Heartland

Full Year Results to 30 June 2016

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HEARTLAND BANK

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Agenda

- Introduction
- Financial overview
- Dividend
- Core business updates and Strategy
- Looking forward
- Questions

Introduction

Full Year Highlights

- Asset growth in core business divisions – net finance receivables up 9%
- Continued profitability growth (up 12% year on year NPAT)
- Return on equity of 11.1%
- Strongest Net Interest Margin amongst competitors
- Successful amalgamation of Heartland Bank and Heartland New Zealand on 31 December 2015, simplifying the group structure
- Growth in direct personal loan product (under the i-finance brand)
- Launch of *Open for Business*

Financial Overview

Photo credit: Chris Williams

Financial Full Year Overview

12% Growth in Profitability

- Achieved NPAT of $54.2m
- Increase in NPAT of $6.0m or 12%
- NOI increase of $12.7m or 9%*

Financial Year Overview

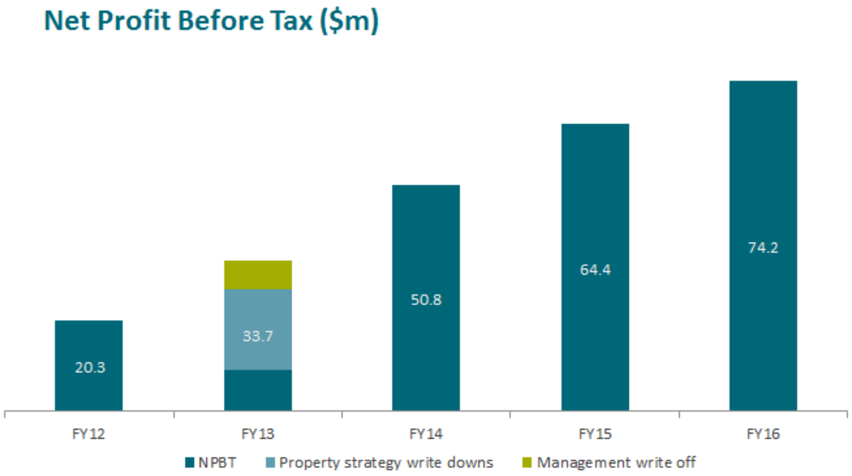
	12 months to Jun 2016 (NZ$m)	12 months to Jun 2015 (NZ$m)
Net interest income	146.7	134.4
Net other income	10.9	10.5
Net operating income *	**157.6**	**144.9**
Expenses	69.9	68.4
Profit before impairments and tax	**87.7**	**76.5**
Impaired asset expense	13.5	12.1
Net profit before tax	**74.2**	**64.4**
Tax	20.0	16.2
Net profit after tax (reported)	**54.2**	**48.2**

* Net operating income for 12 months to Jun 2015 includes share of MARAC Insurance profit

Net Profit Before Tax

Continued Profitability Growth Trend

- Continued profit growth year on year
- Organic asset growth prime driver of increased profit in last two years
- $9.8m (15%) increase from FY15



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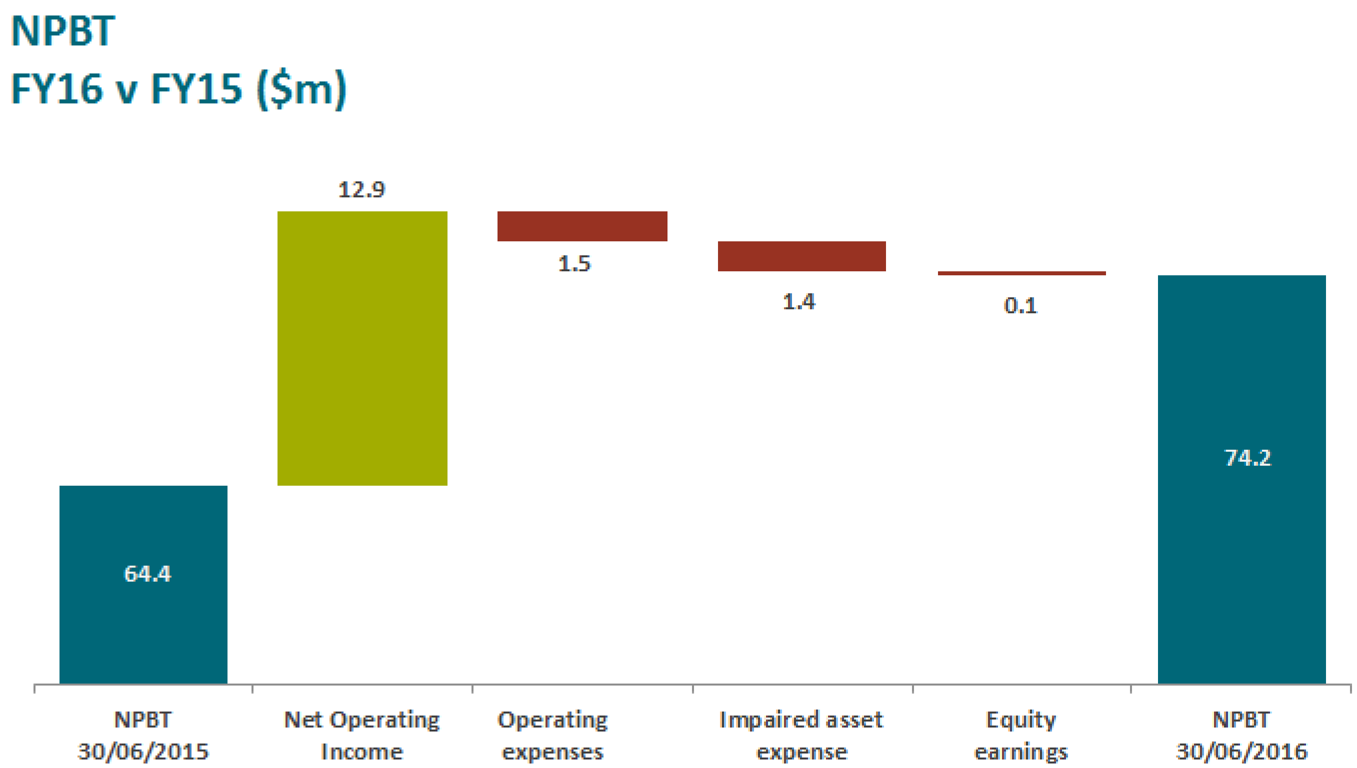
Net Profit Before Tax - Bridge

Breakdown of component parts



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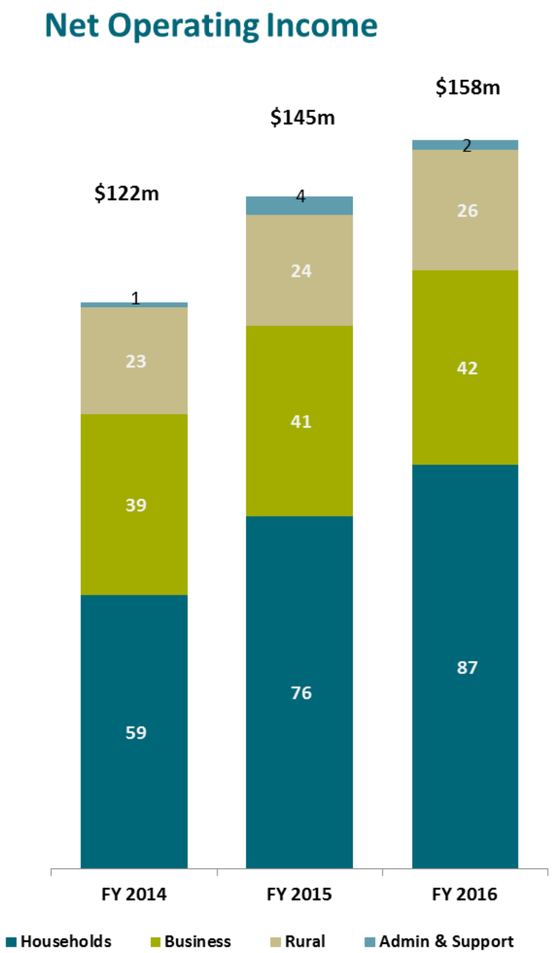
Net Operating Income

NOI driving profitability growth

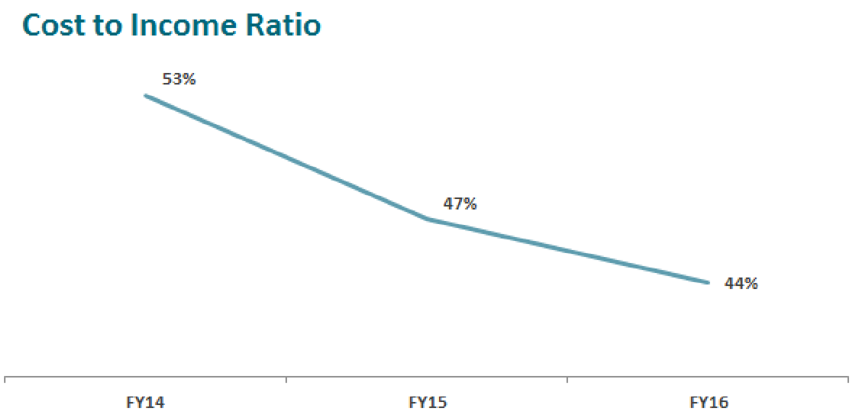
- NOI up $12.9m (9%) on prior year
- Growth in NOI due to:
  - Growth from all core divisions
  - Continued reduction CoF
- Strongest Net Interest Margin amongst competitors (see FIPS March 2016 Quarterly results)



Operational Efficiency

Cost to income ratio down to 44%

- Ratio trending lower as NOI continues to grow
- Cost to income ratio down to 44% as NOI grew at a much faster rate than costs
- Still scope for further reductions in Cost to income ratio, highlighting scalability



Balance Sheet Summary

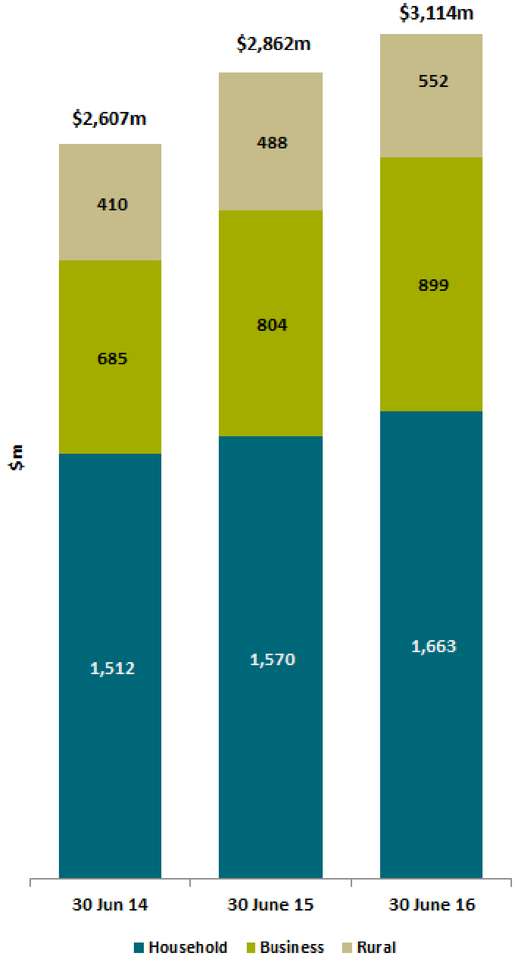
Strong growth in receivables

- Total assets increased by $187.9m
- Net finance receivables increased by $251.9m or 9%
- Regulatory capital ratio of 13.8%, down 0.7% in last six months due to asset growth

HBL Balance Sheet Summary

	30 Jun 2015 (NZ$m)	30 Jun 2016 (NZ$m)
Total assets	3,359.3	3,547.2
Total liabilities	2,879.1	3,048.8
Total equity	**480.1**	**498.3**
Equity ratio	14.3%	14.0%
Net tangible assets	**420.3**	**433.5**
NTA per share	0.89	0.91

Net Finance Receivables



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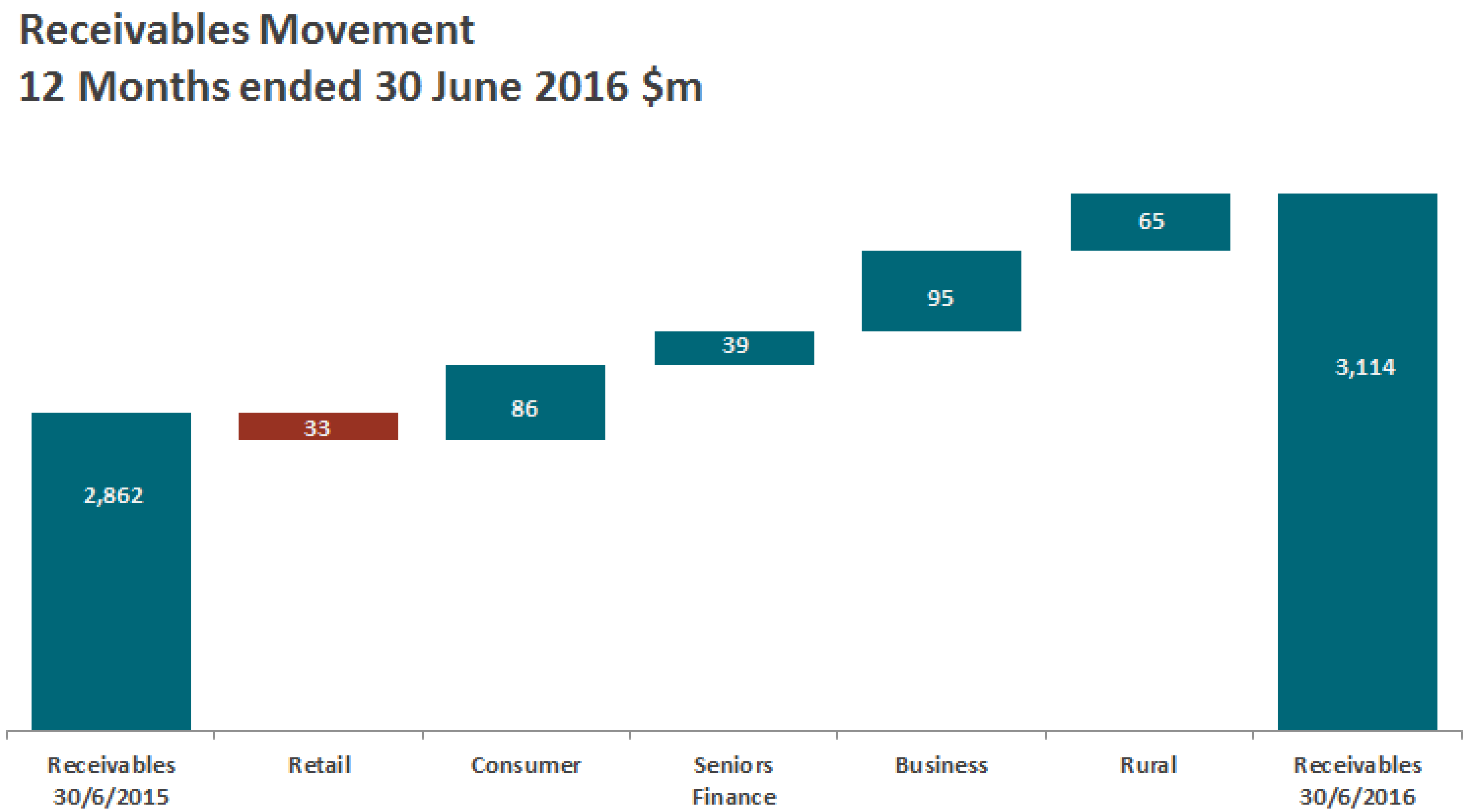
Net Finance Receivables Bridge

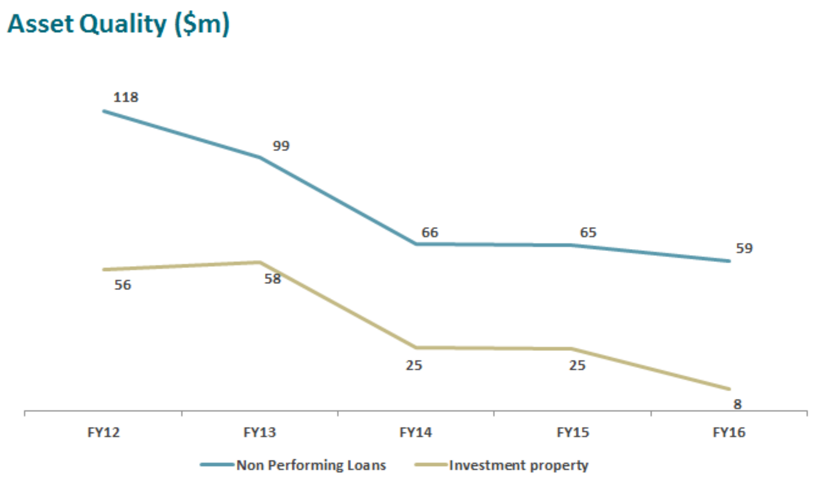
Portfolio mix movements



Asset Quality Trends

Sound asset quality

- Continued improvement in asset quality
- Non-Core Property to be no longer reported separately as now immaterial
- Impairments up $1.4m to $13.5m for the year
- Household impairments up $1.3m – due to the growth in personal loan and motor vehicle books, and motor write-offs coming off recent lows
- Rural impairments up $2.4m, includes total collective provisions of $2.9m (up $2.3m) which will buffer against any continued downturn

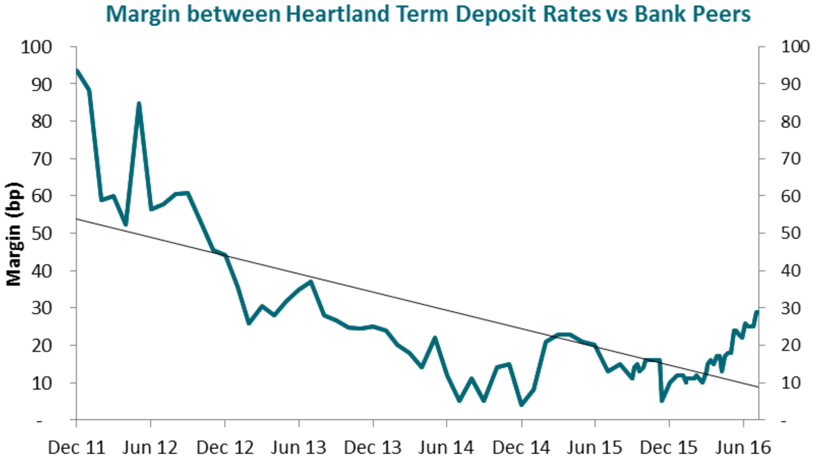


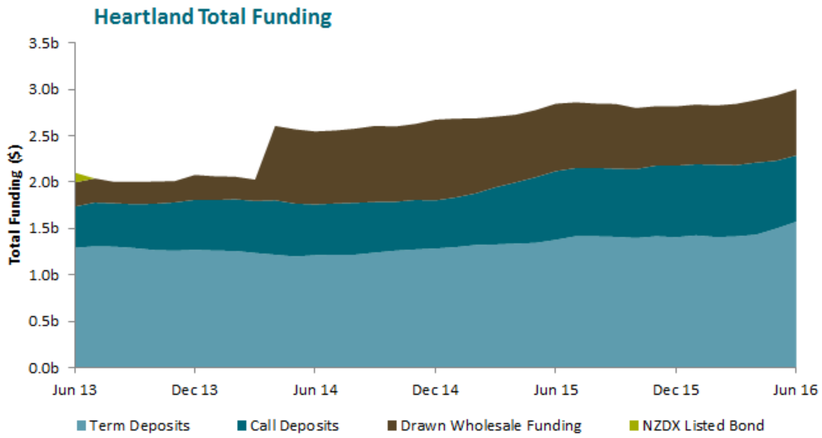
	30-Jun-12	30-Jun-13	30-Jun-14	30-Jun-15	30-Jun-16
Net Finance Receivables ($b)	2.1	2.0	2.6	2.9	3.1
Net Impairment %	4.4%	2.4%	1.9%	1.4%	1.2%
Net Core Finance Receivables	2.0	2.0	2.6	2.9	3.1
Net Impairment %	1.3%	0.9%	1.4%	1.3%	1.1%

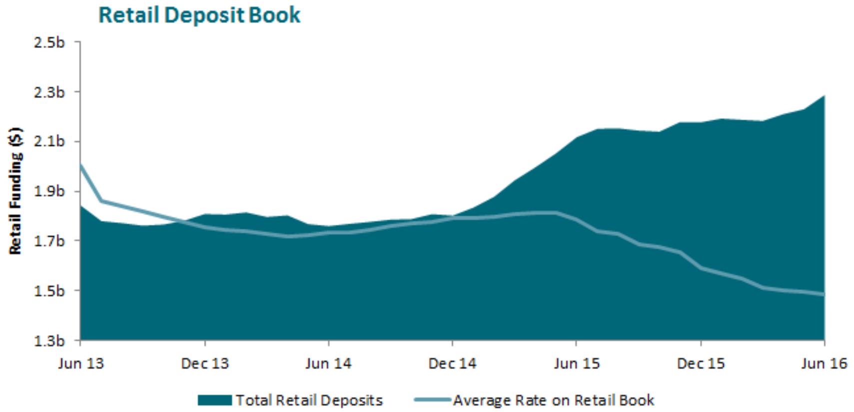
Cost of Funds

Solid funding position

- Decrease in COF on back of OCR decreases
- Deposit growth to support receivables growth
- The bank remains predominantly retail deposit funded
- Term deposit margin increased to promote deposit growth to meet receivable growth







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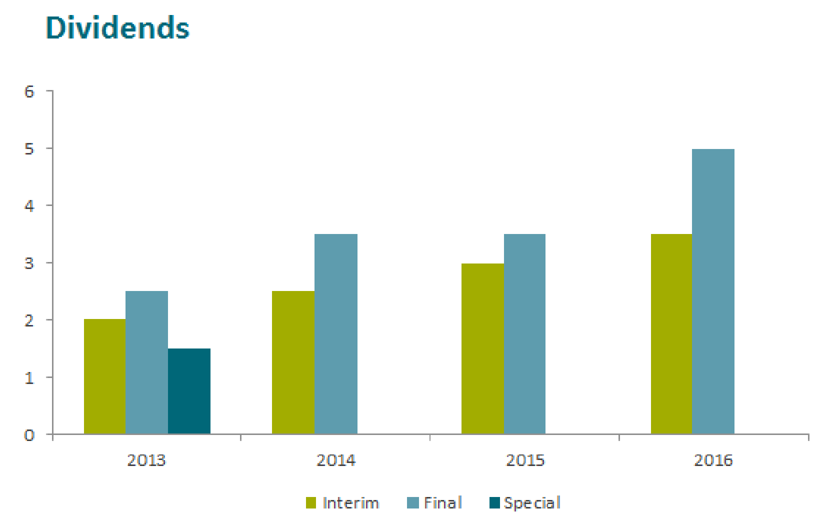
Dividend

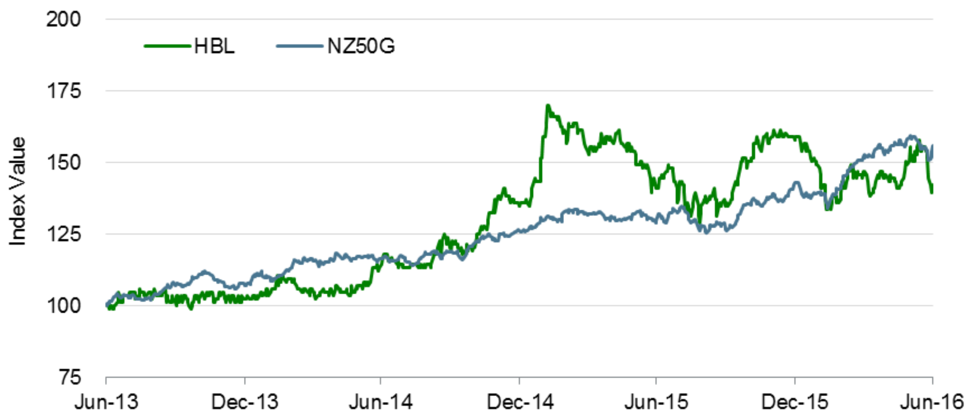
Dividend

Fully imputed interim dividend of 5.0 cents per share

Three year relative performance to NZ50G:

- 42% share price appreciation
- 76% total shareholder return (TSR)





Core Business Updates and Strategy

Photo credit: Chris Williams

Heartland's Strategy

Strategy

'Best or Only' innovative products, delivered via 'best or only' channels, tailored for under-serviced niche markets, in particular:

- the growing seniors demographic (65+) - high touch, personal service
- the emerging 'millennial' demographic – frictionless, fast digital experience
- the neglected small business market - online applications delivering responsiveness and certainty

Strategic Priorities

- Enhanced digital distribution
- Expansion of certain offerings into Australian markets
- Strong systems infrastructure to support Heartland's ambitions for growth (Oracle)
- Acquisition opportunities that are value accretive and deliver innovation or a compelling distribution capability

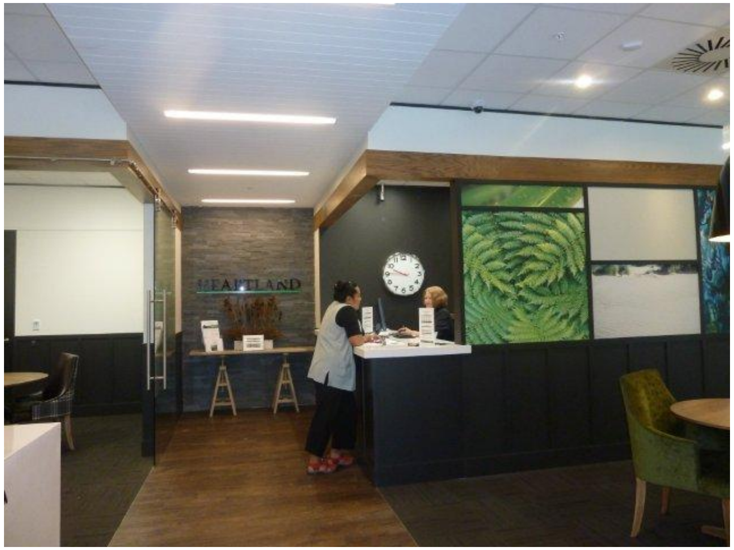
Seniors (65+)

A rapidly growing demographic with a need to manage wealth or release equity from housing assets

Deposits

Home Equity Release (HER)

- High touch, personal service
- Comfortable branches with no queues
- Friendly telephone engagement with someone who knows you



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Digital Distribution

Combine Heartland's smaller size and greater agility with disruptive new technologies and powerful digital marketing channels to:

- Extend Heartland's reach into key specialist markets
- Deliver a better customer experience based on 'speed and ease' of application and credit decision processes
- Shift Heartland's marketing investment from high-cost 'scatter gun' traditional channels (TV, radio, press) to lower-cost, tightly targeted digital channels

The next two slides show how we are leveraging digital distribution channels in two key product areas – small business lending and personal lending

Digital Distribution - Business

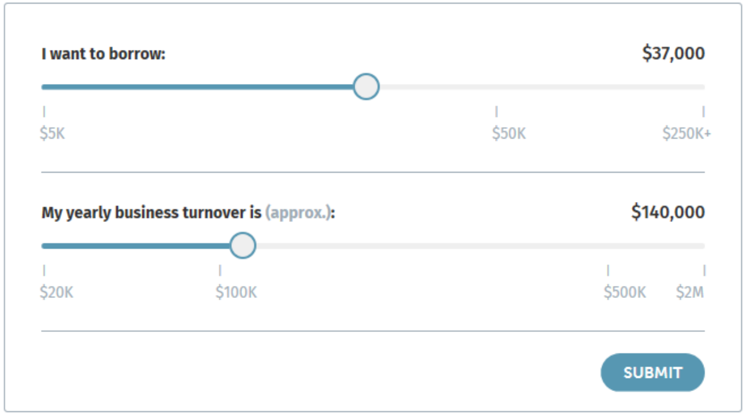
Open for Business

Heartland aims to transform how New Zealand SMEs access finance enabling small businesses (the backbone of New Zealand's economy) to operate more efficiently or grow

- In April 2016, Heartland launched a new initiative targeting small business owners
- By leveraging technology, *Open for Business* makes the loan application process simple and efficient:
  - Loans for any amount over $5,000 will be approved if the borrower has clear credit and capacity to repay
  - Approval can be provided immediately for loans under $50k with same day credit approval for loans above $50k
- Loans can be used to fund plant & equipment or for working capital

"We identified a gap in the market for small business owners, the vast majority of whom have fewer than five employees and are time poor. We understand their need for speed, simplicity and responsiveness in sourcing finance to grow their businesses"

– Jeff Greenslade, Heartland CEO



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Digital Distribution - Consumer

Harmoney

- In September 2014, Heartland acquired a 10% stake in Harmoney Corp, New Zealand's first licensed peer-to-peer lending platform
- The Harmoney lending model challenges the traditional bank lending model
- This model is complementary to Heartland's strategy of occupying leading positions in niche markets through specialist products, differentiating it from the mainstream banks
- Alongside its shareholding, Heartland invests in loans on the Harmoney platform alongside retail lenders, providing a committed loan facility of $85m

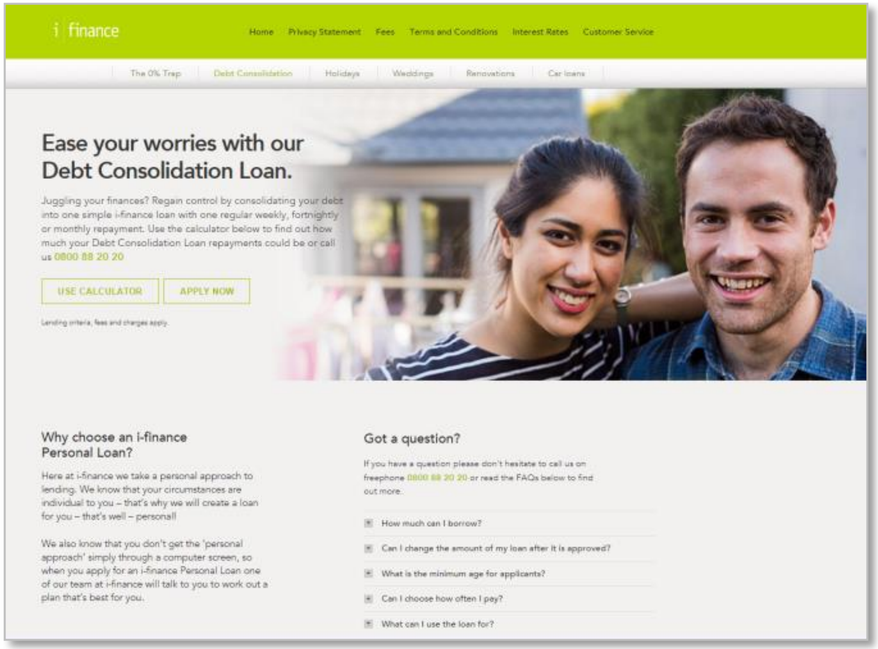
i-finance

- i-finance is an online platform providing direct personal loans
- Core products offered through i-finance are personal and motor vehicle loans
- Gives consumers the ability to complete a loan application online with individual credit approval undertaken following receipt of the application

Core Business Updates

Household – Consumer: Net Receivables NZ$822m

- Personal lending and motor vehicle loans – 26% of net receivables
- Growth of $86m or 12%, expected to continue
- Fast, simple, transparent loans originated online
- Online distribution business growing
- i-finance now $18m net receivables and Harmoney $37m
- Strengthen intermediated model for motor vehicle lending



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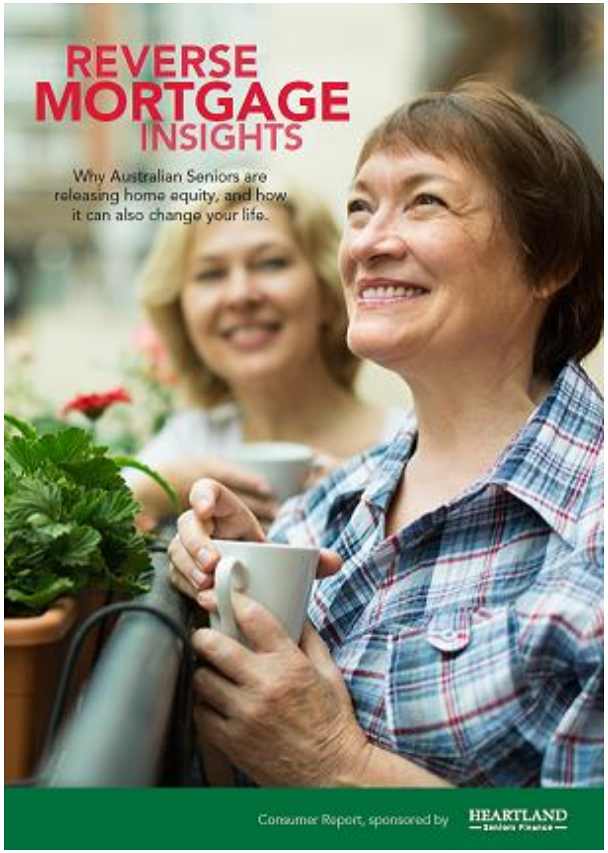
Core Business Updates

Household – Seniors Finance: Net Receivables NZ$363m/AU$413m

- 26% of net receivables
- $27m or 8% growth in NZ and A$39m or 10% in Australia
- Combined growth of $39m or 5% (net of FX movement)
- Steady increase in new business, high repayment levels
- NZ – increase awareness and build brand recognition
- Australia – expand broker network and improve distribution processes
- New online "broker portal" to streamline application process



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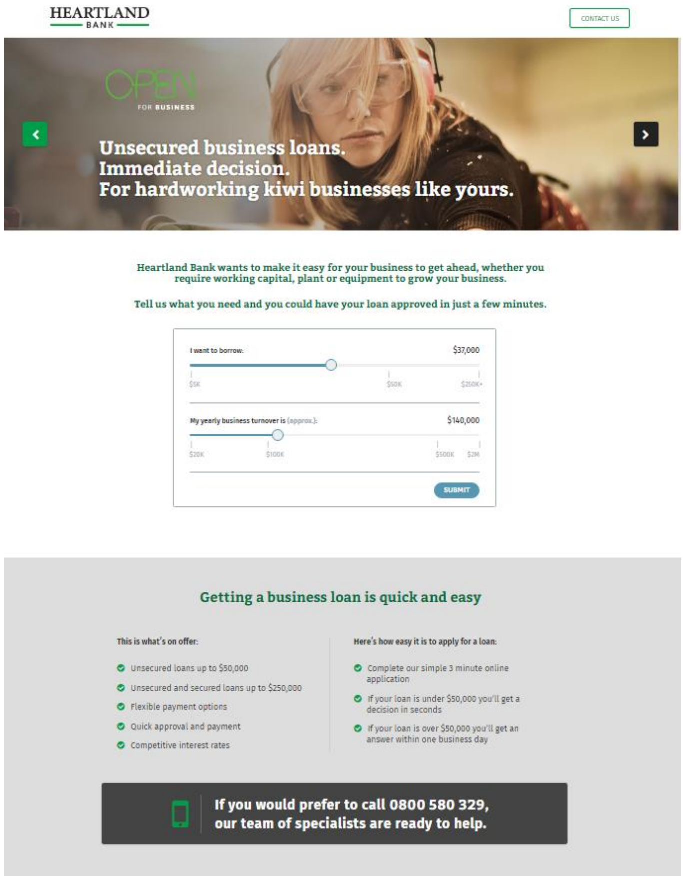
Core Business Updates

Business: Net Receivables NZ$899m

- 29% of net receivables
- Growth of $95 million or 12%.
- Reposition lending towards smaller loans to SMEs
- *Open for Business* – “quick application-quick decision” business loans grew to $11m
- Continue providing single relationship for plant and equipment and working capital finance
- Further growth in intermediary network



Core Business Updates

Rural: Net Receivables NZ$552m

- 18% of net receivables
- Growth of $65m or 13%, primarily from sheep and beef sector
- Livestock financing, financing younger farmers, farm transition loans
- Alliance partner channel
- Monitoring the dairy sector with close attention (see over)
- Collective provision up $2.3m. Buffer from losses that could arise from any continued downturn

Photo credit: Sara Orme

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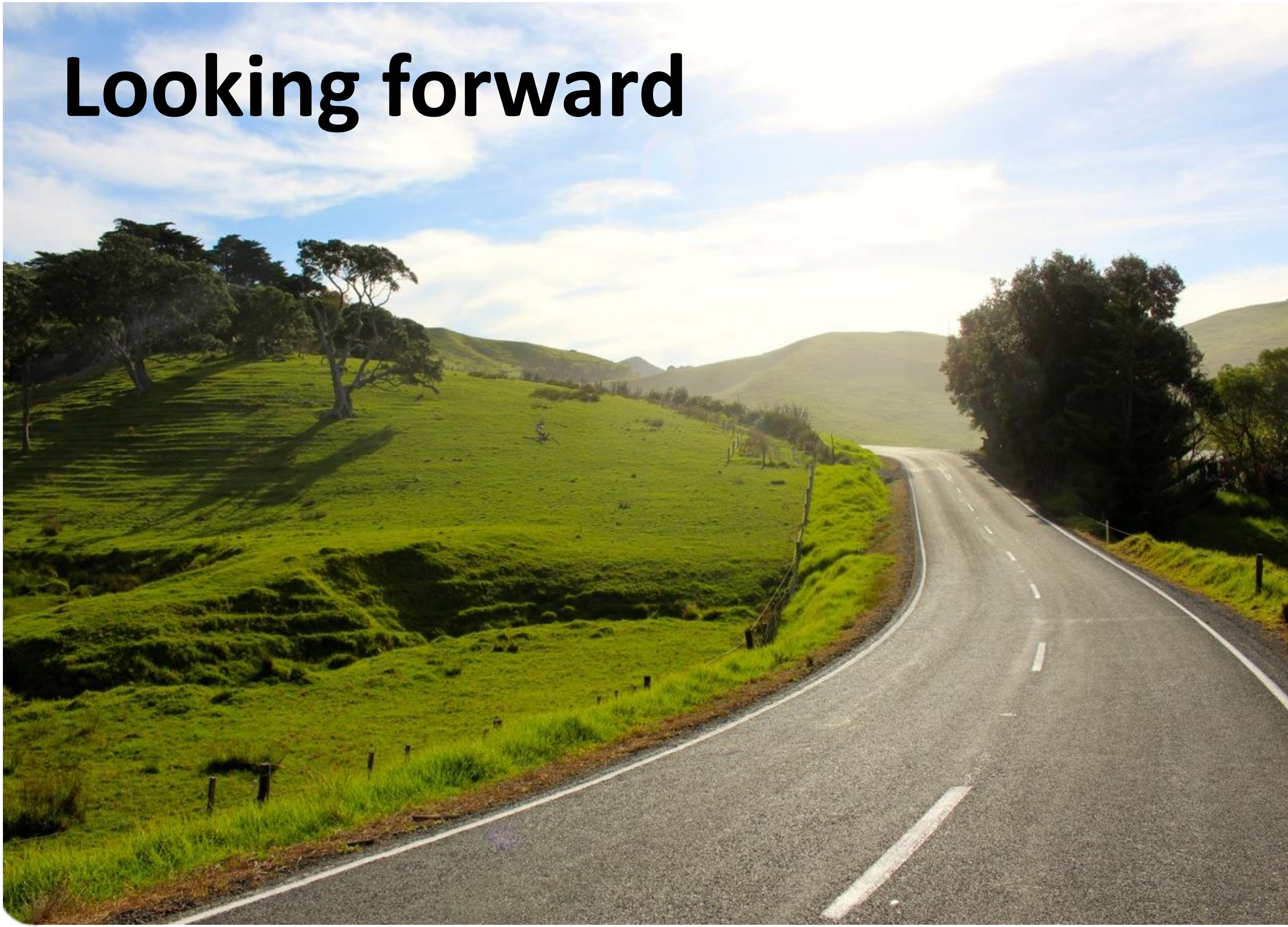
Core Business Updates

Dairy Update

- Direct exposure to dairy farmers is only 7% of Heartland's total lending book
- The average loan to value ratio (LVR) for Heartland's dairy exposures is also low at 64%
- Should the downturn continue or worsen beyond current expectations such that the viability of that industry was at risk, Heartland's opinion is that it could result in a material reduction in the value of dairy farms – with new farm values effectively being underwritten at sheep and beef farm values
- In this scenario, Heartland's profitability would likely reduce. However, Heartland would remain profitable, and we don't expect that there would be any impact on Heartland's capital.

Looking forward



Looking forward

- Expect underlying asset growth to continue across all divisions
- Greater growth opportunities in:
  - Consumer: Online personal loan market
  - Reverse Mortgages: Ageing demographic
  - SME: Differentiated online distribution opens up significant SME market
- Greater acquisition opportunities in current market conditions and wish to assess opportunities (if any)
- Continue to monitor capital position including Tier 2 regulatory capital position
- Reviewing board composition to ensure it supports strategic priorities
- FY17 NPAT forecast of $57m to $60m (although does not take into account the impact of any capital management initiatives)


Questions