

# HEARTLAND

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New Zealand Limited

*NZX and Media Release*

## HEARTLAND POSTS FULL YEAR PROFIT OF \$48.2M

18 August 2015

Heartland New Zealand Limited (**Heartland**) (NZX: HNZ) today announced a net profit after tax (**NPAT**) of \$48.2m for the full year ended 30 June 2015 (the **Current Reporting Period**). This was an increase of 34% from the previous corresponding full year ended 30 June 2014 (the **Previous Corresponding Reporting Period**) and was slightly ahead of the top of Heartland's guidance range.

Earnings for the Current Reporting Period equate to a return on average equity (**ROE**) of 10.4% for the full year compared to 9.0% for the Previous Corresponding Reporting Period.

Achievements for the full year include:

- Increase in profitability and ROE
- Strong growth in core assets
- Credit rating for Heartland Bank Limited (**Heartland Bank**) raised to BBB
- Regulatory capital requirements for Heartland Bank reduced to align with other banks by the Reserve Bank of New Zealand
- Successful integration of the Reverse Mortgage business
- Wider penetration into the consumer finance market

Excellent growth was achieved across the core Consumer, Business and Rural divisions. New lending in the Reverse Mortgage book increased in the second half of the financial year.

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### FINANCIAL PERFORMANCE<sup>1</sup>

NPAT was \$48.2m for the Current Reporting Period. This is up \$12.2m from NPAT of \$36.0m for the Previous Corresponding Reporting Period.

NPAT included a tax benefit of NZ\$1.8m relating to the utilisation of available tax losses carried forward by Australian Seniors Finance Pty Limited. Approximately A\$1.4m of tax losses are still available and these are expected to be fully utilised by the first half of the 2016 financial year.

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<sup>1</sup> This announcement is based on the 30 June 2015 audited summary consolidated financial statements of Heartland New Zealand Limited. For more detailed analysis and explanation please refer to the attached full year financial statements.

Earnings for the Current Reporting Period equate to a return on average equity (**ROE**) of 10.4% for the full year compared to 9.0% for the Previous Corresponding Reporting Period.

Earnings Per Share was 10c calculated on weighted average shares.

The result for the Current Reporting Period included a number of non-recurring items which were not included in the earnings guidance provided in the announcement dated 21 May 2015. These were pre-tax:

- \$1.0m revaluation up of investment in Harmoney Corp Limited (**Harmoney**)
- \$1.0m impairment expense resulting from a Court of Appeal decision which overturned a previous decision made in favour of Heartland Bank
- \$0.3m revaluation down of the carrying value of MARAC Insurance Limited (**MIL**) upon acquisition of the remaining 50% not owned by Heartland (as required by accounting standards)
- \$0.5m expense relating to restructuring

The net impact of these items was a reduction in NPAT of \$0.4m.

### **Balance sheet**

Heartland's total assets increased by \$342.4m during the Current Reporting Period with net finance receivables increasing from \$2.6bn at 30 June 2014 to \$2.9bn at 30 June 2015. Major balance sheet movements included:

- Strong growth in the Business and Rural divisions, increasing by \$122.7m and \$77.5m respectively
- Continued performance in the Consumer division, with the motor vehicle book increasing by \$90.5m
- An increase in the Reverse Mortgage book of \$20.7m, including \$18.1m resulting from foreign exchange movements
- Continued reduction in the non-core residential mortgage book and property assets, which reduced by \$43.3m and \$13.8m respectively
- An increase in cash and cash equivalents and investments from \$276.2m at 30 June 2014 to \$366.4m at 30 June 2015
- A \$300.8m increase in borrowings reflecting the requirement to fund asset growth

Net Tangible Assets (**NTA**) increased from \$399.9m to \$420.3m during the Current Reporting Period. On a per share basis, NTA was \$0.89 at 30 June 2015 compared to \$0.86 at 30 June 2014.

### **Net Operating Income**

Net Operating Income (**NOI**) was \$144.7m for the Current Reporting Period, up from \$122.2m for the Previous Corresponding Reporting Period. The increase in NOI was attributable to the acquisition of the

Reverse Mortgage business in April 2014 as well as increased contributions from the Consumer, Business and Rural divisions.

### **Costs**

Operating costs were \$68.4m for the Current Reporting Period, an increase of \$3.7m from the Previous Corresponding Reporting Period. The increase in operating expenses was primarily attributable to inclusion of the Reverse Mortgage business. However, the increase was partially offset by a reduction in non-core property expenses and support costs. The operating expense ratio was 47% for the Current Reporting Period, compared to 53% for the Previous Corresponding Reporting Period, reflecting the higher operating income.

### **Impairments**

Impaired asset expense was \$12.1m for the Current Reporting Period, up from \$5.9m for the Previous Corresponding Reporting Period, an increase of \$6.2m.

Impairment expense in the Households division was up \$4.4m compared to the Previous Corresponding Reporting Period. This included an impairment expense of \$1.0m resulting from a Court of Appeal decision which overturned a previous decision made in favour of Heartland Bank and \$1.8m of collective impairments in respect of the Reverse Mortgage book which did not occur in the Previous Corresponding Reporting Period. There were no specific provisions and one small write off (\$24k) against the Reverse Mortgage book during the Current Reporting Period. The remainder of the increase in impairment expense in the Households division resulted from an increase in collective provisions due to an increase in arrears levels. However, the arrears levels experienced in the Current Reporting Period reflect historical levels relative to total book size, with the increase resulting from significantly lower arrears levels occurring in the Previous Corresponding Reporting Period and from asset growth.

Impairments in the Rural division were low for the Current Reporting Period and include adequate provisions for the dairy sector. Impairments in the Business division, although higher than the Previous Corresponding Reporting Period, were at expected levels.

Net impaired, restructured and past due loans over 90 days reduced to \$39.1m (or 1.4% of net finance receivables) as at 30 June 2015 from \$49.4m (or 1.9% of net finance receivables) as at 30 June 2014. The non-core property book made up \$2.5m of the net impaired, restructured and past due loans at 30 June 2015.

### **Funding and liquidity**

The liquidity of Heartland Bank (Heartland's principal operating subsidiary) was \$444.4m as at 30 June 2015, which consisted of cash, liquid assets and unutilised available funding lines.

### **Credit rating upgrade**

On 28 October 2014 Fitch Australia Pty Ltd upgraded Heartland Bank's long term credit rating to BBB (outlook stable) from BBB- (outlook stable).

### **CAPITAL**

Heartland's equity levels are driven primarily by the capital requirements of Heartland Bank with additional equity invested in smaller strategic investments. Accordingly Heartland's capital management plan is focused primarily on optimisation of Heartland Bank's capital level.

Heartland Bank's capital management policy includes holding buffers over regulatory minimum capital ratios. Heartland Bank currently has a total regulatory capital ratio of 12.9%. Excluding any change in capital structure, Heartland Bank's total regulatory capital ratio is expected to reduce over the next financial year but remain above 12.5%.

Heartland Bank's current capital is comprised almost entirely of Tier 1 capital provided by its parent. Heartland Bank intends to issue a Tier 2 capital instrument this financial year as part of its capital management strategy, subject to market conditions remaining favourable. It is expected that Heartland Bank's Tier 1 capital ratio would not fall below 10.5% after any issue. An issue of Tier 2 capital could (in the absence of any other use) allow Heartland to return capital by way of a share buy back which would have a positive impact on ROE and EPS. A share buy back would also be attractive if Heartland shares continue to trade below the Board's view of their intrinsic value.

### **BUSINESS PERFORMANCE – HEARTLAND'S CORE BUSINESS DIVISIONS**

#### **Business**

NOI was \$42.0m, an increase of \$5.1m from the Previous Corresponding Reporting Period. The increase in NOI was driven by strong growth in receivables. Business net receivables increased by \$122.7m (18%) to \$792.0m during the Current Reporting Period. \$32.8m of this growth was driven by the lending through Harmoney's peer-to-peer platform which is managed through the Business division. Strong growth in other areas was also achieved through the ability to provide multi-product solutions to customers through a single relationship manager and through improved responsiveness to customer needs, including through our intermediary relationships.

#### **Rural**

NOI was \$24.0m, an increase of \$1.2m from the Previous Corresponding Reporting Period. Rural net receivables also grew strongly, increasing by \$77.5m (19%) to \$487.7m during the Current Reporting Period. This increase in year-end receivables was not reflected in the increase in NOI due to lower average receivables in the Current Reporting Period compared to the Previous Corresponding Reporting Period. Early settlements were significantly lower in the Current Reporting Period as the division completed the exit of loans that were either higher risk or were in areas that overlapped with major banks.

Given heightened market interest in the dairy sector in New Zealand, Heartland advised on 30 July 2015 that its exposure to dairy is 7.6% of its total lending book. The average loan to value ratio (**LVR**) for Heartland's dairy exposures is 61%. However, it is important to note that LVRs are only one of the indicators of loan quality.

Heartland expects a continuation of lower than historical higher milk pay-out levels, followed by a slow recovery. This will lead to an increase in farmers making operating losses. Heartland is well positioned to provide support for its customers in the forthcoming year.

Further information regarding Heartland's dairy exposure is contained in the full year results presentation accompanying this announcement.

### **Households (Retail and Consumer)**

NOI was \$75.7m, an increase of \$17.1m from the Previous Corresponding Reporting Period. Household net receivables increased by \$67.9m to \$1.58bn during the Current Reporting Period.

NOI from the Consumer business (excluding net lease income) increased \$4.5m from the Previous Corresponding Reporting Period to \$48.3m while Consumer net receivables grew \$90.5m to \$745.7m during the Current Reporting Period. Wider penetration in the consumer finance market was achieved during the Current Reporting Period through the launch of a new personal loan product, in particular targeting customers transitioning from an interest-free period to an interest-bearing period with another lender.

NOI for the Reverse Mortgage business increased \$16.2m from the Previous Corresponding Reporting Period to \$20.3m reflecting inclusion of a full year of earnings. Reverse Mortgage net receivables increased \$20.7m (including \$18.1m as a result of foreign exchange movements) to \$755.6m during the Current Reporting Period. The focus in the Reverse Mortgage business has been on growing the book in both New Zealand and Australia through advertising and in the case of Australia, continued development of relationships with intermediaries. The results of these activities began to show in the second half of the year with new lending increasing and receivables growing \$6.1m (excluding the effect of foreign exchange movements). Due to the age of the receivables initially acquired, the current average repayment rate for the Reverse Mortgage receivables book is high which has limited the rate of growth. It is expected that growth will accelerate as the low repayment rate on new loans offsets the higher repayment rate on older loans.

Residential Mortgage net receivables reduced by \$43.3m to \$78.6m from the Previous Corresponding Reporting Period, continuing Heartland's strategy to realign its product mix towards products where it can achieve market leadership and a better risk/return.

## **NON-CORE BUSINESS**

### **Property**

Total legacy non-core property assets reduced by 34% during the Current Reporting Period, from \$40.8m at 30 June 2014 to \$27.0m at 30 June 2015. As at 30 June 2015 non-core property assets comprised net receivables of \$2.5m and investment properties of \$24.5m. Heartland does not expect future earnings to be impacted by the future realisation of these assets.

### **STRATEGIC INVESTMENTS**

During the Current Reporting Period, Heartland acquired an approximate 10% shareholding in Harmoney, having invested \$3.5m to date. Harmoney is the first peer-to-peer lender to be licenced in New Zealand, operating a lending model that challenges those being offered by traditional banks. This model is complementary to Heartland's strategy of occupying leading positions in niche markets through specialist products which are different to those operated by mainstream banks.

Based on subsequent placements of Harmoney shares and on the performance of Harmoney to date, Heartland has revalued its investment in Harmoney up by \$1.0m. As at 30 June 2015, Heartland Bank had also lent approximately \$32.8m through the Harmoney platform.

Heartland also acquired a small shareholding in Ora HQ Limited (**Ora**) during the Current Reporting Period. Ora is a New Zealand based company which assists SMEs to run and grow their business using an innovative online platform to deliver business insights. The acquisition provides Heartland with distribution opportunities in the SME market.

Following a review of the joint venture arrangement with The New Zealand Automobile Association (**NZAA**) in respect of MIL, it was determined that it was in the best interests of each partner to end the joint venture. Accordingly, Heartland committed to acquire the 50% shareholding in MIL previously held by NZAA for \$2.3m. As a result of this transaction, it is expected that the earnings contribution from MIL in FY16 will increase by approximately \$0.5m compared to the Current Reporting Period.

### **GROUP STRATEGY**

Heartland's current focus is to both maximise its existing strengths and efficiencies in its core business as well as exploring new growth opportunities. The focus moving forward will be on opportunities that enhance distribution or processing capability in the Consumer and SME markets. Based on the recent off-shore developments in new financial technology and strong growth in online lending platforms, Heartland believes the development of innovative, low cost technology will allow greater reach into these markets and lower servicing costs.

## **FINAL DIVIDEND**

The directors of Heartland have resolved to pay a final dividend for the full year ended 30 June 2015 of 4.5 cents per share. This dividend will be paid on 2 October 2015 to shareholders on Heartland's register as at 5.00pm on 18 September 2015. This dividend will be fully imputed.

The Dividend Reinvestment Plan (**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)<sup>2</sup>. 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 September 2015.

The interim dividend of 3.0c plus the announced 4.5c final dividend will mean a fully imputed 7.5c dividend payment in relation to the 2015 financial year.

## **LOOKING FORWARD**

Looking forward Heartland expects underlying asset growth to remain strong although at lower rates in the Business and Rural divisions. Growth in the Reverse Mortgage business is expected to increase from that achieved in the Current Reporting Period as the business continues to build on the results achieved in the last six months.

In general, impairment levels are expected to be similar to that experienced in the Current Reporting Period. However, given the low level of impairment experienced in the Rural division, a higher level of impairment has been allowed for within the guidance range.

As previously advised, Heartland expects its NPAT for the year ended 30 June 2016 to be in the range of \$51m to \$55m. This guidance range does not allow for the impact of any capital management initiatives.

- Ends -

For further information, please contact:

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<sup>2</sup> For the full details of the **DRP** and the Strike Price calculation, refer to Heartland's **DRP** offer document dated 12 December 2014.

<b>HEARTLAND NEW ZEALAND LIMITED (HNZ)</b>	
<b>Results for announcement to the market</b>	
Reporting Period	12 months to 30 June 2015
Previous Reporting Period	12 months to 30 June 2014

	Amount (000s)	Percentage change
Revenue from ordinary activities	\$NZ 144,844	+18.1%
Profit (loss) from ordinary activities after tax attributable to security holders	\$NZ 48,163	+33.6%
Net profit (loss) attributable to security holders	\$NZ 48,163	+33.6%

Interim/Final Dividend	Amount per security	Imputed amount per security
Final	\$NZ 0.045	\$NZ 0.0175
Record Date	18 September 2015	
Dividend Payment Date	2 October 2015	

Comments:	<p>Revenue from ordinary activities represents Net Operating Income plus Share of Joint Arrangement profit.</p> <p>An interim dividend of \$14,008,399 was paid on 2 April 2015.</p>
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**Notice of event affecting securities**

NZSX Listing Rule 7.12.2. For rights, NZSX Listing Rules 7.10.9 and 7.10.10.  
For change to allotment, NZSX Listing Rule 7.12.1, a separate advice is required.

Number of pages including this one  
(Please provide any other relevant  
details on additional pages)

1

Full name of Issuer **Heartland New Zealand Limited**

Name of officer authorised to make this notice **Anna-Lisa Strain - Company Secretary** Authority for event, e.g. Directors' resolution **Directors' Resolution**

Contact phone number **09 927 9151** Contact fax number **09 927 9310** Date **18 / 08 / 2015**

**Nature of event**  
Tick as appropriate

Bonus Issue <input type="checkbox"/>	If ticked, state whether: <input type="checkbox"/>	Taxable <input type="checkbox"/>	/ Non Taxable <input type="checkbox"/>	Conversion <input type="checkbox"/>	Interest <input type="checkbox"/>	Rights Issue Renounceable <input type="checkbox"/>
Rights Issue non-renounceable <input type="checkbox"/>	Capital change <input type="checkbox"/>	Call <input type="checkbox"/>	Dividend <input checked="" type="checkbox"/>	If ticked, state whether: Interim <input type="checkbox"/>	Full Year <input checked="" type="checkbox"/>	Special <input type="checkbox"/>
						DRP Applies <input checked="" type="checkbox"/>

**EXISTING securities affected by this** *If more than one security is affected by the event, use a separate form.*

Description of the class of securities **Ordinary Shares** ISIN **NZBSHE0001S0**  
*If unknown, contact NZX*

**Details of securities issued pursuant to this event** *If more than one class of security is to be issued, use a separate form for each class.*

Description of the class of securities **Ordinary Shares** ISIN **NZBSHE0001S0**  
*If unknown, contact NZX*

Number of Securities to be issued following event  Minimum Entitlement  Ratio, e.g. 1 for 2  for

Conversion, Maturity, Call Payable or Exercise Date  Treatment of Fractions **Rounded to nearest whole number**

Strike price per security for any issue in lieu or date Strike Price available.  Tick if *pari passu* ☐ OR provide an explanation of the ranking

**Monies Associated with Event** *Dividend payable, Call payable, Exercise price, Conversion price, Redemption price, Application money.*

*In dollars and cents*

Amount per security (does not include any excluded income)	<b>\$0.045</b>	Source of Payment	<b>Retained Earnings</b>
Excluded income per security (only applicable to listed PIEs)	<input type="text"/>		
Currency	<b>NZD</b>	Supplementary dividend details - NZSX Listing Rule 7.12.7	Amount per security in dollars and cents <b>\$0.007941</b>
Total monies	<b>\$0.045</b>	Date Payable	<b>2 October, 2015</b>

**Taxation** *Amount per Security in Dollars and cents to six decimal places*

In the case of a taxable bonus issue state strike price **\$**

Resident Withholding Tax	<b>\$0.003125</b>	Imputation Credits (Give details)	<b>\$0.017500</b>
Foreign Withholding Tax	<b>\$</b>	FDP Credits (Give details)	<input type="text"/>

**Timing** (Refer Appendix 8 in the NZSX Listing Rules)

**Record Date 5pm**  
For calculation of entitlements - **18 September, 2015**

**Application Date**  
Also, Call Payable, Dividend / Interest Payable, Exercise Date, Conversion Date. **2 October, 2015**

**Notice Date**  
Entitlement letters, call notices, conversion notices mailed

**Allotment Date**  
For the issue of new securities. Must be within 5 business days of application closing date. **2 October, 2015**

**OFFICE USE ONLY**

Ex Date:  
Commence Quoting Rights:  
Cease Quoting Rights 5pm:  
Commence Quoting New Securities:  
Cease Quoting Old Security 5pm:

Security Code:

Security Code:

