NZX Release

HEARTLAND POSTS FULL YEAR PROFIT OF $67.5M

15 August 2018

Heartland Bank Limited (**Heartland**) (NZX: HBL) achieved a net profit after tax (**NPAT**) of $67.5 million for the financial year ended 30 June 2018 (**FY2018**), an increase of 11% from the previous financial year ended 30 June 2017 (**FY2017**).

Net operating income was $196.8 million, an increase of 15% on the prior year. Our strong growth in profitability was driven by growth in our underlying net finance receivables which were $4.0 billion as at 30 June 2018, an increase of 12% on FY2017.

Achievements for the year ended 30 June 2018

- Net profit after tax $67.5 million, up 11%
- Net finance receivables $4.0 billion, up 12%
- Return on equity 11.1%[1]
- NIM 4.42%
- Cost to income ratio 40.9%
- Final dividend 5.5cps, Full year dividend 9.0cps
- Growth strategy delivering results in core business – reverse mortgage, motor and small business lending
- Outstanding 39% growth in Australia operations
- Launch of the Heartland mobile app for depositors and savers
- Awarded the CANSTAR "Bank of the Year – Savings Award", recognising Heartland as the financial institution that provides the strongest combination of savings products and services to its customers
- Awarded the CANSTAR "5-star Outstanding Value Savings Product" for our Direct Call Account
- Continued strong community support including Inzone Education Foundation, First XV school rugby and Auckland Writers Festival
- Significant developments and key initiatives around employee diversity, including partnership with Global Women and Champions for Change, and introduction of flexible working policy

[1] Calculated on the daily average equity balance during the year.

FINANCIAL PERFORMANCE

Profitability

NPAT was $67.5 million for FY2018, up $6.7 million (11%) from $60.8 million NPAT for FY2017. Net operating income was $196.8 million for FY2018, up 25.5 million (15%) from FY2017.

Earnings for FY2018 resulted in a Return on Equity of 11.1%, slightly down from 11.6% in FY2017 due to increased capital raised during the year.

Earnings per share increased in FY2018 to 13 cents per share, up from 12 cents in 2017.

Balance sheet

Net finance receivables increased by $439.0 million (12%) to $4.0 billion during FY2018, with key movements including:

- Total Australia net receivables increased $200.7m (39%) to $721.2m, including reverse mortgages increasing $159.3m (31%) to $676.8m

- New Zealand reverse mortgages net receivables increased $49.8m (12%) to $453.1m

- New Zealand Harmoney and other consumer net receivables increased $31.9m (34%) to $126.7m

- Motor net receivables increased $130.8m (16%) to $955.1m

- New Zealand business net receivables increased $54.9m (6%) to $1,046.8m

- Rural net receivables decreased $19.3m (3%) to $656.2m, but on average increased from $614.0 million in 2017 to $665.8 million in 2018, because of strong growth in the last quarter FY17 and higher repayments at the end of FY18

Total assets increased by $461.3 million (11%) due to the increase in net finance receivables together with an increase in cash and cash equivalents and investments of $14.4 million (4%).

Borrowings increased by $366.3 million (11%) to $3.8 billion as at 30 June 2018 to fund asset growth. Our competitive savings products saw retail deposits increase $307.8 million (12%) to $2.9 billion. Borrowings also increased through drawdown on our AUD facility and the issuance of the new unsubordinated fixed rate notes in September 2017.

Net Assets increased from $569.6 million to $664.2 million in FY2018. Net Tangible Assets (**NTA**) increased from $490.5m to $584.4m during FY2018. On a per share basis, NTA was $1.04 at 30 June 2018 compared to $0.95 at 30 June 2017.

Net Operating Income

Net Operating Income (**NOI**) was $196.8 million in FY2018, up $25.5 million (15%) from $171.3 million in FY2017, due to net receivables asset growth of 12%, combined with $4.8 million gain on sale of property in relation to the recovery of legacy property loans and $0.6 million gain on sale of the invoice finance business. Excluding these one-off items, NOI was up $20.1 million (12%) from FY2017.

Heartland's Net Interest Margin (**NIM**) for FY2018 was 4.42% compared to 4.46% for FY2017, as a result of the change in asset mix, primarily due to strong growth in reverse mortgages in New Zealand and Australia.

Costs

Operating costs were $80.4 million for FY2018, up $8.7 million (12%) from $71.7m for FY2017. This increase was due to increased operations and staff costs associated with strong asset growth, combined with a number of one-off expenses including new system implementation costs, legacy systems costs and expenses in relation to the proposed corporate restructure.

Despite these additional one-off costs, total cost to income ratio still decreased to 40.9% for FY2018, down from 41.9% in FY2017.

Impairments

Total impaired asset expense was $22.1 million for FY2018, an increase of $7.1 million from $15.0 million in FY2017. The increased impairment cost resulted from increased receivables volume and an increase in overall impairment rates. Impairment costs were impacted by a number of one-off items including additional provisioning for large relationship-managed loans, insurance recovery write-back in prior year and a reduction in collections due to system implementation issues. Excluding these one-off items, impairment expense increased $2.8 million (18%) from FY2017.

Household division impairment expense was $13.0 million, up $2.7 million (26%) from FY2017 in line with the increase of Household net finance receivables. Household impairment expense as a percentage of average net Household receivables was 0.63%.

Business division impairment expense was $7.9 million, up $3.5 million compared to FY2017. This is due to business division asset growth combined with the $1.2 million insurance recovery write-back in FY2017. Business impairment expense as a percentage of average net receivables was 0.76%.

Rural division impairment expense was $1.2 million, compared to a low $0.3 million charge in FY2017. This is primarily due to the larger rural relationship provision made during the year. Rural impairment expense as a percentage of average net receivables was 0.17%.

Net impaired and past due loans over 90 days increased from $41.8 million as at 30 June 2017 to $44.2 million as at 30 June 2018, however as a percentage of net receivables these decreased from 1.2% to 1.1%.

BUSINESS PERFORMANCE

Household (Consumer, Reverse Mortgages and Residential Mortgages)

Household net finance receivables increased by $387.9 million (21%) to $2.3 billion in FY2018, due to growth in motor vehicle loans, Harmoney and other consumer lending and reverse mortgages in both New Zealand and Australia. Household net operating income was $104.8 million in FY2018, an increase of $11.9 million (13%) from FY2017.

Consumer net receivables (including Motor, Harmoney and other consumer lending) grew $188.6 million (21%) to $1,107.6 million in FY2018. Motor net receivables increased by $130.8 million (16%) to $955.1 million, while Harmoney and other consumer net receivables increased by $57.8 million (61%) to $152.6 million. Consumer net operating income increased by $4.0 million (7%) to $65.3

million in FY2018. Net operating income growth did not mirror the strong growth in net receivables due to a strategic change in mix towards higher quality motor vehicle lending.

New Zealand reverse mortgages net receivables grew by $49.8 million (12%) to $453.1 million in FY2018, while Australia reverse mortgages net receivables grew very strongly by $159.3 million (31%) to $676.8 million in FY2018. Net operating income for reverse mortgages increased $8.3 million (28%) to $38.1 million in FY2018.

Retail residential mortgages net receivables reduced during FY2018 to $25.7 million as at 30 June 2018 as this portfolio continues to be run down.

Business

Business net operating income was $53.2 million in FY2018, an increase of $6.1 million (13%) from FY2017. The increase in net operating income was driven by growth in net receivables, which increased by $70.4 million (7%) to $1,065.4 million as at 30 June 2018.

Our Business division growth strategy this year focused on growth through intermediaries and through our digital platform, Open for Business, which is driving significant growth in lending to small to medium sized enterprises.

Rural

Rural net operating income was $32.3 million in FY2018, an increase of $3.1 million (10%) from FY2017. While rural net receivables decreased by 3% to $656.2 million in FY2018 as several large exposure loans were repaid, average net receivables increased from $614.0 million in FY2017 to $665.8 million in FY2018, resulting in an increase in net operating income.

Our focus this year has been on livestock lending, particularly through our digital platform Open for Livestock. This will continue to be a priority over traditional rural relationship lending and larger risk concentration loans.

FUNDING AND LIQUIDITY

Funding and liquidity remain strong with retail deposits growing $307.8 million (12%) to $2.9 billion as at 30 June 2018. In September 2017, Heartland successfully completed a five year, unsecured, unsubordinated, medium term, fixed rate notes offer, with the final amount being issued totalling $150 million at a fixed interest rate of 4.50%.

CORPORATE RESTRUCTURE

Heartland has announced its intention to conduct a corporate restructure that will provide the group with a more suitable platform for future growth. As part of the proposed restructure, Heartland is also seeking a Foreign Exempt Listing on the ASX.

All shareholders will be sent a Scheme Booklet providing detailed information on the restructure, including an independent assessment of the merits of the restructure for shareholders. This is also available on our website at https://shareholders.heartland.co.nz

The Board unanimously supports the proposed restructure and recommends that shareholders vote in favour of the restructure at the upcoming Annual Meeting to be held on 19 September 2018.

STRATEGIC PRIORITIES

Heartland's current strategic growth priorities include:

- **GROW THE CORE** - Focus on growth in our core business including reverse mortgages, motor and small business lending.
- **DEVELOP NEW BUSINESS** - Grow new market opportunities through Open for Business, livestock finance and Harmoney.
- **GROW AUSTRALIA** - Leverage established intermediary relationships and digital platforms.

Our growth ambitions will be driven through the following key initiatives:

- **DIGITAL DEVELOPMENT** - Utilise digital, intermediated and direct channels to ensure we are in easy reach for our customers and increase use of automation to increase efficiency.
- **CUSTOMER FOCUS** - Utilise data insights to accurately identify customer intent, driving strong lead generation and conversion and provide a superior customer experience.
- **GROWTH THROUGH ACQUISITION** - Consider acquisition opportunities that are value accretive and deliver innovation or a compelling distribution capability.

The proposed restructure will, if approved by shareholders at the annual meeting, remove constraints on the growth of the group's business from Reserve Bank regulations and provide flexibility for the Group to explore growth opportunities in New Zealand and Australia.

FINAL DIVIDEND

A 2018 final ordinary dividend of 5.5 cents per share was declared bringing the full year 2018 ordinary declared dividends to 9.0 cents per share, consistent with the total dividend paid for 2017. Retaining the total dividend at the same level as 2017 allows us to invest for future growth.

The 2018 final ordinary dividend will be paid on Friday 21 September 2018 to all shareholders on Heartland's register at 5.00pm on Friday 7 September 2018. The Dividend Reinvestment Plan (DRP) will remain in effect for the final dividend with a 2.5% discount.

LOOKING FORWARD

We look forward to continued asset growth in the year ahead, particularly in our core markets of reverse mortgages, motor and small business lending. We also expect to see further growth from Australia, particularly in the growing reverse mortgages market.

Heartland expects its NPAT for the year ending 30 June 2019 to be in the range of $75 million to $77 million.

- Ends –

For further information, please contact:

Jeff Greenslade
Chief Executive Officer
DDI 09 927 9149
M 021 563 593

David Mackrell
Chief Financial Officer
DDI 09 927 9561
M 021 311 911

For investor enquiries, please contact:
Julia Belk
Investor Relations Manager
DDI 09 926 3837
M 021 2408997

For media enquiries, please contact:
Rochelle Moloney
Chief Marketing & Communications Officer
DDI 09 927 9287
M 027 528 1534