

Overview of Heartland New Zealand Limited to 30 June 2014



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 Heartland 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
- Questions

Introduction



Heartland at a glance



Listed	Heartland New Zealand Limited (Heartland) is listed on the NZX Main Board* with approximately 8,000 shareholders
Market Capitalisation	~NZ\$495m (12 November 2014)
Bank registration	Granted to principal subsidiary Heartland Bank Limited (HBL) on 17 December 2012
Diversified	Diversified asset portfolio, balanced geographic footprint and a widespread depositor base through HBL
Total assets	~NZ\$3.0 billion
Principal activities	Specialist banking products for Household, Business and Rural sectors
HBL Credit rating	BBB credit rating from Standard & Poor's BBB credit rating from Fitch Ratings
Dividends	6¢ paid in FY14 which equates to a 6% gross dividend yield on a share price of NZ\$1.00 for foreign investors. Foreign investors receive supplementary dividend to offset non-resident withholding tax.

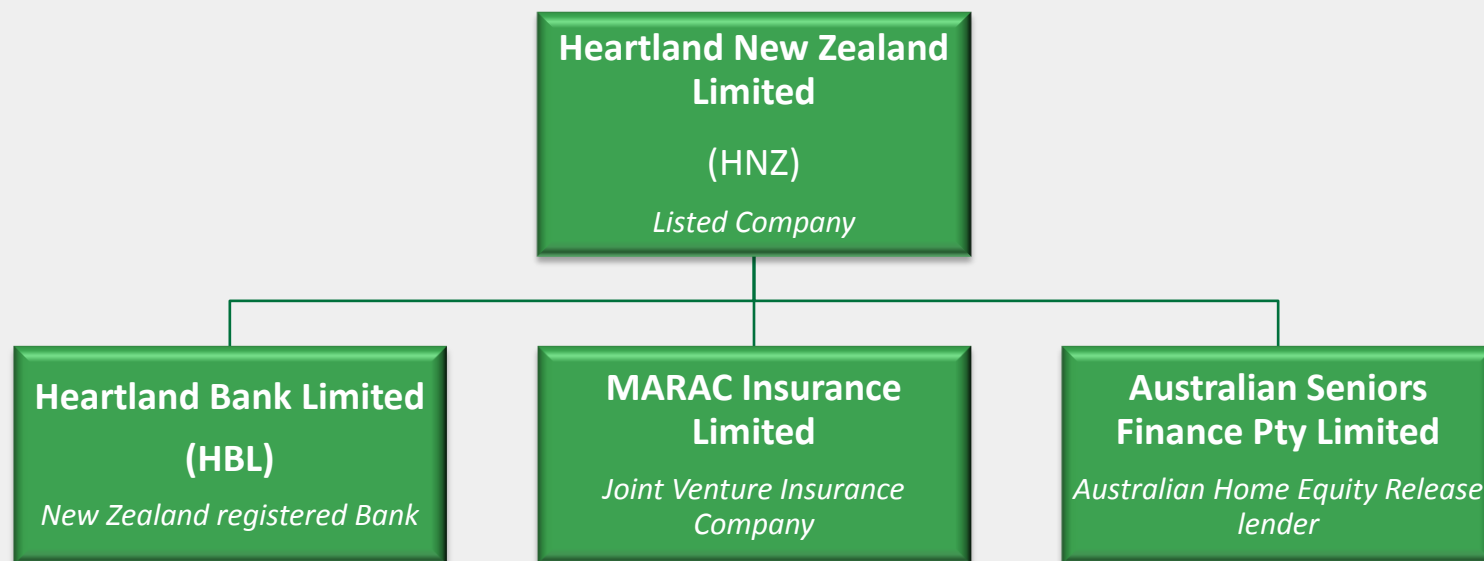
Market Dividend Yields¹

Nikkei	2.0%
ASX200	4.6%
NZX50	4.1%
NASDAQ	1.2%
S&P500	2.0%

¹ Source: S&P Cap IQ annualised dividend yield 10/11/2014

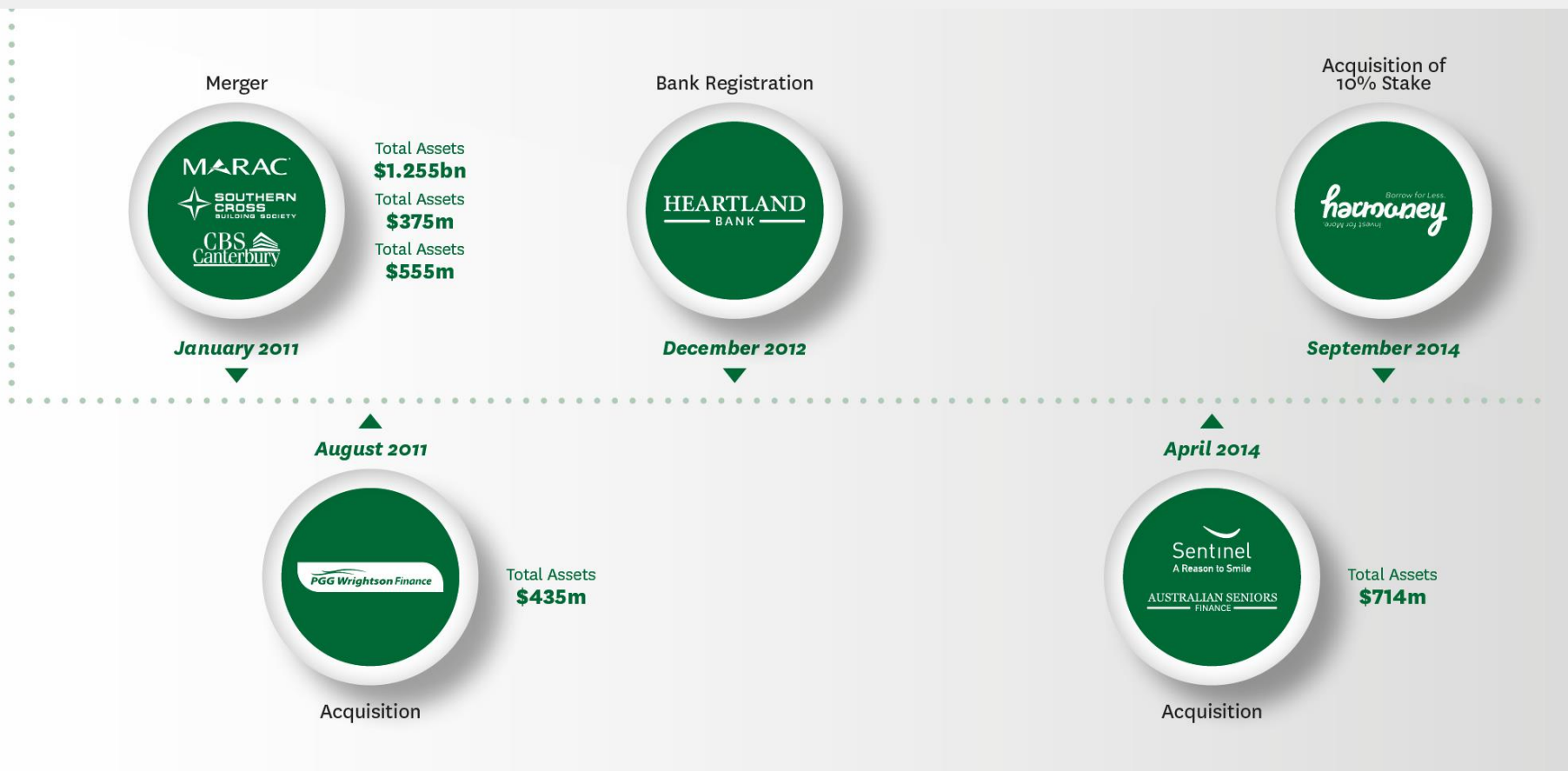
*The NZX Main Board is a registered market operated by NZX Limited, a registered exchange, regulated under the Securities Markets Act 1988. NZX Limited accepts no responsibility for any statement in this presentation.

Principal Operations



A Journey of Transformation

\$NZD



Key Economic Forecasts

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Calendar Years	2011	2012	2013	2014(f)	2015(f)	2016(f)
NZ Economy (annual average % change)						
Real GDP	1.9	2.5	2.8	3.6	3.0	2.6
Unemployment Rate (Dec qtr)	6.4	6.8	6.0	5.4	5.4	5.3
Terms of trade (SNA basis)	3.2	-3.3	7.6	5.5	-4.1	-2.2
CPI Inflation	1.8	0.9	1.6	1.3	1.8	2.3
NZ Financial Markets (end of December quarter)						
TWI	69.3	74.4	77.3	77.5	71.9	70.0
NZD / USD	0.78	0.82	0.82	0.80	0.75	0.73
NZD / AUD	0.76	0.80	0.92	0.91	0.87	0.87
Official Cash Rate	2.50	2.50	2.50	3.50	4.25	4.75
90-day bank bill rate	2.7	2.7	2.8	3.8	4.7	5.0
10-year bond rate	3.8	3.5	4.7	4.6	5.0	5.1
Fiscal and External Balance						
Current Account Balance (\$bn)	-5.9	-8.5	-7.2	-7.6	-14.1	-14.5
as % of GDP	-2.9	-4.1	-3.3	-3.3	-5.9	-5.8
Government OBEGAL (\$bn)	-18.4	-9.2	-4.4	-2.6	0.3	0.8
as % of GDP	-9.2	-4.4	-2.1	-1.1	0.1	0.3

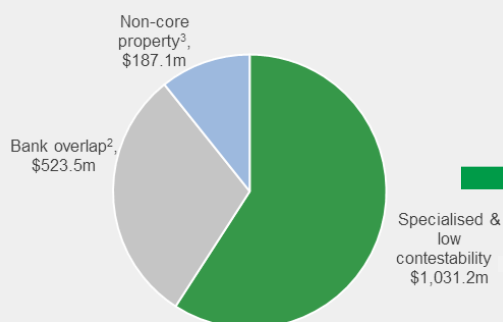
Source: ANZ Economic Outlook / September 2014

Effect of Balance Sheet Changes

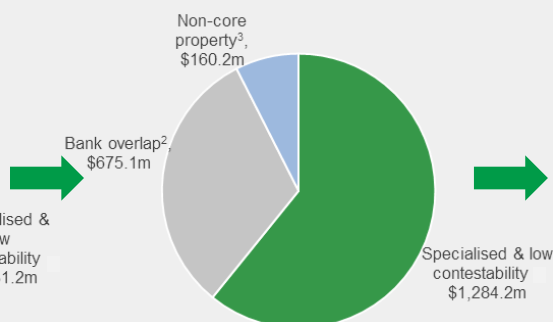
\$NZD

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

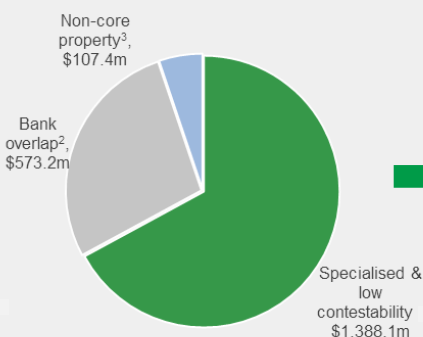
30 June 2011



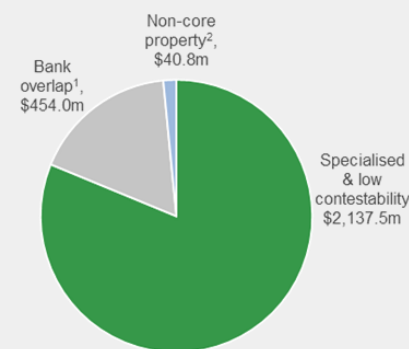
30 June 2012¹



30 June 2013



30 June 2014



Total Net Receivables⁶
\$1.7b

NPAT	\$7.1m
EPS	5c
ROE	2.8%

Total Net Receivables⁶
\$2.1b

Adjusted NPAT ⁴	\$14.0m
Adjusted EPS ⁴	4c
Adjusted ROE ⁴	4.2%

Total Net Receivables⁶
\$2.1b

Adjusted NPAT ⁵	\$24.4m
Adjusted EPS ⁵	6c
Adjusted ROE ⁵	6.5%

Total Net Receivables⁶
\$2.6b

NPAT	\$36.0m
EPS	9c
ROE	9.0%

¹Uplift in net receivables partly attributable to acquisition of PGW Finance

²Bank overlap assumed to be residential mortgages and 50% of business and rural

³Includes investment properties

⁴Adjusted for \$9.6m one-off tax benefits

⁵Change in strategy provisions (\$18.0m), management fee (\$6.1m), management expenses (\$0.2m) added back

⁶Total net receivables include consumer, residential mortgages, property (including investment property), plant & equipment, business, invoice finance, livestock, other rural and HER. Other asset categories (e.g. cash, investments etc.) are not included

Financial Overview



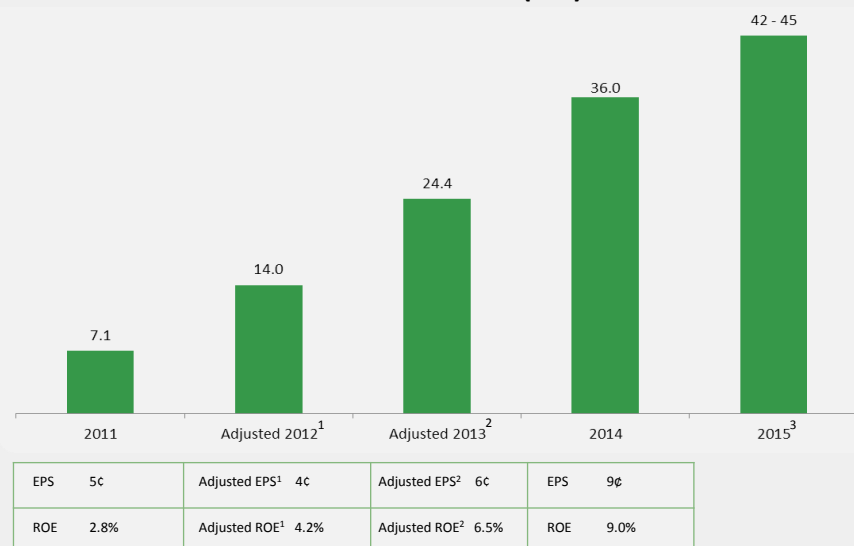
Performance improvement

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Profit and Return on Equity increasing

- Profitability increasing
- ROE trending up
- ROE of 9.0% for year ended 30 June 2014 compared to ROE of 1.8% and Adjusted ROE² of 6.5% for the prior year
- Specific focus on improving ROE
 - Continued focus on higher yielding products
 - Continued investigation of potential ROE accretive acquisitions

Net Profit After Tax (\$m)



¹Adjusted for \$9.6m one-off tax benefits

²Adjusted for Change in Strategy provisions (\$18.0m), management fee (\$6.1m), management expenses (\$0.2m) added back

³Based on current forecast

Financial Full Year Overview

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Step up in profitability

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

	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

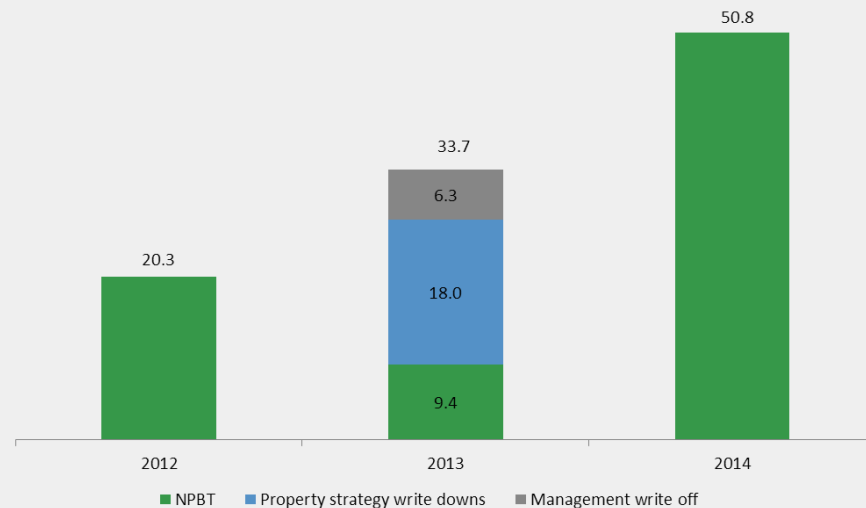
Net Profit Before Tax

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Adjusted NPBT shows continued improvement

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

Net Profit Before Tax (\$m)



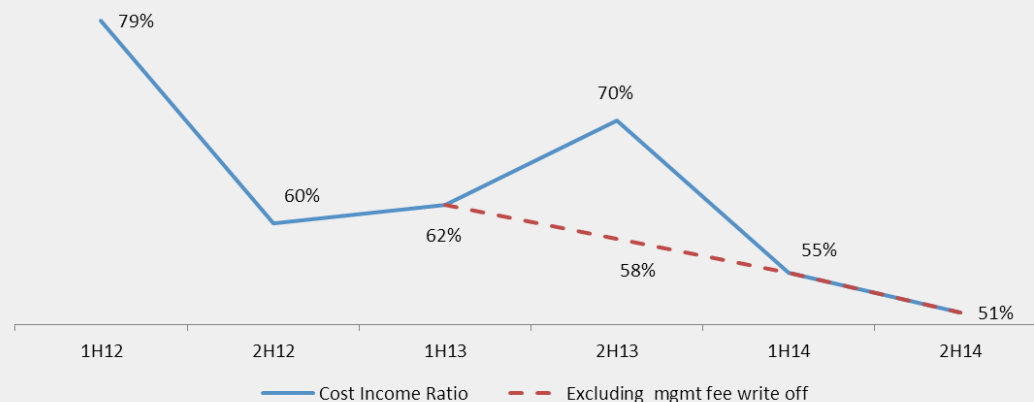
Operational Efficiency

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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% for the year ending 30 June 2014
- Second half 2013 increase in costs due to Non-Core Property costs of \$6.3m
- Further improvement expected

Cost to Income Ratio



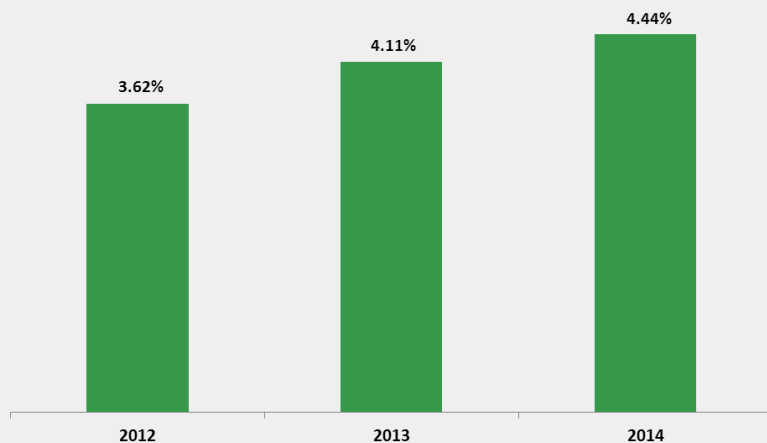
Net Operating Income

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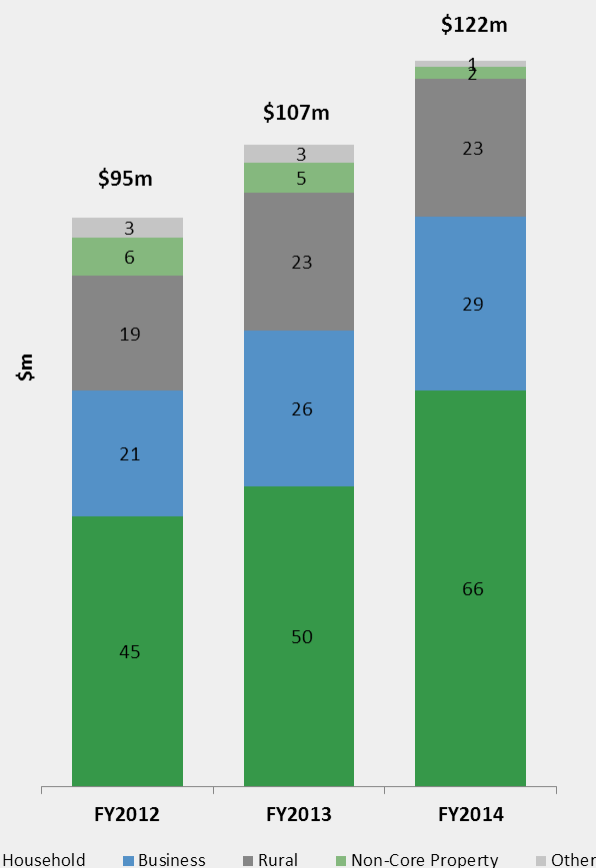
NOI driving profitability

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

Net interest margin



Net Operating Income



Balance Sheet Summary

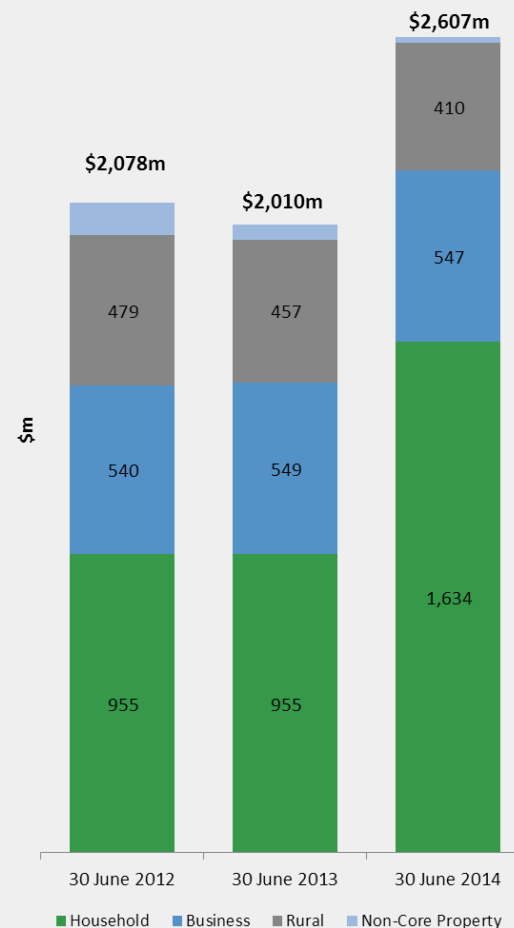
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Growth in receivables

- 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 strategy to exit executed
- Equity up \$82m due to capital raised for HER 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

Net Finance Receivables

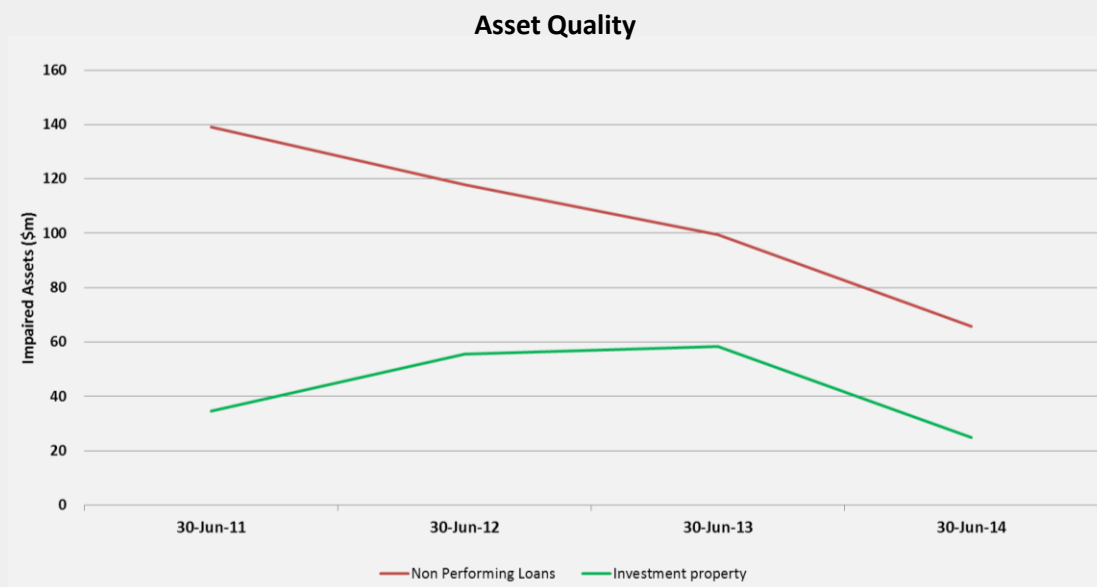


Asset Quality Trends

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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 previous year
- Business non-performing loans higher at year end; do not 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

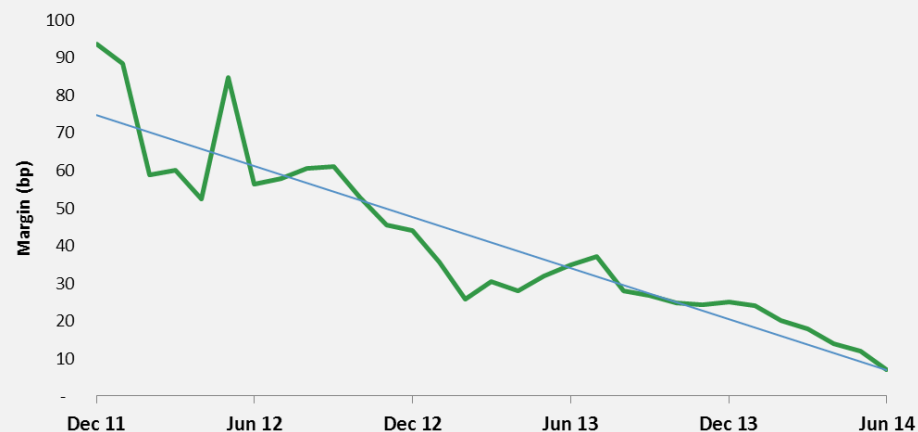
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Cost of funds continue to track lower

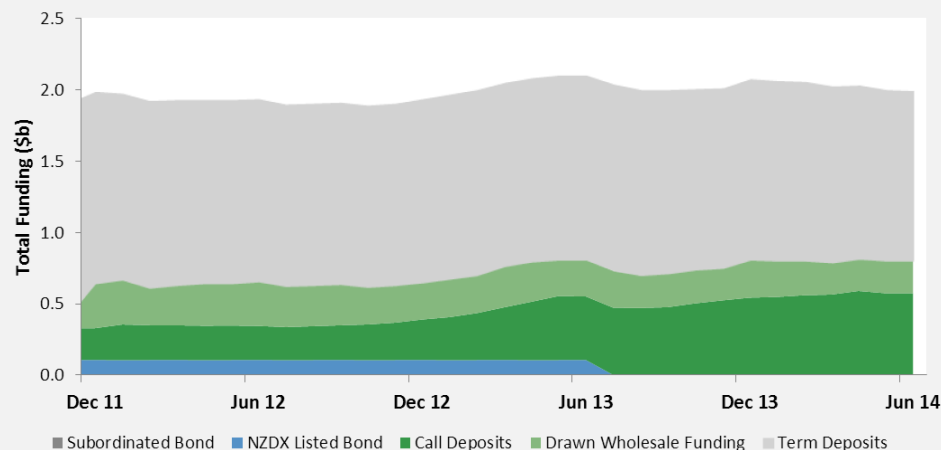
Solid retail deposit performance and lower cost of funds driven by:

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

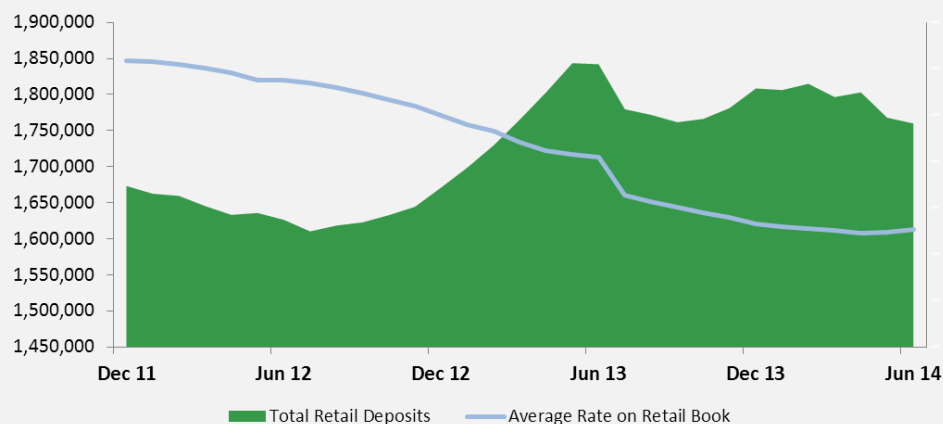
Margin between Heartland Bank Term Deposit Rates vs Bank Peers



Heartland Bank Total Funding



Heartland Bank Retail Deposit Book



Business Overview



Market Position

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A focus on Household, Business and Rural sectors

- Our focus is on three sectors: Household, Business and Rural
- We offer specialist products which are superior to alternative or substitute products and which target areas of low contestability/niches within these sectors. 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
- Specialist product examples:

Home Equity Release Loans	vs	Residential Mortgages
Farm Livestock Loans	vs	Large Rural Mortgages
Invoice Finance	vs	General Security Agreements
Online Business Call Accounts	vs	Default Call Rates

Acquisition and Product-Centric Strategy for Growth

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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, Business or Rural sectors
 - 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

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**Biggest segment - \$1.6b
Net Finance Receivables**

Sub categories are:

- Consumer (primarily motor vehicle loans)
- Home equity release (HER)
- Residential mortgages

Household – Residential Mortgages

- Continued run down (not a strategic product)
- New business and re-finance of existing loans written by Kiwibank (a local New Zealand bank); fee earned
- Expect continued run off

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

Household – Consumer

\$NZD

Strong growth

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

- Marque motor vehicle loan products
- Growth of \$54m or 7% from previous year
- Launch of i-finance:
 - Specialist car finance option for lower cost vehicles, adjacent segment, achieve appropriate risk reward
- Intermediated distribution strategy continues to perform eg. Holden Finance
- Expect growth of 5 - 10% in 2015 (1st Quarter 2015 +\$16m, 2% or annualised 10%)

Household Home Equity Release

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- Acquisition of Sentinel (New Zealand) and Australian Seniors Finance (Australia) completed in April 2014
- Positive earnings contribution after acquisition costs and marketing investment
- 250 loans approved since acquisition, with combined limits of NZ\$19m
- New business enquiries in both New Zealand and Australia in line with expectation (although lead time to conversion slightly longer than expected)
- Growth expected in 2015 (1st Quarter 2015 +\$16m, 2% or annualised 9%. Excluding FX gains - \$2m; New Zealand +\$1m, Australia -\$3m)

	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

New Zealand

- Growth achieved three months post-acquisition
- All new loans originated by Heartland Bank – sales capability developed within Heartland Bank's retail business
- Acquired Sentinel loans being progressively transferred to Heartland Bank
- Continued development of operational capability within Heartland Bank
- Marketing campaign launched in May 2014

Australia

- Growth achieved seven months post-acquisition
- New loans continue to be originated by Australian Seniors Finance
- Australia agency distribution channels being re-established with training and accreditation being progressively rolled out
- Marketing campaign launched in July 2014

Rural

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Expect growth in 2015

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

- Acquisition of PGG Wrightson Finance at NTA in 2011. Acquisition included higher risk loans (with benefit of vendor guarantee), and mortgage lending products which overlapped with the major banks
- Higher risk loans have been repaid and a significant amount of mortgage lending has run off or been refinanced
- New lending to existing and new clients of \$88m for FY14
- Expect some further run off in lower yielding mortgage loans in year ahead at a reduced rate compared to FY14
- 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
- Greater focus on product development
- Expect modest growth in 2015 (1st Quarter 2015 +\$26m, 6% or annualised 26%)

Business

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Multi product solutions

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

- Strategy is to support business growth through a range of specialist business products for small-to-medium enterprises (SMEs)
- Focus on business needs – not the owners house or their personal assets
- Strong understanding of our customer and their business cashflows
- Product-centric; multi product solutions
- Wide range of business products offered through dedicated Account Managers:
 - Overdrafts / Asset finance / Invoice Finance / Vehicle finance / Land & Buildings
- Expanding product range to further support business growth and cashflow
- Growth to come from:
 - Expanding intermediary channels
 - New product development
- Expect modest growth in 2015 (1st Quarter 2015 +\$25m, 4% or annualised 15%)

Non-Core Property

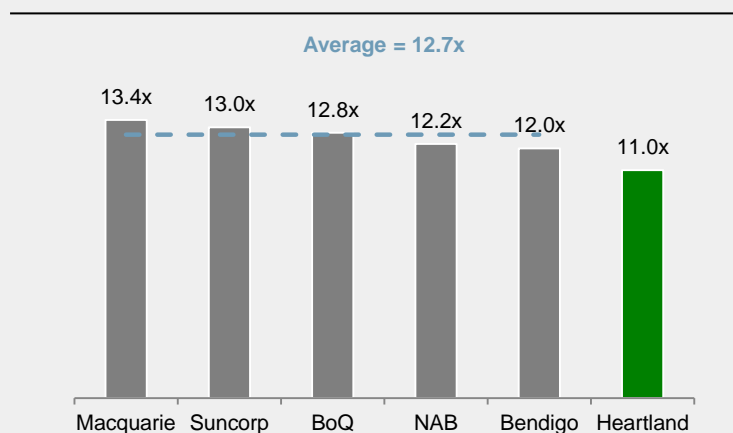
\$NZD

Sell down exceeding forecast

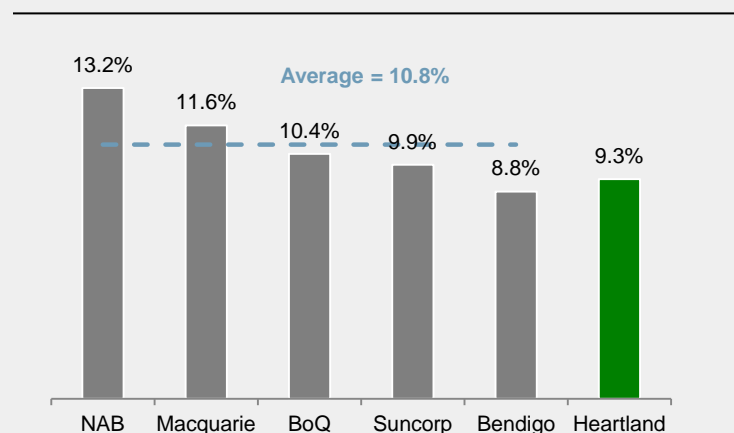
- Non-core property assets reduced by 62% from \$107.4m at 30 June 2013 to \$40.8m at 30 June 2014
- Net receivables \$16.0m
 - 18 loans with an average balance of less than \$0.9m
 - Includes provisions of \$5.7m
- Investment properties \$24.9m
 - 13 properties with an average balance of less than \$2m
- Expect non-core property assets to reduce:
 - Realisations of \$10m - \$20m in 2015 (1st Quarter 2015 -\$4m, -9%)
- No further impact on earnings expected

Selected Australasian peer group

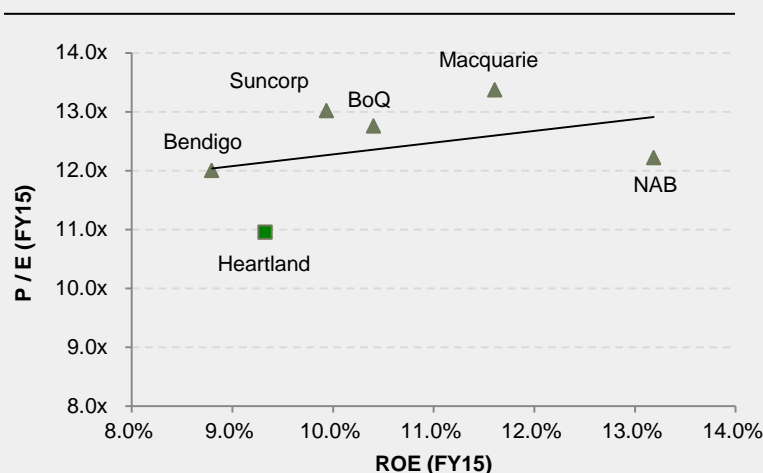
P / E (FY15)



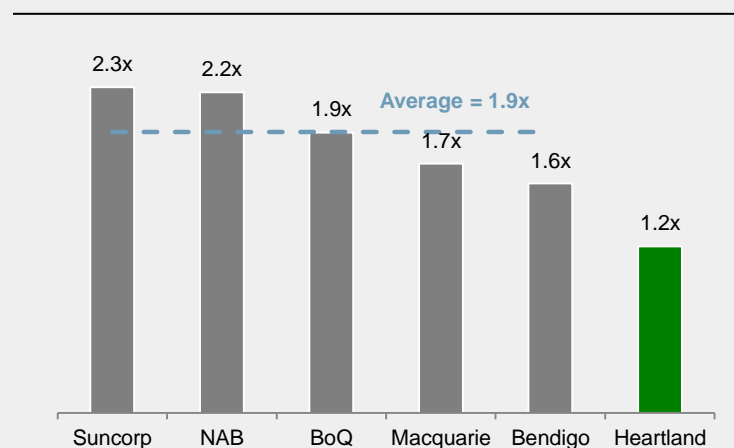
ROE (FY15)



P / E v ROE (FY15)



P / NTA^(a)



Source – First NZ Capital: Capital IQ, Company information. All metrics in NZ\$ and calendarised to June. Market data as at 17 October 2014

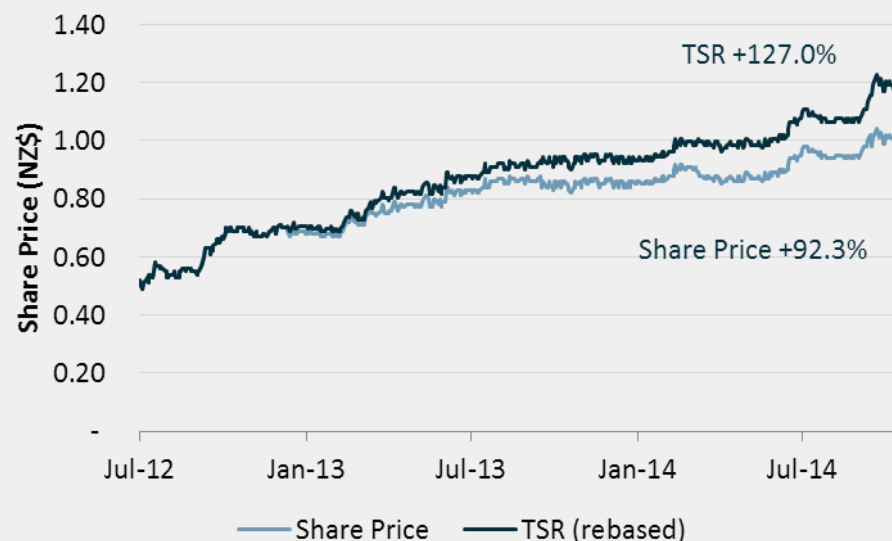
(a) Most recently reported NTA

Total Shareholder Return

\$NZD

Heartland has generated strong shareholder return

- Regular dividend payer - 6¢ paid in FY14 which equates to a 6% dividend yield on a share price of \$1.00 for foreign investors.
- Foreign investors receive supplementary dividend to offset non-resident withholding tax
- Share price has appreciated 92% since 1 July 2012
- Total shareholder return (TSR) (share price appreciation and dividends received) of 127% since 1 July 2012



Questions



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