

NZX Investing in New Zealand conference
and Asia roadshow
October 2018

About Heartland

- A New Zealand registered bank with operations in New Zealand and Australia
- Listed on the NZX Main Board in 2011 and obtained bank registration in 2012
- Focus is on providing “best or only” banking products within the Household, Business and Rural sectors
- NZX\$4.0bn of finance receivables (NZ\$3.3bn New Zealand, NZ\$0.7bn Australia)
- 12% compound annual growth rate in both finance receivables and profitability over the past 3 years
- 175% Total Shareholder Return over the past 5 years

Credit rating (Fitch)

As at 30 June 2018

BBB

Investment Grade, Outlook Stable

Market Capitalisation

As at 26 September 2018

\$978m

Total Shareholder

Return

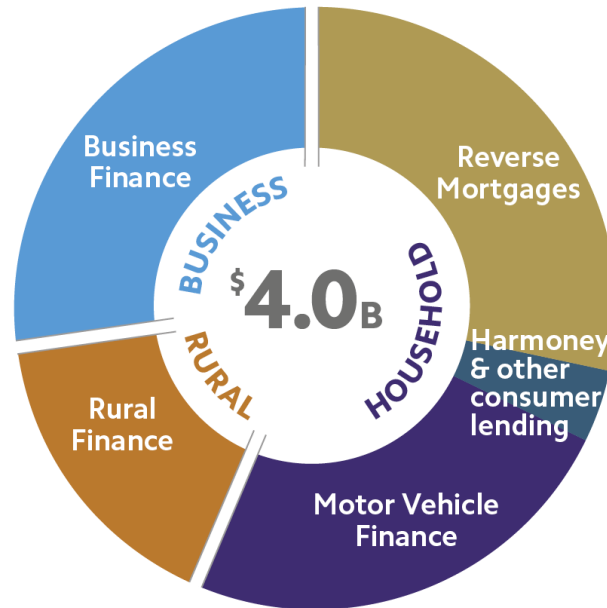
5 years to 30 June 2018

174%

Heartland Group

Net Finance Receivables

30 June 2018



Reverse Mortgages

NZ - \$453m, up 12% in 2018

Primarily distributed through our Heartland Seniors Finance sales team in New Zealand.

AU - \$677m, up 31% in 2018

Distributed through brokers and our Heartland Seniors Finance sales team in Australia.

Harmony & Other Consumer Lending

\$152m, up 61% in 2018

Our partnership with Harmony enables Heartland to lend through Harmony's online platform for personal loans.

Business Finance

\$1,066m, up 7% in 2018

Working capital and plant and equipment finance distributed through Heartland's relationship managers, partners and intermediaries.

Rural Finance

\$656m, down 3% in 2018

Rural loans and livestock finance distributed through Heartland's relationship managers and alliance partners.

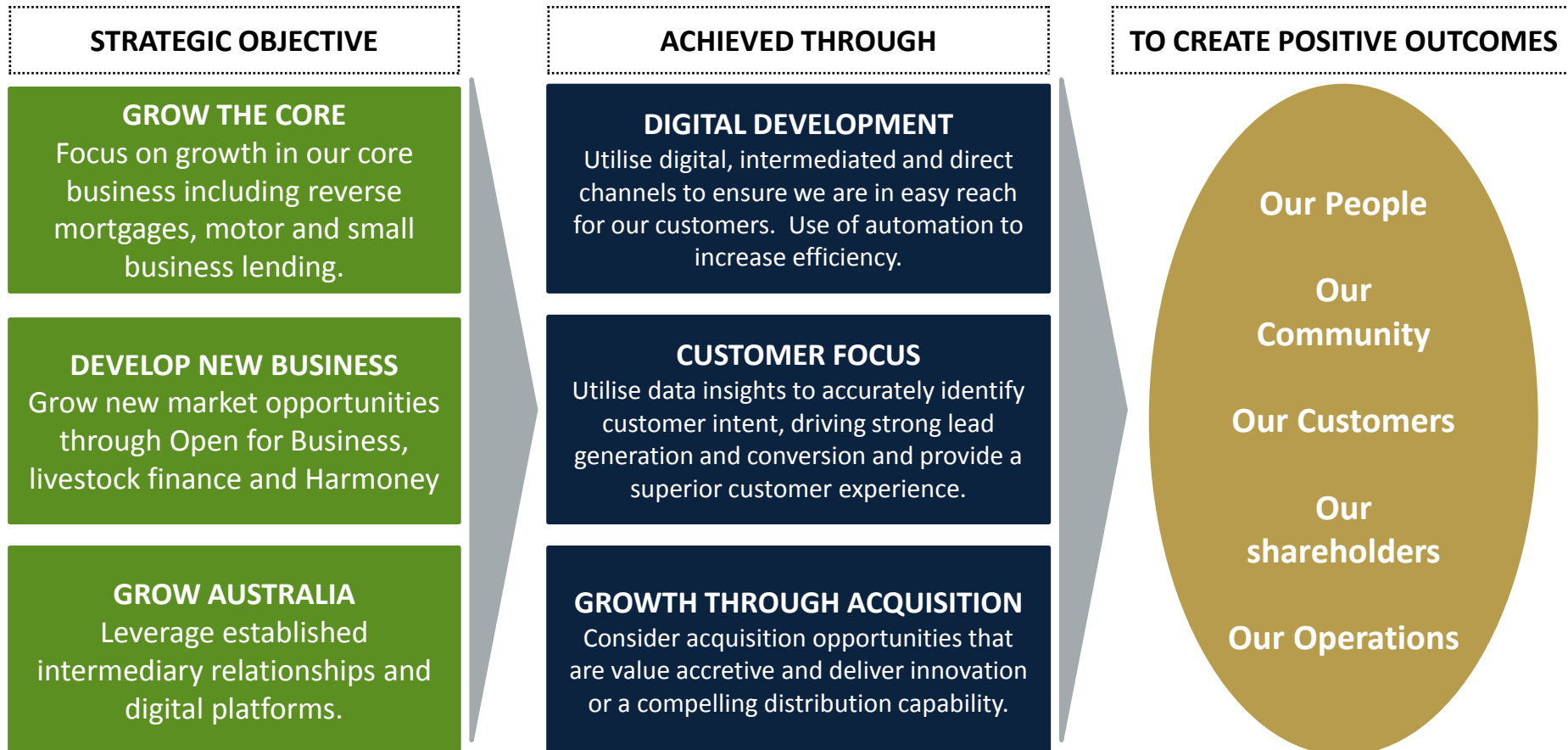
Motor Vehicle Finance

\$955m, up 16% in 2018

Distributed through our motor vehicle dealer network to enable customers to access finance at the point of sale.

Growth strategy is delivering results

To provide 'best or only' specialist products in niche markets that are under-serviced by the mainstream banks



Asset growth driving profitability

Net operating income

12 months to 30 June 2018

\$196.8m

▲ **15%** from FY2017

Net profit after tax

12 months to 30 June 2018

\$67.5m

▲ **11%** from FY2017

Net finance receivables

As at 30 June 2018

\$4.0bn

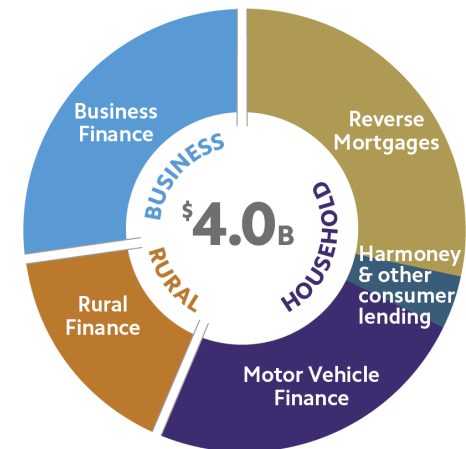
▲ **12%** from FY2017

Highlights

- 12% growth in net finance receivables from 30 June 2017
- Return on equity of 11.1%
- NIM strong at 4.42%
- Cost to income ratio improved to 40.9%
- Impairment expense increased, but underlying expense stable
- Final dividend declared 5.5 cps, full year dividend 9.0 cps

Net Finance Receivables

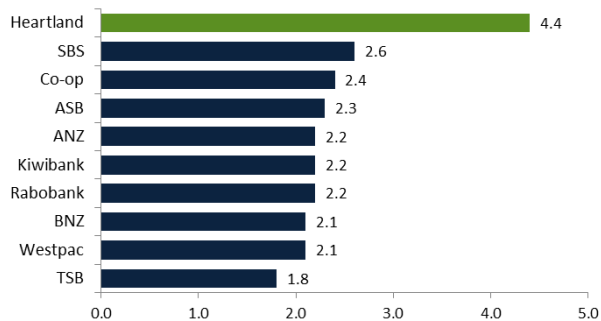
30 June 2018



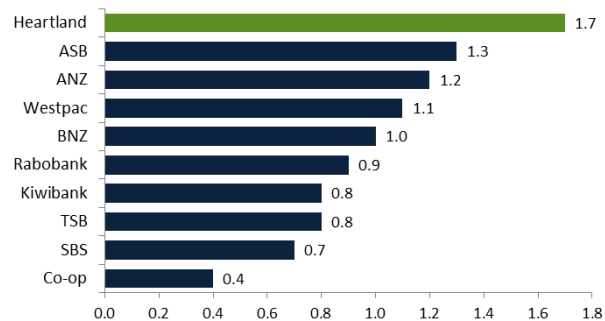
Heartland's point of difference

- Highest Net Interest Margin among our peers
- Resulting in highest Return on Assets
- Competitive Return on Equity
- Highest growth rate in Gross Loans and Advances (Net Finance Receivables) – 2.7% in the June quarter and 12.3% year on year

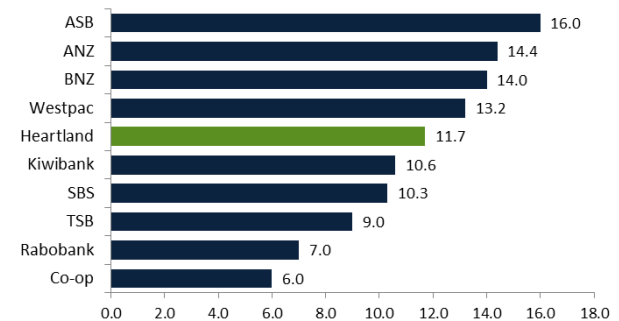
Net interest margin (%)



Return on assets (%)



Return on equity (%)



Source: Reserve Bank of New Zealand Financial Strength Dashboard, quarter ending 30 June 2018

Corporate Restructure

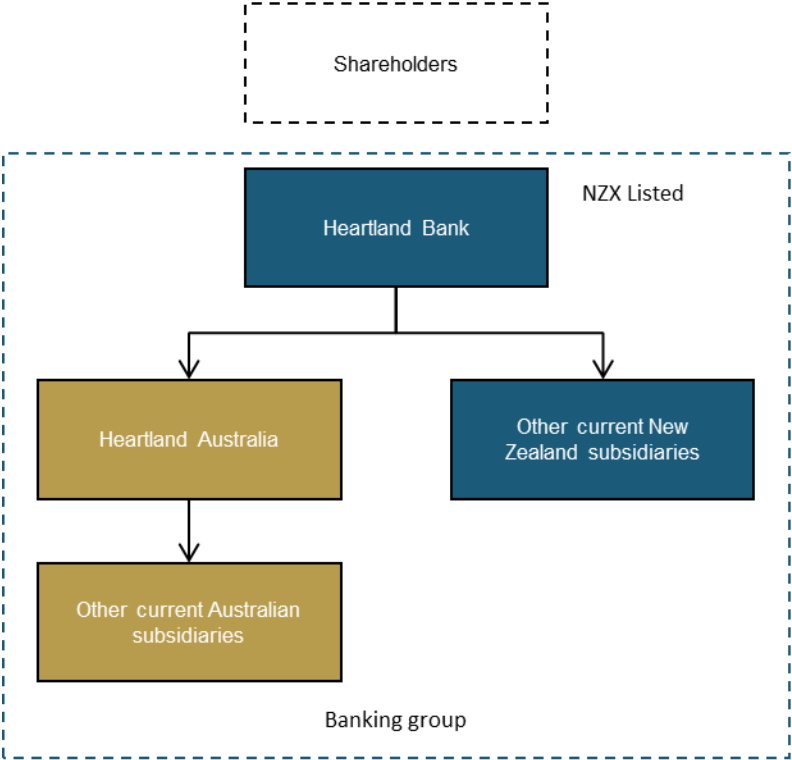


Corporate Restructure – to remove growth constraints

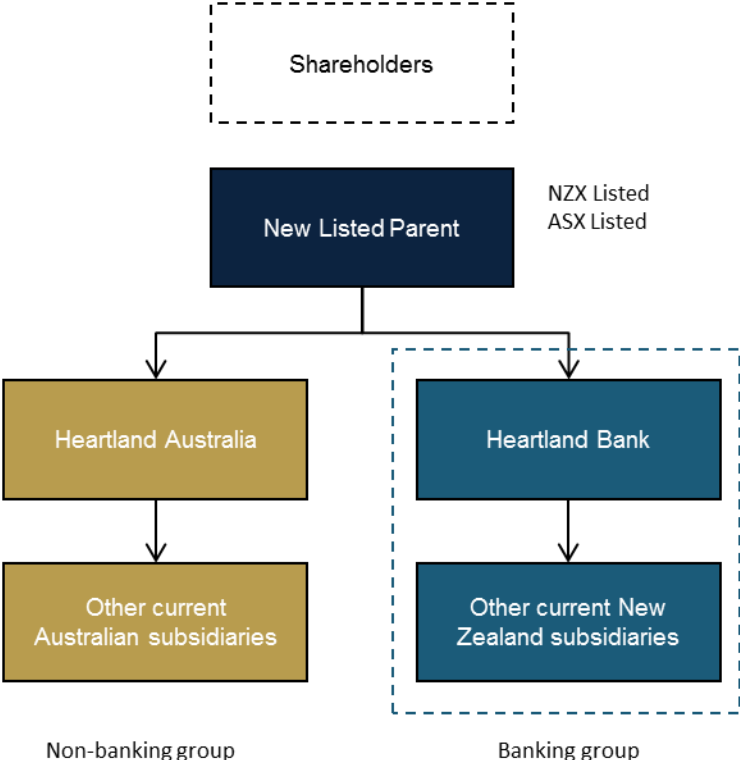
- Shareholders approved a corporate restructure at the Annual Meeting in September.
- Heartland’s Australian group companies will be separated from Heartland’s banking group and no longer be regulated by the Reserve Bank of New Zealand.
- The Restructure will remove constraints on funding and asset growth of the Group’s business currently arising from Reserve Bank regulations
- The Restructure will provide greater flexibility for the Group to explore and take advantage of future growth opportunities in New Zealand and Australia outside the banking group.
- Heartland Bank will remain a registered bank in New Zealand regulated by the Reserve Bank, and will continue to operate the Group's current New Zealand business.

Corporate Restructure – the new group

Current Heartland Group



New Heartland Group



Foreign exempt listing on the ASX

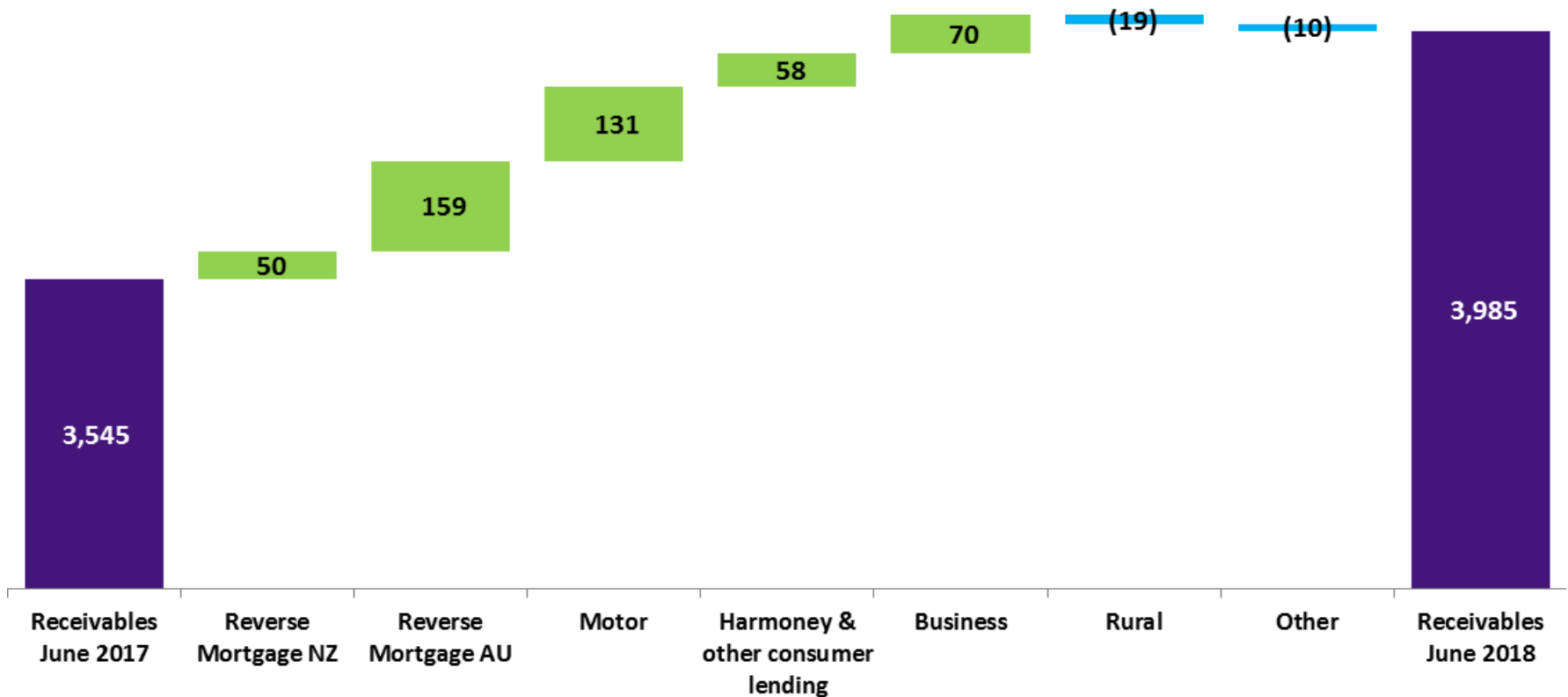
- Heartland is also seeking a foreign exempt listing on the ASX as part of the Restructure.
- Provides improved access to additional sources of capital for future growth opportunities.
- The Restructure facilitates a foreign exempt listing by Heartland Group Holdings, removing the word “bank” from the listed entity’s name.
- Heartland Group Holdings will have its primary listing on the NZX Main Board, and a foreign exempt listing on the ASX.

2018 Annual Results Highlights



Significant growth in reverse mortgages and motor

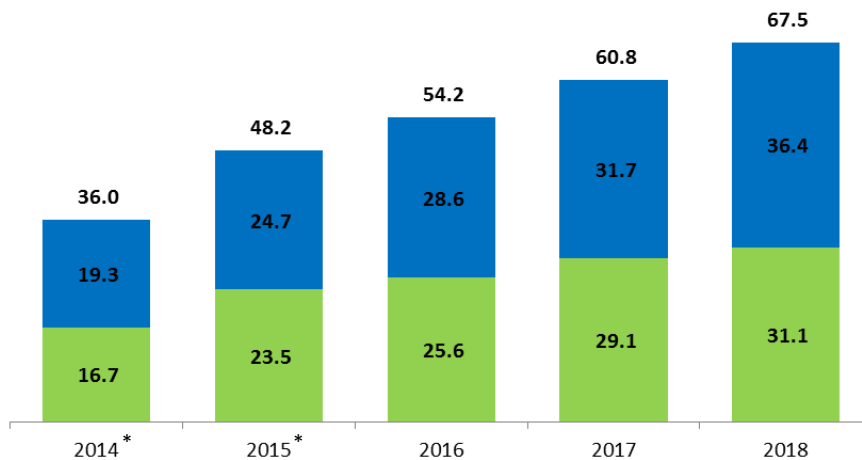
Net Finance Receivables Movement in 2018 (\$m)



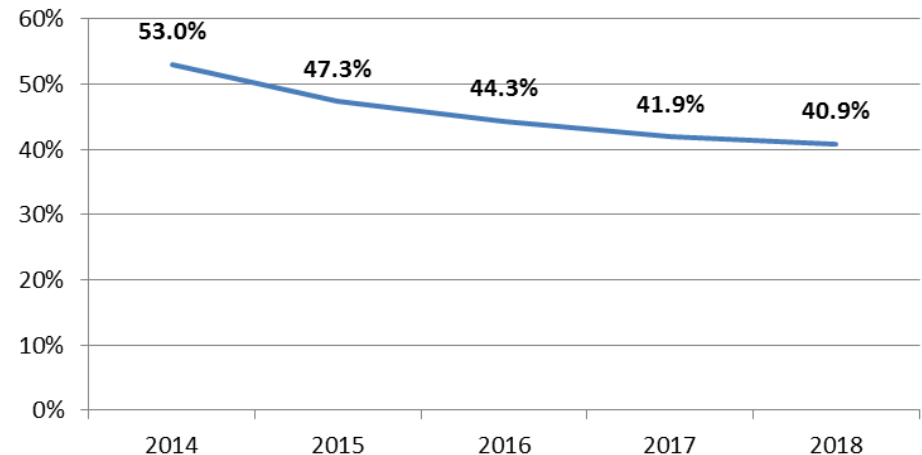
Growth in income and profitability

- Net interest income up 13%
- Net profit after tax up 11% driven by asset growth
- Market leading Net Interest Margin at 4.42%
- Cost to income ratio improved to 40.9%
- Impairment expense increased due to asset growth and increased provisioning

Net Profit After Tax (\$m)



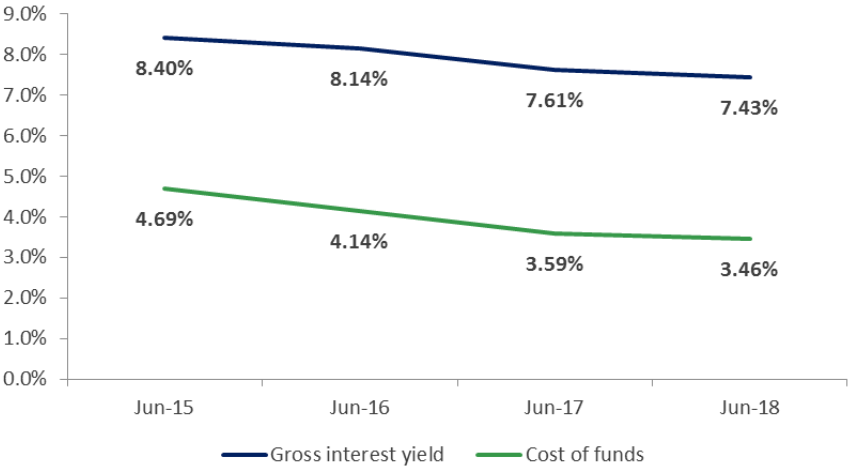
Cost to income ratio



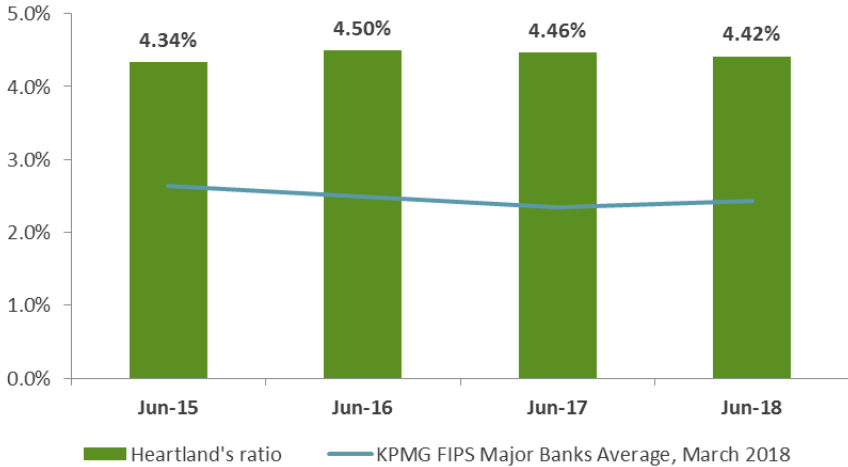
*Net profit after tax belongs to Heartland New Zealand Limited

Market leading NIM maintained

Gross interest yield and Cost of funds



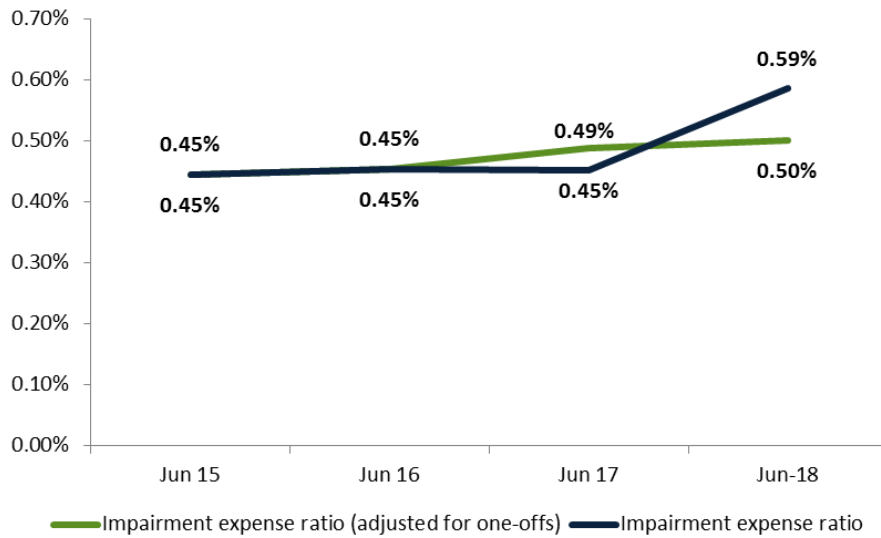
Net interest margin



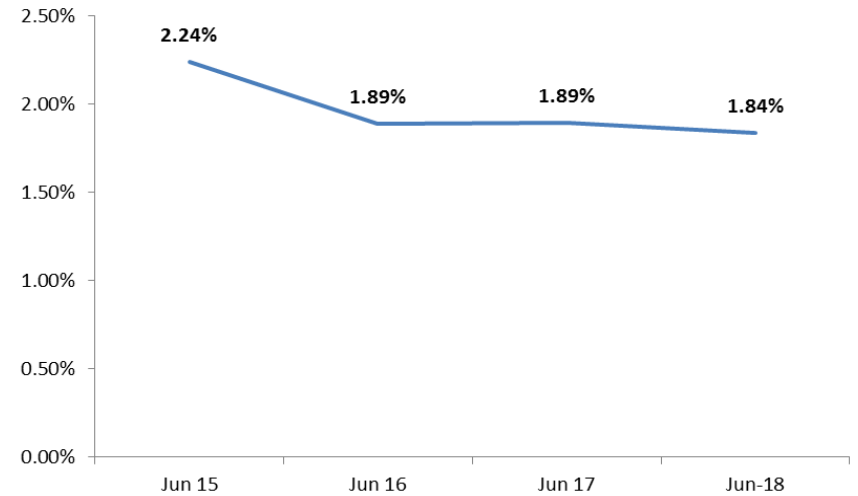
- Gross interest yield = Interest Income divided by Average Interest Bearing Assets
- Cost of funds = Interest Expense divided by Average Interest Bearing Liabilities
- Net Interest Margin (NIM) = (Interest Income – Interest Expense) divided by Average Interest Bearing Assets

Asset quality

Impairment Expense Ratio



Gross Non Performing Loans Ratio



Reverse Mortgages – responsible lending

Three promise reverse mortgage guarantee:

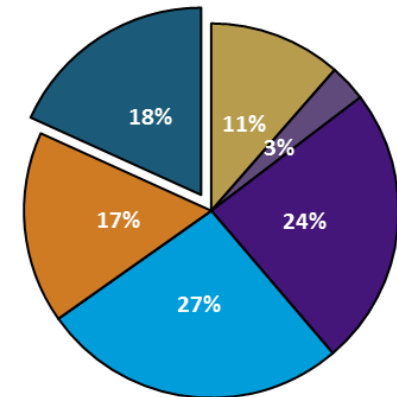
Lifetime Occupancy Guarantee	Your home will remain the place you live in for as long as you choose
No Negative Equity Guarantee	The loan repayment will never exceed the net sale proceeds of the property
Loan Repayment Guarantee	There is no requirement to make any repayment until the end of the loan

- Regulated by the National Consumer Credit Protection Act in Australia
- Regulated by Australian Securities and Investments Commission (ASIC) in Australia
- A socially responsible product with a thorough fulfilment process
- Loan assessment process and compliance call ensures loan suitability
- Customers encouraged to only draw what they need
- Broker model designed to avoid adverse customer outcomes
- Strong duty of care for customers extends through lifetime of the loan

Australia

Our Australian business continues to achieve significant growth:

- Reverse mortgages increased 31% to \$677 million
- Harmoney consumer lending in Australia commenced, growing to \$26 million
- Business lending through our partnership with Spotcap grew to \$19 million.



■ NZ Reverse Mortgages ■ NZ Harmoney & Consumer
■ Motor ■ NZ Business
■ Rural ■ Australia

Competitive and economic snapshot

- Low interest rate environment (OCR 1.50%)
- Heartland Bank has 19.8% of the Australia reverse mortgage market (June 2018)
- Number of people over 65 forecast to increase from 3.8m today (15% of population) to 5.8m in 2031 (19% of population)
- Over 20,000 Australians turn 65 every month
- Home ownership is high in those aged 65+, 85% in Australia
- Broker dominated reverse mortgage market

Australia

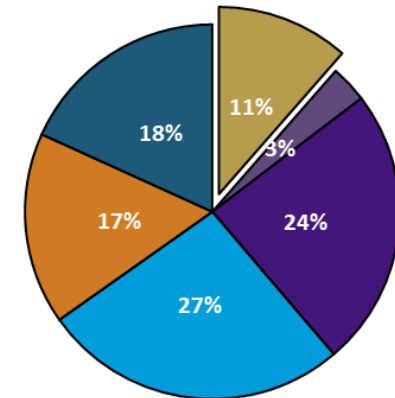
As at 30 June 2018

\$721m

▲ **39%** from FY2017

New Zealand Reverse Mortgages

- NZ Reverse Mortgage net finance receivables increased 12% to \$453 million
- NZ Reverse Mortgage Net Operating Income increased 17% to \$18.5 million
- Increased brand awareness and digital distribution
- Growth to 15,000 customers in New Zealand.



■ NZ Reverse Mortgages ■ NZ Harmony & Consumer
■ Motor ■ NZ Business
■ Rural ■ Australia

Competitive and economic snapshot

- Low interest rate environment (OCR 1.75%)
- Minimal broker market activity
- By 2036, it's projected that around one in 4.5 New Zealanders will be aged 65-plus, that's 1,258,500 million people
- 75 per cent of over-65s own their own home
- Moderate to high house price inflation

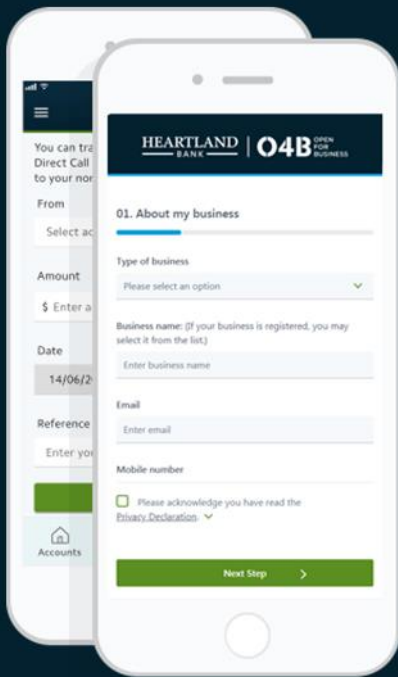
NZ Reverse Mortgages

As at 30 June 2018

\$453m

▲ 12% from FY2017

O4B OPEN FOR BUSINESS

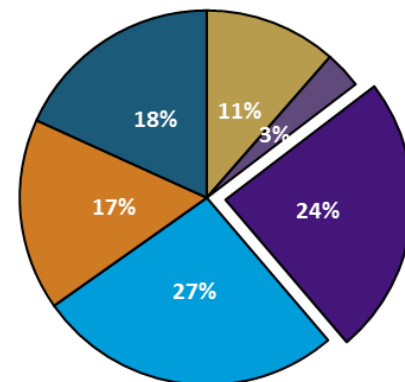


Open for Business

- NZ's largest dedicated online business loan platform
- Almost 98% growth in FY2018
- Proven stable technology and loan book performance consistent with expectations
- Reached over 5,000 clients based on search engine marketing only
- Unsecured loans up to \$75,000
- Partially secured loans up to \$250,000
- Apply in minutes, get a decision in seconds
- No need to change banks or secure your lending against the family home

Motor

- Motor net finance receivables increased 16% to \$955 million
- Motor Net Operating Income increased 3% to \$51.9 million
- Higher volume of lending slightly offset by lower rates
- Increased partnership with intermediaries to offer vehicle finance at point of sale.



Competitive and economic snapshot

- Franchises dominate the market in both new and used cars
- Used import registrations down 7% for the year (75k versus 80k) as at June 2018.
- New vehicle registrations are slightly up on last year by 0.5% (53k versus 52k).
- Motor purchases (inversely) correlated to unemployment – Unemployment currently at historical lows at 4.5%.

Motor

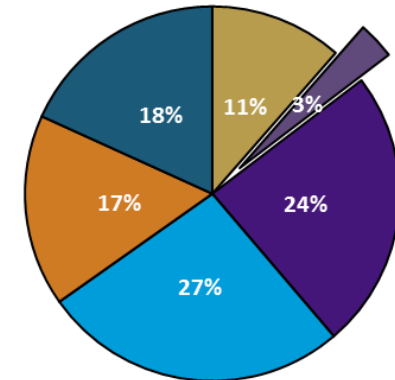
As at 30 June 2018

\$955m

▲ **16%** from FY2017

Harmony and other consumer lending (New Zealand)

- NZ Harmony and other consumer lending net finance receivables increased 34% to \$127 million
- NZ Harmony and other consumer lending Net Operating Income increased 15% to \$9.9 million
- Increased distribution through Harmony
- Higher volume of lending slightly offset by lower rates.



■ NZ Reverse Mortgages ■ NZ Harmony & Consumer
■ Motor ■ NZ Business
■ Rural ■ Australia

Harmony and other consumer lending

As at 30 June 2018

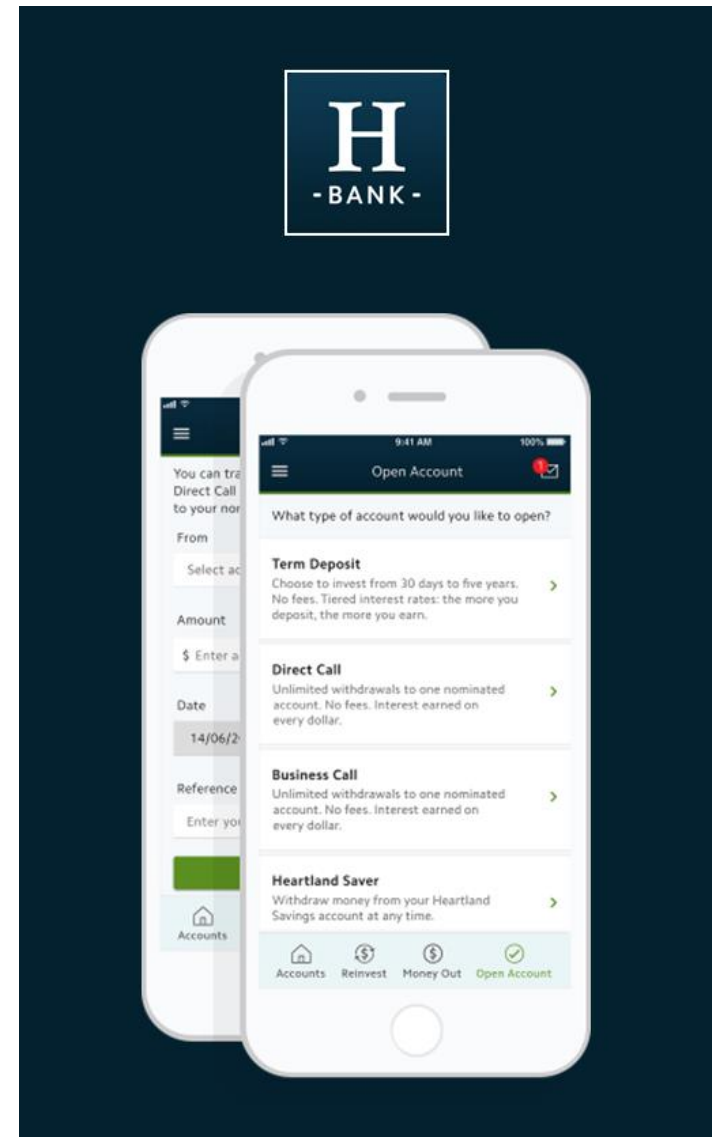
\$127m

▲ **34%** from FY2017

Harmony

Retail deposits

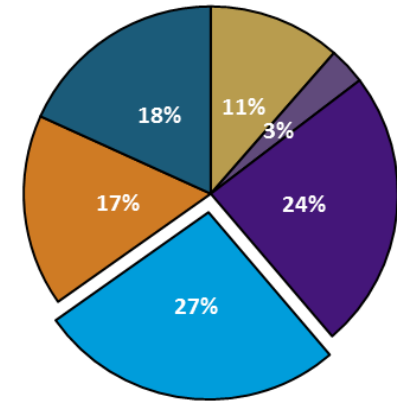
- Raised \$308 million of new deposits in FY18
- CANSTAR Bank of the year – Saving Award and Outstanding Value for our Direct Call Account
- New Heartland Mobile App for Savings and Deposits



New Zealand Business

New Zealand Business lending increased 6% in the year to \$1,047 million

- Growth achieved in lending through our online platform for small business loans, *Open for Business*, and intermediary partnerships
- Strategic reduction in relationship-managed business lending to decrease risk concentration
- New Zealand Business net operating income increased 12% to \$52.7 million for the year.



■ NZ Reverse Mortgages ■ NZ Harmony & Consumer
■ Motor ■ NZ Business
■ Rural ■ Australia

Competitive and economic snapshot

- 515,000 Small to Medium Enterprises (SME's) in New Zealand – 70% of whom are sole traders
- Target market is SME owners who do not want to or cannot use their own home as lending security
- Competition is main stream banks who normally require property as security

NZ Business

As at 30 June 2018

\$1,047m

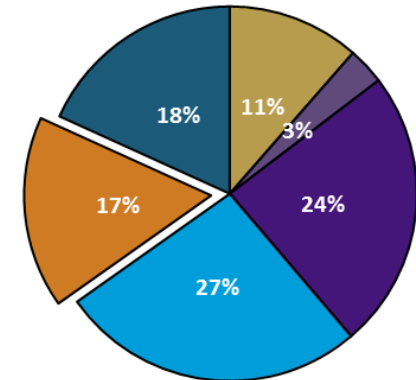
▲ **6%** from FY2017

Rural

- Rural lending decreased 3% in the year to \$656m
- Average net receivables increased from \$614m in 2017 to \$666m in 2018
- Net Operating Income increased 10% to \$32.3m due to higher average lending compared to 2017.

Product and distribution through digital channels:

- Increase livestock lending through *Open for Livestock*
- Strategic focus to reduce traditional rural relationship lending and larger risk concentration loans.



■ NZ Reverse Mortgages ■ NZ Harmony & Consumer
■ Motor ■ NZ Business
■ Rural ■ Australia

Competitive and economic snapshot

- Target market – Farmers who require specialised leverage of their livestock assets (stand-alone basis).
- Livestock values indicate good values of stock which supports confidence in the red meat industry.

Rural

As at 30 June 2018

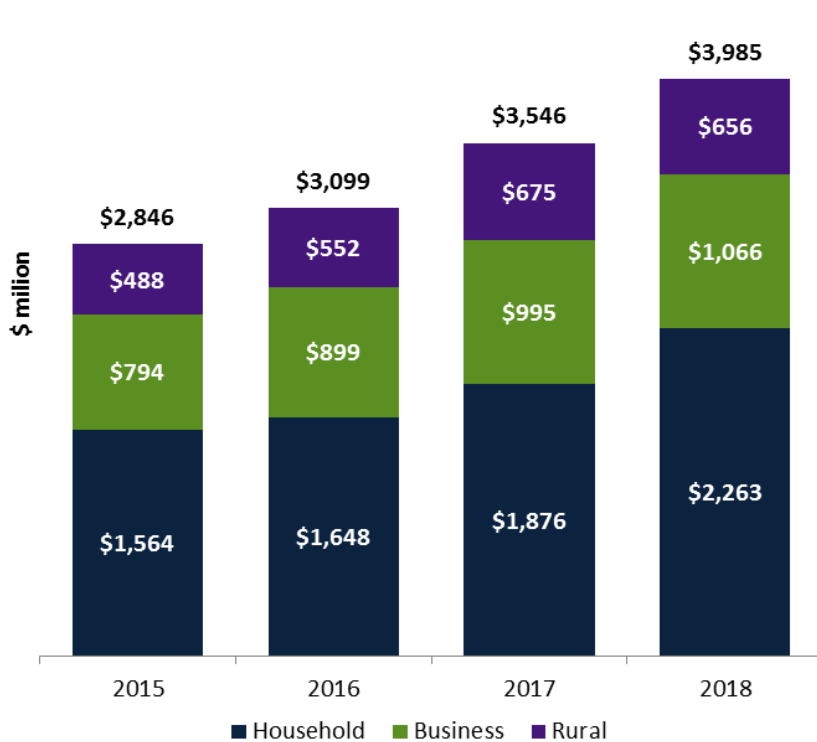
\$656m

▼ **3%** from FY2017

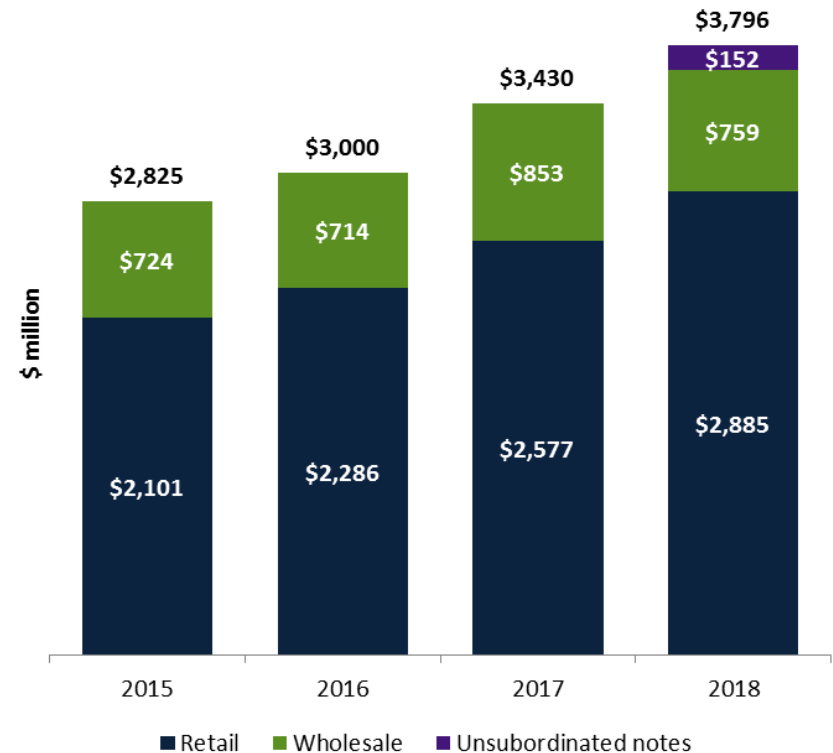
Asset growth supported by retail deposit growth

- 12% growth in net finance receivables
- Supported by 12% growth in retail deposits

Net Finance Receivables (\$m)

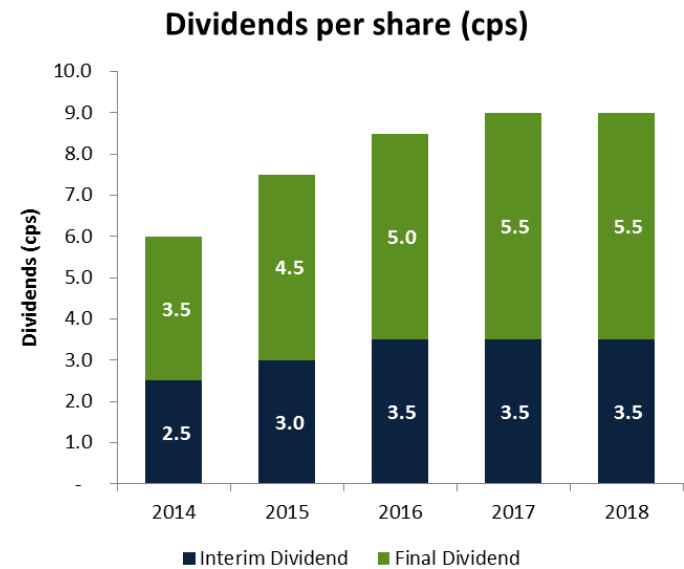
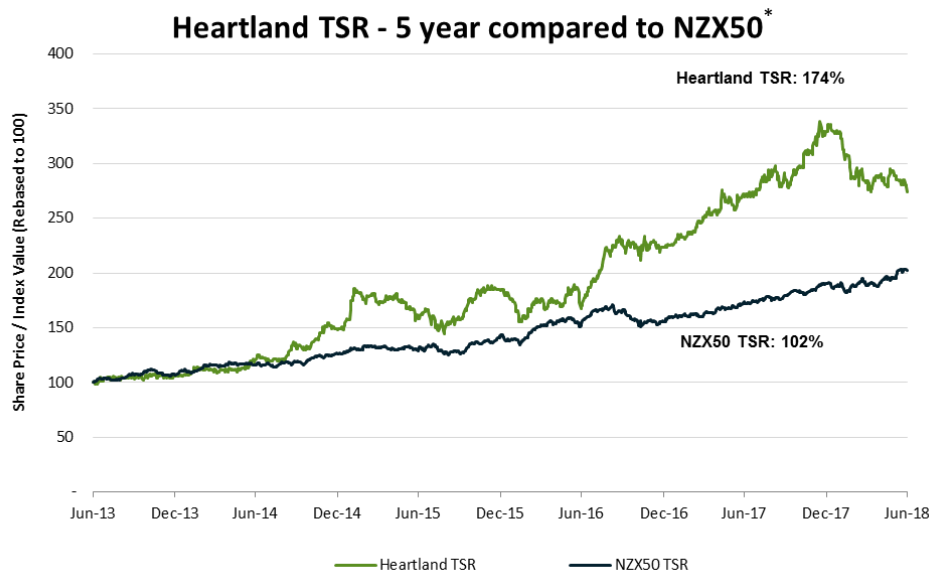


Borrowings (\$m)



Returns to shareholders

- Final dividend 5.5cps – full year dividend 9.0cps
- Dividend pay-out ratio 74.5%
- Total Shareholder Return (TSR) of 174% over the last 5 years



* Total Shareholder Return means share price appreciation plus dividend received. TSR has been calculated including the benefit of imputation credits.

Conclusion and Outlook

- 2018 was a year of investment in infrastructure, long-term capability and efficiency.
- We have developed a strong digital platform and confirmed a strategy for growth.
- Asset growth will be achieved through continued execution of strategy with digital distribution and intermediated channels providing low cost growth opportunities.
- Heartland expects net profit after tax for the year ending 30 June 2019 to be in the range of \$75 million to \$77 million.

Thank you



Q&A

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Appendices



New Zealand – a stable growing economy

A stable country

- Stable MMP Government – Ranked 2nd (out of 102) for open government environment¹
- Ranked 1st (out of 190 economies) for easy of Starting Business and 2nd (out of 139 nations) for Business Friendliness¹
- Progressive investment focus

A sound macro-economy

- Stable, low interest rate: 2.6%² (10 year bond)
- Stable, low inflation: 1.5%³
- Strong export economy

Solid growth environment

- GDP growth: 2.7%³
- Growing population: 1.9%³
- Low unemployment: 4.5%³
- Renown for creativity and innovation



Key financial service sector regulators

- **Reserve Bank of New Zealand (RBNZ)** - the prudential regulator of the banking industry in New Zealand
- **Financial Markets Authority (FMA)** - regulates the sale of financial products in New Zealand
- **Commerce Commission** - enforces the Credit Contracts and Consumer Finance Act (CCCFA), the principal legislation governing the provision of consumer credit
- **Australian Securities & Investments Commission (ASIC)** - ASIC is Australia's integrated corporate, markets, financial services and consumer credit regulator

Historical Summary Financial Information

Statement of Comprehensive Income

For the year ended	30 June 2018	30 June 2017	30 June 2016	30 June 2015
	\$m	\$m	\$m	\$m
Interest income	309.3	278.3	265.5	260.5
Interest expense	125.5	115.2	118.8	126.0
Net interest income	183.8	163.1	146.7	134.4
Other net income	13.0	8.1	10.9	10.3
Net Operating Income	196.8	171.3	157.6	144.7
Operating expenses	80.4	71.7	69.9	68.4
Impaired asset expense	22.1	15.0	13.5	12.1
Profit before taxation	94.3	84.6	74.2	64.3
Taxation expense	26.8	23.7	20.0	16.2
Net profit after tax	67.5	60.8	54.2	48.2

Historical Summary Financial Information

Statement of Financial Position

As at	30 June 2018	30 June 2017	30 June 2016	30 June 2015
	\$m	\$m	\$m	\$m
Assets				
Cash and cash equivalents	49.6	57.0	84.2	37.0
Investments	340.5	318.7	236.4	329.3
Investment properties	9.2	4.9	8.4	24.5
Finance receivables	3,984.9	3,545.9	3,098.9	2,845.7
Operating lease vehicles	17.5	19.0	24.6	30.0
Other assets	14.4	10.0	15.7	16.5
Intangible assets	74.4	71.2	57.8	51.1
Deferred tax asset	5.3	7.9	7.1	8.7
Total Assets	4,495.9	4,034.7	3,532.9	3,342.9
Liabilities				
Borrowings	3,796.1	3,429.7	3,000.0	2,825.2
Current tax liabilities	11.5	9.9	6.8	7.9
Other liabilities	24.2	25.5	27.9	29.7
Total Liabilities	3,831.8	3,465.1	3,034.6	2,862.8
Equity				
Share capital	542.3	470.5	418.8	413.6
Retained earnings and reserves	121.8	99.1	79.6	66.5
Total Equity	664.2	569.6	498.3	480.1

Historical Summary Financial Information

Summary Ratios

	30 June 2018	30 June 2017	30 June 2016	30 June 2015
Regulatory Total Equity Ratio	14.1%	13.6%	14.0%	14.3%
Net Tangible Assets (\$m)	584.4	490.5	433.5	420.3
Net Tangible Assets per share (\$)	1.04	0.95	0.91	0.89
Earnings per share (\$)	0.13	0.12	0.11	0.10
Dividends (cps)	9.0	9.0	8.5	7.5
Return on Equity (%)	11.1%	11.6%	11.1%	10.4%
Net Interest Margin (NIM)	4.42%	4.46%	4.50%	4.34%
Cost to income ratio	40.9%	41.9%	44.3%	47.3%
Gross interest yield	7.43%	7.61%	8.14%	8.40%
Cost of funds	3.46%	3.59%	4.14%	4.69%
NPL ratio (Gross)	1.84%	1.89%	1.89%	2.24%
Impairment ratio	0.59%	0.45%	0.45%	0.45%