Full Year Results to 30 June 2014

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New Zealand Limited

Important Notice

This presentation has been prepared by Heartland New Zealand Limited (Heartland) (NZX: HNZ) for the purpose of briefings provided by HNZ in relation to its financial statements.

The presentation and the briefing constitute summary information only, and you should not rely on them in isolation from the full detail set out in the financial statements.

Agenda

- Introduction
- Financial Overview
- Business Overview
- Looking Forward
- Questions

Introduction

Heartland's Progress to Date

Heartland has made significant progress restructuring the existing business and growth is underway

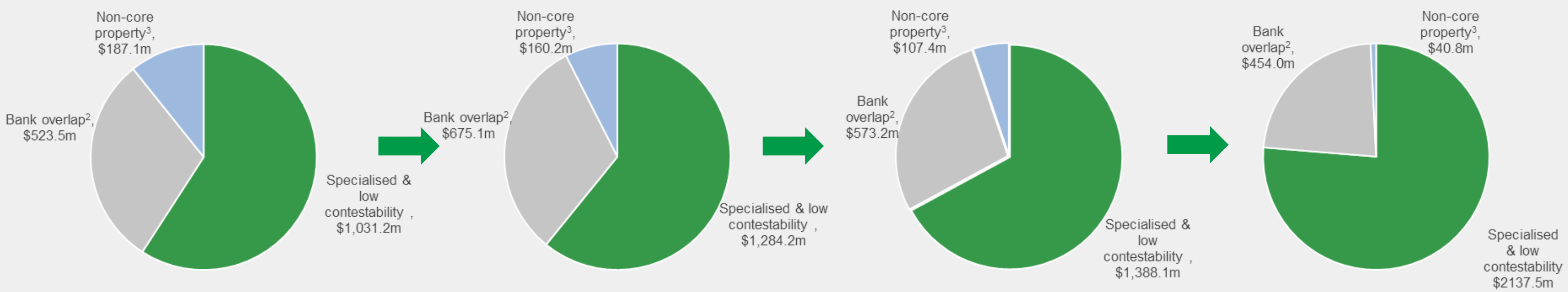
- Merger successfully completed
- Investment grade credit rating achieved
- Bank licence obtained
- Costs normalised
- Consistent growth in earnings
- Asset rebalancing being completed (see over page)
- Significant acquisition completed

Heartland is now in growth phase

Effect of Balance Sheet Changes

Strategic changes to Heartland's balance sheet composition have resulted in increased EPS and ROE

30 June 2011 | **30 June 2012[1]** | **30 June 2013** | **30 June 2014**



30 June 2011		30 June 2012[1]		30 June 2013		30 June 2014	
Total Net Receivables[6] $1.7b		Total Net Receivables[6] $2.1b		Total Net Receivables[6] $2.1b		Total Net Receivables[6] $2.6b	
NPAT	$7.1m	Adjusted NPAT[4]	$14.0m	Adjusted NPAT[5]	$24.4m	NPAT	$36.0m
EPS	5c	Adjusted EPS[4]	4c	Adjusted EPS[5]	6c	EPS	9c
ROE	2.8%	Adjusted ROE[4]	4.2%	Adjusted ROE[5]	6.5%	ROE	9.0%
						Last Quarter ROE	9.7%

[1]Uplift in net receivables partly attributable to acquisition of PGW Finance
[2]Bank overlap assumed to be residential mortgages and 50% of business and rural
[3]Includes investment properties
[4]Adjusted for $9.6m one-off tax benefits
[5]Change in strategy provisions ($18.0m), management fee ($6.1m), management expenses ($0.2m) added back
[6]Total net receivables include residential mortgages, property (including investment property), plant & equipment, business, IF, livestock, other rural and HER. Other asset categories (e.g. cash, investments etc.) are not included

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Financial Overview

Financial Full Year Overview

Step up in profitability

- Achieved NPAT of $36.0m
- Increase in Adjusted NPAT of $12m or 48%
- Increase in NPAT of $29m or 421%
- NOI increase of $15m or 14%
- Impairments are low
- Second half of 2013 Non-Core Property one-off expense of $24.3m

	12 months to Jun 2014 (NZ$m)	12 months to Jun 2013 (NZ$m)	Change %
Net interest income	109.1	95.5	14%
Net other income	13.5	11.8	14%
Net operating income *	**122.6**	**107.3**	**14%**
Expenses	64.7	70.3	-8%
Profit before impairments and tax	**57.9**	**37.0**	**56%**
Impaired asset expense	5.9	22.5	-74%
Decrease in fair value of investment properties	1.2	5.1	-76%
Net profit before tax	**50.8**	**9.4**	**440%**
Tax	14.8	2.5	492%
Net profit after tax (reported)	**36.0**	**6.9**	**421%**

* Net operating income includes share of MARAC Insurance profit

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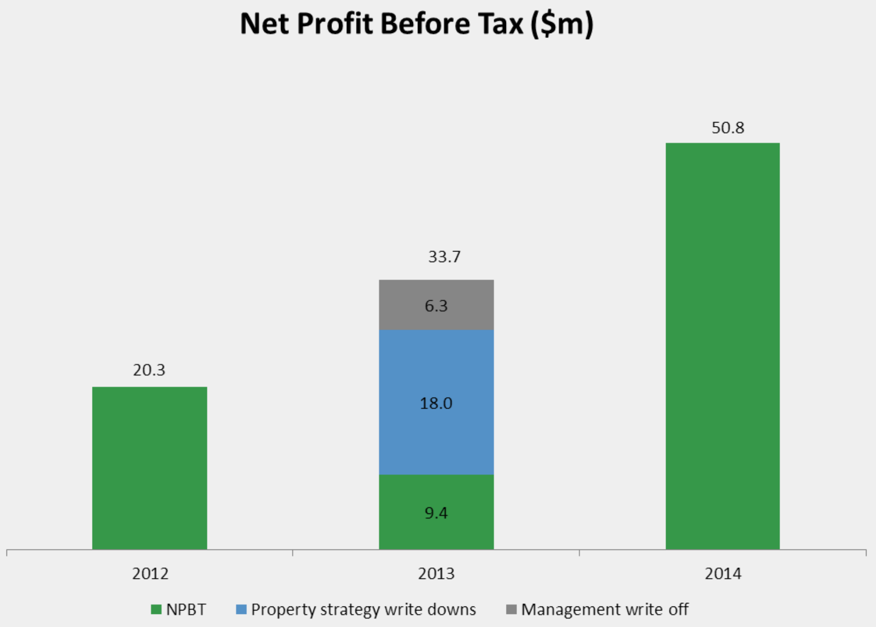
Net Profit Before Tax

Adjusted NPBT shows continued improvement

- Adjustment for one-off Non-Core Property expense in 2013, for like on like
- Interest margin big driver in growth
- Continued trend improvement
- Acquisition contributed in last quarter 2014



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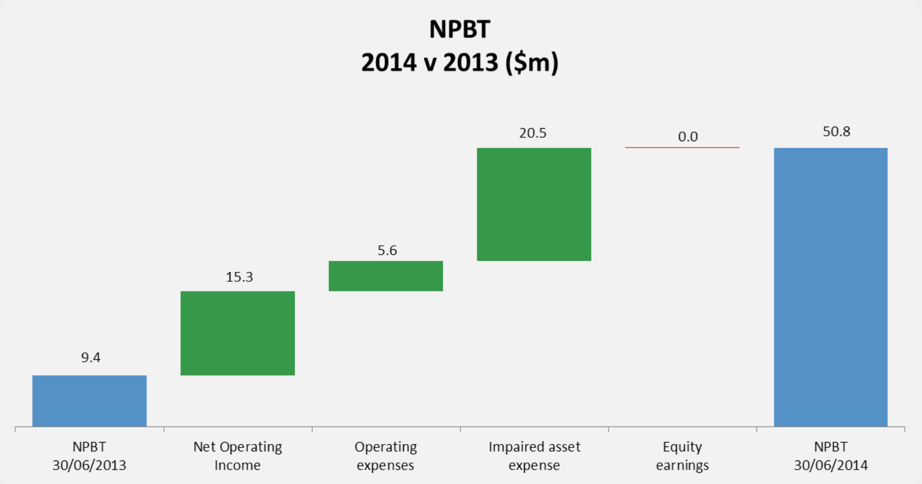
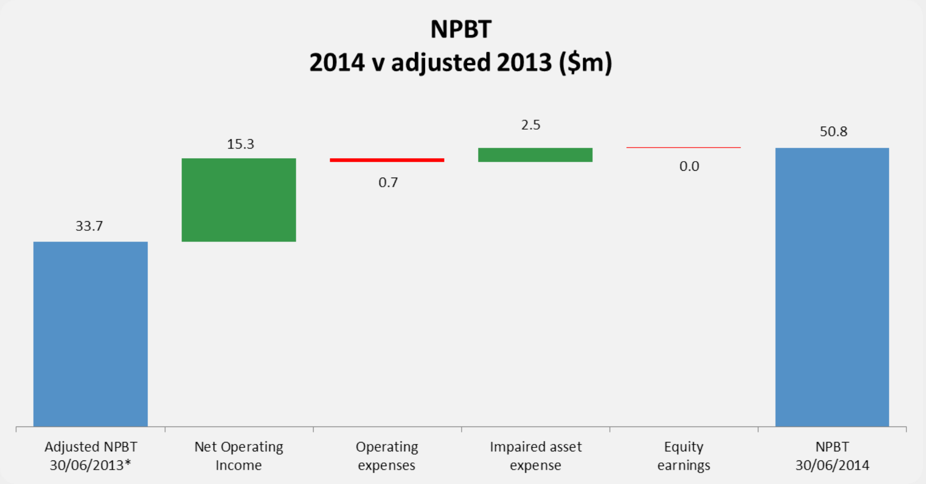
Net Profit Before Tax - Bridge

Breakdown of component parts





* Change in strategy provisions ($18.0m), Management fee ($6.1m), Management expenses ($0.2m) added back

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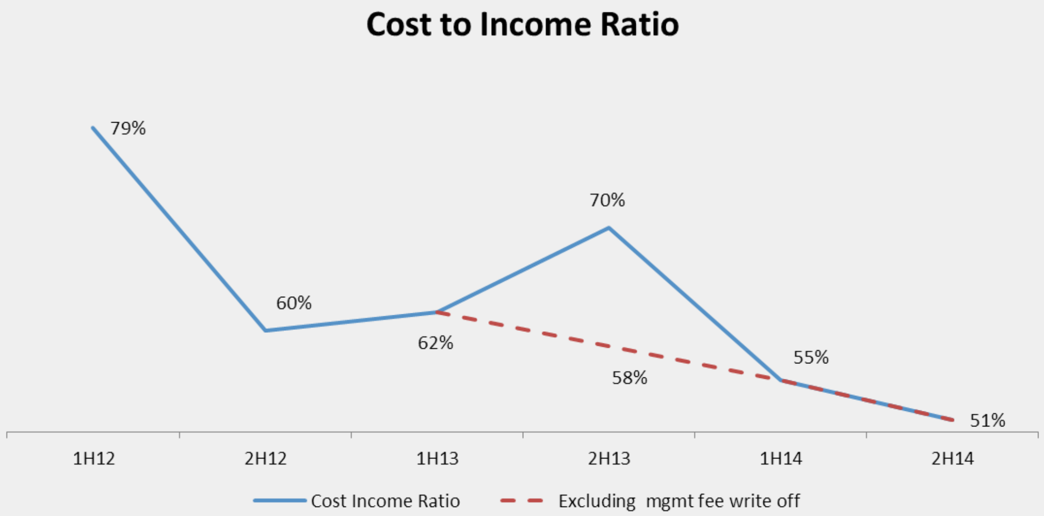
Operational Efficiency

Continuing improvement in cost to income ratio

- Ratio lower as NOI continues to grow and costs held flat
- Annual cost to income ratio now at 53%
- Second half 2013 increase in costs due to non-core property costs of $6.3m
- Further improvement expected



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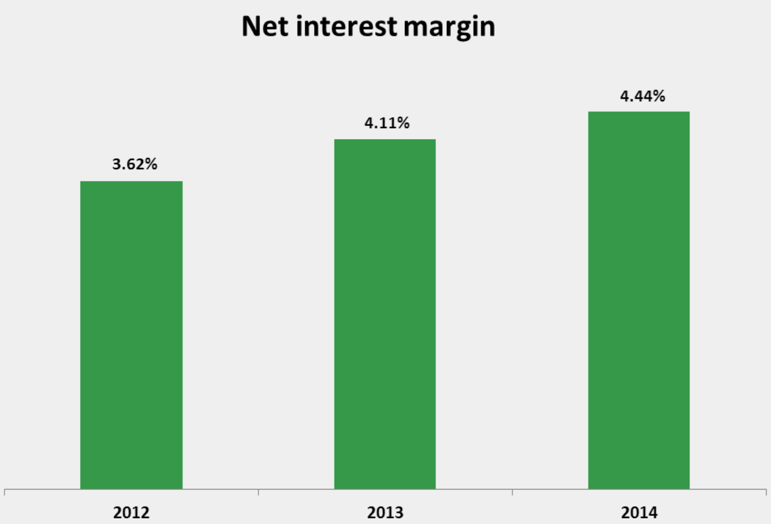
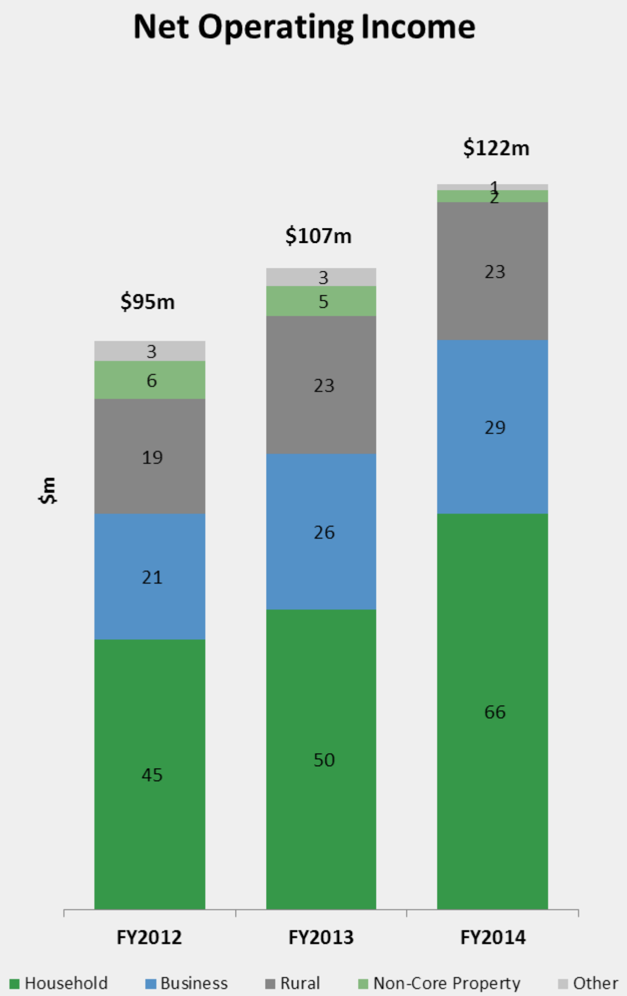
Net Operating Income

NOI driving profitability

- NOI up 14%
- Household biggest earning division
- Growth in NOI due to:
  - Product mix changes
  - COF reductions





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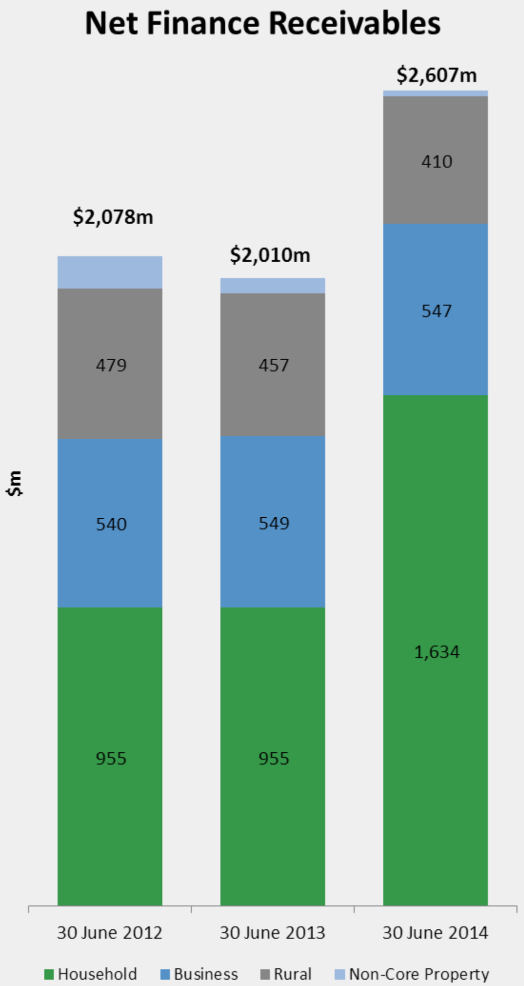
Balance Sheet Summary

Growth in receivables

- Total assets increased by $512m
- Net finance receivables increased by $597m
- Retail and consumer biggest segment up $679m largely from HER acquisition
- Retail and non-core property back $178m as we execute strategy to exit
- Equity up $82m due to capital raised for acquisition

	30 Jun 2013 (NZ$m)	30 Jun 2014 (NZ$m)
Total assets	2,504.6	3,016.9
Total liabilities	2,134.1	2,564.3
Total equity	**370.5**	**452.6**
Equity ratio	14.8%	15.0%
Net tangible assets	**331.2**	**399.9**
NTA per share	$ 0.85	$ 0.86



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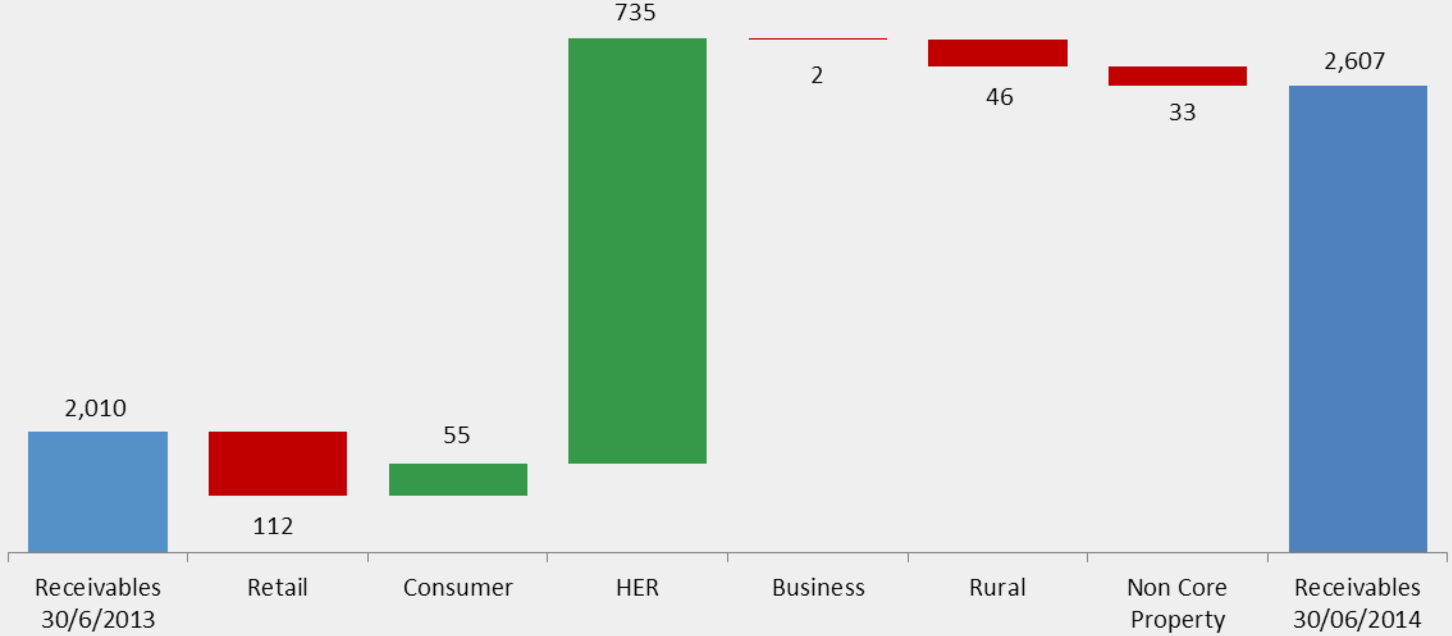
Net Finance Receivables Bridge

Portfolio mix improvement

Receivables Movement
12 Months ended 30 June 2014 ($m)



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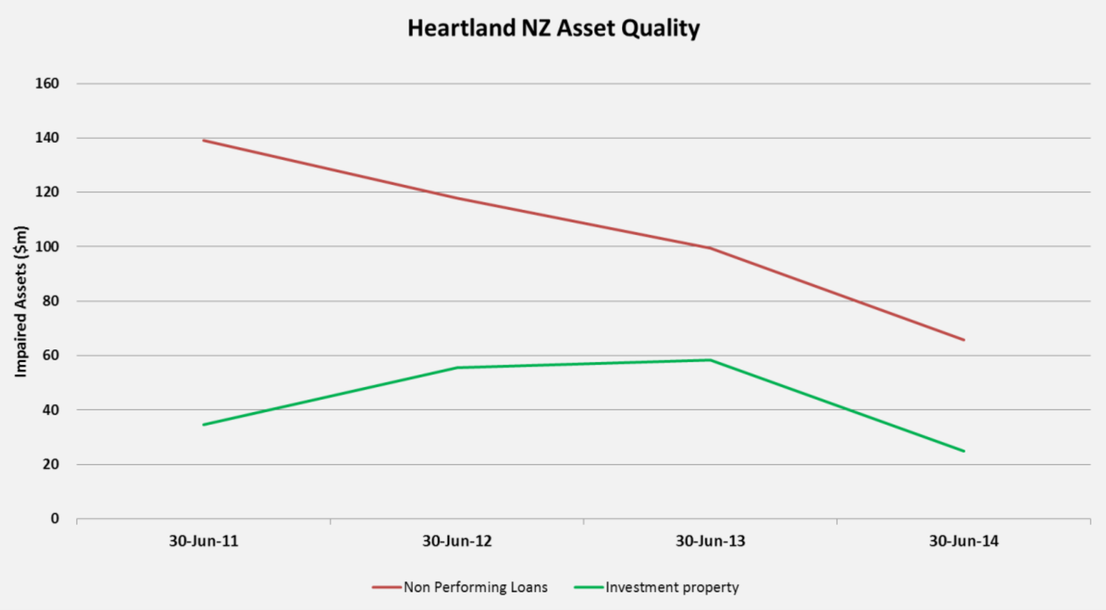
Asset Quality Trends

Trend improvement in underlying asset quality

- Asset quality improving overall
- Non-Core Property significantly reduced
- Core business impairment is low
- Increase in core net impairment expense from last year
- Business NPL's higher at year end; don't expect increase in impairments



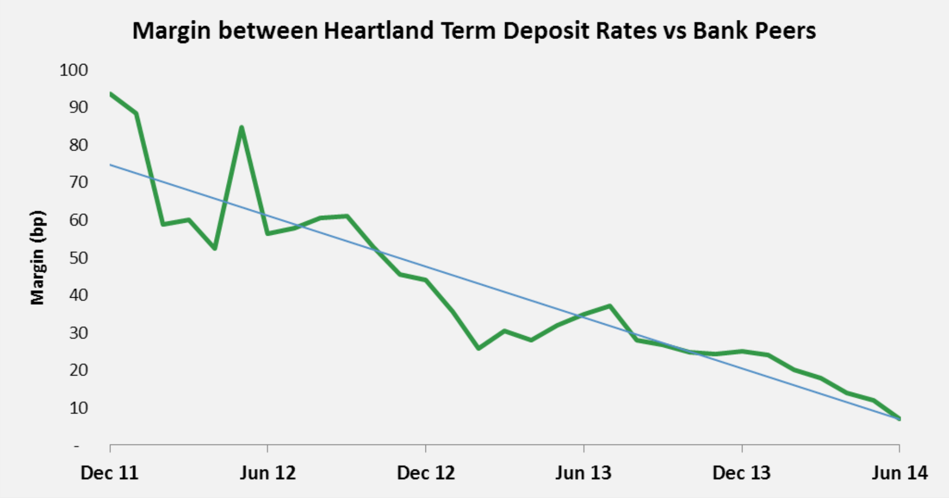
	30-Jun-11	30-Jun-12	30-Jun-13	30-Jun-14
Net Finance Receivables ($ billion)	1.7	2.1	2.0	2.6
Net Impairment %	5.9%	4.4%	2.4%	1.9%
Net Core Finance Receivables ($ billion)	1.6	2.0	2.0	2.6
Net Impairment %	1.7%	1.3%	0.9%	1.4%

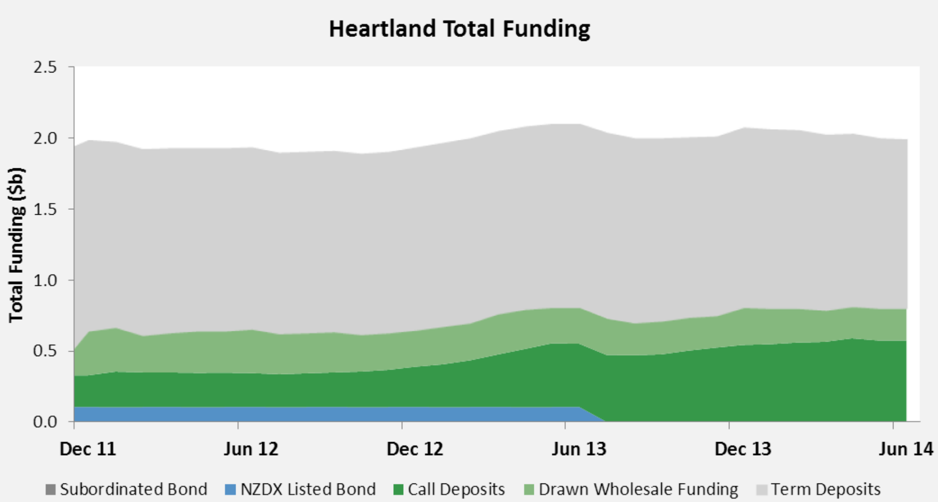
Cost of Funds – Heartland Bank

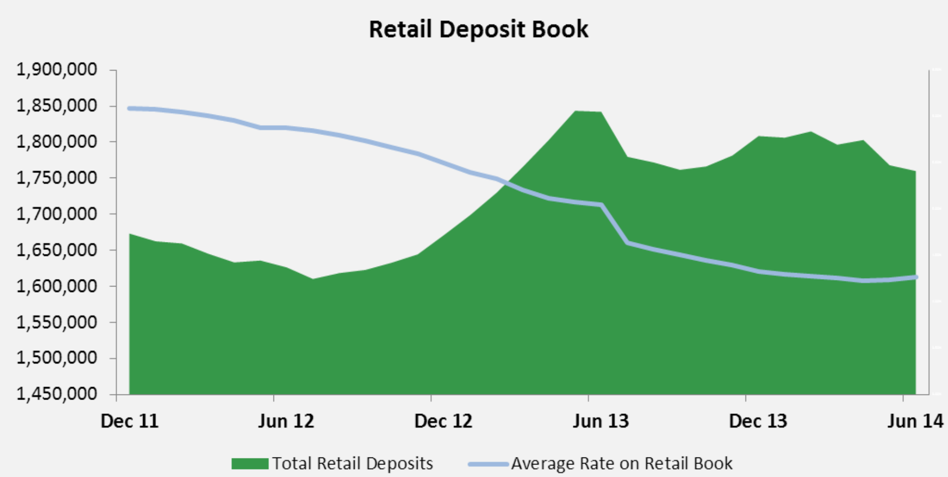
Cost of funds continue to track lower

Solid retail deposit performance and lower cost of funds driven by:

- Rate alignment with Bank peers
- Changing funding mix (increased retail, reduced wholesale)







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Business Overview

Market Position

A focus on Household, SME and Rural sectors

- Our focus is on three sectors: Household, SME and Rural
- We offer specialist products which are superior to alternatives or substitutes (best in category) in niches within these sectors (areas of low contestability). By doing so we establish a leading position in our target markets. This translates to premium sustainable earnings – achieving a better risk / return balance than the mainstream banks.
- This means our success will be driven by:
  - Product-centric strategy
  - Performance culture; and
  - Being different from major banks
- Examples:

Home Equity Release Loans	vs	Residential Mortgages
Farm Livestock Loans	vs	Large Rural Mortgages
Invoice Finance	vs	GSA's
Online Business Call	vs	Default Call Rates

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Acquisition and Product Centric Strategy for Growth

Over the last 4 years, Heartland has successfully integrated 5 businesses and developed new products

- With credit growth likely to remain constrained beyond 2014, Heartland aims to accelerate earnings growth through potential acquisitions
- Product-centric strategy
- Acquisitions: must be ROE and EPS accretive. Key features we look for include:
  - Strategic fit – specialist products in niches (areas of low contestability) within Household, SME or Rural
  - Products are superior to alternatives or substitutes (best in category)
  - Leading position in target market (no 1 or 2 in sector)
  - Competitive advantage that is difficult to replicate
  - Compelling sector fundamentals – target market is growing, with opportunities to increase share
  - Ability to leverage existing relationships and infrastructure
  - Delivery of premium sustainable earnings
- More opportunity currently available in the Household sector

Household

Biggest segment $1.6b

Sub categories are:

- Consumer (primarily motor vehicles)
- Home Equity release
- Residential mortgages

Residential

- Continued run down (not a strategic product)
- New business and re-finance originated into Kiwibank; fee earned
- Expect continued run off

	June 2014	June 2013
Gross Receivables	$122m	$233m
Avg loan size	$78k	$93k

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Consumer

	June 2014	June 2013
Gross Receivables	$779m	$725m
Avg loan size	$16k	$16k

Strong growth

- Marque motor vehicle product
- Growth of $54m or 7% in current year
- Launch of i-finance:
  - financing lower cost cars, adjacent segment, achieve appropriate risk reward
- Intermediated distribution strategy continues to perform eg. Holden Finance
- Expect 5-10% growth in year ahead

HER Overview

Total Receivables NZ $735m

- Positive earnings contribution after acquisition costs and marketing investment
- 250 loans approved since acquisition, with combined limits of NZ$19m
- Growth in New Zealand book achieved after three months of ownership, growth in Australian book forecast for six months post ownership

	New Zealand	Australia
Total Receivables	NZ $331m	AU $376m
Average Loan Size	NZ $87k	AU $93k
Average New Loan Size	~ NZ $39k	~ AU $45k
Average LVR	27%	28%
Lead pool (no. of loans)	951	498
Lead pool (limits)	NZ $43m	AU $26m

HER Integration

Progressing as planned

- New Zealand sales capability developed within Heartland Bank's retail business
- Marketing programme launched in New Zealand in May, Australia in July
- Australian agency distribution channels being re-established with training and accreditation being progressively rolled out
- Operational capability within Heartland being developed
- New business enquiries in both countries building to plan although lead time to conversion slightly longer than expected
- All new loans in New Zealand being written directly by Heartland Bank with the initially acquired New Zealand loans being progressively transferred to Heartland Bank
- Expect $50 - $80m growth in FY2015

Rural

	June 2014	June 2013
Gross Receivables	$412m	$457m
Avg loan size	$198k	$263k

Expect growth in 2015

- PGGW acquisition at NTA in 2011 came with higher risk (guaranteed loans), and mortgage lending products which overlapped with the major banks
- The higher risk loans have repaid and a significant amount of mortgage lending has run off or been refinanced
- New lending to existing and new clients for FY2014 was $88m
- Expect some further run off in lower yielding mortgage loans in year ahead at a reduced rate compared to FY2014
- However, expect growth in existing and new products to offset
- Core products of focus include, livestock finance (intermediaries focus), farm transition loans, smaller farm financing exposures (<$5m) includes share-milkers and first time farm owners
- Expect greater focus on product development
- Modest growth expected in the year ahead
- Receivables grew $3.2m in July 2014

Business

	June 2014	June 2013
Gross Receivables	$555m	$555m
Avg loan size	$185k	$188k

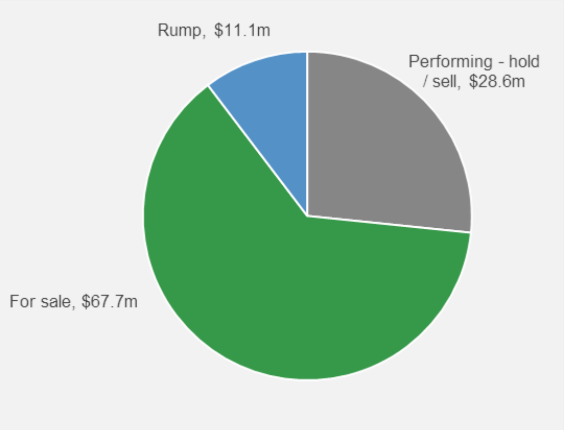
Multi product solutions

- Strategy is to support business growth through a range of specialist business products
- Focus on business needs – not owners house or their personal assets
- We understand our customer and their business cashflows
- Product centric; multi product solutions
- An account manager can offer a wide range of business products
  Overdrafts / Asset finance / Invoice Finance / Vehicle finance / Land & Buildings
- Expanding product range to further support business growth and cashflow
- Growth to come from both growing intermediary channels and product development
- Receivables grew $2.3m in July 2014

Significant Reduction in Non-Core Property

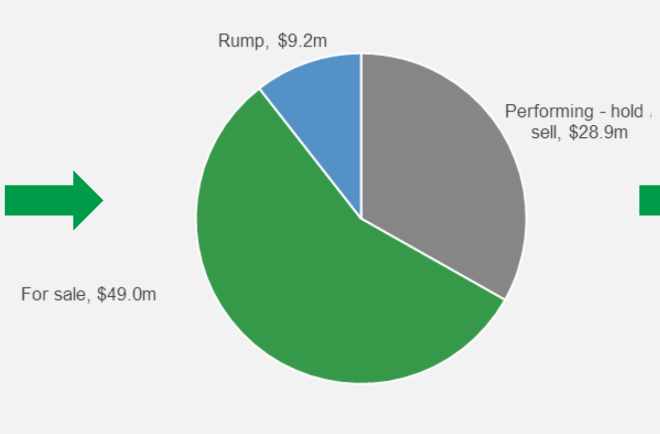
Heartland continues to significantly reduce its non-core property holdings

30 June 2013



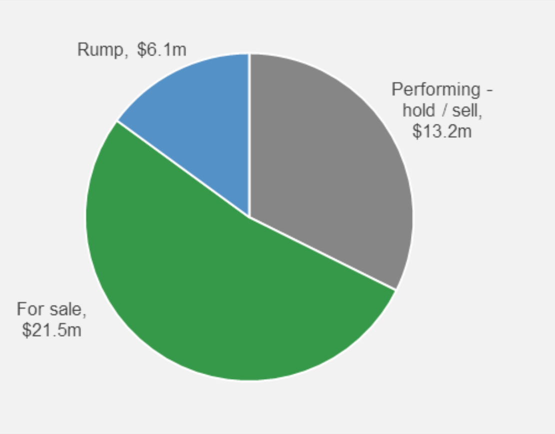
Total Property Book $107.4m

31 December 2013



Total Property Book $87.1m

30 June 2014



Total Property Book $40.8m

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Non-Core Property

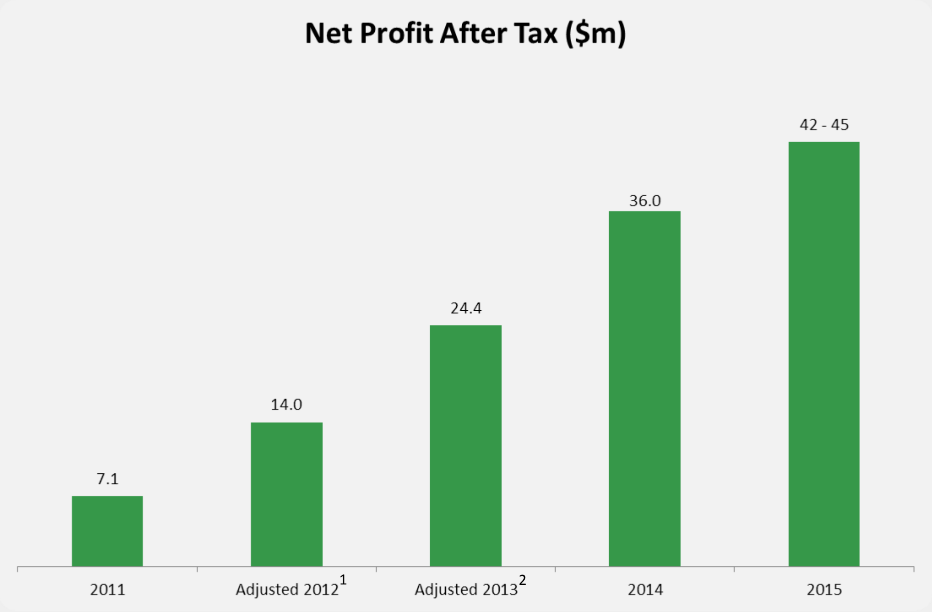
Sell down exceeding forecast

- Non-core property assets reduced by 62% from $107.4m at 30 June 2013 to $40.8m at 30 June 2014
- Net receivables $16.0m
  - 18 loans with an average balance of less than $0.9m
  - Includes provisions of $5.7m
- Investment properties $24.9m
  - 13 properties with an average balance of less than $2m
- Expect non-core property assets to reduce by c$15m in the six months ending 31 December 2014
- No further impact on earnings expected

Return on equity

ROE and profit trending up

- Profitability increasing
- ROE for year ended 30 June 2014 9.0% compared to ROE of 1.8% and Adjusted ROE[2] of 6.4% for the prior year
- ROE trending up with ROE in last quarter of approximately 9.7%
- Specific focus on improving ROE
  - Continued focus on higher yielding products
  - Continued investigation of potential ROE accretive acquisitions
  - Investigating possible capital management options to improve ROE



1. Adjusted for $9.6m one-off tax benefits
2. Adjusted for Change in strategy provisions ($18.0m), management fee ($6.1m), management expenses ($0.2m) added back

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Dividends

Final dividend of 3.5¢ cents per share

- Fully imputed Interim and final dividend of 6.0¢ up from 4.5¢ in prior year (33% increase)

	2014	2013
Special		1.5¢
Interim	2.5¢	2.0¢
Final	3.5¢	2.5¢
TOTAL	6.0¢	6.0¢

Questions

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