

Half Year Results to 31 December 2014



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Important Notice

This presentation has been prepared by Heartland New Zealand Limited (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 (Heartland Bank) is the principal operating subsidiary of HNZ.

Agenda

- Introduction
- Financial overview
- Strategy and business updates
- Dividend
- Questions

Introduction



Half Year Highlights

- Increase in profitability (up 41% from first half FY14 NPAT)
- Strong asset growth in core business divisions (up 6.5%)
- Return on equity of 10.2%
- Credit rating upgrade for Heartland Bank to BBB (outlook stable)
- Acquisition of 10% shareholding in Harmoney (NZ's first licensed P2P lender)
- Successful integration of home equity release (HER) business
- Normalisation of regulatory capital requirements for Heartland Bank by RBNZ (effective 31 January 2015)

Financial Overview



Half Year Overview

41% Growth in Profitability

- Achieved NPAT of \$23.5m
- Increase in NPAT of \$6.8m or 41%
- NOI increase of \$11m or 19%
- Impairments remain at acceptable levels
- Tax benefit of \$1.0m from Australian subsidiary
- ROE of 10.2%

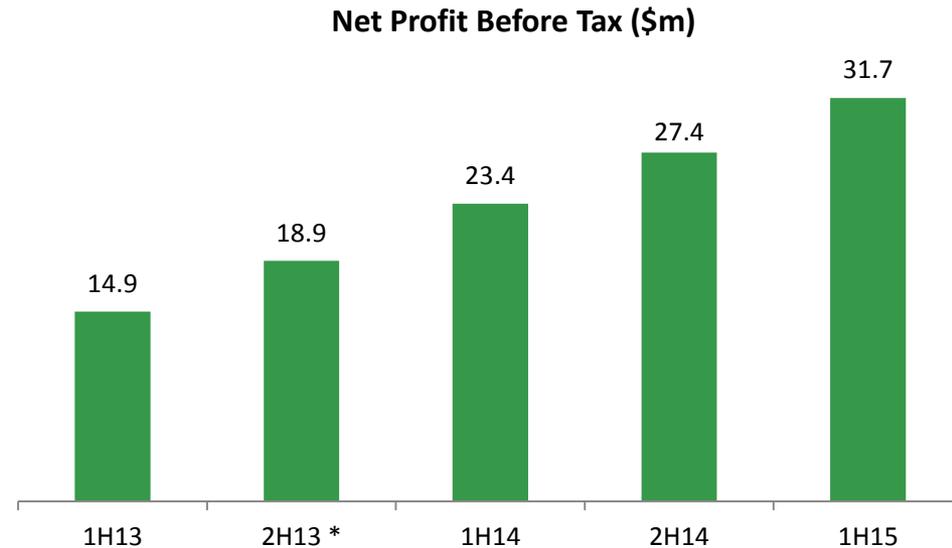
	6 months to Dec 2014 (NZ\$m)	6 months to Dec 2013 (NZ\$m)	12 months to Jun 2014 (NZ\$m)
Net interest income	65.7	52.4	109.1
Net other income	4.6	6.7	13.5
Net operating income *	70.3	59.1	122.6
Expenses	33.5	32.4	64.7
Profit before impairments and tax	36.8	26.7	57.9
Impaired asset expense	5.1	3.3	5.9
Decrease in fair value of investment properties	-	-	1.2
Net profit before tax	31.7	23.4	50.8
Tax	8.2	6.7	14.8
Net profit after tax (reported)	23.5	16.7	36.0

* Net operating income includes share of MARAC Insurance profit

Net Profit Before Tax

Continued Profitability Growth Trend

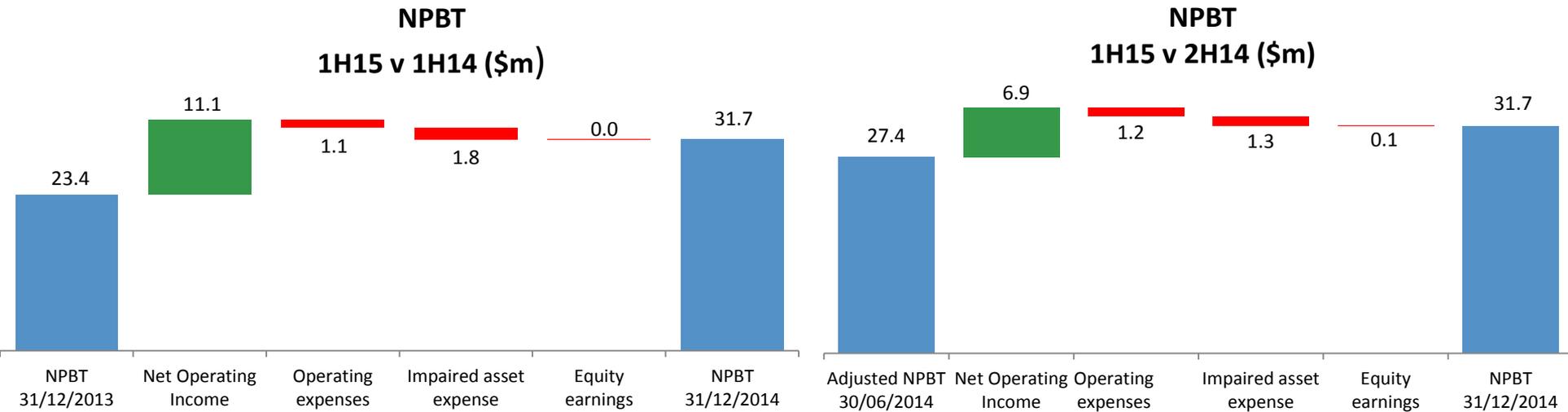
- Adjustment for one-off Non-Core Property expense in 2013, for like on like
- Continued trend improvement
- Interest margin historic contributor to growth
- Acquisition contributed in second half 2014
- Asset growth increased profit in last half



*Adjusted NPBT, calculated by adding back one-off non-cash expenses incurred as a result of the change in strategy

Net Profit Before Tax - Bridge

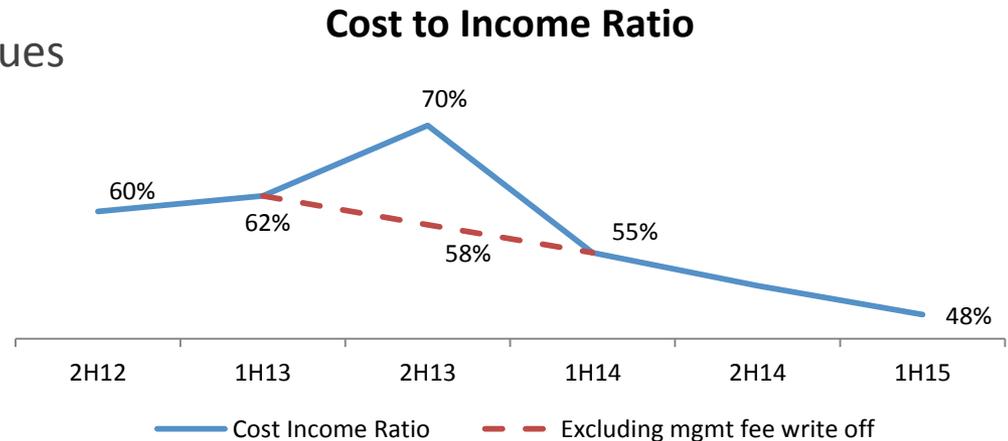
Breakdown of component parts



Operational Efficiency

Cost to Income below 50%

- Ratio lower as NOI continues to grow and costs held flat
- Cost to income ratio now below 50% at 48%
- Some further improvement expected, as asset growth continues

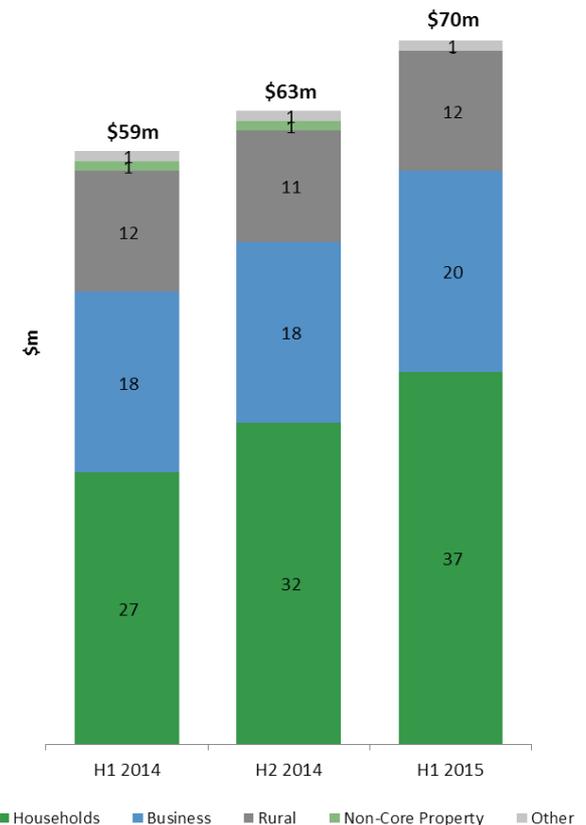


Net Operating Income

NOI driving profitability

- NOI up \$11m on prior half or \$7m on preceding half
- Growth in NOI due to:
 - Growth in core assets
 - Product mix changes
 - HER acquisition in 2H FY14

Net Operating Income



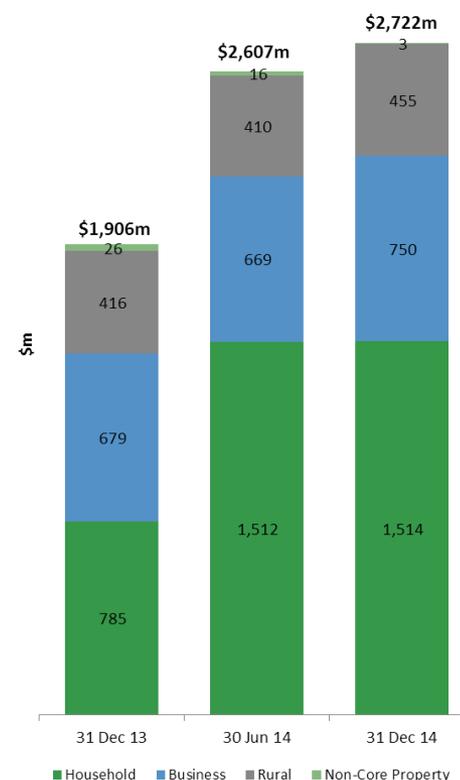
Balance Sheet Summary

Growth in receivables

- Total assets increased by \$145m
- Net finance receivables increased by \$115m
- Core asset classes up \$159m, retail and non-core property down \$44m as we exit as planned
- Asset re-balancing nearing completion

	31 Dec 2013 (NZ\$m)	30 Jun 2014 (NZ\$m)	31 Dec 2014 (NZ\$m)
Total assets	2,492.1	3,016.9	3,162.2
Total liabilities	2,109.6	2,564.3	2,699.9
Total equity	382.5	452.6	462.3
Equity ratio	15.3%	15.0%	14.6%
Net tangible assets	348.2	399.9	406.4
NTA per share	\$ 0.89	\$ 0.86	\$ 0.87

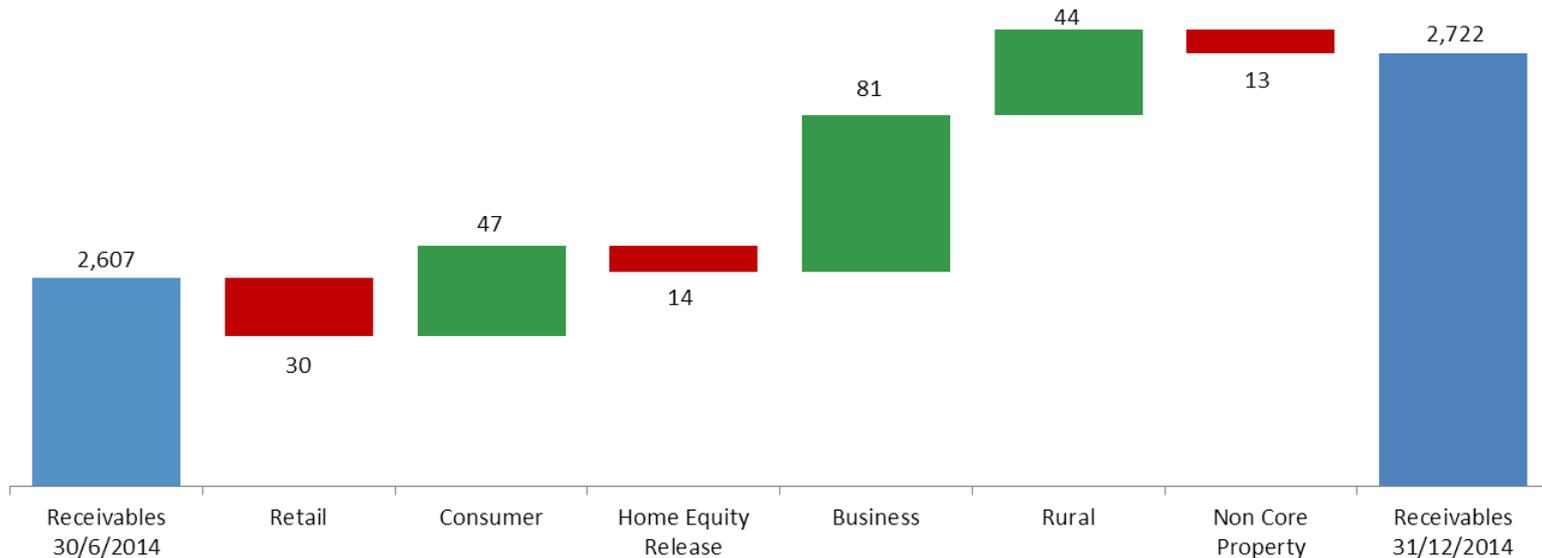
Net Finance Receivables



Net Finance Receivables Bridge

Portfolio mix improvements

Receivables Movement
6 Months ended 31 December 2014 \$m

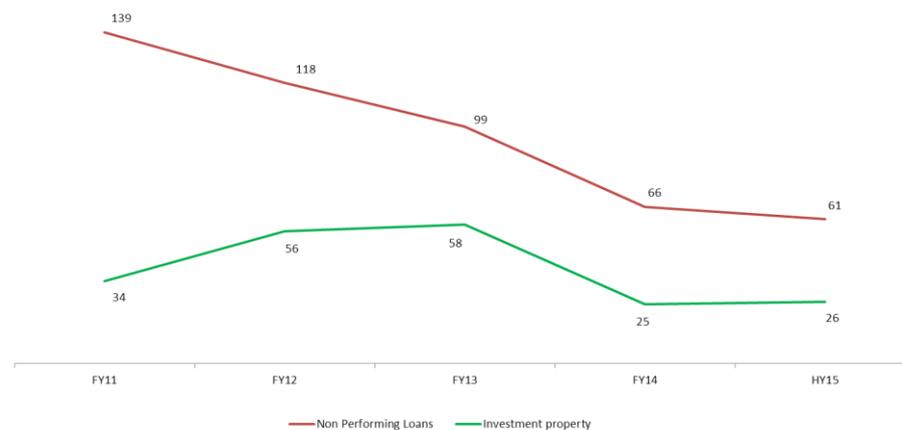


Asset Quality Trends

Sound asset quality

- Asset quality is sound
- Non-Core Property significantly reduced
- Core business impairment is low

Asset Quality (\$m)



	30-Jun-11	30-Jun-12	30-Jun-13	30-Jun-14	31-Dec-14
Net Finance Receivables	1.7	2.1	2.0	2.6	2.7
Net Impairment %	5.9%	4.4%	2.4%	1.9%	1.5%
Net Core Finance Receivables	1.6	2.0	2.0	2.6	2.7
Net Impairment %	1.7%	1.3%	0.9%	1.4%	1.4%

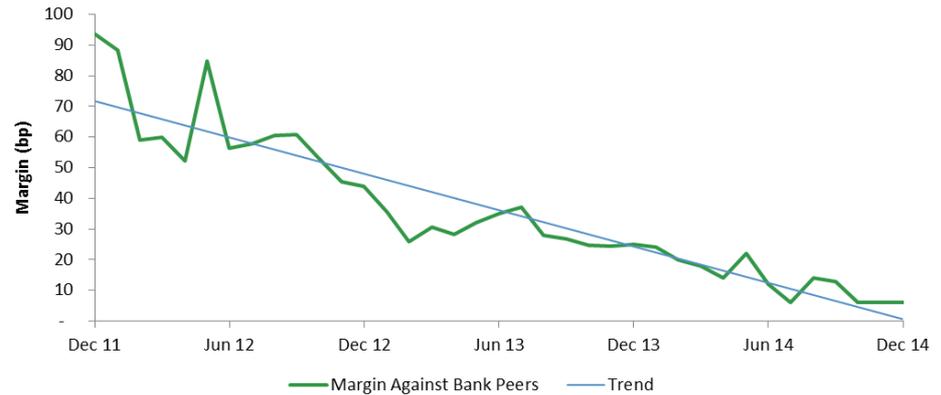
Cost of Funds – Heartland Bank

Solid funding position

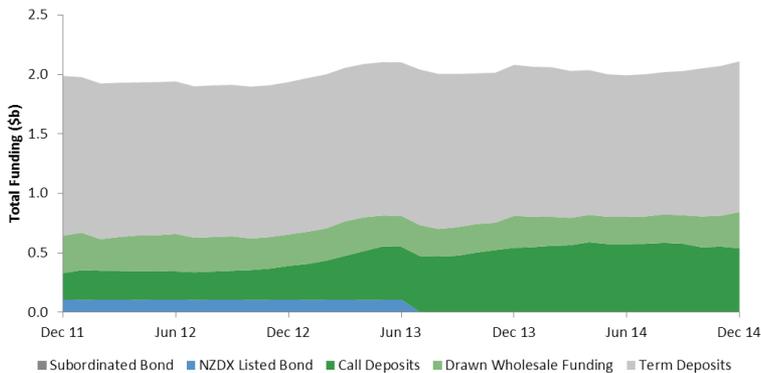
Some increase in COF on back of OCR increases

Expect growth in retail deposits to fund asset growth going forward

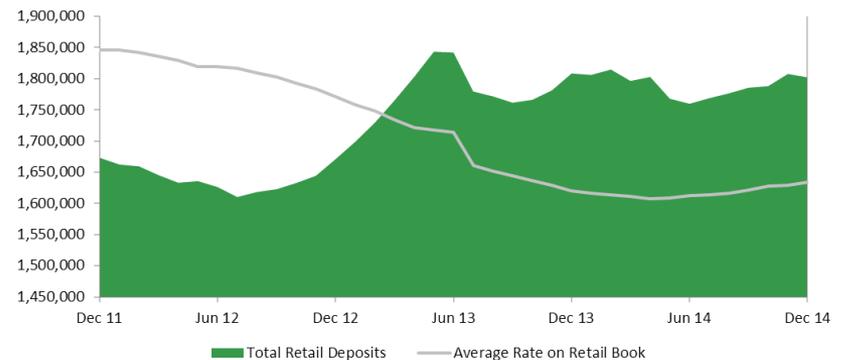
Margin between Heartland Term Deposit Rates vs Bank Peers



Heartland Total Funding



Retail Deposit Book



Business Updates and Strategy



Business Updates

Business	Rural	Household
<ul style="list-style-type: none"> • Net operating income (NOI) of \$19.5m • 12% growth in receivables • Growth driven by: <ul style="list-style-type: none"> • increased market presence; • continued focus on delivering specialist products; and • continued support of existing customer base • Pipeline looks strong, expect further growth in 2H 	<ul style="list-style-type: none"> • NOI of \$11.8m, 11% growth in receivables • Strong pipeline, new opportunities with underserved clients of trading banks • Active management of dairy farming clients • Focus on Sharemilkers enabling young NZ farmers commence dairy farming business • Continued dry weather could reduce livestock financing opportunities 	<ul style="list-style-type: none"> • NOI of \$37.5m • 7% growth in Consumer receivables book • Continued reduction of residential mortgage book in line with strategy • Reduction in HER book due to higher repayments • Initiatives in place to drive growth in HER book

Strategic Priorities for 2H FY15

Strategic Priority	Execution Plan for 2H FY15
<ul style="list-style-type: none"> Growth in home equity release book 	<ul style="list-style-type: none"> Fresh advertising campaign to commence Q4 Employment of senior sales staff in Australia Development of online strategy in Australia New product development in aged care sector in Australia Repositioning of branch network in New Zealand
<ul style="list-style-type: none"> Widen product offering in the Consumer sector 	<ul style="list-style-type: none"> New product development supporting niche segments in the consumer sector



Investment in Harmony

HNZ acquired a 10% shareholding in Harmony Corp Limited (Harmony) in September 2014

- Participation in Harmony's \$10m capital raising in January 2015 to maintain 10% shareholding
- Trade Me Limited also participated in capital raising acquiring a 15% shareholding

Harmony is New Zealand's first and only licensed peer to peer lender

- Peer to peer lending already established in US, UK and Australia
- Funds flow directly between investors and borrowers via an online platform without the need for a traditional financial intermediary

Heartland Bank investment through Harmony's online platform to provide initial momentum

- Approximately \$17m invested by Heartland Bank to date

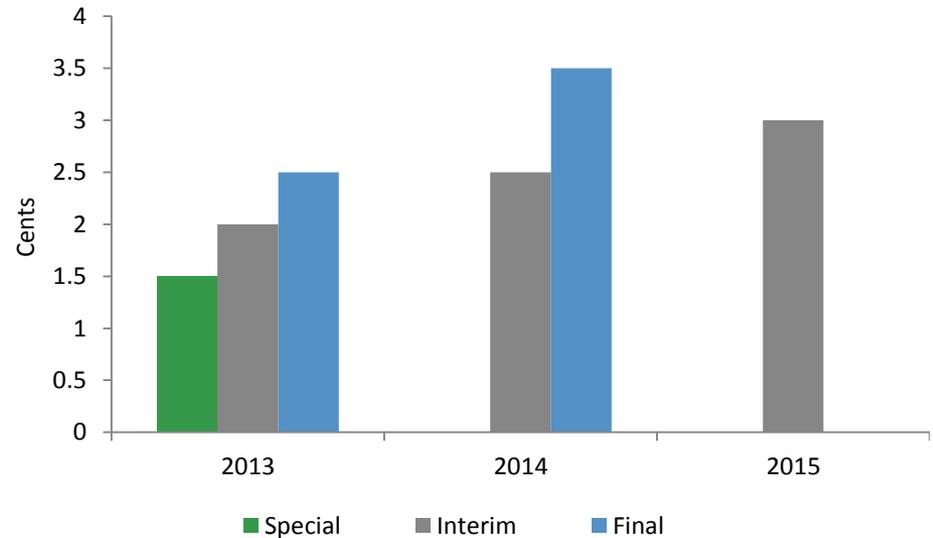
Dividend



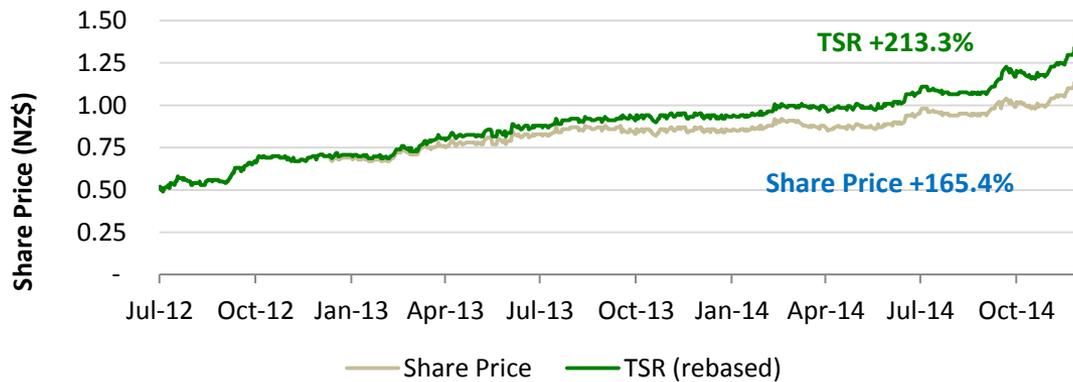
Dividend

- Fully imputed interim dividend of 3.0 cents per share

Dividends



Total Shareholder Return



Questions

