2021 Interim Results

22 February 2021

HEARTLAND

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1H2021 highlights

Financial performance

Net interest margin (**NIM**) 4.28% (+5 bps vs 1H2020)
Average interest earning assets +$299.8m (6.1%) vs 1H2020

Net interest income
$113.2m
+7.6% vs 1H2020

Underlying other operating income **(OOI)** $6.9m (-19.2% vs 1H2020), excluding the impact of fair value gain on equity investment in Harmoney Corp Limited (**Harmoney**)

Other operating income[2] $12.1m
-10.2% vs 1H2020

NPAT[1]
$44.1m
+10.6% vs 1H2020
$43.2m **(+13.4%)** on an underlying basis after removing the impacts of one-offs

Underlying operating expenses (**OPEX**) $55.1m (+7.5% vs 1H2020), excluding $4.3m voluntarily accelerated amortisation of intangible assets, and $1.7m write-off and provisioning of aged suspense account items

Operating expenses
$61.1m
+12.0% vs 1H2020

Impairment expense
$4.5m
-49.7% vs 1H2020

Tax
$15.5m
+2.5% vs 1H2020

Gross finance receivables[3]
$4,706m
+2.7%[4]
vs June 2020

Borrowings
$4,643m
+2.4%
vs June 2020

Equity
$737m
+5.3%
vs June 2020

Return on equity
12.2%
+54 bps
vs 1H2020

Earnings per share
7.6 cps
+0.7 cps
vs 1H2020

1. Refer to Appendix 3 for reconciliation between reported and underlying net profit after tax (**NPAT**) result
2. OOI includes fair value gains/losses on investments
3. Gross finance receivables (**Receivables**) also include Reverse Mortgages
4. Annualised 1H2021 growth excluding the impact of changes in foreign currency exchange (**FX**) rates

Financial performance highlights

Receivables growth

- Continued growth in core lending portfolios (Motor, Reverse Mortgages, Business Intermediated)
- Overall growth impacted by continued reduction in non-core portfolios and elevated repayments, caused by Government and RBNZ stimulus combined with mortgage holidays allowing customers to divert funds to repay other debt
- Customer repayment behaviour is expected to normalise

Stable margin

- Strong NIM maintained
- Asset yields reduced in line with low interest rate environment, impacted by portfolio mix, and continued excess liquidity position
- Funding cost matched asset yield reduction with New Zealand deposit rates and Australian wholesale benchmark rates at historic lows

Costs controlled

- Underlying costs increased as a result of additional headcount, with underlying cost-to-income ratio relatively stable
- Cost base positioned to scale as portfolio growth resumes to historic levels

Improved impairment

- An improved arrears position due to repayments, refinancing and ordinary restructures
- Portfolio growth weighted toward secured portfolios, with unsecured portfolios contracting

Interim highlights

Relaunch of Heartland Home Loans with **NZ's lowest interest rates** among banks

Further digitalisation of product applications and digital platforms in NZ and Australia

45 participants in the 2020/2021 **Manawa Ako internship** – up from 34 in 2019/2020

Launch of **Rocket, a mobile financial literacy programme** for school leavers

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 Mortgages remains **Consumer Trusted** for the fourth year in a row

One of two Australasian banks to have **no reduction or adverse change to its ratings or outlook** by Fitch Ratings since January 2020

Impairment expense

- Impairment expense decreased by $4.5m, decreasing the impairment expense ratio[1] from 0.40% in 1H2020 to 0.19% in 1H2021 Driven by:
  - remediation of accounts previously in arrears, and the release of provisions held against those borrowers largely due to repayments, refinancing and ordinary restructures
  - growth in portfolios that attract lower rates of provisioning (Motor, Business Intermediated) or are subject to fair value (Reverse Mortgages), and contraction in portfolios that attract higher rates of provisioning (Open for Business, Harmoney).

- Importantly, the impairment performance has not been assisted by the use of the Heartland Extend product:
  - 77% of the Heartland Extend book comprises refinanced Business Intermediated and Open for Business loans, none of which were non-performing at 30 June 2020
  - 23% comprises refinanced Motor loans, with only 24% ($1.4m) being non-performing at 30 June 2020.

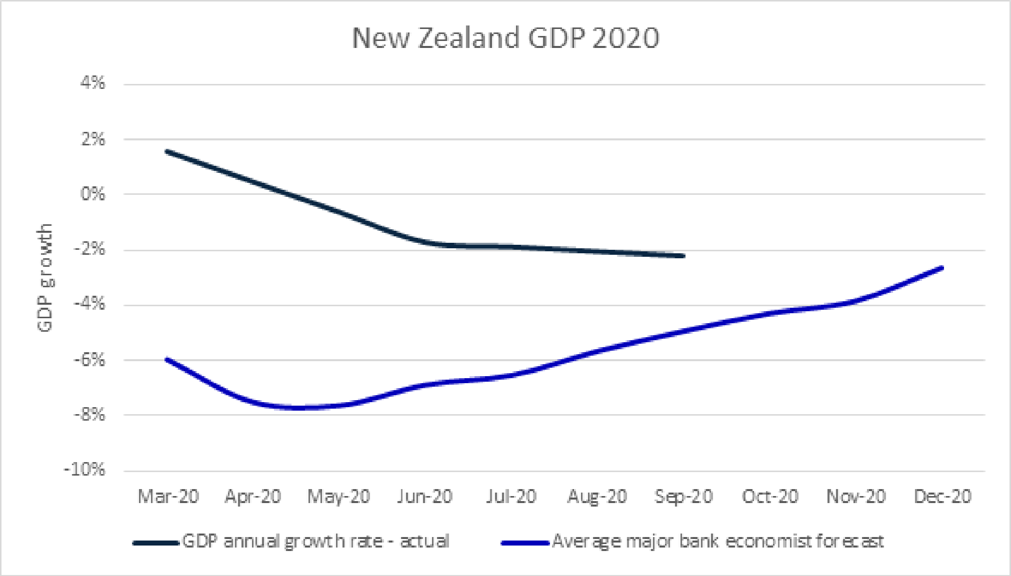
- While Heartland Extend is a "business as usual" product, it may assist borrowers in meeting their obligations going forward, and can therefore be expected to assist in controlling impairment expense.

1. Impaired asset expense as a percentage of average receivables

Impact of COVID-19

- The financial impact of the COVID-19 pandemic on the New Zealand economy has been more subdued than forecast by bank economists[1].

- Returns to higher Alert Levels have not impacted the economy as significantly as expected, with only a small drop in retail spending, and minor setbacks experienced for SMEs.



- An economic overlay of $9.6m (pre-tax) was taken at 30 June 2020 to:
  - allow for the uncertainty created by COVID-19, not due to any inadequacy of existing provisions
  - provide a buffer against any future losses that the uncertainty may give rise to, not due to any actual loss experienced.

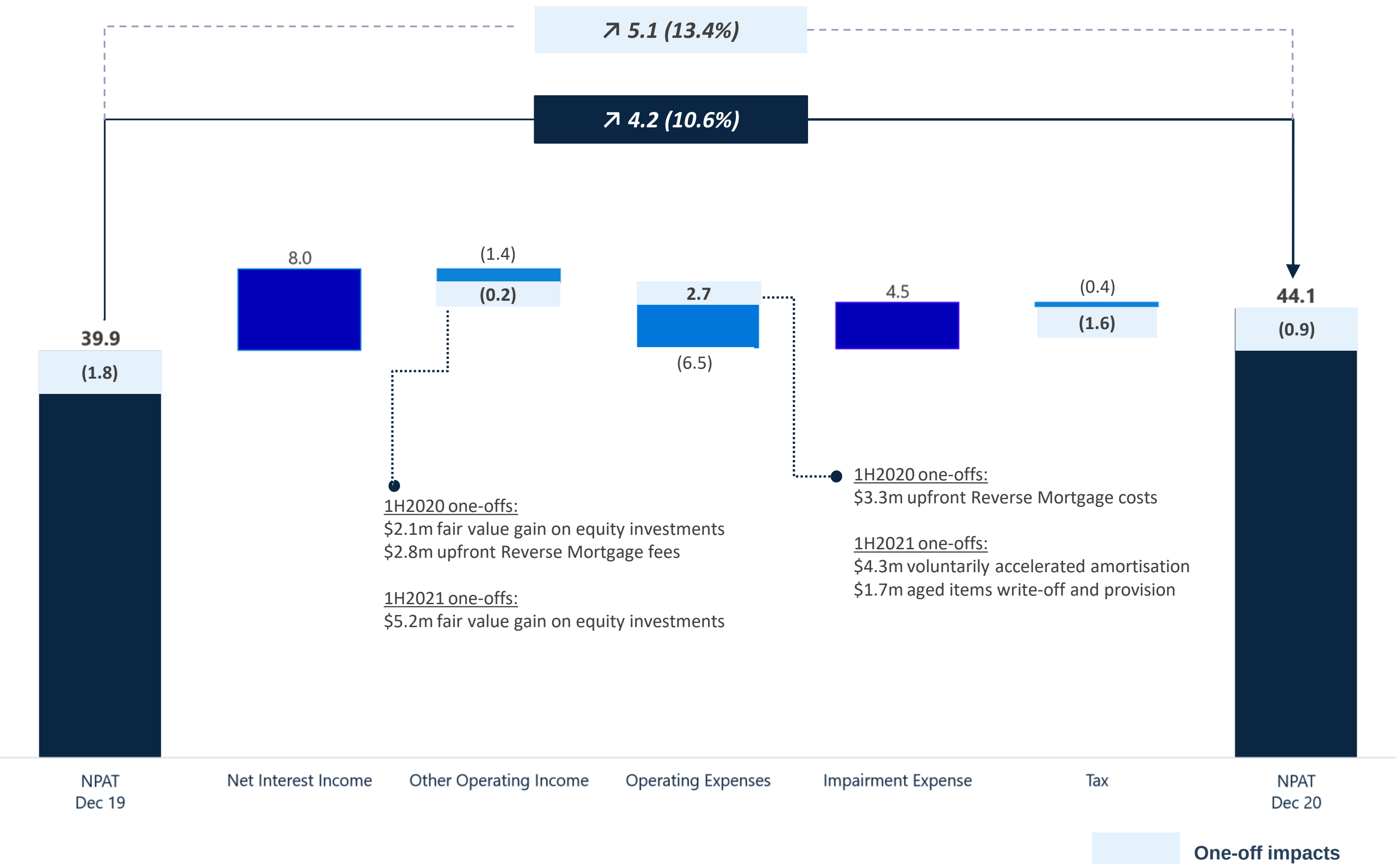
- The overlay remains unutilised at 31 December 2020:
  - current provisions remain adequate
  - a more developed understanding of the impact of COVID-19 on credit quality of Heartland's book, with total NPLs down year-on-year, Heartland Extend NPLs lower than comparative portfolios, and no BFGS NPLs.

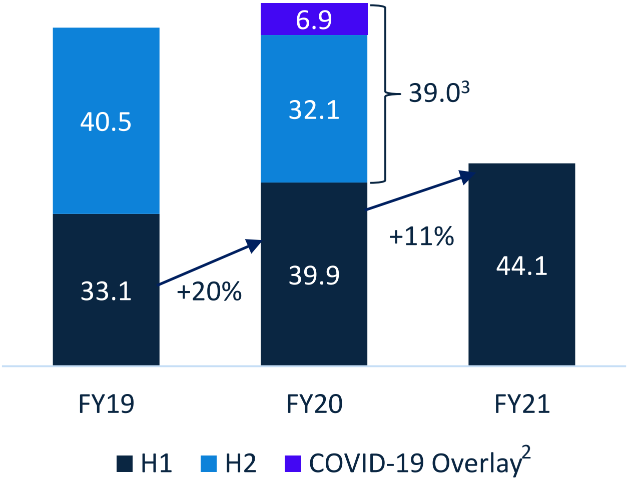
- Despite positive indicators and general improvement in economic forecasts, Heartland has retained its COVID-19 overlay as uncertainty around the impact of COVID-19 on overall credit quality of Heartland's book remains.

1. Actual GDP is annual growth rate for last 12 months (source: Statistics New Zealand). Forecast is average of major bank Economist's point in time GDP projection for 2020 (source: major bank publications).

Financial results

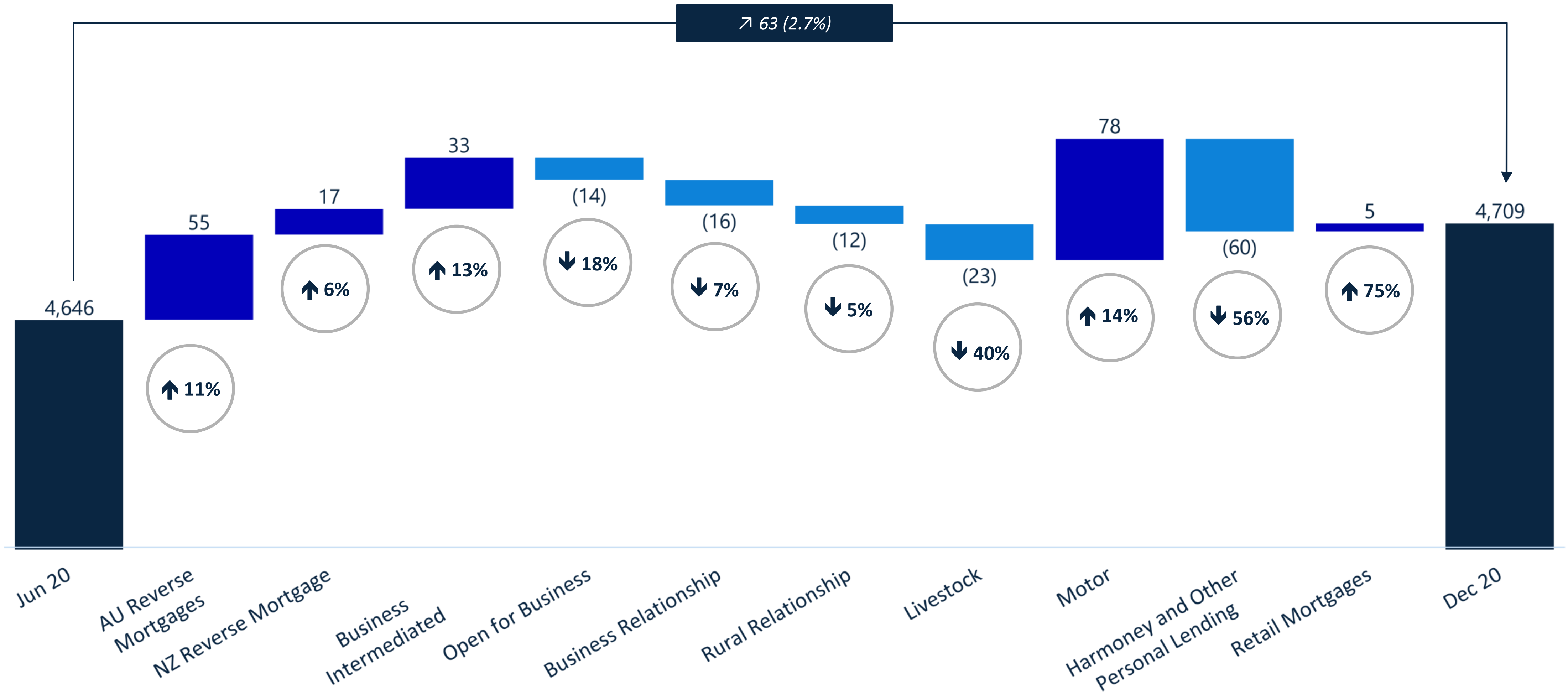
Growth in profitability





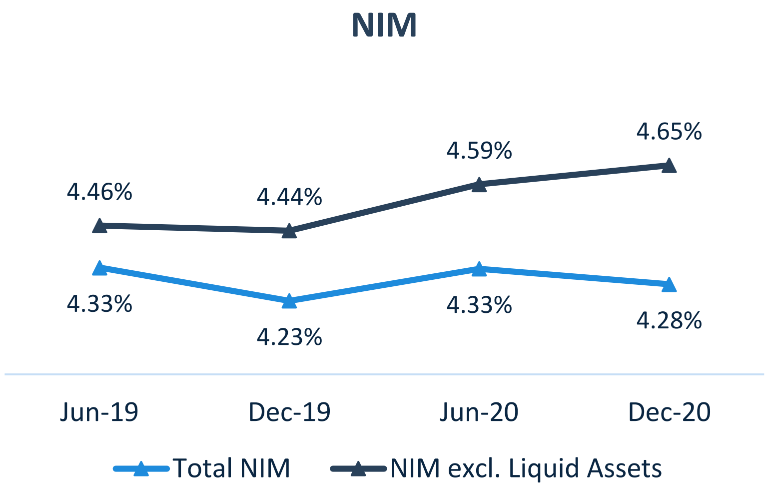
1. All figures in NZ$m.
2. Post-tax impact of $9.6m economic overlay due to COVID-19.
3. 2H2020 NPAT in NZ$m including the impact of $9.6m pre-tax economic overlay due to COVID-19.

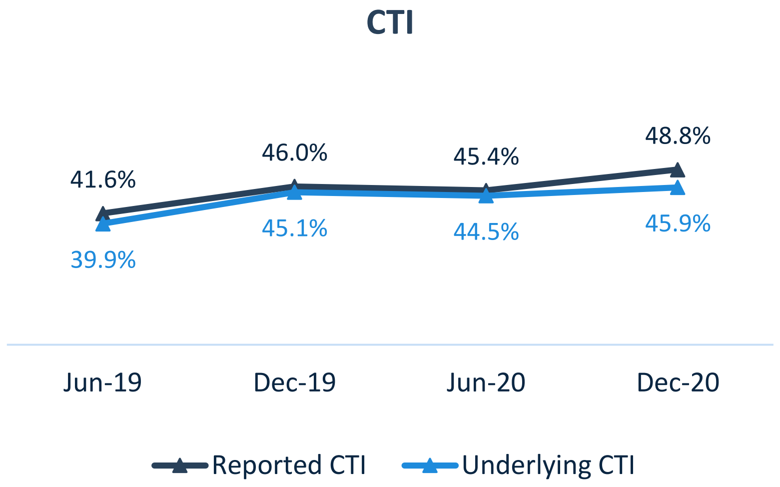
Growth in receivables

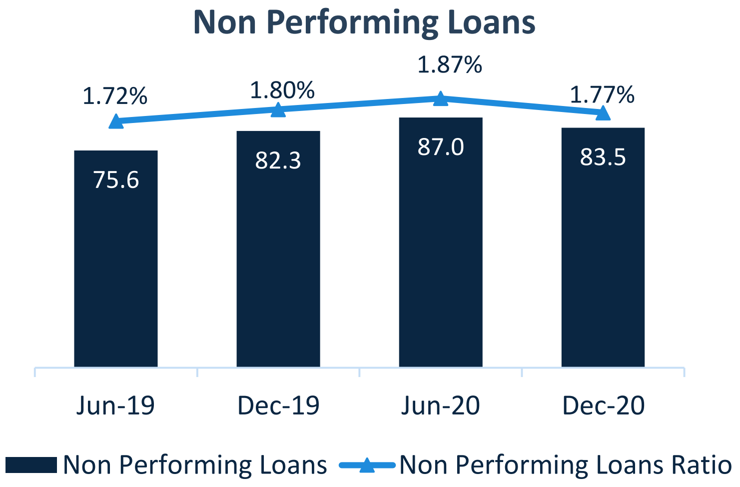


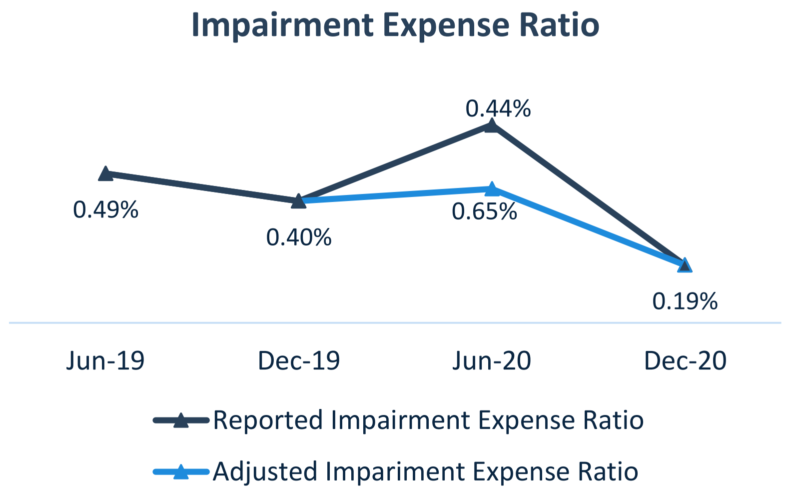
1. The graph shows 1H2021 growth in receivables by portfolio excluding the impact of changes in FX rates. Relative growth is annualised.
2. All figures in NZ$m.

Key performance measures







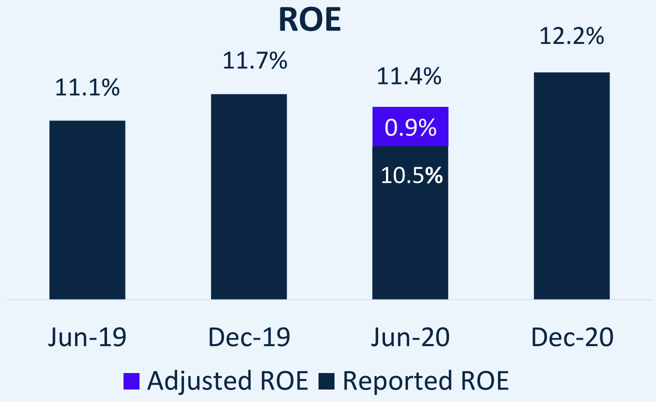


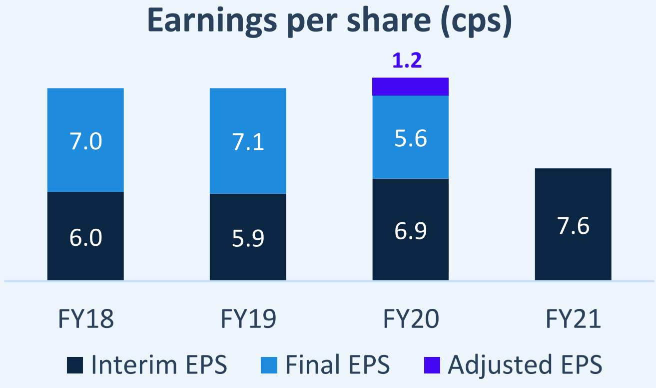
1. NIM is calculated as net interest income/average gross interest earning assets.
2. Underlying CTI excludes one-off impacts. Refer to Appendix 3 for reconciliation between reported and underlying result.
3. Impairment expense ratio is calculated as impairment expense/average gross finance receivables.
4. Adjusted impairment expense ratio excludes the impact of $9.6m pre-tax economic overlay due to COVID-19.

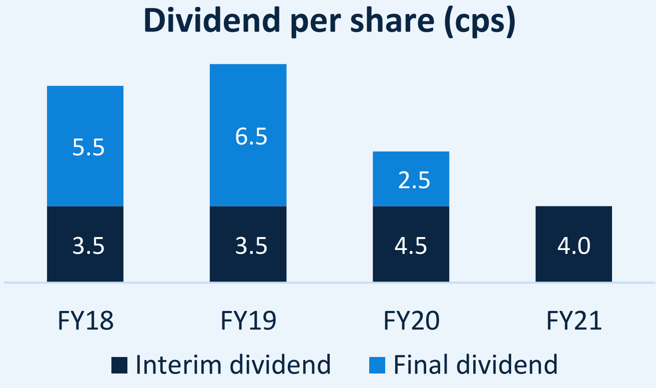
Shareholder return

- Underlying return on equity (**ROE**) of 11.9% (up 80 bps vs 1H2020)[1]
- Earnings per share (**EPS**) [2] of 7.6 cps, up 0.7 cps compared to 1H2020
- Interim dividend of 4.0 cps, down 0.5 cps on 1H2020 (pay-out ratio expected to return to historical levels once RBNZ restrictions are removed)
- Dividend yield of 4.8%[3]
- Five year total shareholder return (**TSR**) of 124%, compared with the NZX50 Index TSR of 108% in the same period[4]

1. Refer to Appendix 3 for reconciliation between reported and underlying result. June 2020 ROE of 10.5% includes the impact of $9.6m pre-tax economic overlay due to COVID-19.
2. Jun 20 EPS of 12.5 cps includes the impact of $9.6m pre-tax economic overlay due to COVID-19.
3. Total fully imputed dividends for 1H2021 (interim) and 2H2020 (final) divided by the closing share price as at 9 February 2021 of $1.88.
4. TSR for the period 17 February 2016 – 17 February 2021.







Divisional summary

Australian Reverse Mortgages

- Net operating income increased **15.2%** compared with 1H2020 to **$18.2m**.
- Receivables increased **10.6%**[1] in 1H2021 to **$1,030.8m**.
- Receivables growth in 1H2021 impacted by elevated repayments (**+28%** vs 2H2020).
- Australian Seniors Finance product recently rebranded to Heartland Reverse Mortgages to ensure a stronger brand alignment and consistency with Heartland and its products.
- Recent interest in the reverse mortgage product from significant mortgage aggregators in Australia, which Heartland expects to come to fruition in 2H2021.
- Heartland remains the leading provider of reverse mortgages in Australia with 12-month market share increasing from 26%[2] to 28%[3]. A similar trend is expected in the future as the equity market is set to triple in the next 10 years.

As at 31 December 2020

$1,031m

+10.6% annualised growth since June 2020[1]

1. Excluding the impact of changes in FX rates.
2. Based on APRA ADI Property Exposure and Heartland Seniors Finance data as at 31 March 2020.
3. Based on APRA ADI Property Exposure and Heartland Seniors Finance data as at 30 September 2020.

NZ Reverse Mortgages

- Net operating income decreased -**13.8%** compared with 1H2020 to **$11.2m.** Excluding the impact of one-offs[1] from 1H2020, underlying net operating income was largely flat half-on-half.
- Receivables increased **5.9%** in 1H2021 to **$576.6m**.
- Receivables growth in 1H2021 impacted by elevated repayments (**+40%** vs 2H2020).
- Growth in NZ Reverse Mortgages was driven by continued enhancements in digital platforms and investment in marketing to increase brand awareness.

As at 31 December 2020

$577m

+5.9% annualised growth since June 2020

1. 1H2020 include one-offs of $1.6m due to the required accounting standard change in respect of upfront reverse mortgage fees.

Reverse mortgages portfolio analytics

NZ Reverse Mortgages

$577m

+$16m (5.9%) vs June 2020

AU Reverse Mortgages

A$966m

+A$51m (11.1%) vs June 2020

Average loan size: $108,797

Weighted average borrowers' age : 79

Average origination LVR: 10.5%

Weighted average LVR: 23.7%

Proportion of the book over 75% LVR: 0.1%

Origination: $45m (+$7m vs 2H2020)

Total repayments in 1H2021: $44m (+$13m vs 2H2020)

1H2021 average repayment rate: 16% (vs 12% in 2H2020)

Repayments from vintage loans (+11 years): 35% (vs 33% in 2H2020)

Elevated repayments in 1H2021 due to:

- comparatively lower repayments in Q4 of FY2020 with property sales restricted by COVID-19 related lockdowns
- a buoyant property market in 1H2021

A$131,362 :**Average loan size**

77 :**Weighted average borrowers' age**

11.4% :**Average origination LVR**

24.2% :**Weighted average LVR**

0.5% :**Proportion of the book over 75% LVR**

A$96m (flat vs 2H2020) :**Origination**

A$70m(+A$15m vs 2H2020) :**Total repayments in 1H2021**

15% (vs 13% in 2H2020) :**1H2021 average repayment rate**

30% (vs 24% in 2H2020) :**Repayments from vintage loans (+11 years)**

Open for Business (O4B)

- Net operating income increased **13.6%** compared with 1H2020 to **$7.5m**.
- Receivables decreased **-18.4%** in 1H2021 to **$140.7m**.
- Growth slowed down in 2H2020 as a result of COVID-19 disruptions and the availability of Government-backed funding for small businesses. This trend continued in 1H2021.
- Ongoing investments in operational capacity, automation and marketing to increase product awareness, and improving economic sentiment are expected to fuel growth to pre-COVID-19 levels in future periods.

As at 31 December 2020

$141m

-18.4% annualised decrease since June 2020

Business Intermediated

- Net operating income increased **25.2%** compared with 1H2020 to **$13.4m**.
- Receivables increased **13.2%** in 1H2021 to **$532.1m**.
- Continued deepening and expansion of the intermediary network underpinned by a strong focus on distributor/vendor and point of sale support. The growth was further supported by strong demand from partners in the transport and logistics sector which continues to experience increasing demand and a solid performance following the COVID-19 outbreak.
- Launch of Heartland Extend for Business product, providing business owners with the flexibility to manage and adjust their loan repayments.

As at 31 December 2020

$532m

+13.2% annualised growth since June 2020

Business Relationship

- Net operating income increased **8.9%** compared with 1H2020 to **$12.2m**.
- Receivables decreased **-6.6%**[1] in 1H2021 to **$479.8m**.
- The continued downward trend reflects Heartland's strategy to continue to optimise non-core Relationship lending to reduce low margin concentration.

As at 31 December 2020

$480m

-6.6% annualised decrease since June 2020

1. Excluding the impact of changes in FX rates.

Motor Finance

- Net operating income increased **9.6%** compared with 1H2020 to **$33.0m**.
- Receivables increased **13.8%** in 1H2021 to **$1,203.9m**.
- Growth was mainly from the Motor dealer book via car dealerships, brokers and partnerships such as Kia Finance and Jaguar/Land Rover Financial Services.
- New business origination is 22% higher compared with 1H2020 due to Heartland's strategic focus on innovation and continued investments in digital enhancements.
- Guaranteed Future Value product continues to grow as consumers become more familiar with the product and its various options.
- Average loan size increased from $26k to $29k due to an increased weighting of new and near-new vehicles financed (44% in 1H2021 v 40% in 1H2020)

As at 31 December 2020

$1,204m

+13.8% annualised growth since June 2020

Harmoney and other personal lending

- Net operating income decreased **-19.0%** compared with 1H2020 to **$6.8m**.
- Harmoney Receivables decreased **-55.6%[1]** in 1H2021 to **$143.9m**.
- Both New Zealand and Australian Harmoney portfolios continued to contract in 1H2021 as a result of high repayments, and continued high impairment rate due to the additional provisions taken up to cover potential future losses under the COVID-19 environment.
- Harmoney is currently undergoing a transition of its funding model from the peer-to-peer off-balance sheet model to wholesale securitised on-balance sheet funding via warehouse structures. Heartland supports this transition and expects its facilities to move to this model in the near term, resulting in the resumption of portfolio growth assisted by an expected abatement in the current elevated repayment levels.

As at 31 December 2020

$144m

-55.6% annualised decrease since June 2020[1]

1. Excluding the impact of changes in FX rates.

Home Loans

- Home Loans[1] Receivables increased **+7.0m** in 1H2021 to **$7.6m**.
- Following a successful pilot, Heartland's digital Home Loans product was launched in October 2020 with conservative lending criteria targeting high quality applicants.
- Loans were slow to draw down over the summer holiday period, however strong application rates have continued with $303.6m approved online and $16.6m drawn down year to date.
- Challenges in converting applications to drawdowns are driven by time taken to process refinances from other banks and approved purchasers taking time to find and secure their desired property.

1. Excludes legacy Retail Mortgages.

Rural

- Net operating income decreased **0.5%** compared with 1H2020 to **$15.6m**. Rural Relationship net operating income increased by 5.0% to $12.7m and Livestock net operating income decreased by -15.3% to $2.9m.

- Receivables decreased **-11.5%** in 1H2021 to **$570.5m**. Rural Relationship receivables reduced by -4.9% to $478.3m and Livestock receivables reduced by -39.7% to $92.2m.

- The continued downward trend reflects Heartland's strategy to continue to optimise non-core Relationship lending to reduce low margin concentration.

- The Sheep & Beef Direct platform was launched in late 2020. At 16 February 2021, eligible applications totaled $52.3m, with $26.8m approved online and $3.0m drawn down. Refinements will continue to be made to reach target customers and improve user experience.

As at 31 December 2020

$571m

-11.5% annualised decrease since June 2020

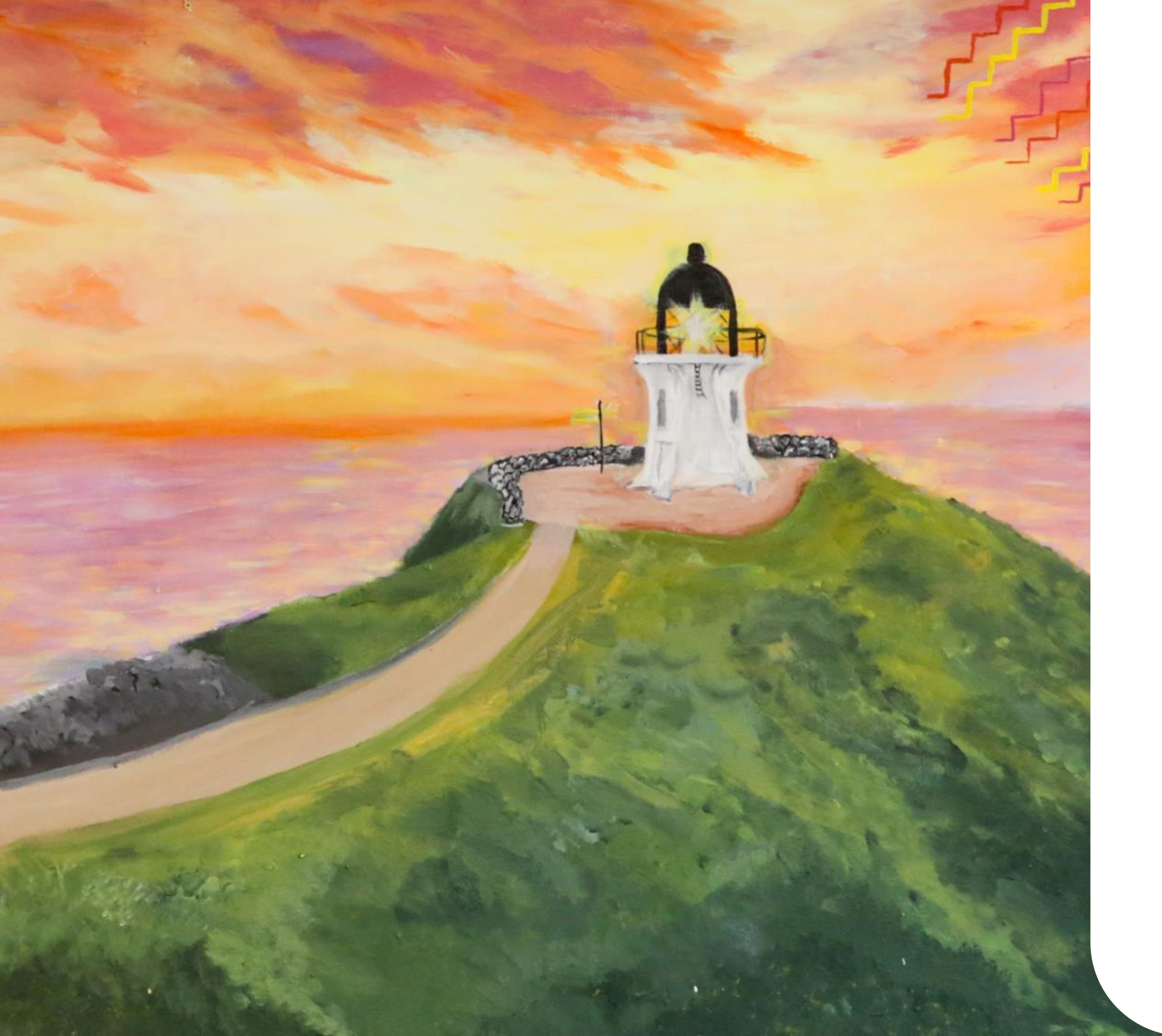
Funding and liquidity

New Zealand

- Heartland Bank increased borrowings by $32.7m (0.9%) in 1H2021
- Deposits grew $1.9m (0.1%)
- Heartland Bank increased total liquidity by $18.8m (2.6%)
- Heartland Bank holds liquidity well in excess of regulatory minimums
- Continued focus on reducing risk concentrations in the deposit book and shifting mix in favour of call deposits

Australia

- Heartland Australia increased borrowings by A$72.7m (8.6%) in 1H2021 and has access to committed Australian reverse mortgage loan funding of A$1b in aggregate
- Heartland completed an A$142m long-term reverse mortgage-backed syndicated loan funded by established offshore institutional investors. The first-of-its-kind transaction complements continued efforts to diversify type, source and tenor of funding and evidence market liquidity to existing warehouse funders
- Heartland recently completed a third senior unsecured bond placement, taking aggregate outstanding issuance to A$220m
- Further expansion of existing warehouse funding through increased senior limits and the introduction of mezzanine funding is planned, together with continued optimisation of long-term duration matched funding



Strategic update

Strategic objectives

New Zealand

Acquire scale

- By consolidating banking services in New Zealand
- By increasing market share using new and enhanced ‘best or only’ products to appeal to a wider customer base
- Supported by a low cost operating model

Australia

Expand in Australia

- Service the needs of a broader demographic of the aged sector
- Support customers transition from late stage employment to retirement, and subsequent entry into various stages of aged care
- Explore opportunities for organic and inorganic reverse mortgage growth
- Continue to focus on long-term funding to enable growth and expansion

Digital

Digitalise everything we do

- New/enhanced platforms launched
  - Home Loans
  - Sheep & Beef Direct
  - Motor Direct
  - O4B Australia
- Digital tools now live
  - Online quoting tools
  - Integrated biometrics for motor dealers
  - Broker portals
- Digitalising the fulfilment process and customer service touchpoints.

Looking forward

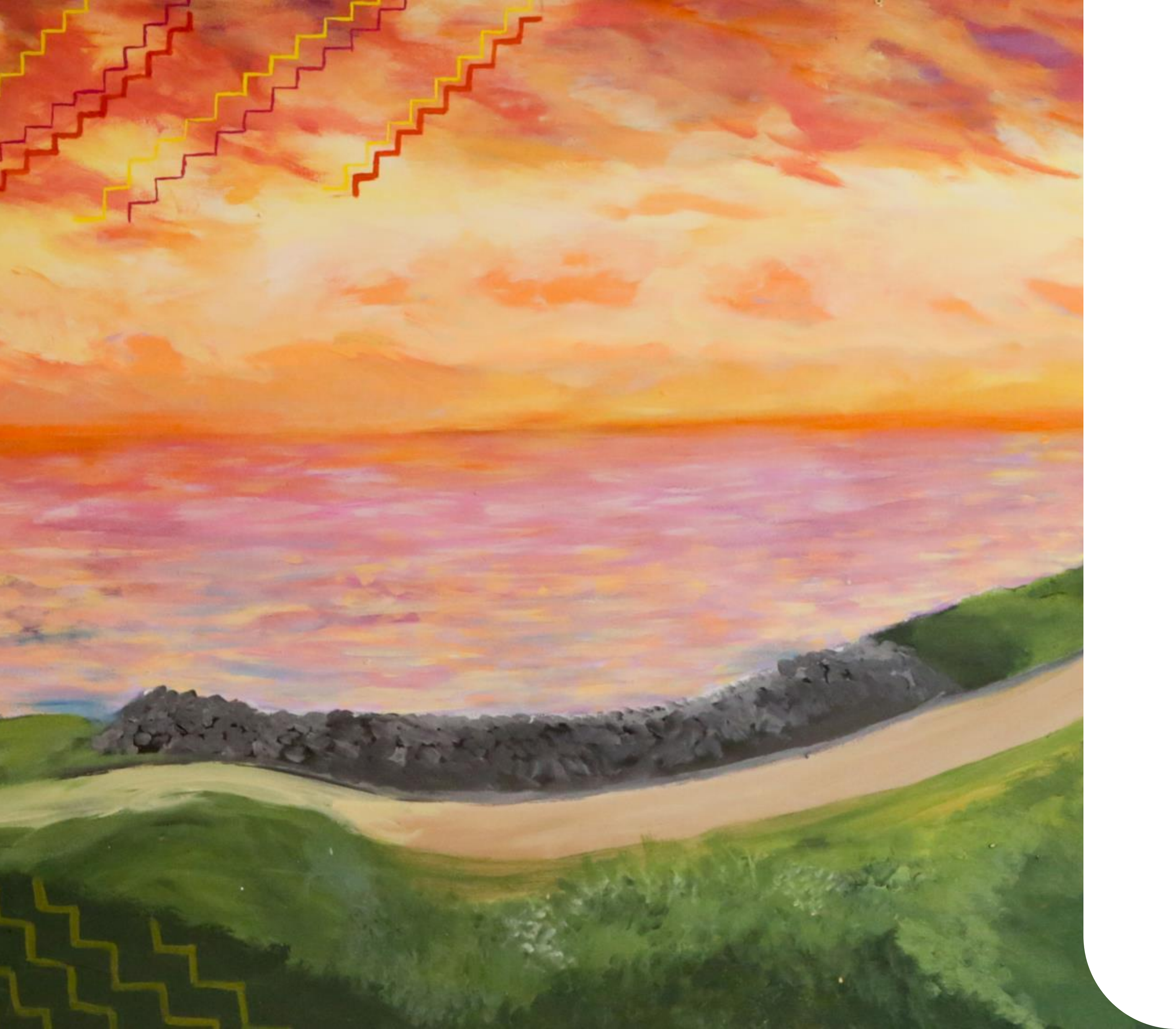
- 1H2021 NPAT exceeded expectations, contributing factors being:
  - lower than forecast impaired asset expense
  - strong origination levels in core portfolios
  - NIM stable.

- Overall modest balance sheet (primarily due to elevated repayments) may moderate the uplift in NOI historically experienced in the second half of the financial year.

- Customer repayment activity expected to normalise and impaired asset expenses expected to be in line with budget for remainder of the financial year.

NPAT for FY2021

Provided repayment activity and impairment asset expense forecasts are met and economic conditions continue to improve, Heartland expects **NPAT for FY2021 to be at the upper end of the guidance range of $83m to $85m**.



Appendices

Appendix 1 – Financial position

$m	31 December 2020	30 June 2020	Movement ($m)	Movement (%)
Liquid Assets	602	544	57	10.6%
Net Finance Receivables	4,650	4,584	66	1.4%
Other Assets	186	190	(4)	(2.0%)
TOTAL ASSETS	**5,438**	**5,318**	**120**	**2.3%**
Retail Deposits	3,269	3,264	4	0.1%
Other Borrowings	1,374	1,268	106	8.4%
Other Liabilities	58	86	(28)	(32.1%)
Equity	737	700	37	5.3%
TOTAL EQUITY & LIABILITIES	**5,438**	**5,318**	**120**	**2.3%**

Appendix 2 – Financial performance

$m	1H2021	1H2020	Change ($)	Change (%)
Net Operating Income[1]	125.3	118.6	6.7	5.6%
Operating Expenses	(61.1)	(54.6)	(6.5)	(12.0%)
Impairment Expense	(4.5)	(9.0)	(4.5)	(49.7%)
Profit Before Tax	**59.6**	**55.0**	**4.6**	**8.4%**
Tax Expense	(15.5)	(15.1)	(0.4)	(2.5%)
Net Profit After Tax	**44.1**	**39.9**	**4.2**	**10.6%**

Net Interest Margin	4.28%	4.23%	5 bps
Cost to Income Ratio	48.8%	46.0%	2.8 pp
Return on Equity	12.2%	11.7%	54 bps
Earnings per Share	7.6 cps	6.9 cps	0.7 cps

1. Includes fair value movements.

Appendix 3 – Reconciliation of reported with underlying results

$m	1H2021	1H2020	Movement ($)	Movement (%)
Reported NOI	**125.3**	**118.6**	**6.7**	**5.6%**
Less:				
Upfront Reverse Mortgage fees		-2.8	2.8	
Fair value gain on equity investments	-5.2	-2.1	-3.1	
Underlying NOI	**120.1**	**113.7**	**6.4**	**5.6%**
Reported OPEX	**61.1**	**54.6**	**6.5**	**12.0%**
Less:				
Upfront Reverse Mortgage costs		-3.3	3.3	
Voluntarily accelerated amortisation	-4.3		-4.3	
Aged items provision and write-off	-1.7		-1.7	
Underlying OPEX	**55.1**	**51.3**	**3.8**	**7.5%**
Reported NPAT	44.1	39.9	4.2	10.6%
Less:				
Post-tax impact of one-offs	-0.9	-1.8	0.9	
Underlying NPAT	**43.2**	**38.1**	**5.1**	**13.4%**
Reported Average Equity	718.5	681.6	36.9	5.4%
Underlying Average Equity	**718.1**	**680.7**	**37.4**	**5.5%**
Reported CTI	**48.8%**	**46.0%**	**2.80%**	
Underlying CTI	**45.9%**	**45.1%**	**0.80%**	
Reported ROE	**12.2%**	**11.7%**	**0.54%**	
Underlying ROE	**11.9%**	**11.1%**	**0.80%**	

Thank you

For Heartland's 1H2021 Interim Results announcement, please see shareholders.heartland.co.nz

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