

Heartland

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HEARTLAND
— BANK —

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Overview of Heartland



Heartland Snapshot

Heartland Bank Limited, NZX-listed registered bank

New Zealand bank registration 17 December 2012

Size Market Cap ~\$596m (31 May 2016)
Total Assets ~\$3.4bn (31 March 2016)
Total Liabilities ~\$2.9bn (31 March 2016)

Credit Rating (Fitch) BBB (*outlook stable*)

Principal Activities Innovative specialist financial products in niche markets in the Household, Business and Rural sectors

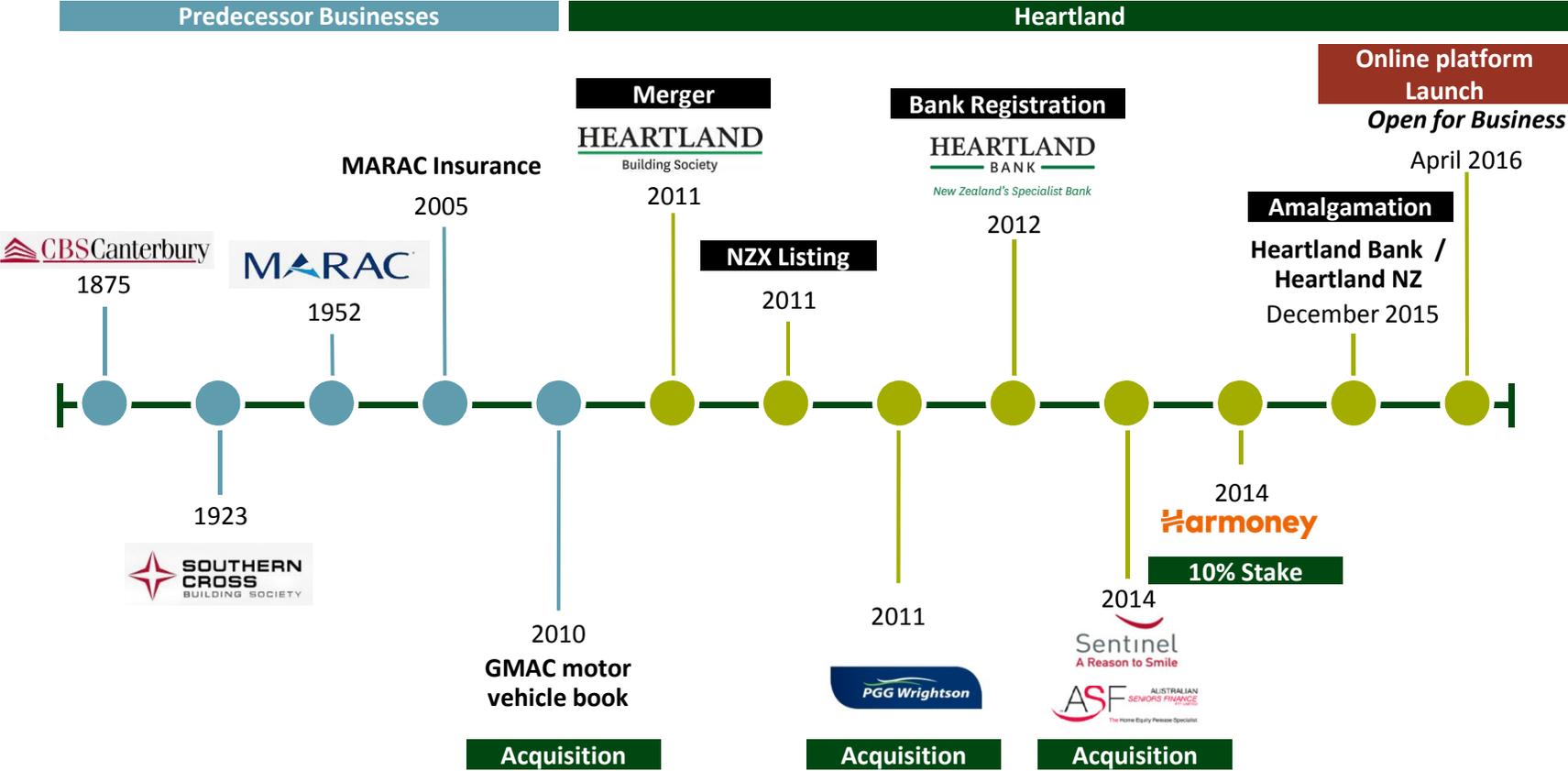
Loan portfolio Diversified portfolio of assets by business sector and geography

Loyal depositors 38,000 individual depositors, 19,000 of which have been with Heartland for 10 years or more
0.8% market share by customer deposits⁽¹⁾

Dividend Policy Consensus forecast 9.0 cps for FY2017 (fully imputed) – equivalent to 7.5% cash yield and 10.4% gross yield based on consensus estimates⁽²⁾

⁽¹⁾ FIPS 2015 Review
⁽²⁾ As at 11 May 2016

Evolution of Heartland



Since listing on the NZX in February 2011, Heartland has progressed through several strategic phases, successfully establishing itself as a specialist financial services group

Heartland Strategy

Strategy

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

Priorities

Market leadership in digital distribution and digital marketing to deliver a radically better customer experience based on 'ease and speed'

Expansion of our product offering into Australian markets

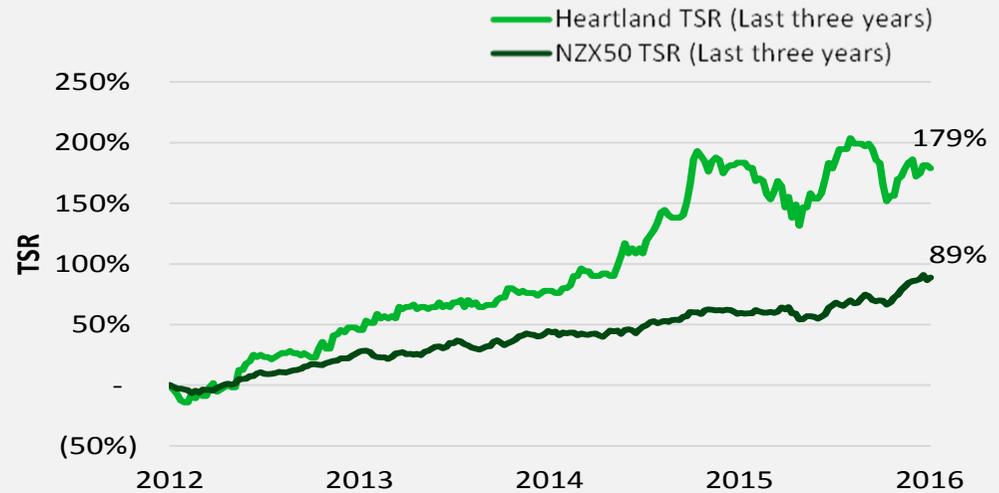
Strong systems infrastructure to support Heartland's ambitions for growth

Acquisition opportunities that are value accretive and deliver innovation or a compelling distribution capability

Strategy is working...

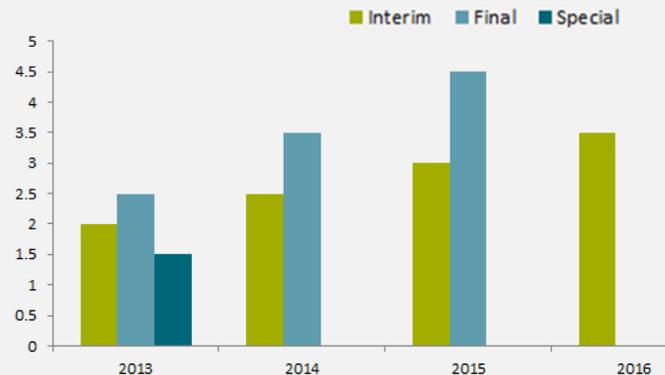
- Returns to Heartland shareholders have materially exceeded that of the wider market over the past four years
- Heartland has increased the dividend paid per share since 2013

Total shareholder return (TSR)



Source: Capital IQ as at 11 May 2016

Dividends



Key Financial / Operational Metrics

Heartland has achieved consistent and meaningful improvement in all key operational and financial metrics as it has increased focus on niche products

	FY2012A	FY2013A	FY2014A	FY2015A	CAGR
Net Interest Income	83.6	95.5	109.1	134.4	17.1%
Net Interest Margin (%)	4.0%	4.2%	4.2%	4.4%	↑
Cost-to-income ratio	69.1%	65.8%	53.0%	47.3%	Improved
Bad debt ratio ⁽¹⁾	0.5%	0.4%	0.3%	0.2%	Low
NPAT (Adjusted ⁽²⁾)	14.0	24.4	36.0	48.2	51.0%
Total Assets	2,348.1	2,504.6	3,016.9	3,359.3	12.7%
Total Equity	374.8	370.5	452.6	480.1	8.6%
Return on equity (Adjusted⁽²⁾)	4.2%	6.5%	9.0%	10.4%	↑
EPS (Adjusted ⁽²⁾)	4.0	6.0	9.0	10.0	18.6%
% "Specialised" products	61%	67%	81%	83%	↑

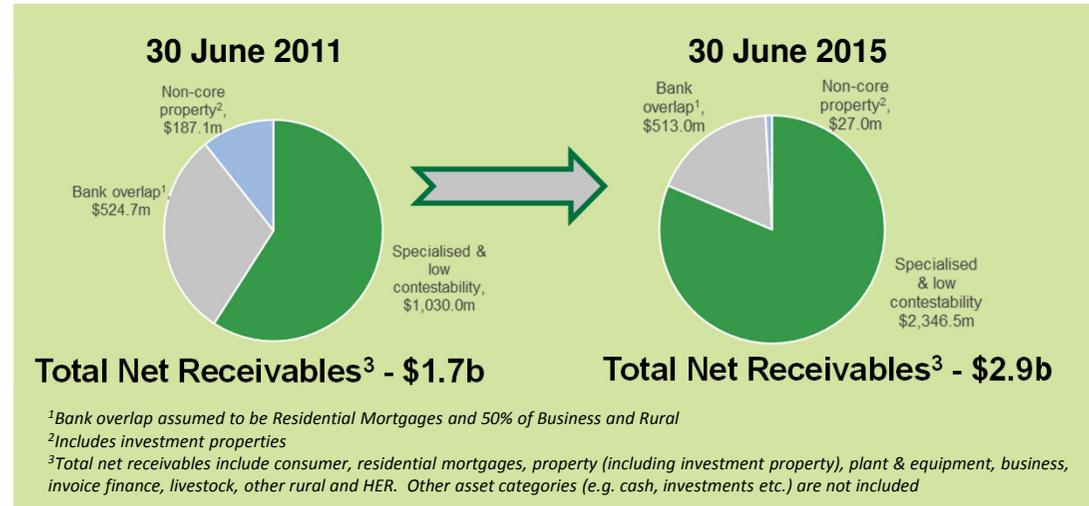
Source: Company Annual Reports based on June Financial Year End

(1) Bad debt ratio includes: Impaired asset expense and Decrease in fair value of investment properties; 2013 added back change in strategy provisions (\$18.0m)

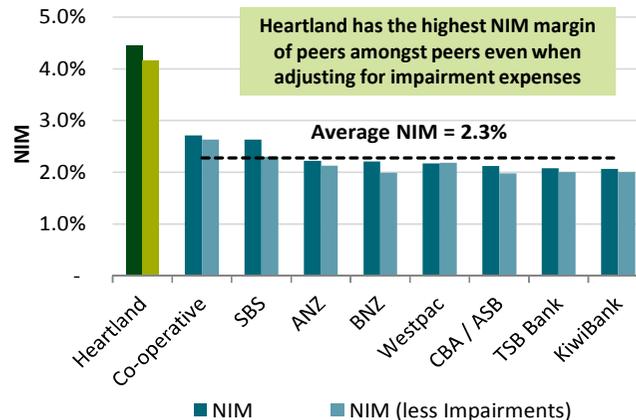
(2) 2012 adjusted for \$9.6m one-off tax benefits; 2013 added back change in strategy provisions (\$18.0m), management fee (\$6.1m), management expenses (\$0.2m)

Different from local bank competitors

- Focus on providing specialist products to market niches
- Significant progress made in execution of this strategy
- 81% of loans in either specialised or less contestable markets
- Strongest net interest margin amongst competitors



Net Interest Margin (NIM)



Source: FIPS Review 2015, data for quarter ending 31 December 2015 adjusted for the effect of Heartland New Zealand amalgamation



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
Net operating income *	77.8	70.3	144.9
Expenses	37.1	33.5	68.4
Profit before impairments and tax	40.7	36.8	76.5
Impaired asset expense	5.6	5.1	12.1
Net profit before tax	35.1	31.7	64.4
Tax	9.5	8.2	16.2
Net profit after tax (reported)	25.6	23.5	48.2

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

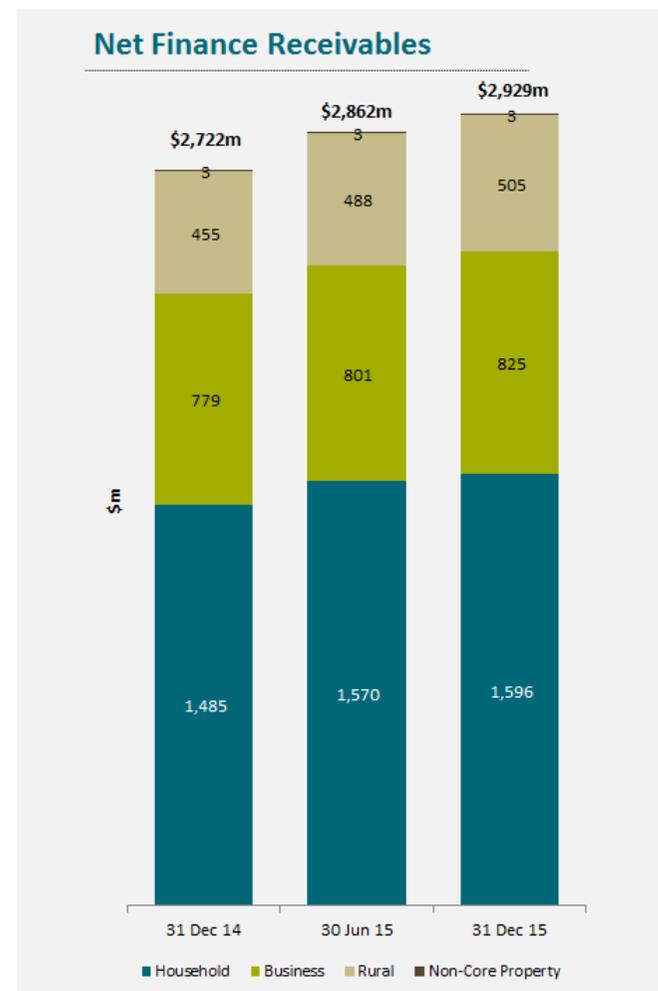
Balance Sheet Summary

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

Balance Sheet Summary

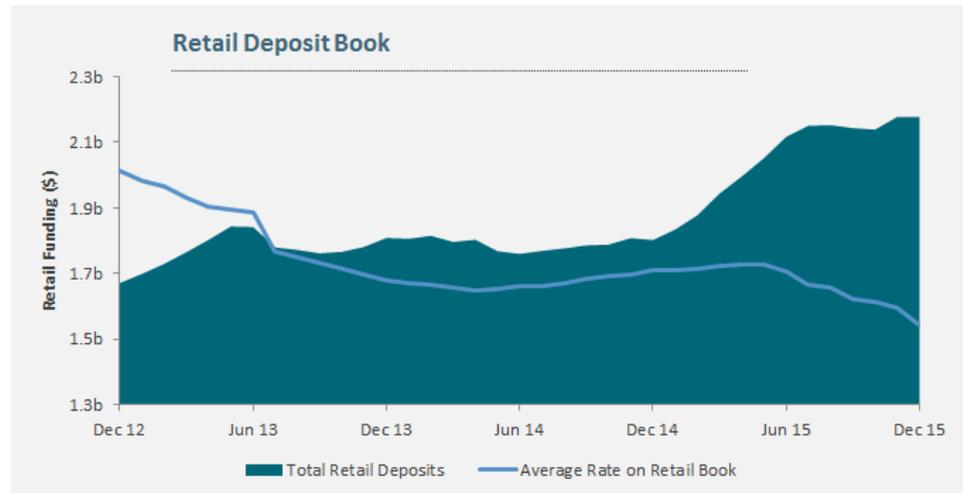
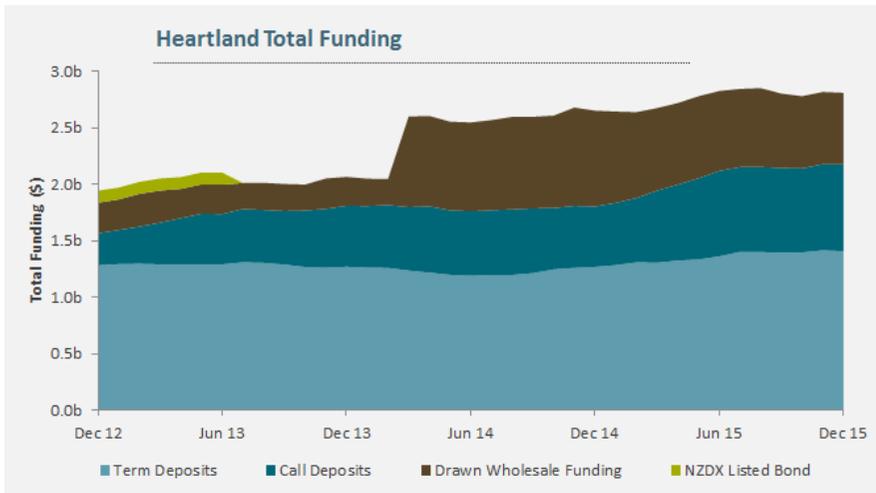
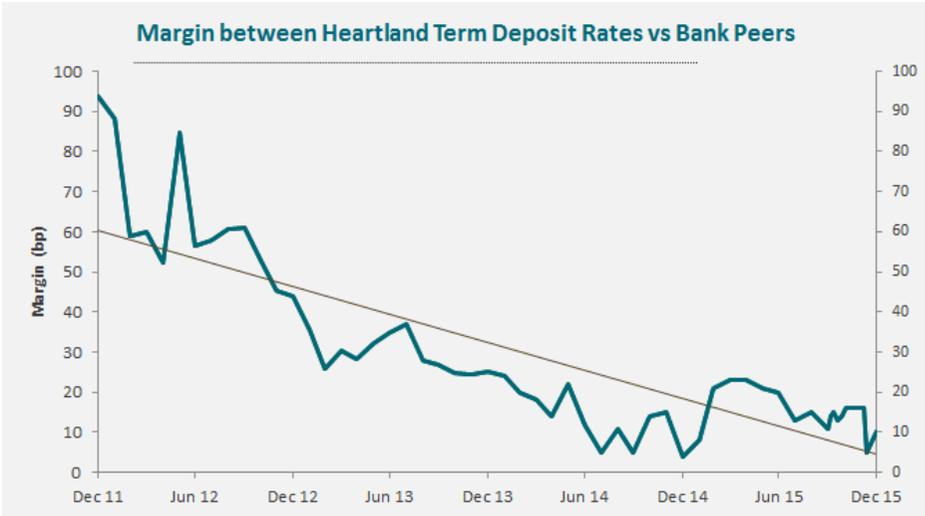
	31 Dec 2014 (NZ\$m)	30 Jun 2015 (NZ\$m)	31 Dec 2015 (NZ\$m)
Total assets	3,162.2	3,359.3	3,344.5
Total liabilities	2,699.9	2,879.1	2,858.8
Total equity	462.3	480.1	485.7
Equity ratio	14.6%	14.3%	14.5%
Net tangible assets	406.4	420.3	426.1
NTA per share	\$ 0.87	\$ 0.89	\$ 0.90



Cost of Funds

Solid funding position

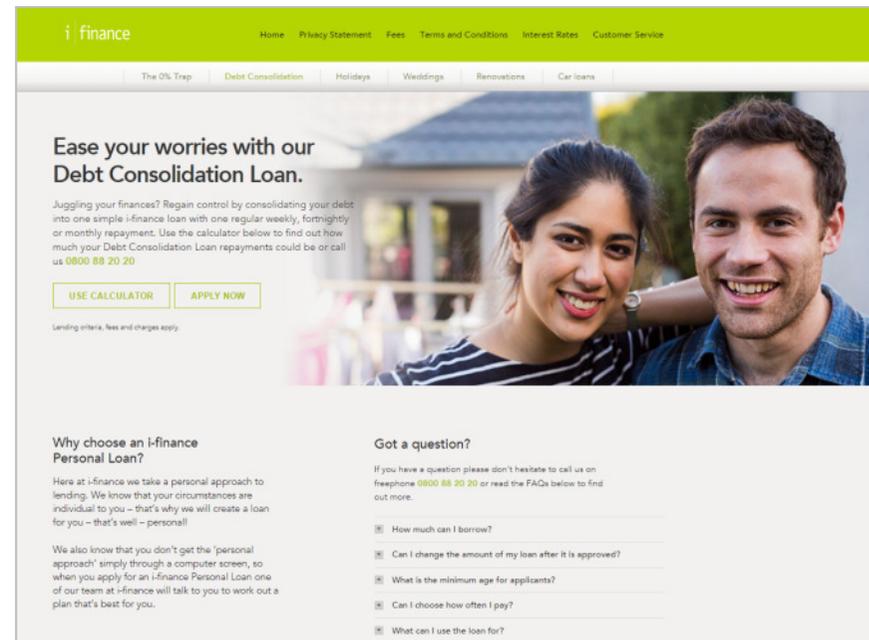
Decrease in COF on back of OCR decreases, and reduced margin on term deposits



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



As of December 2015

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



As of December 2015

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

As of December 2015

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, the text 'Open for Business' is displayed. The main banner features a woman in an apron standing in a kitchen, with the text 'We're lending to businesses like yours' overlaid. Below the banner, a message reads: '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 business categories follows, including 'Courier vans', 'New businesses', 'Established businesses', 'Trades', 'Software', 'Creditors', 'Technology', 'Marketing', 'Franchises', and 'Tools'. Below this, 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'. Two call-to-action buttons are present: 'Apply online now' (with a 'START HERE' sub-button) and 'Call us, we'd love to chat 0800 580 329' (with a 'CONTACT US' sub-button). A final section, 'Here's what our customers have to say', features three testimonials with accompanying images: a tractor, a desk with a laptop, 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



Photo credit: Sara Orme

As of December 2015

Core Business Updates

Dairy Update

- Direct exposure to dairy farmers is 8% of Heartland's total lending book
- The average loan to value ratio (LVR) for Heartland's dairy exposures is 59%
- Should the downturn continue or worsen beyond current expectations such that the viability of that industry was at risk, Heartland's opinion is that the majority of dairy farms could convert to sheep and beef farms
- If that was to occur, it would result in a reduction in the value of dairy farms – with dairy farm values effectively being underwritten at sheep and beef farm values
- In Heartland's opinion, the amount of that reduction could be up to 40% from peak dairy farm values
- In this event, Heartland's profitability would reduce. However, Heartland would remain profitable, and we don't expect that there would be any impact on Heartland's capital

As of December 2015

Digital Distribution

Combine Heartland's smaller size and greater agility with disruptive new technologies and powerful digital marketing channels to:

- Extend Heartland's reach into key specialist markets
- Deliver a radically better customer experience based on 'speed and ease' of application and credit decision processes
- Shift Heartland's marketing investment from high-cost, 'scatter gun' traditional channels (TV, radio, press) to lower-cost, tightly targeted digital channels

The next two slides show how we are leveraging digital distribution channels in two key product areas – small business lending and personal lending

Digital Distribution - Business

Open for Business

Heartland aims to transform how New Zealand SMEs access finance enabling small businesses (the backbone of New Zealand's economy) to grow

- In April 2016, Heartland launched a new initiative targeting small business owners
- By leveraging technology, *Open for Business* makes the loan application process simple and efficient:
 - Loans for any amount over \$5,000 will be approved if the borrower has clear credit and capacity to repay
 - Approval can be provided immediately for loans under \$50k with same day credit approval for loans above \$50k
- Loans can be used to fund plant & equipment or for working capital

"We identified a gap in the market for small business owners, the vast majority of whom have fewer than five employees and are time poor. We understand their need for speed, simplicity and responsiveness in sourcing finance to grow their businesses"

– Jeff Greenslade, Heartland CEO

My line of business is:

Please select an option...

Step 1 of 6

NEXT

I have been in business for:

Less than 1 year

1 - 2 years

3 - 5 years

More than 5 years

BACK

Step 2 of 6

NEXT

I want to borrow: \$37,000

\$5K | \$50K | \$250K+

My yearly business turnover is (approx.): \$140,000

\$20K | \$100K | \$500K | \$2M

SUBMIT

Digital Distribution - Consumer

Harmony

- In September 2014, Heartland acquired a 10% stake in Harmony Corp, New Zealand's first licensed peer-to-peer lending platform
- The Harmony lending model challenges the traditional bank lending model
- This model is complementary to Heartland's strategy of occupying leading positions in niche markets through specialist products, differentiating it from the mainstream banks
- Alongside its shareholding, Heartland invests in loans on the Harmony platform alongside retail lenders, providing a committed loan facility of \$85m



Why is Harmony the best choice for everyone?



We give Borrowers a fair deal

- Fair interest rates from 9.99% p.a.
- 100% online with no paperwork
- Unsecured loans up to \$35,000
- 95% of loans funded within 24hrs.

[Start borrowing](#)

We give Investors better returns

- High rate of return
- Proven reliability of customer credit
- Diversification of your portfolio
- F.M.A licensed and regulated.

[Start investing](#)

i-finance

- i-finance is an online platform providing direct personal loan
- Core products offered through i-finance are personal and motor vehicle loans
- Gives consumers the ability to complete a loan application online with individual credit approval undertaken following receipt of the application



Growth Prospects

Consumer
Consistent growth to date; untapped personal loan market

HER
Ageing demographic compelling

SME
Differentiated online distribution opens up significant SME market

Key Messages

**Strategy is
working**

Profit, ROE and
share price are
all increasing

Infrastructure is
in place to grow

Significant
opportunity
ahead