

# Heartland

**Investor Presentation**

12 December 2016

**HEARTLAND**  
— BANK —

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# Introduction

## Capital Raise

- Heartland Bank Limited (“Heartland”) is experiencing strong growth in receivables and is undertaking a capital raise to support continued asset growth
- Heartland reaffirms previous market guidance for forecast FY17 NPAT of \$57m - \$60m <sup>1</sup>

## Placement

- Heartland is considering undertaking a placement of ordinary shares up to a value of NZ\$20m to institutions and select investors
- New shares issued will rank equally in all respects with Heartland’s existing ordinary shares

## Share Purchase Plan

- Heartland plans to make a subsequent offer to retail shareholders following the 1H17 Results Announcement in February 2017
- Heartland plans to raise up to NZ\$10m from existing retail investors via a Share Purchase Plan (“SPP”)

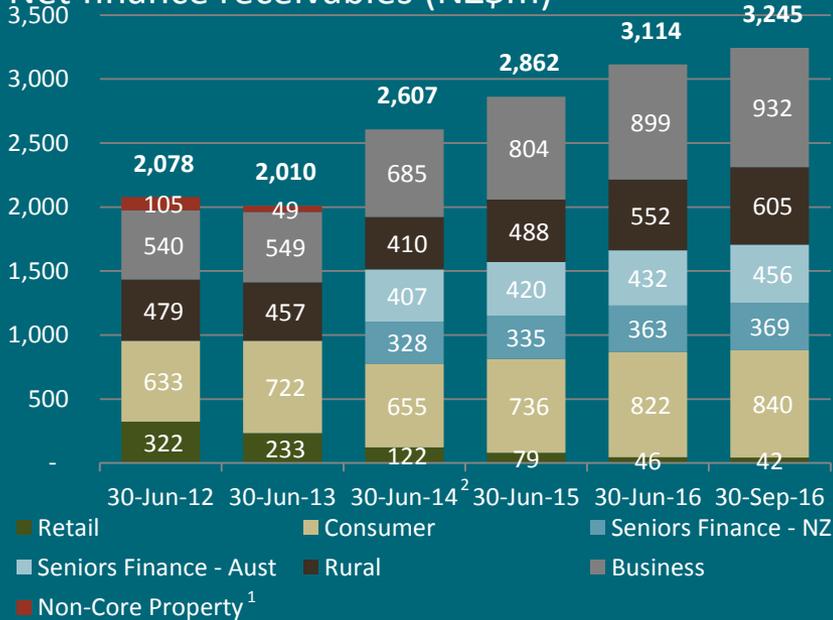
<sup>1</sup> Excludes any capital management initiatives



# Receivables growth

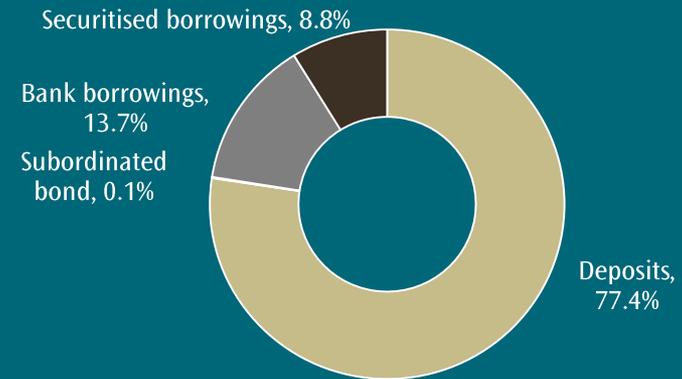
Heartland has achieved strong growth whilst maintaining credit quality

## Net finance receivables (NZ\$m)



## Borrowings composition

as at 30 September 2016



## Bad debts / average gross receivables<sup>1</sup>



## Growth in reverse mortgages

For quarter ended 30 September 2016, growth in Heartland Seniors Finance Australia accounted for approximately 55% of total reverse mortgage market growth in Australia<sup>3</sup>

<sup>1</sup> Non-core property included in Business Division from 1 July 2013

<sup>2</sup> Note, during the year ended 30 June 2014, a business unit previously reported in the Consumer segment was moved to the Business segment

<sup>3</sup> Based on APRA's Quarterly Authorised Deposit-taking Institution Property Exposures (September 2016). Reverse mortgage market for these purposes comprises ADIs with greater than \$1 bn of term loans and Heartland Seniors Finance Australia

<sup>1</sup> Bad debts includes reduction in the fair value of investment property, 2013 bad debts excludes change in strategy provision of \$18m

\* Bad debts for the three months ended 30 September 2016 has been shown on an annualised basis



# Capital

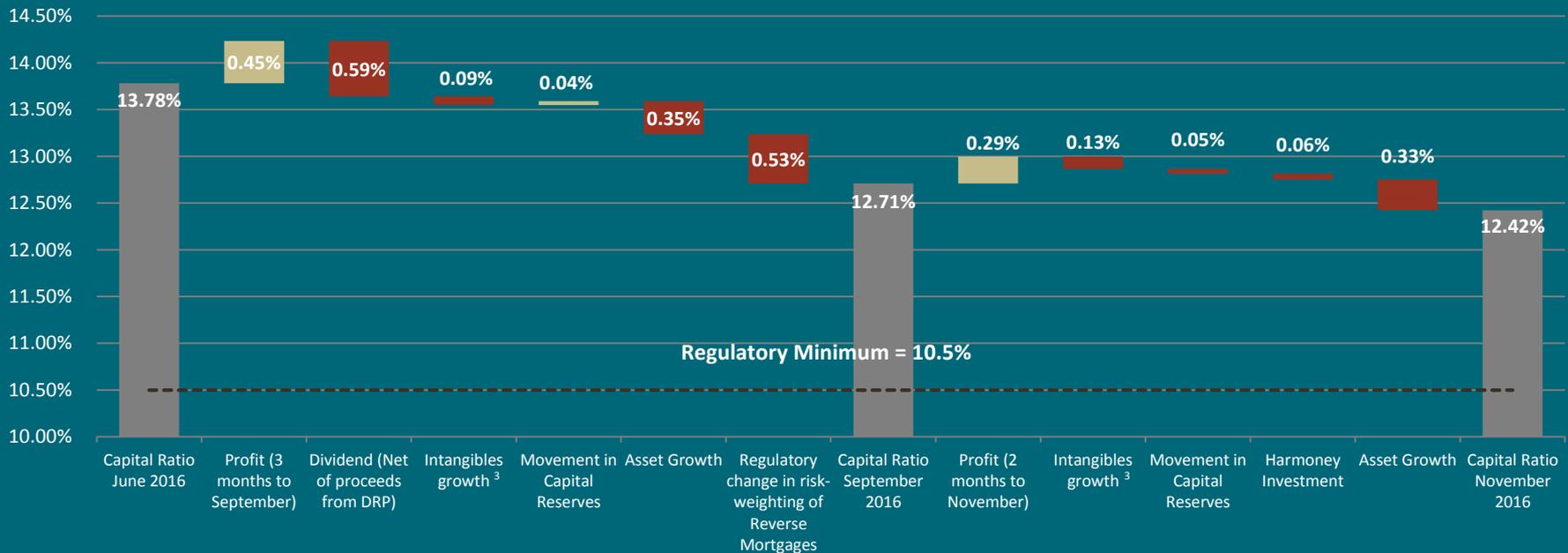
Equity raised will strengthen Heartland's capital ratio providing headroom to support future asset growth

- Heartland is required to hold capital equal to 10.5% of risk-weighted assets <sup>1</sup>

## Capital Raise

An equity raise of NZ\$30m will strengthen Heartland's 30 November 2016 capital ratio by ~0.9% <sup>2</sup>

### Capital ratio



<sup>1</sup> 10.5% regulatory minimum capital ratio includes counter-cyclical buffer of 2.5%

<sup>2</sup> Based on a NZ\$20m Placement and NZ\$10m SPP occurring on 30 November 2016

<sup>3</sup> Growth in Intangibles primarily refers to expenditure in IT over the period



# About Heartland

A New Zealand registered bank with operations in New Zealand and Australia

## Listed Bank

Listed on the NZX Main Board in February 2011 and obtained New Zealand bank registration in December 2012

## Strategy

Pursue opportunities where it can provide innovative products in niche areas within the household, business and rural sectors

Increase use of digital technologies to distribute products to target markets

## \$3.7bn Assets

as at 30 September 2016

Diversified portfolio of assets by business sector and geography

## \$3.2bn Liabilities

as at 30 September 2016

38,000 individual depositors; over half have been with Heartland for 10+ years

## Credit rating (Fitch)

as at 31 October 2016

# BBB

(outlook stable)

## Total assets

as at 30 September 2016

# \$3.7bn

## Growth in net finance receivables

for 12 months to 30 June 2016

# 8.8%



# Strategy

To provide innovative 'best or only' banking products in niche markets that are under-serviced by the major banks

Target markets

## Emerging

Provide a frictionless digital experience to the emerging millennial market, who value speed and ease

## Growing

Provide a personal service to 65+, a growing demographic with specific financial needs

## Neglected

Provide a fast and responsive online service to the neglected SME market

Strategic priorities

## Distribution

Investing in new technologies and digital marketing channels to improve distribution, streamline processes, and deliver a better customer experience

## Innovation

Continuing development of specialist products

## Core Products

Extending reach in existing core markets and products (e.g. Seniors Finance)

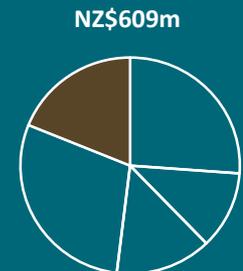
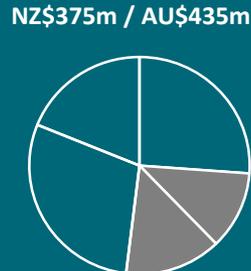


# Divisional overview

Heartland's business focuses on three key sectors: household (consumer and Seniors Finance), business and rural

	<u>Consumer</u>	<u>Seniors Finance</u>	<u>Business</u>	<u>Rural</u>
<b>Market leading positions and specialist products</b>	<p>Specialist provider of intermediated motor vehicle finance</p> <p>Online personal loans</p> <p>Peer-to-peer lending through Harmoney</p>	<p>Leading provider of reverse mortgages in New Zealand</p> <p>Leading non-bank provider of reverse mortgages in Australia</p>	<p>Single solution for plant/equipment and working capital finance</p> <p>'Open for Business' online small business loans</p>	<p>Term loans to farmers in the sheep, beef, and dairy sectors whose debt needs are modest</p> <p>Livestock finance</p> <p>Farm transition loans</p> <p>Intermediated rural finance through alliance partners</p>

Gross receivables as at 30 September 2016<sup>1</sup>



Average loan size as at 30 September 2016

NZ\$14k

NZ\$94k / AU\$107k

NZ\$107k

NZ\$209k

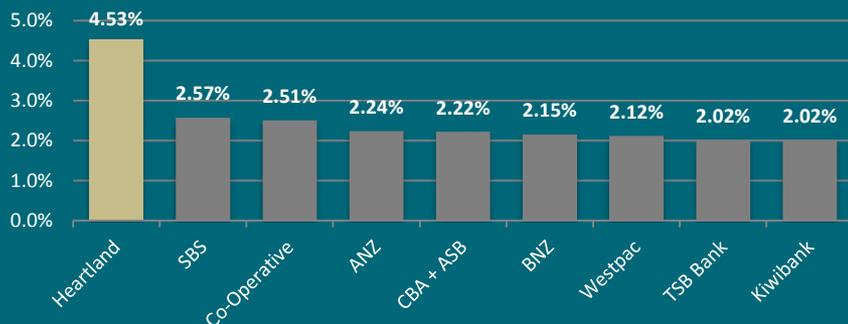
<sup>1</sup> Excludes NZ\$42m of residential mortgages



# Historic financial performance

## Interest margin comparison to peers

for quarter ended 30 June 2016



Source: KPMG FIPS, June 2016

## Total shareholder return vs NZX50

as at 30 November 2016



Note, "ICs" represents Imputation Credits ascribed to dividend payments

<sup>1</sup> Rebased share price assumes dividends are reinvested for comparison to Index Value

Source: IRESS, NZX50 incl. ICs based on S&P/NZX 50 Index Gross with Imputation

## Key financials and operational metrics

	12 months to June 2012	12 months to June 2013	12 months to June 2014	12 months to June 2015	12 months to June 2016	CAGR
Net interest income	\$83.6m	\$95.5m	\$109.1m	\$134.4m	\$146.7m	15.1%
Net interest margin	4.0%	4.2%	4.2%	4.4%	4.5%	▲
Cost-to-income ratio	69.1%	65.8%	53.0%	47.3%	44.4%	▼
Net profit after tax (adjusted <sup>1</sup> )	\$14.0m	\$24.4m	\$36.0m	\$48.2m	\$54.2m	40.3%
Total assets	\$2,348.1m	\$2,504.6m	\$3,016.9m	\$3,359.3m	\$3,547.2m	10.9%
Return on equity (adjusted <sup>1</sup> )	4.2%	6.5%	9.0%	10.4%	11.1%	27.5%
Earnings per share (adjusted <sup>1</sup> )	4.0cps	6.0cps	9.0cps	10.0cps	11.0cps	28.8%

We note that the product mix has a bearing on margin. For example if we grow our reverse mortgage book this will result in higher ROE (lower risk weighting, less capital applied) but a more compressed margin. Conversely our higher margin consumer book has a lower ROE. We are comfortable with this balance

<sup>1</sup> 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)

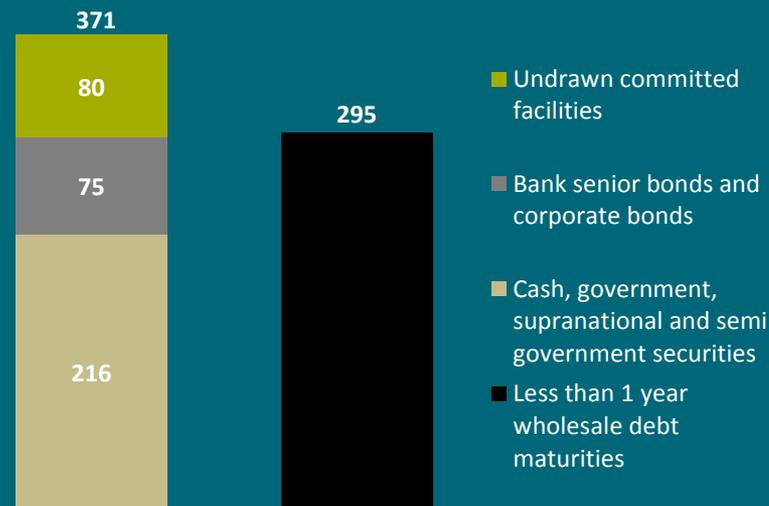


# Funding and liquidity

- Heartland maintains a sufficient portfolio of liquid assets to ensure it is able to repay liabilities when they fall due
- Heartland holds and manages its funding profile and liquid assets in a prudent and conservative manner
- Heartland's liquidity is well positioned relative to its peers
- Heartland's shorter asset maturity duration supports its liquidity position

## Liquidity position (NZ\$m)

as at 30 September 2016



Liquidity Metrics as at 30 September 2016	Heartland Bank	NZ Banks <sup>1</sup>
<b>Core Funding Ratio</b>	<b>88.3%</b>	<b>86.3%</b>
<b>One-week mismatch ratio</b>	<b>4.4</b>	<b>4.4</b>
<b>One-month mismatch ratio</b>	<b>8.3</b>	<b>5.2</b>
<b>Ratio of weighted average maturity of assets (months) to weighted average maturity of liabilities (months)</b>	<b>4.9</b>	<b>9.8<sup>2</sup></b>

<sup>1</sup> Funding and mismatch ratios as per RBNZ statistics for all NZ registered banks

<sup>2</sup> Based on disclosure statements for the 5 major banks plus the NZ-owned banks as at 30 June 2016



# Other

## Digital Platforms

The digital platforms we have launched to date are set out below:

- Application for depositors: <https://www.heartland.co.nz/investments>
- Heartland Seniors Finance lead generation portal accessed via Seniors Finance website: <https://www.seniorsfinance.co.nz/>
- Open for Livestock: <https://openforlivestock.co.nz/>
- Open for Business: <https://openforbusiness.heartland.co.nz/>
- Open for Ag Equipment (only accessible by dealers with logins): <https://ofb.heartland.co.nz/ofadapplication/Account/Login?ReturnUrl=%2Fofadapplication%2F>
- Open for Personal Loans: <https://www.ifinanceloans.co.nz/>

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