

# HEARTLAND

New Zealand Limited

## Half Year Results to 31 December 2012



Jeff Greenslade

Simon Owen

Craig Stephen

**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 / Craig Stephen**
- Looking forward **Jeff Greenslade**
- Questions

# Introduction

## Achievements

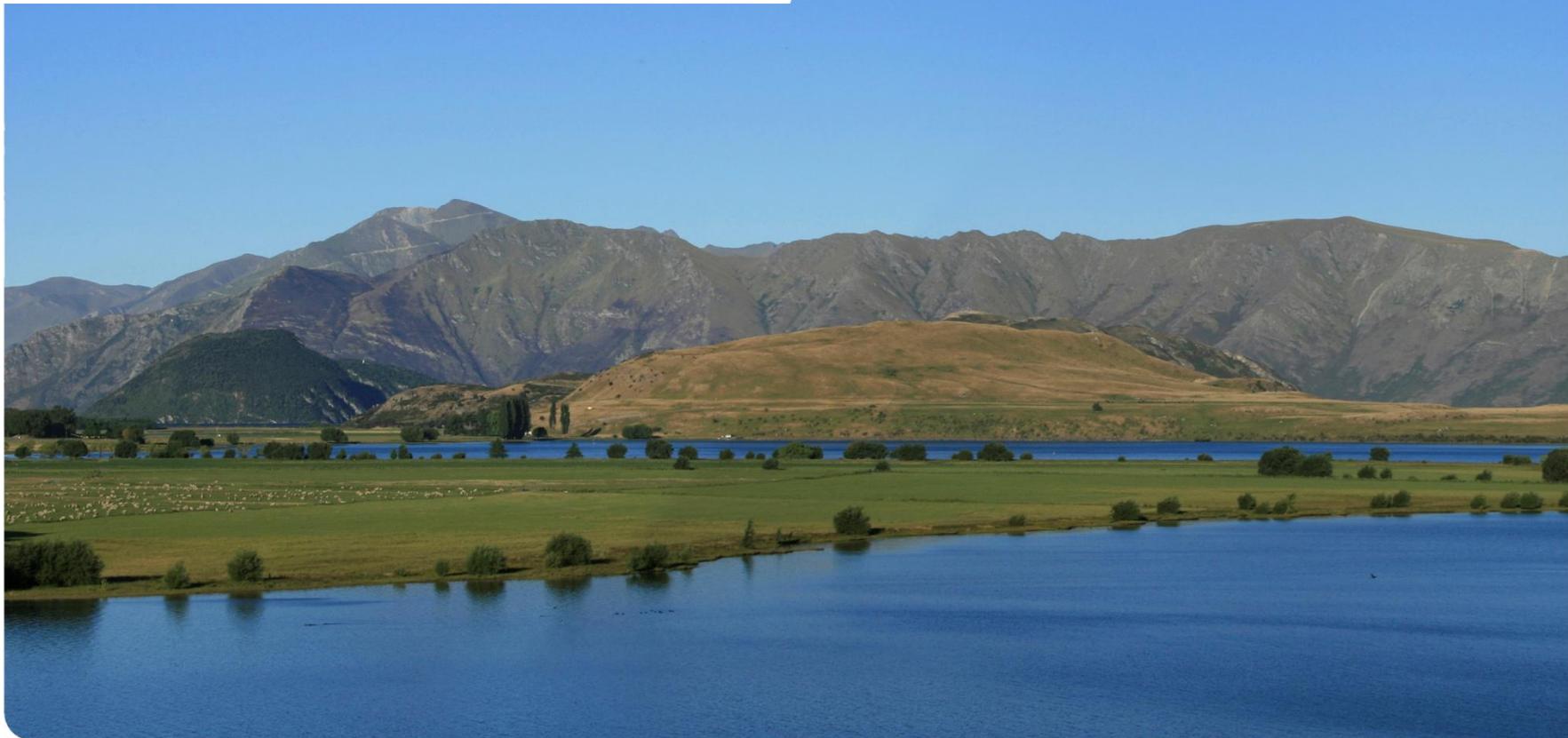
1. Bank registration
2. Dividend policy set, special dividend paid
3. Interim dividend announced
4. Investment grade credit rating affirmed and outlook to stable

## Key Priorities

1. Focus shift to drive financial performance
2. Cost of funds reduction underway
3. Balance sheet, operating efficiencies and product strategy
4. Non-core property review and Board composition

# Financial Overview

Simon Owen / Craig Stephen



# Financial Half Year Overview

## Big increase in NPBT

- Achieved NPAT of \$10.7m
- Prior half included one-off tax credits of \$6.2m
- NPBT \$14.9m vs \$5.6m
- Key value drivers are:
  - Net interest margin
  - Operating expenses ratio
- Impairments higher due to non-core property

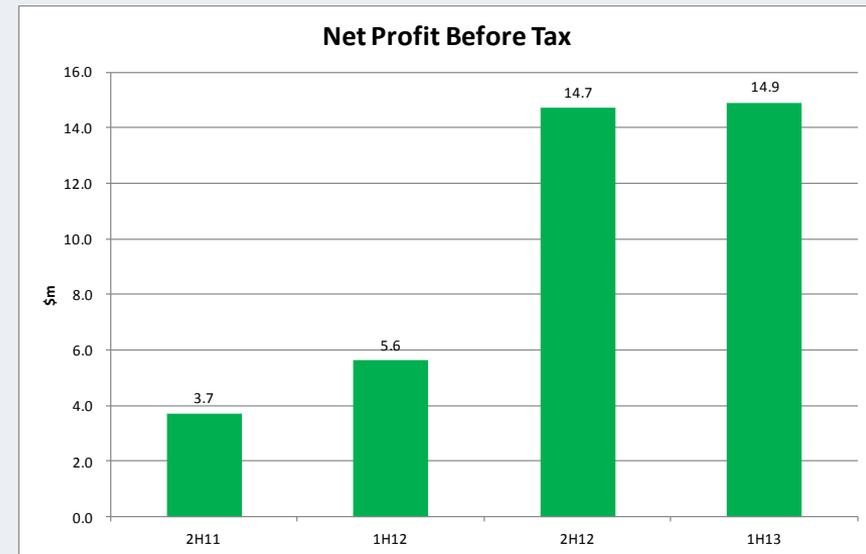
	6 months to Dec 2012 (NZ\$m)	6 months to Dec 2011 (NZ\$m)	12 months to Jun 2012 (NZ\$m)
Net interest income	46.8	39.1	83.6
Net other income	5.3	6.0	11.8
<b>Net operating income *</b>	<b>52.1</b>	<b>45.1</b>	<b>95.4</b>
Expenses	31.9	35.7	65.6
<b>Profit before impairments and tax</b>	<b>20.2</b>	<b>9.4</b>	<b>29.8</b>
Impaired asset expense	5.3	3.8	5.6
Decrease in fair value of investment properties	-	-	3.9
<b>Net profit before tax</b>	<b>14.9</b>	<b>5.6</b>	<b>20.3</b>
Tax	4.2	(4.2)	(3.3)
<b>Net profit after tax (reported)</b>	<b>10.7</b>	<b>9.8</b>	<b>23.6</b>

\* Net operating income includes share of MARAC Insurance profit

# Net Profit Before Tax

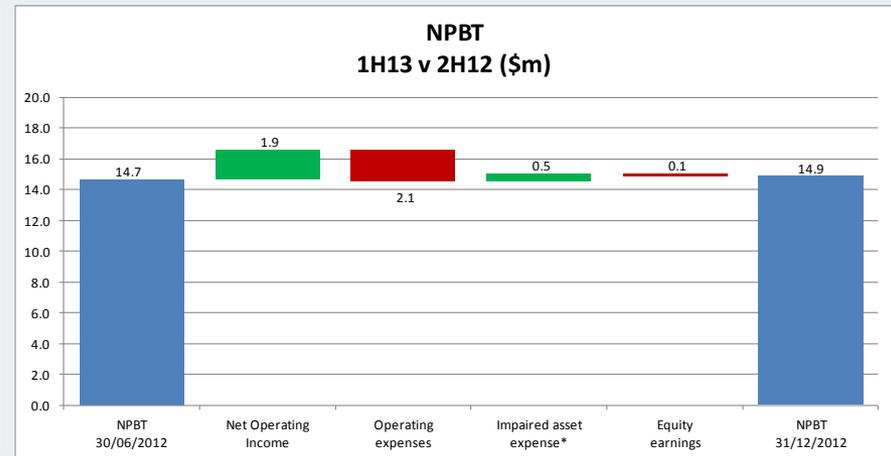
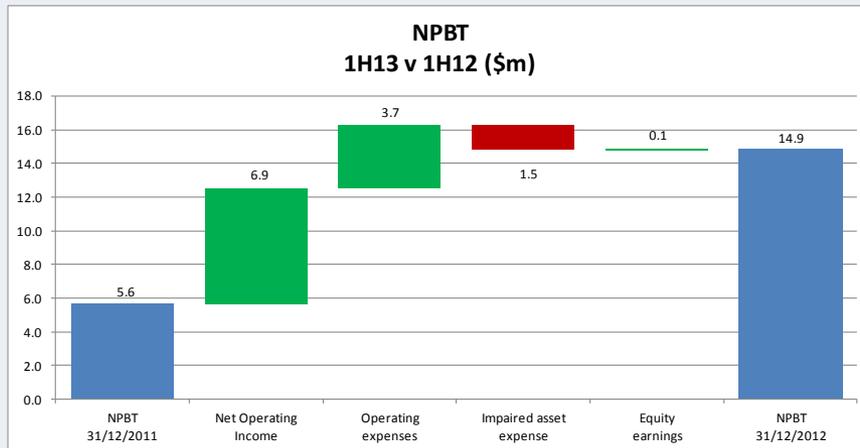
## Trend improvement in NPBT continues

- NPBT improving half on half
- Profitability growth rate slowed in the half year ended 31 Dec 2012 (1H13)
- Higher growth in half year ended 30 June 2012 (2H12) due to less liquidity held and lower funding margins post Crown guarantee
- Growth rate in 1H13 lower due to higher bank - related professional fees, system integration costs and expense “lumpiness”
- Expect NPBT growth to uplift in 2H13 – mid range forecast 2H13 \$16.5m



# Net Profit Before Tax - Bridge

## Breakdown of component parts

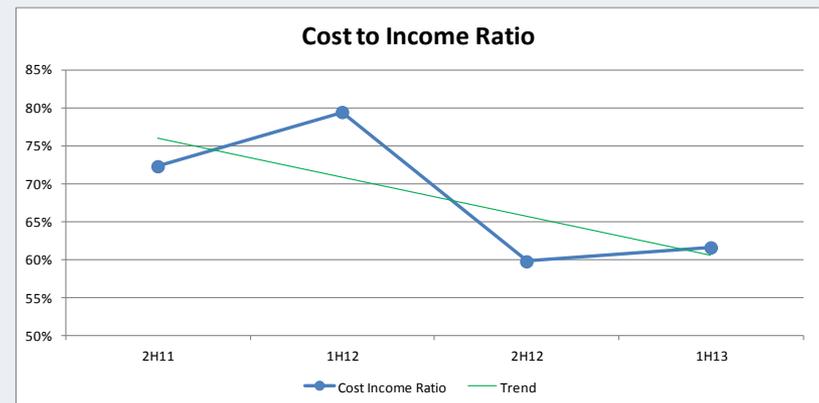
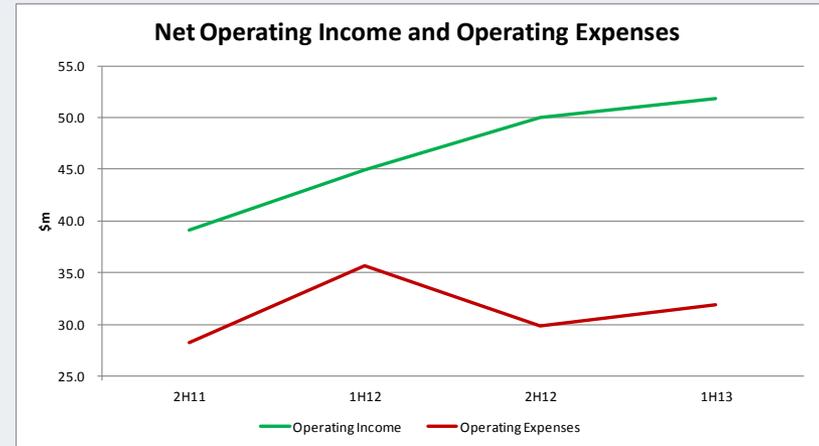


\* Includes investment property fair value adjustments

# Operational Efficiency

## We are on track

- On track – cost to income trend line shows steady improvement
- Some wobbles due to integration, bank registration and expense timing
- Cost project to further reduce nominal costs in 2014 financial year

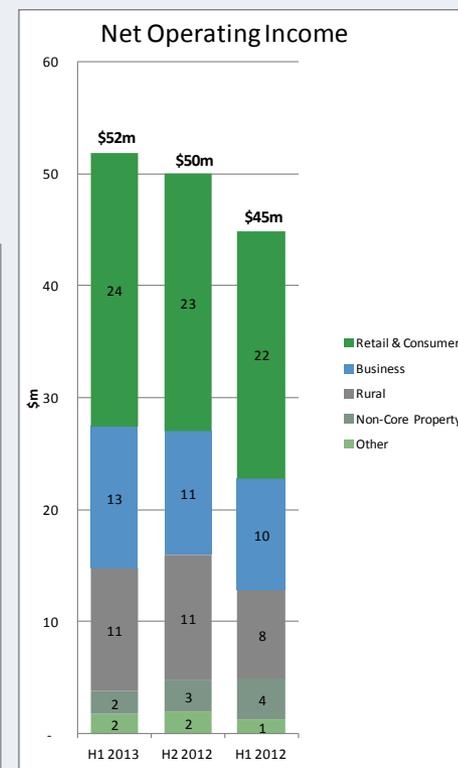
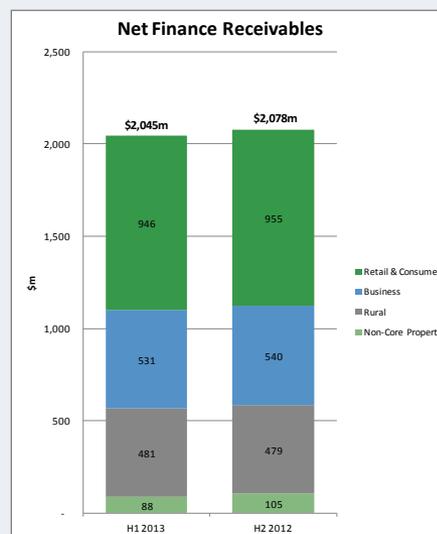


# Balance Sheet Summary

## Strong balance sheet

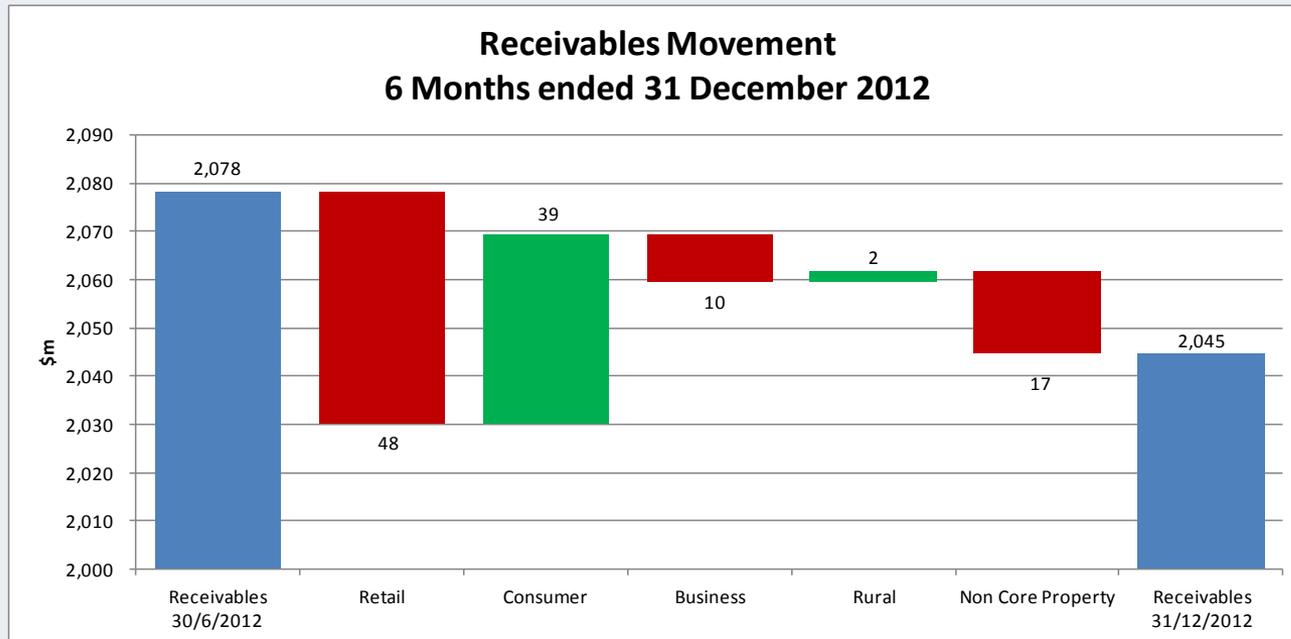
- Total assets stable
- Net finance receivables fell by \$33m
- NTA increased to \$0.90 per share
- Core divisions net receivables up 2.8%pa

	31 Dec 2012 (NZ\$m)	30 Jun 2012 (NZ\$m)	31 Dec 2011 (NZ\$m)
Total assets	2,350.1	2,348.1	2,380.5
Total liabilities	1,969.0	1,973.3	2,020.3
<b>Total equity</b>	<b>381.1</b>	<b>374.8</b>	<b>360.2</b>
Equity ratio	16.2%	16.0%	15.1%
<b>Net tangible assets</b>	<b>350.0</b>	<b>343.7</b>	<b>330.6</b>
NTA per share	\$ 0.90	\$ 0.88	\$ 0.85



# Net Finance Receivables - Bridge

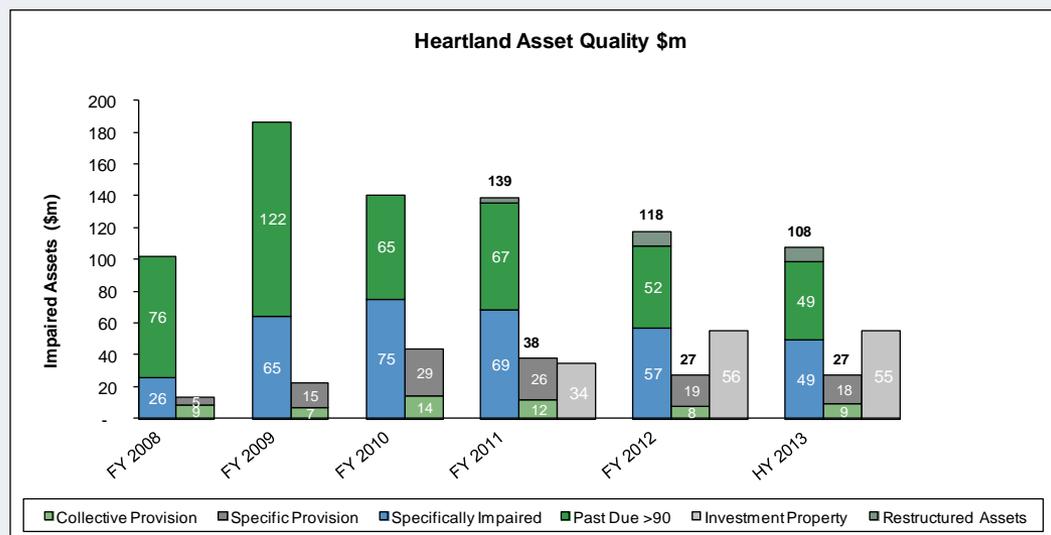
Core up, Non-Core down



# Asset Quality Trends

## Trend improvement in underlying asset quality

- Asset quality improving
- Non-core property remains driver of elevated impairment levels
- Underlying impairment trend improvement in last half
- Profit affected by RECL agreement being treated as fully utilised
- Non-core property impairment manageable, but review underway to test strategy

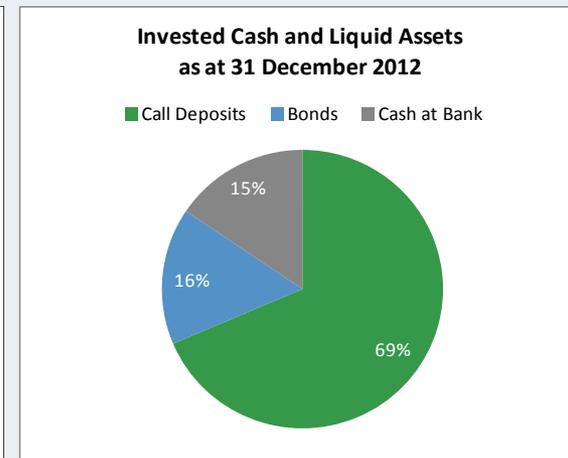
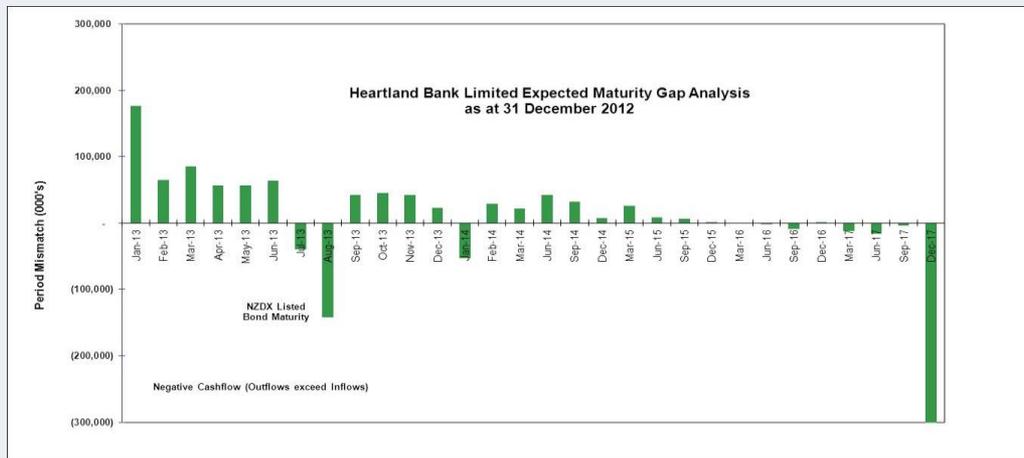
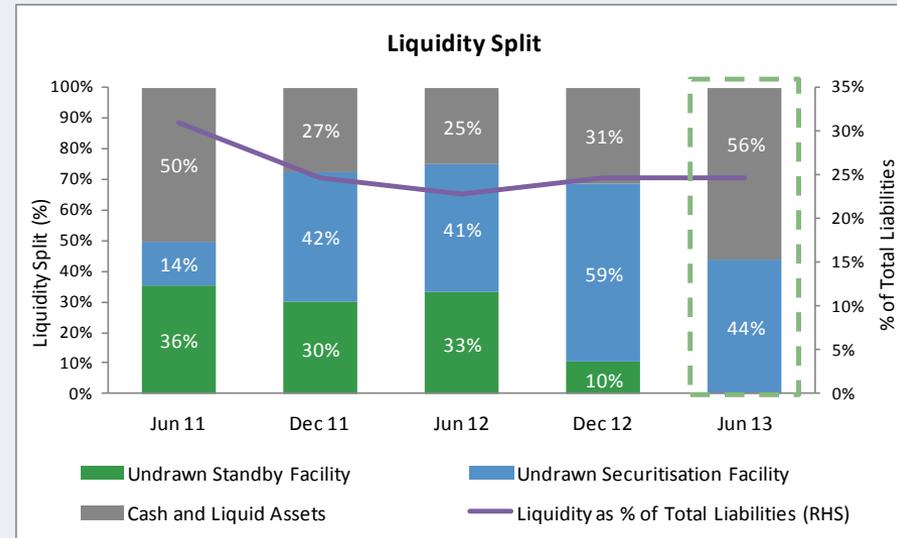


	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	HY 2013
Net Finance Receivables (\$bn)	2.1	2.0	1.8	1.7	2.1	2.0
Net Impairment (%)	4.2%	8.3%	5.4%	5.9%	4.4%	3.9%
Net Core Finance Receivables (\$bn)				1.6	2.0	2.0
Net Impairment (%)				1.7%	1.8%	1.7%

# Funding & Liquidity

## Strong liquidity position

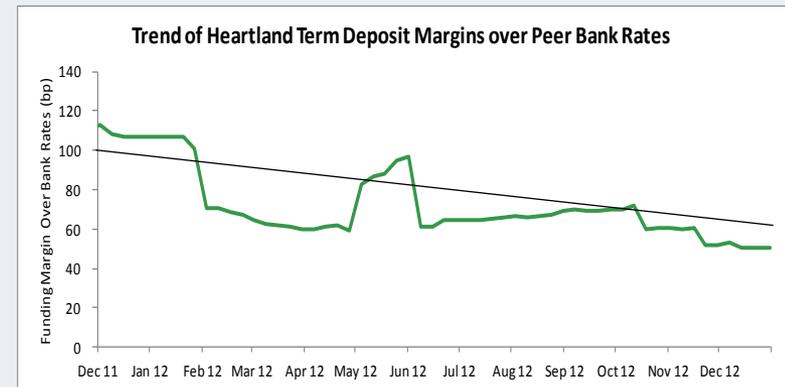
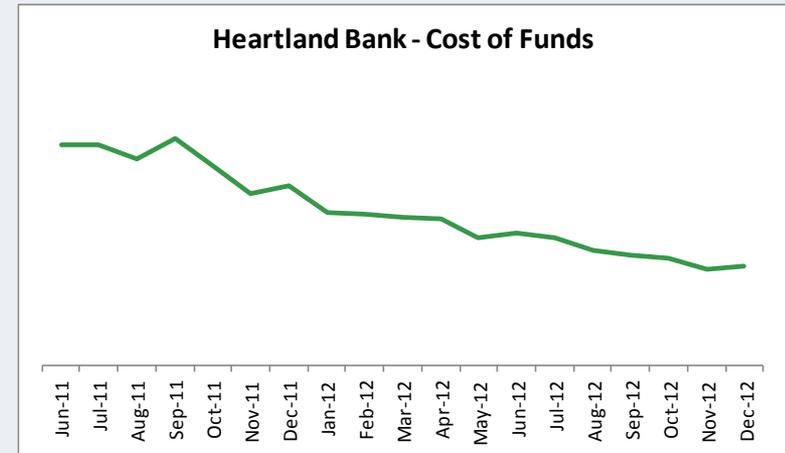
- Improving liquidity mix
- Strong positive cash flows from asset base
- Staggered maturity profile



# Cost of Funds

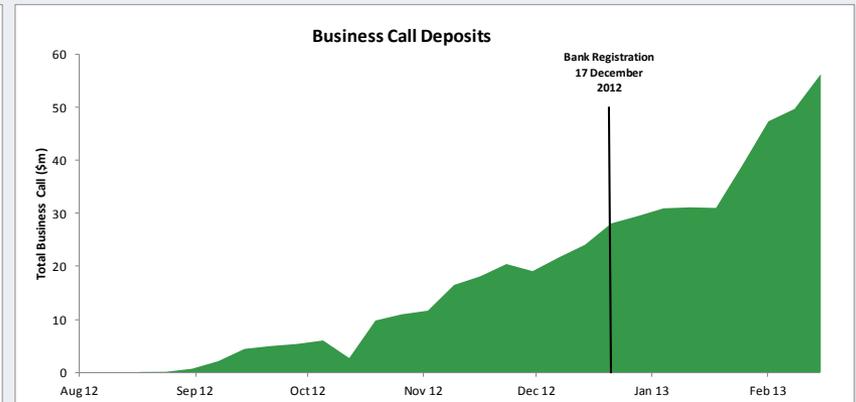
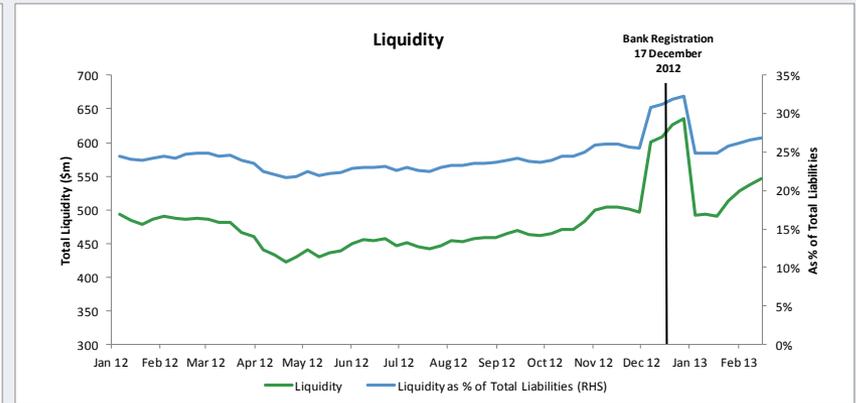
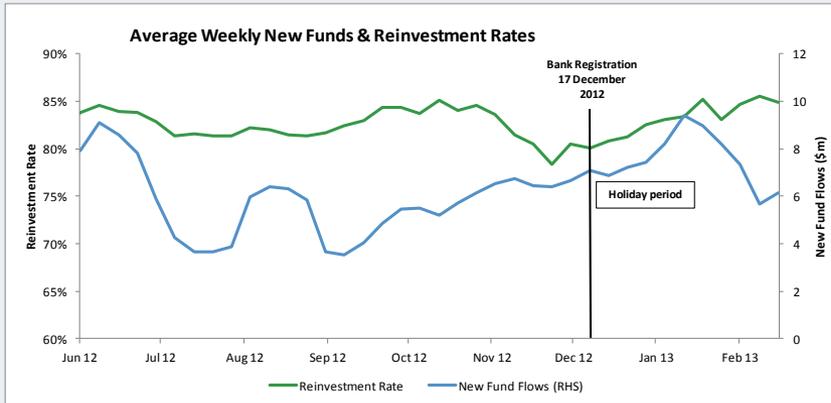
## Cost of funds continue to track lower

- **Cost of Funds has fallen in the 12 months to 31 Dec 2012 due to:**
  - Funding margin alignment with bank peers
  - Run-off of higher cost deposits
  - Portfolio mix changes and new product developments
- **This Cost of Funds reduction trend – based on current identified needs – will continue to flow through over the next 18 months**



# Progress since Bank Registration

Solid deposit growth & lower COF



# Looking Forward

## Jeff Greenslade



# Supporting NZ Households, Farmers and Small Businesses

## Products & Campaigns

### Business Call Account

**Imagine your business earning 4.5%<sup>P.A.</sup> on call with no fees and no fine print.**

**(THAT'S WHAT WE DO)**

With roots going back over 130 years, we've learned to keep things in business straightforward and easy to understand. That's why we don't just offer a business call account rate you'd usually only see over a fixed term. You get instant, unlimited withdrawals into a nominated account and a rate of return that makes the most of every dollar.

If you like that kind of fresh thinking, talk to us. We're Heartland: New Zealand's newest bank.



A copy of Heartland Bank's Disclosure Statement is available on our website. Terms and conditions apply to the services being advertised. Rates correct as at 20/12/12 and may vary. Rates subject to change.

Call us:  
0800 85 20 20  
www.heartland.co.nz

**HEARTLAND BANK**

### Invoice Finance



**Imagine if 80% of your sales were cash on delivery.**

**(THAT'S WHAT WE DO)**

With roots going back over 130 years, we've learned a lot about helping New Zealand businesses succeed. Including the vital importance of cash flow. That's why we offer the ability to get paid up to 80% of your sales value when you issue the invoice\*. With cash flow you can rely on, you can relax and focus on growing your business.

If you appreciate that kind of fresh thinking, talk to us. We're Heartland: New Zealand's newest bank.

\*Limiting criteria. Fees and charges apply.

Call us:  
0508 43 27 85  
www.heartland.co.nz

**HEARTLAND BANK**

### Livestock Finance

**Imagine turning this feed into cash.**

**(THAT'S WHAT WE DO)**

With roots going back over 130 years, we've learned a lot about helping New Zealand farmers do business. That's why, when you want to buy livestock to take advantage of seasonal opportunities, you should talk to us. Our livestock finance packages\* offer:

- No repayments for up to 18 months
- Up to 100% of the capital outlay
- Finance secured on the stock you buy, not your farm assets

If you like that kind of fresh thinking, talk to us. We're Heartland: New Zealand's newest bank.



\*Limiting criteria. Fees and charges apply.

Call us:  
0508 43 27 85  
www.heartland.co.nz

**HEARTLAND BANK**

### School Fees



Call us:  
0508 43 27 85  
www.heartland.co.nz

**HEARTLAND BANK**

# Operational Performance

## How do we deliver >10% ROE

### 1. To increase profitability:

- Grow core assets
- Reduce Cost of Funds
- Reduce cost to income ratio. Target to reduce nominal costs in 2014 year
- Manage property impairments

### 2. Right size capital base

- Heartland Bank had \$67m capital buffer over minimum regulatory requirement (31 Dec 2012)
- Capital held for growth, acquisition and general buffer (risk management)
- Continue to review needs

# Other Matters

1. Non-core property review
2. Board review
3. Dividend

# HEARTLAND

New Zealand Limited

## Questions

