2019 Annual Results

15 August 2019

HEARTLAND GROUP

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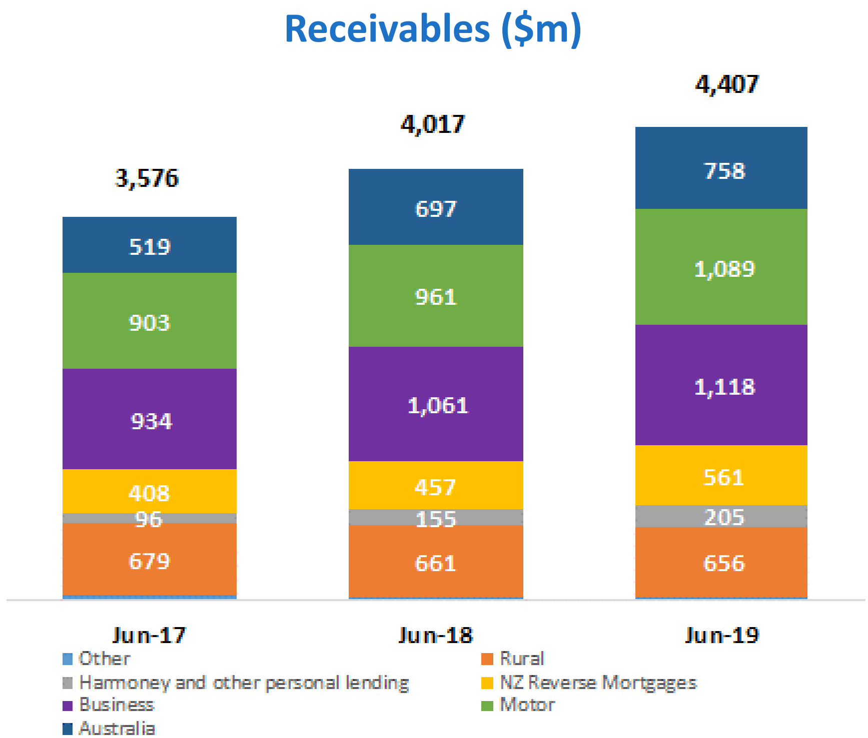
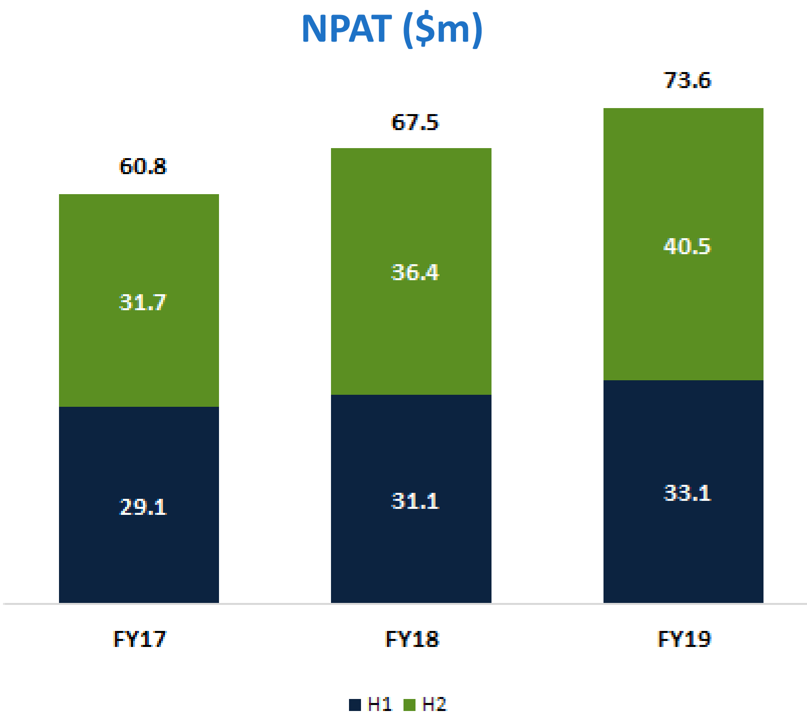
- This announcement is based on the 30 June 2019 audited full year consolidated financial statements of Heartland Group Holdings Limited (**HGH**). Following a corporate restructure on 31 October 2018, Heartland Bank Limited (**HBL**) became a 100% controlled subsidiary of HGH and ownership of the Australian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

FY2019 Highlights

2019 Financial Highlights

- Gross finance receivables (**Receivables**) increased 10.5% to **$4.4b** (excl. FX[1]).
- Net profit after tax (**NPAT**) increased 9.0% to **$73.6m**.
- Final dividend increased 1.0 cents per share (**cps**) to **6.5cps**, taking total dividends for FY2019 to 10.0cps.





1. Excluding the impact of changes in foreign currency exchange rates (**FX**) of $34.5m.

Business and Strategic Highlights

Business

- Receivables growth
  - Australian reverse mortgages up 24.0%.
  - New Zealand reverse mortgages up 11.4%.
  - Open for Business up 48.2%.
  - Business Intermediated up 31.4%.
  - Motor up 13.3%.
  - Harmoney and other personal lending up 32.9% (excl. Retail mortgages).

Strategic

- Corporate restructure successfully completed.
- ASX foreign exempt listing successfully completed.
- Diversification and expansion of Australian funding.
- Heartland Bank issued $125m of five-year unsubordinated unsecured notes.

Customer and Culture Highlights

Customer

- Uptake of the Heartland Mobile App continues to rise, increasing by 72% since January 2019.
- 2 Canstar Savings product awards, and 1 money magazine reverse mortgage product award.
- Work plan submitted to the FMA and RBNZ in response to the recent Conduct and Culture Review.

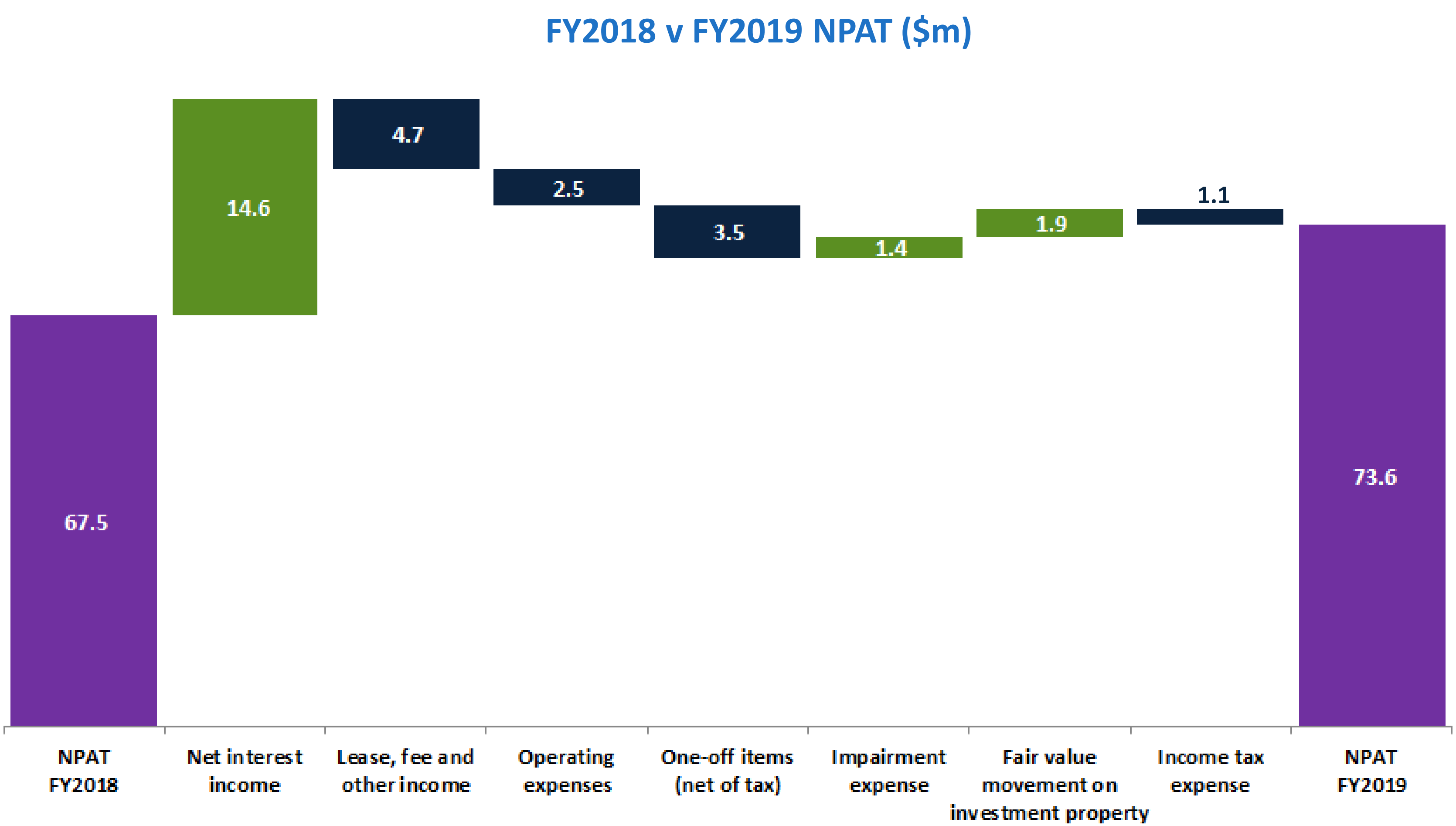
People and Culture

- Heartland launched its new mātāpono (values) with a focus on customer outcomes. The mātāpono are: Mahi Tika – do the right thing, Mahi Tahi – be one team, Mahi Toa – have big ambition and Mahi Tipu – be always evolving.
- Increase in gender diversity among people in key leadership roles, currently 62.5% female and 37.5% male.
- Internship initiative has contributed to Māori constituting 4.0% of Heartland's population. This is positive compared to the sector where 2.3% of people in the financial and insurances services sector identify as Māori(1).

1. Source: New Zealand Census 2013, Statistics New Zealand.

Financial Results

Growth in Profitability



1. Included in FY2018 lease, fee and other income, were one-off gains of $4.8m on sale of property, and $0.6m on sale of the invoice finance business.
2. One-off items (net of tax) include corporate restructure and ASX listing costs of $1.8 million, adverse impact of foreign currency movements of $0.9m, and Tier 2 break fees of $0.8m.

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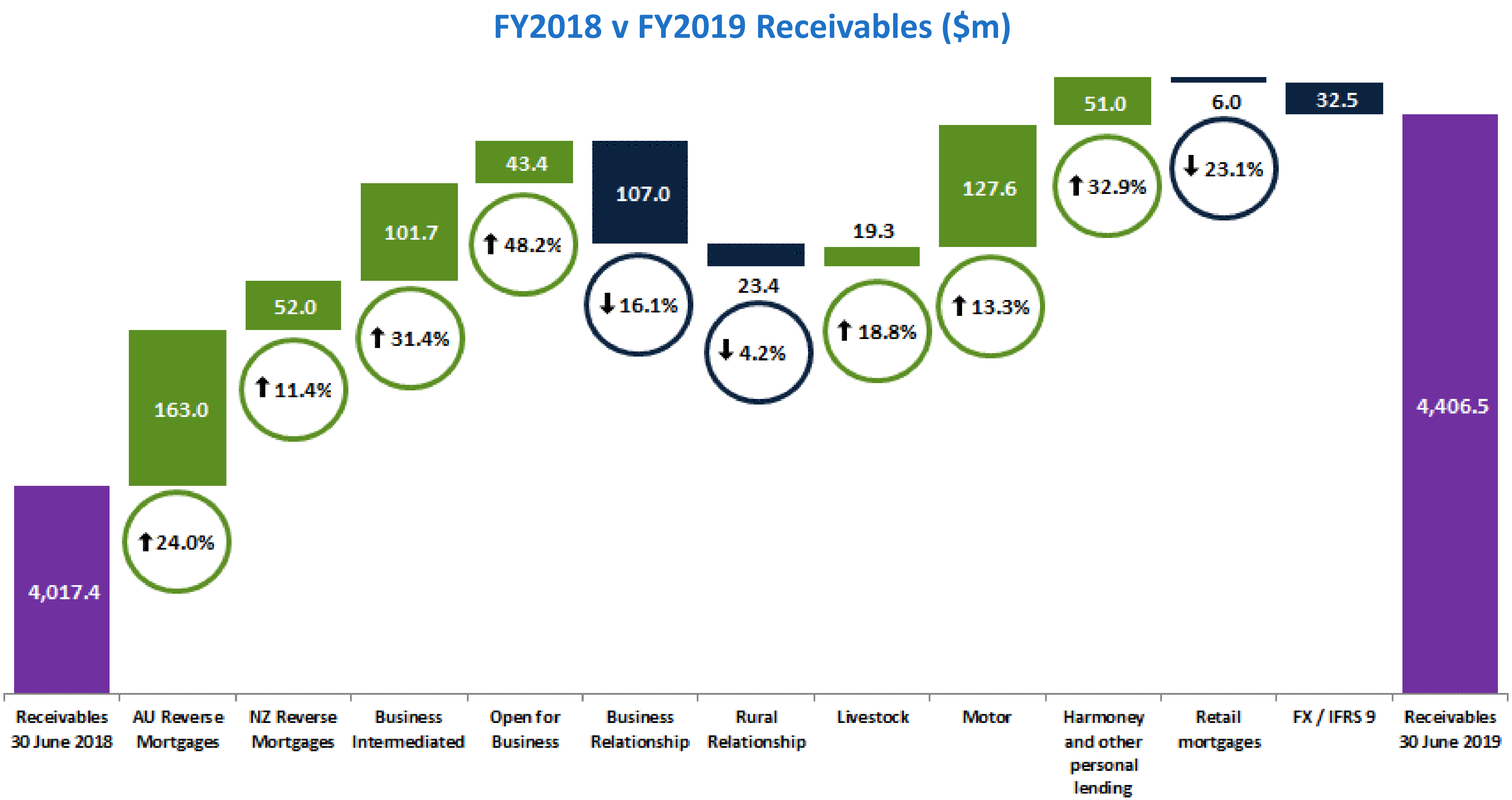
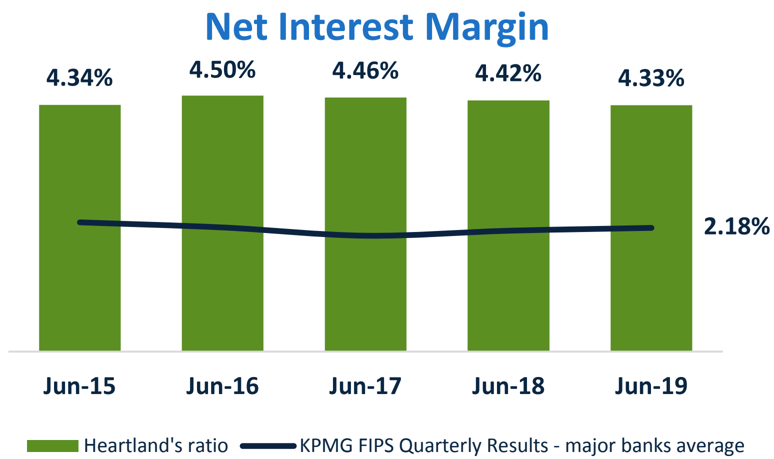
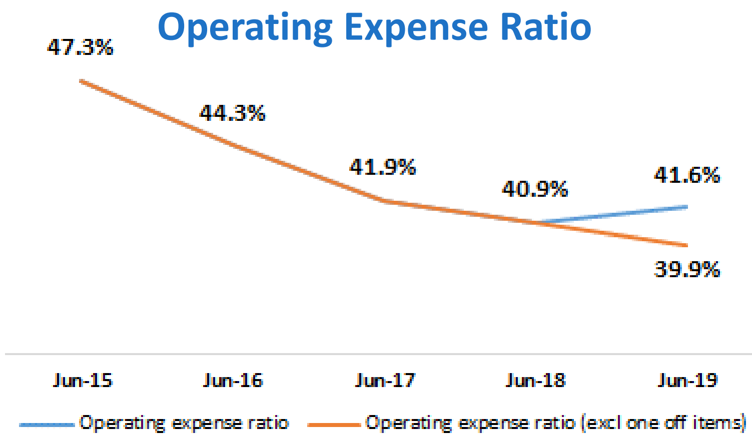
Growth in Receivables

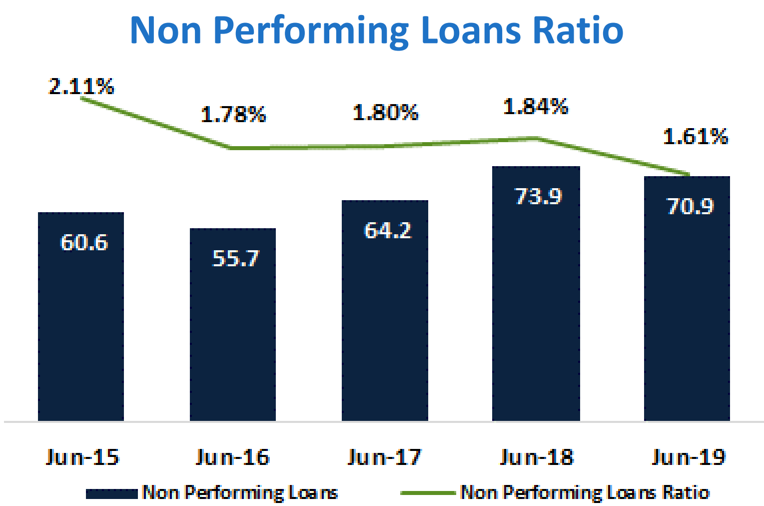


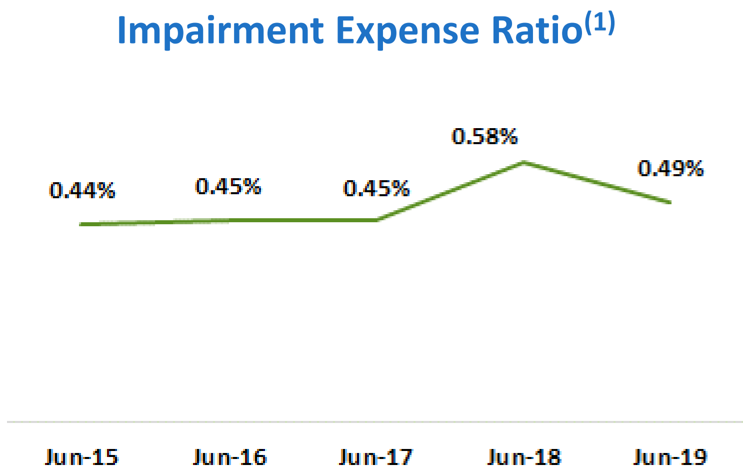
1. The graph shows growth in Receivables, excluding the impact of changes in foreign currency exchange rates (**FX**) of $34.5m and IFRS9 adjustments of ($2.0m) which are shown separately.
2. There was a $54.7m transfer from AU Reverse Mortgages to NZ Reverse Mortgages which has been excluded in the above.

Key Performance Measures









1. Impairment expense ratio is calculated as impaired asset expense / average gross finance receivables

IFRS9

Impairment

- New accounting standard IFRS9 came into effect on 1 July 2018.
- Requires impairments to be provided for on an expected loss basis at the date of loan origination, not just those loans that are past due or impaired.
- Excluding the impact of IFRS9 adoption, the impairment expense ratio was 0.42%(1).
- The initial adoption of IFRS9 also resulted in opening adjustments to provisions for impairments of $25.3 million and retained earnings of $17.9 million, after allowance for a deferred tax benefit.

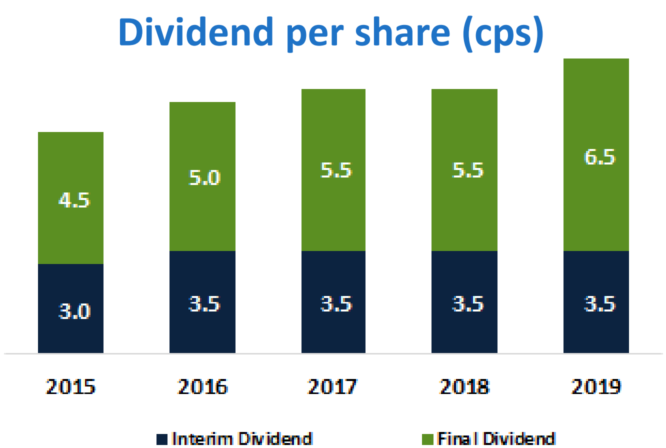
Fair Value

- IFRS9 also introduced a change in the way Reverse Mortgages are valued.
- Under IFRS they are classified as 'fair value through profit or loss'.
- Currently, it has been determined that fair value equals current carrying value. However, should consistent evidence of a market value emerge, this may result in a revaluation.

1. Impairment expense ratio is calculated as impaired asset expense / average gross finance receivables

Shareholder Return

- Return on equity 11.1% (11.7% excluding one-off costs and 12.2% for H2 FY2019).
- Earnings per share 13.0cps (14.4cps for H2 FY2019).
- Final dividend declared 6.5cps, up 1.0cps on FY2018 and takes total dividends for FY2019 to 10.0cps (11% growth).
- The dividend reflects consistent performance from the Bank, and an inaugural contribution to the dividend from Australian business following growth in assets and profitability, and enhanced capital efficiency.
- Dividend yield of 8.6%[1].



1. FY2019 total fully imputed dividends divided by share price as at 14 August 2019 of $1.62.

Divisional summary

NZ Reverse Mortgages

- Receivables increased 11.4% to $561.2m.
- Net Operating Income increased 13.3% to $20.9m.
- Increased brand awareness and digital distribution through marketing activity.

NZ Reverse Mortgages

As at 30 June 2019

$561.2m

11.4% growth

From FY2018

Business

- Total Receivables increased 3.5% to $1,118.2m.
- Net Operating Income increased 5.0% to $55.9m.
- Core Business Intermediated Receivables increased 31.4% to $425.4m.
- Non-Core Business Relationship lending reduced $107.0m as part of a managed reduction in low margin risk concentration.

Business

As at 30 June 2019

$1,118.2m

3.5% growth excl. FX

From FY2018

Motor

- Receivables increased 13.3% to $1,088.6m.
- Net Operating Income increased 8.0% to $57.1m.
- Continued focus on broadening intermediary relationships.
- New and used vehicle sales reduced in H2 FY2019 by 6% and 8% respectively.
- New distributor relationships.

Motor

As at 30 June 2019

$1,088.6m

13.3% growth

From FY2018

Rural

- Total Receivables decreased 0.6% to $656.4m.
- Net Operating Income decreased 1.9% to $31.7m.
- Livestock Receivables increased 18.8% in the year to $121.6m.
- Non-Core Rural Relationship Receivables decreased 4.2% to $534.8m as part of a managed reduction in low margin risk concentration.

Rural

As at 30 June 2019

$656.4m

0.6% decrease

From FY2018

Harmony and other personal lending

- NZ Harmoney Receivables increased 40.0% to $149.7m.
- AU Harmoney Receivables increased 52.0% to $39.8m (excl. FX).
- Other Personal Lending reduced 24.1% to $16.8m.
- Net Operating Income increased 6.8% to $18.9m.

Harmoney and other personal lending
As at 30 June 2019

$206.3m

32.9% growth excl. FX

From FY2018

Deposits

- Deposits increased 9.4% to $3,153.7m.
- Heartland Mobile App downloads increased by 72% from January 2019.
- 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).
- Launched new product, YouChoose – a savings account with an arranged overdraft.

YouChoose.

Strategic update

New Zealand Banking

- Delivering best or only products to depositors and borrowers through continued growth in niche markets:
    - **Reverse Mortgages** – supporting people to live a more comfortable retirement by releasing equity from their homes.
    - **Motor Finance** – helping New Zealanders to purchase safer, more reliable cars.
    - **SME Lending** – supporting small businesses to grow with fast secured or unsecured finance – so they don't necessarily have to own a home or other big asset to receive a loan.
    - **Business** – re-positioned to intermediated channels targeting manufacturers and distributors of plant and equipment.
    - **Livestock Finance** – helping farmers to purchase and trade livestock without having to mortgage their farm.
    - **Deposits** – providing New Zealanders with competitive on call and term deposit rates to reach their savings goals.
    - **Non-Core** – continued reduction in low margin, risk concentrations in Business and Rural.

Australia

- Heartland is the leading originator of reverse mortgages in Australia.
- Market share grew to 24.0%[1], and is expected to continue to grow.
- Receivables increased 24.0% to $757.6m.
- Net Operating Income increased 10.7% to $22.7m.
- TVC launched to build awareness, and website refreshed to deliver a better user experience and customer journey under a refreshed brand.
- Continued diversification of funding with a focus on matching asset duration, increasing leverage and improving capital efficiency:
  - Established A$ medium-term note programme, A$50m issued.
  - New A$250m committed reverse mortgage funding facility.
  - Additional funding in progress with a potential new funder.
  - Long term reverse mortgage-backed structure being developed.
- O4B pilot in Australia.

Australian Reverse Mortgages

As at 30 June 2019

$757.6m

24.0% growth excl. FX and transfers

From FY2018

1. Based on APRA ADI Property Exposure statistics, plus Heartland Seniors Finance, as at 31 March 2019.

Digital

Vision

- A Financial Technology group with a bank licence, not a conventional bank.

Digital Strategy

- High-quality customer outcomes depend on providing superior customer experiences through delivery of simple and fast access to products and services.

Key Objectives

- Ensure our products are available to customers online or via an app, providing simple frictionless and fast on-boarding and processing.
- Achieve low cost reach to the broadest target market, through online and smartphone access and highly automated processes.

Major Achievements

- Heartland Mobile App installed more than 5,900 times (72% increase since January 2019).
- YouChoose launched, an online offering providing both debit and credit capabilities.
- Online EFTPOS allowing customers greater flexibility to shop online without an EFTPOS or Debit Card.
- O4B webpage visits increased by 163%(1), and the number of online applications increased by 160%(2).
- Domain Authority increased 16%(3).

1. Google Analytics, 30 June 2019.
2. Proprietary data collection platform, 30 June 2019.
3. https//moz.com.

Open for Business

- Receivables increased 48.2% to $133.3m.
- Net Operating Income increased 85.3% to $9.6m.
- Investment in awareness and processing capacity required for next phase of growth.

Open for Business

As at 30 June 2019

$133.3m

48.2% growth excl. FX

From FY2018

Regulatory update

FMA and RBNZ review of conduct and culture in New Zealand retail banks[1]

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

RBNZ capital review

- In December 2018, the RBNZ released a consultation paper seeking public feedback on the minimum amount of regulatory capital required for locally incorporated banks.
- A final decision is expected to be made by the RBNZ in November 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.

Capital

- Focus remains on improved return on equity through capital efficiency while ensuring Heartland Bank's capital needs are supported.

- Heartland Bank would require approximately $60m of additional regulatory capital(1) ($12m p.a. over the 5 year transition period) were the proposed RBNZ capital changes implemented in current form.

- This transition, along with growth could be supported from:
  - Retained earnings;
  - Contribution from managed reduction in relationship lending;
  - Available Group leverage; and/or
  - Improvement in Australian capital efficiency.

1. Based on Heartland Bank's risk weighted exposures, and regulatory capital as at 30 June 2019.

Strategic Outlook

- High-quality customer outcomes.
- Continued stability and growth in Core Banking activities.
- Growth in Australia.
- Continued shift to fast and simple on-boarding and processing under a ‘Digital’ strategy.
- Capital efficiency and improved return on equity.

FY2020 Outlook

- Continued asset growth in core lending, particularly reverse mortgages in New Zealand and Australia, and O4B.
- Managed reduction of low margin Business and Rural Relationship lending to reduce concentration risk.
- Increased costs associated with investment in:
    - Awareness for O4B and reverse mortgages in both Australia and New Zealand.
    - Capacity and processing volume to meet growing demand and opportunities in core strategic areas.
    - Finance and Compliance reflecting increased regulatory complexity and heightened and demands.
- Many of these costs are accelerated or one-off and will generate asset growth and income in ensuing years.
- Accordingly, we expect the cost to income ratio increase to 41.9%, before reverting to its current trajectory.
- Heartland expects net profit after tax for the year ending 30 June 2020 to be in the range of $77 million to $80 million.

Appendices

Appendix – Financial Position

Summary Balance Sheet	30 Jun 2019 ($m)	30 Jun 2018 ($m)	Movement ($m)	Growth (%)
Gross finance receivables	4,406.5	4,017.4	389.1	9.7%
Provisions for impairment and fair value adjustment	(58.4)	(32.5)	(25.9)	79.8%
Net finance receivables	4,348.1	3,984.9	363.1	9.1%
Other assets	578.4	511.9	66.4	13.0%
TOTAL ASSETS	**4,926.4**	**4,496.8**	**429.6**	**9.6%**
Retail deposits	3,153.7	2,881.8	271.9	9.4%
Other borrowings	1,056.7	914.3	142.4	15.6%
Other liabilities	40.4	36.6	3.8	10.3%
Equity	675.7	664.2	11.5	1.7%
TOTAL EQUITY & LIABILITIES	**4,926.4**	**4,496.8**	**429.6**	**9.6%**

- Receivables increased 10.5%, excluding the impact of FX, resulting in reported growth of 9.7%.
- Retail deposits increased 9.4% to $3,153.7m.

Appendix – Impact of one-off items

- One-off items include post-tax impact of:
  - Corporate restructure and ASX listing costs of $1.8m.
  - Adverse impact of foreign currency movements of $0.9m.
  - Tier 2 break fees of $0.8m.

	Reported	Impact	Excl. Impact
Net profit after tax	$73.6m	$3.5m	$77.1m
Net interest margin	4.33%	0.02%	4.35%
Cost to income ratio	41.6%	(1.7%)	39.9%
Return on equity	11.1%	0.6%	11.7%
Earnings per share	13.0cps	0.7cps	13.7cps

Appendix – H1 FY2019 v H2 FY2019

	H1 FY2019	H2 FY2019	FY 2019
Net operating income	$102.1m	$103.7m	$205.8m
Operating expenses	$43.4m	$42.2m	$85.6m
Impaired asset expense	$13.3m	$7.4m	$20.7m
Tax expense	$12.4m	$15.5m	$27.9m
Net profit after tax	**$33.1m**	**$40.5m**	**$73.6m**
Net interest margin	4.36%	4.30%	4.33%
Cost to income ratio	42.5%	40.7%	41.6%
Return on equity	**10.3%**	**12.2%**	**11.1%**
Earnings per share	11.7cps	14.4cps	13.0cps

Thank you