

2020 Annual Results

17 September 2020

HEARTLAND

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FY2020 highlights

Financial performance



Net operating income
+13.2% vs FY2019

\$235.3m



Net profit after tax¹
-2.2% vs FY2019

\$72.0m

\$78.9m (+7.2%)
excluding the economic overlay



Gross finance receivables²
+4.9% vs FY2019³

\$4.623b

1. Including the impact of \$9.6m pre-tax economic overlay due to COVID-19; excluding the overlay, net profit after tax (NPAT) is \$78.9m (+7.2% vs FY2019).
2. Gross finance receivables (**Receivables**) also includes Reverse Mortgages.
3. Excluding the impact of changes in foreign currency exchange rate (FX).

Strategic highlights

- Heartland is established as a digitally-led financial services group, 'a financial technology company (**fintech**) with a bank licence'.
- In May, Fitch Ratings affirmed Heartland's Long-Term Issuer Default Ratings and Outlooks (one of only two Australasian banks to have no reduction or adverse change to its rating or outlook as it entered the economic downturn).
- Limited exposure to industries and demographics most profoundly affected by the pandemic.
- Quickly established new products to support customers impacted by COVID-19.
- Digital tools and platforms enabled Heartland to serve and onboard new customers during lockdown.
- First-of-its-kind long-term funding secured for Australian reverse mortgages, enabling further growth.
- Continued improvement in underlying ROE.
- Final dividend of 2.5 cps, resulting in a total dividend of 7.0 cps and dividend yield of 8.2%¹.
- The Board has asked management to explore ways of optimising value within Heartland's existing businesses.



1. FY2020 total fully imputed dividends divided by share price as at 16 September 2020 of \$1.16.

COVID-19 response

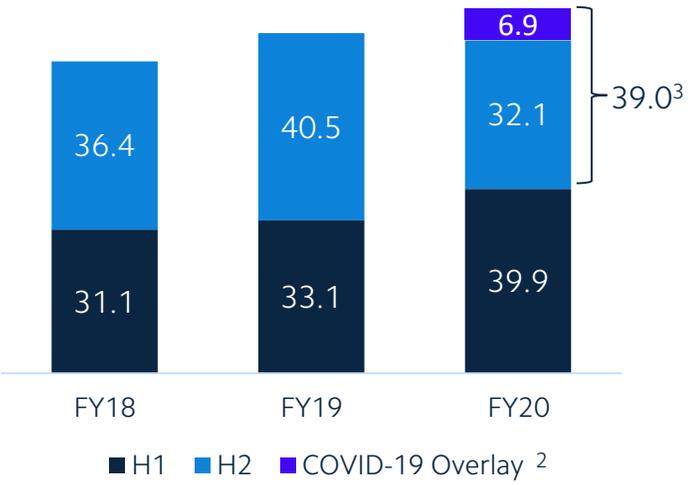
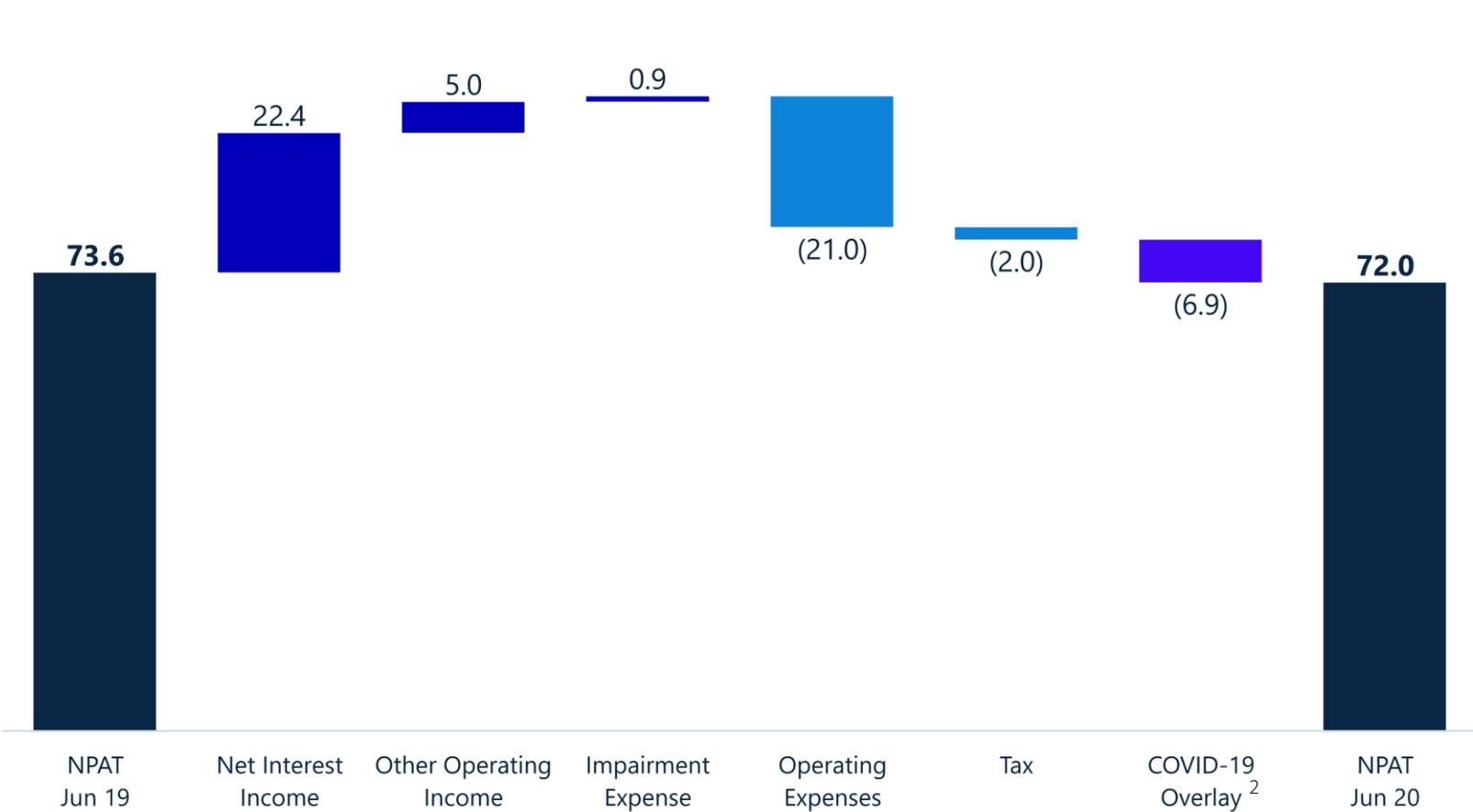
- Contacted customers potentially vulnerable to the pandemic to determine support required – particularly Consumer, SME and Business customers.
 - Consumers representing \$143 million of loans took up offers of support.
 - SME and Business customers representing \$510 million of loans took up offers of support.
- Established new product: **Heartland Extend**.
- Offering NZ Government's **Business Finance Guarantee Scheme** to existing and new customers.
- Most customers have returned to pre-COVID-19 payment schedules.
 - At 27 August 2020, 96% of Consumer loans and 98% of SME and Business loans are on usual (or pre-COVID) repayment schedules or have taken up Heartland Extend.
 - Reverse Mortgages and Rural remain resilient.





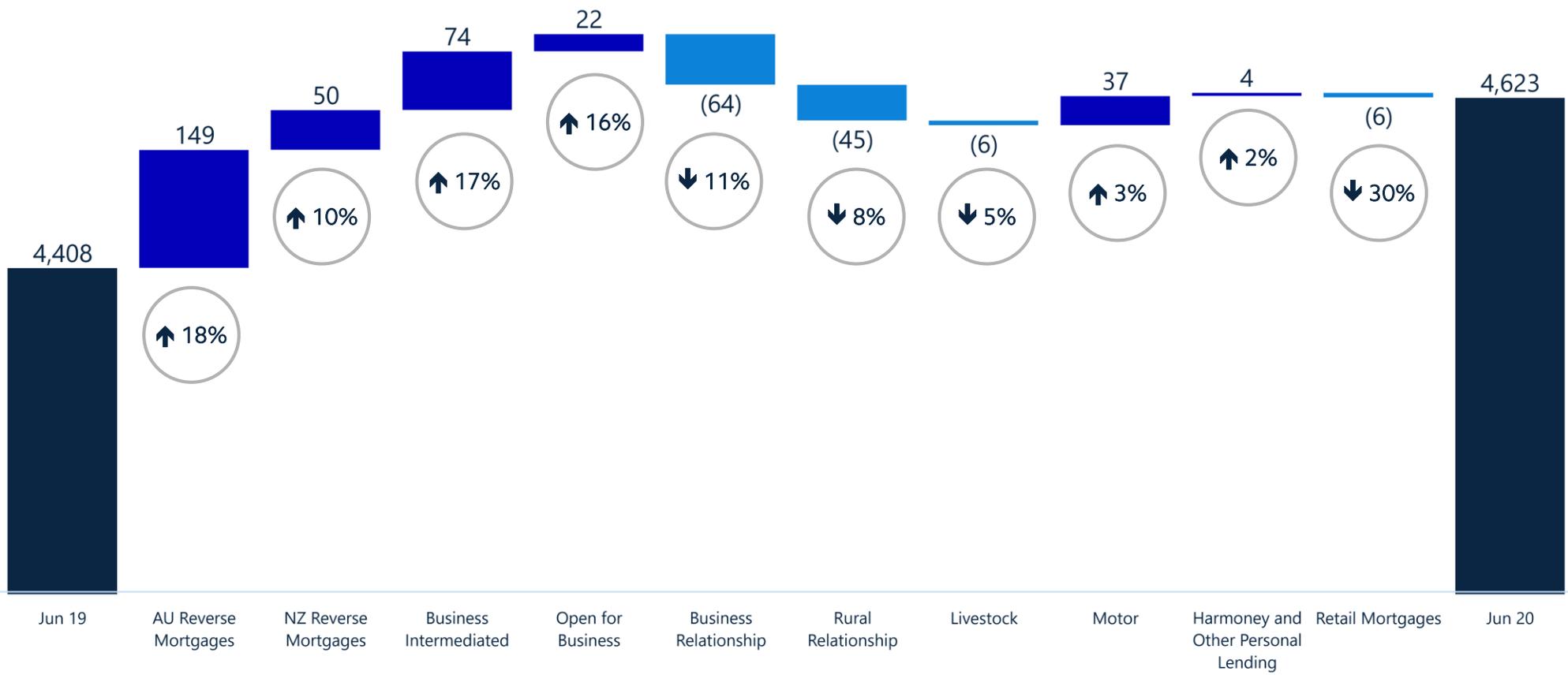
Financial
results

Growth in profitability



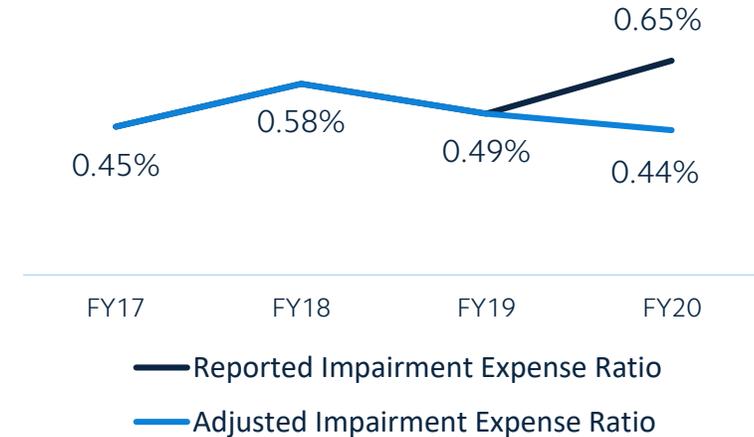
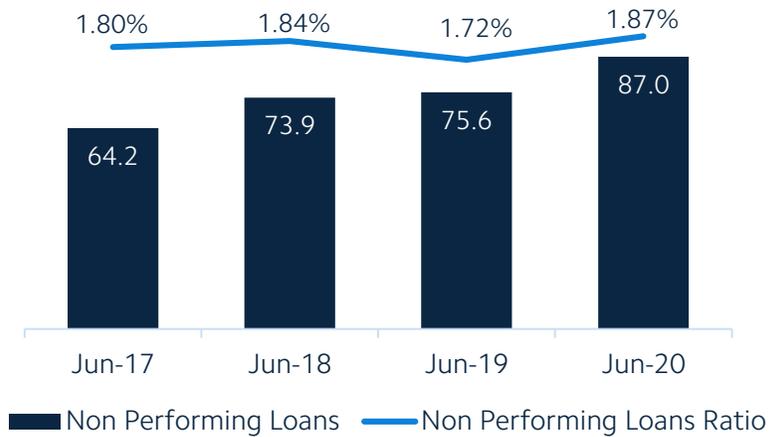
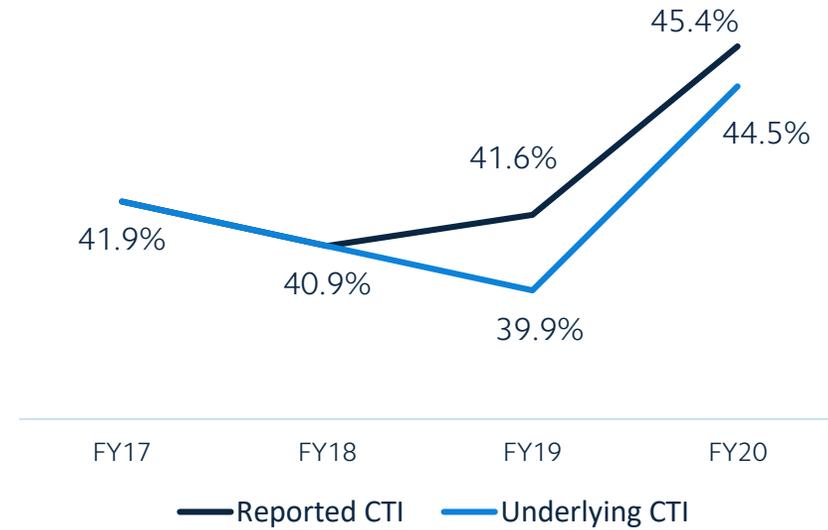
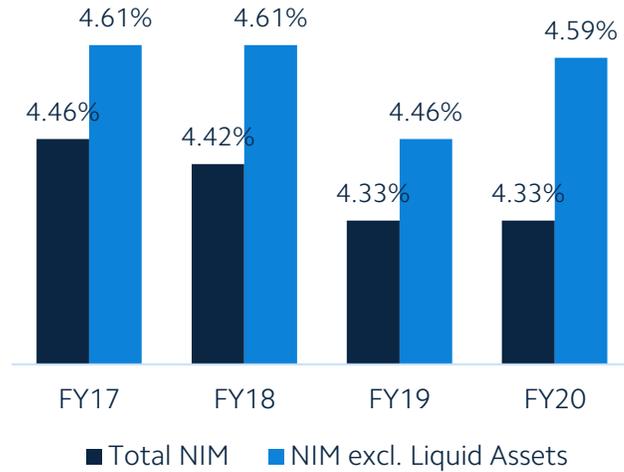
1. All figures in NZ\$m.
 2. Post-tax impact of \$9.6m economic overlay due to COVID-19.
 3. 2H2020 NPAT in NZ\$m excluding the impact of \$9.6m pre-tax economic overlay due to COVID-19.

Growth in receivables



1. The graph shows year-to-date (YTD) movement in Receivables by individual portfolio excluding the FX impact.
 2. All figures in NZ\$m.

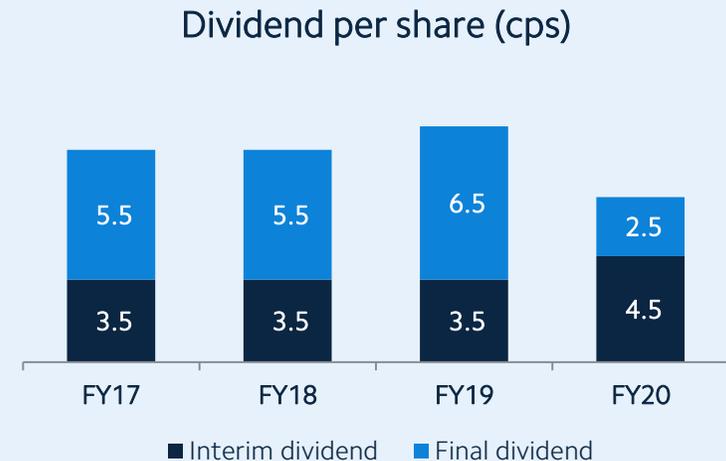
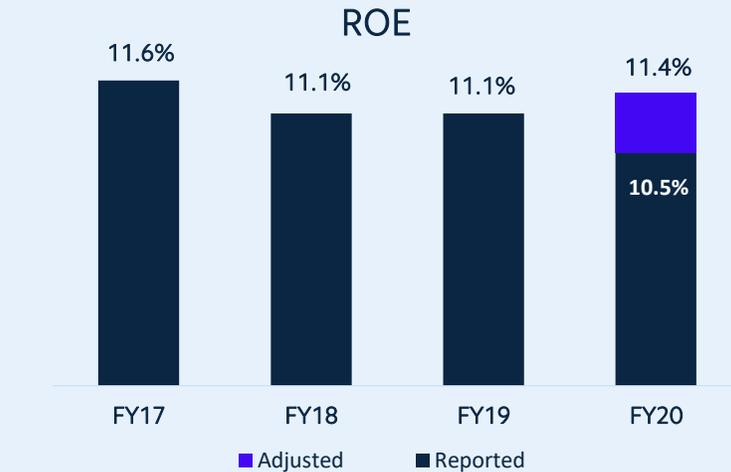
Key performance measures



1. NIM is calculated as net interest income/average interest earning assets.
2. Underlying CTI excludes impacts of the required accounting standard change and one-off impacts.
3. Impairment expense ratio is calculated as impairment expense/average gross finance receivables.
4. Adjusted impairment expense ratio excludes the impact of \$9.6m pre-tax economic overlay due to COVID-19.

Shareholder return

- Adjusted ROE (excluding economic overlay) of 11.4% (up 31 bps vs FY2019)¹.
- Earnings per share (EPS) (including the economic overlay) of 12.5 cps, down 0.5 cps compared to FY2019. Excluding the economic overlay, EPS is 13.7 cps (+0.7 cps vs FY2019).
- Final dividend of 2.5 cps (reduced as a result of RBNZ restrictions on bank distributions).
- Total dividend for FY2020 of 7.0 cps, down 3.0 cps on FY2019.
- Dividend yield of 8.2%².



1. Including the impact of \$9.6m pre-tax economic overlay due to COVID-19, ROE is 10.5%

2. FY2020 total fully imputed dividends divided by share price as at 16 September 2020 of \$1.19.

Economic overlay and impairments

- Excluding the COVID-19 Overlay, impairment expense as a percentage of average receivables decreased from 0.49% in FY2019 to 0.44% in FY2020. This reflects improving quality and improved collections processes.
- Heartland was one of only two Australasian financial institutions to have no reduction or adverse change to its Long-Term Issuer Default Ratings or outlook by Fitch as it entered the economic downturn (affirmed in May 2020).
- Heartland had limited exposure to industries¹ most profoundly affected by COVID-19, and the demographic most impacted by rising unemployment (15-24 year olds)² and a significant proportion of Heartland's book has shown resilience to the economic disruption.
- Heartland conducted a significant customer contact and support program during COVID-19, and has strong customer insight as a result.
- Although Heartland is comfortable with its current position, there remains significant uncertainty around future economic conditions, and Heartland has accordingly taken an economic overlay of \$9.6 million (pre-tax).
- Heartland's total provision coverage ratio excluding the \$9.6 million economic overlay was 1.71%³ as at 30 June 2020. Including the COVID-19 economic overlay, the total provision coverage ratio increased to 2.02% as at 30 June 2020.
- Including the economic overlay, impairment expense as a percentage of average receivables increased from 0.49% in FY2019 to 0.65% in FY2020.

1. Heartland's total exposure to the retail, accommodation and transport (excluding road freight transport) industries at 30 June 2020, based on borrower ANZSIC codes, was 2.84%, 2.17% and 1.15% respectively.

2. At 10 August 2020, Heartland's exposure to customers in this age bracket is 2.9% in Motor, 0.7% in personal lending and 0.9% in Harmony.

3. Calculated as total provisions over gross finance receivables excluding Reverse Mortgages.



Divisional summary

Australia

Australia Reverse Mortgages

- Net operating income increased **51.0%** to **\$34.3 million**.
- Receivables increased **18%¹** to **\$958 million**.
- Strong growth in the portfolio, driven by investment in marketing, resulted in market share increasing to 26%, with a similar trend expected to continue in the future.

O4B

- O4B small business lending platform launched in Australia in 1H2020.
- Due to the impact of COVID-19, lending was paused in March, but is intended to relaunch this calendar year.

Funding

- Heartland Australia increased borrowings by A\$168.4 million (24.7%).
- Heartland has secured A\$142 million of long-term funding for its Australian Reverse Mortgage business.
- Heartland now has access to committed Australian reverse mortgage loan funding of A\$1 billion in aggregate.

1. Excluding the impact of changes in FX rates.



As at 30 June 2020

\$958m

+18%

growth since
June 2019¹

NZ Reverse Mortgages

- Net operating income increased 12.7% to \$23.5 million.
- Receivables increased 10% to \$560 million.
- Growth in NZ Reverse Mortgages driven by an investment in marketing to increase brand awareness, and digital channel enhancements.



As at 30 June 2020

\$560m

+10%

growth since
June 2019

Open for Business (O4B)

- Net operating income increased 53.7% to \$14.7 million.
- Receivables increased 16% to \$155 million.
- Ongoing investment in operational capacity, automation and marketing to increase product awareness is expected to fuel recovery to pre-COVID-19 levels and growth in future periods.



As at 30 June 2020

\$155m

+16%

growth since
June 2019

Business Intermediated

- Net operating income increased 24.3% to \$21.9 million.
- Receivables increased 17% to \$499 million.
- Business Intermediated remains an area of growth for Heartland Bank.
- The Business Intermediated portfolio is the provision of business finance through intermediated partners such as Hino, Isuzu and Mainfreight, predominantly for truck and trailer, plant and equipment finance.



As at 30 June 2020

\$499m

+17%

growth since
June 2019

Motor Finance

- Net operating income increased 6.2% to \$60.6 million.
- Receivables increased 3% to \$1,126 million.
- New lending held up strongly in Q4, however higher levels of repayments resulted in a largely flat volume growth in 2H2020.
- New lending during COVID-19 lockdown was possible through digital platforms allowing dealers to interact with customers safely in a contactless environment.



As at 30 June 2020

\$1,126m

+3%

growth since
June 2019

Harmony and other personal lending

- Net operating income increased 13.3% to \$21.4 million.
- Harmony Receivables increased 4.6%¹ to \$199 million.
- Both New Zealand and Australian portfolios contracted in 2H2020 as a result of slowdown in new lending following the COVID-19 outbreak.
- Harmony impairments were higher in FY2020 due primarily to additional provisions taken up to cover future COVID-19 losses as well as the impact of strong growth in Australia which resulted in an increase in stage one provisions.



As at 30 June 2020

\$211m

+2%

growth since
June 2019¹

1. Excluding the impact of changes in FX rates.

Livestock Finance

- Net operating income increased 12.1% to \$6.6 million.
- Receivables decreased 5% to \$115 million.
- Growth in Livestock Finance was impacted by the effects of drought and COVID-19 on the rural sector across New Zealand.



As at 30 June 2020

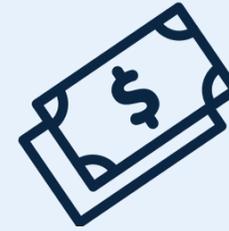
\$115m

-5%

decrease since
June 2020

Relationship

- Net operating income decreased 10.2% to \$48.9 million.
- Receivables decreased 10% to \$986 million.
- Receivables continued to decrease in the Business and Rural Relationship portfolios as a result of the strategic focus on reducing concentration risk in low margin exposures.



As at 30 June 2020

\$986m

-10%

decrease since
June 2019

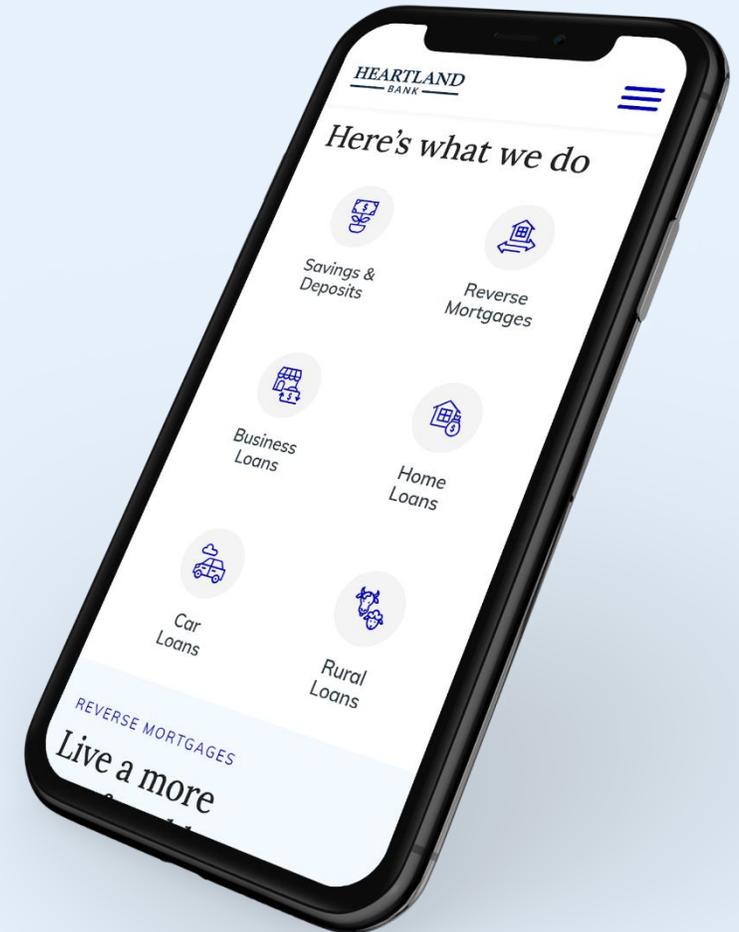
Funding

New Zealand

- Heartland Bank increased borrowings by \$131.8 million (3.8%).
- Deposits grew \$100.5 million (3.2%) in Q4 as a result of promotional activity and continued market-leading rates.
- Heartland Bank increased total liquidity by \$205 million (39%).
- Heartland Bank holds liquidity well in excess of regulatory minimums.

Australia

- Heartland Australia increased borrowings by A\$168.4 million (24.7%).
- Heartland has secured A\$142 million of funding through a long-term Australian reverse mortgage-backed syndicated loan securitisation transaction.
- Heartland now has access to committed Australian reverse mortgage loan funding of A\$1 billion in aggregate.





Strategic update

Core strategic objectives

New Zealand

Acquire scale in NZ

- Differentiated low-cost operating model.
- Exploring opportunities for consolidation.
- Providing banking products and services through best or only channels.
- Relaunch of Home Loans expected.

Australia

Expand in Australia

- Needs-based usage of Reverse Mortgages expected to continue.
- Relaunch of O4B unsecured SME lending platform expected.
- Exploring opportunities for acquisition and organic growth in Consumer and Business markets.

Digital

Digitalise everything Heartland does

- Continuing to digitalise distribution, processing and marketing.
- Ongoing enhancements to in the Heartland Mobile App.
- Increasing investment in technology to expand digital capability in NZ and Australia.

Strategic focus: The Board has asked management to explore ways of optimising value within Heartland's existing businesses.

Customers and culture



Diversity Works NZ
Diversity Awards finalist for Cultural Celebration



Heartland Bank became an accredited
Living Wage employer



50 Māori and Pasifika students participated in the
Manawa Ako internship



Employed **23 FTE** between **March-June** to support customers through COVID-19



Heartland Bank awarded
Canstar's 2020 Savings Bank of the Year for the third year in a row



Direct Call Account and YouChoose awarded
Canstar's 5-Star Rating for Outstanding Value Savings Account



NZ Reverse Mortgage remains **Consumer Trusted** – for the fourth year in a row



Continuous enhancements to **Heartland Mobile App and websites** to improve user experience

Regulatory update

- Some delays in place for regulatory change timeframes due to COVID-19.
- A significant volume of regulatory change continues, including:
 - proposed Financial Markets (Conduct of Institutions) Amendment Bill (**Conduct Bill**)
 - Phase 2 of the review of the Reserve Bank of New Zealand Act 1989 (**RBNZ Act**).
- NZ Government's various temporary regulatory relief and guidance for businesses and individuals impacted by COVID-19, aided Heartland to support customers during this time.
- Currently working to implement changes resulting from the Privacy Bill 2020 and Financial Services Legislation Amendment Act 2019.

FY2021 outlook



Supporting customers through **digital platforms and products**



Further developing and embedding Heartland's **Māori strategy**



Continued growth in **Motor, Business and Reverse Mortgages**



Focus on **reducing the environmental impact** of Heartland's operations



Reverse Mortgage growth supported by **long-term funding structure**



NPAT for FY2021 in the range of \$83 million to \$85 million



Appendices

Appendix – Financial position

\$m	30 June 2020	30 June 2019	Movement (\$m)	Movement (%)
Liquid Assets	544	417	127	30.5%
Net Finance Receivables	4,584	4,350	234	5.4%
Other Assets	190	162	28	17.2%
TOTAL ASSETS	5,318	4,929	389	7.9%
Retail Deposits	3,264	3,154	111	3.5%
Other Borrowings	1,268	1,058	210	19.9%
Other Liabilities	86	42	44	104.3%
Equity	700	676	24	3.6%
TOTAL EQUITY & LIABILITIES	5,318	4,929	389	7.9%

Appendix – Financial performance

\$m	FY2020	FY2019	Change (\$)	Change (%)
Net Operating Income ¹	235.3	208.0	27.3	13.2%
Operating Expenses	(106.8)	(85.8)	21.0	24.5%
Impairment Expense	(29.4)	(20.7)	8.7	42.3%
Profit Before Tax	99.1	101.5	(2.4)	(2.3%)
Tax Expense	(27.2)	(27.9)	(0.7)	(2.6%)
Net Profit After Tax	72.0	73.6	(1.6)	(2.2%)
Net Interest Margin	4.33%	4.33%	- bps	
Cost to Income Ratio	45.4%	41.6%	3.8 pp	
Return on Equity	10.5%	11.1%	(59 bps)	
Earnings per Share	12.5 cps	13.0 cps	(5.0 cps)	

1. Includes fair value movements.

Appendix – Reconciliation of Reported with Adjusted Results

\$m	FY2020
Reported NPAT	72.0
<i>Add:</i>	
Impact of COVID-19 economic overlay (post-tax)	6.9
Adjusted NPAT	78.9
Weighted average no. of shares (000)	576,929
Reported EPS	12.5
Adjusted EPS	13.7
Reported average equity	685
Adjusted average equity	691
Reported ROE	10.5%
Adjusted ROE	11.4%

\$m	FY2020
Reported impairment expense	29.4
<i>Less:</i>	
Covid-19 economic overlay (pre-tax)	(9.6)
Adjusted impairment expense	19.8
Average gross finance receivables	4,527
Reported impairment expense ratio	0.65%
Adjusted impairment expense ratio	0.44%

Appendix – Reconciliation of Reported with Underlying Results

\$m	FY2020	FY2019
Reported NOI	235.3	208.0
<i>Less:</i>		
Upfront Reverse Mortgage fees	(2.8)	-
Underlying NOI	232.5	208.0
Reported OPEX	106.8	85.8
<i>Less:</i>		
Upfront Reverse Mortgage costs	(3.3)	-
Corporate restructure costs	-	(3.1)
Underlying OPEX	103.5	82.7
Reported CTI	45.4%	41.6%
Underlying CTI	44.5%	39.9%

Thank you

For Heartland's FY2020 Annual Results announcement, please see shareholders.heartland.co.nz

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