



NZX and Media Release

HEARTLAND POSTS FULL YEAR PROFIT OF \$60.8M

14 August 2017

Heartland Bank Limited (**Heartland**) (NZX: HBL) achieved a net profit after tax (**NPAT**) of \$60.8m for the full year ended 30 June 2017 (**FY2017**), an increase of 12% from the previous financial year ended 30 June 2016 (**FY2016**). The increase in profitability was driven primarily by growth in receivables across all divisions – Household, Business and Rural.

Achievements for the year ended 30 June 2017¹

- Increase in profitability of 12%
- Strong growth in receivables of 14%
- Return on equity (**ROE**) of 11.6%
- Launch of multiple digital platforms
- Implementation of new core banking system

FINANCIAL PERFORMANCE

Profitability

NPAT was \$60.8m for FY2017. This is up \$6.6m (12%) from the \$54.2m NPAT for FY2016.

Earnings for FY2017 resulted in a ROE of 11.6%, being an increase from 11.1% for FY2016.

Earnings per share was 12 cents².

Balance sheet

Net finance receivables increased by \$447.0m (14%) to \$3.6bn during FY2017. Total assets increased by \$501.7m due to the increase in net finance receivables together with an increase in liquid investments.

¹ This announcement is based on the 30 June 2017 audited consolidated financial statements of Heartland Bank Limited. For more detailed analysis and explanation please refer to the attached full year financial statements.

² Calculated on the weighted average shares on issue during the year.

Major movements during FY2017 included:

- Household net receivables increased \$227.8m with reverse mortgages, motor vehicle loans and personal loans (including Harmoney) increasing \$126.1m, \$72.0m and \$40.0m respectively.
- Business and Rural divisions' net receivables increased \$96.2m and \$123.0m respectively.
- Cash and cash equivalents and investments increased by \$55.1m.
- Borrowings increased by \$429.8m reflecting the movement in total assets.

Net Assets increased from \$498.3m to \$569.6m during FY2017. Net Tangible Assets (**NTA**) increased from \$433.5m to \$490.5m during FY2017. On a per share basis, NTA was \$0.95 at 30 June 2017 compared to \$0.91 at 30 June 2016.

Net Operating Income

Net Operating Income (**NOI**) was \$171.3m for FY2017, up \$13.7m (9%) from \$157.6m for FY2016. The increase in NOI was primarily attributable to the increased level of receivables.

Heartland's Net Interest Margin (**NIM**) for FY2017 was 4.46% compared to 4.50% for FY2016. The reduction results primarily from changes in the asset mix.

Costs

Operating costs were \$71.7m for FY2017, an increase of \$1.8m (2.6%) from FY2016. This increase was due to business growth driving increased staff costs, partially offset by a reduction in one off project and compliance costs. The overall cost to income ratio was 42% for FY2017 compared to 44% in FY2016.

Impairments

Impaired asset expense increased by \$1.5m to \$15.0m for FY2017, up from \$13.5m for FY2016.

Impairment expense in the Household division was up \$3.2m compared to FY2016. The increase was largely attributable to higher write-offs in the personal loan and motor vehicle loan books than in FY2016, together with higher collective provisions as a result of loan book growth.

Impairment expense in the Business division was up \$1.0m compared to FY2016 primarily due to growth in the loan book.

Impairment expense in the Rural division was low at \$0.3m compared to \$3.0m in FY2016. The decrease was due to collective provisions taken up in FY2016 to provide against a downturn in the dairy sector.

Net impaired and past due loans over 90 days increased from \$34.6m as at 30 June 2016 to \$38.3m as at 30 June 2017 although as a percentage of net receivables they remained at 1.2%.

BUSINESS PERFORMANCE

Household (Consumer, Reverse Mortgages and Residential Mortgages)

Net operating income was \$92.9m, an increase of \$6.8m (8%) from FY2016. Net receivables for the Household division increased by \$277.8m to \$1.9bn during FY2017.

Net operating income from the Consumer division (which includes motor vehicle loans, personal loans and lending through the Harmony platform) increased \$1.9m (3%) from FY2016 to \$57.2m. Consumer net receivables grew \$112.0m (14%) to \$919.1m during FY2017. The strong growth in net receivables was not reflected in growth in net operating income due to lower earning rates on motor vehicle and personal loans as well as less operating lease income on a smaller lease book.

Motor vehicle net receivables continued to grow strongly, increasing by \$72.0m (10%) to \$824.3m during FY2017.

Strong growth in personal lending was also achieved in FY2017 with net receivables for personal loans and Harmony increasing by \$40.0m (73%) to \$94.8m.

Net operating income for reverse mortgages increased \$5.6m from FY2016 to \$29.8m. Net receivables from reverse mortgages in New Zealand and Australia grew strongly by \$42.5m (12%) and \$83.6m (19%) respectively during FY2017 to \$405.2m and \$515.7m. Growth was particularly strong in Australia, driven by continued broadening of the broker distribution network and favourable market conditions.

Residential mortgages net receivables reduced by \$10.3m during FY2017 to \$35.6m.

Business

Net operating income was \$47.1m, an increase of \$4.1m (10%) from FY2016. The increase in net operating income was driven by growth in net receivables, which increased by \$96.2m (11%) to \$995.0m during FY2017. This growth was achieved from the strategy to extend reach through intermediaries together with the growth achieved in the Open for Business digital origination platform for loans to small to medium enterprises, which grew by \$34.2m (303%) to \$44.6m.

Rural

Net operating income of \$29.2m, an increase of \$3.0m (11%) from FY2016 was predominately driven by receivables growth. Rural net receivables grew strongly, increasing by \$123.0m (22%) to \$675.4m during the year. Growth has been generated primarily through term loans (to both existing and new customers) across all key rural sectors, including dairy, sheep and beef, horticulture and viticulture.

INVESTMENT IN FUELLED

During the year Heartland acquired a 25% shareholding in Fuelled Limited, an online small-to-medium business (**SME**) lender. Alongside this equity investment, a \$2.0m committed debt facility was provided to enable Fuelled to accelerate its Australasian growth plans. Fuelled is a New Zealand-based business whose simple on-demand service enables SMEs to receive an immediate cash advance on their outstanding invoices. Fuelled's integration with Xero enables its advanced credit assessment engine to make real time credit and financing decisions online.

NEW CORE BANKING SYSTEM

A new core banking system (Oracle - Flexcube) was implemented in May 2017. Flexcube is a modern, modular core banking system which is highly configurable and introduces automation and workflow capabilities. Flexcube is a refreshed and contemporary IT architecture that will sustain Heartland's long-term business objectives. The new core banking system includes an internet portal enabling dealers and intermediaries to originate new business and create customer and account records within Flexcube. The overall cost of the project was around \$22 million which will be amortised over an estimated life of 10 years.

FUNDING AND LIQUIDITY

Funding and liquidity remain strong with retail deposits growing \$291.1m to \$2.6bn during FY2017. The market continues to respond well to Heartland's direct call and business call accounts which give customers a competitive rate of interest and unlimited on call access to their money.

STRATEGIC PRIORITIES

Heartland's current strategic priorities include:

- Being in the right place at the right time through digital, intermediated and direct channels to ensure we are in easy reach for our customers.
- Targeting markets with significant opportunity and focussing on niche products where customers are under-served by the other banks (eg. small business loans, motor vehicle loans, reverse mortgages).
- Delivering specialised customer experiences for each product type (eg. small business loans = quick and simple online application, reverse mortgages = personalised sales process). (Heartland has appointed a San Francisco based digital design agency to assist with optimising the customer experience across Heartland's digital platforms).
- Utilising data insights to predict customer intent, and drive strong lead generation and conversion.
- Leveraging established intermediary relationships and using digital platforms to distribute selected new products and grow Heartland's business in Australia.
- Consideration of acquisition opportunities that align with Heartland's growth strategy and deliver compelling distribution capacity, innovation and/or market disruption which are value generating. Heartland remains focussed on growing quality sustainable earnings and improving return on equity.

FINAL DIVIDEND

The directors of Heartland have resolved to pay a final dividend of 5.5 cents per share. The final dividend will be paid on 21 September 2017 to shareholders on the company's register as at 5.00pm on 7 September 2017 (**Record Date**) and will be fully imputed.

The Dividend Reinvestment Plan (**DRP**) will apply to the final dividend with a 2.5% discount³. While participation in the DRP is entirely optional, shareholders are encouraged to participate in order to support Heartland's capital needs given strong asset growth. Shareholders who do not currently participate in the DRP but wish to do so should make a participation election in one of the ways specified in the DRP offer document by 7 September 2017.

LOOKING FORWARD

Looking forward, underlying asset growth is expected to continue, with strong Household, Business and Rural volumes projected through execution of Heartland's strategy, in particular the expansion of customer reach through digital and intermediary channels.

Heartland expects its NPAT for the year ending 30 June 2018 to be in the range of \$65.0m to \$68.0m.

- Ends -

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³That is, the strike price under the DRP will be 97.5% of the volume weighted average sale price of Heartland shares over the five trading days following the Record Date. For the full details of the DRP and the Strike Price calculation, refer to Heartland's DRP offer document dated 1 April 2017.