HEARTLAND
New Zealand Limited

Annual Results to 30 June 2012

Jeff Greenslade   Simon Owen   Craig Stephen

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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.

Heartland Building Society is the principal operating subsidiary of HNZ.

Agenda

- Introduction — Jeff Greenslade
- Financial Overview — Simon Owen / Craig Stephen
- Operational Review & Strategic Update — Jeff Greenslade
- Questions

Introduction

Achievements

1. PGG Wrightson Finance Limited (PWF) acquisition supported by successful capital raising
2. Investment grade credit rating affirmed and outlook improved to stable
3. Core earnings and profitability improving
4. Balance sheet strengthened
5. Improved liquidity position and cost of funds

To Do

1. Bank registration
2. Sustainable and acceptable ROE

Financial Overview

Simon Owen / Craig Stephen

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Financial Statements

- 30 June 2012 result represents 12 months of Heartland Group.
  It includes 10 months of PWF result from 31 August 2011.
- 30 June 2011 reported result represents six months of the MARAC Group (to 6 January 2011), plus six months of the Heartland Group (to 30 June 2011).
- Balance sheet at 30 June 2011 of HNZ represents the financial position of Heartland Group, excluding PWF.

Financial Year Overview

- FY12 profit in line with guidance

- Achieved NPAT of $23.6m
- Includes one-off tax credits of $9.6m
- Normalised NPAT $14.0m vs $7.1m
- Key value drivers are:
  - Net interest margin
  - Operating expenses ratio
  - Asset mix and growth
  - Asset quality

	30 June 2012 (NZ$m)	30 June 2011 (NZ$m)
Net interest income	83.6	61.6
Net other income	11.3	8.9
Net operating income	**94.9**	**70.5**
Expenses	65.6	45.7
Profit before impairments and tax	**29.3**	**24.8**
Impaired asset expense	5.6	13.3
Decrease in fair value of investment properties	3.9	-
Operating profit	**19.8**	**11.5**
Share of equity accounted investee's profit	0.5	0.1
Profit before income tax	**20.3**	**11.6**
Tax	(3.3)	4.5
Net profit after tax (reported)	**23.6**	**7.1**

Half Yearly Performance

- Trend improvement in profitability

- Net Operating Income up $5.1m
- Expenses down $5.8m
- Operating expense ratio improved from 80% to 60%
- Impaired asset expense was lower but offset by higher write-down in the second half
- One-off tax benefits were recognised in both H1 and H2 – expect normalised looking forward

	H1 (NZ$m)	H2 (NZ$m)	30 June 2012 (NZ$m)
Net interest income	39.1	44.5	83.6
Net other income	5.8	5.5	11.3
Net operating income	**44.9**	**50.0**	**94.9**
Expenses	35.7	29.9	65.6
Profit before impairments and tax	**9.2**	**20.1**	**29.3**
Impaired asset expense	3.8	1.8	5.6
Decrease in fair value of investment properties	-	3.9	3.9
Operating profit	**5.4**	**14.4**	**19.8**
Share of equity accounted investee's profit	0.2	0.3	0.5
Profit before income tax	**5.6**	**14.7**	**20.3**
Tax	(4.2)	0.9	(3.3)
Net profit after tax (reported)	**9.8**	**13.8**	**23.6**
Operating expenses / Net operating income	80%	60%	69%

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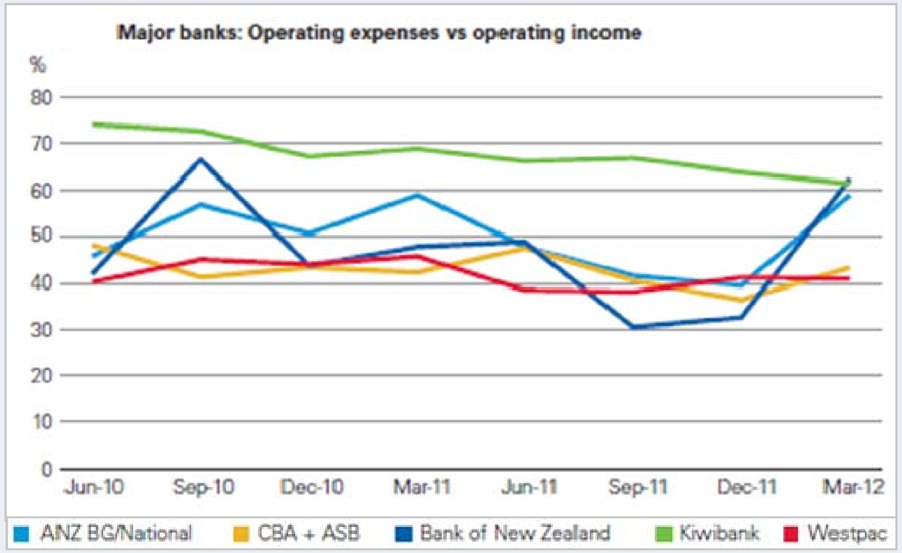
Operational Efficiency

- Trend improvement in cost control

- Key areas of focus and whilst trend improvement, we remain behind peers
- Trend improvement in cost / income ratio due to:
  - Revenue growth
  - Ongoing synergies
  - Systems integration
  - Project driven efficiency gains
- Forecast ratio of <65% (actual 69%)
- Cost-out initiatives will continue

	H1 2011 *	H2 2011	H1 2012	H2 2012
Cost to income ratio	55%	72%	80%	60%

* 6 months ended 31 December 2010 reflects the ratio for MARAC only.



Source: KPMG FIPS Quarterly July 2012

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Balance Sheet Summary

- Strong balance sheet

- Total assets increased by $230m
- Net finance receivables rose by $371m
- Carrying cash of $90m, with total liquidity of $449m (being 23% of total liabilities)
- Borrowings increased by $152m
- NTA per share is lower due to increased shares on issue from capital raising

	30 June 2012 (NZ$m)	30 June 2011 (NZ$m)
Total assets	2,348.1	2,117.9
Total liabilities	1,973.3	1,821.5
Total equity	**374.8**	**296.4**
Equity ratio	16.0%	14.0%
HBS Regulatory Capital - NBDT	10.44%	9.82%
Net tangible assets	**343.7**	**270.1**
NTA per share	$ 0.88	$ 0.90

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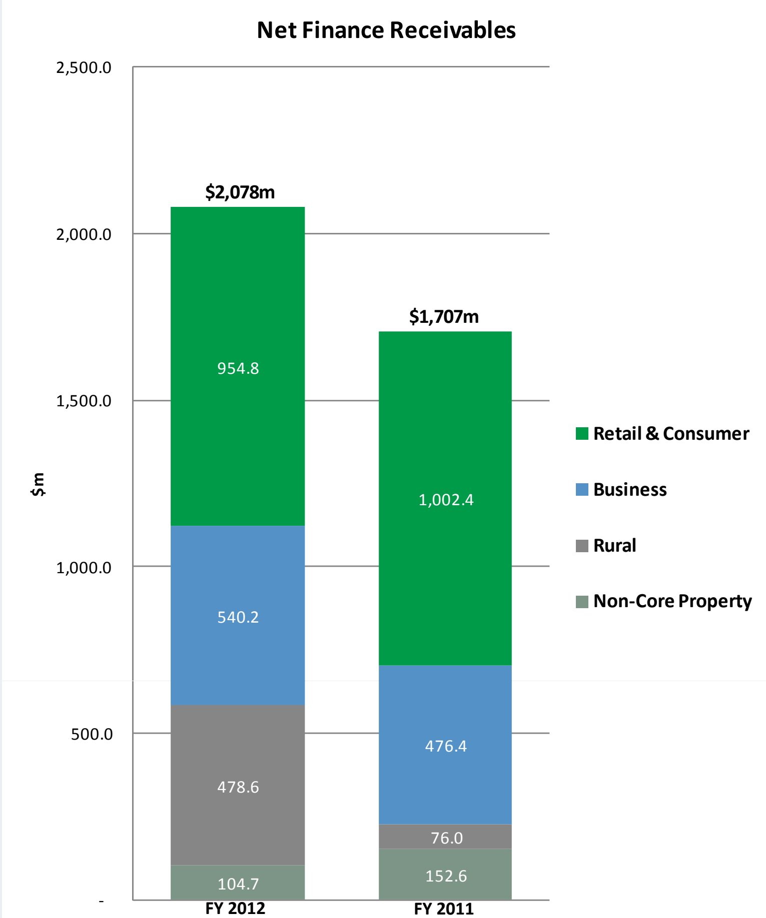
Net Finance Receivables

- Greater balance in portfolio mix

- PWF acquisition gives Rural scale
- The three core business divisions: Retail & Consumer, Business, and Rural, now well represented
- Non-Core Property portfolio continues to run-off
- Rural and Business divisions have greater growth opportunities



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Net Operating Income – Relative Contribution

- Greater diversity of income sources

- Rural growth better diversifies Heartland's earnings
- Retail & Consumer remain the most significant contributor
- Core divisions growing
- Non-Core Property earnings running off

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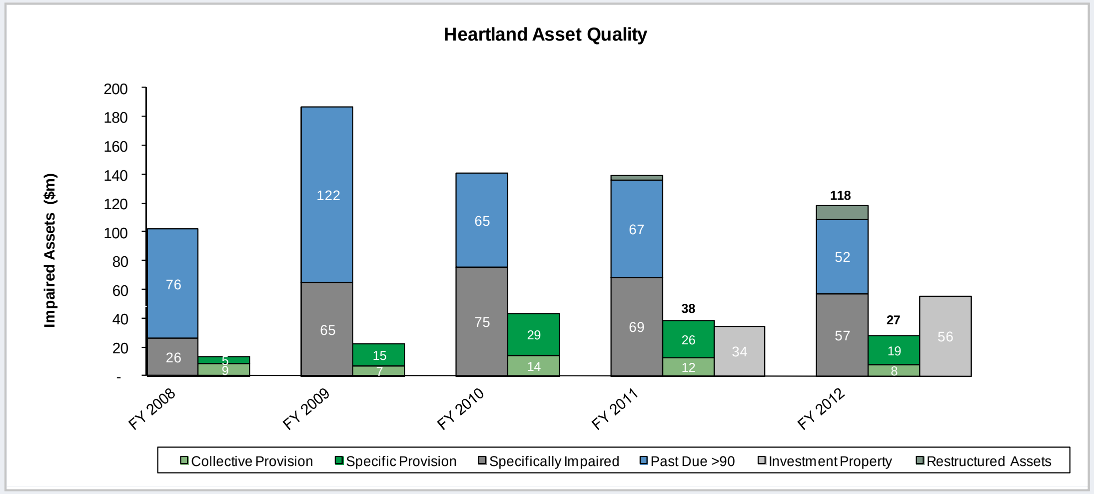
Asset Quality Trends

- Trend improvement in underlying asset quality

- Arrears and impaired assets remain at elevated levels due to Non-Core legacy property assets – now segregated and actively being managed out
- Real Estate Credit Limited (RECL) agreement regarded as fully utilised
- Heartland is at risk for Non-Core Property book going forward
- Security position improved by bringing $24m property assets on balance sheet (realising security)
- Impaired asset and investment property fair value expense of $9.5m from $13.3m



	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012
Net Finance Receivables ($bn)	2.1	2.0	1.8	1.7	2.1
Net Impairment (%)	4.2%	8.3%	5.4%	5.9%	4.4%
Net Core Finance Receivables ($bn)				1.6	2.0
Net Impairment (%)				1.2%	1.3%

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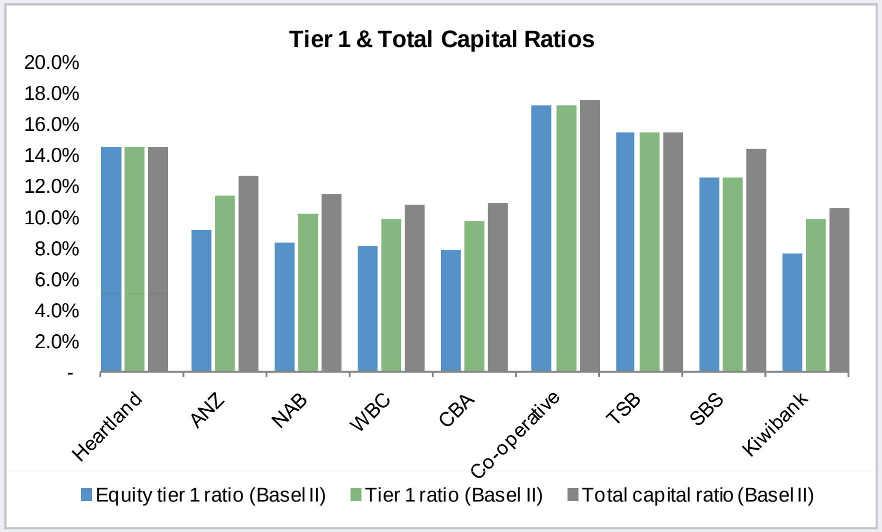
Capital

- Ratios significantly in excess of prudential requirements

- Surplus capital held, well in advance of NBDT and RBNZ minimum capital adequacy ratios
- Year end NBDT capital ratio of 10.4% and RBNZ capital ratio of 14.5%
- S&P categorise Heartland's capital as very strong



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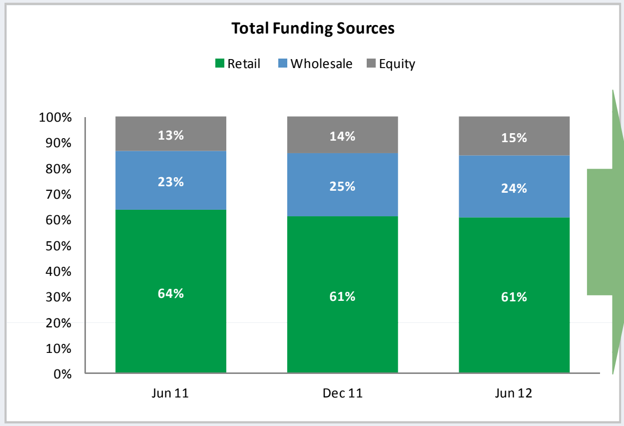
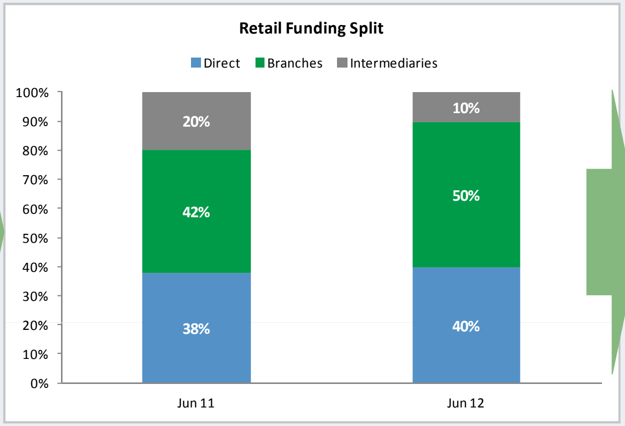
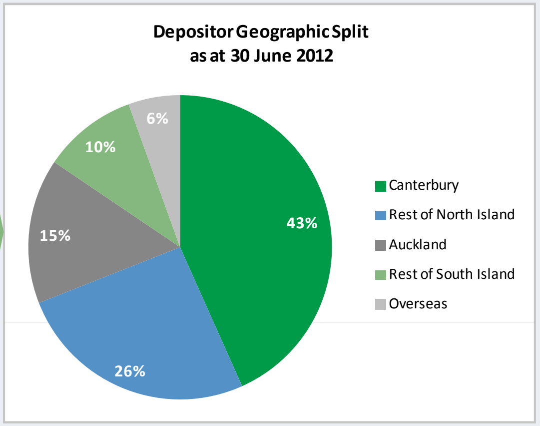
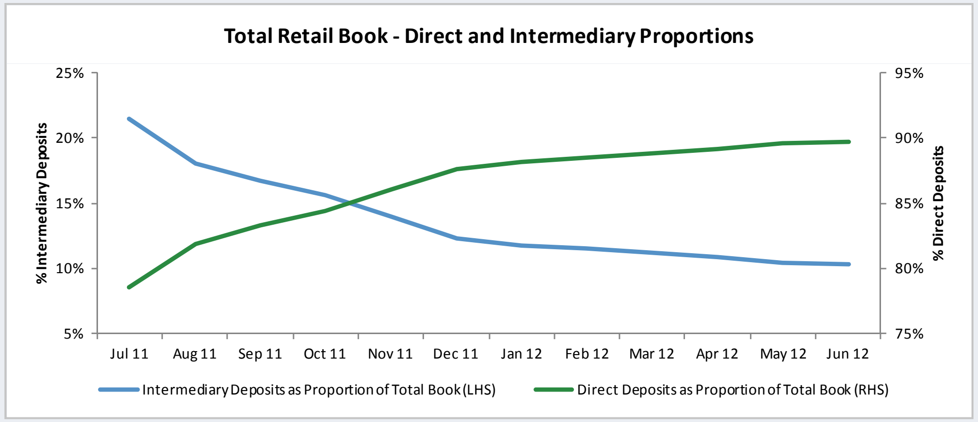
Solid Funding Base

- Stable and diverse funding base









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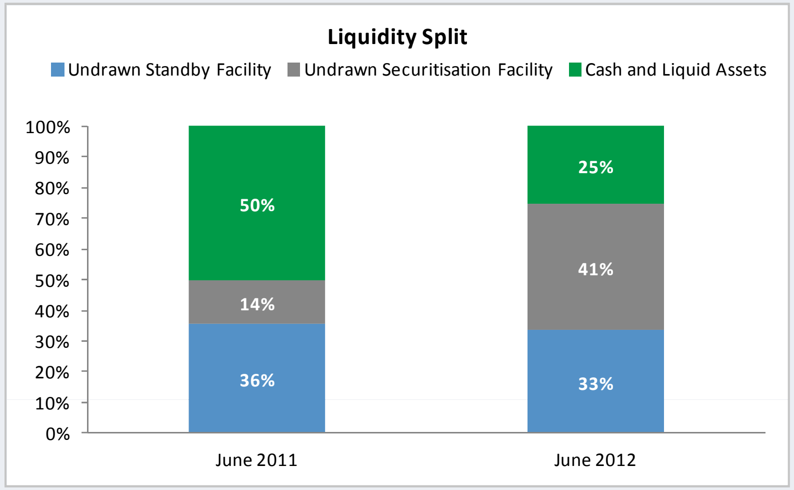
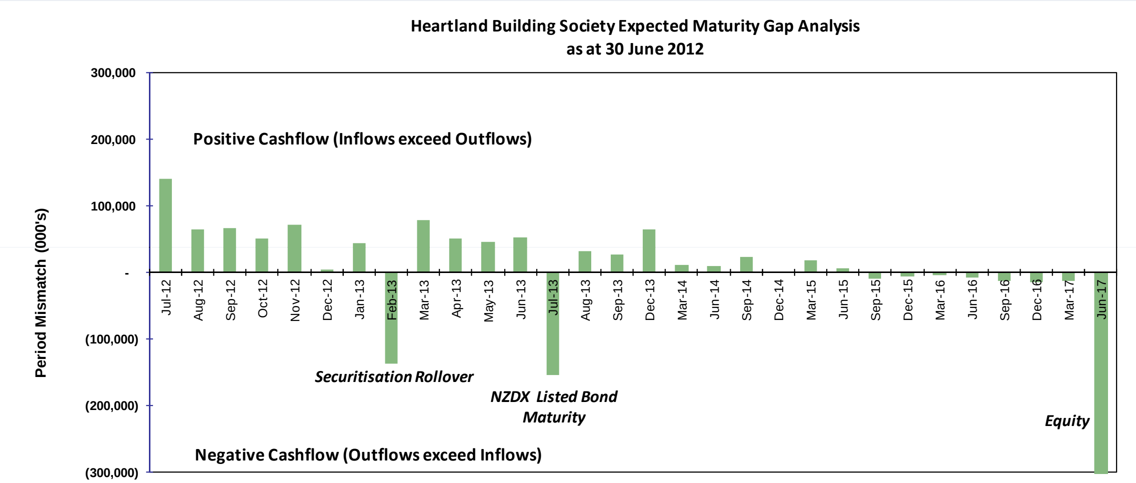
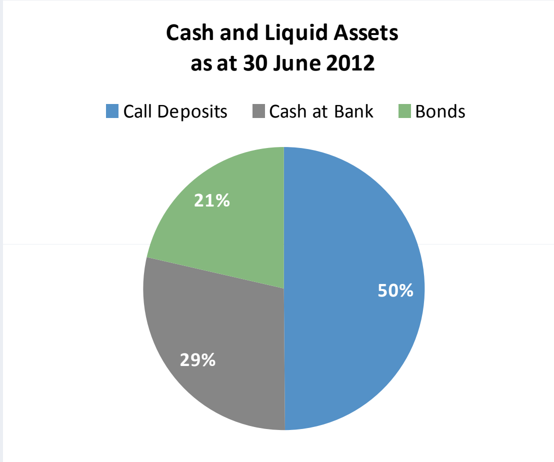
Liquidity

- Strong liquidity position

- Improving liquidity mix
- Strong positive cash flows from asset base
- Staggered maturity profile







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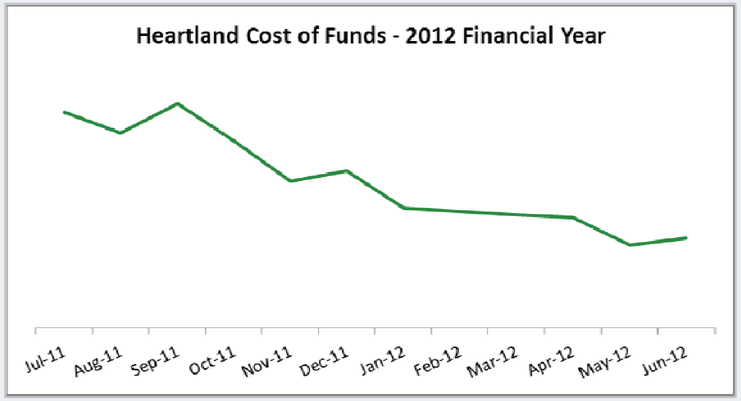
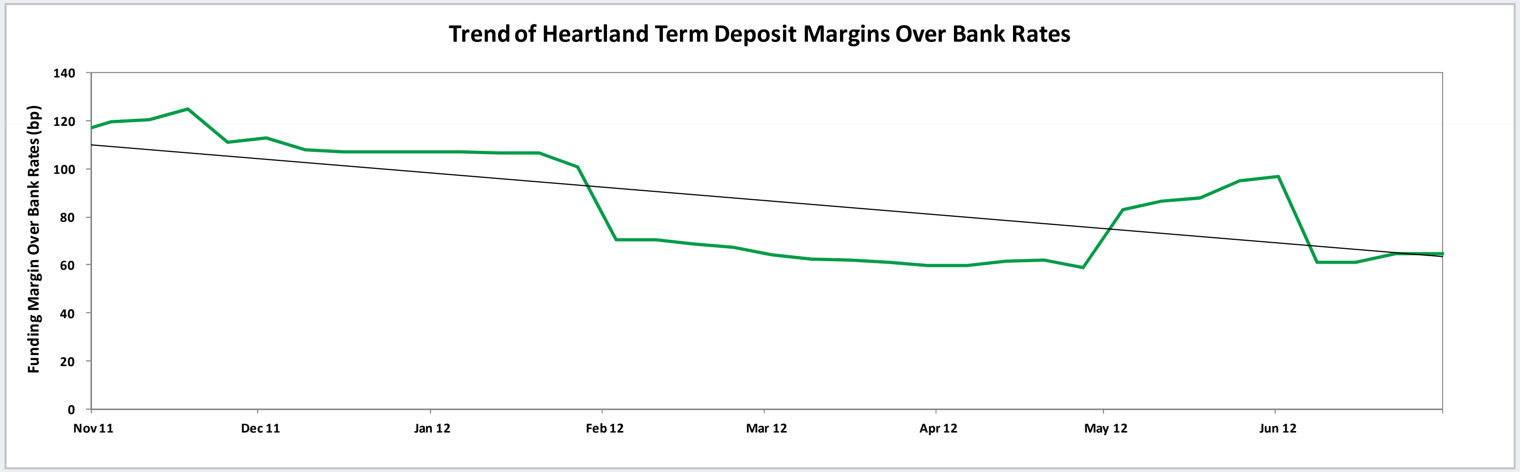
Cost of Funds

- Funding margin cut in half!

- Cost of funds continues to track lower
- New call and savings products with enhanced ‘banking’ functionality will continue to drive performance





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Investment Grade Credit Rating

In its research update, dated 6 December 2011, S&P stated *"…upward rating prospects… require evidence of:*

- *The successful progression of its bank license application,*
- *An improvement in its deposit reinvestment experience, and*
- *Evidence of its ability to compete with other New Zealand banks on factors other than price or underwriting standards."*

Since the release of this update:

- Bank registration application has been submitted;
- Heartland has consolidated its business position (in a deleveraging market), with evidence of asset growth in some markets - without competing on price or compromising credit standards; and
- Reinvestment rates are at historic highs and new fund flows are solid whilst Heartland has been lowering rates relative to the market.

Category	Heartland	TSB	Kiwibank	Co-operative Bank
SACP	BBB- (stable)	BBB+ (stable)	AA- (stable)	BBB- (positive)
Anchor	BBB+	BBB+	BBB+	BBB+
Business position	Weak (-2)	Moderate (-1)	Moderate (-1)	Weak (-2)
Capital and earnings	Very strong (2)	Very strong (2)	Strong (1)	Very strong (2)
Risk position	Moderate (-1)	Moderate (-1)	Moderate (-1)	Moderate (-1)
Funding and liquidity	Average & adequate (-1)	Average & strong (0)	Average & adequate (0)	Below average & adequate (-1)
Support	0	0	+5	0

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Operational Review & Strategic Update
Jeff Greenslade

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Operational Performance

- Balanced Portfolio

Heartland aims to have a balanced portfolio across the three key areas of the New Zealand economy:

- **Business**
- **Rural**
- **Retail & Consumer**

Business Division

Business at a glance	
Number of accounts	3,039
Total loans	$540m
Average size of loan	$178k

- Volume growth with margins preserved

- First full year of executing strategy
- Relationship based model financing the working capital requirements of middle market SME's
- Target business between $1m-$20m in turnover
- Overall a strong result with Net Receivables growth of $64m, +13.4%
- Increase the penetration of specialised, higher yield products
  - Invoice Finance
  - Business Overdrafts
- Maintain both risk standards and momentum

Rural Division

- Positioned for future growth

Rural at a glance	
Number of accounts	1,784
Total loans	$479m
Average size of loan	$268k

- PGG Wrightson Finance Limited acquired in August 2011 and now successfully integrated
- Net Receivables grew $403m to $479m at June 2012 due to acquisition
- Receivables flat outside of acquisition due to debt reduction in the sector
- Livestock financing grew by $35m to $60m
- New products and processes enhance our position as a leading financier of livestock
  - Livestock lease and livestock finishing finance
  - Distribution network close to point of sale of livestock
- Positioned for future growth with a slow down in run-off of the existing book and higher turnover in livestock financing in the year ahead

Retail & Consumer Division

- Meeting the needs of middle NZ

Retail & Consumer at a glance	
Number of accounts	45,681
Total loans	$955m
Average size of loan	$21k

Retail and Consumer books managed as one division – customers similar (working middle income)

Retail

- Strong and loyal retail depositor base maintained
- Rebranding branches as Heartland positively received
- Focus on expanding the network into new communities
- Mortgage book reduced ($68m) – rate and risk profile makes it unattractive

Consumer

- Growth in Consumer of $21m achieved in soft markets, mitigating competitive mortgage rate environment
- Impairments remain low while interest margins maintained
- Improving market conditions will underpin growth in 2012 – 2013

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Non-Core: Property

- Good progress being made

Property	30 June 2012	30 June 2011
Net receivables	$105m	$153m
Investment Property	$56m	$34m
Total Property	**$161m**	**$187m**

Property

- **Portfolio segregated and running off**
- **Portfolio reduced by $48m at June 2012 compared to June 2011**
- **Real Estate Credit Limited* (RECL) manages this under a management agreement, now regarded as fully utilised as at 30 June 2012 – the future value of expected claims has reached the $30m limit**
- **Investment properties were acquired as a result of enforcement to improve security position**
- **Market remains difficult, assets to be realised over time**

*Real Estate Credit Limited (RECL) is a subsidiary of Pyne Gould Corporation Limited and manages the MARAC Non-Core Property loan assets which have the benefit of the RECL management contract, now regarded as fully utilised.

Strategic Update

1. Assessment of Strategy Execution
2. Bank Registration
3. Guidance

Assessment of Strategy

The aim is to run a complementary and parallel strategy in each segment:

- A RELATIONSHIP driven offering based on customer service for Depositors, and Business and Rural segments
- Extending REACH of “Hero” products where Heartland aims to be best in category:
  - Motor Vehicles
  - Stock Finance
  - Invoice Finance
  - Asset Finance
  - Insurance
  - Deposits

High Margin, Same Risk, External Channels

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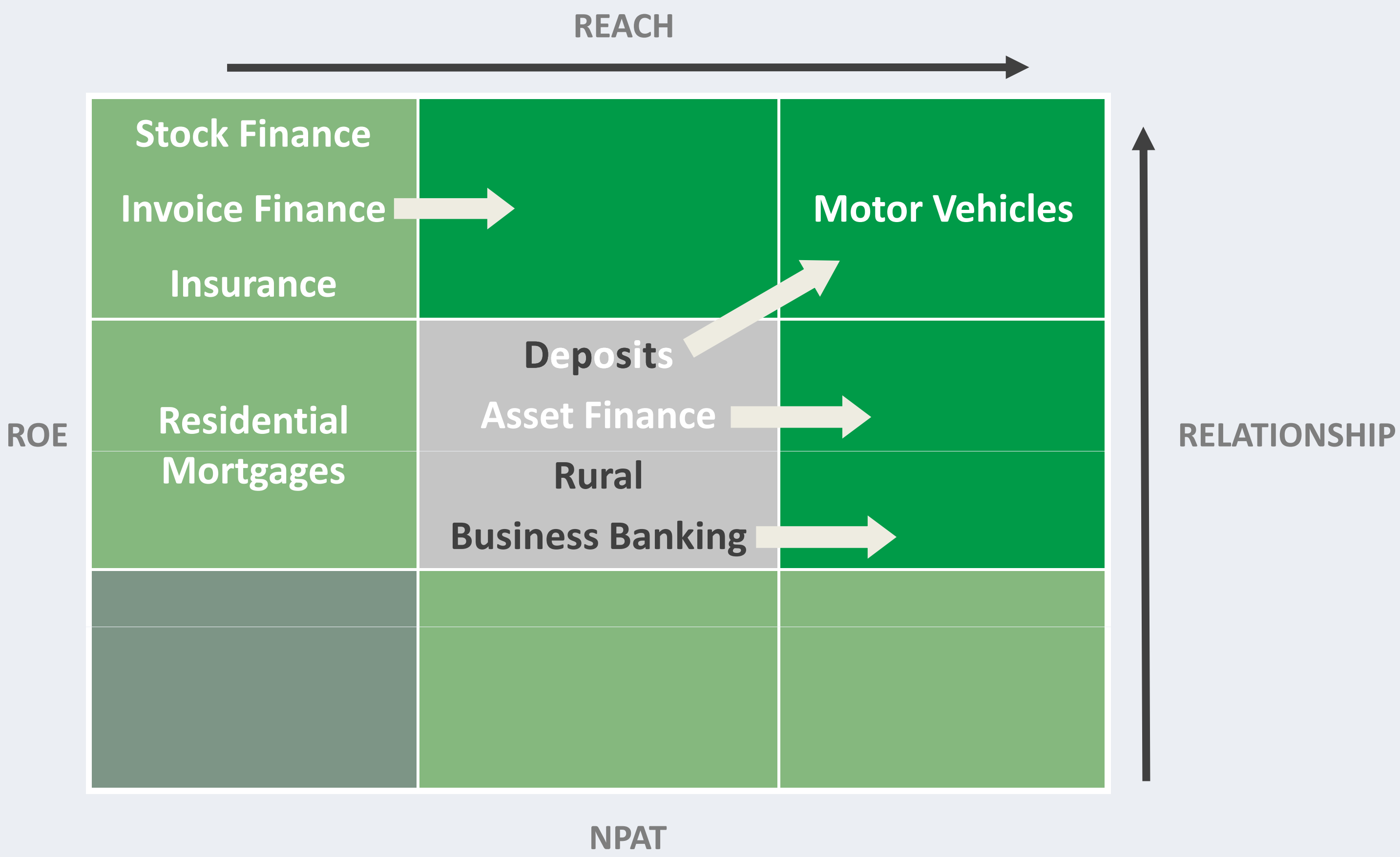
Assessment of Offerings



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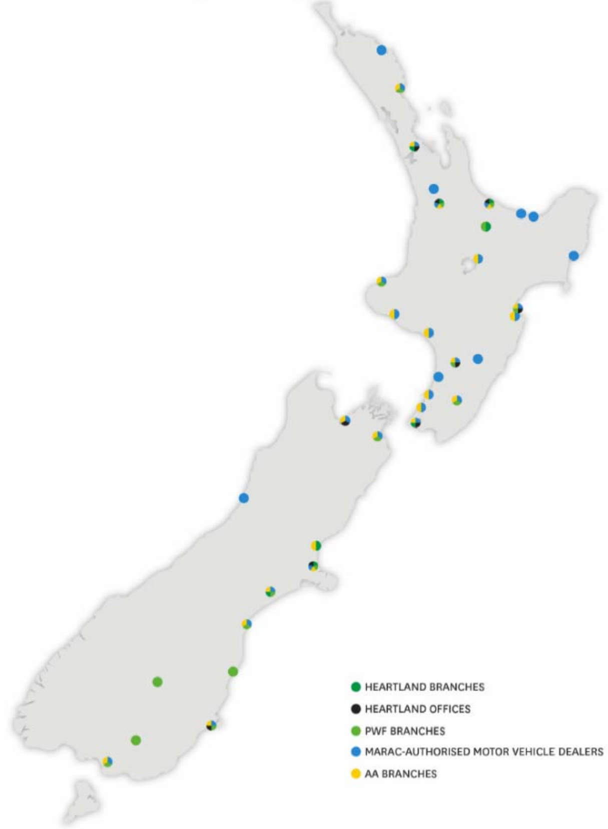
Distribution Assessment

REACH – getting to more people

- Heartland has scalable distribution via branches, offices and strategic partners
- Expansion of Heartland branded distribution is planned
- Strategic partners are aligned to target markets or existing customer groups, ensuring relevance and higher conversation ratios
- Intermediation enables Heartland to be at or near point of sale and leverages partners distribution networks

Branches of the Heartland Group, PWF, MARAC-Authorised Motor Vehicle Dealers and AA (as at June 2012)



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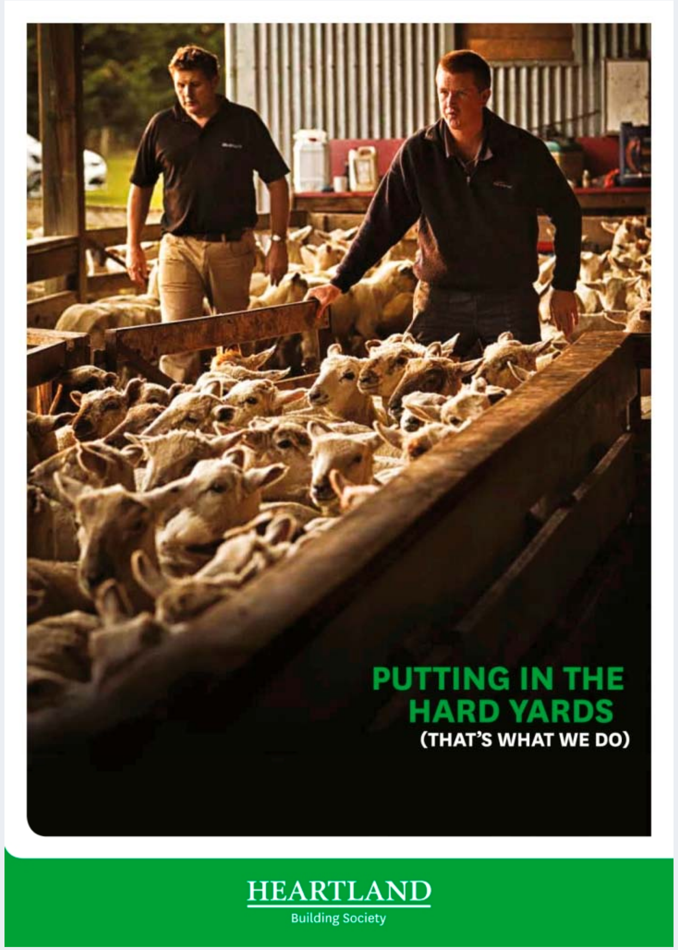
Relationship Assessment

- Business Banking growth momentum continuing and more products coming on stream
- Deposits are performing well
- Rural will be area of focus



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Systems and Service

Systems Architecture	• De-risk, integrate and stabilise post merger • Target layered architecture built on industry standards
Processing Efficiency	• One processing platform • Operations centralised based on functional split across Auckland and Canterbury • Implemented Electronic Document Management, next phase Workflow
Making it Simple and Easy	• One common product set • Electronic Document Management and Workflow • Invest in Internet Banking

Adapt to Low Credit Growth Environment

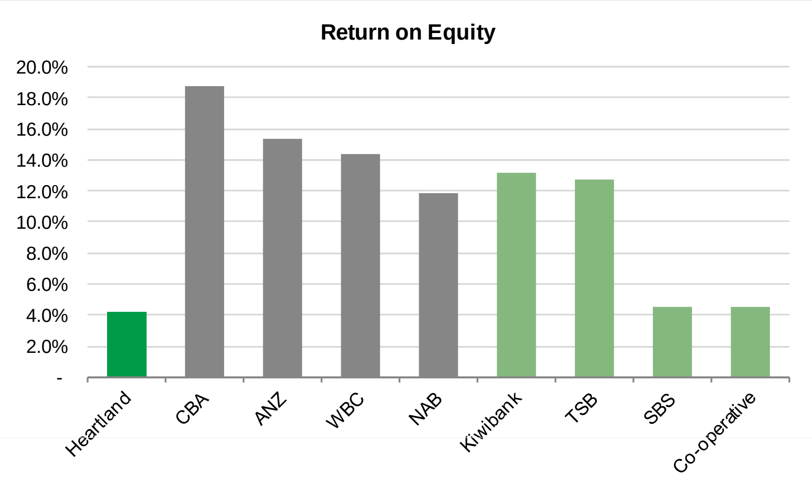
1. Be clear what we are good at and REPEAT IT
2. Be clear what we are not good at and AVOID or OUTSOURCE
3. Utilise existing capacity to extend REACH and increase RELATIONSHIP VALUE
4. Position Heartland to benefit from SWITCHING
5. Minimise FIXED COSTS

Bank Registration

- The application process continues to be progressed.
- Certain necessary intermediate steps (including the provision of certain independent reports, and the formal written application, to the RBNZ) have been completed.
- RBNZ has confirmed that the formal determination process has now begun.
- The suitability of HBS for registered bank status (taking into account all relevant factors as a whole) will only be considered by the RBNZ at the end of the process, and a decision then made.
- The RBNZ has advised that the formal determination process is currently proceeding at the "normal" pace. Heartland expects that a decision will be available by a date in November of this year.

Guidance

- Guidance will be provided at the AGM in early November
- Current trends are indicative of outlook
  - NOI second half 2012 financial year $50.0m
  - Cost to income ratio second half 2012 financial year 60%
  - Impaired asset investment property write downs higher as no protection from Non-Core Property loans
  - Uplift in NOI (reduced cost of funds) expected if bank registration is achieved



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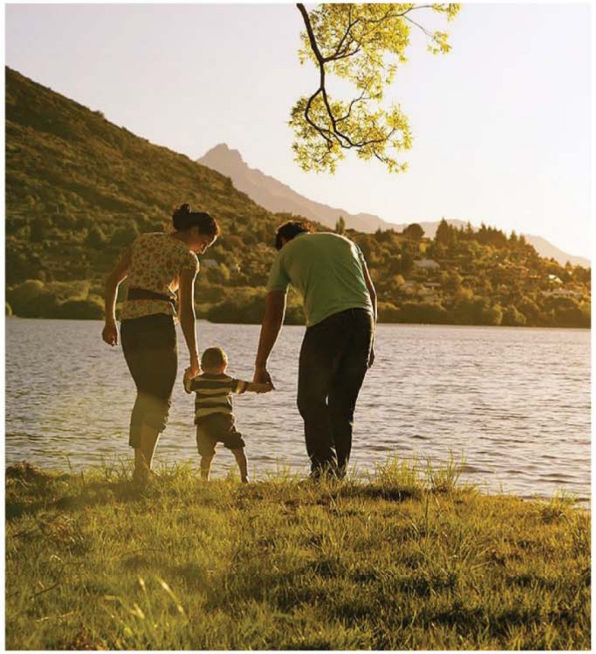
Questions



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