

HEARTLAND

New Zealand Limited

Full Year Results to 30 June 2013



Jeff Greenslade

Simon Owen

HEARTLAND
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.

Heartland Bank Limited is the principal operating subsidiary of HNZ.

Agenda

- Introduction **Jeff Greenslade**
- Financial overview **Simon Owen**
- Looking forward **Jeff Greenslade**
- Questions

Introduction

Achievements

1. Bank registration
2. Dividend policy set, interim dividend paid
3. Final dividend announced
4. Investment grade credit rating affirmed
5. Implementation of new strategy for non-core property
6. RECL agreement terminated
7. Board strengthened

Key Priorities

1. Focus shift to drive financial performance
2. Strengthen market position through product strategy
3. Realisation of non-core property assets

Financial Overview

Simon Owen



Financial Year Overview

14% increase in Net Interest Margin

- Achieved NPAT of \$6.9m
- Prior year included one-off tax credits of \$9.6m
- NPBT \$9.4m vs \$20.4m
- Non-Core Property one offs \$24.3m
- Adjusted NPBT^ \$33.7m v \$20.4m
- Impairments higher due to Non-Core Property

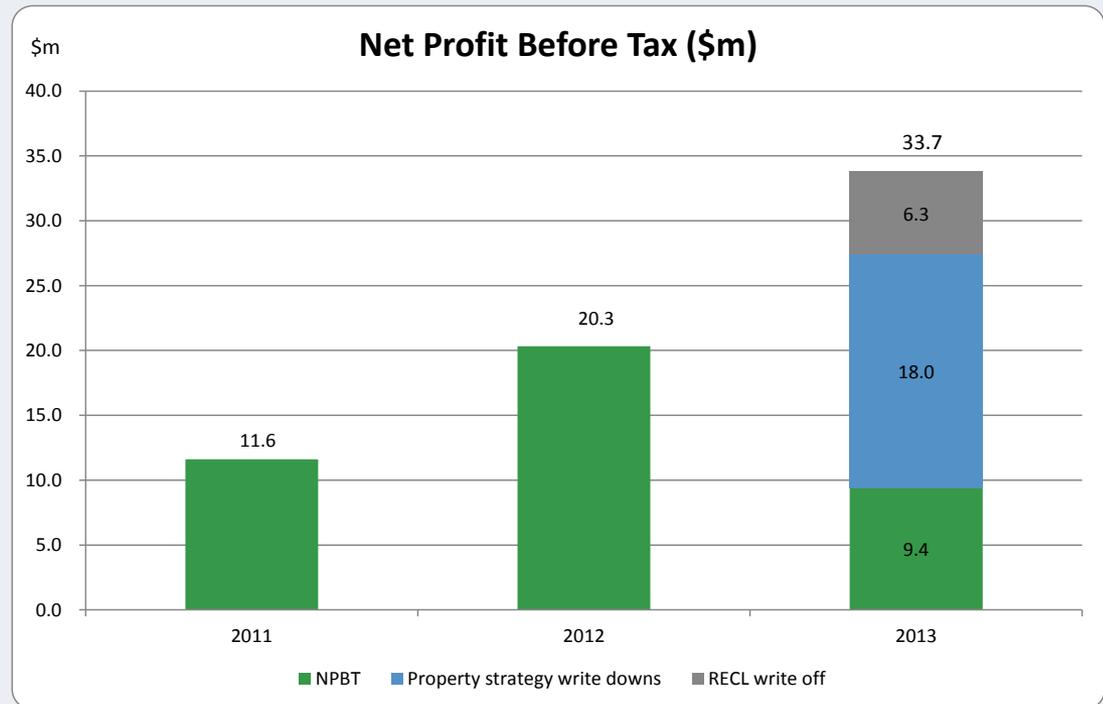
	12 months to Jun 2012 (NZ\$m)	12 months to Jun 2013 (NZ\$m)
Net interest income	83.6	95.5
Net other income	11.8	11.8
Net operating income *	95.4	107.3
Expenses	65.5	70.3
Profit before impairments and tax	29.9	37.0
Impaired asset expense	5.6	22.5
Decrease in fair value of investment properties	3.9	5.1
Net profit before tax	20.4	9.4
Tax	(3.3)	2.5
Net profit after tax (reported)	23.7	6.9
* Net operating income includes share of MARAC Insurance profit		

^ Adjusted NPBT is calculated by adding back the one off expenses incurred as a result of the change in property strategy

Net Profit Before Tax

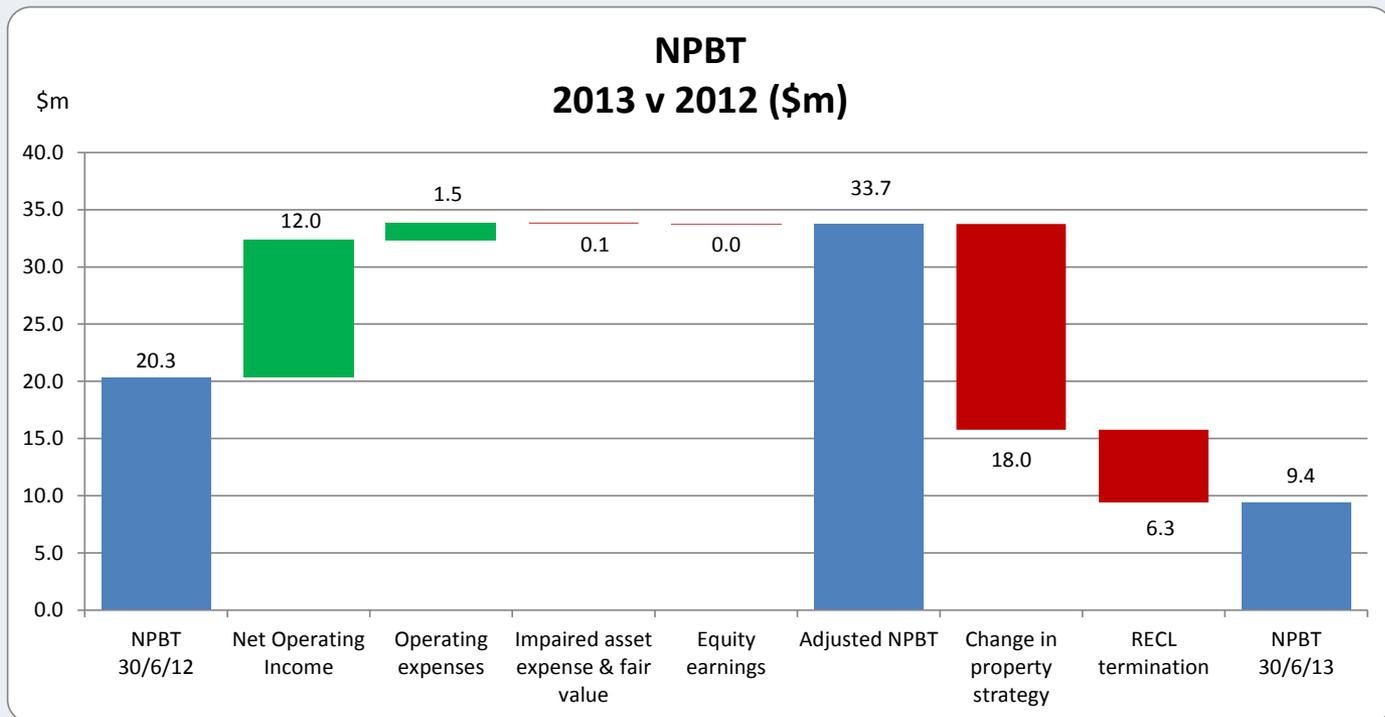
Adjusted NPBT shows continued improvement

- NPBT fall year on year
- Adjustment for one off Non-Core Property for like on like
- Interest margin big driver in growth
- Expect continued growth in NPBT trajectory in 2014



Net Profit Before Tax - Bridge

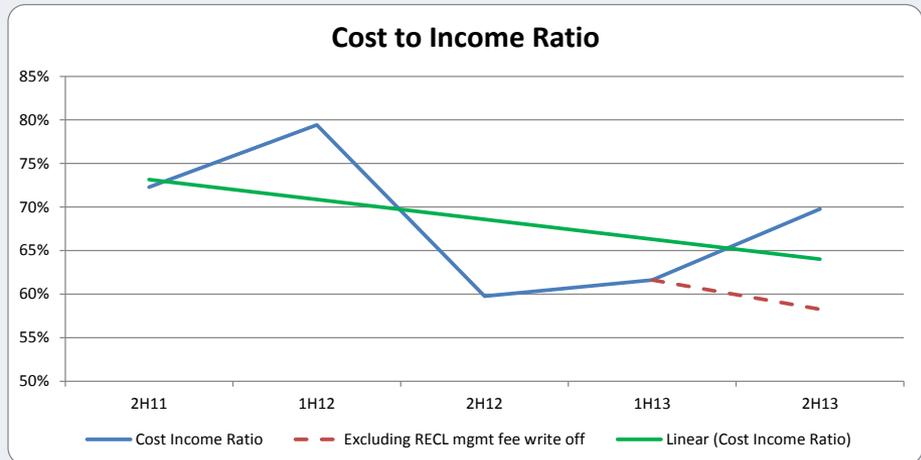
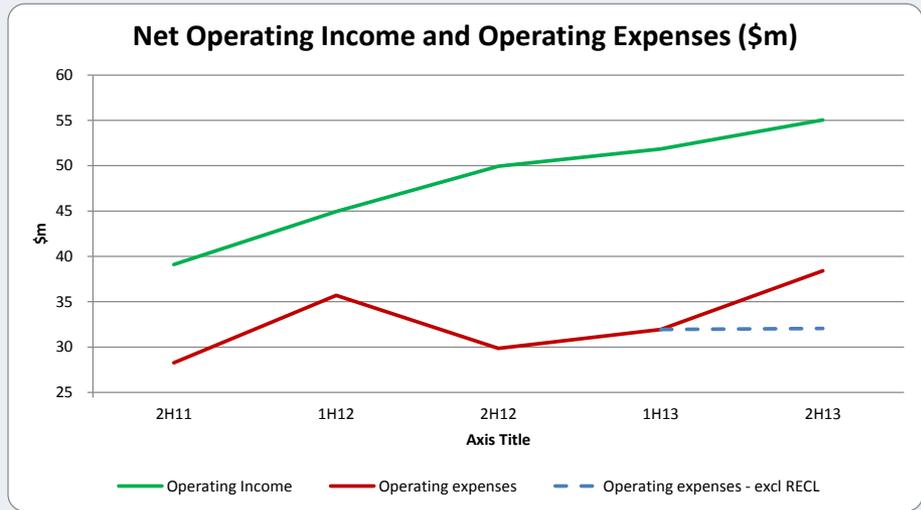
Breakdown of component parts



Operational Efficiency

We remain on track

- Some variability due to integration, bank registration and expense timing
- Track shows right direction
- Increase in costs due to RECL termination of \$6.3m
- Adjusted costs shows fall in costs of \$1.5m and cost to income ratio of 60%
- Expect ratio to lower as NOI continues to grow

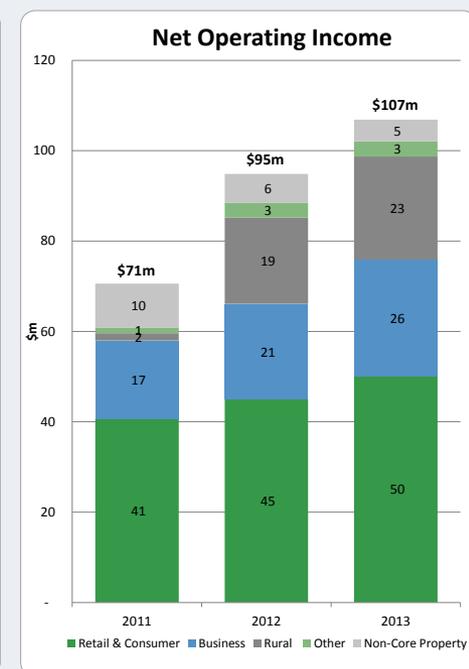
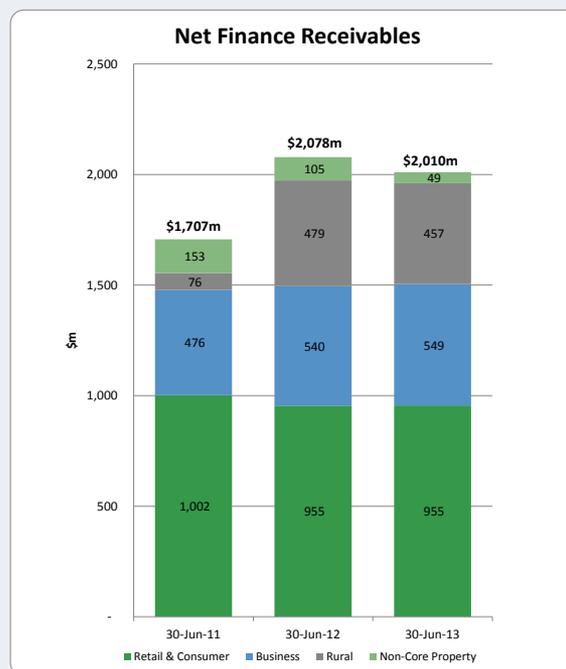


Balance Sheet Summary

Core receivables growing

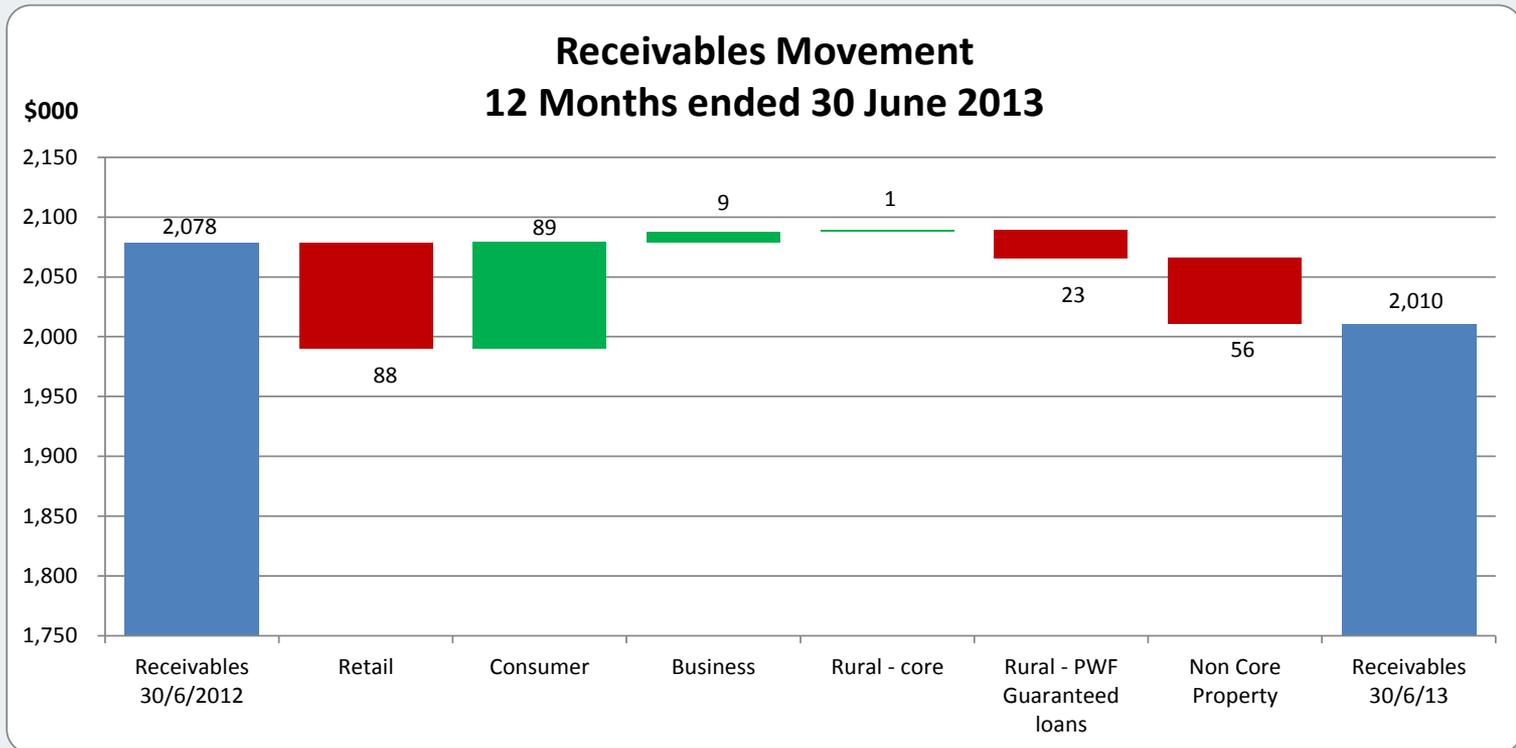
- Total assets up as more liquid assets held
- Net finance receivables fell by \$68m
- Core divisions net receivables up \$76m pa
- NTA reduced to \$0.85 per share

	30 Jun 2012 (NZ\$m)	30 Jun 2013 (NZ\$m)
Total assets	2,348.1	2,504.6
Total liabilities	1,973.3	2,134.1
Total equity	374.8	370.5
Equity ratio	16.0%	14.8%
Net tangible assets	343.7	331.2
NTA per share	\$ 0.88	\$ 0.85



Net Finance Receivables - Bridge

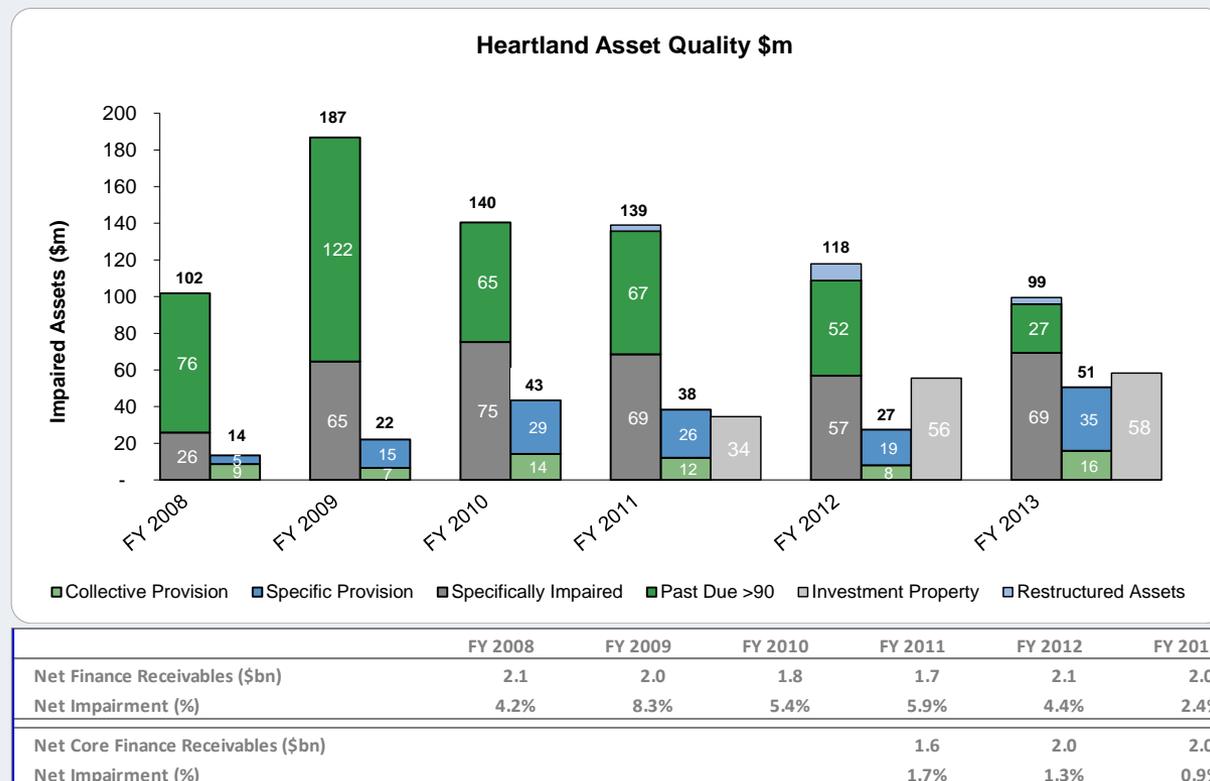
Improving portfolio mix



Asset Quality Trends

Trend improvement in underlying asset quality

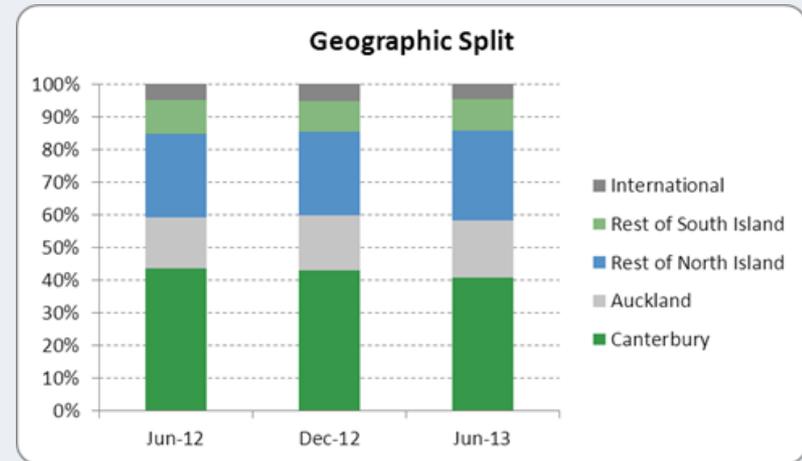
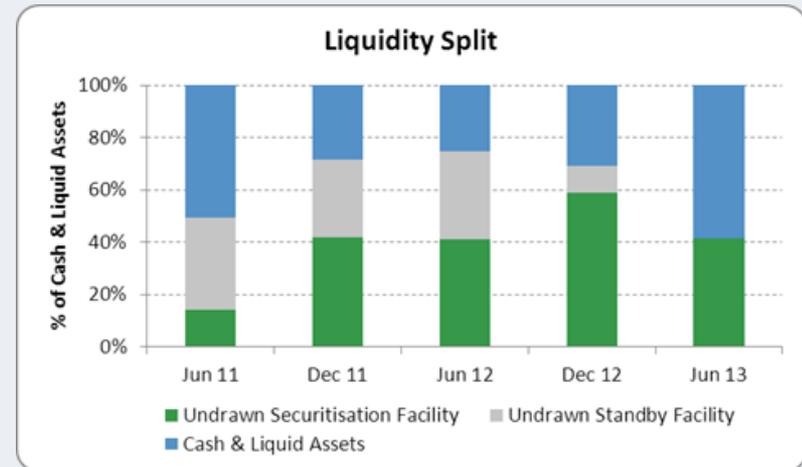
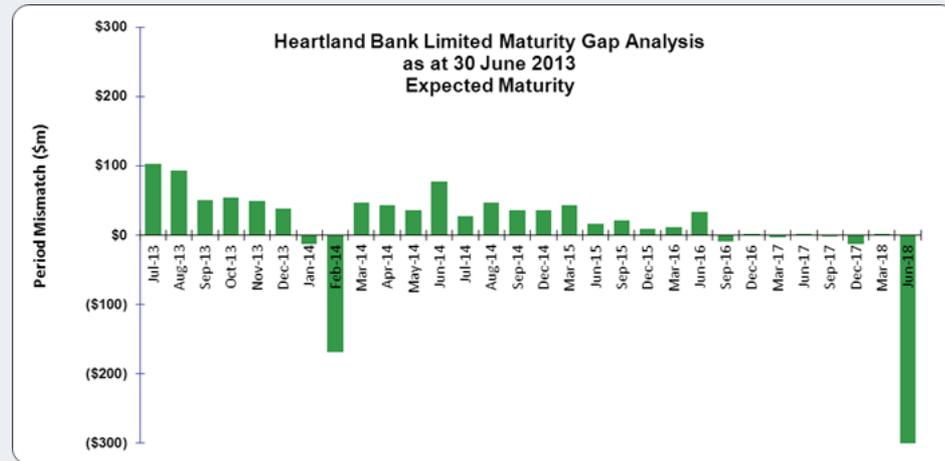
- Asset quality improving overall
- Non-Core Property remains driver of elevated impairment levels
- Profit affected by changes in strategy
- Core business impairment is very low



Funding & Liquidity

Strong liquidity position

- Improving liquidity mix
- Strong positive cash flows from asset base
- Staggered maturity profile – no concentrations

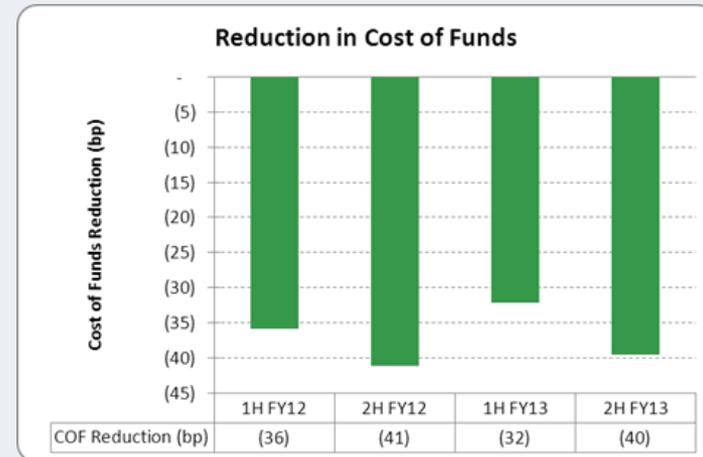
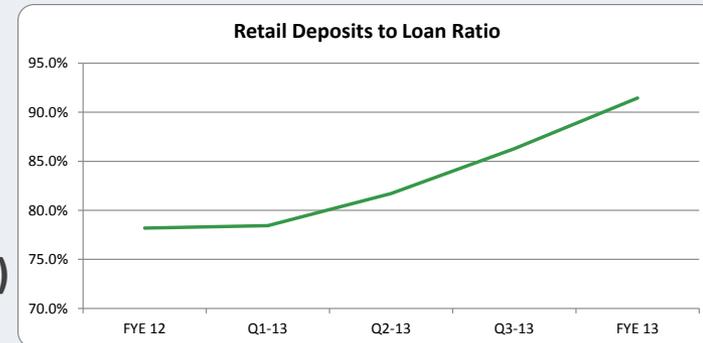
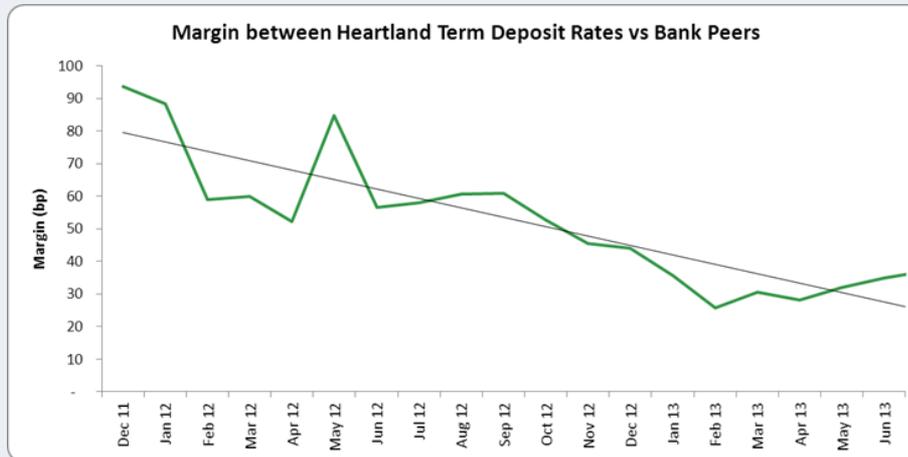


Cost of Funds

Cost of funds continue to track lower

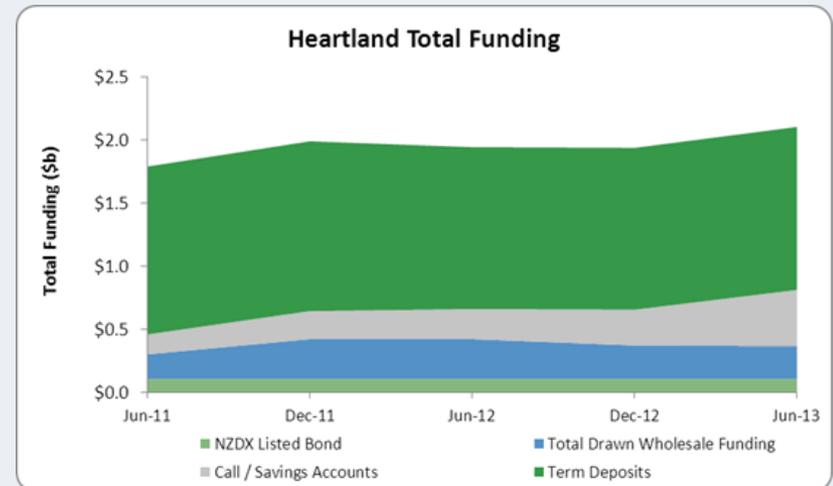
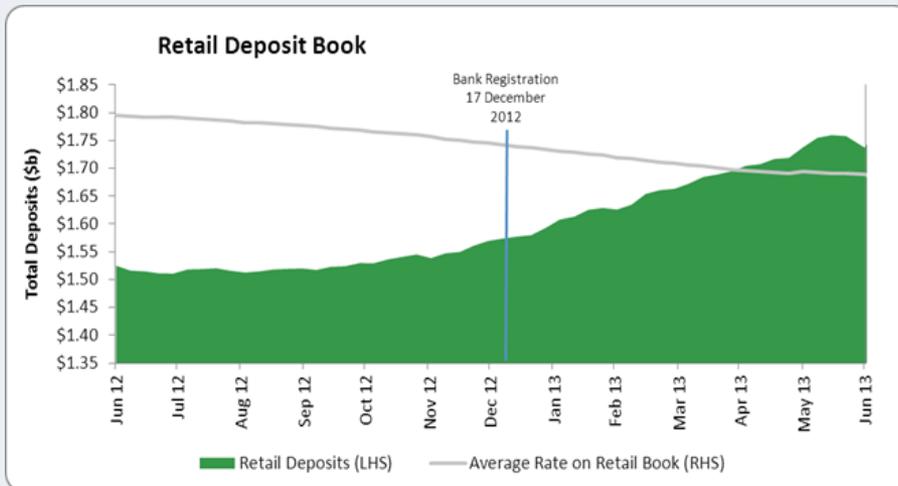
Solid retail deposit growth and lower cost of funds driven by:

- Lower wholesale curve
- Rate alignment with Bank peers
- Changing funding mix (increased retail, reduced wholesale)
- Partially offset by increased cost of holding liquid assets



Cost of Funds

Cost of funds continue to track lower



Looking Forward

Jeff Greenslade



Demonstrating Our Difference

Focusing firmly on the future

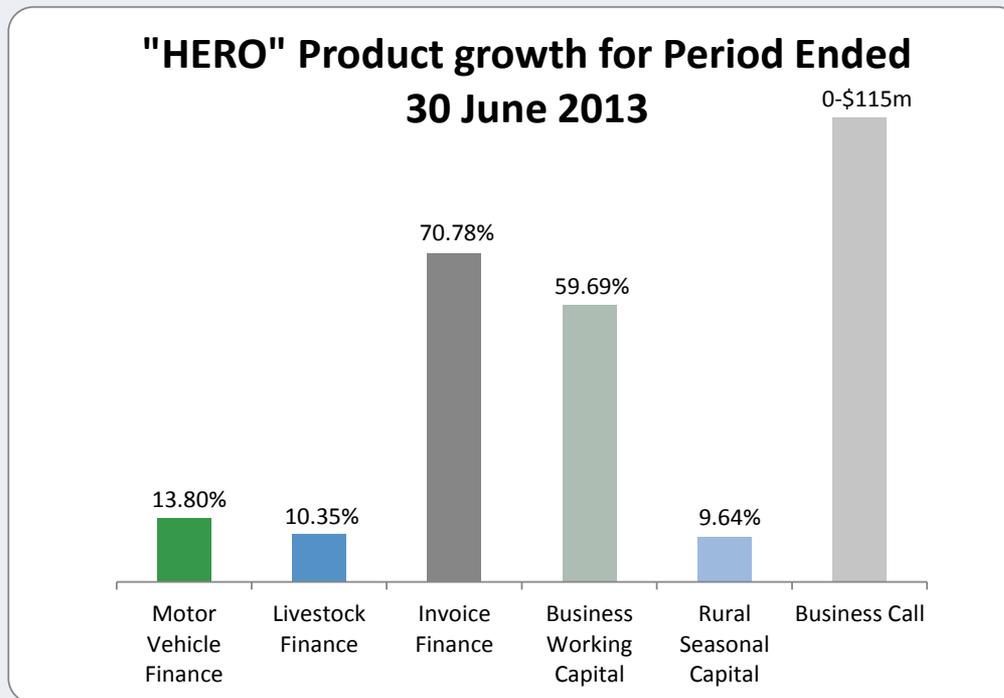
We want to be known as New Zealand's specialist bank.

We are dedicated to the drivers of prosperity and productivity: Household, Farming and Business Sectors. Our size, agility and ability give us the flexibility and speed to identify niche areas of these market segments which we can dominate. Our pathway to attaining a dominant position in these niche areas is through superior products.

This fresh approach is working. For the period ending 30 June 2013, our niche, or 'HERO' products have grown both as share of NPAT and Assets.

“HERO” Product Growth

Our strong bias is towards the productive sector and the development of a range of products that support essential needs of productive New Zealanders.

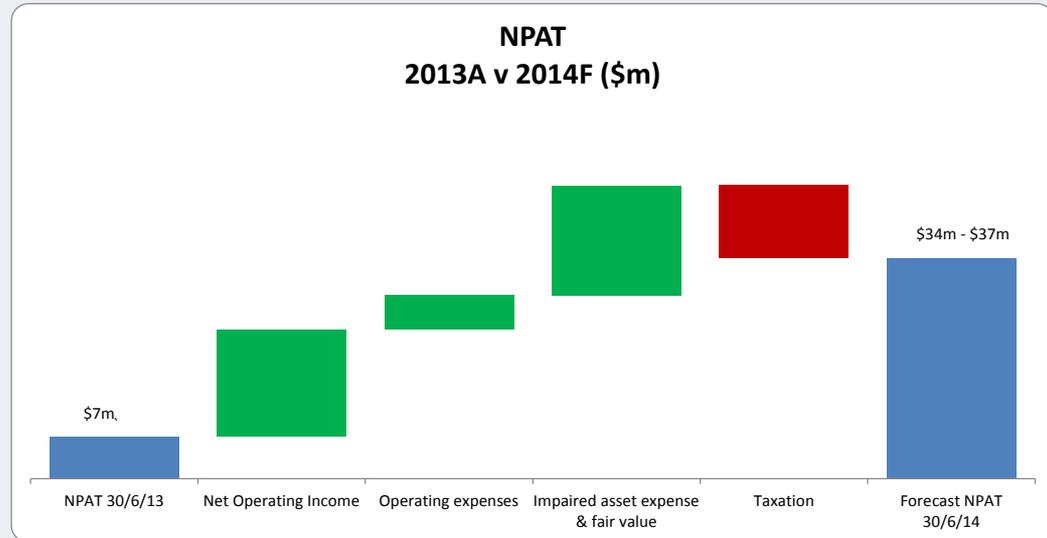


Operational Performance

The pathway from FY13 to FY14

Key Drivers:

- Cost of Funds – ongoing trend
- Product Mix – improving
- Lending Volume – challenging
- Costs – final phase of synergies
- Impairments – “normalisation”



Non-Core Property Strategy

Realisation strategy on track

- The Non-Core Property portfolio has been split into three buckets:
 - *Performing*: loans or assets that are performing and will continue to be held
 - *Acceleration*: loans and assets to be exited within a 12-18 month timeline
 - *Extend*: loans that will be converted over time to real estate, improved or positioned better for sale, and exited over a five year period
- The portfolio has a book value of \$107m as at 30 June 2013
- The majority of assets in the portfolio will be exited over by 31 December 2014



Graphic is not to scale | *As at 30 June 2013

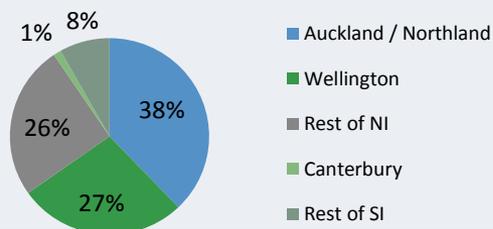
Realisation of Non-Core Property

Good progress being made

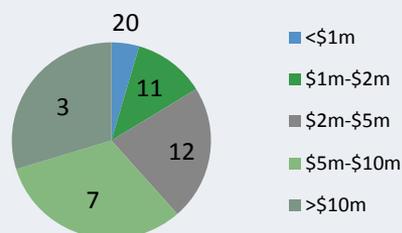
- Portfolio segregated and running off
- Portfolio reduced by \$53m at June 2013 compared to June 2012
- Investment properties were acquired as a result of enforcement to improve security position
- Market is improving, assets to be realised over time

Property	30 June 2011	30 June 2012	30 June 2013	July 2014
Net receivables	\$153m	\$105m	\$49m	
Investment Property	\$34m	\$55m	\$58m	
Total Property	\$187m	\$160m	\$107m	~7% reduction

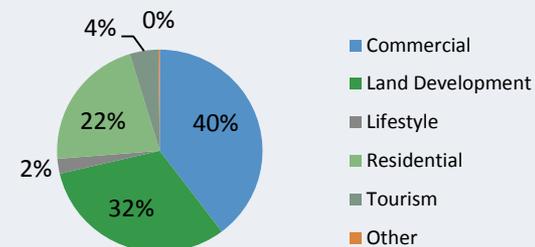
Geography



Loan Size Distribution



Asset Use



Supporting Local

The pathway from FY13 to FY14

We are a bank that engages locally and supports the communities in which we operate.



Through the Heartland Trust, we proudly sponsor a wide variety of groups and organisations that fulfil a valuable role within the areas in which they operate - just like Heartland.

Other Matters

- 1. Changes to Board composition
- 2. Final dividend



Governance

Separation of boards – 27 August 2013

HNZ

Geoff Ricketts (Chair)

Graham Kennedy

Jeff Greenslade (CEO)

Gary Leech

Chris Mace

Greg Tomlinson

HBL

Bruce Irvine (Chair)

Geoff Ricketts

Graham Kennedy

Jeff Greenslade (CEO)

Nicola Greer

John Harvey

Michael Jonas (Executive Director)

Richard Wilks

Dividend

2.5c per share final dividend

Heartland will determine dividends (both interim and final) based on its net profit after tax, subject to maintaining a prudent level of capital for its needs. Heartland's capital needs will vary from time to time, depending on a range of factors (including regulatory and credit rating requirements, general economic conditions, current and expected growth and the mix of the business). A key objective is to ensure an appropriate balance between maximising shareholder returns, and protecting the interests of depositors through prudent capital management.

Special	1.5c
Interim	2.0c
Final	2.5c
TOTAL	6.0c

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Questions

