Heartland Group Holdings Limited
2019 Interim Results

6 months to 31 December 2018

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Important notice

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This announcement is based on the 31 December 2018 unaudited interim 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 of 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 up to 31 October 2018, and HGH from 1 November 2018 to 31 December 2018. 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 31 December 2017 unaudited interim consolidated financial statements of HBL.*

2019 Interim Results – Highlights

- Corporate restructure successfully completed on 31 October 2018 and Heartland Group Holdings (HGH) listing on NZX and ASX on 1 November 2018
- Gross finance receivables **$4.2b** – 11.9% annualised growth excl. FX[1]
- Net profit after tax **$33.1m** – up 6.5%

Australia reverse mortgage growth of 24.9%[1]

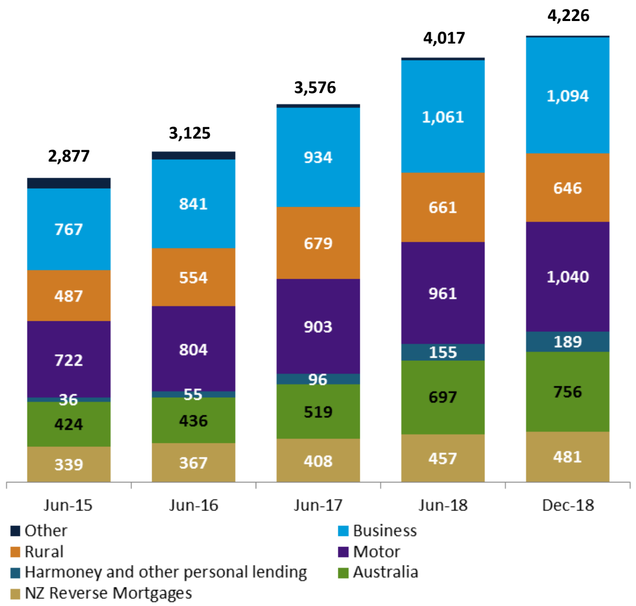
Open for Business growth of 56.2%[1]

Business intermediated growth of 44.3%[1]

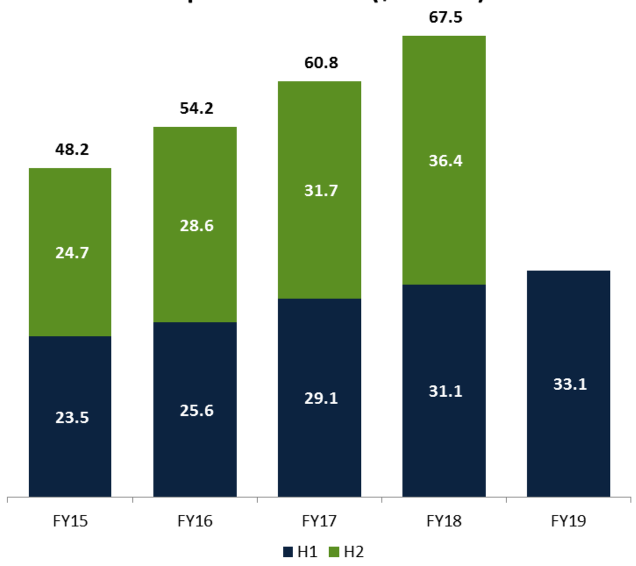
Harmoney personal lending growth of 44.3%[1]

Motor growth of 16.3%[1]

Gross Finance Receivables ($million)



Net profit after tax ($million)



1. Excluding the impact of changes in foreign currency exchange rates and compared to previous corresponding reporting period.

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2019 Interim Results – 31 December 2018

Net operating income
6 months to 31 Dec 2018

$102.1m

▲ **8.7%**
from 6 months to 31 Dec 2017

Net profit after tax
6 months to 31 Dec 2018

$33.1m

▲ **6.5%**
from 6 months to 31 Dec 2017

Gross finance receivables
As at 31 Dec 2018

$4.2b

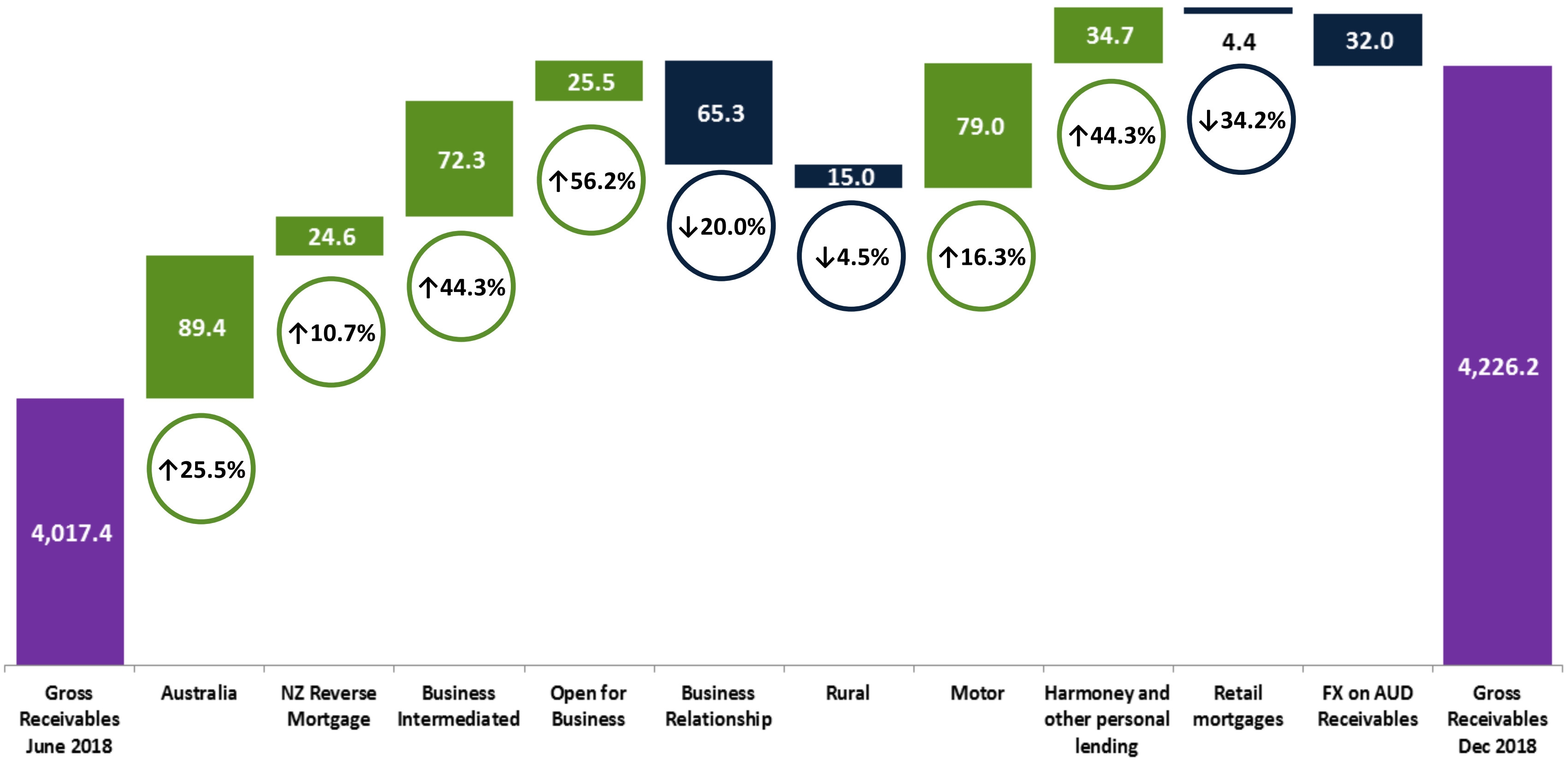
▲ **11.9% (excl. FX[1])**
Annualised growth from 30 June 2018

Highlights

- Gross finance receivables **$4,226m** – 11.9% annualised growth, excl. FX[1]
- NIM **4.36%** – down 6bps from 4.44% for the six months to 31 Dec 2017, primarily due to Tier 2 bond repayment break costs
- Cost to income ratio **42.5%** – improvement from 42.9% for the six months to 31 Dec 2017
- Impairment expense ratio[2] **0.64%** – up from 0.58% for the year to 30 June 2018 due to how changes in product mix and growth are provided for under new IFRS9 methodology
- Heartland Bank Tier 1 and Total capital ratio **13.25%**
- Return on equity **10.3%** (annualised)
- Interim Dividend declared of **3.5cps**

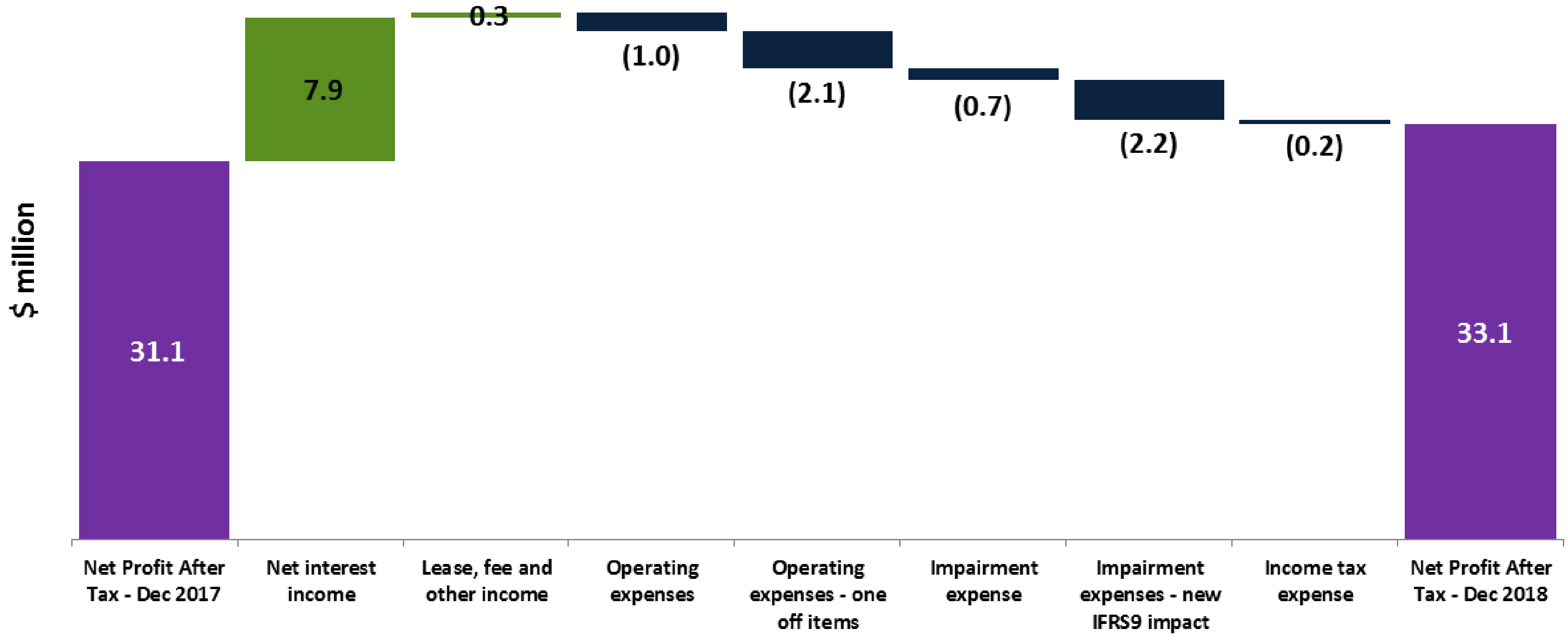
1. Excluding the impact of changes in foreign currency exchange rates and compared to previous corresponding reporting period.
2. Impairment expense ratio is calculated as Impaired asset expense/Average gross finance receivables

Strong growth in Gross Finance Receivables



- The graph shows annualised growth in Gross Finance Receivables excluding the impact of changes in foreign currency exchange rates (FX), which is shown separately.
- Australia includes Reverse Mortgages (up $85.1m, 24.9% annualised growth excl. FX) and Spotcap (up $4.3m, 45.4% annualised growth excl. FX).
- Harmoney and other personal lending includes NZ (up $24.5m, 37.7% annualised growth) and Australia (up $10.2m, 77.0% annualised growth excl. FX).

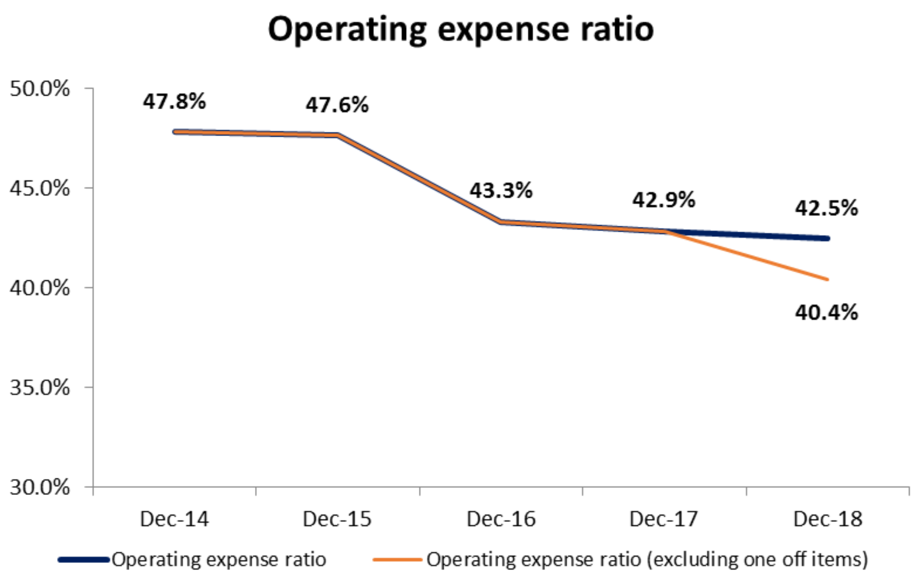
Growth in profitability



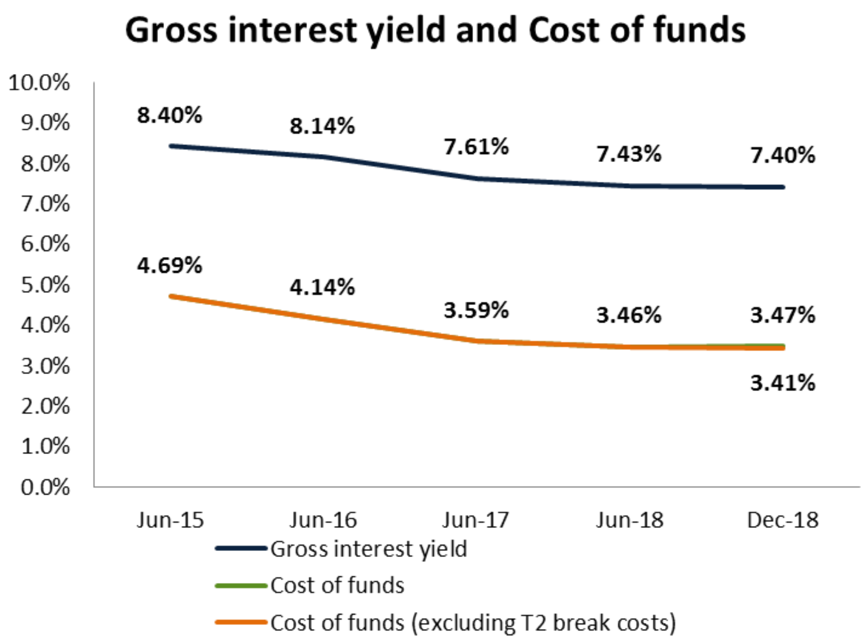
- **Operating expenses one off items** include corporate restructure and ASX listing costs ($0.9 million) and adverse impact of foreign currency movements ($1.2 million).
- **Impairment expenses – new IFRS9 impact** is the result of the new IFRS9 standard which requires providing for impairments on an expected loss basis on the date of loan origination, being $2.2 million in the period.

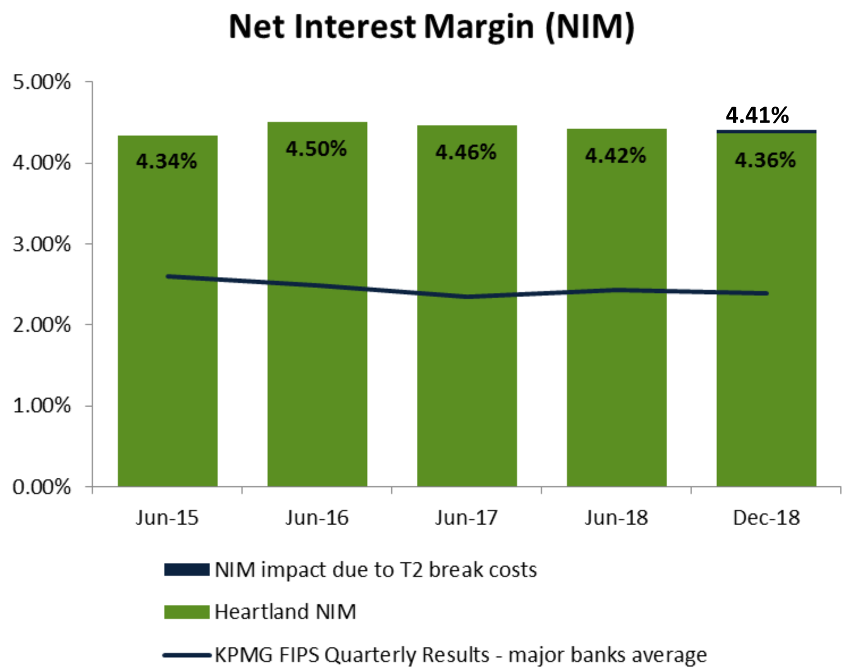
Operating expenses

- **Operating expense ratio 42.5%** - 40bps lower than previous corresponding period
- Operating expenses one off items include corporate restructure and ASX listing costs of $0.9 million and adverse impact of foreign currency movements of $1.2 million
- Excluding one off items, operating expense ratio improves further to **40.4%**



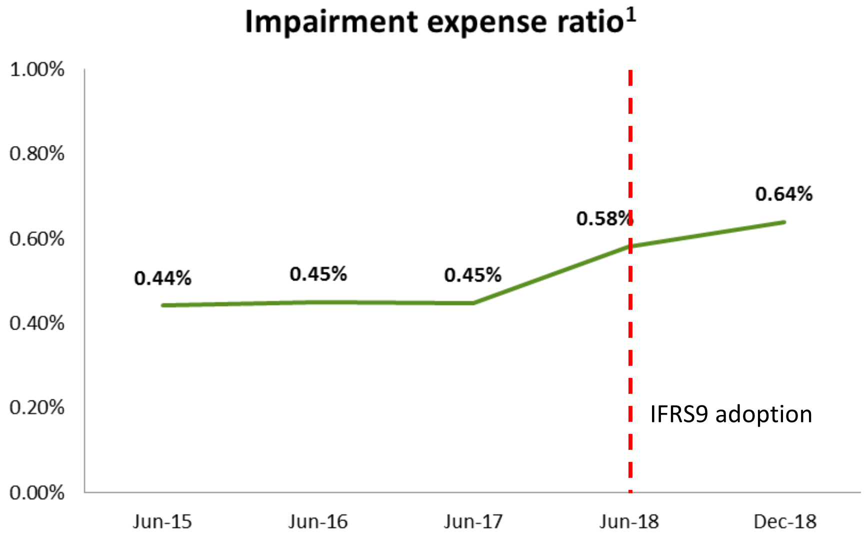
Market leading NIM maintained

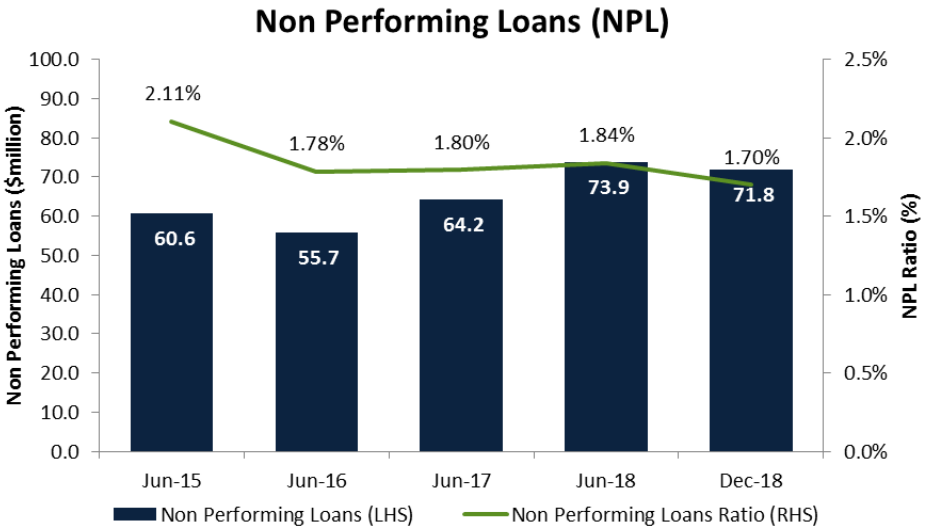




- Gross interest yield = Interest Income divided by Average Interest Bearing Assets
- Cost of funds = Interest Expense divided by Average Interest Bearing Liabilities
- Net Interest Margin (NIM) = (Interest Income – Interest Expense) divided by Average Interest Bearing Assets

Impairments impacted by IFRS9

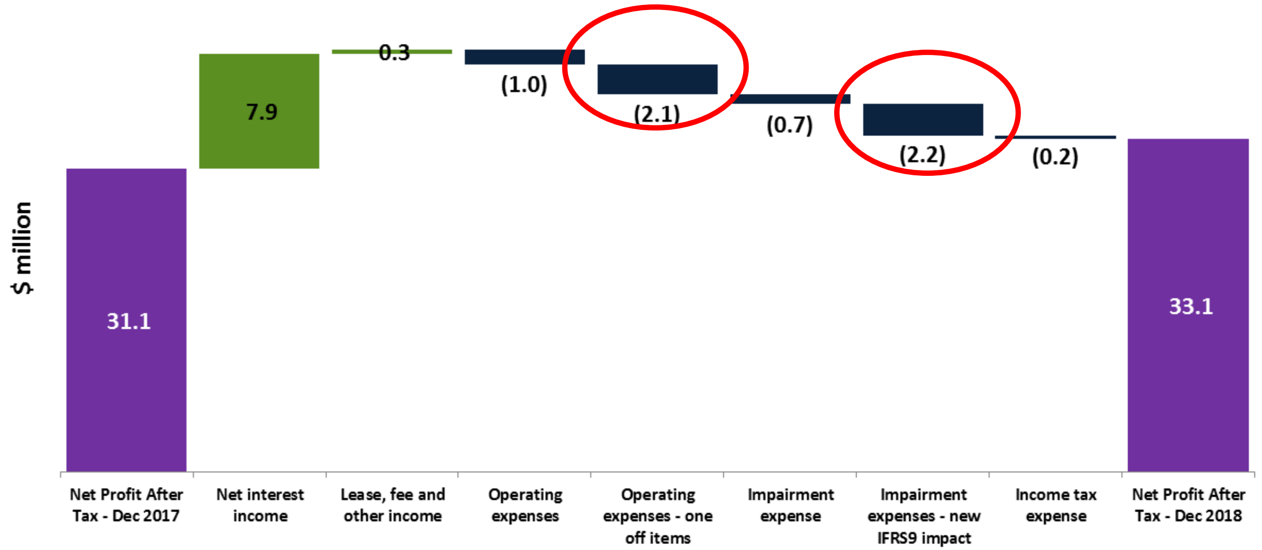




- Impairment expense $13.3m (up $2.9m, 27.6% from previous corresponding reporting period)
- Impairment expense ratio[1] increased to 0.64% – up from 0.58% for the year to 30 June 2018
- $2.2 million of the increase is a result of the new IFRS9 methodology, which is greater than anticipated due to the mix of our loan portfolio at 31 December 2018 differing from initial projections
- Despite the increase, underlying receivables performance is stable. Excluding the $2.2 million of impairments due to the new IFRS9 methodology, impairment expense ratio[1] reduced to 0.53%;
- Non performing loans ratio improved to 1.70%

1. Impairment expense ratio is calculated as Impaired asset expense / Average gross finance receivables.

FY19 profitability and outlook



- One-off costs and the impact of IFRS9 have caused some pressure on earnings
- The lower end of guidance remains achievable, however it would come at the expense of further investment in growth
- An updated range of $73 million to $75 million is now considered prudent
- The midpoint of that range would see the delivery of approximately 10% NPAT growth for FY19 compared to FY18.

- **Operating expenses one off items** include corporate restructure and ASX listing costs ($0.9 million) and adverse impact of foreign currency movements ($1.2 million).
- **Impairment expenses – new IFRS9 impact** is the result of the new IFRS9 standard which requires providing for impairments on an expected loss basis on the date of loan origination, being $2.2 million in the period.

Strategic update

Heartland Group – threefold strategic focus

Australia Reverse Mortgages

- Total estimated market of approximately A$6bn
- Long term funding
- Increase use of marketing campaigns including TVC planned

Digital Platform Services

- Open for Business (O4B)
- Mobile app
- New markets

New Zealand Banking

- Five core lending activities : Reverse Mortgages, Motor, SME, Livestock, Harmoney
- Accessible Deposits
- Manage down large relationship legacy Rural and Business loans

Simple, frictionless on-boarding and processing

Capital efficiency

Strategic update

- **To support growth in Australia, Heartland continues to diversify sources of funding and to fund growth with more capital efficiency:**
  - Favourable population demographics
  - Heartland is the largest specialist in the market, currently enjoying the highest rate of growth
  - Increased marketing initiatives, including television campaign planned
  - Heartland Australia has established an A$ medium-term note programme
  - A number of other options are currently being explored, including additional warehouse facilities and long-term funding sourced offshore
- **Heartland Bank Limited:**
  - Delivering best or only products to depositors and borrowers
  - Core lending activities in New Zealand Reverse Mortgages, Motor Finance, SME, Harmoney and other personal lending
  - Strong growth in New Zealand Reverse Mortgages remains core focus
- **Digital strategy to provide simple fast customer service, greater customer reach, low cost on-boarding and transaction processing:**
  - Growth in retail deposits: 10% of deposit customers use the Mobile App
  - Australia Reverse Mortgages: 30% of customers are direct, 93% of these are generated online
  - O4B: gross receivables $115.4m, 56.2% annualised growth to 31 Dec 2018

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Regulatory update

ASIC Review of Reverse Mortgage Lending (August 2018)

- Thorough and balanced, highlighting growing need for equity release product
- Report finds that reverse mortgages help older Australian achieve their immediate financial objectives and that customers are satisfied
- The report identified areas for improvement from lenders, and Heartland has already acted on these and is very much aligned with ASIC in being committed to ensuring customers make informed decisions.
- Heartland is a member of a working group which was formed to ensure that ASIC's expectations for improved lending practices for reverse mortgages are satisfied.
- No material impact on business

"Reverse mortgage products can help many Australians achieve a better quality of life in retirement"
ASIC Deputy Chair, Peter Kell, 28 Aug 18

FMA and RBNZ review of conduct and culture in New Zealand retail banks (November 2018):

- RBNZ and FMA review into the culture and conduct of New Zealand's banking system.
- Two types of findings:
  - Thematic observations (generally applicable across the NZ banking industry)
  - Specific observations (directly applicable to Heartland)
- No findings of widespread conduct and culture issues, however the findings did reveal opportunities to strengthen the governance and management of conduct risks industry-wide.
- Heartland is required to develop a plan to address the findings, to be completed by end of March 2019.
- The outcome will be ongoing focus on and iterative improvement of conduct and culture bank-wide.

Regulatory update continued:

RBNZ Capital Review consultation paper (December 2018):

- The capital review is at consultation stage only with many details to be clarified and RBNZ yet to have made any final decisions.
- If the proposal was to be implemented in its current form, Heartland would be required to lift its Tier 1 capital ratio to 15% over a 5 year transitional period. This equates to an increase in Tier 1 capital of less than 0.4% (approx. $15m) per year, based on Heartland's current financial position.
- The corporate restructure provides Heartland Group with the following flexibility in relation to the Reserve Bank's capital requirements.
  - The Australian business is outside of the New Zealand banking group and therefore not subject to Reserve Bank capital requirements, reducing the impact of changes in those requirements.
  - The options being explored for long-term funding of Heartland Australia and Heartland Group, if implemented, may potentially result in the Heartland Group requiring less capital, or being able to redeploy capital to Heartland Bank to satisfy Reserve Bank capital requirements without necessarily raising more equity in the market.
- In the absence of an unanticipated increase in growth or an acquisition, the Group has no current need to raise equity from shareholders other than thorough the Dividend Reinvestment Plan. A combination of retained earnings reinvested through the Dividend Reinvestment Plan and other sources are sufficient for funding business as usual growth.

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Divisional summary

Australia

- **Australian Reverse Mortgages gross finance receivables $733.3m**
  24.9% annualised growth excl. FX
- **Australia Spotcap small business gross finance receivables $22.2m**
  45.4% annualised growth excl. FX
- Australia Net Operating Income $11.8m, up 23.3% on previous corresponding reporting period
- 20,000 Australians turn 65 every month[1]
- The number of Australians over 65 is projected to grow from 15 percent of the population in 2018 to 23 percent by 2050[2]
- Heartland is the largest specialist in this market, currently enjoying the highest rate of growth.
- Increased marketing activity including planned television campaign
- Corporate restructure allows for flexible funding opportunities

Australia – Gross Finance Receivables
As at 31 December 2018

$755.5m

▲ **25.5% excl. FX**
annualised growth from June 2018

▲ **16.7% incl. FX**
annualised growth from June 2018

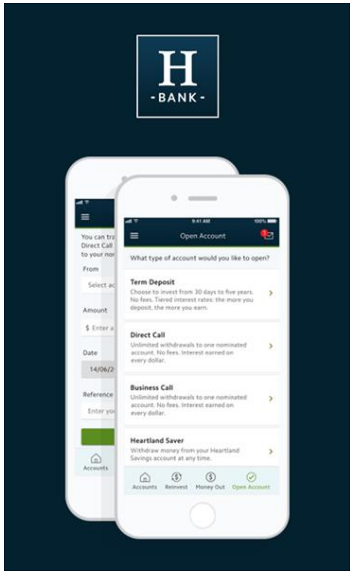
The combination of favourable demographics, limited active originators and the potential through raising product awareness presents the opportunity for material growth

1. Australian Bureau of Statistics.
2. Based on peak penetration from the Deloitte annual reverse mortgage report 2015, combined with current Australian Bureau of Statistics population and housing statistics and APRA and HSF reverse mortgage data.

NB: Harmoney Australia is included in “Harmoney and Other Personal” in the 2019 Interim Report segmental reporting note and is discussed on slide 18.

Digital

- Open for Business grew strongly with gross receivables increasing 56.2% to $115.4 million
- Increased investment required to raise awareness and reach to a market estimated to be $5bn[1]
- Outside specialist capital being considered
- 10% Depositors now on App
- 30% Australian Reverse Mortgages accessed direct, 93% of which are sourced online



1. Based on the number of SMEs in New Zealand (Ministry of Business, Innovation and Employment Small Business Fact Sheet 2017) with a turnover, risk profile and needs consistent with O4B.

New Zealand reverse mortgages

- NZ Reverse Mortgage gross finance receivables increased $24.6m in the six months to 31 Dec 2018 to $481.5m, 10.7% annualised growth
- NZ Reverse Mortgage Net Operating Income increased 16.2% to $10.3m
- Increased brand awareness and digital distribution
- We have assisted over 15,000 New Zealanders live a more comfortable retirement, with currently over 7,000 customers

NZ Reverse Mortgages – Gross Finance Receivables

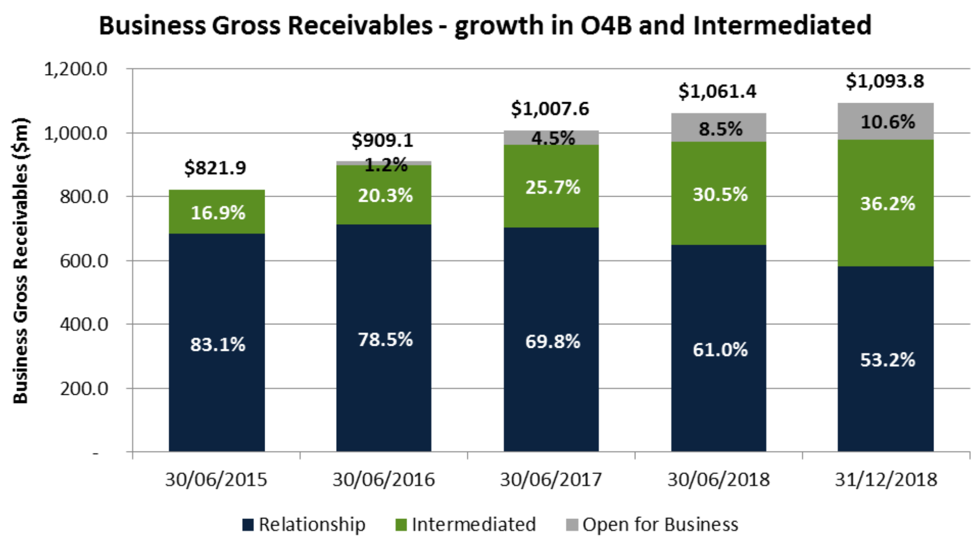
As at 31 December 2018

$481.5m

▲ **10.7%**
annualised growth from June 2018

Business

- Business gross finance receivables increased $32.4m in the six months to 31 Dec 2018 to $1,093.8m (6.1% annualised growth)
- Business Net Operating Income increased 5.7% to $27.6m
- Intermediated continue to grow strongly with 44.3% annualised growth
- Business relationship lending decreased



Business – Gross Finance Receivables

As at 31 December 2018

$1,093.8m

▲ **6.1%**
annualised growth from June 2018

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Motor

- Motor gross finance receivables increased $79.0m in the six months to 31 Dec 2018 to $1,039.9m (16.3% annualised growth)
- Motor Net Operating Income increased 8.9% to $28.2m
- Increased partnership with intermediaries offers customers vehicle finance at point of sale

Motor – Gross Finance Receivables
As at 31 December 2018

$1,039.9m

▲ **16.3%**
annualised growth from June 2018

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Harmoney and other personal lending

- Harmoney and other personal lending gross finance receivables increased $34.7m in the six months to 31 Dec 2018 to $188.6m (annualised growth 44.3%, excl. FX)
- NZ Harmoney and other personal lending increased 37.7% (annualised growth) to $153.6m
- Australia Harmoney increased 77.0% (annualised growth excl. FX) to $35.0m
- Harmoney and other personal lending Net Operating Income (NZ and Australia) increased 38.0% to $9.5m
- Key funder of Harmoney platform across New Zealand and Australia

Harmoney and other personal lending – Gross Finance Receivables

As at 31 December 2018

$188.6m

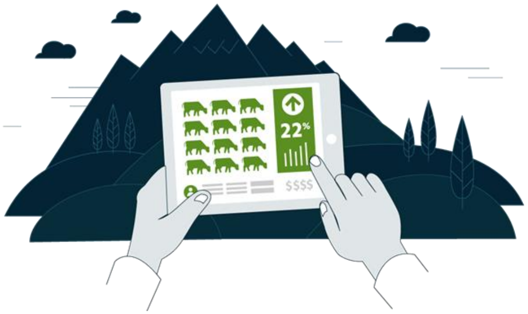
▲ **44.3% excl. FX**
annualised growth from June 2018

▲ **42.6% incl. FX**
annualised growth from June 2018

Harmoney

Rural

- Rural gross receivables decreased 4.5% (annualised decrease in gross receivables)
- Reduction in lending through Rural Relationship and Livestock Direct, but a small increase in Open for Livestock lending.
- We continue to manage down large Rural Relationship lending to reduce concentration risk in this area



O4L OPEN FOR LIVESTOCK

Rural – Gross Finance Receivables

As at 31 December 2018

$645.5m

▼ **4.5%**
annualised decrease from June 2018

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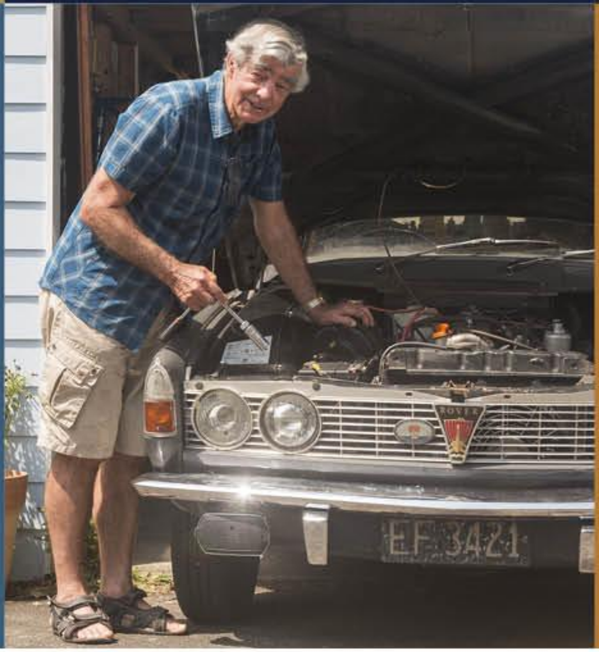
Balance sheet and Capital



Balance Sheet

Summary Balance Sheet	31 Dec 2018 ($m)	30 June 2018 ($m)	Movement ($m)	Annualised Growth (%)
Gross finance receivables	4,226.2	4,017.4	208.7	10.3%
Provisions for impairment and fair value adjustment	(58.9)	(32.5)	(26.3)	160.6%
Net finance receivables	4,167.3	3,984.9	182.4	9.1%
Other assets	534.1	511.0	23.1	9.0%
TOTAL ASSETS	**4,701.4**	**4,495.9**	**205.5**	**9.1%**
Retail deposits	2,988.4	2,881.8	106.6	7.3%
Other borrowings	1,039.4	914.2	125.2	27.2%
Other liabilities	19.5	35.7	(16.2)	-90.1%
Equity	654.2	664.2	(10.0)	-3.0%
TOTAL EQUITY & LIABILITIES	**4,701.4**	**4,495.9**	**205.5**	**9.1%**

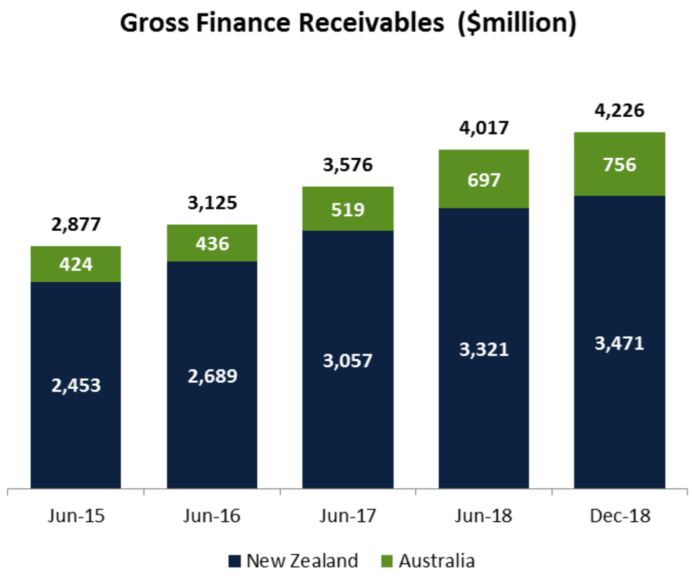
- Gross finance receivables increased 11.9% (annualised growth), offset by adverse FX impact, resulting in reported 10.3% (annualised growth).
- Net finance receivables increased 10.7% (annualised growth), offset by adverse FX impact, resulting in reported 9.1% annualised growth.
- Strong 7.3% annualised growth in retail deposits to fund 9.0% growth in New Zealand gross finance receivables with additional funding through securitised borrowings.

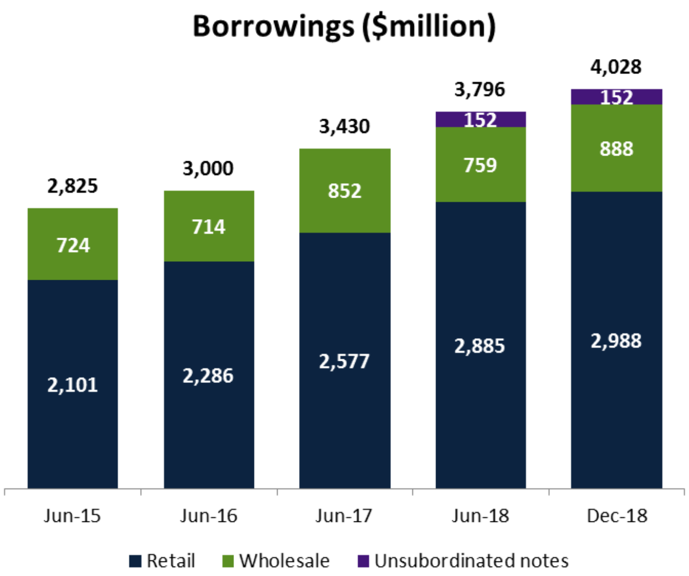
Movement in Equity

	$m
Heartland Bank Limited as at 30 June 2018	**664.2**
Profit for the 6 months to December 2018	33.1
Dividends paid	(30.8)
Dividend reinvestment plan	8.6
IFRS 9 Adjustment	(18.2)
Movement in reserves	(2.8)
Heartland Group Holdings Limited as at 31 December 2018	**654.2**

Asset growth and funding growth

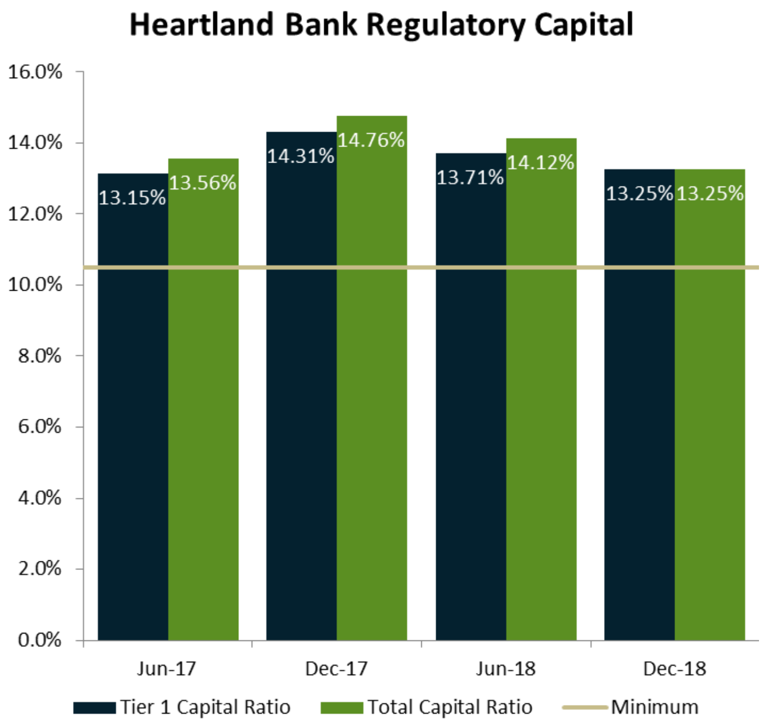
- Asset growth funded by 12.1% annualised growth in borrowings
- 9.0% annualised growth in New Zealand gross finance receivables funded by 7.3% annualised growth in retail deposits
- 16.7% annualised growth in Australia gross finance receivables funded by increased wholesale funding
- Heartland continues to diversify its sources of funding and to fund growth with greater capital efficiency





Capital

- Heartland Group equity ratio was 13.91%[1] as at 31 December 2018.
- Heartland Bank Tier 1 and Total regulatory capital ratio was 13.25% as at 31 December 2018.
- Following repayment of the Tier 2 capital as part of the corporate restructure in October 2018, Heartland Bank no longer has any hybrid regulatory capital.
- Following the completion of the corporate restructure, the Australia business is now outside of the New Zealand banking group, therefore not included in Heartland Bank Limited capital ratio.



1. Total Equity / Total Assets

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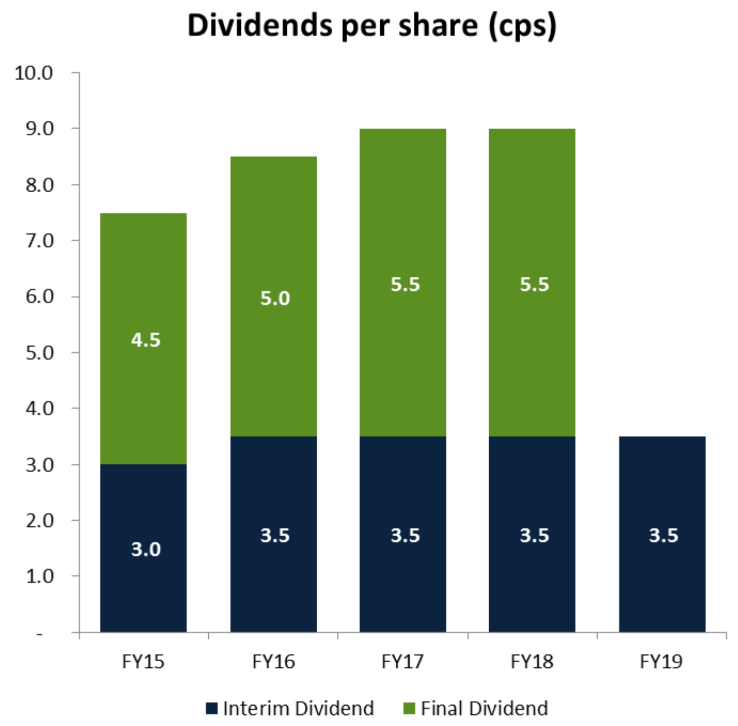
Return to shareholders

- Interim dividend declared 3.5cps
- Heartland Group Return on Equity 10.3% (annualised)
- Heartland Group earnings per share for 6 months to 31 Dec 2018 was 5.9cps



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Thank you

Any questions?

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