

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

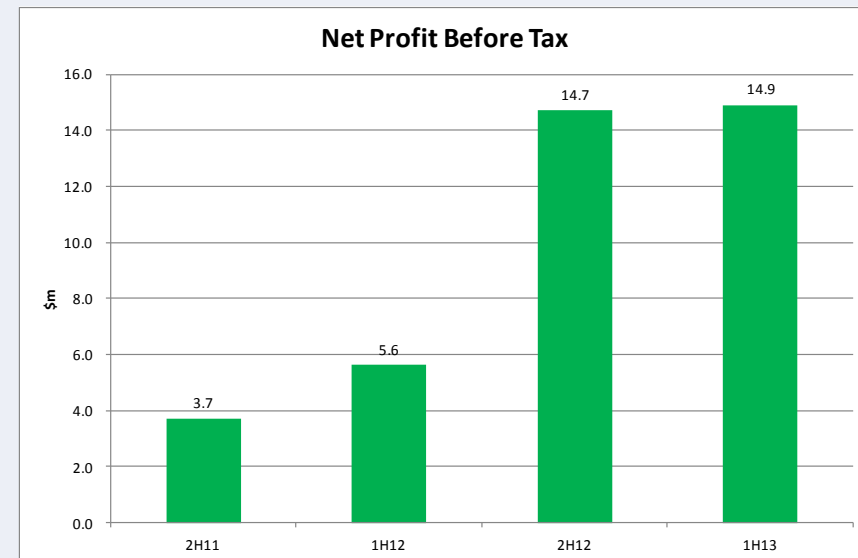
	6 months to Dec 2012 (NZ\$m)	6 months to Dec 2011 (NZ\$m)	12 months to Jun 2012 (NZ\$m)
Net interest income	46.8	39.1	83.6
Net other income	5.3	6.0	11.8
Net operating income *	52.1	45.1	95.4
Expenses	31.9	35.7	65.6
Profit before impairments and tax	20.2	9.4	29.8
Impaired asset expense	5.3	3.8	5.6
Decrease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

* Net operating income includes share of MARAC Insurance profit

Net Profit Before Tax

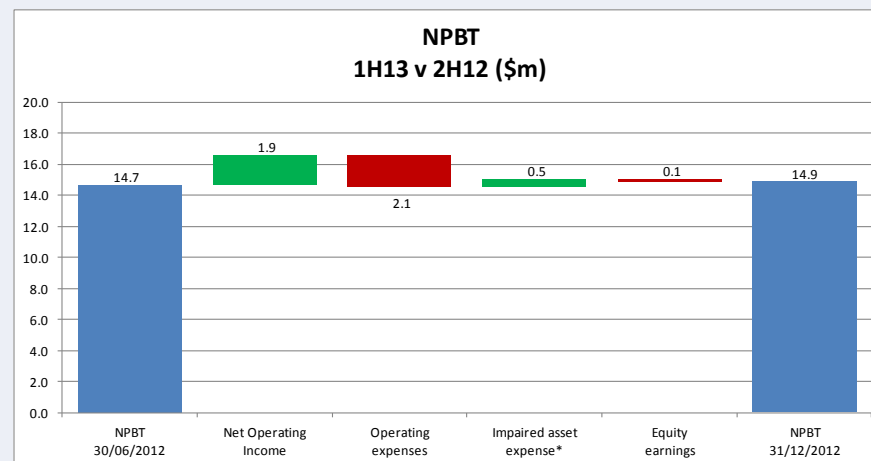
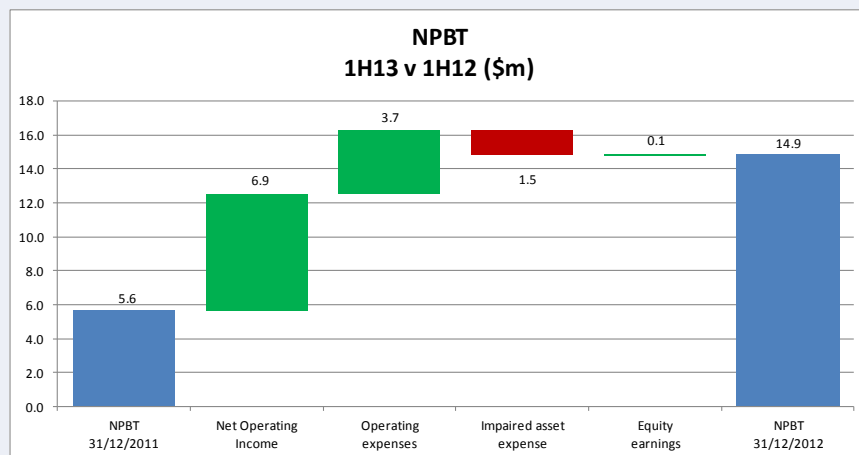
Trend improvement in NPBT continues

- 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

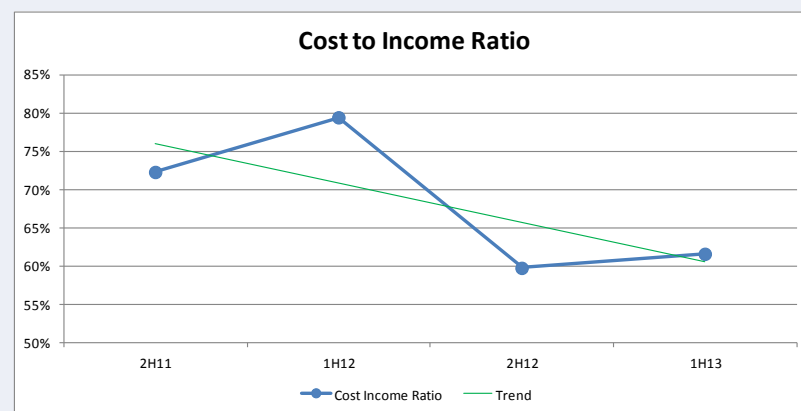
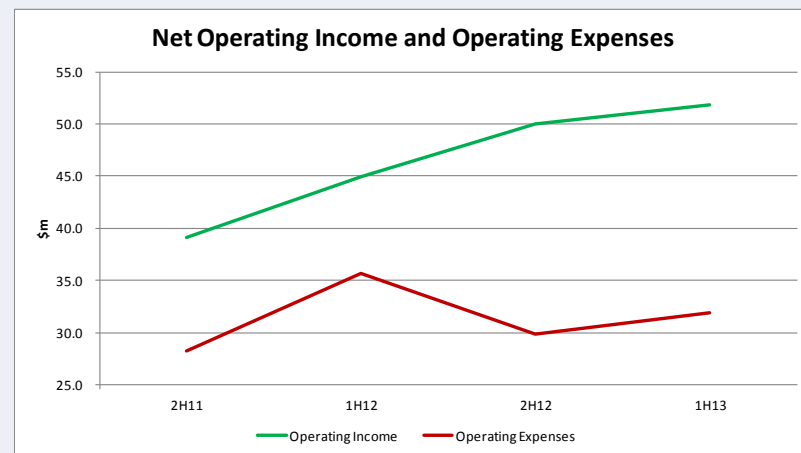


* Includes investment property fair value adjustments

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

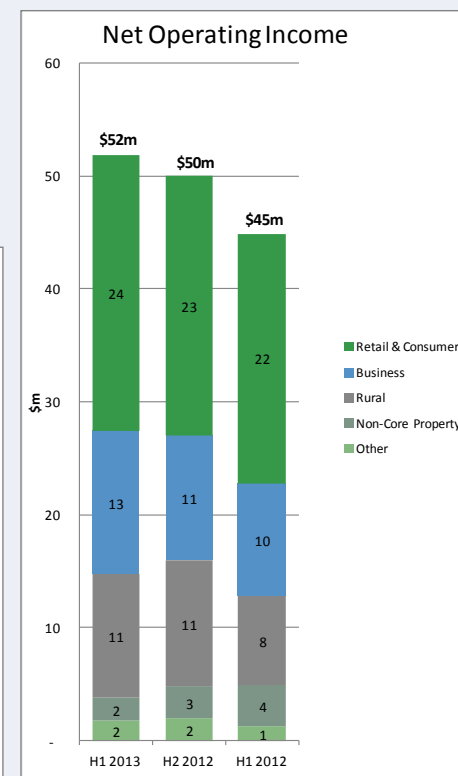
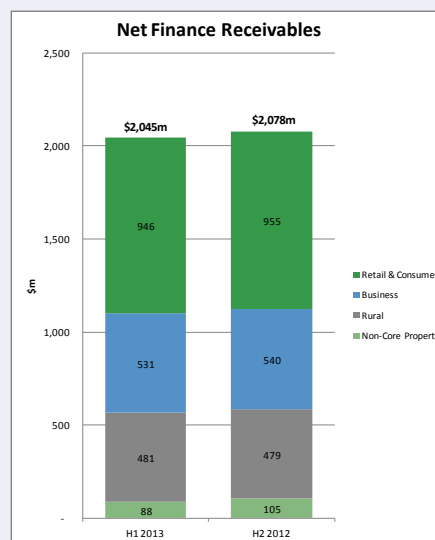


Balance Sheet Summary

Strong balance sheet

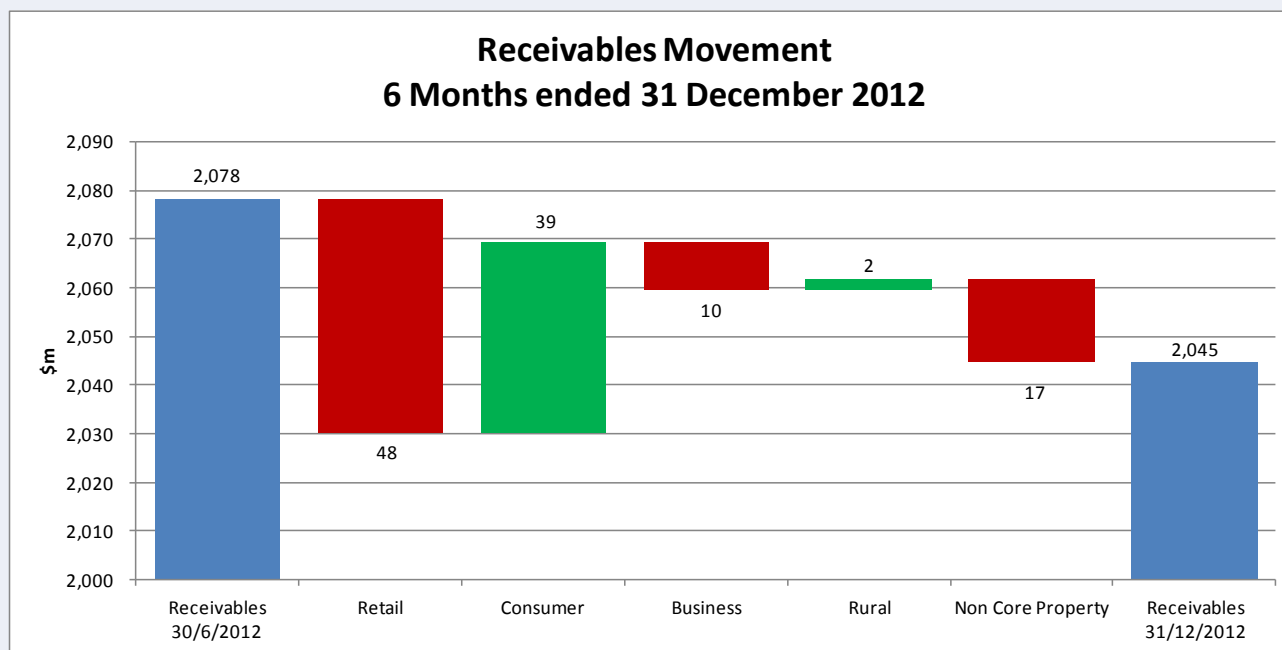
- Total assets stable
- Net finance receivables fell by \$33m
- NTA increased to \$0.90 per share
- Core divisions net receivables up 2.8%pa

	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
Total equity	381.1	374.8	360.2
Equity ratio	16.2%	16.0%	15.1%
Net tangible assets	350.0	343.7	330.6
NTA per share	\$ 0.90	\$ 0.88	\$ 0.85



Net Finance Receivables - Bridge

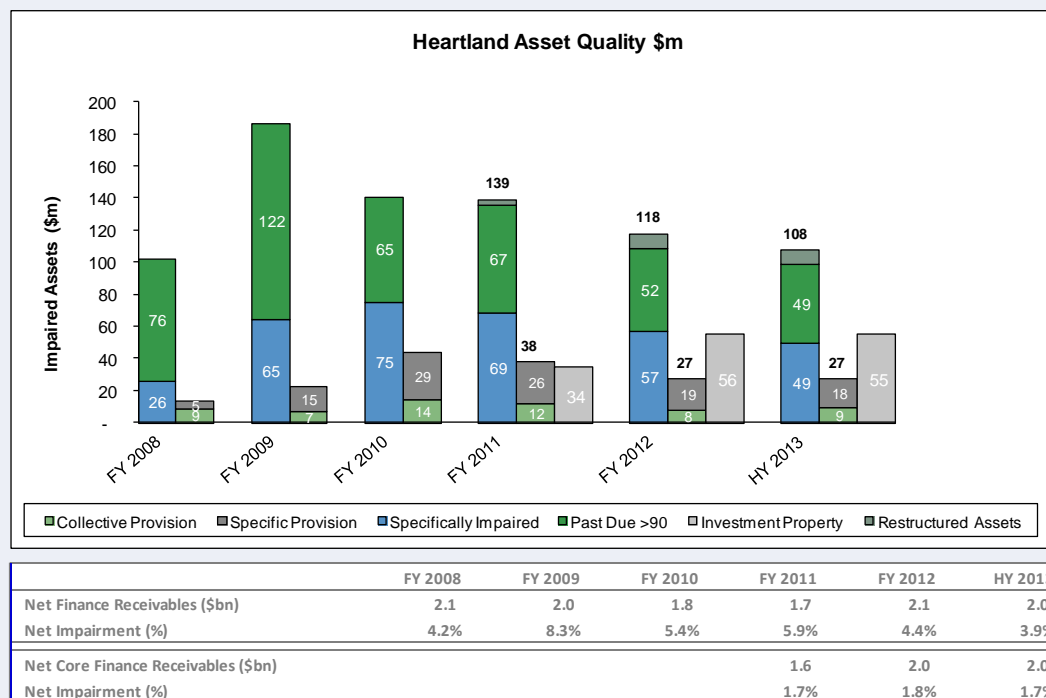
Core up, Non-Core down



Asset Quality Trends

Trend improvement in underlying asset quality

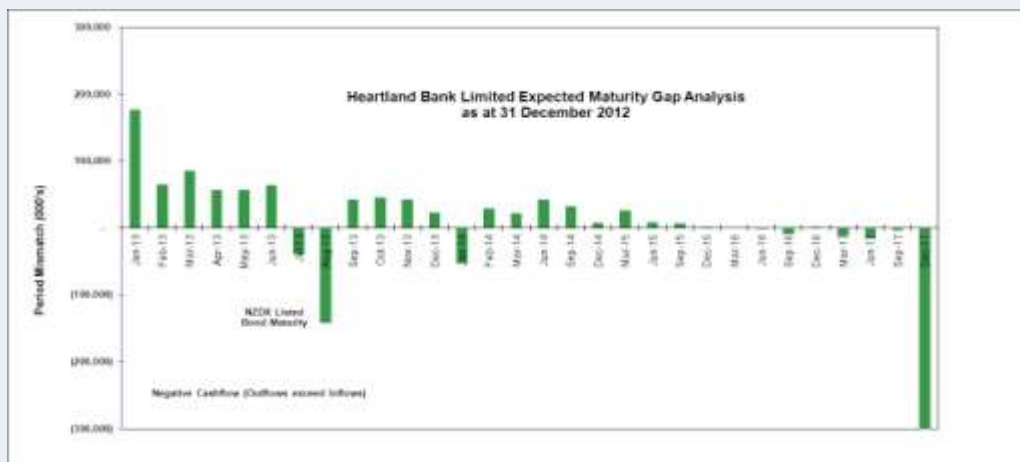
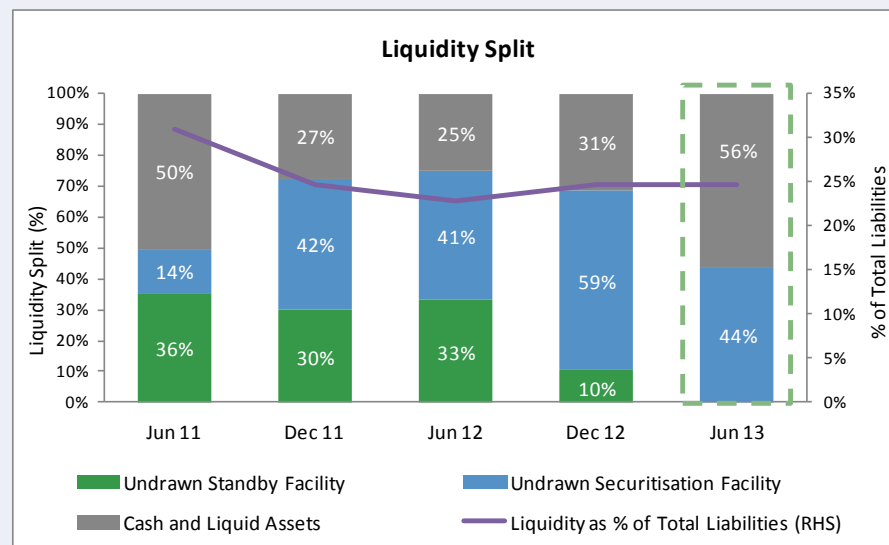
- Asset quality improving
- Non-core property remains driver of elevated impairment levels
- Underlying impairment trend improvement in last half
- Profit affected by RECL agreement being treated as fully utilised
- Non-core property impairment manageable, but review underway to test strategy



Funding & Liquidity

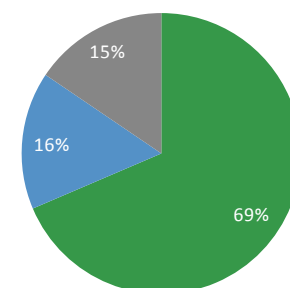
Strong liquidity position

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



Invested Cash and Liquid Assets as at 31 December 2012

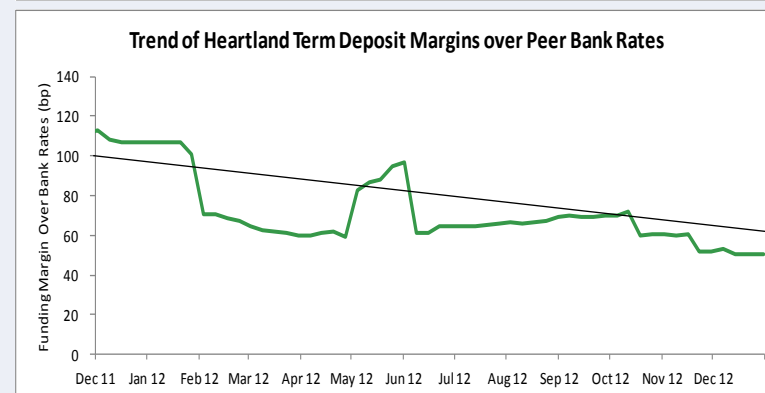
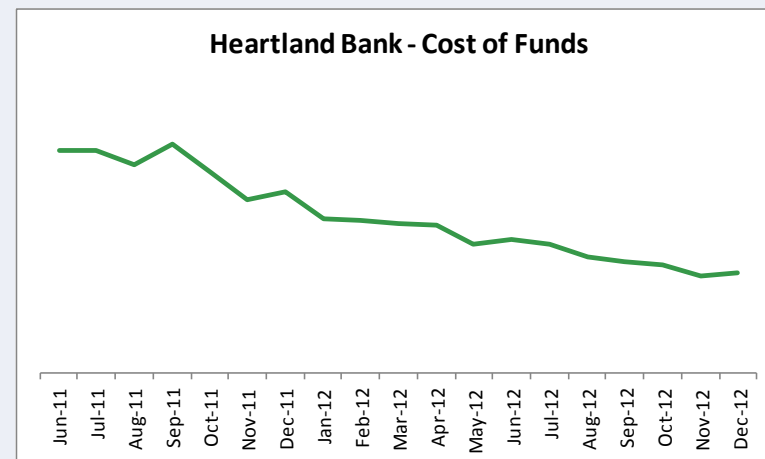
Call Deposits Bonds Cash at Bank



Cost of Funds

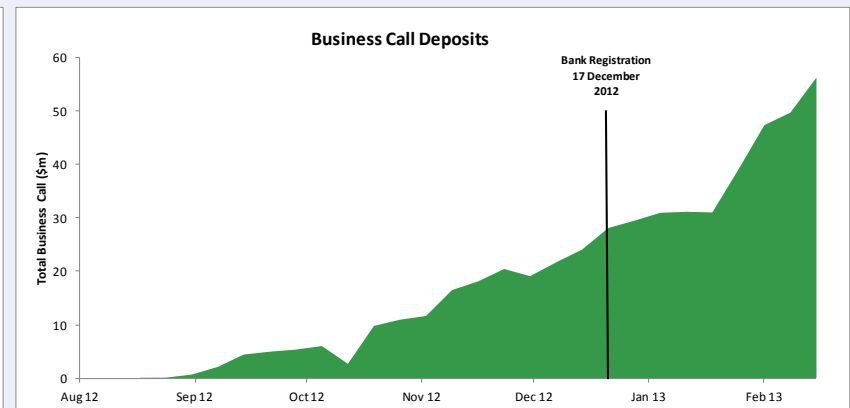
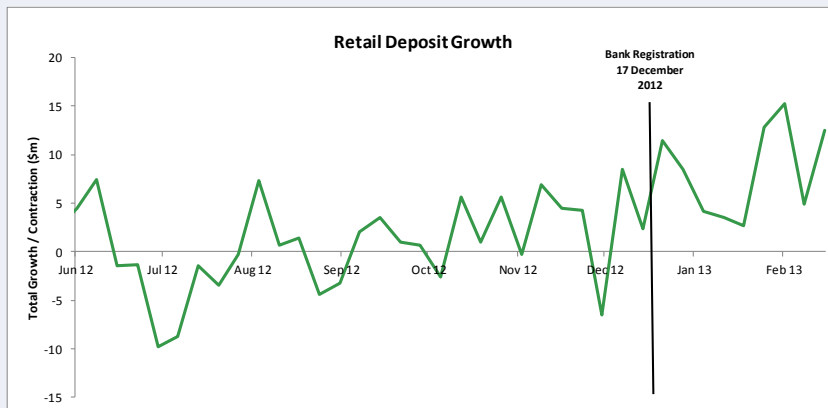
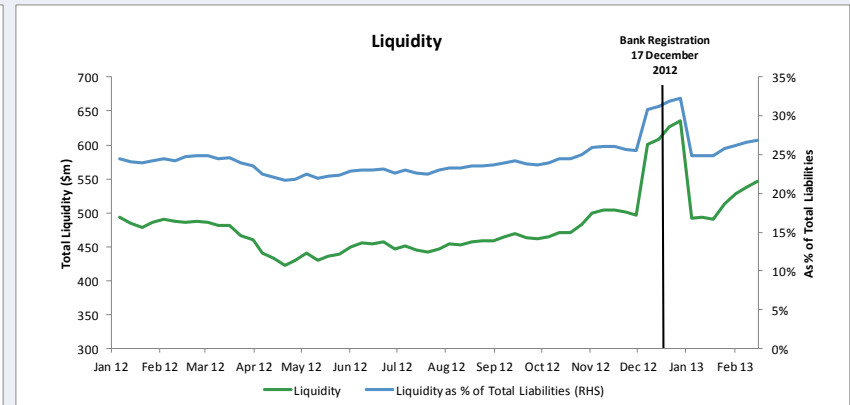
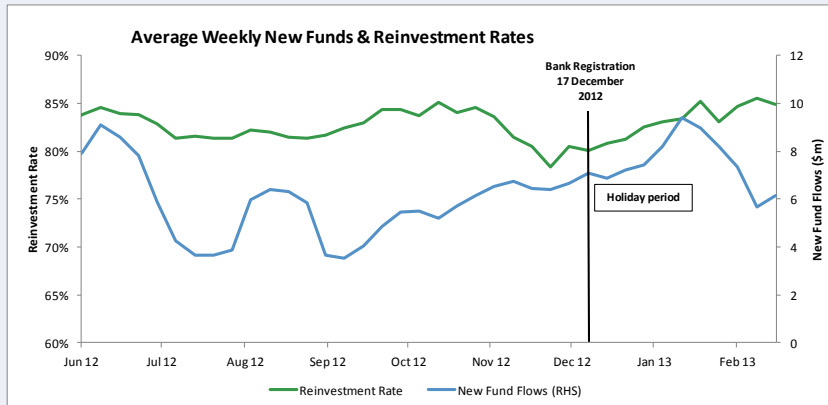
Cost of funds continue to track lower

- 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%^{p.a.} on call with no fees and no fine print.

(THAT'S WHAT WE DO)

With rates going back over 100 years, we've learned a lot about helping New Zealanders get ahead. That's why we don't just offer a business call account rate you'll 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're tired of bank thinking, talk to us. We're Heartland. New Zealand's smart bank.



Call us.
0800 83 83 83
www.heartland.co.nz

HEARTLAND
BANK

Invoice Finance

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

(THAT'S WHAT WE DO)

With rates going back over 100 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 an invoice. With cash flow you can rely on, you can relax and focus on growing your business.

If you're tired of bank thinking, talk to us. We're Heartland. New Zealand's smart bank.



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HEARTLAND
BANK

Livestock Finance


Imagine turning this feed into cash.

(THAT'S WHAT WE DO)

With rates going back over 100 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 package offer:

- No repayments for up to 12 months
- Up to 100% of the capital cost
- Interest secured on the stock you buy, not your farm assets

Put us the first line of bank thinking, talk to us. We're Heartland. New Zealand's smart bank.



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School Fees



Call us.
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HEARTLAND
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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**

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Questions

