2022 Half year results

22 February 2022

HEARTLAND

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Non-GAAP measures

This presentation contains references to non-GAAP measures including underlying profit or loss, underlying ROE, underlying CTI ratios and underlying EPS. A reconciliation between reported and the non-GAAP measure of underlying financial information is included on page 32.

Because Heartland complies with accounting standards, investors know that comparisons can be made with confidence between reported profits and those of other companies, and there is integrity in Heartland's reporting approach. These non-GAAP figures are provided as a supplementary measure for readers to assess Heartland's performance alongside NZ GAAP reported measures, where one-offs, both positive and negative, can make it difficult to compare profits between years. However, these do not have standardised meanings and should not be viewed in isolation nor considered a substitute for measures reported in accordance with NZ GAAP.

Non-GAAP financial information has been subject to review by KPMG.

1H2022 highlights

Financial highlights

FINANCIAL POSITION

$5,358m
GROSS FINANCE RECEIVABLES[3]
+13.9%[4] vs June 2021

$5,155m
BORROWINGS
+6.0% vs June 2021

$778m
EQUITY
+2.2% vs June 2021

13.0%
EQUITY/TOTAL ASSETS
- 43 bps vs June 2021

Net interest margin (**NIM**) 4.30% (+ 3 basis points (**bps**) vs 1H2021).

Average interest earning assets +$335.2m (+6.2% vs June 2021).

Net interest income
$123.9m
+9.4% vs 1H2021

Other operating income[2] **$6.8m**
-43.6% vs 1H2021

Underlying other operating income (**OOI**) $6.9m (flat vs 1H2021).

NPAT[1]
$47.5m
+7.8% vs 1H2021
$47.1m **(+8.8%)**
on an underlying basis

Operating expenses
$57.3m
-6.3% vs 1H2021

Cost to income (**CTI**) ratio 43.8% (-5.0 percentage points (**pps**) vs 1H2021) .

Underlying operating expenses (**OPEX**) $56.4m (+2.5% vs 1H2021).

Underlying CTI ratio 43.1% (-2.7 pps vs 1H2021).

Impairment expense
$8.5m
+88.1% vs 1H2021

Impairments up on 1H2021 due to COVID-19 related extensions that occurred in 1H2021.

Tax
$17.4m
+11.8% vs 1H2021

FINANCIAL PERFORMANCE

4.30%
NET INTEREST MARGIN
+ 3 bps vs 1H2021

43.8%
COST TO INCOME RATIO
-5 pps vs 1H2021

0.33%
IMPAIRMENT EXPENSE RATIO[5]
+ 13 bps vs 1H2021

FINANCIAL RETURN

12.2%
RETURN ON EQUITY
+7 bps vs 1H2021

8.1 cps
EARNINGS PER SHARE
+0.5 cents per share (**cps**) vs 1H2021

[1] Refer to Appendix 3 for reconciliation between reported and underlying net profit after tax (**NPAT**) result.
[2] OOI includes fair value gains/losses on investments.
[3] Gross finance receivables (**Receivables**) also include Reverse Mortgages.
[4] Annualised 1H2022 growth excluding the impact of changes in foreign currency exchange (**FX**) rates.
[5] Impaired asset expense as a percentage of average receivables.

Strategic highlights

Significant progress towards **digitalisation goals** with continuous integration of product applications and platforms.

Continued **emissions reductions activity**, including replacing 23% of total fleet with hybrid vehicles.

Rainbow Tick achieved in November 2021.

Manawa Ako internship programme (in its fifth year) continued virtually in January 2022.

Australian Reverse Mortgages awarded Excellence Awards at **Australia Mortgage Awards 2021**, and won a 5-Star Lender Award in Your Mortgage's **Mortgage of the Year Awards 2021**.

NZ Reverse Mortgages remains **Consumer Trusted** for the fifth year in a row.

Heartland Bank awarded **Canstar's 2021 Savings Bank of the Year** (fourth year), and awards for Direct Call and YouChoose accounts.

Impairments and provisioning

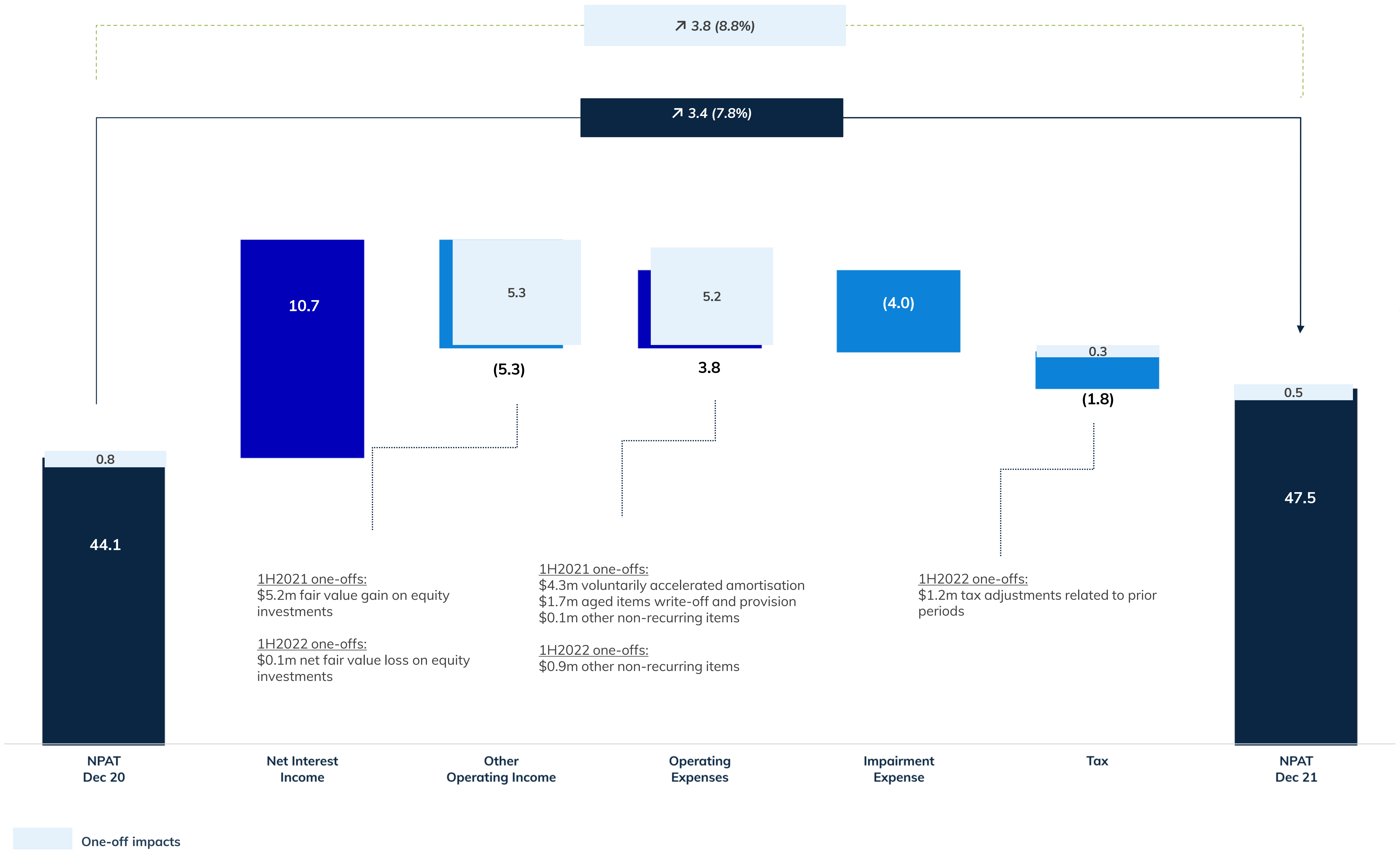
- Impairment expense increased by $4.0 million (88.1%) to $8.5 million.
- Impairment expense as a percentage of average receivables increased from 0.19% in 1H2021 to 0.33% in 1H2022.
- Lower impairments in 1H2021 of 19 bps were due to COVID-19 related extensions that occurred in 1H2021.
- Extensions were largely successful in allowing time for borrowers to remediate, as reflected in ‘business as usual’ reported rate of 33 bps for 1H2022 which is below 2H2021 (43 bps contributing to the full year outcome of 31 bps) and FY2020 (65 bps).

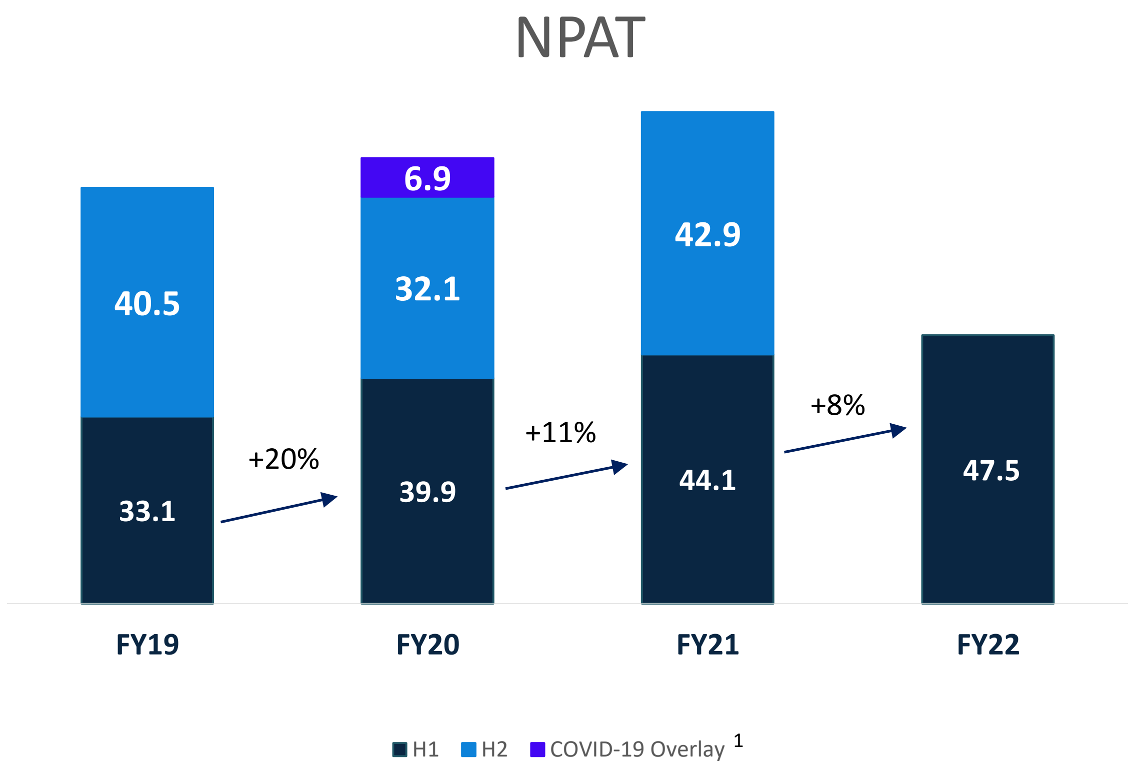
COVID-19

- The impact of COVID-19 has not disrupted business as usual activity.
- Heartland is following government guidance and taking a cautious approach to ensure the safety of its people, customers and strength of its business.
- A degree of caution exercised due to the ongoing economic impacts of COVID-19 and additional economic pressures being faced – including steepening interest rate environment, higher cost of labour and inflation increasing globally.
- In the circumstances, a release of the COVID-19 economic overlay is not yet appropriate and the overlay has been retained in full.

Financial results

Growth in profitability

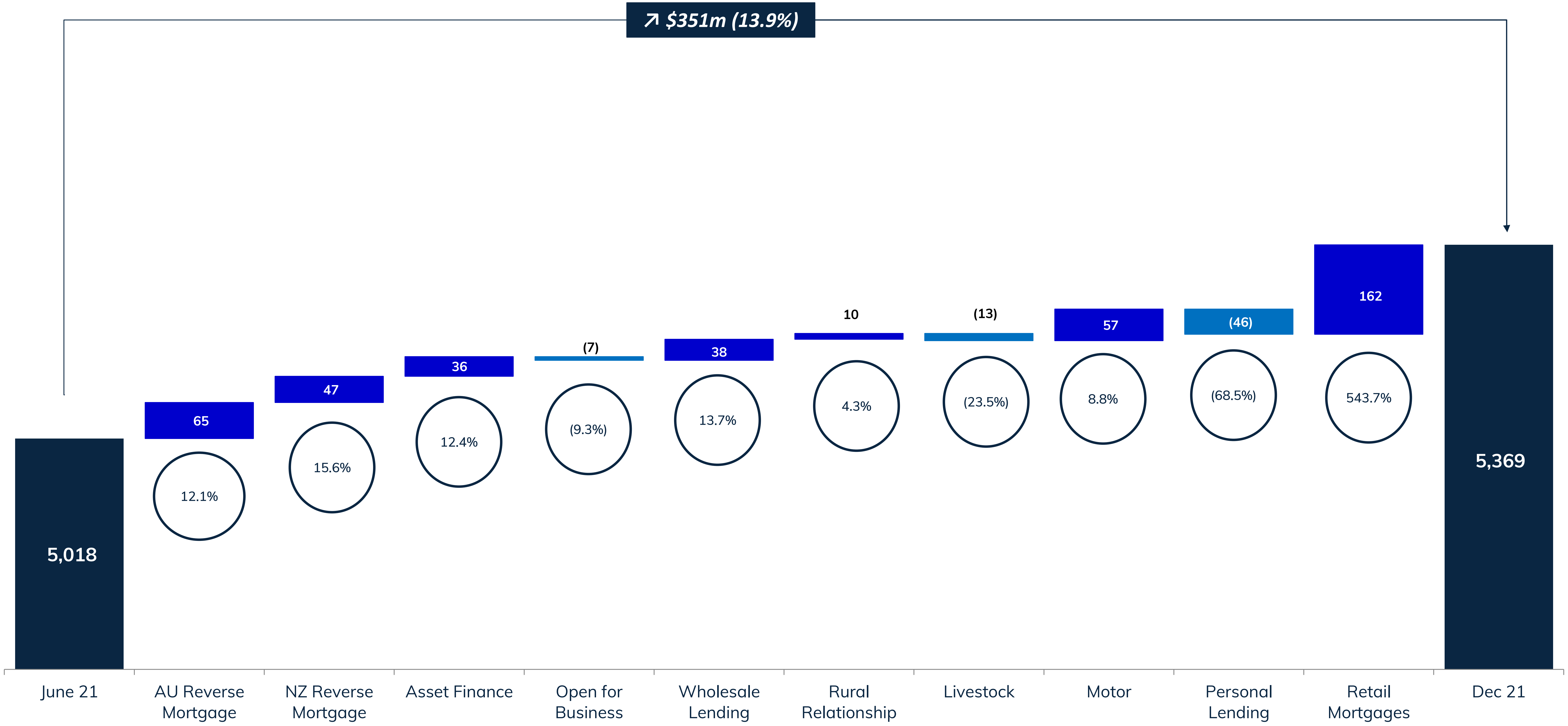




Note: The graph shows 1H2022 growth in receivables by portfolio excluding the impact of changes in FX rates. Relative growth is annualised. All figures in NZ$m.

1. Post-tax impact of $9.6m economic overlay due to COVID-19.

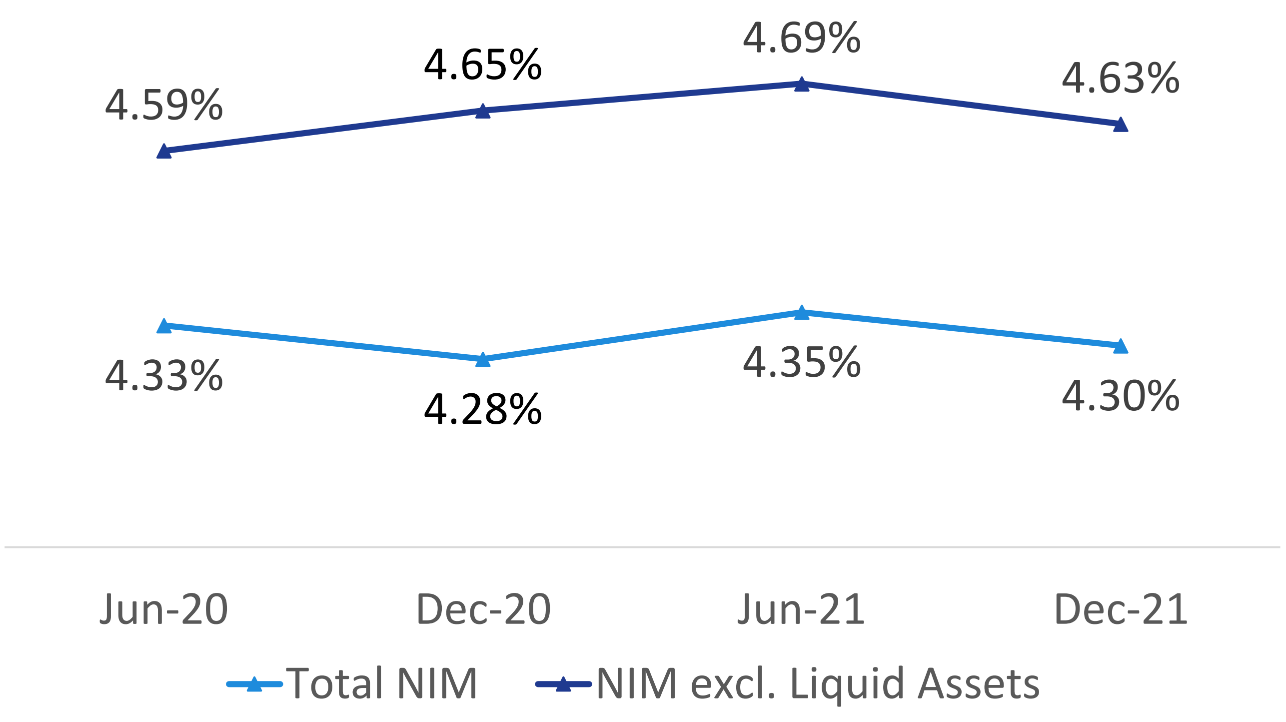
Growth in receivables



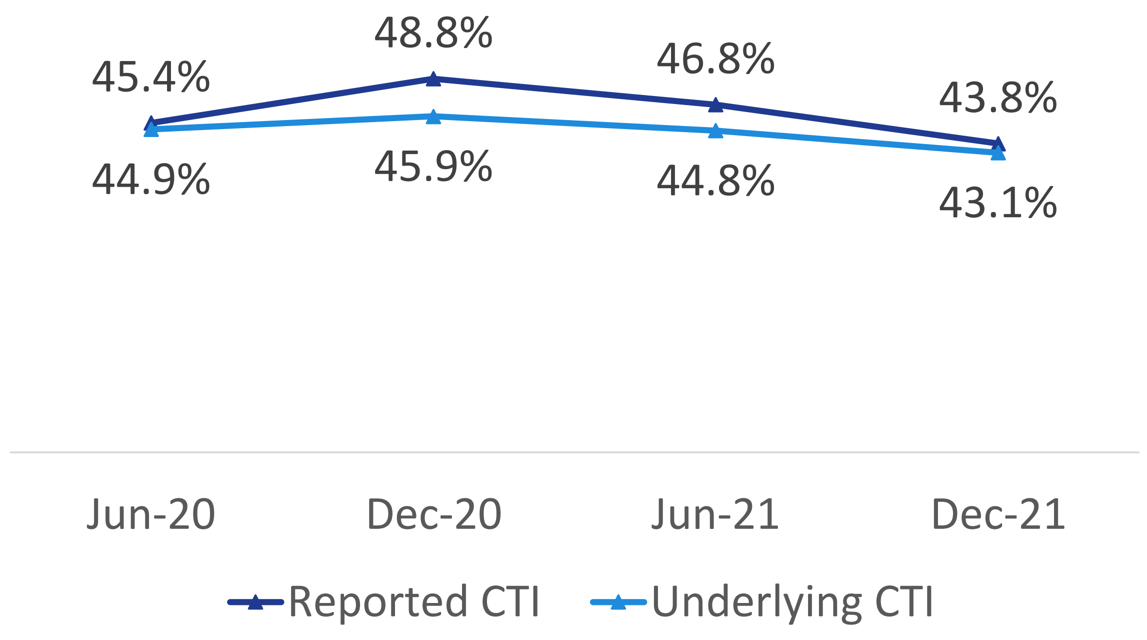
Note: The graph shows 1H2022 growth in receivables by portfolio excluding the impact of changes in FX rates. Relative growth is annualised. All figures in NZ$m.

Key performance measures

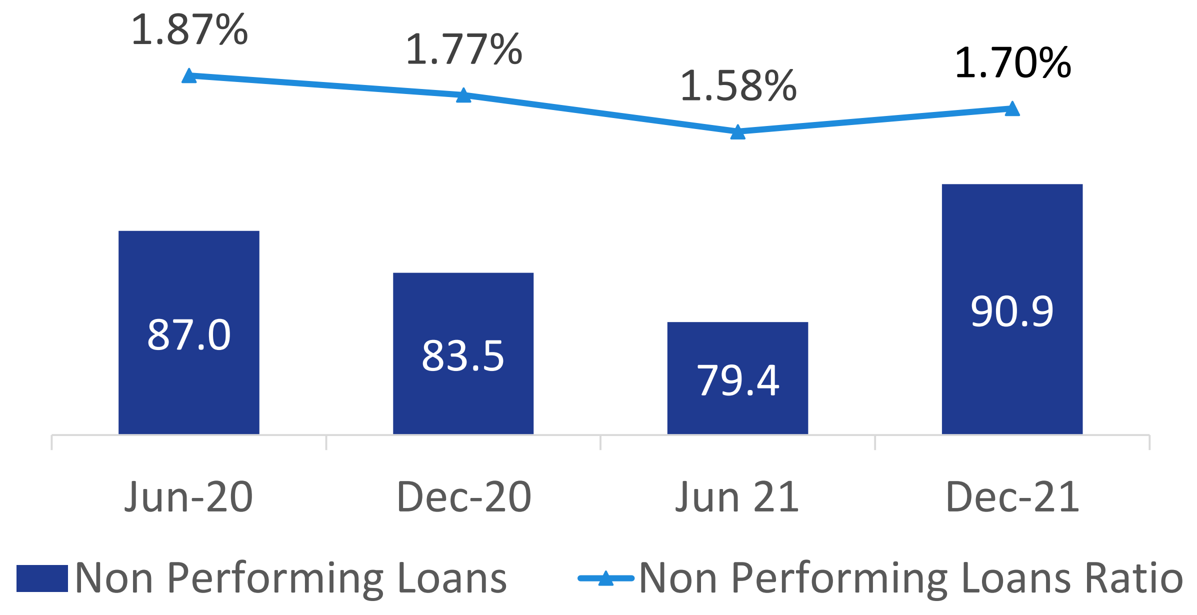
NIM



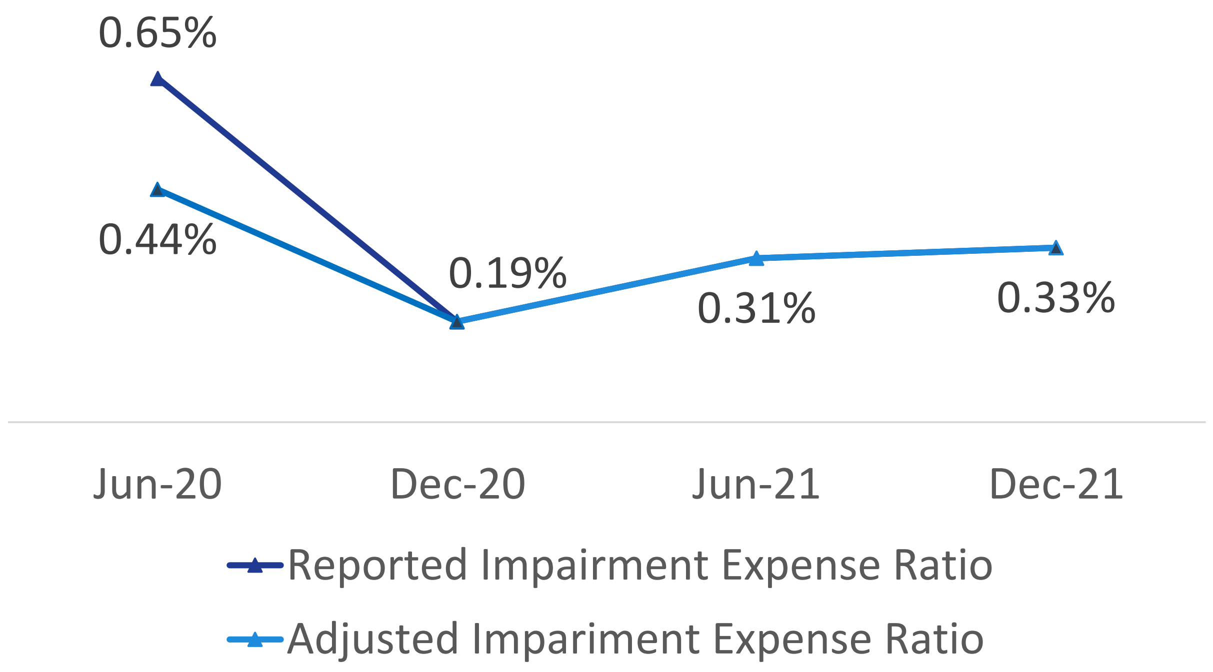
CTI



Non Performing Loans



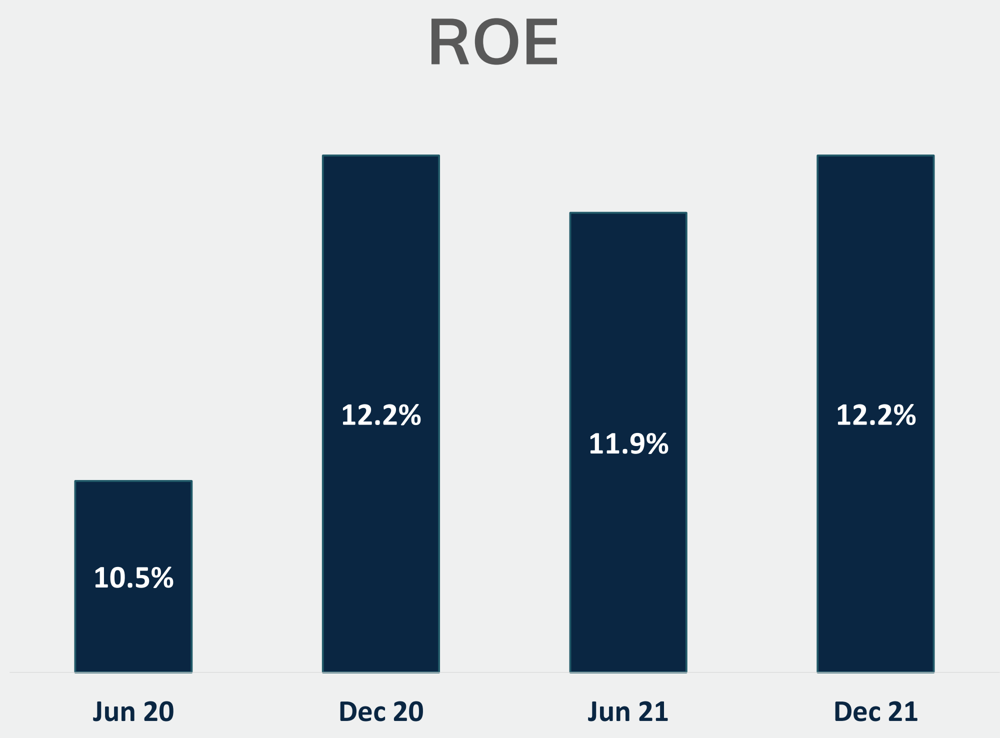
Impairment Expense Ratio

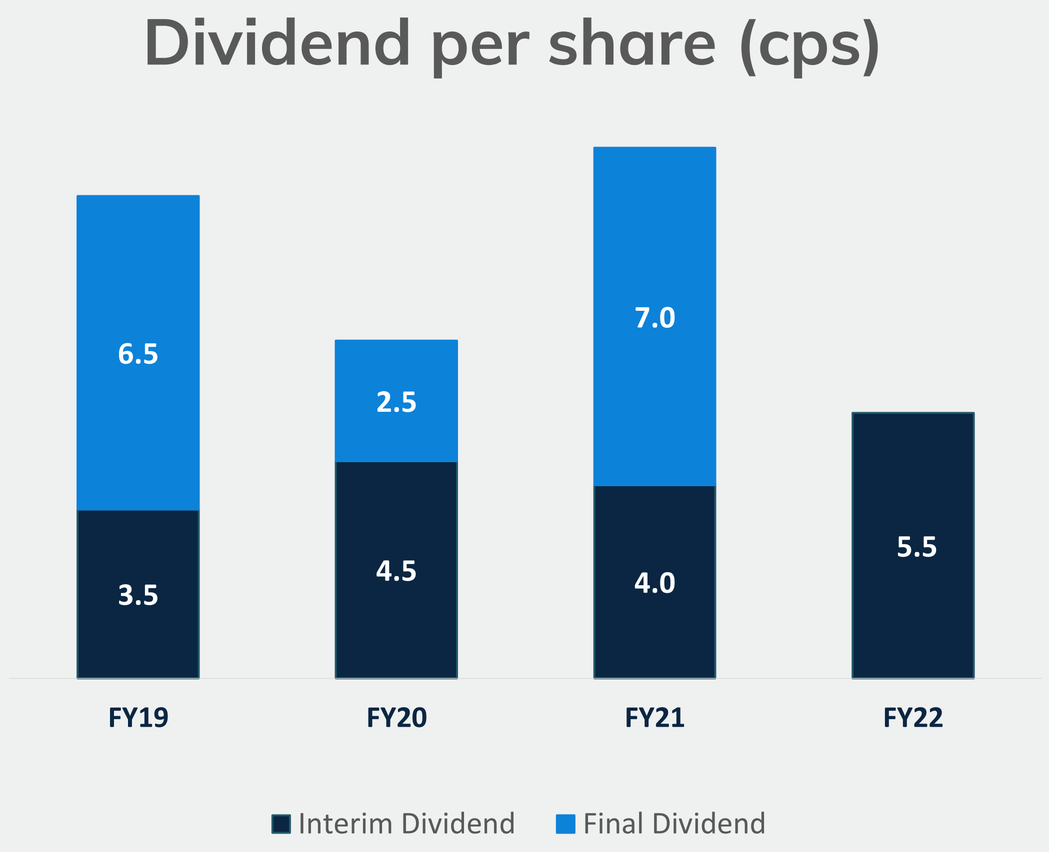


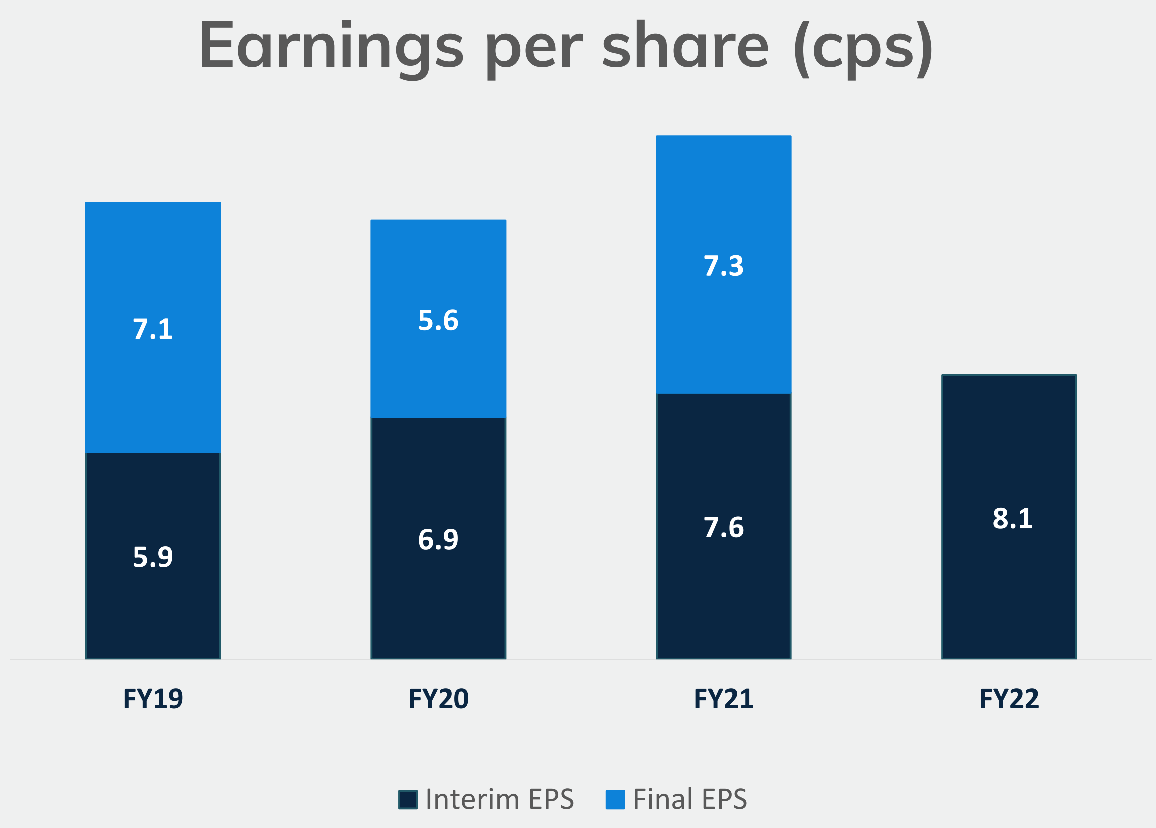
Note:
- NIM is calculated as net interest income/average gross interest earning assets.
- Underlying CTI excludes one-off impacts. Refer to Appendix 3 for reconciliation between reported and underlying result.
- Impairment expense ratio is calculated as impairment expense/average gross finance receivables.
- Adjusted impairment expense ratio excludes the impact of the $9.6 million pre- tax economic overlay due to COVID-19.

Shareholder return

- Return on equity (**ROE**) of 12.2% (up 7 bps vs 1H2021).
- Earnings per share (**EPS**) of 8.1 cps, up 0.5 cps compared to 1H2021.
- 1H2022 interim dividend of 5.5 cps (1.5 cps up on 1H2021).
- Dividend yield of 7.4%[1] compares with 4.8%[2] in 1H2021.
- Five year total shareholder return (**TSR**) of 128.9%, (17 February 2017 – 17 February 2022) compared with the NZX50 Index TSR of 80.7% in the same period.







[1] Total fully imputed dividends for 1H2022 (interim) and 2H2021 (final) divided by the closing share price as at 14 February 2022 of $2.35.
[2] Total fully imputed dividends for 1H2021 (interim) and 2H2020 (final) divided by the closing share price as at 9 February 2021 of $1.88.

Divisional summary

Reverse Mortgages portfolio analytics

NEW ZEALAND[1]

Average loan size	$111,842
Weighted average borrowers' age	78
Average origination LVR	10.0%
Weighted average LVR	19.3%
Proportion of the loan book over 75% LVR	0.0%
Number of loans in the book over 75% LVR	1
1H2022 origination	$76m (+$31m vs 1H2021)
Total repayments in 1H2022	$46m (+$2m vs 1H2021)
1H2022 annualised repayment rate	15.2% (vs 15.8% in 1H2021)
Compounded annual growth rate[2]	11.0%
Repayments from vintage loans (+11 years)	36.0% (vs 34.6% in 1H2021)

$649M
NZ Reverse Mortgages
+$47m (15.6%)[3]
vs June 2021

A$1,064M
AU Reverse Mortgages
+A$62m (12.3%)[2]
vs June 2021

AUSTRALIA[1]

A$141,357	Average loan size
77	Weighted average borrowers' age
11.4%	Average origination LVR
21.2%	Weighted average LVR
0.3%	Proportion of the loan book over 75% LVR
8	Number of loans in the book over 75% LVR
A$111m (+A$15m vs 1H2021)	1H2022 origination
A$76m (+A$6m vs 1H2021)	Total repayments in 1H2022
15.1% (vs 15.2% in 1H2021)	1H2022 annualised repayment rate
18.6%	Compounded annual growth rate[1]
18.5% (vs 30.5% in 1H2021)	Repayments from vintage loans (+11 years)

[1] Balances are as at 31 December 2021. All other metrics are for 1H2022.
[2] Compounded annual growth rate for the period 1 January 2017 – 31 December 2021.
[3] Annualised growth.

AU Reverse Mortgages

- Receivables increased by $65.4 million (12.1%)[1] to $1.14 billion.
- New business was strong, driving higher than expected new lending, due to a buoyant property market, and repayments below long-term averages in December.
- Direct new business increased by 18% compared with 1H2021. The intermediary channel experienced 8% growth in new business during the same period.
- Intermediaries contribute 51% to new origination.
- Express Reverse Mortgages pilot launched in January 2022, offering a streamlined loan with a market-leading variable rate, for over 60 year olds.

$19.0m

NET OPERATING INCOME

As at 31 December 2021

+4.7%

increase since 1H2021

$1.14b

RECEIVABLES

As at 31 December 2021

+12.1%[1]

annualised growth since June 2021

[1] Excluding the impact of changes in FX rates.

NZ Reverse Mortgages

- New Zealand Reverse Mortgages NOI was up 36.6% from 1H2021 due to record asset growth and improved margins.
- Receivables increased $47.4 million (15.6%) to $648.9 million due to strong new business performance.
- Enquiry levels up 65% in the 2021 calendar year.
- Performance driven by increased awareness and acceptance of reverse mortgages, supported by favourable market conditions with higher house prices and low interest rates.

$15.3m | **+36.6%**

NET OPERATING INCOME | increase since 1H2021

As at 31 December 2021

$648.9m | **+15.6%**

RECEIVABLES | annualised growth since June 2021

As at 31 December 2021

Open for Business

- 1H2022 saw a decrease of $0.3 million (4.2%) in NOI as a result of subdued confidence resulting from COVID-19-related lockdowns and travel restrictions.
- Receivables decreased $6.8 million (9.3%)[1] to $137.7 million.
- The availability of NZ Government COVID-19 support packages for small businesses slowed growth in this segment from 2H2020 and continues to feature.

$7.2m

NET OPERATING INCOME

As at 31 December 2021

-4.2%

decrease since 1H2021

$137.7m

RECEIVABLES

As at 31 December 2021

-9.3%[1]

annualised decrease since June 2021

[1] Excluding the impact of changes in FX rates.

Asset Finance[1]

- Asset Finance NOI was up 17.9% from 1H2021.
- Receivables increased $35.7 million (12.4%) to $606.6 million.
- The underlying demand from transport, logistics and other productive sectors has remained consistent.

$15.8m

NET OPERATING INCOME

As at 31 December 2021

+17.9%

increase since 1H2021

$606.6m

RECEIVABLES

As at 31 December 2021

+12.4%

annualised growth since June 2021

[1] Previously referred to as Business Intermediated.

Wholesale Lending[1]

- Receivables increased $38.4 million (13.7%)[2] to $593.4 million.
- Go Car Finance contributed to growth with continued funding for its New Zealand loan book.
- Expansion of wholesale motor vehicle dealer groups, allowing wholesale dealers to manage finance via a digital interface, aligned with Heartland's strategy to diversify distribution in motor vehicle finance.

$15.7m — NET OPERATING INCOME

As at 31 December 2021

+28.8% — increase since 1H2021

$593.4m — RECEIVABLES

As at 31 December 2021

+13.7%[1] — annualised growth since June 2021

[1] Wholesale Lending includes what was formally known as Business Relationship, reflecting Heartland's strategy in this space.
[2] Excluding the impact of changes in FX rates.

Motor Finance

- Organic growth from Heartland's existing dealer network, increase in intermediaries and key partnerships through Heartland's 'white label' strategy.
- Franchises contributed 48% of business as new car sales recovered in 2021 after record lows in 2020.
- CCCFA changes slowed growth in Motor in January and February 2022 and are expected to impact on growth rate.
- Continued to provide finance for electric and hybrid vehicles through 'white label' partners who have committed to increasing the number of electric and hybrid vehicle options available.

$36.4m

NET OPERATING INCOME

As at 31 December 2021

+10.4%

increase since 1H2021

$1.35b

RECEIVABLES

As at 31 December 2021

+8.8%

annualised growth since June 2021

Personal Lending

- The **New Zealand Harmoney** portfolio contracted $38.0 million (98.1%) to $38.8 million.
- The **Australian Harmoney** portfolio decreased by $18.1 million (73.7%)[1] to $30.7 million.
- Both New Zealand and Australian portfolios continued to contract in 1H2022 as a result of high repayments combined with limited growth.

$5.4m

NET OPERATING INCOME

As at 31 December 2021

-38.8%

decrease since 1H2021

$86.5m

RECEIVABLES

As at 31 December 2021

-68.5%[1]

annualised decrease since June 2021

[1] Excluding the impact of changes in FX rates.

Rural

- A decrease in **Livestock** Receivables of $12.9 million (23.5%) to $96.4 million, partly offset by a $10.4 million (4.3%) increase in **Rural** Receivables to $487.7 million.
- Average Livestock receivables position up 7.1% year on year.
- Growth in approved limits and receivables continued through January and February, supporting Heartland's positive outlook for Livestock.
- Results from Sheep & Beef Direct have been positive, with $54.8 million of growth in 1H2022.
- Plans underway for Dairy Direct, a similar digital platform, responding to growing need for dairy farmers to have access to online finance.

$15.5m

NET OPERATING INCOME

As at 31 December 2021

flat

increase since 1H2021

$584.1m

RECEIVABLES

As at 31 December 2021

-0.9%

annualised decrease since June 2021

Home Loans[1]

- Home Loans[1] Receivables increased $163.2 million in 1H2022 to $213.1 million.
- Lending growth supported by Heartland's low interest rates, currently market-leading for 2- and 3-year fixed rates, and standard floating rate.
- CCCFA changes have added to the traditional summer slowdown. However, with the ministerial review underway, changes made to the application process, and a renewed marketing campaign, positive momentum is expected to resume.
- More than 7,840 applications received during 1H2022, an increase of 29.2% on 6,067 applications received during 2H2021.
- New intermediary partnership being piloted with NZ Financial Services Group under 'Engage Home Loans' white label brand.

$0.6m

NET OPERATING INCOME

As at 31 December 2021

$213.1m

RECEIVABLES

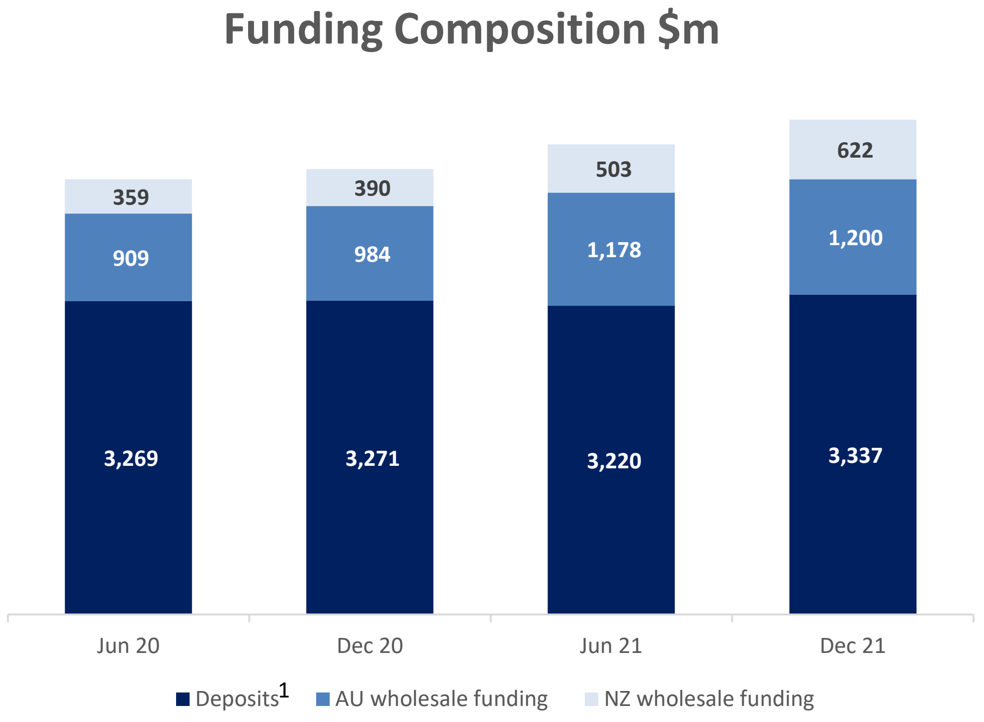
As at 31 December 2021

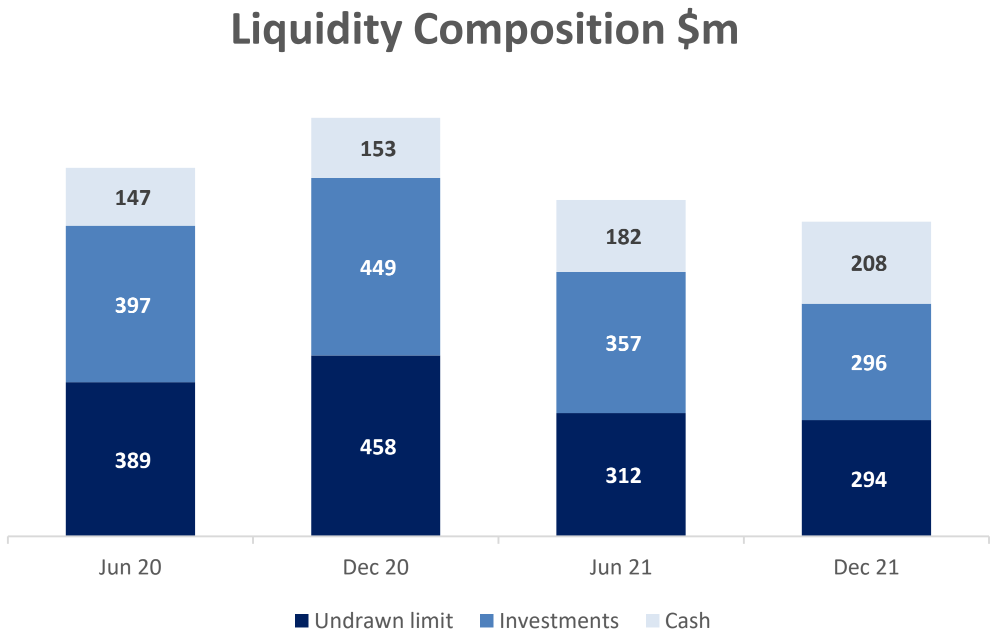
649.2%

annualised increase since June 2021

[1] Excludes legacy Retail Mortgages.

Funding and liquidity





Heartland increased borrowings by $290.8 million (6.0%), contributed to by increases in both New Zealand and Australia.

New Zealand

- Heartland Bank increased borrowings by $236.4 million (6.4%).
- Deposits grew $117.0 million (3.6%).
- Launched 32-Day Notice Saver product at market-leading rate.
- Decreased total liquidity by $36.3 million (7.7%) reflecting a return to more normalised levels.
- Heartland Bank holds liquidity well in excess of regulatory minimums.
- Increased committed auto warehouse facility from $300 million to $400 million in September 2021, with the amount drawn down increasing by $126.6 million.

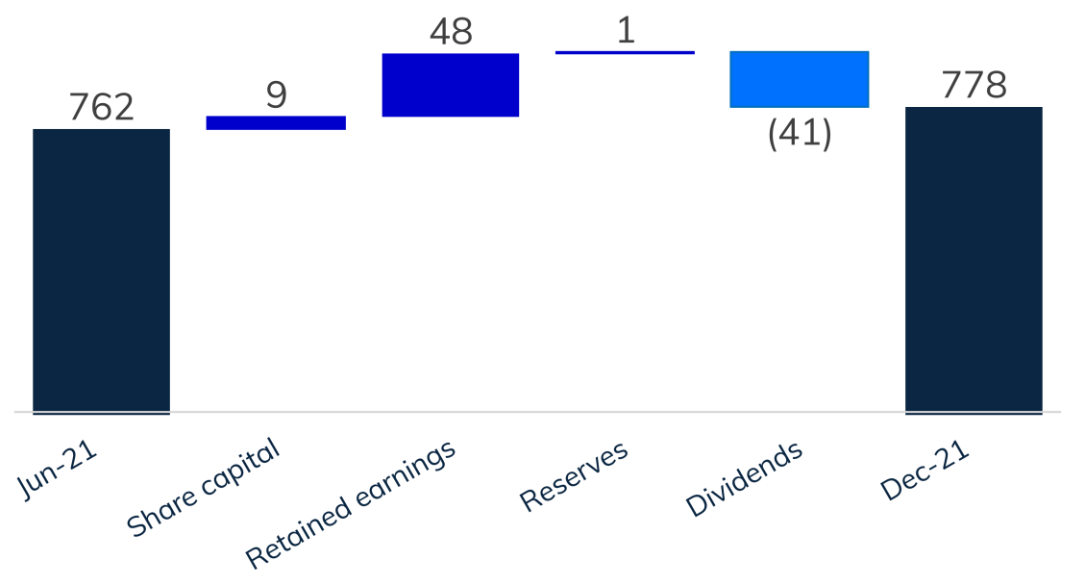
Australia

- Heartland Australia increased borrowings by A$32.9 million (3.0%) in 1H2022 and has access to committed Australian reverse mortgage loan funding of A$1.25 billion in aggregate.
- The Heartland Australia group continues to successfully progress expansion and extension of its funding facilities to cater for strong growth in its portfolios. An additional A$45 million MTN was issued in July 2021.

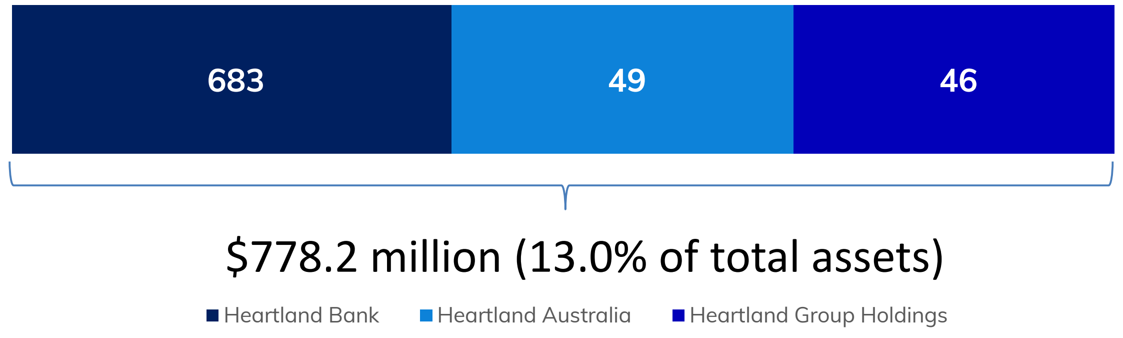
[1] Includes intercompany deposits.

Capital

Heartland Capital Movement $m



Heartland Capital Allocation $m



Heartland Bank Capital Ratio

- Partial restriction on bank dividends remains in place (currently until 1 July 2022).
- Heartland Bank's capital ratio as at 31 December 2021 is 13.98% (up from 13.88% in 30 June 2021).
- As part of the RBNZ capital implementation review requiring an increase in capital, increases in capital will be phased in over a seven-year period, starting from 1 July 2022, requiring minimum total capital ratio to gradually be increased from the current 10.5% to 16.0%.
- Heartland Bank's current capital position and organic growth in capital is expected to be sufficient to meet future minimum requirements.

Strategic update

1

Regulatory update

Heartland continues to monitor the significant volume of regulatory change.

- **Changes to the CCCFA** came into force on 1 December. Heartland has implemented new processes and technologies to enable it to comply with the changes and continues to refine these.

- **Deposit Takers Act** is being developed to strengthen the regulatory framework for all institutions that take deposits and introduce a new deposit insurance scheme.

Strategic objectives

Heartland's strategic vision to provide **best or only products via scalable digital platforms** will be achieved through:

1. **Business as usual growth**

   Broadening product offerings and achieving growth across business as usual activity, including through product and platform developments.

2. **Frictionless service at the lowest cost**

   Frictionless service at each stage of a customer's journey to provide improved reach and customer experience across integrated platforms.

   Online access eases inconvenience and removes costly operational processes – enhancing customer experience and allowing savings to be passed onto customers.

   As described by the virtuous circle to the right.

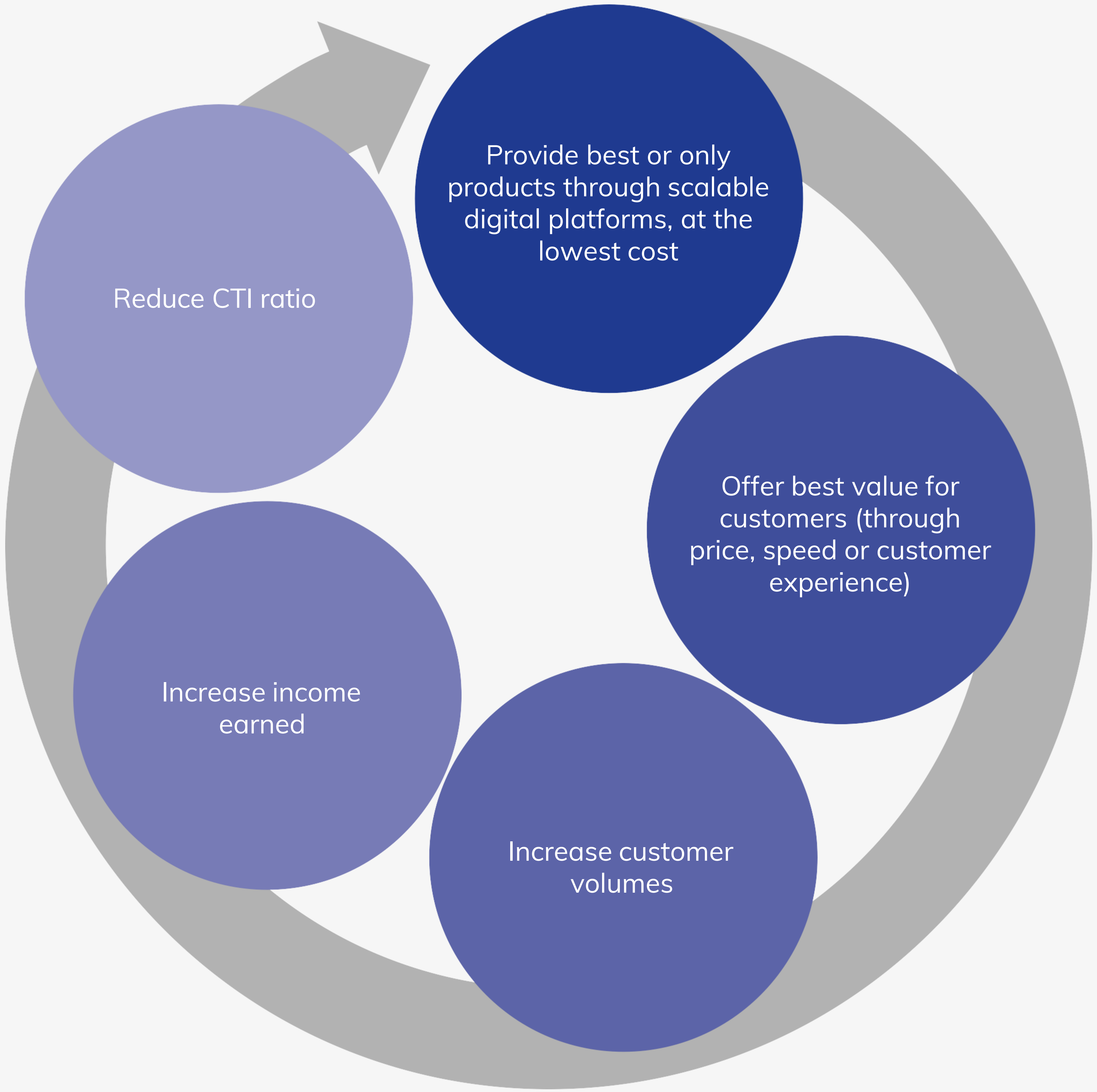
3. **Expansion in Australia**

   Expanding product offerings to meet the wider needs of the demographic entering, as well as in, retirement.

   Exploring expansion into other asset classes through digital platforms and existing relationships with intermediaries that lend to businesses and consumers.

4. **Acquisitions**

   Where there is a fit with the above and the opportunity to add value, acquisitions will be explored.



Looking forward

- **1H2022 NPAT exceeded expectations,** despite a challenging backdrop of continued COVID-19 impacts and legislative disruption.

- **Strong asset growth** has been achieved, though 2H2022 growth is expected to slow in Motor and online Home Loans as a result of CCCFA impact.

- **Continued shift in portfolio mix** toward higher quality and lower risk assets is expected to impact NIM in 2H2022, however will be mitigated as **operational efficiency and asset quality continue to improve**.

- **Increased digitalisation and automation** have continued to increase Heartland's ability to pass cost-savings to customers, leading to the CTI ratio trending downwards.

NPAT FOR FY2022

- Heartland expects NPAT for FY2022 to be in the range of $93 million to $96 million.

Appendices

Appendix 1

Financial position

$m	31 December 2021	30 June 2021	Movement ($m)	Movement (%)
Liquid Assets	503	539	(36)	(6.7%)
Gross Finance Receivables	5,358	5,018	339	6.8%
Provisions	(53)	(54)	0	0.8%
Other Assets	191	179	12	6.7%
TOTAL ASSETS	**5,999**	**5,683**	**316**	**5.6%**
Retail Deposits	*3,332*	*3,183*	*149*	*4.7%*
Other Borrowings	*1,822*	*1,681*	*142*	*8.4%*
Total Funding	5,155	4,864	291	6.0%
Other Liabilities	66	57	9	14.9%
Equity	778	762	16	2.2%
TOTAL EQUITY & LIABILITIES	**5,999**	**5,683**	**316**	**5.6%**

Appendix 2

Financial performance

$m	1H2022	1H2021	Change ($)	Change (%)
Net Operating Income[1]	130.7	125.3	5.4	4.3%
Operating Expenses	57.3	61.1	(3.8)	(6.3%)
Impairment Expense	8.5	4.5	4.0	88.1%
Profit Before Tax	**64.9**	**59.6**	**5.3**	**8.8%**
Tax Expense	17.4	15.5	1.8	11.8%
Net Profit After Tax	**47.5**	**44.1**	**3.4**	**7.8%**

Net Interest Margin	4.30%	4.28%	3 bps
Cost to Income ratio	43.8%	48.8%	(5.0 pps)
Return on Equity	12.2%	12.2%	7 bps
Earnings per Share	8.1 cps	7.6 cps	0.5 cps

1 Includes fair value movements.

Appendix 3

Reconciliation of reported with underlying results

1H2022 one-offs included in the reported result:

- *Fair value gain on equity investment in Harmoney Corp Limited (Harmoney):* a $0.2 million gain was recognised from the fair value uplift on the shares acquired during the period.
- *Fair value loss on other investments*: a $0.3 million fair value loss was recognised on Heartland Bank's rights over a profit-sharing arrangement with a customer.
- *Prior period tax adjustments*: a $1.2 million release of tax provisions relating to prior periods.
- *Other non-recurring expenses*: $0.9 million.

1H2021 one-offs included in the reported result:

- *Fair value gain on investment*: $5.2 million fair value gain was recognised on Heartland's equity investment in Harmoney
- *Voluntarily accelerated amortisation of intangible assets:* $4.3 million expense was recognised, reflecting an acceleration of amortisation of software assets held on the balance sheet.
- *Aged items provision and write-off:* $1.7 million of aged legacy suspense account transactions were written off or provisioned where collectability is uncertain.
- *Other non-recurring expenses:* $0.1 million.

$m	1H2022	1H2021	Movement ($m)	Movement (%)
Reported NOI	130.7	125.3	5.4	4.3%
Less:				
Net fair value gain on investments	(0.1)	5.2	(5.3)	
Underlying NOI	**130.8**	**120.1**	**10.7**	**8.9%**
Reported OPEX	57.3	61.1	(3.8)	(6.3%)
Less:				
Voluntarily accelerated amortisation	-	4.3	(4.3)	
Aged items provision and write-off	-	1.7	(1.7)	
Other non-recurring items	0.9	0.1	0.8	
Underlying OPEX	**56.4**	**55.1**	**1.4**	**2.5%**
Reported impairment expense	**8.5**	**4.5**	**4.0**	**88.1%**
Reported NPAT	47.5	44.1	3.4	7.8%
Less:				
Post-tax impact of one-offs	(0.7)	0.8	(1.6)	
Tax adjustments relating to prior periods	1.2		1.2	
Underlying NPAT	**47.1**	**43.3**	**3.8**	**8.8%**
Reported Average Equity	769.9	718.5	51.4	
Underlying Average Equity	**770.1**	**720.6**	**49.6**	**6.9%**
Reported CTI	43.8%	48.8%	(5.0%)	
Underlying CTI	**43.1%**	**45.8%**	**(2.7%)**	
Reported ROE	12.2%	12.2%	0.07%	
Underlying ROE	**12.1%**	**11.9%**	**0.21%**	

Thank you

For Heartland's 1H2022 half year results announcement, please see shareholders.heartland.co.nz

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