



NZX and Media Release

HEARTLAND POSTS HALF YEAR PROFIT OF \$25.6M

23 February 2016

Heartland Bank Limited (**Heartland**) (NZX: HBL) achieved a net profit after tax (**NPAT**) of \$25.6m for the half year ended 31 December 2015 (the **Current Reporting Period**), an increase of 9.0% from the previous corresponding half year ended 31 December 2014 (the **Previous Corresponding Reporting Period**). The result was driven by growth in core receivables.

Growth was achieved across all core divisions – Household, Business and Rural.

Achievements for half year

- Increase in profitability
- Strong growth in core receivables
- Return on equity (**ROE**) of 10.6%
- Amalgamation of Heartland New Zealand Limited and Heartland Bank Limited
- Announcement of a 16% increase in interim dividend to 3.5c per share

FINANCIAL PERFORMANCE¹

Profitability

NPAT was \$25.6m for the Current Reporting Period. This is up \$2.1m from the \$23.5m NPAT for the Previous Corresponding Reporting Period.

Earnings for the half year result in an ROE of 10.6%, being an increase from 10.4% for the full year ending 30 June 2015.

Earnings per share was 5c calculated on weighted average shares.

Balance sheet

Net finance receivables increased by \$66.5m to \$2.93bn during the Current Reporting Period. However, a reduction in cash and cash equivalents and investments of \$64.7m saw total assets decrease by \$14.8m. Major movements included:

- Motor vehicle lending continued to experience strong growth – increasing by \$30.0m.
- Reverse mortgages grew in New Zealand and Australia by \$9.0m and A\$18.0m respectively, however, after foreign exchange translation, overall growth was \$6.1m.

¹ This announcement is based on the 31 December 2015 unaudited consolidated interim financial statements of Heartland Bank Limited. For more detailed analysis and explanation please refer to the attached interim financial statements.

- Personal lending (including lending through the Harmoney platform) increased by \$9.8m.
- Non-core residential mortgages decreased by \$20.0m.
- The Business and Rural divisions increased by \$23.6m and \$16.9m respectively.
- Cash and cash equivalents and investments decreased by \$64.7m to \$301.6m.
- Borrowings decreased by \$10.9m reflecting the movement in total assets.
- Legacy non-core property assets reduced by \$12.0m.

Net Tangible Assets (**NTA**) increased from \$420.3m to \$426.1m during the Current Reporting Period. On a per share basis, NTA was \$0.90 at 31 December 2015 compared to \$0.89 at 30 June 2015 and \$0.87 at 31 December 2014.

Net Operating Income

Net Operating Income (**NOI**) was \$77.8m for the Current Reporting Period, up \$7.7m from \$70.1m for the Previous Corresponding Reporting Period. The increase in NOI was primarily attributable to the increased level of receivables.

Costs

Operating costs were \$37.0m for the Current Reporting Period, an increase of \$3.5m from the Previous Corresponding Reporting Period. \$1.2m of this increase was attributable to additional marketing of our online lending channels for personal loans and small business loans. In addition, approximately \$1.0m of one-off project and compliance related costs were incurred. The operating expense ratio was 48% for the Current Reporting Period – the same as for the Previous Corresponding Reporting Period.

Impairments

Impaired asset expense increased by \$0.5m to \$5.6m for the Current Reporting Period, up from \$5.1m for the Previous Corresponding Reporting Period.

Impairment expense in the Household division was up \$0.4m compared to the Previous Corresponding Reporting Period. The increase was attributable to growth in the personal loan and motor vehicle loan books, as well as an increase in arrears for motor vehicle loans as they move to normalised levels. Higher impairment expenses were offset by lower collective provisions for reverse mortgage lending.

Although impairments in the Rural division were up \$0.3m compared to the Previous Corresponding Reporting Period, they remain low at \$0.4m. Impairments in the Business division were \$0.3m lower than the Previous Reporting Period.

Net impaired, restructured and past due loans over 90 days reduced from \$39.1m (or 1.4% of net finance receivables) as at 30 June 2015 to \$34.7m (or 1.2% of net finance receivables) as at 31 December 2015. The non-core property book made up \$2.6m of the net impaired, restructured and past due loans at 31 December 2015.

BUSINESS PERFORMANCE – CORE BUSINESS DIVISIONS

Business²

NOI was \$20.9m, an increase of \$1.1m from the Previous Corresponding Reporting Period. The increase in NOI was driven by growth in receivables. Net receivables for the Business division increased by \$23.6m (3%) to \$824.9m during the Current Reporting Period. This growth was achieved through continued focus on providing a single relationship for plant and equipment and working capital finance, as well as an increased reach through intermediaries. Our service proposition is being further expanded through the recent launch of an online origination platform for small business loans called “Open for Business”. The platform is still in its early stages of development and continues to be refined to tailor it to customers’ needs. The number of customers applying for loans through the platform is expected to grow in the second half of the financial year.

Rural

NOI was \$13.0m, an increase of \$1.3m from the Previous Corresponding Reporting Period that was also driven by receivables growth. Net receivables for the Rural division increased by \$17.0m (3%) to \$504.6m during the Current Reporting Period.

Given continued market interest in the dairy sector in New Zealand, Heartland advises that its direct exposure to dairy farmers is 8% of its total lending book as at 31 December 2015. The average loan to value ratio (LVR) for Heartland’s dairy exposures is 59%. However, it is important to note that LVRs are only one of the indicators of loan quality. Heartland remains cautious of market conditions and continues to monitor the dairy sector with close attention. Dairy customers are being supported through this challenging period.

Household² (Retail and Consumer)

NOI was \$42.6m, an increase of \$5.5m from the Previous Corresponding Reporting Period. Net receivables for the Household division increased by \$26.0m to \$1.6bn during the Current Reporting Period.

NOI from the Consumer division (which includes motor vehicle loans, personal loans and lending through the Harmony platform) increased \$3.9m from the Previous Corresponding Reporting Period to \$30.1m. Consumer net receivables grew \$39.8m (5%) to \$776.1m during the Current Reporting Period.

Net receivables from motor vehicle loans continued to grow strongly, increasing by \$30.0m to \$730.9m during the Current Reporting Period.

Net receivables from personal loans increased by \$8.1m to \$10.8m, while lending through the Harmony platform increased by \$1.7m to \$34.5m. Compared to the half year ending 30 June 2015, growth in lending through the Harmony platform during the Current Reporting Period slowed while

² During the Current Reporting Period, a business unit previously reported in the Household division was moved to the Business division. In addition lending through Harmony, which was previously reported in the Business division, was moved to the Household division. The comparative information for the Business and Household divisions has been restated to be consistent with the Current Reporting Period.

negotiations to extend the facility took place. The facility has now been renewed and has an extra \$35m of lending capacity.

NOI for reverse mortgages increased \$2.3m from the Previous Corresponding Reporting Period to \$11.1m. Net receivables from reverse mortgages in New Zealand and Australia grew by \$9.0m and A\$18.0m respectively during the Current Reporting Period, however, after foreign exchange translation, net receivables grew \$6.1m to \$761.8m. The growth in reverse mortgages in both New Zealand and Australia reflected the benefits of marketing activities undertaken in New Zealand and the continued development of relationships with intermediaries in Australia.

Net receivables from residential mortgages reduced by \$20.0m from the Previous Corresponding Reporting Period to \$58.6m, continuing Heartland's strategy to realign its product mix towards products where it can achieve market leading positions and a better risk/return.

NON-CORE BUSINESS

Property

Total legacy non-core property assets reduced by 45% during the Current Reporting Period, from \$27.0m at 30 June 2015 to \$15.0m at 31 December 2015. As at 31 December 2015, non-core property assets comprised net receivables of \$2.6m and investment properties of \$12.4m. Heartland does not expect future earnings to be affected by the realisation of these assets.

STRATEGIC PRIORITIES

Heartland's strategic focus is on providing innovative 'best or only' banking products in niche markets that are under-serviced by the major banks.

Heartland is particularly well positioned to take advantage of disruptive new technologies that are sweeping through global industries including banking. Heartland's smaller size and greater agility allow it to harness these new technologies to extend distribution reach into markets, streamline processes and lower service costs, and deliver a radically better customer experience.

Examples of this include:

- the recently launched "Open for Business" offering that enables small to medium sized businesses (SMEs) to apply online for "quick application-quick decision" business loans;
- the new online broker portal for Heartland Seniors Finance intermediaries in Australia; and
- on-going investment in new digital distribution capabilities, particularly in the Consumer division.

Acquisitions remain a part of Heartland's growth strategy, but they must be value accretive and either deliver innovation or a compelling distribution capability. Heartland also remains focussed on growing quality sustainable earnings and improving return on equity.

INTERIM DIVIDEND

The directors of Heartland have resolved to pay an interim dividend of 3.5 cents per share, a 16% increase on last year's interim dividend of 3.0 cents per share. The interim dividend will be paid on 5 April 2016 to shareholders on the company's register as at 5.00pm on 18 March 2016 (**Record Date**) and will be fully imputed.

The Dividend Reinvestment Plan announced on 23 April 2013 (**DRP**) will be available and a discount of 1% will apply (that is, the strike price under the **DRP** will be 99% of the volume weighted average sale price of Heartland shares over the 5 trading days following the Record Date)³. Participation in the **DRP** is entirely optional, and shareholders wishing to participate should make a participation election in one of the ways specified in the **DRP** offer document. The last date of receipt for a participation election from a shareholder who wishes to participate in the **DRP** is 18 March 2016.

LOOKING FORWARD

Looking forward Heartland expects underlying asset growth to continue for the second half of the financial year, with strong Household, Business and Rural volumes projected. Growth in Consumer and HER loans is expected to be higher in the second half of the financial year.

In current market conditions, Heartland believes there is greater opportunity for acquisitions. Heartland wishes to assess opportunities (if any) that arise during this period of volatility and will continue to monitor its capital position (including its Tier 2 regulatory capital position) during this period. The board continues to be of the view that, in the absence of other uses of capital, Heartland's excess capital should be returned to shareholders.

As previously advised, Heartland expects its NPAT for the year ended 30 June 2016 to be in the range of \$51.0m to \$55.0m. This guidance range does not take into account the impact of any capital management initiatives.

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³ For the full details of the **DRP** and the Strike Price calculation, refer to Heartland's **DRP** offer document dated 1 January 2016.