

2020 Half Year Results

18 February 2020

HEARTLAND
GROUP

Important Notice

- This announcement is based on the 31 December 2019 unaudited interim consolidated financial statements of Heartland Group Holdings Limited (**Heartland**).
- Following a corporate restructure on 31 October 2018, Heartland Bank Limited (**Heartland Bank**) became a 100% controlled subsidiary of Heartland, and ownership of the Australian group of companies (comprising Heartland Australia Holdings Pty Limited and its subsidiaries) transferred from Heartland Bank to Heartland.
- As common control has remained the same both before and after the corporate restructure, management believes that the operations of Heartland from 1 November 2018 are directly comparable to those of Heartland Bank prior to 1 November 2018.
- All comparative results for Heartland are based on 31 December 2018 unaudited interim consolidated financial statements of Heartland Bank and its subsidiaries up to 31 October 2018, and Heartland and its subsidiaries from 1 November 2018 to 31 December 2018 (financial performance), or 30 June 2019 audited full year consolidated financial statements of Heartland (financial position), unless otherwise noted.

1H2020 Highlights

Financial Performance

Net operating income¹

\$118.6m



+16% vs 1H2019

Net profit after tax

\$39.9m



+20% vs 1H2019

Gross finance receivables²

\$4.585m



+8% annualised growth³

Return on equity

11.7%



+165 bps vs 1H2019

1. Net operating income includes fair value gains/losses on investments.
2. Gross finance receivables includes Reverse Mortgages.
3. Excluding the impact of changes in foreign currency exchange (FX) rates.

Strategy

- Continued focus on business simplification and growing core portfolios where best or only.
- Launch of Heartland's digital small business lending platform Open for Business (O4B) in Australia.
- Leveraging corporate restructure, existing platforms and capabilities to broaden the reach of Heartland's best or only products across other markets.
- Further diversification and expansion of Australian funding.

Customers and Culture

Customers

- Increased focus on customer experience, demonstrated through the introduction of a dedicated Customer Experience team and continual digital improvements.
- Product feature enhancements to meet customer needs, e.g. YouChoose and Australian Reverse Mortgages.
- Continued rollout of automation and paperless initiatives to reduce print volumes, e.g. DocuSign and the rollout of a document management tool.

Culture

- Continued focus on increased compliance and regulation requirements, including:
 - increase in FTE and strengthened technical expertise
 - focus on activity-based results
 - launch of Heartland's refreshed mātāpono (values).
- 47% of employees were aged 35 years and under.
- Continuation of Heartland's Manawa Ako internship programme, attracting 35 young Māori and Pacifica students this year.

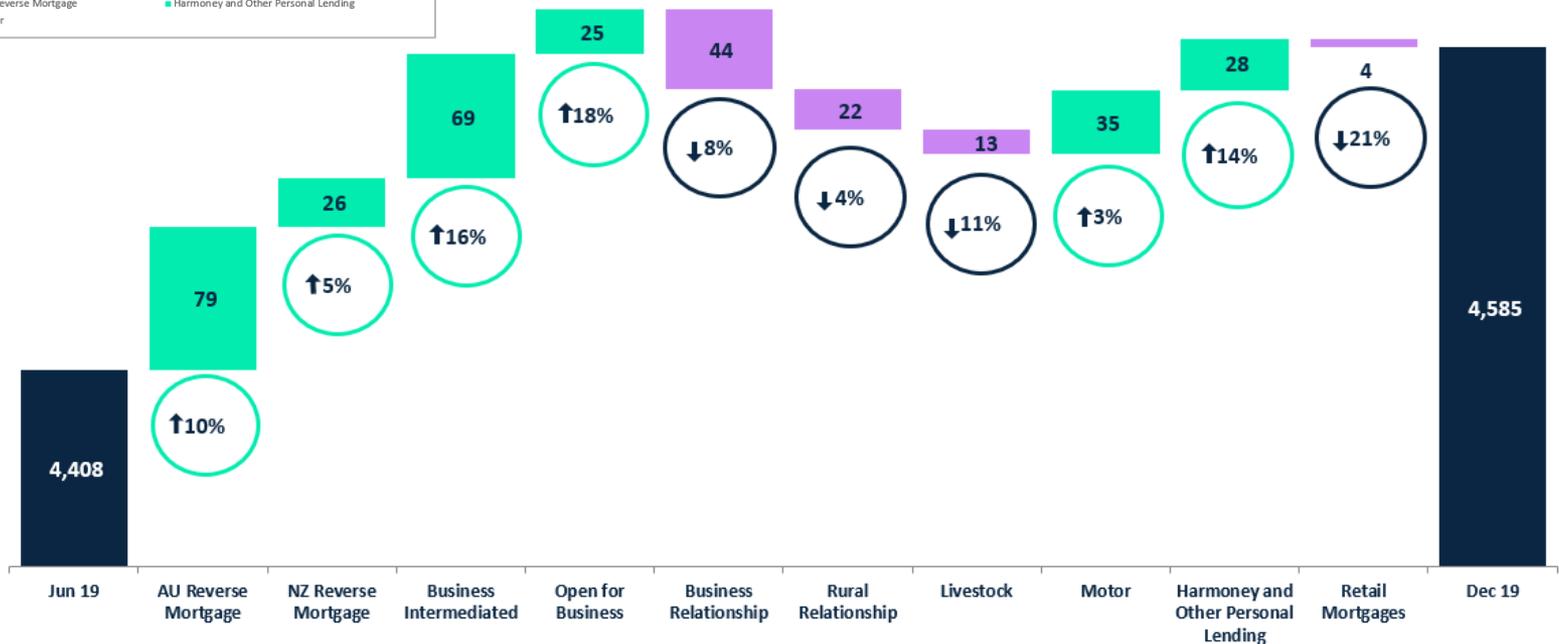
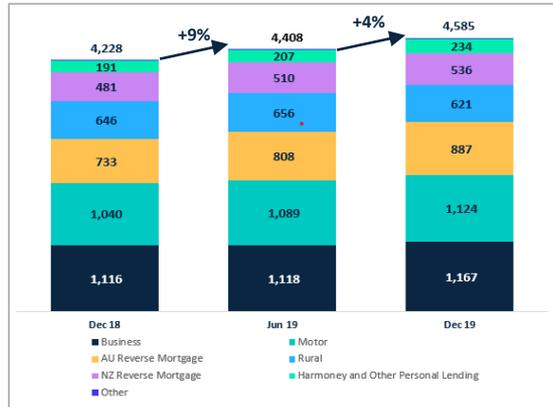
Financial Results

Growth in Profitability



1. All figures in NZ\$m.

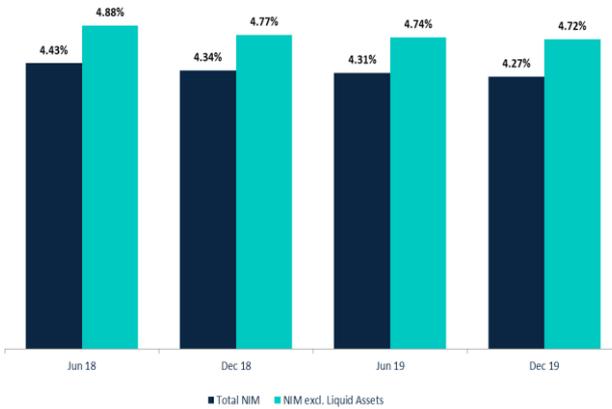
Growth in Receivables



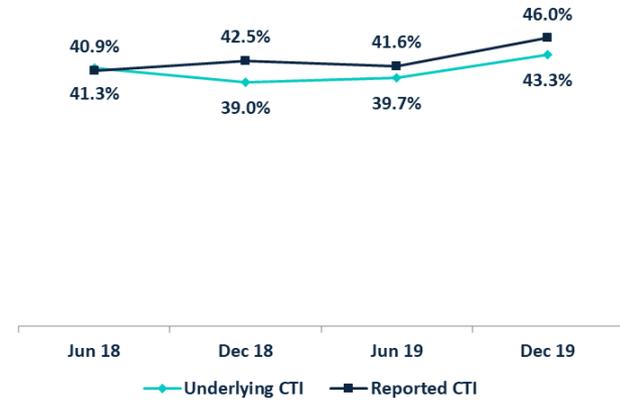
1. The graph shows year-to-date (YTD) movement in Receivables by individual portfolio excluding the FX impact.
2. All figures in NZ\$m.

Key Performance Measures

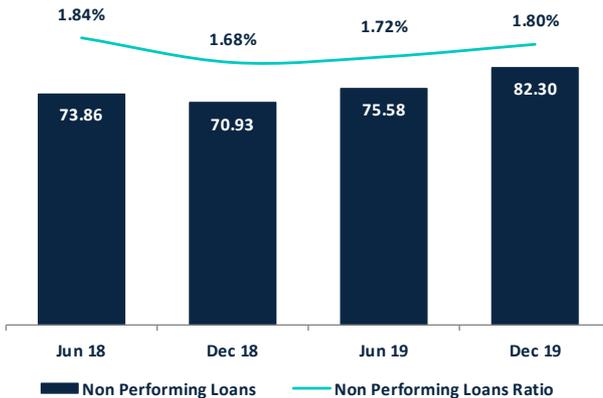
Net Interest Margin (NIM)¹



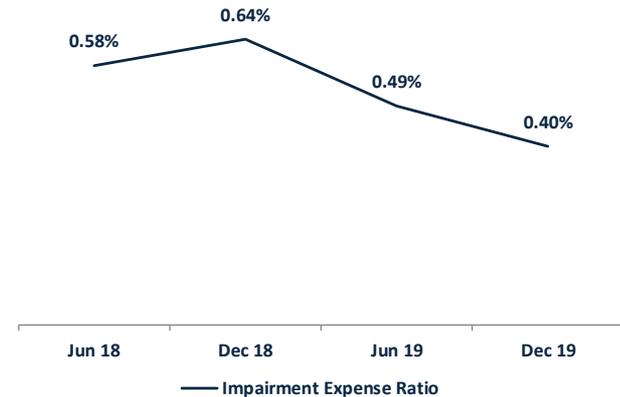
Cost to Income (CTI) Ratio²



Non Performing Loans (NPL) Ratio



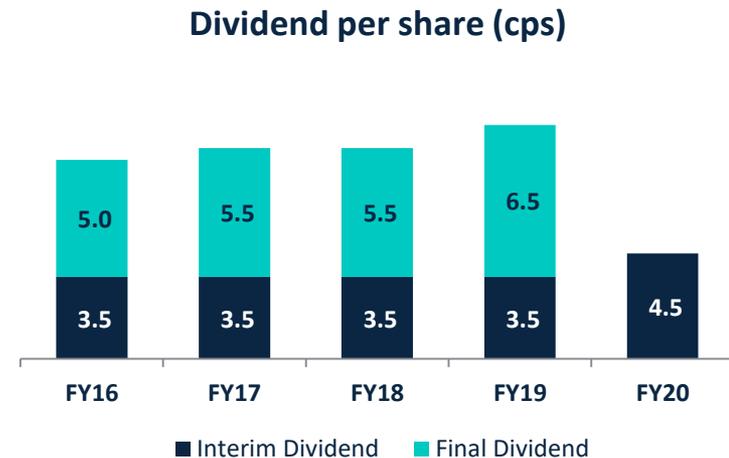
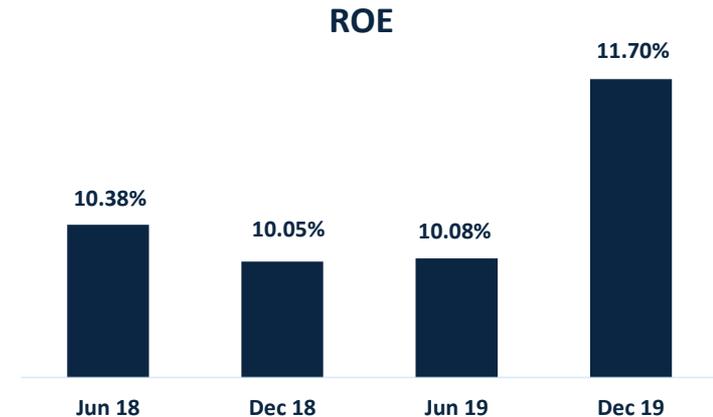
Impairment Expense Ratio³



1. NIM is calculated as full year (for June periods) or annualised half year (for December periods) net interest income/average interest earning assets.
2. Underlying CTI excludes impacts of the required accounting standard change and one-off impacts.
3. Impairment expense ratio is calculated as impairment expense/average gross finance receivables.

Shareholder Return

- Earnings per share (EPS) of 6.9 cps, up 1.0 cps compared to 1H19.
- Interim dividend of 4.5 cps, up 1.0 cps from 1H19.
- Interim dividend reflects consistent performance, with return on equity (ROE) increasing 165 bps since December 2018 to 11.7%.
- Resulting gross dividend yield of 8.3%¹.



1. Total fully imputed dividends for 2H19 (final) and 1H20 (interim) divided by the closing share price as at 14 February 2020 of \$1.84.

Divisional Summary

O4B

- O4B portfolio increased \$25m since June 2019 to \$158m (37% annualised growth).
- Net Operating Income of \$6.6m is 53.9% up on 1H19.
- Supported more than 800 small Kiwi businesses with \$48 million of new financing in 1H2020 to achieve their business goals and grow the New Zealand economy.
- O4B launched in Australia.
- Investment in marketing to increase product awareness, and operational capacity for the next growth phase.

O4B

As at 31 December 2019

\$158m

+37%

annualised growth since June 2019

AU Reverse Mortgages

- Receivables increased \$79m since June 2019 to \$887m (20% annualised growth)¹.
- Net Operating Income of \$16.6m is 41.6% up on 1H19.
- Another 800 families helped live a more comfortable retirement.
- Heartland remains the leading originator of reverse mortgages in Australia with market share increasing from 24%² to 26%³, and similar trend expected in the future.
- Continued enhancements to digital channel and investment in marketing to increase product and brand awareness.

AU Reverse Mortgages

As at 31 December 2019

\$887m

+20%

annualised growth since June 2019¹

1. Excluding the FX impact.
2. Based on APRA ADI Property Exposure and Heartland Seniors Finance data as at 31 March 2019.
3. Based on APRA ADI Property Exposure and Heartland Seniors Finance data as at 30 September 2019.

NZ Reverse Mortgages

- Receivables increased \$26m since June 2019 to \$536m (10% annualised growth).
- Net Operating Income of \$13.0m is 26.4% up on 1H19.
- Another 400 Kiwi families helped live a more comfortable retirement.
- Continued enhancements to digital channel and investment in marketing to increase product and brand awareness.

NZ Reverse Mortgages

As at 31 December 2019

\$536m

+10%

annualised growth since June 2019

Business Intermediated

- Receivables increased \$69m since June 2019 to \$494m (32% annualised growth).
- Net Operating Income of \$10.1m is 27.7% up on 1H19.
- Supported more than 1,100 businesses with over \$172 million of new financing in 1H2020 to purchase equipment and machinery through intermediary partners.
- Strong growth driven by market share gains through continued expansion and strengthening of partnerships with distributors and vendors of plant equipment, including Hino, Isuzu and Mainfreight.

Business Intermediated

As at 31 December 2019

\$494m

+32%

annualised growth since June 2019

Motor Finance

- Receivables increased \$35m since June 2019 to \$1,124m (6% annualised growth).
- Net Operating Income of \$30.1m is 6.8% up on 1H19.
- Growth continued in spite of market slowdown.
- More than 12,000 customers supported in purchasing a new car during 1H2020.
- Launch of new white label finance product in partnership with Kia Motors New Zealand.
- Further expanding and strengthening strategic distributor partnerships, and continued focus on broadening intermediary relationships.

Motor Finance

As at 31 December 2019

\$1,124m

+6%

annualised growth since June 2019

Harmoney and Other Personal Lending

- New Zealand Harmoney portfolio continues to grow steadily, increasing \$7m since June 2019 to \$159m (10% annualised growth).
- Strong growth in Australian Harmoney portfolio to \$61m, up \$22m since June 2019 (116% annualised growth).
- Net Operating Income of \$11.0m is 16.3% up on 1H19.

Harmoney and other personal lending

As at 31 December 2019

\$234m

+27%

annualised growth since June 2019

Livestock

- Livestock portfolio increased \$16m to \$108m since December 2018 (17% annual growth)¹.
- Net Operating Income of \$3.4m is 20.2% up on 1H19.
- More than 900 existing customers supported with finance to purchase and trade livestock without having to mortgage their farm.

Livestock

As at 31 December 2019

\$108m

+17%

growth since December 2018¹

1. Comparison against 31 December 2018 better reflects portfolio performance due to its seasonal profile.

Relationship

- Receivables decreased \$66m since June 2019 to \$1,028m (12% annualised decrease).
- Net Operating Income of \$23.3m is 16.7% down on 1H19.
- Continued managed reduction of low margin concentration in non-core Business and Rural Relationship portfolios.

Relationship

As at 31 December 2019

\$1,028m

-12%

annualised decrease since June 2019

Funding

- Heartland operates a diversified funding base that continues to grow with the business, with focus on matching asset duration, increasing leverage and improving capital efficiency.
- Heartland Bank utilises deposits and other funding sources as required:
 - 90-day registered certificate of deposits
 - externally rated auto loan warehouse
 - money market lines.
- Deposits increased \$80m since June 2019 to \$3,234m (5% annualised growth) due to strong growth in Term Deposit book of \$101m (9% annualised growth).
- 1,567 new savings accounts opened during 1H2020, bringing the total number of customers helped reach their savings goals faster to more than 24,000.
- Strong performance in the deposit book is supported by Heartland's competitive and flexible deposit product offering, providing a competitive strength amidst a highly competitive market, and resulting in a high retention rate of 88%.

Funding Continued

- Optimisation of the Heartland Mobile App to enable a better user experience.
- Awarded Canstar's Bank of the Year – Savings Awards (second year running).
- Awarded Canstar's 5-Star Rating for Outstanding Value Savings Account for the Direct Call Account (fourth year running).
- Product enhancements made to YouChoose to allow savings without an overdraft.



YouChoose.

Strategic Update

New Zealand Banking

- Achieving sustainable growth and performance underpinned by customer success through providing best or only products.
- Reduced concentration risk on low margin Business and Rural portfolios.
- Focus on building new, and further strengthening and broadening existing strategic Business Intermediated and Motor Finance relationships and partnerships.
- Using better, more cost efficient channels to challenge and disrupt banks and financial technology companies.

HEARTLAND
BANK

YouChoose.

MARAC

O4B OPEN
FOR
BUSINESS

O4L OPEN
FOR
LIVESTOCK

HEARTLAND
Seniors Finance

Australia

- Continued growth in Australian Reverse Mortgages distributed through broker and direct channels, with an increased focus on direct channels.
- Funding diversification work continues, with A\$100m of new funding obtained in November 2019 via an MTN issuance.
- A new securitisation facility with a new major bank provider secured.
- Broadening Heartland's offering in Australia where opportunities exist, for example, the launch of O4B in Australia in 1H2020.

Digital

- Developing digital services, platforms and processes to enable the provision of high-quality customer outcomes, superior customer experiences and seamless access to products and services. Including through:
 - free online calculator of potential lending amount now available for New Zealand Reverse Mortgage customers
 - online application now available for Australian Reverse Mortgage customers
 - small business lending platform O4B launched in Australia
 - implementation of DocuSign allowing for automation of the loan documents signing process
 - Online EFTPOS for YouChoose customers for online purchases
 - automated decisioning available for Business Intermediated customers.

Regulatory Update

FMA and RBNZ review of conduct and culture in New Zealand retail banks¹

- The review found no conduct and culture issues of material concern but urged banks to strengthen management of conduct risks.
- The findings are consistent with Heartland's constant internal focus on positive customer outcomes and the values of Mahi Tika.
- On 29 March 2019, Heartland submitted a workplan addressing the findings, and progress has been made on implementation.

RBNZ capital review

- In December 2019, the RBNZ announced the final outcome of the review of the capital adequacy framework for locally incorporated banks.
- The revised framework requires Heartland Bank to increase its Total Capital ratio to 16% over a seven-year transitional period commencing July 2020.
- The changes will not impact Heartland Bank until 2022 when minimum regulatory capital requirements increase from 8% to 9%, therefore not having a material impact on Heartland Bank.
- Heartland Bank's Total Capital ratio was 12.9% as at 31 December 2019.

1. "Bank Conduct and Culture – Findings from an FMA and RBNZ review of conduct and culture in New Zealand retail banks" report, dated November 2018 and published by the FMA and RBNZ.

2H2020 Outlook

- Asset growth in core lending, particularly reverse mortgages in New Zealand and Australia, and O4B.
- Continued investment in:
 - increasing brand and product awareness in both markets, particularly for O4B and Reverse Mortgages
 - increasing operational capacity to support opportunities and growth in core strategic areas
 - meeting regulatory and compliance commitments
 - Innovation and new growth opportunities.
- Heartland expects net profit after tax for the full FY2020 to be in the range of \$77 million to \$80 million, in line with the earlier guidance.

Appendices

Appendix – Financial Position

\$m	31 Dec 2019	30 June 2019	Movement (\$m)	Movement (%)
Liquid Assets	492	417	75	17.9%
Net Finance Receivables	4,521	4,350	171	3.9%
Other Assets	177	162	15	9.0%
TOTAL ASSETS	5,190	4,929	260	5.3%
Retail Deposits	3,234	3,154	80	2.5%
Other Borrowings	1,210	1,055	155	14.7%
Other Liabilities	59	45	14	30.2%
Equity	688	676	12	1.7%
TOTAL EQUITY & LIABILITIES	5,190	4,929	260	5.3%

Appendix – Financial Performance

\$m	1H2020	1H2019	Change (\$)	Change (%)
Net Operating Income ¹	118.6	102.1	16.5	16.2%
Operating Expenses	(54.6)	(43.4)	11.2	25.9%
Impairment Expense	(9.0)	(13.3)	(4.3)	(32.1%)
Profit Before Tax	55.0	45.5	9.5	21.0%
Tax Expense	(15.1)	(12.4)	2.8	22.6%
Net Profit After Tax	39.9	33.1	6.7	20.4%

Net Interest Margin	4.27%	4.34%	(7 bps)
Cost to Income Ratio	46.0%	42.5%	3.5%
Return on Equity	11.7%	10.0%	165 bps
Earnings per Share	6.9 cps	5.9 cps	1.0 cps

1. Net operating income includes fair value gains/losses on investments.

Thank you

