Full Year Results to 30 June 2015

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Important Notice

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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 Heartland.

Agenda

- Introduction
- Financial overview
- Business Overview
- Looking Forward
- Questions

Introduction

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Full Year Highlights

- Increase in profitability (up 34% from prior year NPAT)
- Strong asset growth in core assets
- Return on equity of 10.4%
- Credit rating upgrade for Heartland Bank to BBB (outlook stable)
- Wider penetration into consumer markets (Harmoney and personal loan product)
- Normalisation of regulatory capital requirements for Heartland Bank by RBNZ

Financial Overview

Financial Full Year Overview

Strong profitability growth

- Achieved NPAT of $48.2m
- Increase in NPAT of $12m or 34%
- NOI increase of $23m or 18%
- Impairments higher due to Reverse Mortgage acquisition, court case decision reversed and higher Consumer arrears

	12 months to June 2015 (NZ$m)	12 months to June 2014 (NZ$m)	Change %
Net interest income	134.4	109.1	23%
Net other income	10.5	13.5	-22%
Net operating income *	**144.9**	**122.6**	18%
Expenses	68.4	64.7	6%
Profit before impairments and tax	**76.5**	**57.9**	32%
Impaired asset expense	12.1	5.9	105%
Decrease in fair value of investment properties	-	1.2	-100%
Net profit before tax	**64.4**	**50.8**	27%
Tax	16.2	14.8	9%
Net profit after tax (reported)	**48.2**	**36.0**	34%

* Net operating income includes share of MARAC Insurance profit

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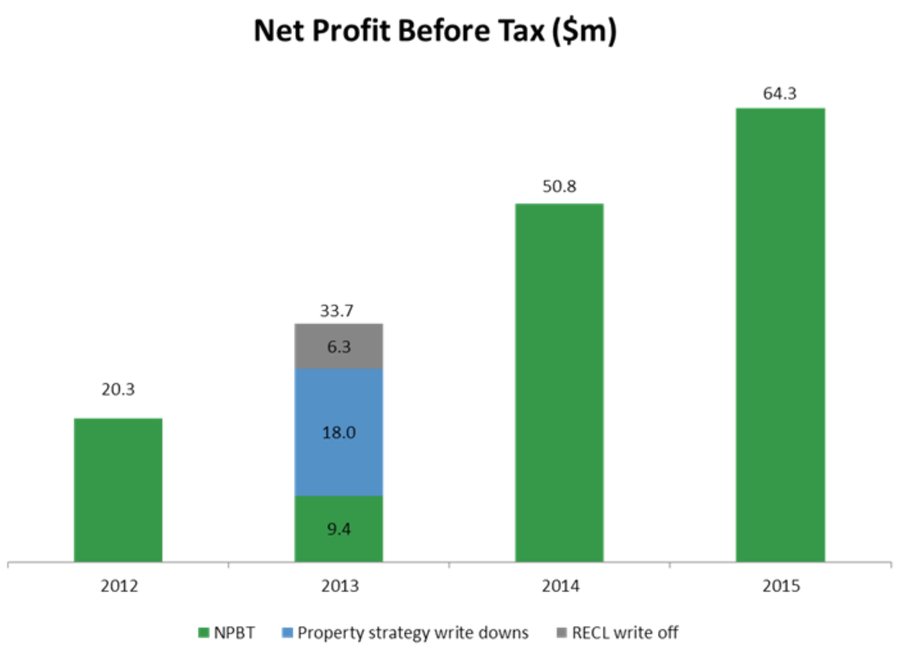
Net Profit Before Tax

Adjusted NPBT shows continued improvement

- Continued trend improvement
- Adjustment for one-off Non-Core Property expense in 2013, for like on like
- Interest margin big driver in growth
- Reverse Mortgage acquisition and core asset growth now contributing



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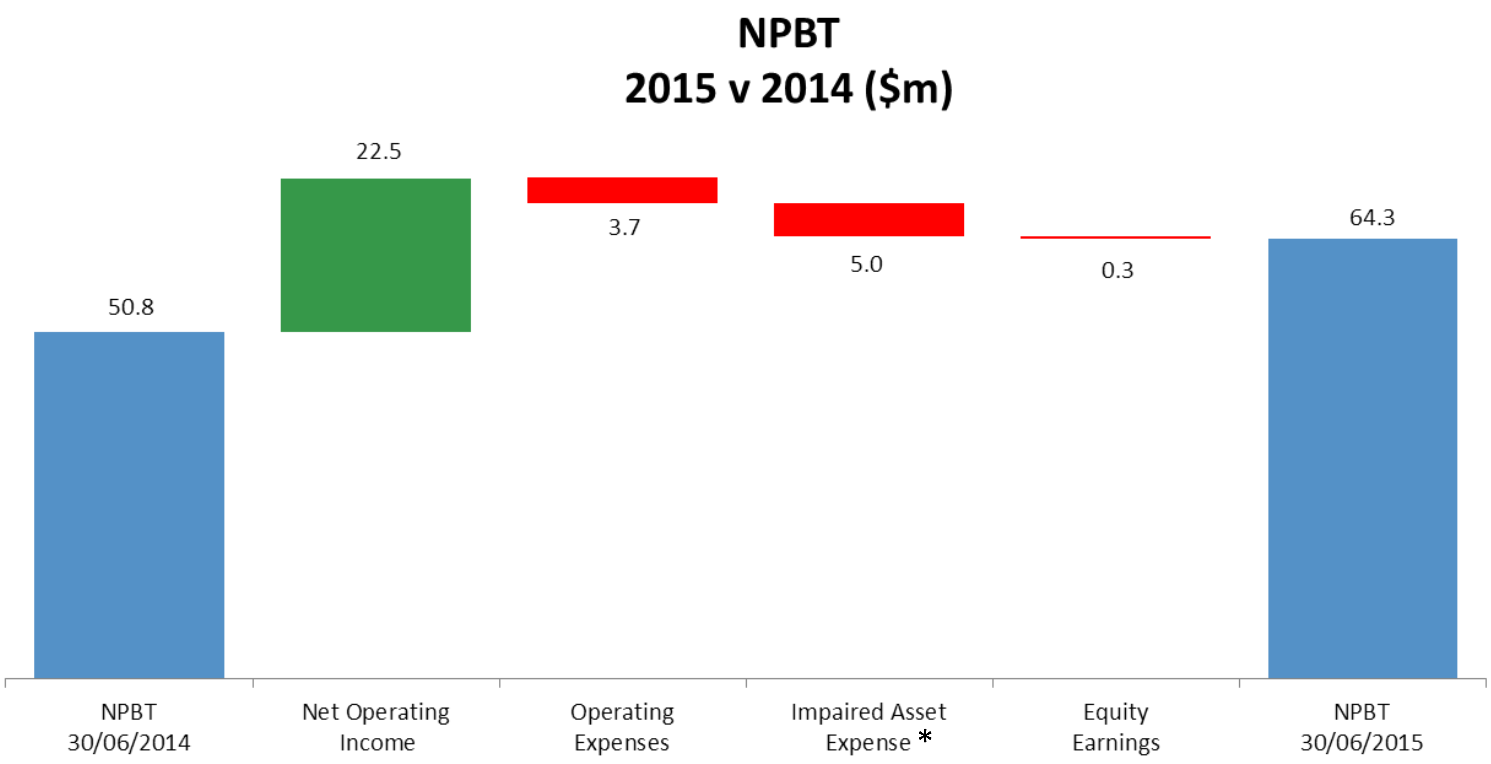
Net Profit Before Tax - Bridge

Breakdown of component parts



*includes decrease in fair value of investment properties

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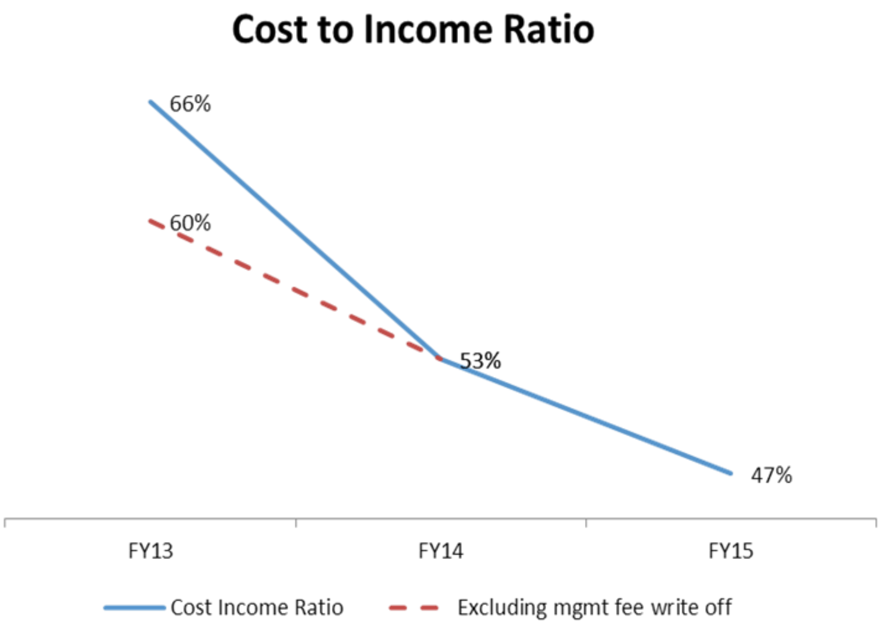
Operational Efficiency

Continuing improvement in cost to income ratio

- Ratio lower as NOI continues to grow faster than costs
- Annual cost to income ratio now 47%



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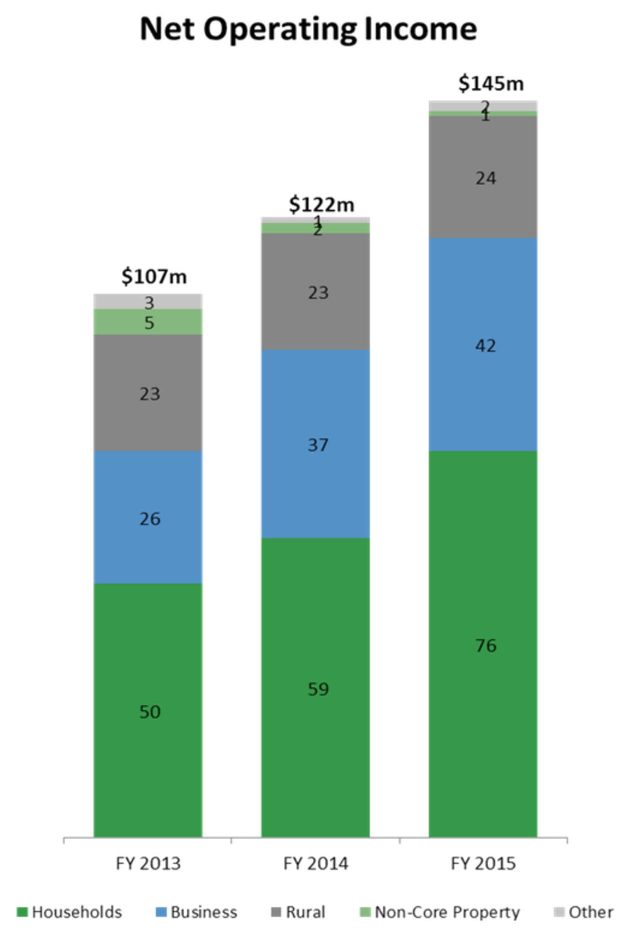
Net Operating Income

NOI driving profitability

- NOI up 18%
- Households is biggest earning division
- Reverse Mortgage acquisition in April 2014 and core asset growth drives big increase
- COF big historical driver



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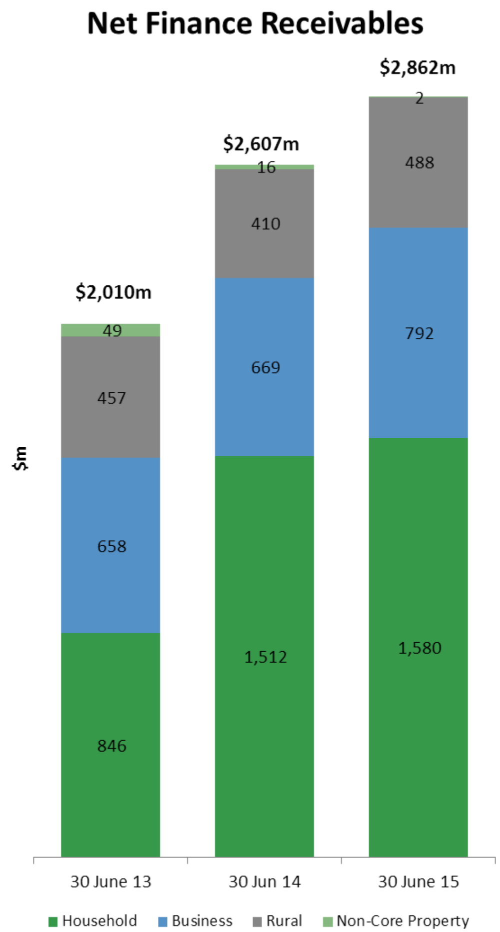
Balance Sheet Summary

Growth in receivables

- Total assets increased by $342m (or $321m excluding Reverse Mortgages)
- Net finance receivables increased by $255m or 10%
- Households 55% of receivables
- Bank capital ratio reduced to 12.9% from 14.4%

	30 Jun 2014 (NZ$m)	30 Jun 2015 (NZ$m)
Total assets	3,016.9	3,359.3
Total liabilities	2,564.3	2,879.1
Total equity	**452.6**	**480.1**
Equity ratio	15.0%	14.3%
Net tangible assets	**399.9**	**420.3**
NTA per share	$ 0.86	$ 0.89



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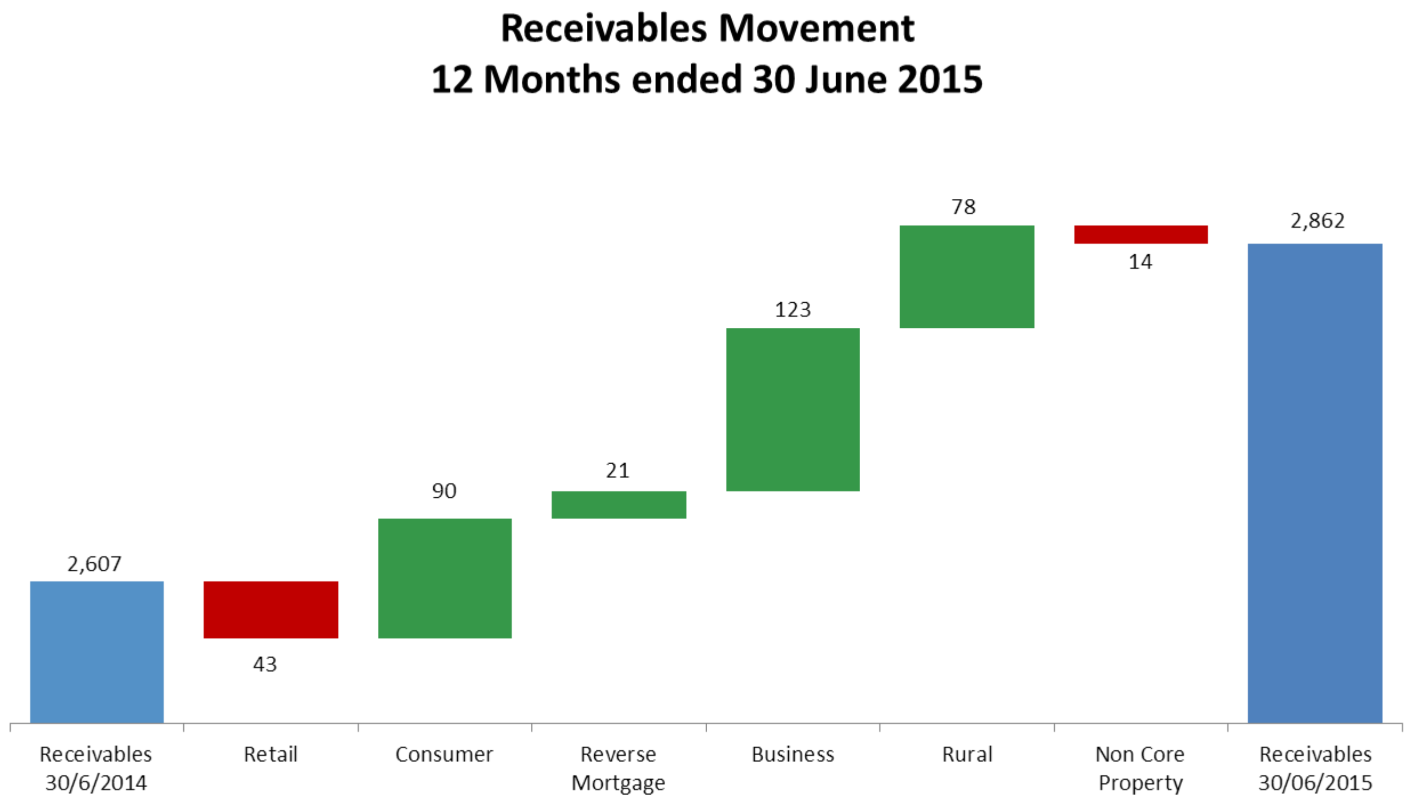
Net Finance Receivables Bridge

Portfolio mix improvements



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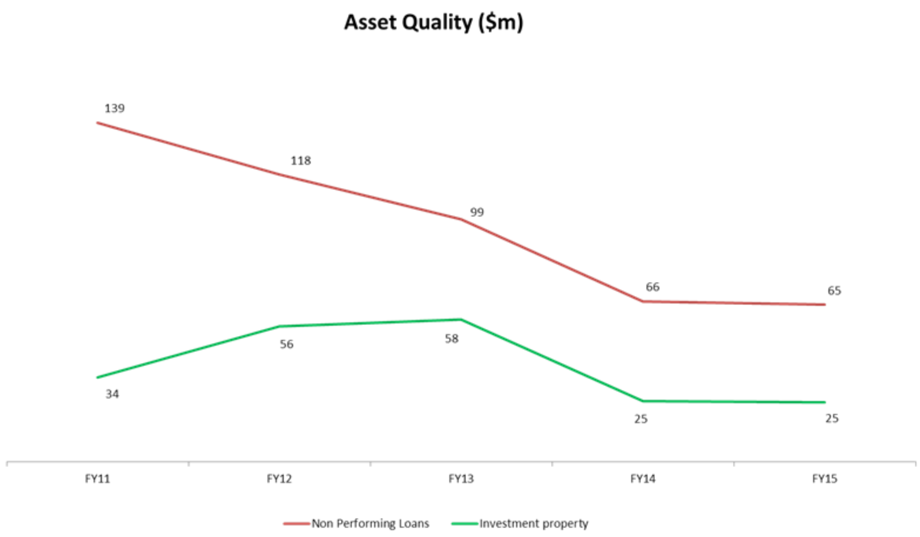
Asset Quality Trends

Trend improvement in underlying asset quality

- Asset quality is sound
- Non-Core Property continues to reduce
- Supporting dairy exposures (see later slide)
- Other asset quality expected to be consistent in year ahead



	30-Jun-11	30-Jun-12	30-Jun-13	30-Jun-14	30-Jun-15
Net Finance Receivables	1.7	2.1	2.0	2.6	2.9
Net Impairment %	5.9%	4.4%	2.4%	1.9%	1.4%
Net Core Finance Receivables	1.6	2.0	2.0	2.6	2.9
Net Impairment %	1.7%	1.3%	0.9%	1.4%	1.3%

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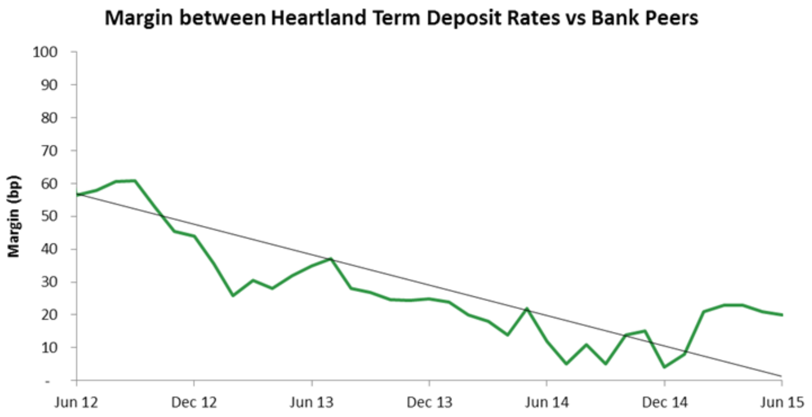
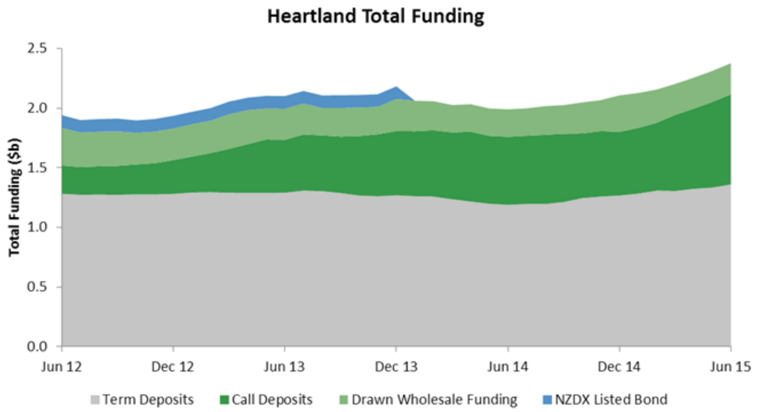
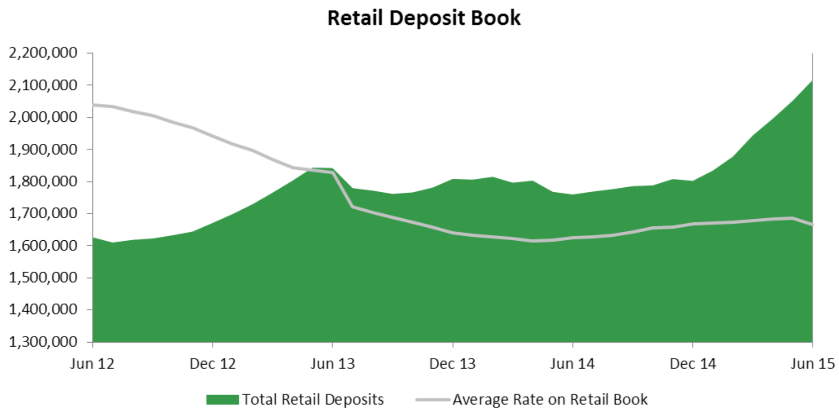
Cost of Funds – Heartland Bank

Cost of funds continue to track lower

- Strong growth in deposit book to match asset growth
- Margins paid v peers, in term deposit book were higher to facilitate growth (have reduced after balance date)







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Optimising Bank Capital

- Heartland Bank capital ratios have reduced, largely due to asset growth
- Total Capital ratio will reduce, but expected to remain above 12.5%
- Heartland Bank intends to issue a Tier 2 capital instrument, subject to market conditions remaining favourable
- Tier 1 capital ratio would remain above 10.5% after any issue
- A Tier 2 issue could (in the absence of any other use) allow Heartland to return capital by way of a share buy back which would have a positive impact on ROE and EPS

Heartland Bank	2014	2015
Total Capital	14.4%	12.9%
Tier 1 Capital	14.3%	12.8%
CET1 Capital	14.3%	12.8%

All capital ratios expressed as a percentage of risk weighted exposures

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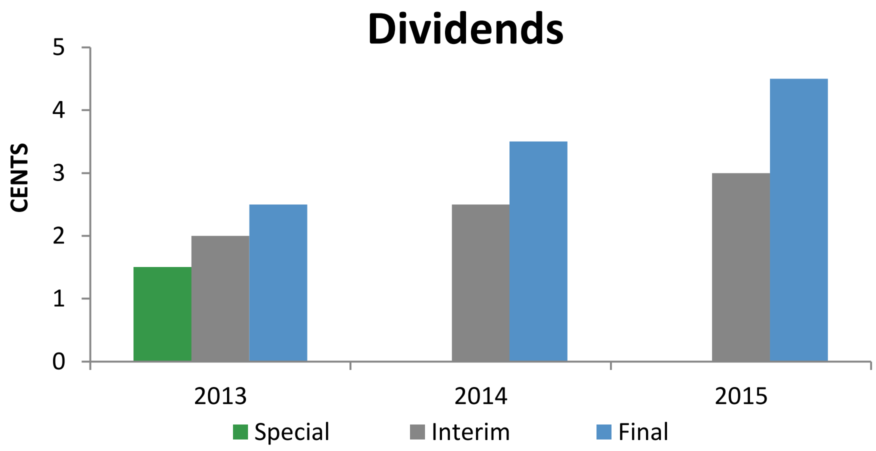
Dividend

History of dividend growth

- Fully imputed final dividend of 4.5 cents per share
- An increase in dividend payment of 25% from prior year
- Payment ratio has been around 70% for last two years



Business Overview

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Core Business Divisions

Business	Rural	Households

• Net operating income of \$42.0m
 	
• 18% growth in net receivables
 	
• Growth driven by:
  • lending through Harmoney platform
  • ability to provide multi-product solutions through a single relationship manager (eg. asset finance and working capital)
  • improved responsiveness to customer needs, including through intermediaries
 	
• Impairments levels in FY16 expected to be similar to FY15
	• Net operating income of \$24.0m
	
	• 19% growth in net receivables
	
	• Early settlements significantly lower in FY15 following completion of exit of loans that were higher risk or in areas that overlapped with the major banks
	
	• Actively working with dairy clients to fund working capital shortfalls where appropriate
	
	• Low impairments for FY15 and include adequate provisions for the dairy sector - expect higher level of impairments for FY16
		• Net operating income of \$75.7m
		
		• Launch of new personal loan product targeting customers transitioning off an interest-free period
		
		• Some growth experienced in Reverse Mortgage book in second half of FY15 with new lending increasing and receivables growing \$6.1m (excluding FX movements)
		
		• Continued reduction of residential mortgage book in line with strategy
		
		• Impairments levels in FY16 expected to be similar to FY15

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Dairy Exposure

Dairy Exposure

- Net exposure = $218m
- 40.6% of total Rural exposure
- 7.6% of total Heartland exposure

Security

- Average LVR = 61% (vs average LVR of 46% for total Rural book)
- Comprises livestock and first mortgages over land

Loan Size

- Average loan size = $244k
- 9 exposures greater than $5m
- 3 exposures greater than $10m

Clients

- Total number of clients = 600
- South Island exposure = 61.6% / North Island exposure = 38.5%
- Sharemilkers = 6.2% of dairy exposure

Credit Exposure by Geographic Region

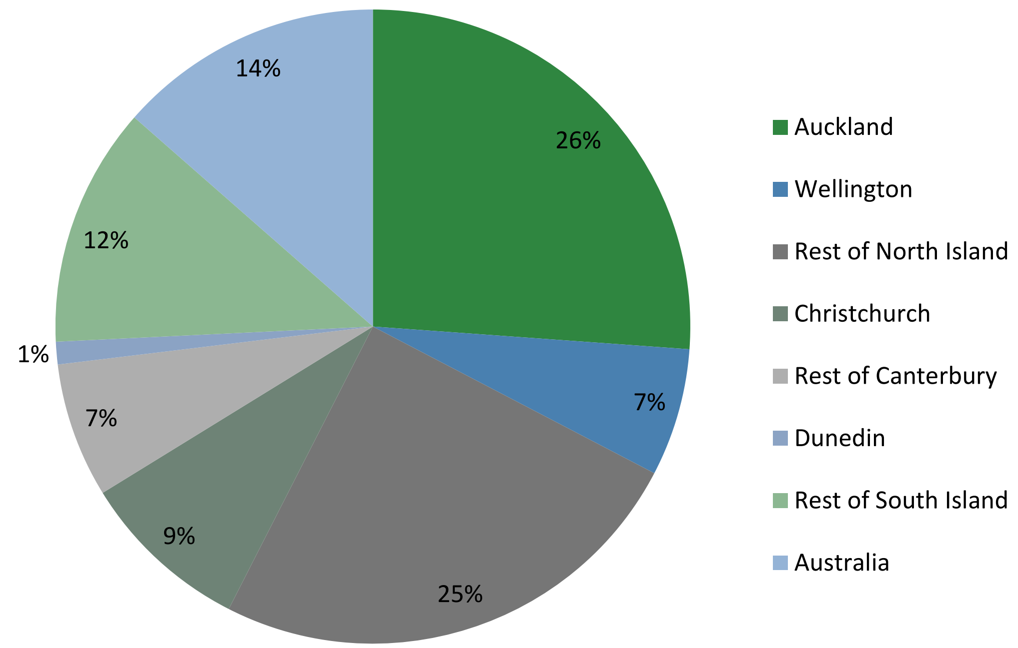
- Heartland's credit exposure is evenly weighted between NZ urban centres vs. NZ provincial

- NZ urban (Auckland, Wellington, Christchurch and Dunedin) collectively make up 43% of total credit risk

- NZ provincial (rest of North Island, rest of Canterbury and rest of South Island) collectively make up 44% of total credit risk

- Key drivers of growth for Heartland are GDP and employment

New Zealand / Australia Credit Exposure by Geographic Region



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Looking Forward

Looking Forward

Consumer

- Expect underlying asset growth in Motor Vehicle book to continue
- Focus on growing market share in personal lending, both through our personal loan product and lending through Harmoney's online platform

Reverse Mortgages

- New lending in July 2015 for Reverse Mortgages in New Zealand and Australia at record levels, with preceding months indicating solid growth trend (average monthly new lending for May to July = $3.9m Australia / $3.6m New Zealand)
- Margin not compromised in achieving this growth
- New loans written balanced against higher than anticipated repayment rates
- Expect that growth will accelerate as the low repayment rate on new loans offsets the higher repayment rates on older loans

Looking Forward

SMEs / Consumer

- Online lending has grown rapidly in popularity in the US and UK in recent years for both SME and consumer
- Lending Club and Prosper (both US P2P lenders) collectively achieved CAGR of 129% for originations between 2009 and 2014
- In 2014, UK P2P business lending volume was £749m and P2P consumer lending volume was £547m
- Heartland's focus will be on pursuing opportunities that provide greater distribution and processing capability at the lower-value end of the SME market
- Pathway will be through innovative, low cost technology allowing greater reach into the SME and consumer markets and lower servicing costs

Looking Forward

Rural

- Expect asset growth at a lower rate than FY15
- Expect a continuation of lower than historical higher milk pay-out levels, followed by a slow recovery – will lead to increase in farmers making operating losses
- Heartland is well positioned to support its dairy customers in the forthcoming year

Deposits

- Deposits grew $357m or 20% in FY15 – expect similar level of growth in FY16
- Deposits remain the primary source of funding for Heartland Bank
- Expect balanced growth between call and term funding
- Expect continued trend improvement in margin vs. peers

Looking Forward

Acquisition strategy

- Acquisitions continue to form part of Heartland's growth strategy
- Recent opportunities viewed as overpriced and offering outdated technology
- Will continue to pursue acquisition opportunities that meet our criteria and offer distribution benefits and/or innovative technology

FY16 forecast

- NPAT for FY16 expected to be $51m to $55m
- Table opposite shows expected contribution of marginal growth by division
- Rural makes up 16.4% of expected growth in interest margin

	Margin Contribution
Households	45.7%
Business	37.9%
Rural	16.4%

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Questions

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