

# Heartland

Half Year Results to 31 December 2016

**HEARTLAND**  
— BANK —

21 February 2017

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# Agenda

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

# Introduction



# Half Year Highlights

- Increase in profitability of 14%
- Strong receivables growth of \$221m (7%)
- Return on equity of 11.6%
- Institutional share placement completed to support asset growth
- Launch of multiple digital loan origination platforms

# Financial Overview



# Financial Half Year Overview

## 14% Growth in Profitability

- NPAT of \$29.1m
- Increase in NPAT of \$3.5m or 14%
- NOI increase of \$5.3m or 7%

## Continued Step up in Profitability

- Continued profit growth half on half
- Organic asset growth driver of increased profit

## Financial Year Overview

	6 months to Dec 2016 (NZ\$m)	6 months to Dec 2015 (NZ\$m)	12 months to Jun 2016 (NZ\$m)
Net interest income	79.0	71.5	146.7
Net other income	4.0	6.3	10.9
<b>Net operating income</b>	<b>83.0</b>	<b>77.8</b>	<b>157.6</b>
Expenses	36.0	37.1	69.9
<b>Profit before impairments and tax</b>	<b>47.0</b>	<b>40.7</b>	<b>87.7</b>
Impaired asset expense	6.9	5.6	13.5
<b>Net profit before tax</b>	<b>40.2</b>	<b>35.1</b>	<b>74.2</b>
Tax	11.1	9.5	20.0
<b>Net profit after tax (reported)</b>	<b>29.1</b>	<b>25.6</b>	<b>54.2</b>

### Net Profit Before Tax (\$m)



# Net Operating Income

## NOI driving profitability growth

- Growth in NOI due to:
  - Growth from all core divisions
  - Continued reduction CoF

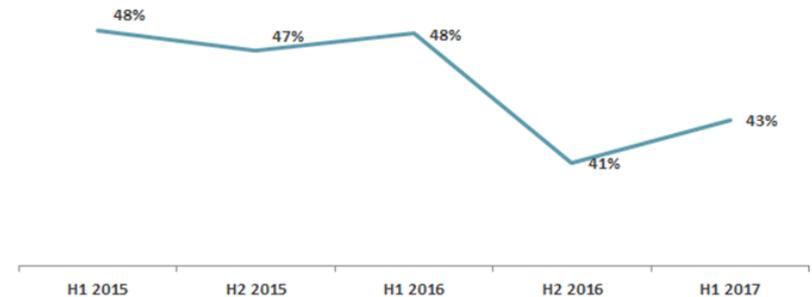
## Cost to income ratio 43%

- Cost to income trending down and expected to continue
- Increase in current half due to seasonal and timing of expenditure (marketing, incentive and leave accruals)
- Cost to Income ratio typically lower in 2<sup>nd</sup> half

Net Operating Income



Cost to Income Ratio



# Net Interest Margin (NIM)

## NIM impacted by:

- Customer behaviour – higher motor vehicle early settlements
- Product mix eg. less higher earning livestock loans in Rural
- Lower NIM reverse mortgage business (however lower capital usage and improves ROE)

NIM ratio



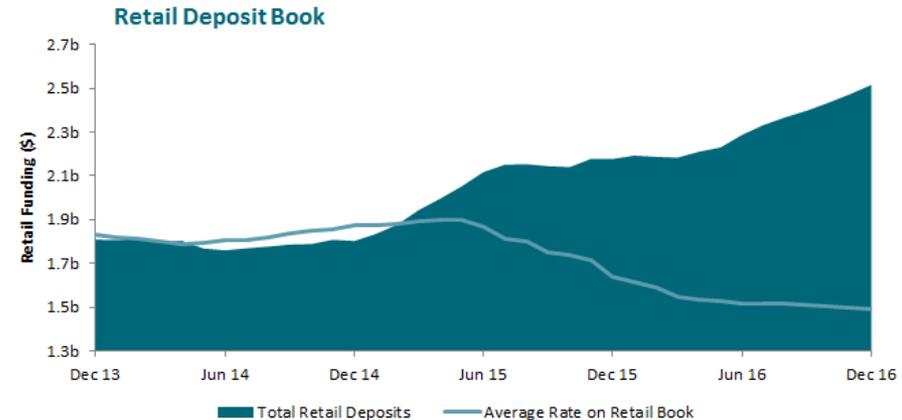
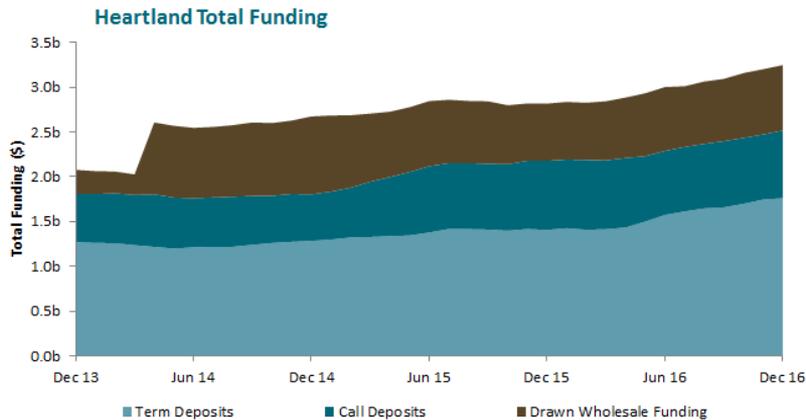
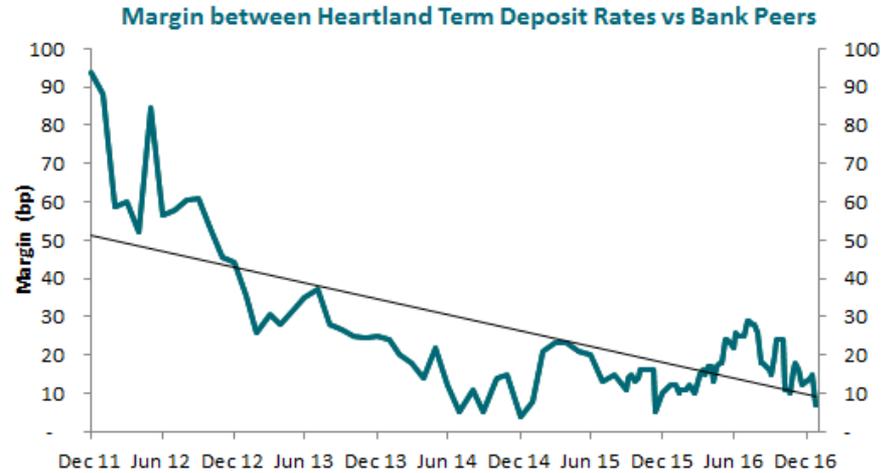
## Looking forward:

- Livestock trading conditions are improving, will improve mix
- Implement re-pricing of selected existing loans
- New business rates increased and distribution focussed on lower loan size and higher earn rate lending.
- Expect to maintain NIM for the remainder of FY17 through these initiatives

# Cost of Funds

## Solid funding position

- More competitive funding environment
- Continue to grow deposits (+\$230m) to fund asset growth
- COF still decreasing

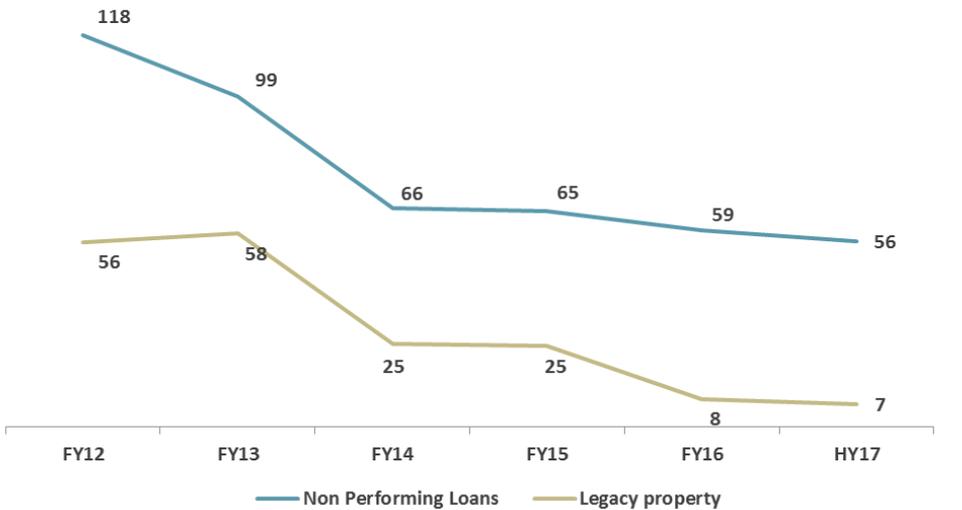


# Asset Quality Trends

## Sound asset quality

- Continued improvement in asset quality
- Impairment expense up \$1.3m to \$6.9m for the half year
- Household impairments up \$2.2m due to growth (motor impairments remain acceptable at 72bp)
- Business division impairments down \$0.9m due to loan recoveries

Non Performing Loans (\$m)



	30-Jun-12	30-Jun-13	30-Jun-14	30-Jun-15	30-Jun-16	31-Dec-16
Net Finance Receivables (\$b)	2.1	2.0	2.6	2.9	3.1	3.3
Net Impairment %	4.4%	2.4%	1.9%	1.4%	1.2%	1.0%

# Balance Sheet Summary

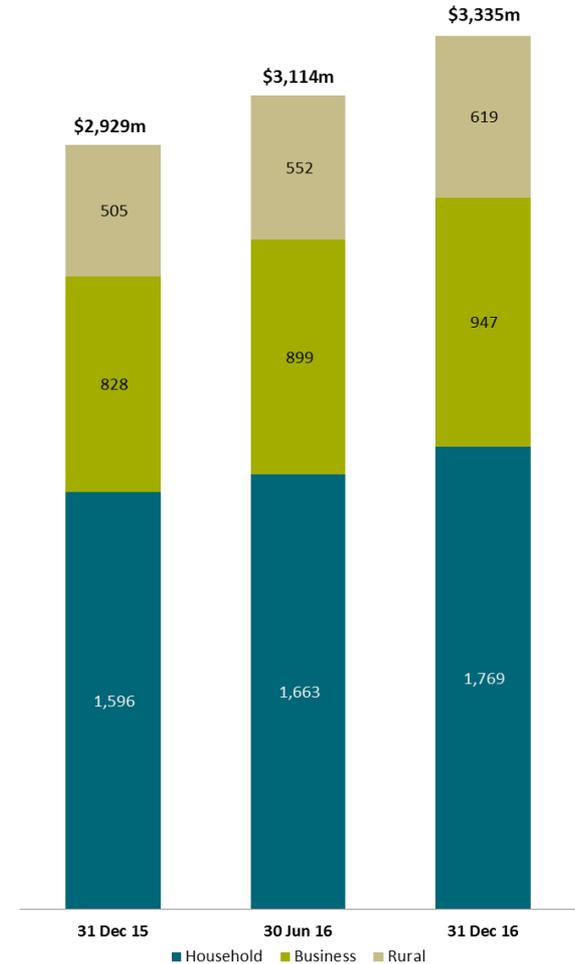
## Strong growth in receivables

- Total assets increased by \$273.0m
- Net finance receivables increased by \$220.8m or 7%

### Balance Sheet Summary

	31 Dec 2015 (NZ\$m)	30 Jun 2016 (NZ\$m)	31 Dec 2016 (NZ\$m)
Total assets	3,344.5	3,547.2	3,820.1
Total liabilities	2,858.8	3,048.8	3,292.1
<b>Total equity</b>	<b>485.7</b>	<b>498.3</b>	<b>528.0</b>
Equity ratio	14.5%	14.0%	13.8%
<b>Net tangible assets</b>	<b>426.1</b>	<b>433.5</b>	<b>455.1</b>
NTA per share	0.90	0.91	0.91

### Net Finance Receivables

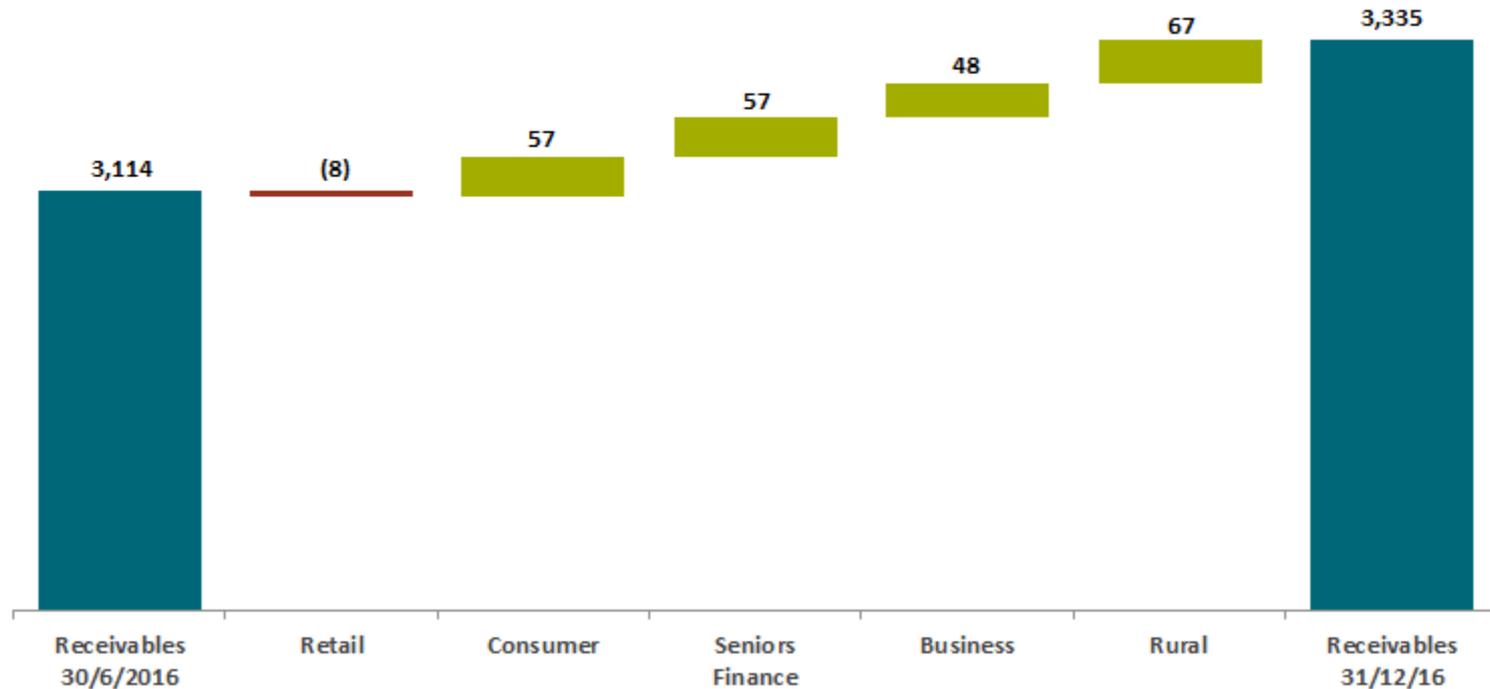


# Net Finance Receivables Bridge

## Portfolio mix movements

### Receivables Movement

6 Months ended 31 December 2016 \$m



# Capital

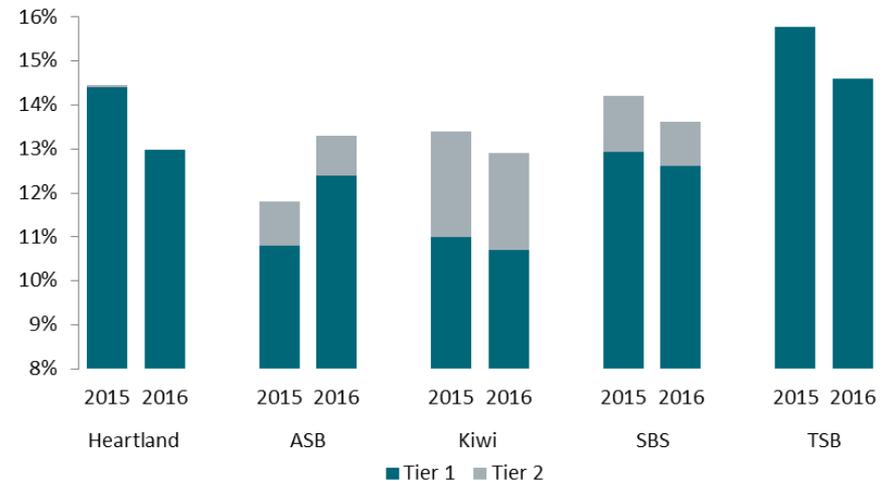
## Sound capital position

- Regulatory capital ratio of 13.0%
- Capital has been raised to support asset growth and to invest in digital strategy
- Institutional placement of \$20m completed in December 2016
- Have increased size of SPP to \$20m, to allow for greater retail shareholder participation
- Finalising an offer of approximately A\$15m of Tier 2 regulatory capital to wholesale investors in Australia

### Regulatory Capital



### Capital Adequacy 2016 v 2015



# Dividend



Photo credit: Chris Williams

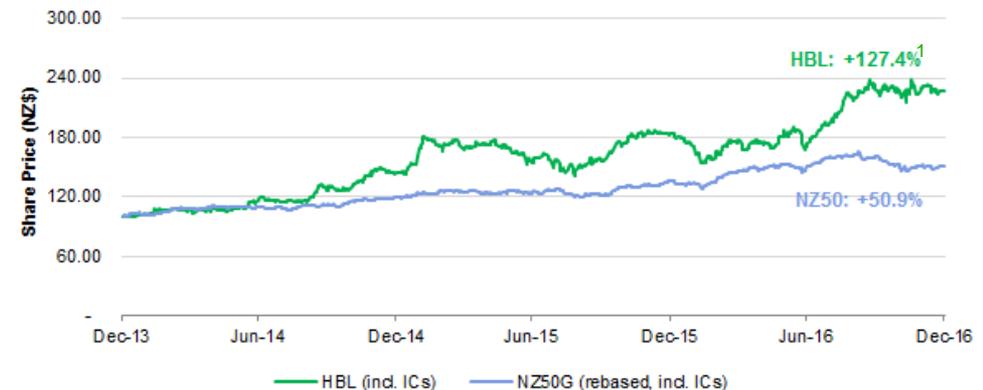
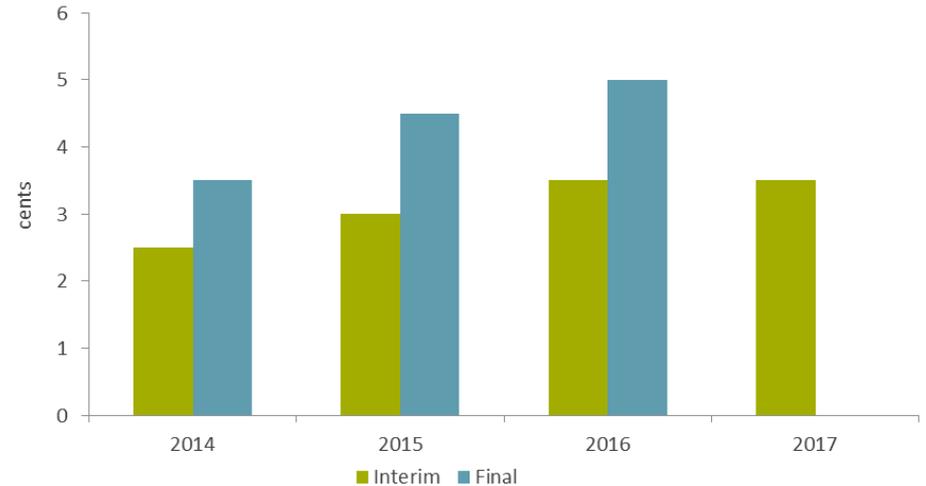
# Dividend

Fully imputed interim dividend of 3.5 cents per share

Three year relative performance to NZ50G:

- 77% share price appreciation
- 127% total shareholder return (TSR)

## Dividends



Note, "ICs" represents Imputation Credits ascribed to dividend payments

<sup>1</sup> Rebased share price assumes dividends are reinvested for comparison to Index Value  
 Source: IRESS, NZX50 incl. ICs based on S&P/NZX 50 Index Gross with Imputation

# Strategy and Core Business Updates



Photo credit: Chris Williams

# Next Phase of Heartland's Strategy



- Now in the second phase of Heartland's strategy – focus on distribution channels:
  - A fast and simple customer experience via digital platforms; and
  - High touch telephony service for depositors and reverse mortgage customers
- Acquisition opportunities remain a part of Heartland's strategy provided they are value accretive and deliver innovation or a compelling distribution capability

# Strategic Priorities

Priority	Progress to Date	2H17
Continue development of digital origination platforms	<ul style="list-style-type: none"> <li>✓ Launched multiple digital loan origination platforms including Open for Business, Open for Livestock and Open for Home Loans</li> <li>✓ In-house multi-disciplinary team covering content, development and data</li> <li>✓ Established strategic partnerships</li> </ul>	<ul style="list-style-type: none"> <li>❑ Development of lead generation portal for deposits</li> <li>❑ Utilise data to identify customer 'intent'</li> <li>❑ Increase Heartland's digital presence and profile via communications</li> </ul>
Expansion in Australian markets	<ul style="list-style-type: none"> <li>✓ Partnership with Spotcap Australia, a provider of business loans to SMEs</li> </ul>	<ul style="list-style-type: none"> <li>❑ Expand on 25% origination via portals in Reverse Mortgages</li> <li>❑ Open for Business Australia</li> </ul>
Strong systems infrastructure to support Heartland's ambitions for growth	<ul style="list-style-type: none"> <li>✓ Retire platform infrastructure</li> <li>✓ Significant progress with project to upgrade systems infrastructure (Oracle)</li> </ul>	<ul style="list-style-type: none"> <li>❑ Constant improvement of platforms</li> <li>❑ Completion of systems infrastructure upgrade</li> </ul>

# Digital Partnerships

- New partnership with **Spotcap Australia**, an online lender offering unsecured business loans of up to A\$250,000 to SMEs
- Utilises a unique proprietary algorithm providing alternative basis for analysis
- Heartland providing A\$20m lending facility to Spotcap giving Heartland opportunity to gain exposure to online lending in Australia

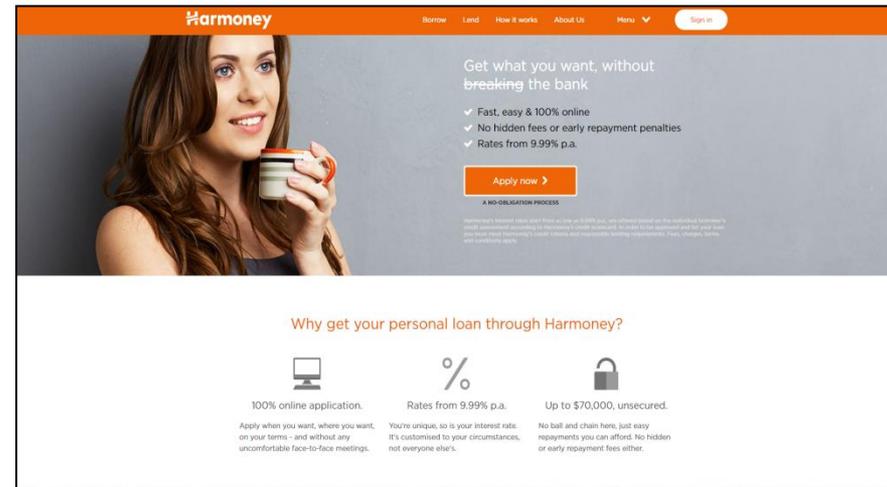


- New partnership with **Fuelled**, an online invoice financing lender offering business customers the ability to borrow money against A grade debtors
- Fully online customer experience which is real time, simple and fully integrated with Xero
- Heartland has acquired a 25% shareholding and providing a \$2.0m committed debt facility enabling Fuelled to accelerate its Australasian growth plans

# Core Business Updates

## Household – Consumer: Net Receivables NZ\$879m

- Personal lending and motor vehicle loans – 26% of net receivables
- Growth of \$57m or 7%, expected to continue
- Fast, simple, transparent loans originated via digital platforms
- i-finance now \$23m net receivables (up 26%)
- Lending through the **Harmoney** platform of \$62m (up 69%)
- Strengthen intermediated model for motor vehicle lending including through bespoke digital loan origination platforms (eg. Open for Isuzu)



# Core Business Updates

Household – Seniors Finance: Net Receivables NZ \$380m / AU \$472m

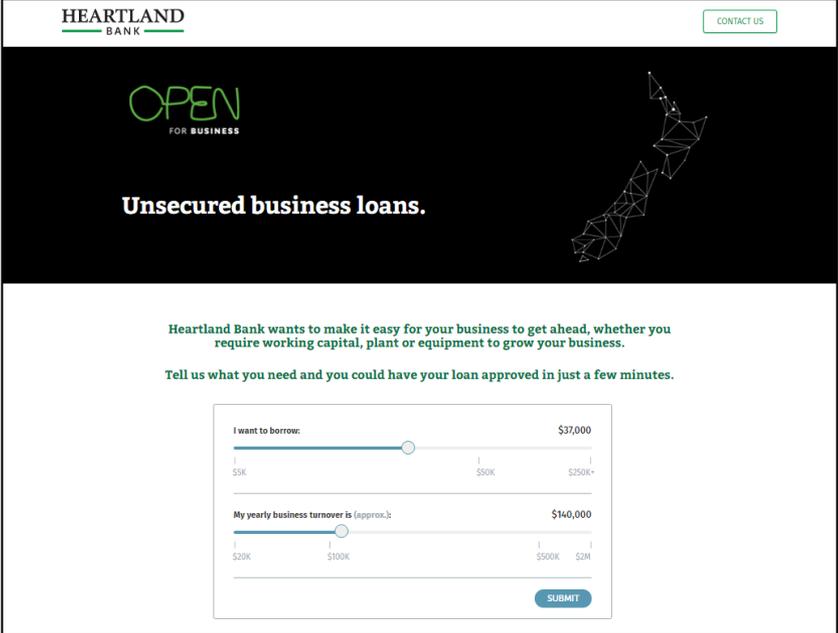
- 26% of net receivables
- \$17m or 5% growth in NZ and \$40m or 9% in Australia
- Continue to increase awareness and build brand recognition
- Strong growth in Australia driven by continued broadening of broker distribution network
- Increased digital access for reverse mortgage customers together with high touch telephony service



# Core Business Updates

## Business: Net Receivables NZ\$947m

- 28% of net receivables
- Growth of \$49m or 5%
- *Open for Business* – “quick application-quick decision” business loans grew to \$27m
- Extending reach through intermediary network
- Reduce average loan size to avoid concentrations



The screenshot displays the Heartland Bank website interface for business loans. At the top, the Heartland Bank logo is visible on the left, and a 'CONTACT US' button is on the right. The main heading reads 'OPEN FOR BUSINESS' in green, with a stylized map of New Zealand to the right. Below this, the text 'Unsecured business loans.' is prominently displayed. A paragraph of text states: 'Heartland Bank wants to make it easy for your business to get ahead, whether you require working capital, plant or equipment to grow your business. Tell us what you need and you could have your loan approved in just a few minutes.' Below this text is a form with two sliders. The first slider is labeled 'I want to borrow:' and has a range from \$5K to \$37,000, with a blue circle indicating a selection of approximately \$15,000. The second slider is labeled 'My yearly business turnover is (approx.):' and has a range from \$20K to \$2M, with a blue circle indicating a selection of approximately \$100K. A 'SUBMIT' button is located at the bottom right of the form.

# Core Business Updates

## Rural: Net Receivables NZ\$619m

- 19% of net receivables
- Growth of \$66m or 12%, primarily through term loans across all key rural sectors
- Launch of digital loan origination platform Open for Livestock
- Increase in livestock facilities expected in 2H17
- Trading conditions for dairy customers improved over the reporting period

HEARTLAND BANK

OPEN FOR LIVESTOCK

Turn pasture into profit

Apply in minutes.  
Get a decision in seconds.

I want to borrow:

\$ 10,000

\$10k | \$100k | \$250k | \$400k | \$500k+

I want to buy:

Store cattle  Store sheep

Submit

# Looking forward



# Looking forward

- Expect underlying asset growth to continue across all divisions
- Digital loan origination platforms provide significant low cost growth opportunities (lower cost of customer acquisition)
- New phase of capital management:
  - Have reached a normalised state and will tap the market to access capital through multiple issuances timed and sized to meet our capital needs
  - Initially focus on Tier 2 issuance to optimise capital structure
- Expect to achieve upper end of FY17 NPAT forecast of \$57m to \$60m (although does not take into account the impact of any capital management initiatives)

# Questions

