

# Heartland

**Half Year Results to 31 December 2015**

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**HEARTLAND**  
— BANK —

# Important Notice

This presentation has been prepared by Heartland Bank Limited (NZX: HBL) for the purpose of briefings in relation to its financial statements.

The presentation and the briefing constitute summary information only, and you should not rely on them in isolation from the full detail set out in the financial statements.

# Agenda

- Introduction
- Financial overview
- Strategy and business updates
- Dividend
- Questions

# Introduction



# Half Year Highlights

- Continued profitability growth (up 9% half on half NPAT)
- Solid asset growth in core business divisions
- Return on equity of 10.6%
- 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



# Half Year Overview

## 9% Growth in Profitability

- Achieved NPAT of \$25.6m
- Increase in NPAT of \$2.1m or 9%
- NOI increase of \$7.5m or 11%\*
- Final tax benefit of \$0.5m from Australian subsidiary - \$1.0m in the comparative 2014 half

### Financial Year Overview

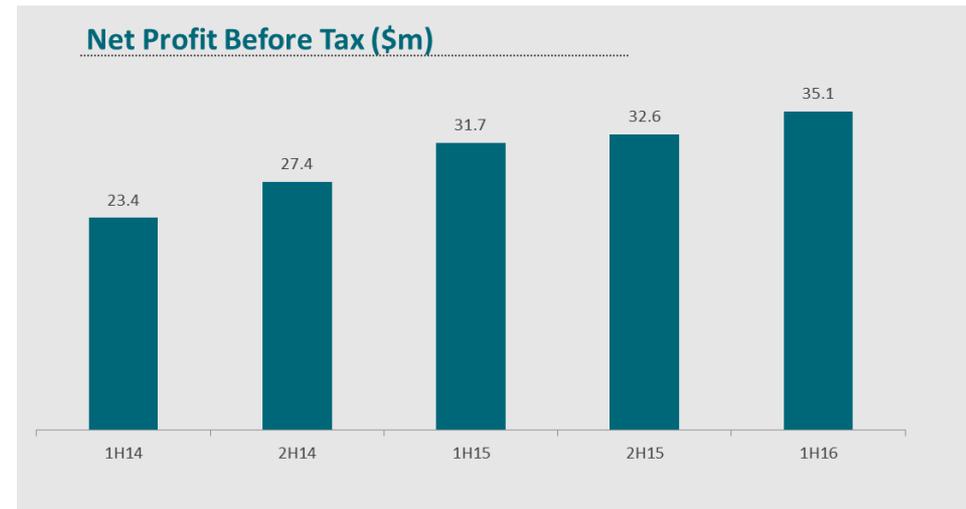
	6 months to Dec 2015 (NZ\$m)	6 months to Dec 2014 (NZ\$m)	12 months to Jun 2015 (NZ\$m)
Net interest income	71.5	65.7	134.4
Net other income	6.3	4.6	10.5
<b>Net operating income *</b>	<b>77.8</b>	<b>70.3</b>	<b>144.9</b>
Expenses	37.1	33.5	68.4
<b>Profit before impairments and tax</b>	<b>40.7</b>	<b>36.8</b>	<b>76.5</b>
Impaired asset expense	5.6	5.1	12.1
<b>Net profit before tax</b>	<b>35.1</b>	<b>31.7</b>	<b>64.4</b>
Tax	9.5	8.2	16.2
<b>Net profit after tax (reported)</b>	<b>25.6</b>	<b>23.5</b>	<b>48.2</b>

\* Net operating income for 6 months to Dec 2014 and 12 months to Jun 2015 includes share of MARAC Insurance profit

# Net Profit Before Tax

## Continued Profitability Growth Trend

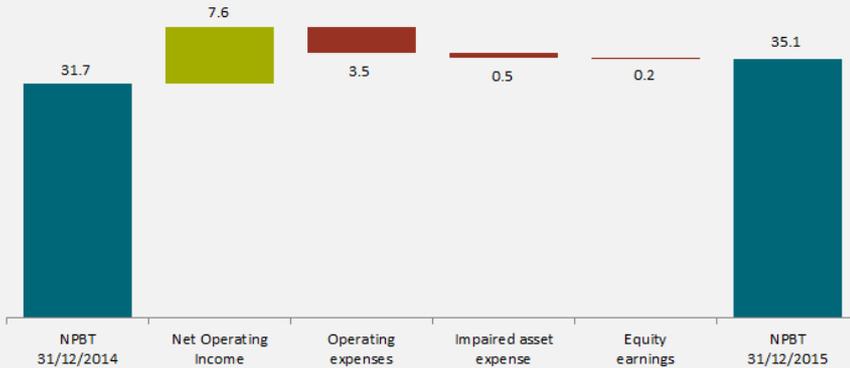
- Continued profit growth half on half
- Interest margin historic contributor to growth
- Acquisition contributed in second half 2014
- Organic asset growth driver of increased profit in last two periods
- \$2.5m increase from 2H15, despite project costs of \$1m



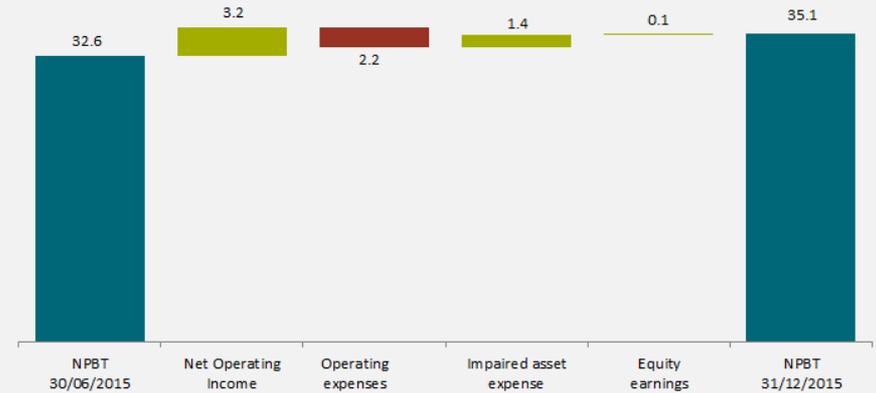
# Net Profit Before Tax - Bridge

## Breakdown of component parts

NPBT  
1H16 v 1H15 (\$m)



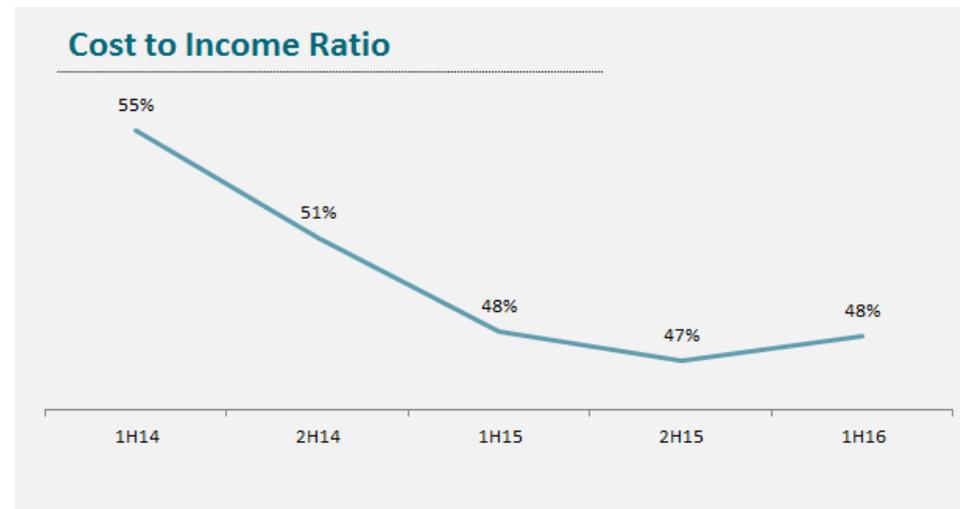
NPBT  
1H16 v 2H15 (\$m)



# Operational Efficiency

## Cost to Income remaining below 50%

- Ratio trending lower as NOI continues to grow
- Cost to income ratio increased in last half due to \$1m non recurring costs incurred in Q1 2016, and a \$1.2m marketing spend on new online origination initiatives
- Expected to trend lower as asset growth continues, save for any impact from capital initiatives

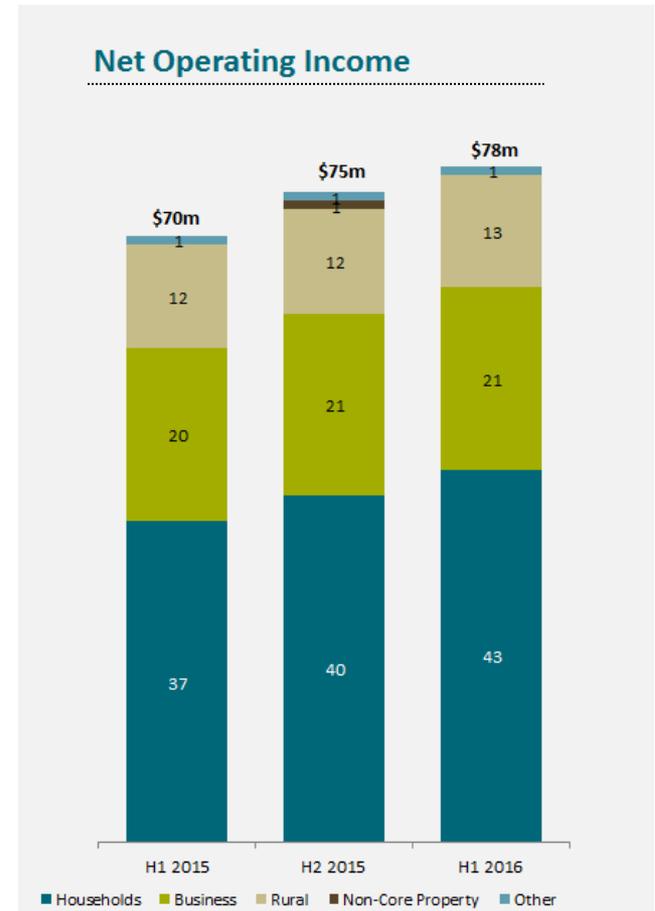


# Net Operating Income

## NOI driving profitability growth

- NOI up \$7.5m on prior half or \$3.2m on preceding half\*
- Growth in NOI due to:
  - Growth in core assets
  - Product mix changes

\* Net operating income for 6 months to Dec 2014 and 12 months to Jun 2015 includes share of MARAC Insurance profit



# Balance Sheet Summary

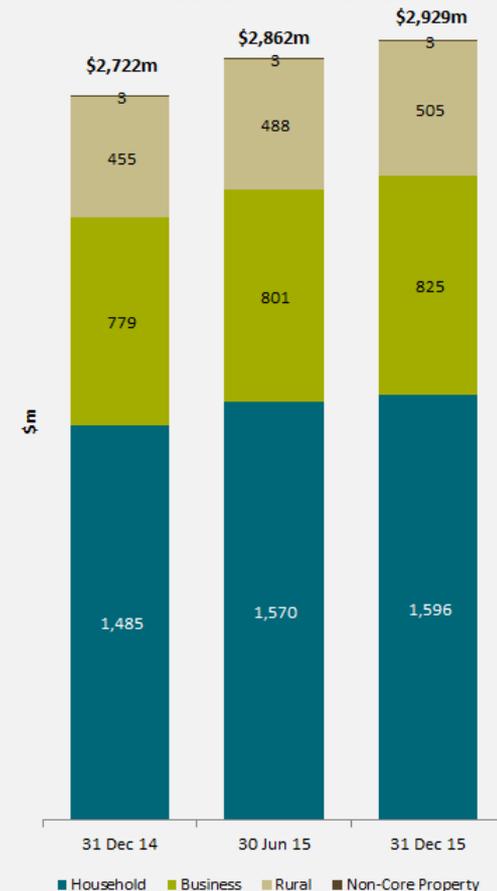
## Growth in receivables

- Total assets decreased by \$15m
- Net finance receivables increased by \$67m or 2%
- Core asset classes up \$87m, retail down \$20m as we exit as planned
- Seniors Finance book up \$6m. NZ up \$9m and Australia up A\$18m

### HNZ Balance Sheet Summary

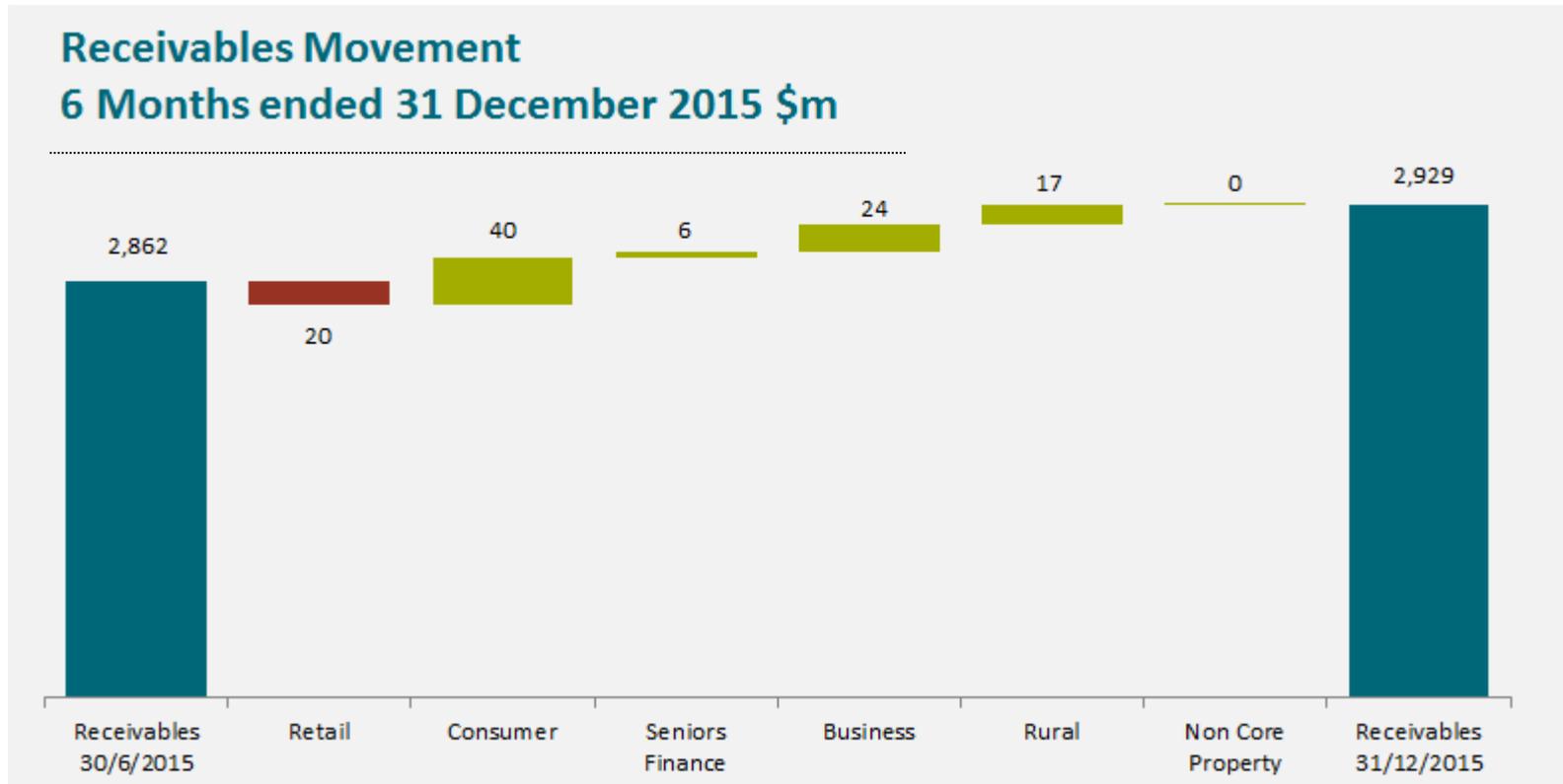
	31 Dec 2014 (NZ\$m)	30 Jun 2015 (NZ\$m)	31 Dec 2015 (NZ\$m)
Total assets	3,162.2	3,359.3	3,344.5
Total liabilities	2,699.9	2,879.1	2,858.8
<b>Total equity</b>	<b>462.3</b>	<b>480.1</b>	<b>485.7</b>
Equity ratio	14.6%	14.3%	14.5%
<b>Net tangible assets</b>	<b>406.4</b>	<b>420.3</b>	<b>426.1</b>
NTA per share	\$ 0.87	\$ 0.89	\$ 0.90

### Net Finance Receivables



# Net Finance Receivables Bridge

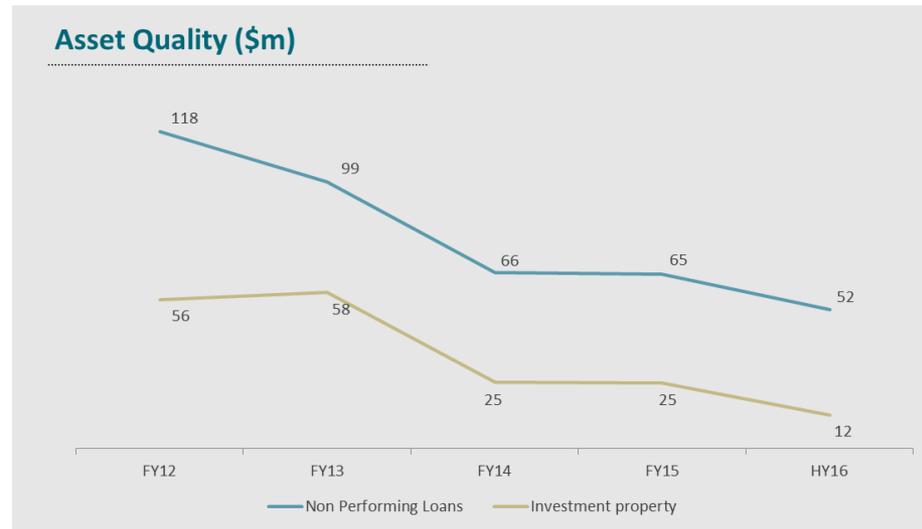
## Core Asset Growth



# Asset Quality Trends

## Sound asset quality

- Improvement in asset quality
- Non-Core Property reduced by sale of investment properties
- Impairments up \$0.5m to \$5.6m half on half
- Households up \$0.4m – due to the growth in personal loan and motor vehicle books and arrears moving to normalised levels, offset by lower HER provisioning
- Rural up \$0.3m to \$0.4m, which remains very low

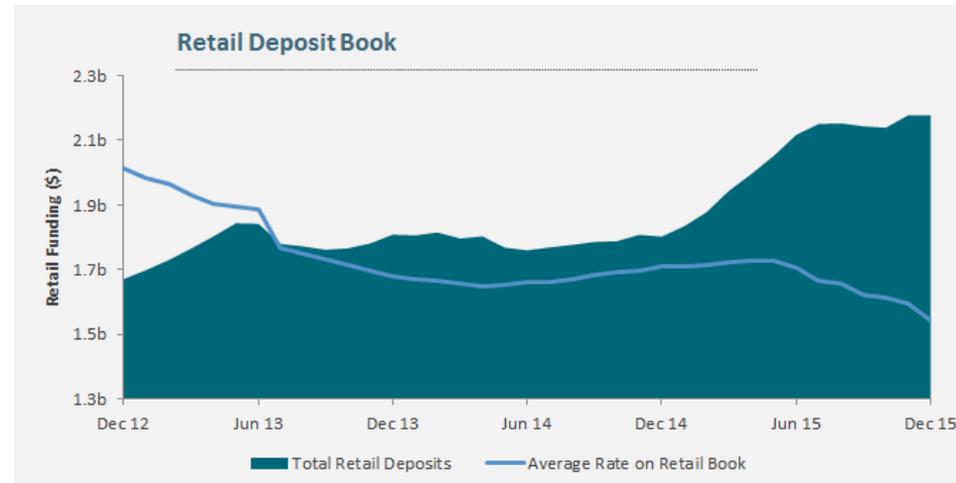
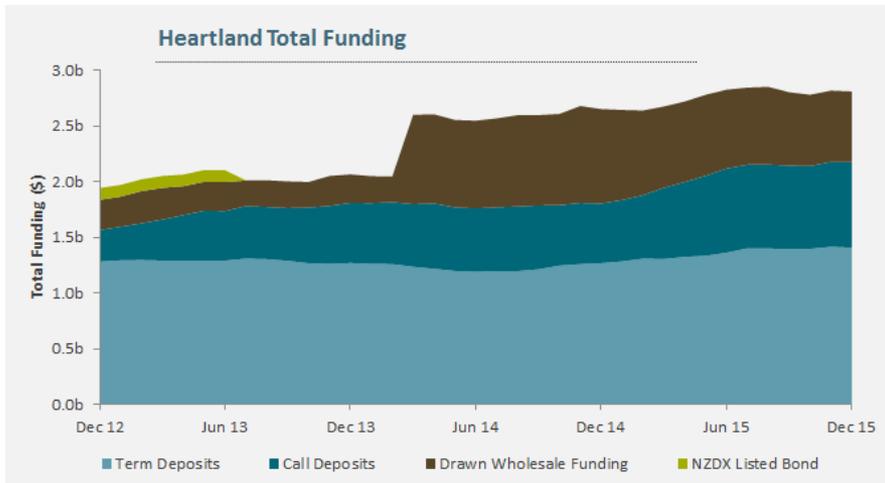
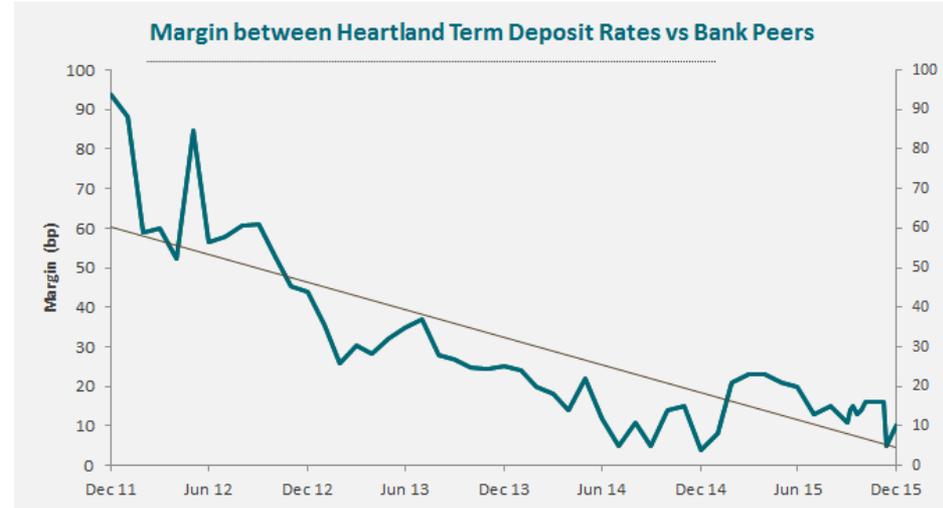


	30-Jun-12	30-Jun-13	30-Jun-14	30-Jun-15	31-Dec-15
Net Finance Receivables	2.1	2.0	2.6	2.9	2.9
Net Impairment %	4.4%	2.4%	1.9%	1.4%	1.2%
Net Core Finance Receivables	2.0	2.0	2.6	2.9	2.9
Net Impairment %	1.3%	0.9%	1.4%	1.3%	1.1%

# Cost of Funds

## Solid funding position

Decrease in COF on back of OCR decreases, and reduced margin on term deposits



# Business Updates and Strategy



Photo credit: Chris Williams

# Heartland's Strategy

Seek opportunities where we can provide innovative products in niche areas within the household, business and rural sectors that are under-serviced by the major banks

Grow quality, sustainable earnings and improve return on equity

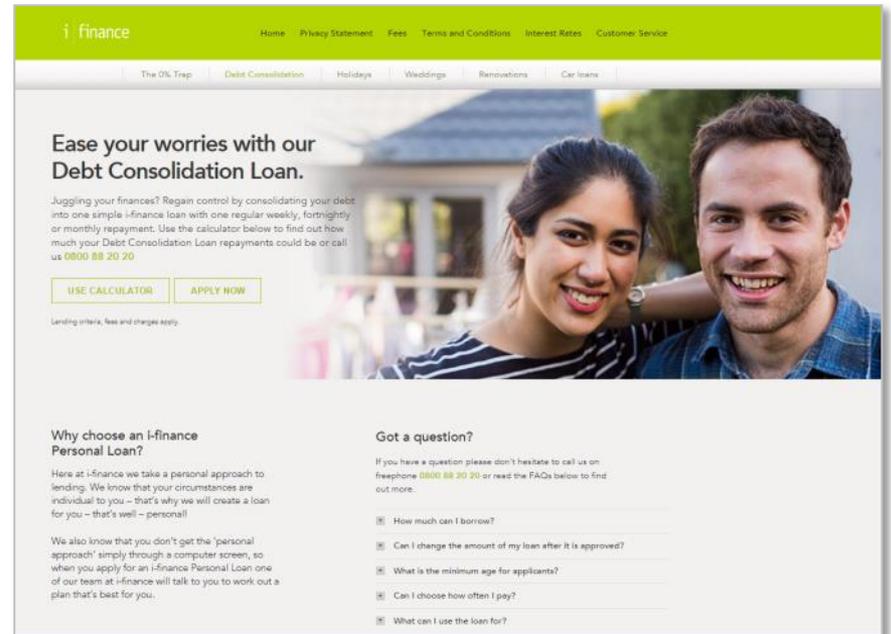
Achieved through:

- Harnessing disruptive new technologies to expand distribution reach into markets and streamline processes
- Development of 'best or only' banking products
- Pursuing acquisition opportunities that are value accretive and either deliver innovation or a compelling distribution capability

# Core Business Updates

Household – Consumer: NZ\$776m

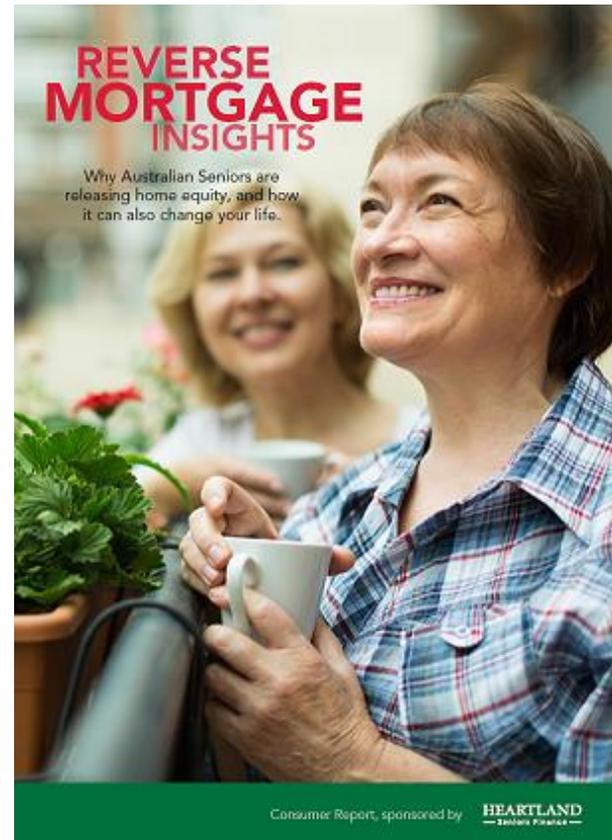
- Personal lending and motor vehicle loans - 27% of net receivables
- Strong growth of \$40m or 5%, expected to continue in 2H16
- Fast, simple, transparent loans originated online
- i-finance and Harmony
- Harmony facility renewed with significant additional lending capacity
- Strengthen intermediated model for motor vehicle lending



# Core Business Updates

## Household – Seniors Finance: NZ\$344m/AU\$392m

- 26% of net receivables - 12% in NZ and 14% in Australia
- Combined growth of \$6m or 1%.
- \$9m or 3% in NZ and A\$18m or 5% in Australia
- 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



# Core Business Updates

Business: NZ\$825m

- 28% of net receivables.
- Growth of \$24 million or 3%.
- Reposition lending towards smaller loans to SMEs
- Open For Business – “quick application-quick decision” business loans
- Early stages of development, applications expected to increase in 2H16
- Continue providing single relationship for plant and equipment and working capital finance

The screenshot displays the Heartland Bank website's business loan section. At the top, the Heartland Bank logo is visible on the left, and a 'CONTACT US' button is on the right. Below the logo, a banner features a woman in a kitchen with the text 'Open for Business' and 'We're lending to businesses like yours'. A central message states: 'If you're a New Zealand business that needs finance, we want to talk to you. Apply online, or call us on 0800 580 329'. A grid of service categories includes 'Courier vans', 'New businesses', 'Established businesses', 'Trades', 'Software', 'Creditors', 'Technology', 'Marketing', 'Franchises', 'Tools', and 'Import costs'. A section titled 'Getting a loan is quick and easy' lists benefits: 'Loans from \$5,000 upwards', 'Competitive rates', 'Flexible payment options', and 'Quick approval and payment'. It includes buttons for 'Apply online now' (with a 'START HERE' sub-button), 'Call us, we'd love to chat 0800 580 329' (with a 'CONTACT US' sub-button), and 'Download an application' (with a sub-note 'IT ONLY TAKES A FEW MINUTES' and 'AND SEND IT TO US'). The bottom section, 'Here's what our customers have to say', features three testimonials with accompanying images: a tractor, a person at a desk, and a garden. The testimonials are: 'It was extremely easy.', 'I received the money overnight.', and 'I got confirmation back quickly...'

# Core Business Updates

## Rural: NZ\$505m

- 17% of net receivables.
- Growth of \$17m or 3%.
- Livestock financing, financing younger farmers, farm transition loans
- Alliance partner channel
- Monitoring the dairy sector with close attention
- Continued low dairy prices dictate a cautious approach to new lending, but remain open to new customers and supportive of existing customers



# Looking forward

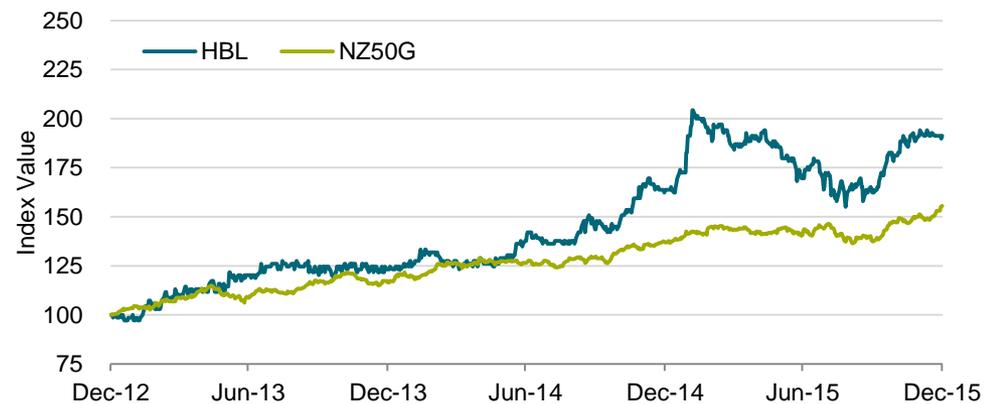
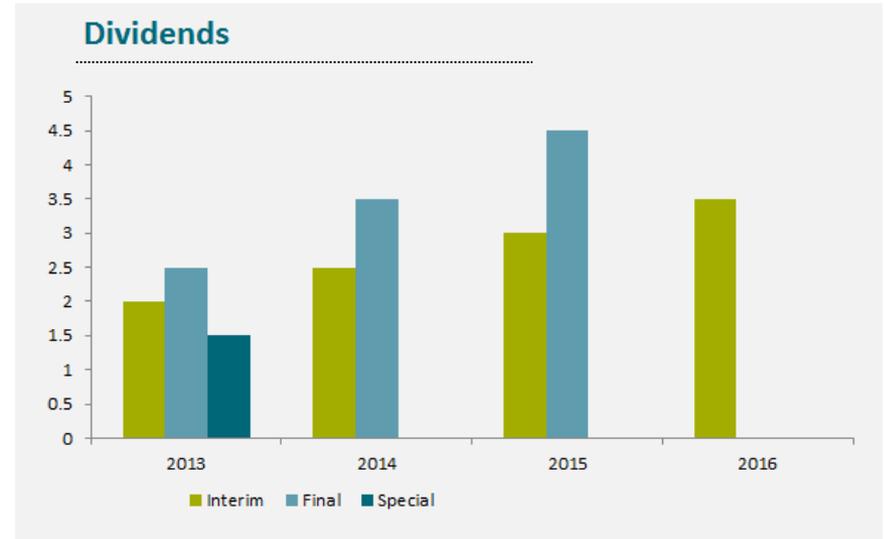
- Expect underlying asset growth to continue across all divisions
- Higher growth in Consumer and HER loans
- Greater acquisition opportunities in current market conditions and wish to assess opportunities (if any)
- Continue to monitor capital position (including Tier 2 regulatory capital position). In the absence of alternate uses, excess capital should be returned to shareholders
- FY16 NPAT forecast of \$51m to \$55m (although does not take into account the impact of any capital management initiatives)

# Dividend

Fully imputed interim dividend of 3.5 cents per share

Three year relative performance to NZ50G:

- 91% share price appreciation
- 137% total shareholder return (TSR)



# Questions



Photo credit: Chris Williams