

HEARTLAND

BANK

2017 Annual Results

14 August 2017

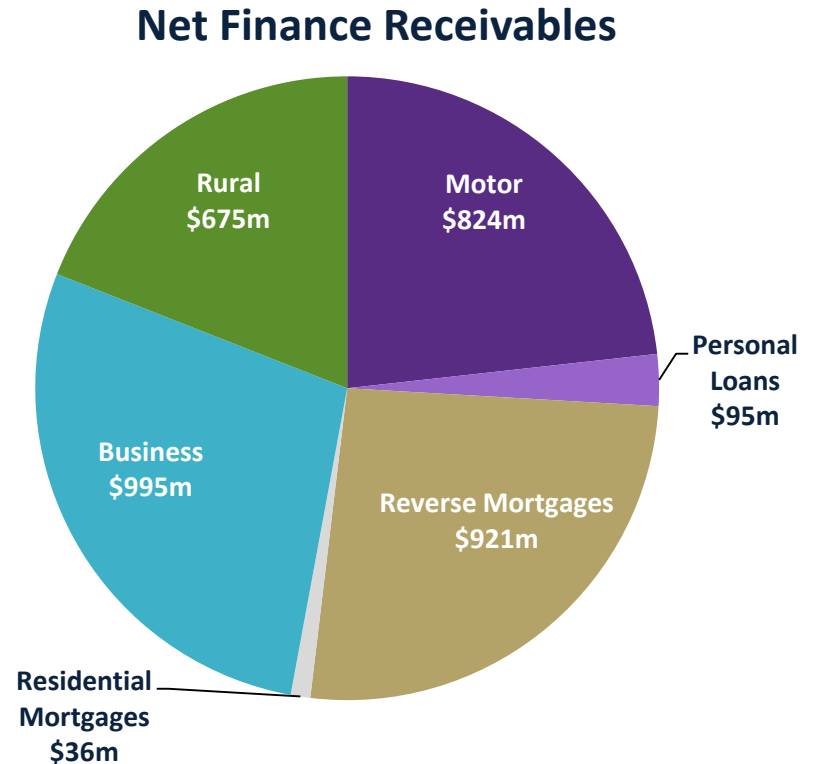


Important Notice

- This presentation has been prepared by Heartland Bank Limited (NZX : HBL) (the **Company** or **Heartland**) for the purpose of briefings in relation to its financial statements.
- The presentation and the briefing (together the **Presentation**) contain summary information only, and you should not rely on the information in the Presentation in isolation from the full detail in the financial statements.
- The information in the Presentation has been prepared with due care and attention. However, no person (including the Company and its directors, shareholders and employees) will be liable to any other person for any loss arising in connection with the Presentation.
- The Presentation outlines a number of the Company's forward-looking plans and projections. Those plans and projections reflect current expectations, but are inherently subject to risk and uncertainty, and may change at any time. There is no assurance that those plans will be implemented or that projections will be realised.
- No person is under any obligation to update this presentation at any time after its release to you or to provide you with further information about the Company.
- The information in this presentation is of a general nature and does not constitute financial product advice, investment advice or any recommendation. Nothing in this presentation constitutes legal, financial, tax or other advice.
- Unless otherwise indicated in this presentation, all financial results are those for the financial year ending 30 June 2017 and all comparisons are to the previous corresponding financial period of the financial year ending 30 June 2016.

A year of continued growth for Heartland

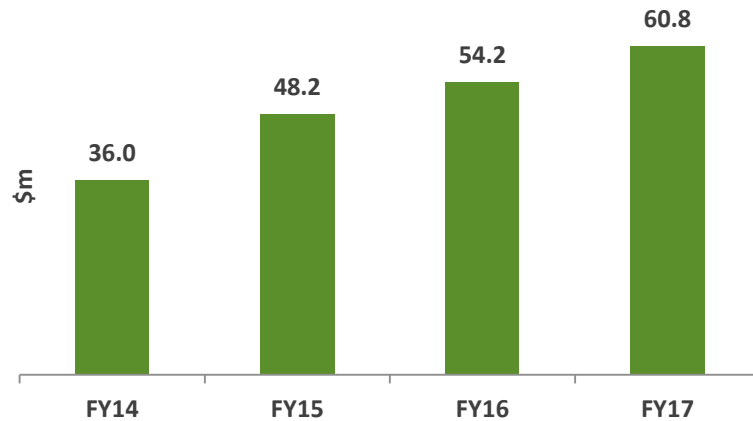
- Net profit after tax of \$61m, up 12%
- 14% growth in net finance receivables
- Return on equity of 11.6%
- Launched multiple digital origination platforms
- Implemented new core banking system



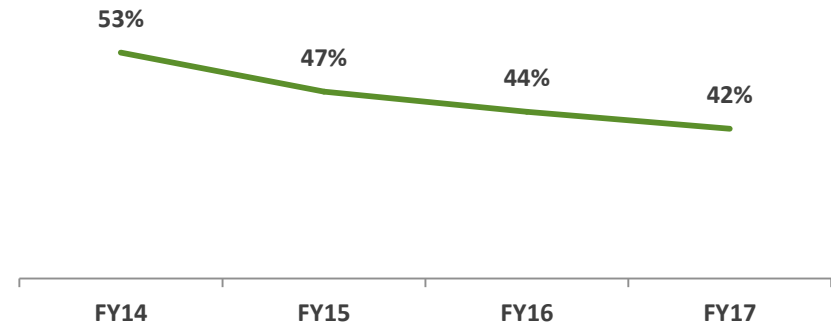
Increased profitability

- 12% growth in profitability driven by asset growth
- Strong net interest margin
- Continued reduction in cost to income ratio to 42%

Net Profit After Tax

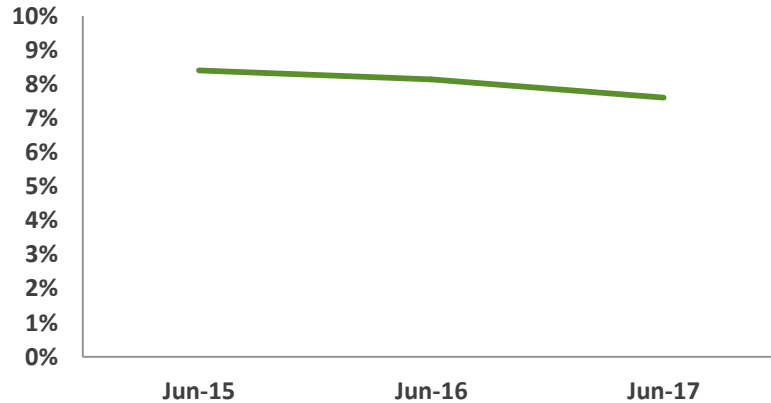


Cost to Income Ratio

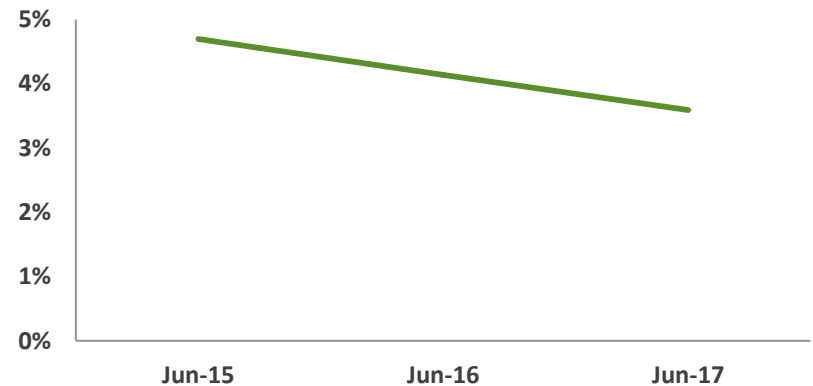


Strong net interest margin maintained

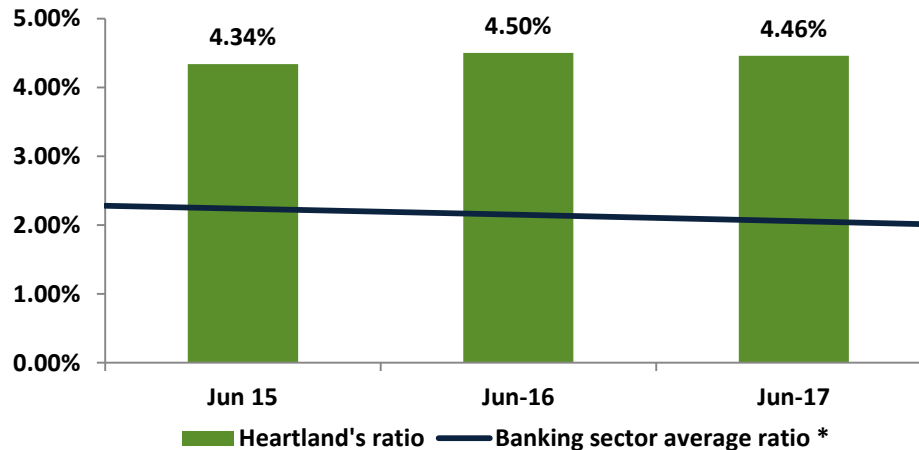
Gross interest yield



Cost of funds



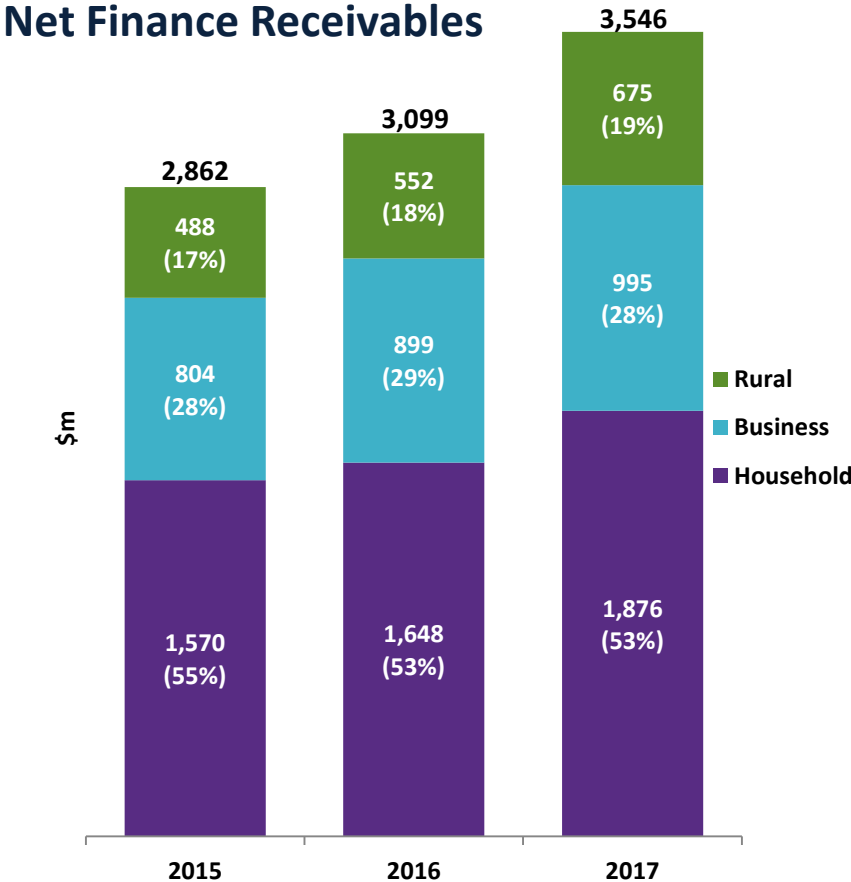
Net interest margin



*Source: KPMG
Financial Institutions
Performance Summary

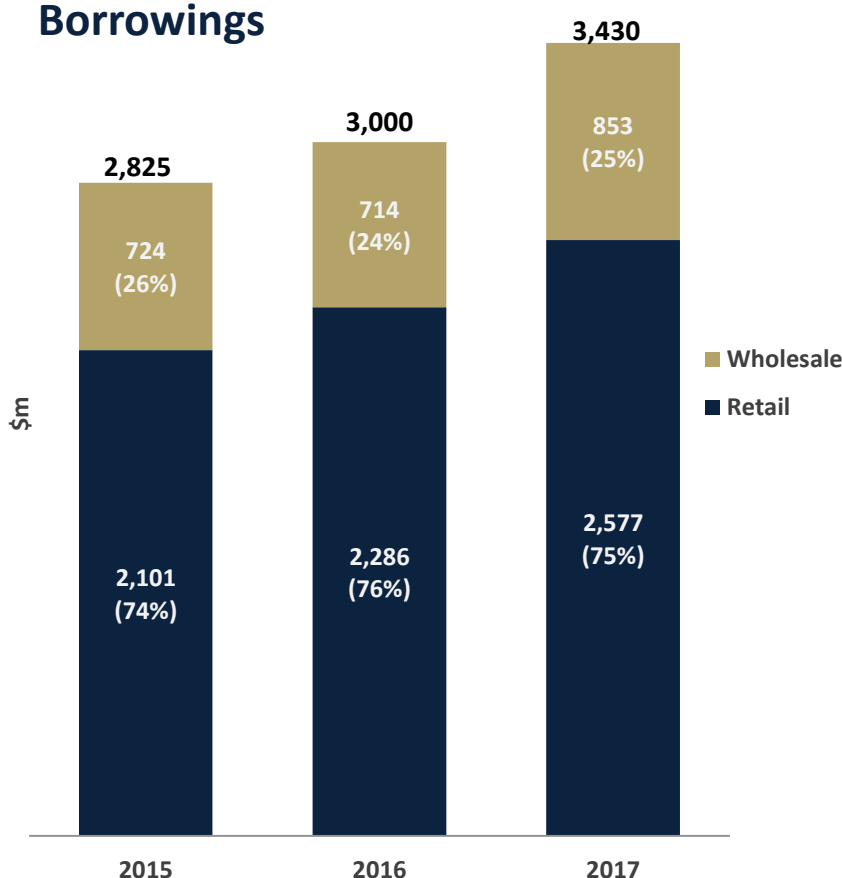
Asset growth

14% growth in net finance receivables

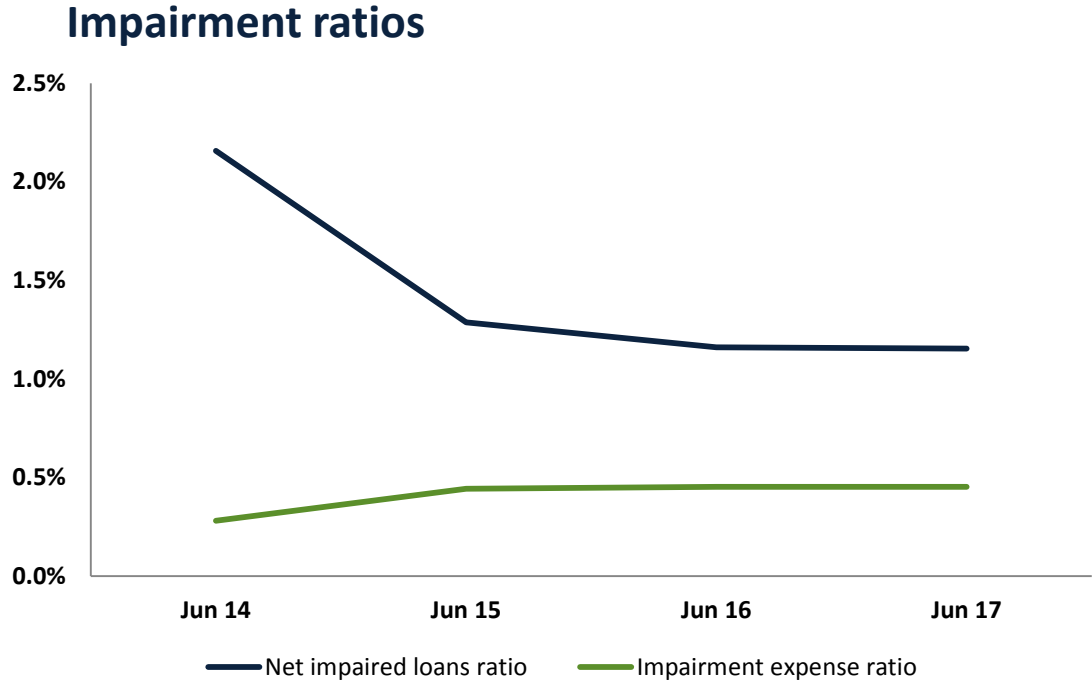


Funding growth

13% growth in retail deposits

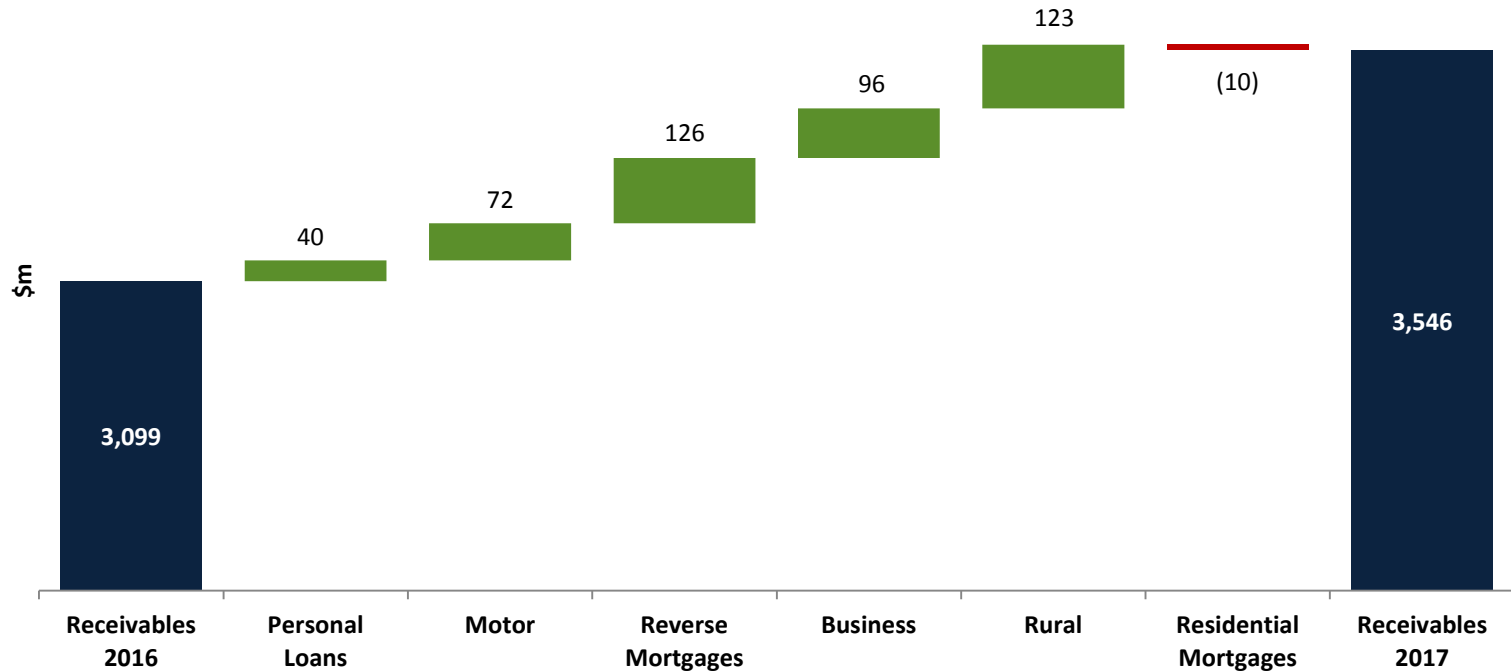


Impairments Stable



Asset growth across all key divisions

Receivables Movement



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 (eg. 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 (eg. 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.

Motor Vehicle Loans

Product and distribution:

- Product distribution through intermediated channels (motor vehicle dealers), branded partnerships (eg. Holden Financial Services) and through digital platform, *Open for You*
- Development of bespoke digital origination platforms (eg. *Open for Isuzu*) strengthening intermediated (point of sale) model

Looking forward:

- Develop new branded relationships
- Focus on increasing auto-decisioning and new technology to improve speed of origination



Net receivables

\$824m

↑10%

Reverse Mortgages (New Zealand)

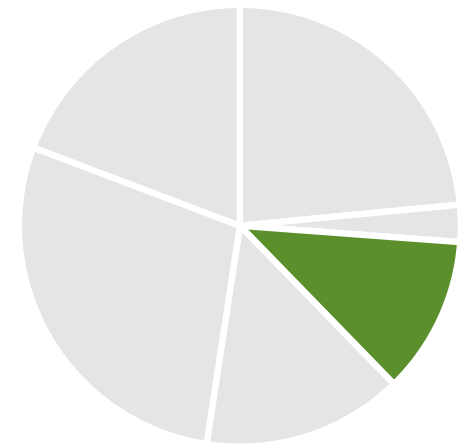


Product and distribution:

- Market leading product
- Product distribution primarily through high-touch telephony service
- Product and brand awareness increased through TV advertising

Looking forward:

- Digital distribution capability to enable full online application, developed specifically for the seniors market
- Increase lead generation through targeted digital marketing
- Seek to establish partnerships at point of sale eg. travel, health care providers
- Continue to create awareness through education



Net receivables

\$405m

↑12%

Reverse Mortgages (Australia)

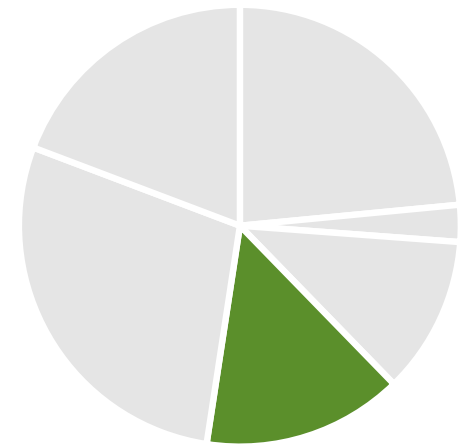


Product and distribution:

- Market leading product
- Growth of intermediary channel (112% increase in the number of active brokers) and direct sales through online lead generation
- Digital marketing used to educate partners and prospective customers, raising brand and product awareness

Looking forward:

- Grow and broaden distribution through acquisition of new brokers, aggregators and partners
- Increase digital lead generation and improve conversion
- Enhance product and fulfilment process, including full online application, developed specifically for the seniors market
- Anticipate growth opportunities as a result of reduced competitor activity



Net receivables

\$516m

↑ 19%

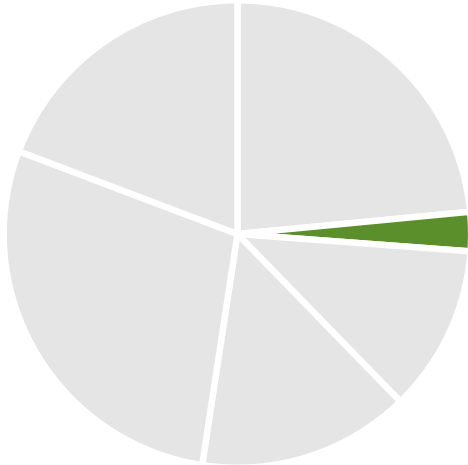
Personal Loans

Product and distribution:

- Heartland-branded personal loan product distributed through digital platform providing a fast and simple customer experience
- Lending through the Harmony platform increased by \$40m or 108% to \$78m

Looking forward:

- Increase brand awareness and platform traffic through targeted digital and mass media marketing
- Focus on increasing auto-decisioning and improving speed of origination and fulfilment to drive scalable growth
- Broaden intermediary partners (eg. brokers)



Net receivables

\$95m

↑73%

Business

Product and distribution:

Focus on lending to small businesses through:

- Development of digital platform, *Open for Business*, providing a fast and simple customer experience for time-poor small business owners; and
- Extended reach through intermediary network enabling point of sale transactions

Looking 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



Net receivables

\$995m

↑11%

Rural

Product and distribution:

- Launch of digital platform for livestock loans, *Open for Livestock*, providing 100% finance to farmers purchasing livestock, with security over the livestock
- Launched online finisher tool in partnership with NZX Agri subsidiary, AgriHQ
- Formed strategic partnership with online livestock trading platform StockX to enable direct applications for Heartland livestock finance to be made through the StockX website
- Direct exposure to dairy farmers 8% of total lending book and average loan to value ratio (LVR) for dairy exposures 63%

Looking forward:

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



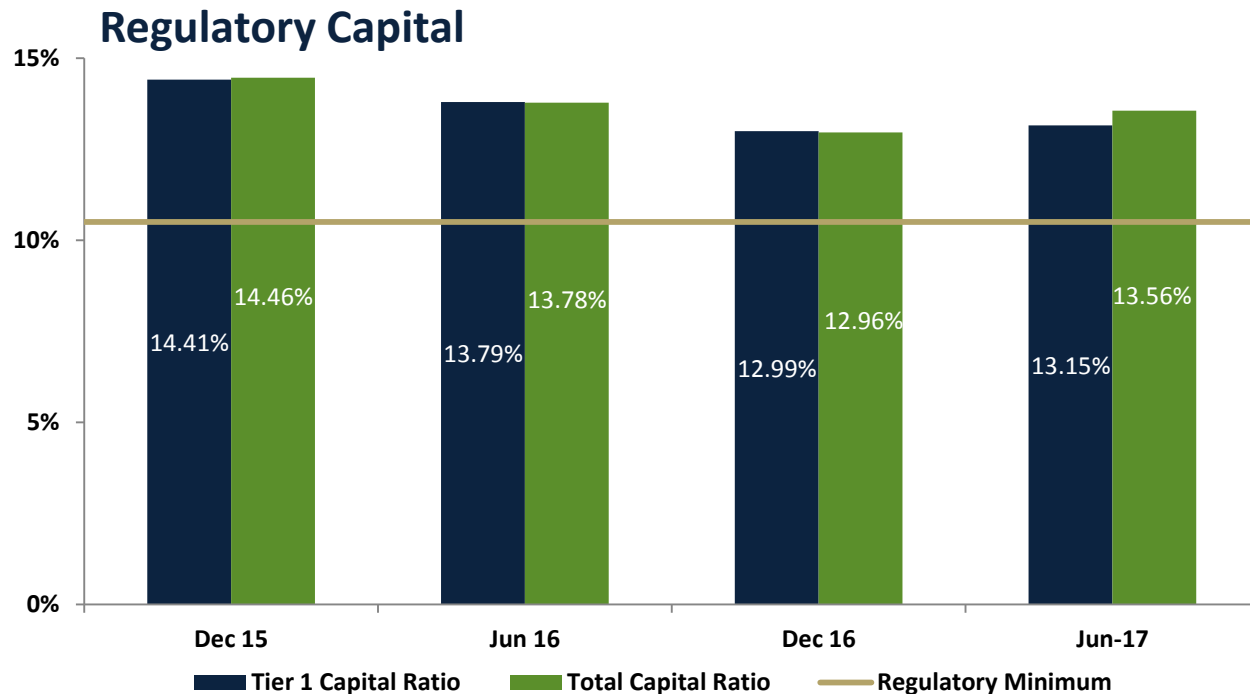
Net receivables

\$675m

↑ 22%

Capital and funding for growth

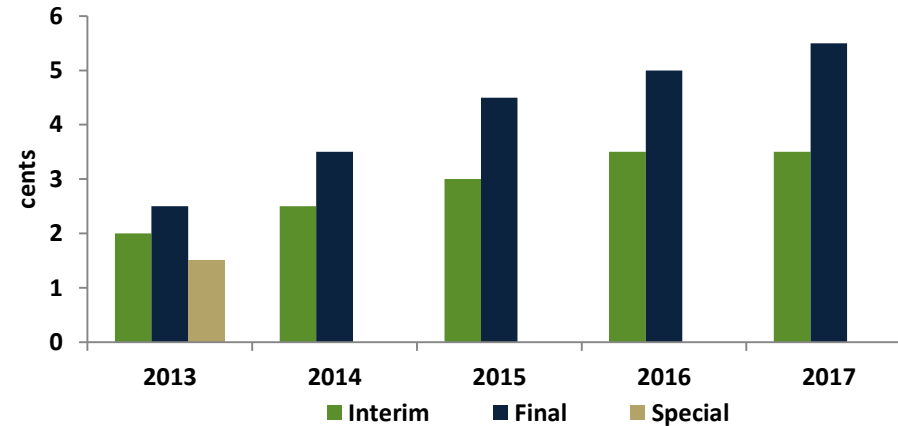
- Regulatory capital ratio of 13.56%
- \$40m via placement (December) and share purchase plan (March) to support asset growth
- A\$20m of Tier 2 regulatory capital (April) from wholesale investors to further support asset growth



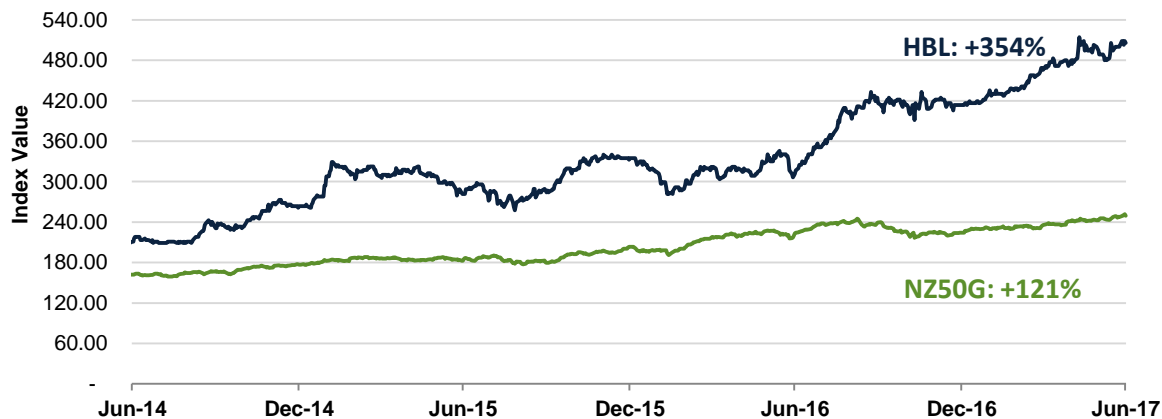
Returns to shareholders

- Final dividend of 5.5 cents per share (fully imputed)
- Total dividend for FY17 of 9.0 cents per share

Dividends



TSR - Heartland vs NZ50G



Note the NZ50G calculates TSR on the basis that dividends are reinvested

Our digital partnerships

- Heartland has partnered with three digital lenders by way of minority shareholdings and/or the provision of debt facilities
- Objective to maximise low cost online distribution coupled with fast risk decisioning tools to reach the customer quickly and cost effectively



Harmony is New Zealand's first peer-to-peer money marketplace offering personal loans to consumers through its fully online platform.



Fuelled is an online invoice financing lender for business customers. It provides an online customer experience which is integrated with accounting software provider Xero.



Spotcap is an online lender offering unsecured business loans to small and medium sized businesses. It utilises a unique proprietary algorithm providing alternative basis for analysis.

New core banking system implemented

- New Oracle core banking system (Flexcube) implemented in May
- Flexcube is a modern, modular core banking system which is highly configurable and introduces automation and workflow capabilities
- A refreshed and contemporary IT architecture that will sustain Heartland's long-term business objectives
- Includes internet portal allowing dealers and intermediaries to originate new business and create customer and account records within Flexcube
- The overall cost of the project was around \$22 million which will be amortised over an estimated life of 10 years

Key growth opportunities

Digital distribution channels

- Eight digital platforms now launched, including for small business loans, livestock loans and personal loans
- Designed to provide a quick and simple customer experience
- Low cost of customer on-boarding
- Opportunity to drive scalable growth

Australia

- Grow reverse mortgage book
- Leverage established intermediary relationships and use digital platforms to distribute selected products eg. small business loans

Partnerships

- Grow and develop digital partnerships

Launch of retail bond to support growth

- Heartland Bank Limited (“**Issuer**”), has today announced that it is considering making an offer of five year, unsecured, unsubordinated, fixed rate notes (“**Notes**”) to institutional and New Zealand retail investors.
- If the offer proceeds, it is expected to open in late August 2017.
- No money is currently being sought and no Notes can be applied for or acquired until the intended offer opens and the investor receives a copy of the limited disclosure document relating to the offer prepared under New Zealand’s Financial Markets Conduct Act 2013 (“**FMCA**”). If the offer is made, the offer will be made in accordance with the FMCA. The Notes are expected to be quoted on the NZX Debt Market.
- Bank of New Zealand has been appointed the Arranger and Organising Participant, and Bank of New Zealand, Commonwealth Bank of Australia (acting through its New Zealand branch), Deutsche Craigs Limited and Westpac Banking Corporation (acting through its New Zealand branch) have been appointed as Joint Lead Managers.
- Investors can register their interest in the offer by contacting the Joint Lead Managers, a NZX Primary Market Participant, or their usual financial advisor. Indications of interest will not constitute an obligation or commitment of any kind to acquire Notes.

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 its net profit after tax for the year ending 30 June 2018 to be in the range of \$65.0m to \$68.0m

Appendix – Financial Year Overview

	12 months to Jun 2017 (NZ\$m)	12 months to Jun 2016 (NZ\$m)
Net interest income	163.1	146.7
Net other income	8.2	10.9
Net operating income	171.3	157.6
Expenses	71.7	69.9
Profit before impairments and tax	99.6	87.7
Impaired asset expense	15.0	13.5
Net profit before tax	84.6	74.2
Tax	23.8	20.0
Net profit after tax	60.8	54.2

Appendix – Balance Sheet Summary

	Jun 2017 (NZ\$m)	Jun 2016 (NZ\$m)
Total assets	4,034.7	3,532.9
Total liabilities	<u>3,465.1</u>	<u>3,034.6</u>
Total equity	569.6	498.3
Net tangible assets	490.5	433.5
NTA per share	0.95	0.91