.

- Growth achieved through focus on small business market and intermediary partnerships.
- Development of digital platform, *Open for Business*, providing a fast and simple customer experience for time-poor small business owners.

Strategy for growth going forward:

- Continue to enhance *Open for Business* platform to improve customer experience and increase digital lead generation.
- Work closely with intermediaries to promote expansion of customer base and increase market awareness of Heartland.



**NZ Business receivables**

**\$1,032m**

**↑9% (annualised)**

# Rural

Rural Net Operating Income increased 17% compared to the previous reporting period due to significant growth in these receivables in the second half of 2017 financial year.

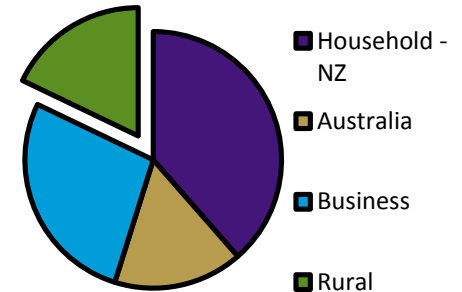
Growth has slowed in the first half of 2018 financial year, with receivables only growing 0.4% (annualised) since June 2017.

Product and distribution through digital channels:

- Continued development of digital platform for livestock loans, *Open for Livestock*, providing 100% finance to farmers purchasing livestock.
- Online finisher tool in partnership with NZX Agri subsidiary.
- Partnership with online livestock trading platform StockX to enable direct applications for Heartland livestock finance.

Looking forward:

- Continue to develop new strategic partnerships.
- Continued development of *Open for Livestock* to drive lead generation and improve customer experience.



Rural receivables

**\$677m**

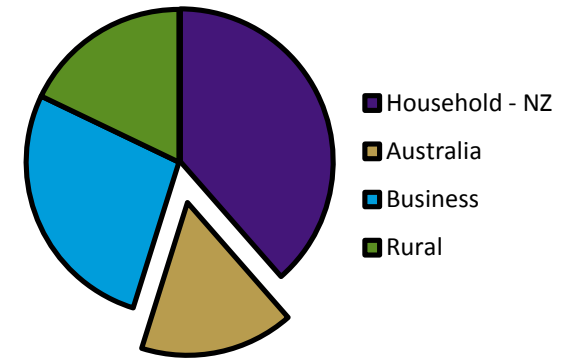
# Australia

Significant increased product offering in Australia in the period to expand to three key product offerings:

- Reverse mortgages continues to grow with 22% (annualised excl. FX) growth in the six months from \$516m to \$598m.
- New personal lending through the launch of Harmoney platform in Australia and the development of our partnership with Spotcap providing online unsecured business lending.

Strategy for growth going forward:

- Continued focus on digital platforms to increase personal and business lending opportunities.
- Grow distribution channels of reverse mortgage offering through acquisition of new brokers, aggregators and partnerships.
- Enhance online capabilities of reverse mortgages to include full online applications tailored for the seniors market.



Australia receivables

**\$615m**

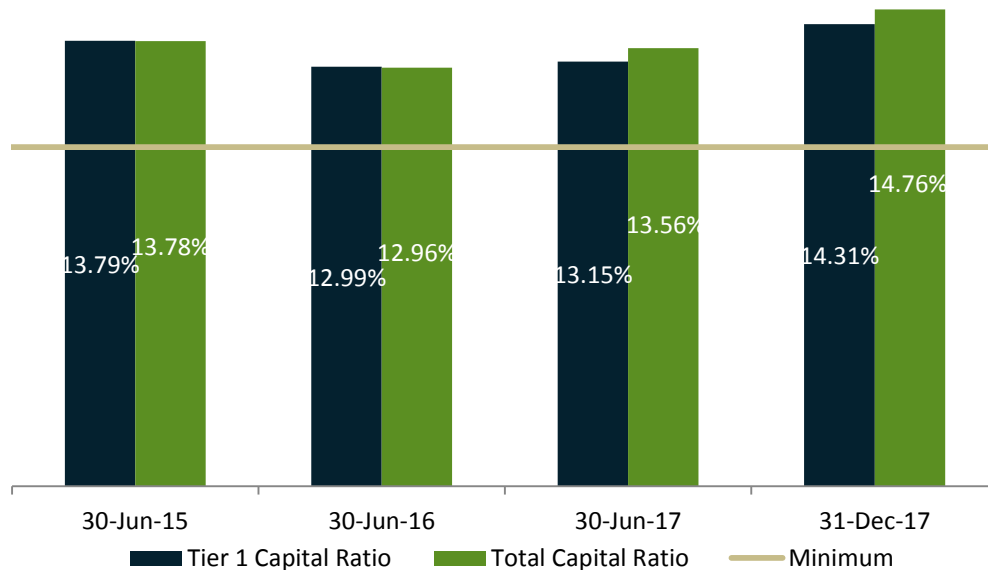
↑27%

(annualised excl. FX)

# Capital for growth

- Regulatory capital ratio of 14.76%
- A \$59m rights issue (Dec 17) to support continued growth in its loan portfolio and maintain a strong balance sheet
- ROE reduced due to increase in capital

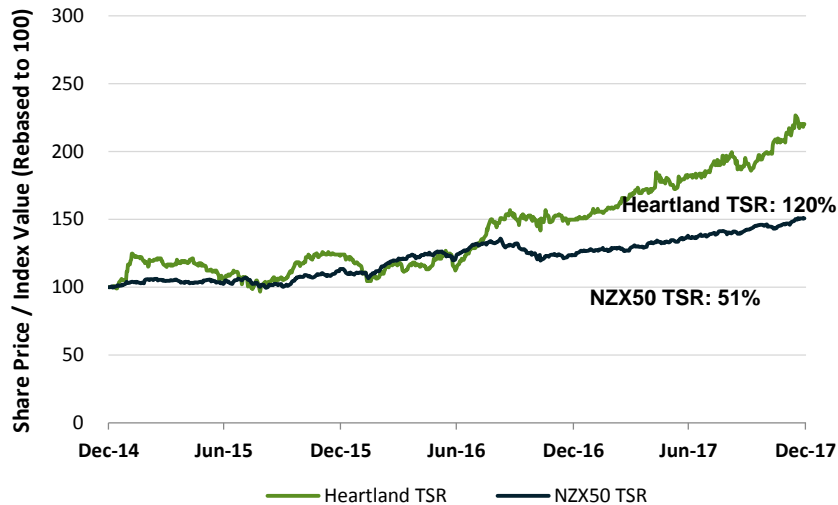
## Regulatory Capital



# Returns to shareholders

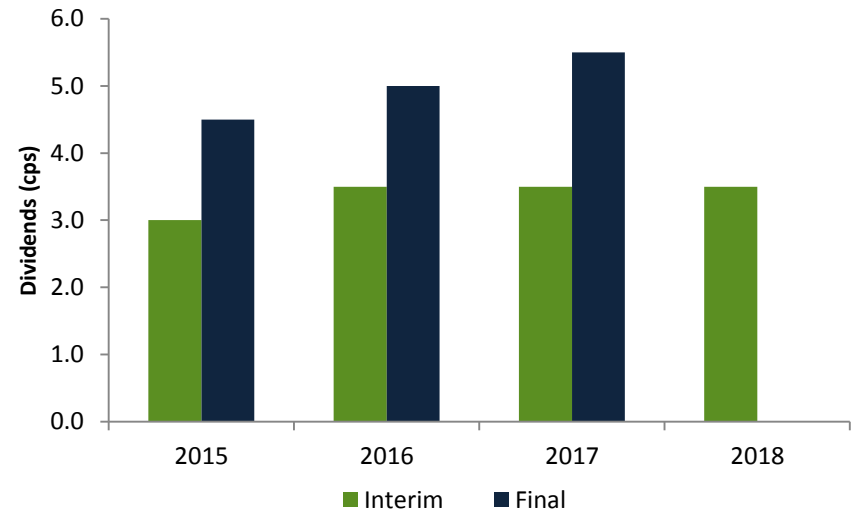
- Interim dividend of 3.5 cents per share (fully imputed)
- Total Shareholder Return (TSR) of 120% over the last 3 years

## TSR: Heartland vs. NZ50G



Note: TSR based on dividends reinvested

## Dividends (cps)



# A clear strategic direction

## Right place, right time

Digital, intermediated and direct channels utilised to ensure we are in easy reach for our customers.

## Targeting markets with significant opportunity

Focus on niche products where customers are under-served by the other banks (e.g. small business loans, motor vehicle loans, reverse mortgages).

## Grow Heartland's business in Australia

Expand certain products in Australia, leveraging established intermediary relationships and digital platforms.

## Identifying customer intent

Utilisation of data insights to accurately identify customer intent, driving strong lead generation and conversion.

## Superior customer experience

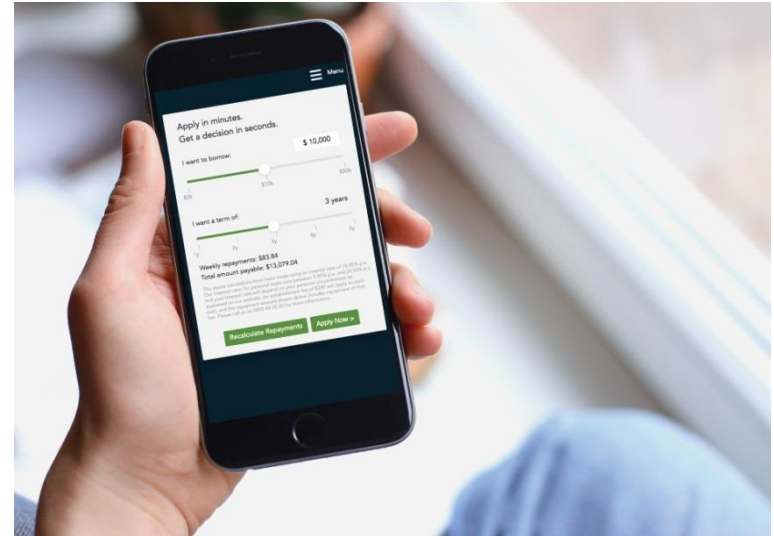
Specialised customer experience for each product type (e.g. small business loans = quick and simple online application, reverse mortgages = personalised sales process).

## Consider acquisitions that align with strategy

Must deliver compelling distribution capacity and/or innovation and be value generating.

# Strategic priorities

- Build the first end-to-end, fully automated online deposit platform.
- Continue to grow the successful online SME lending platform, *Open for Business*.
- Expand product offering in Australia, including *Open for Business*.





# Diversity & inclusion

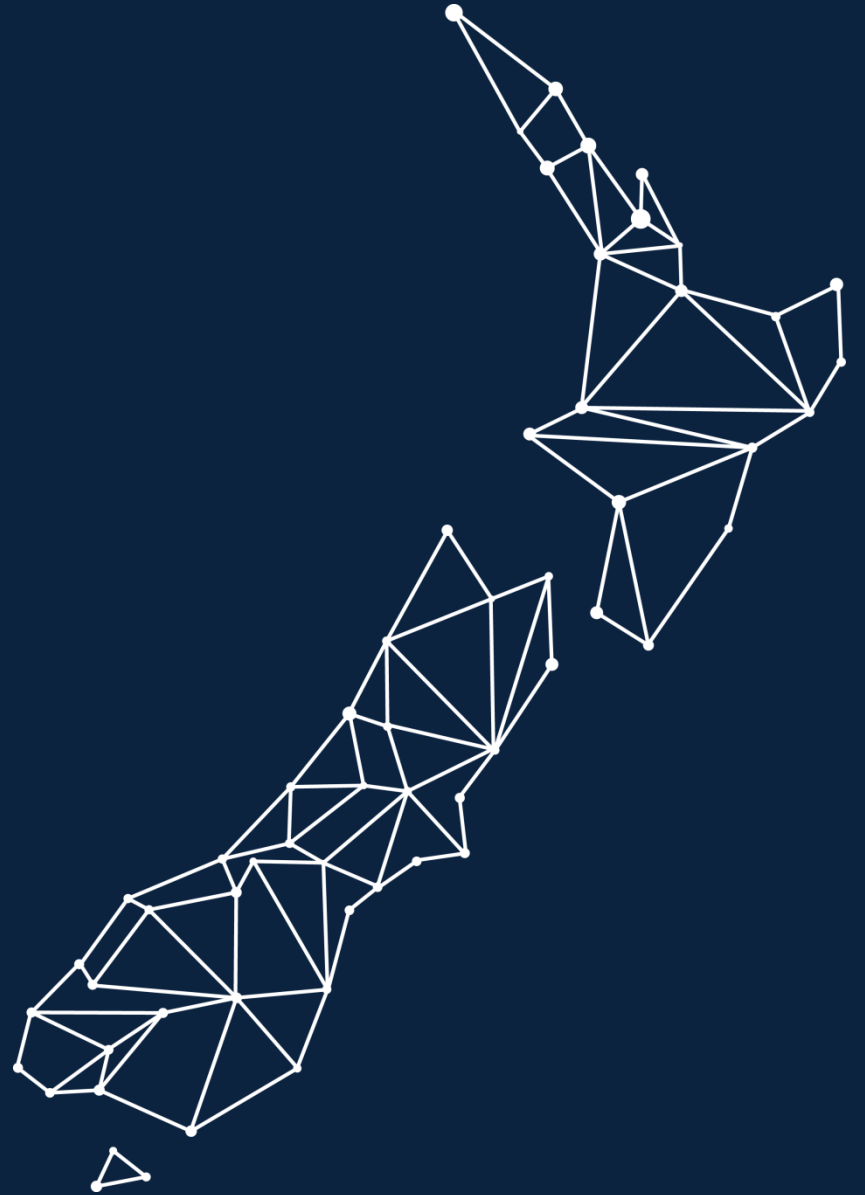
- Committed to becoming a more diverse and inclusive place of work.
- Member of Champions for Change.
- Focused on attracting and retaining female leaders and improving gender balance across the business.
- Increase Māori representation.
- Aiming to be an employer of choice for emerging Māori talent.



# Outlook: Continued growth in FY2018

- Asset growth across all divisions through continued execution of strategy with digital distribution and intermediated channels providing low cost growth opportunities.
- Heartland expects net profit after tax for the year ending 30 June 2018 to be at the upper-end of its previously advised range of \$65.0m to \$68.0m.

# Appendices



# Appendix – Financial Year overview

	6 months to Dec 2017 (NZ\$m)	6 months to Dec 2016 (NZ\$m)
Net interest income	90.1	79.0
Net other income	3.8	4.1
<b>Net operating income</b>	<b>93.9</b>	<b>83.1</b>
Expenses	40.2	36.0
<b>Profit before impairments and tax</b>	<b>53.7</b>	<b>47.1</b>
Impaired asset expense	10.4	6.9
<b>Net profit before tax</b>	<b>43.3</b>	<b>40.2</b>
Tax	12.2	11.1
<b>Net profit after tax (reported)</b>	<b>31.1</b>	<b>29.1</b>

# Appendix – Balance Sheet summary

	Dec 2017 (NZ\$m)	Jun 2017 (NZ\$m)
Total assets	4,307.5	4,034.7
Total liabilities	3,666.1	3,465.1
<b>Total equity</b>	<b>641.3</b>	<b>569.6</b>
Equity ratio	14.9%	14.1%
Net tangible assets (\$m)	563.3	490.5
NTA per share (\$)	1.01	0.95