

HEARTLAND

New Zealand Limited

BUSINESS | RURAL | FAMILIES

Heartland New Zealand – Market Update

March 2012



HEARTLAND

CBS
Canterbury

MARAC

PGG Wrightson Finance

SOUTHERN
CROSS

Important Notice

Presentation of Financial Information

Unless otherwise specified, all financial information in this presentation has been taken from the most recent audited interim financial statements of Heartland New Zealand Limited dated 31 December 2011, and has been calculated as at that date.

Agenda

- Heartland New Zealand Overview
- Heartland Building Society's Funding
- Financial Overview
- Looking Forward
- Questions

**100% FOR
NEW ZEALAND**

*Our vision is to drive prosperity
in Heartland communities across
New Zealand for businesses,
farmers and families. We are
proudly New Zealand operated
and managed, with our
parent company listed
on the NZSX.¹*



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Heartland New Zealand Overview

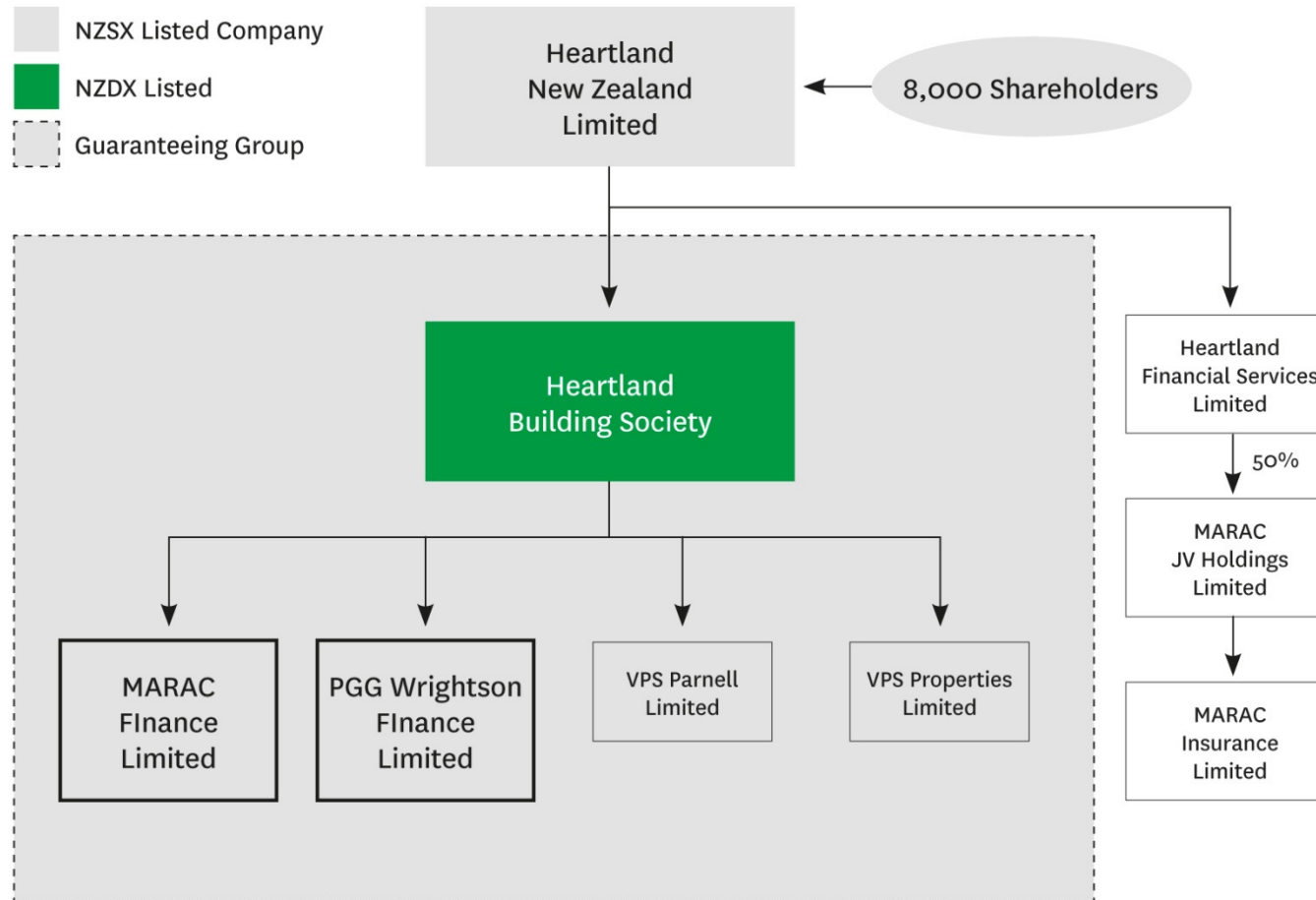


Heartland at a Glance

Total assets	\$2.4 billion				
Total liabilities	\$2.0 billion				
Credit rating	Heartland Building Society (Heartland) has an investment grade BBB- (Outlook Stable) credit rating from Standard & Poor's				
Listed Parent	Heartland New Zealand Limited is listed on the NZSX				
Diversified	Diversified asset portfolio, widespread depositor base and a balanced geographic footprint				
Bank aspiration	A key objective is to become a registered bank. Heartland is not currently a registered bank.				
100% for NZ	Heartland is 100% New Zealand operated and managed, with all lending on New Zealand based assets				
Principal activities	Providing financial services to small to medium-sized businesses, farmers and families				
Origins	<table><tr><td> 1875</td><td> 1952</td><td> 100+ yrs*</td><td> 1923</td></tr></table>	 1875	 1952	 100+ yrs*	 1923
 1875	 1952	 100+ yrs*	 1923		

Company Structure

Heartland Group Structure Diagram (simplified)



NZ needs a financial institution like Heartland

- Now is the time to have greater control of an essential industry
- Heartland is locally funded and not directly exposed to the volatility in offshore markets
- Not enough credit capacity is dedicated to the productive sector
- New Zealand needs a strong rural lending specialist



To finance New Zealand's productive sector

Heartland's Strategy

HEARTLAND IS FOCUSED ON THE PRODUCTIVE SECTOR IN NEW ZEALAND

With the support of community-based Depositors, providing financial products and services to:

- Small-to-medium sized businesses;
- The rural sector (particularly seasonal crop, livestock and working capital finance); and

"...our capital markets remain small and are a limited alternative source of financing for SMEs in particular – factors potentially reinforcing the predominant position of the four major banks. The Bank will continue to monitor lending markets for any signs that this predominant position is affecting the availability or pricing of lending." – Alan Bollard, May 2011

- NZ families, owners and managers of these businesses and other parts of the household Sector where Heartland has a comparative advantage (e.g. motor vehicle finance and insurance)

Heartland's Core Business



BUSINESS



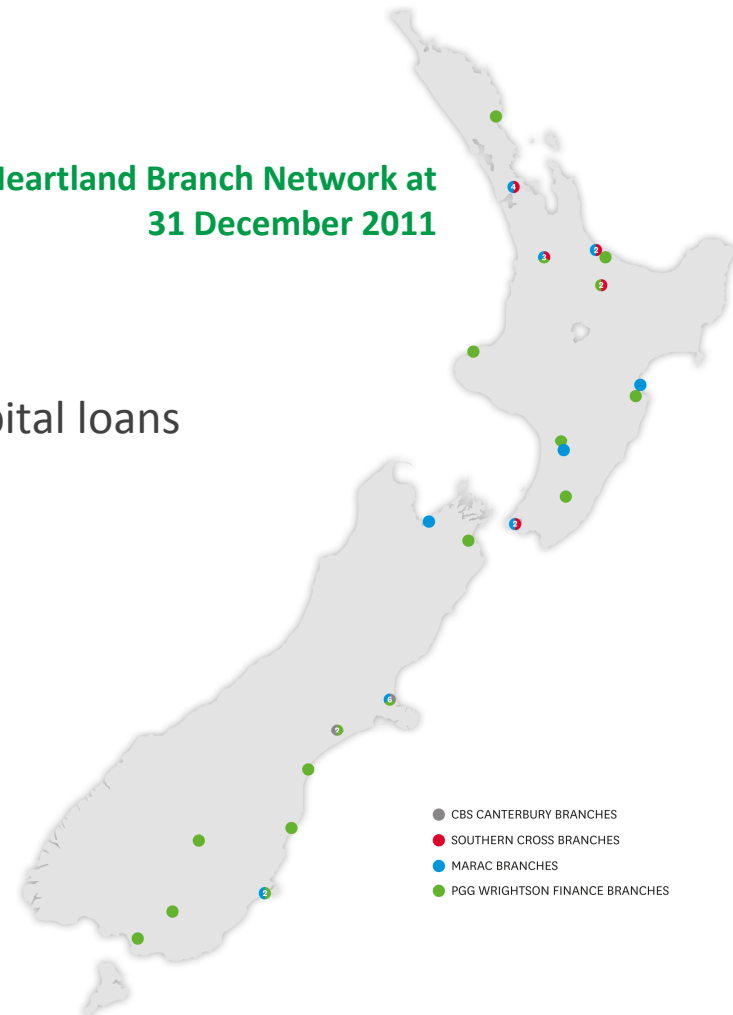
RURAL



FAMILIES

- Lending and finance
- Seasonal and working capital loans
- Day-to-day accounts
- Investment products
- Insurance products

Heartland Branch Network at
31 December 2011



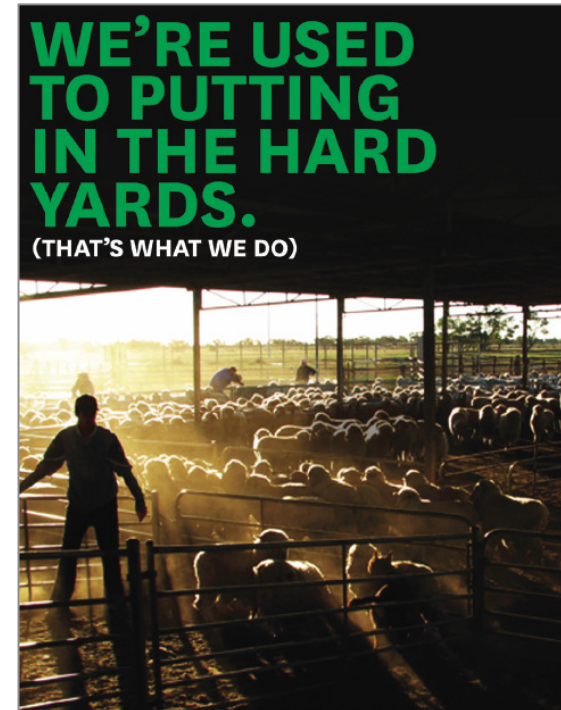
Business

- Providing term debt, plant and equipment finance, commercial mortgage lending and working capital solutions for small-to-medium sized New Zealand businesses
- Experienced relationship managers
- Market environment difficult but signs of improvement
- Number of accounts – 2,920
- Total Business loans – \$519m
- Average loan size – \$177k



Rural

- Heartland provides specialist financial services to the farming sector, offering seasonal and working capital and rural mortgage lending
- Heartland's strategy is focus on finance for inputs and productive assets on farms, e.g. livestock: the key enablers for farmers
- Strategic alliance with New Zealand's largest rural services provider, PGG Wrightson, offers direct access to New Zealand's rural heartland
- Number of Rural accounts – 1,720
- Total Rural loans – \$470m
- Average loan size – \$266k



Families

- Providing a comprehensive range of financial services to New Zealand families, including:
 - transactional and savings based deposit accounts;
 - residential mortgages
 - motor vehicle finance; and
 - insurance
- Number of Retail & Consumer accounts – 45,000
- Total Retail & Consumer loans – \$967m
- Average loan size – \$21k



Market Position

Heartland aims to occupy a premium niche where it offers (one or more of):

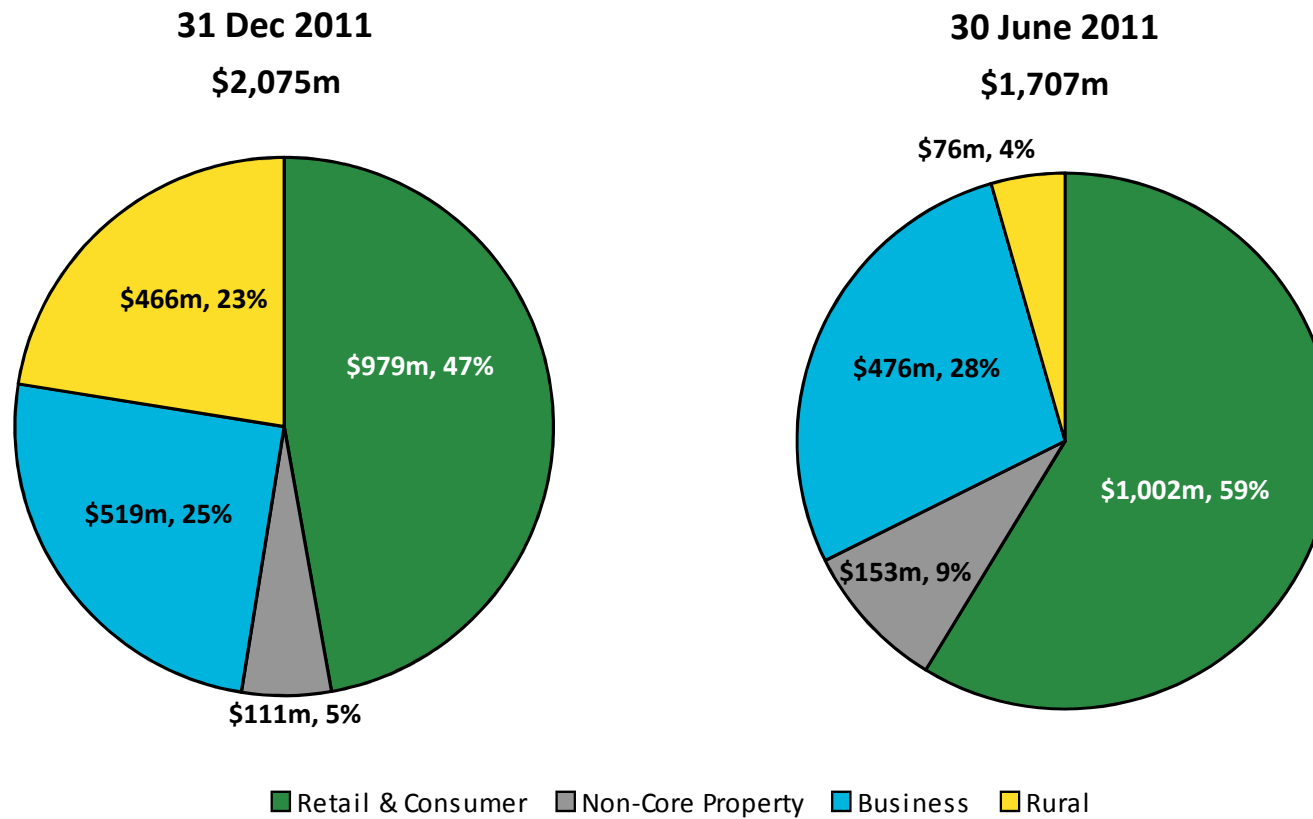
- Specialisation, e.g. Expertise in Rural, SME's
- Best in category – Car Finance, Livestock, Plant & Equipment
- Preferred Relationship – in all sectors being in the right place at the right time through community engagement and strategic partnerships

Credit & Operational Risk

- Heartland Risk appetite is established by the Risk Committee under delegated authority from the Board
- Appetite is captured in policy for credit, liquidity/market and operation risk issues and further articulated through lending standards to maintain asset quality by segment
- Exposure to credit risk is limited to opportunities understood through past experience or by limiting exposures to new markets while knowledge is gained.
- Risk Committee actively hindsight origination activity by the Credit Committee on a monthly cycle
- Risk tolerances are set and reviewed at least annually by the Risk Committee
- Concentration is assessed based on Geography, Industry and single counterparty exposures and reported at least monthly
- Geography is tracked to test trend and weighting by sector/division given economic makeup of the region
- Industry concentration is tracked in absolute terms.
- Single counterparty concentration is assessed and reported across top 50 borrowers to Risk Committee.

Lending Diversity

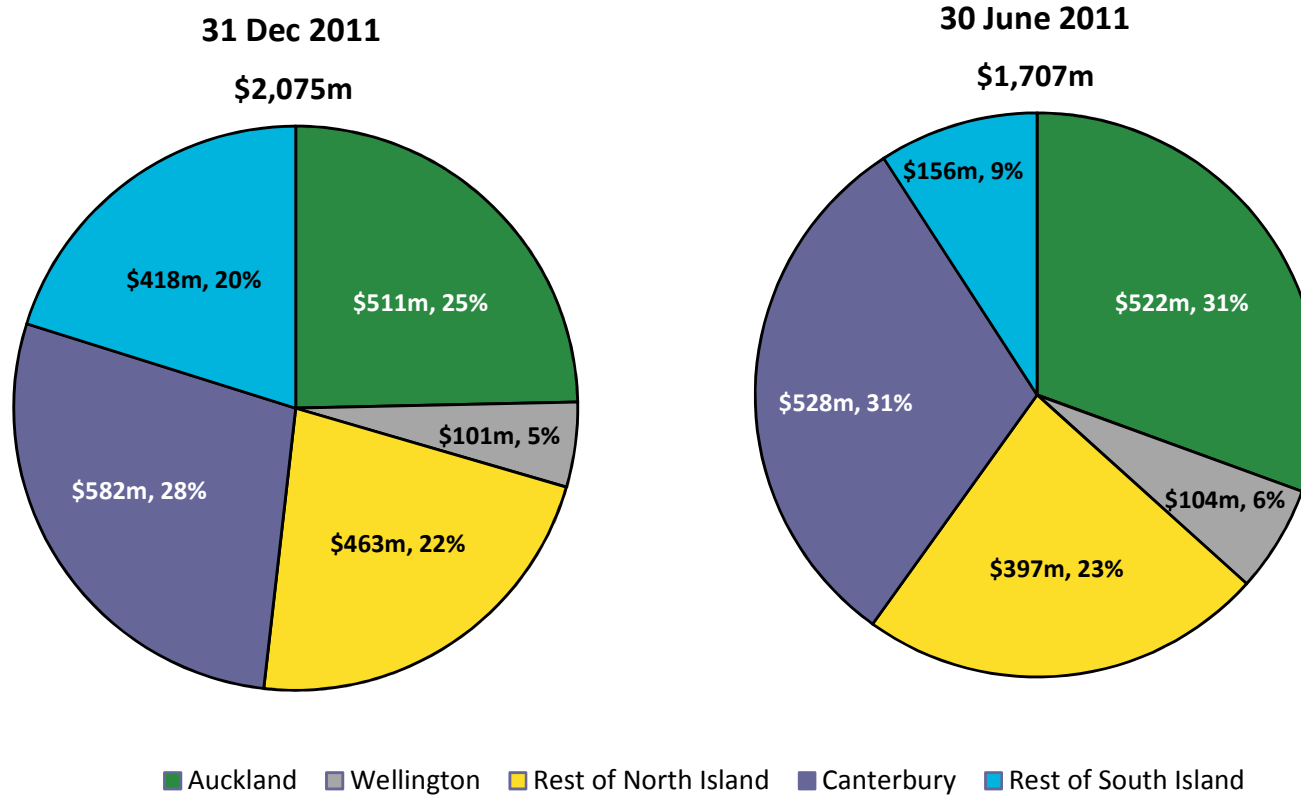
Net Finance Receivables by Division



Excludes operating lease vehicles and investment properties

Lending Diversity

Net Finance Receivables by Geography



Excludes operating lease vehicles and investment properties

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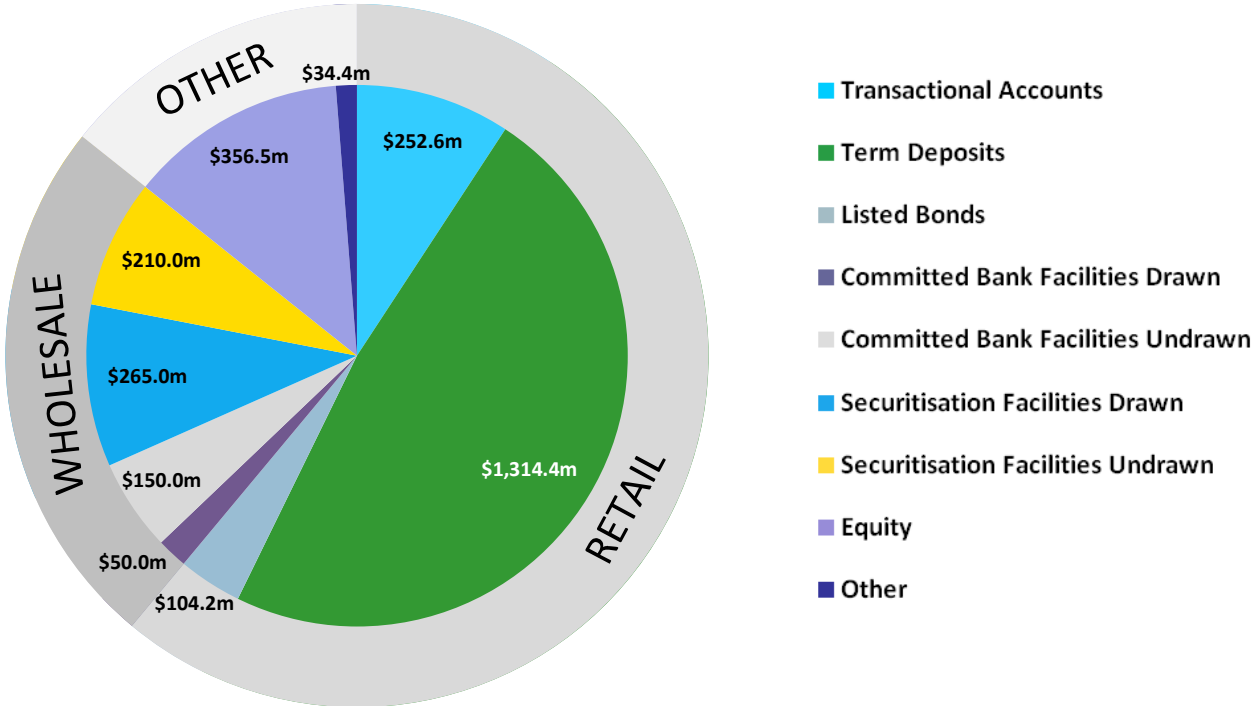
Heartland's Funding



How do We Fund this Strategy

Retail funding is the core of Heartland Building Society's funding base

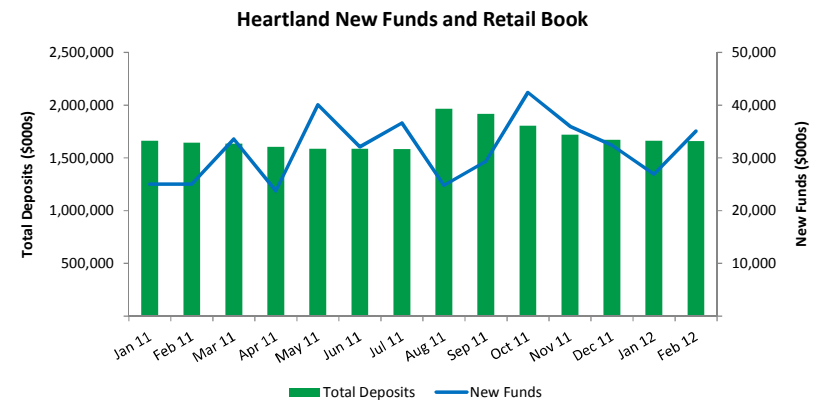
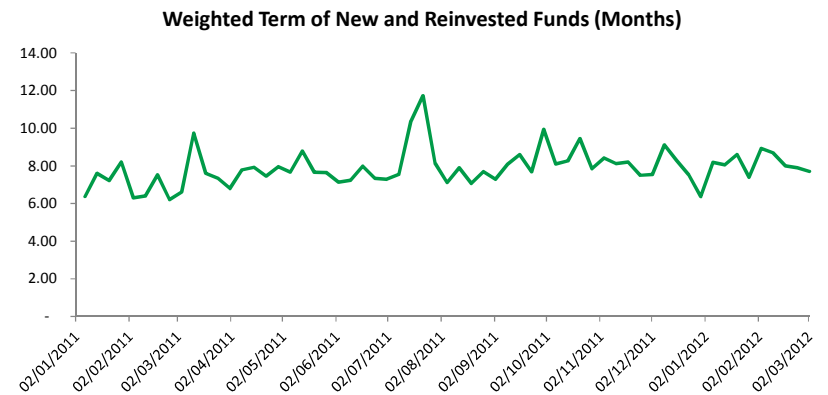
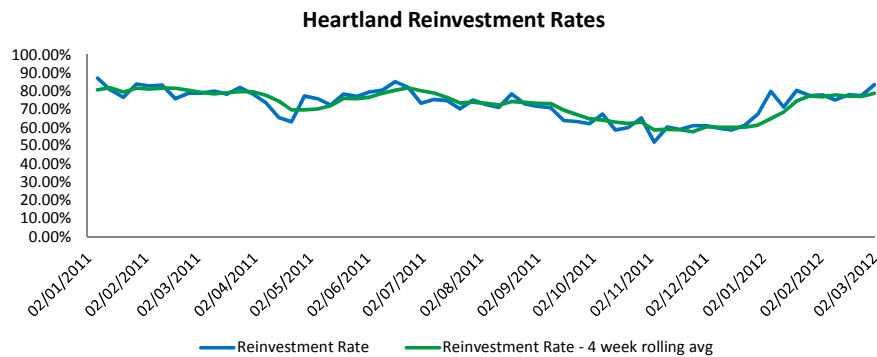
Funding Diversity by Source



Loyal, Stable Deposit Base

Strong reinvestment rate and depositor loyalty

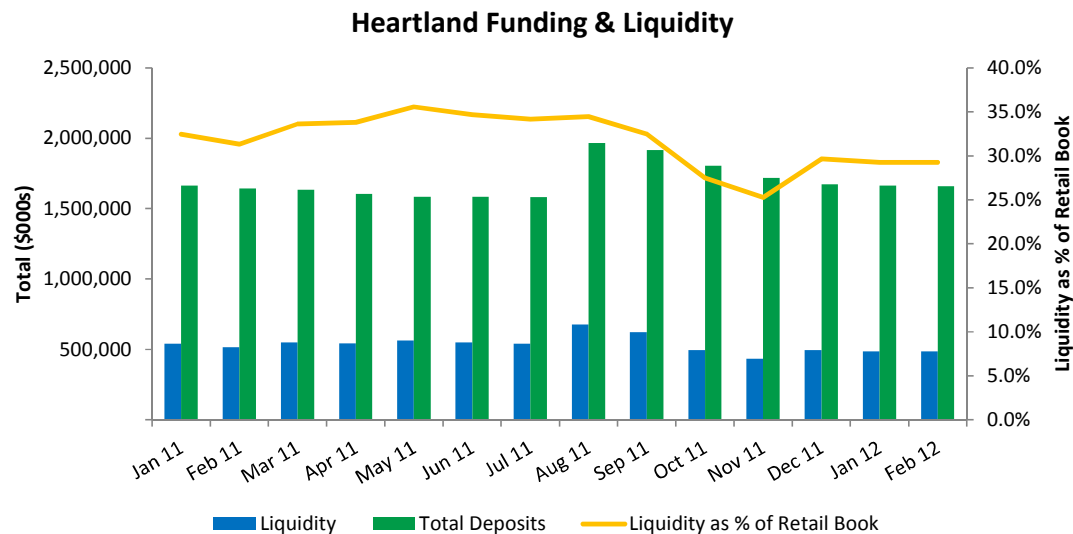
- Deposit book was \$1.67bn as at 31 December 2011
- Retail deposit book now growing
- Strong new fund flows and new customer growth
- Reflects underlying support for the Heartland vision



Liquidity Position

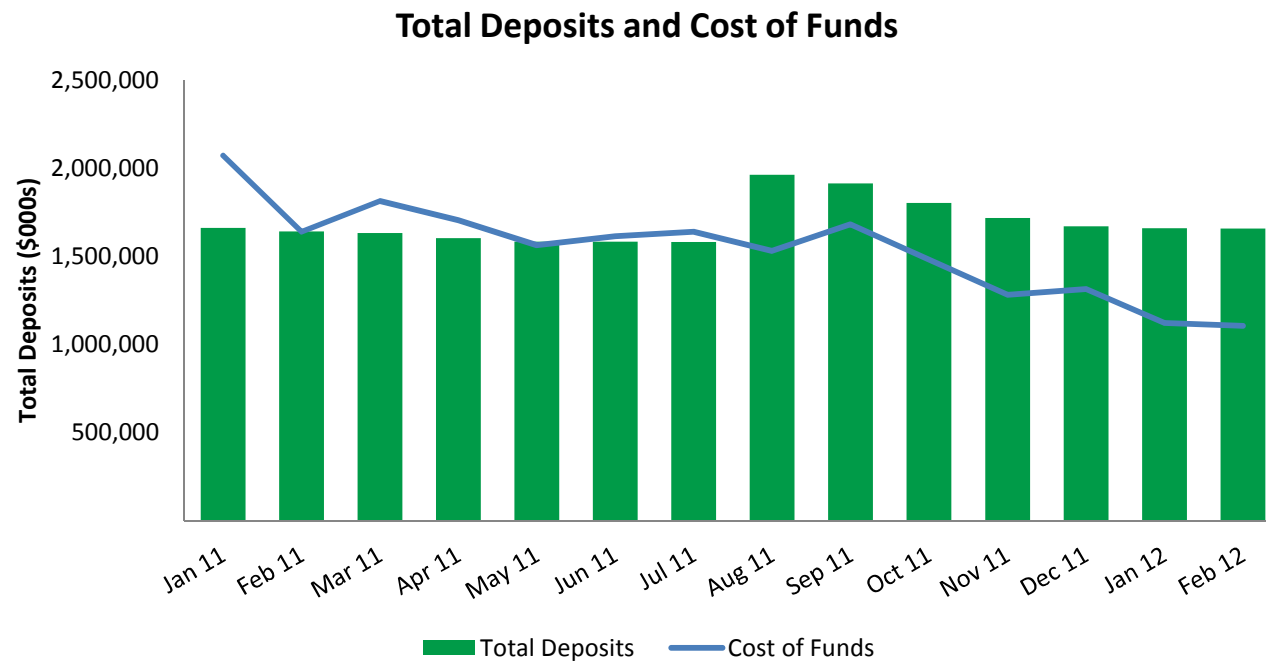
Liquidity of \$480m at 31 December 2011

- Made up of \$120m cash, \$150m committed undrawn bank facilities (maturing 30 Sept 2012 and 30 Sept 2013), \$210m unutilised securitisation facilities (semi annual roll overs)
- Represents 29% of total retail deposits
- Short-dated nature of the loan book and strong principal and interest instalments provide solid cash flow and assist liquidity management



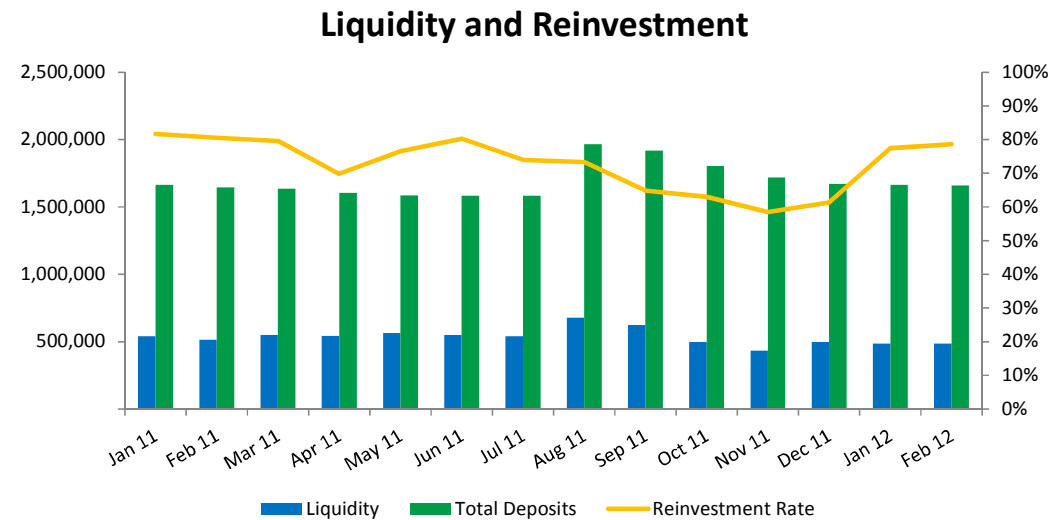
Cost of Funds

- Cost of Funds continues to track lower
- Focus on liquidity



Successful Transition from Crown Guarantee

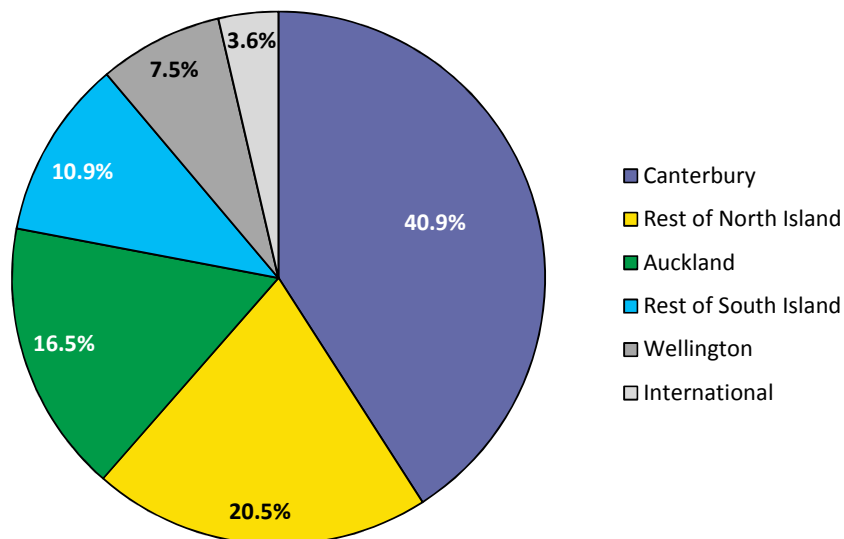
- Higher cash and liquidity levels maintained in the lead up to the expiry of the Crown Guarantee
- Cash holdings reduced as planned with purge of “hot money”
- Shift from debentures to term deposits
- Strong liquidity coverage ratios continue to be maintained
- Retail deposit book is bank like in characteristics



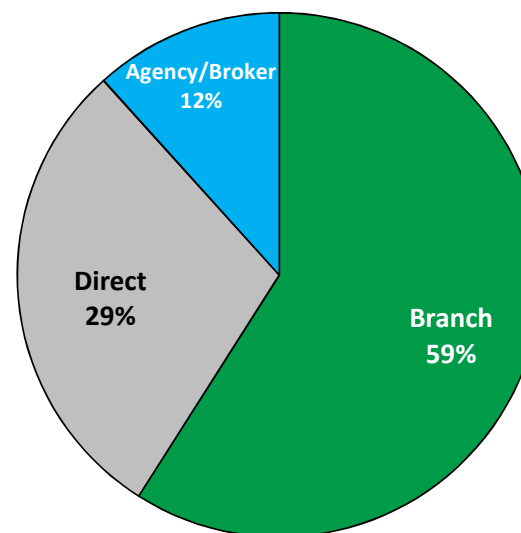
Profile of Depositors

- 48,683 depositors
- Savings, cheque and term deposit accounts
- Average deposit \$32,000

Funding Diversity by Geography



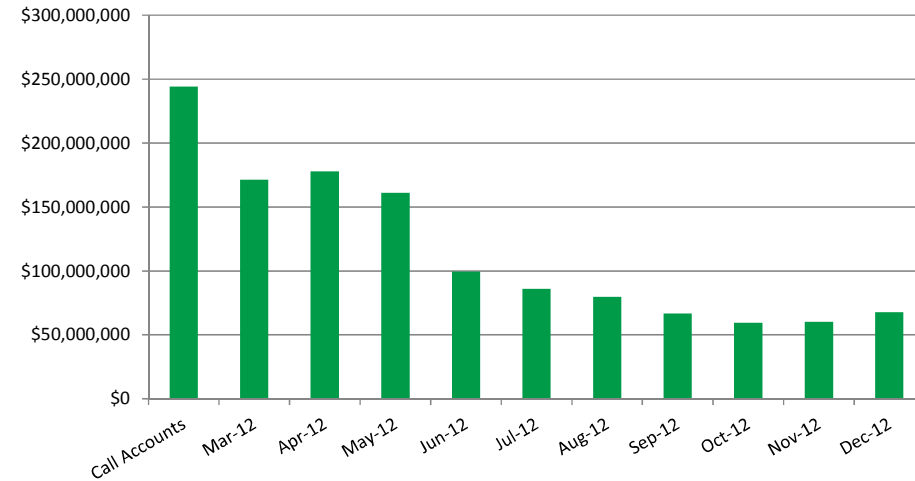
Heartland Retail Deposit Base by Number of Depositors as at 2 March 2012



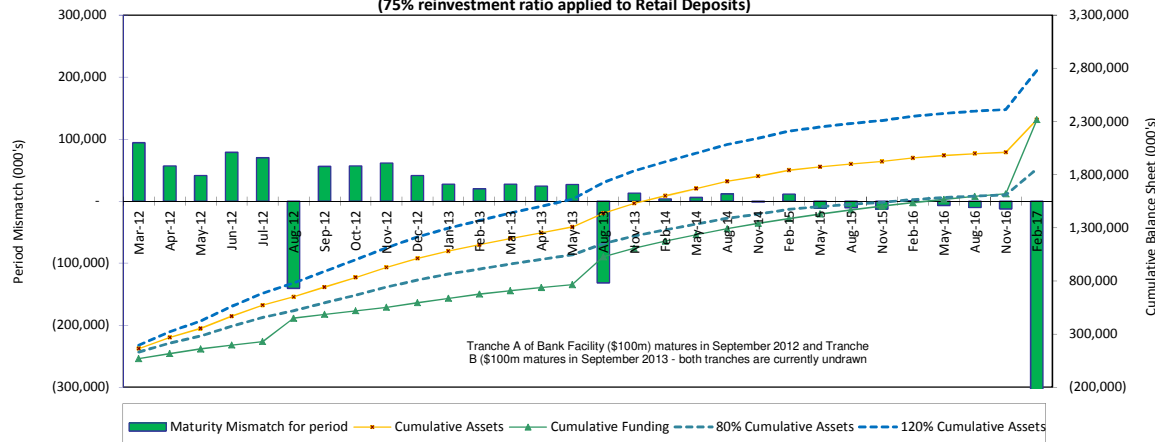
Debt Profile & Future Funding Requirements

- Weighted average life of liabilities is 6 months
- Maturity profile managed to reduce refinance risk
- Maturity gap analysis shows book is well matched

Heartland Maturities



Heartland Building Society Maturity Gap Analysis as at 29 February 2012
Expected Maturity
(75% reinvestment ratio applied to Retail Deposits)



Trust Deed and Covenants

Under the Trust Deed, Heartland has undertaken that it will ensure that, at all times:

- the Capital Ratio of the Consolidated Group is not less than 8%;
- the Capital Ratio of the Guaranteeing Group is not less than 8%;
- the Liquid Assets of the Consolidated Group are at least 15% of the Total Liabilities of the Consolidated Group;
- the Liquid Assets of the Guaranteeing Group are at least 15% of the Total Liabilities of the Guaranteeing Group;
- the Related Party Exposures of the Consolidated Group do not exceed 15% of the Consolidated Group's Capital;
- the Related Party Exposures of the Guaranteeing Group do not exceed 15% of the Guaranteeing Group's Capital; and
- the indebtedness of the Largest Single Borrower does not exceed an amount equal to 15% of the Consolidated Group's Capital or the Guaranteeing Group's Capital.

Investment Grade Credit Rating

- Investment grade rating affirmed by S&P on 6 December 2011
- Outlook revised from 'Negative' to 'Stable' on 6 December 2011
- Improved transparency in the key rating drivers

Category	Heartland	TSB	Kiwibank	Co-op Bank
SACP	BBB- (stable)	BBB+ (stable)	AA- (stable)	BBB- (positive)
Anchor	BBB+	BBB+	BBB+	BBB+
Business position	Weak (-2)	Moderate (-1)	Moderate (-1)	Weak (-2)
Capital & earnings	Strong (2)	Very strong (2)	Strong (1)	Very strong (2)
Risk position	Moderate (-1)	Moderate (-1)	Moderate (-1)	Moderate (-1)
Funding and liquidity	Below average & adequate (-1)	Average & strong (0)	Average & adequate (0)	Below average & adequate (-1)
Support	0	0	+5	0

- Heartland is committed to maintaining an investment grade rating and improving this over time

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Financial Overview



Financial Half Year Overview

- Achieved NPAT of \$9.8m, compared to forecast NPAT of \$9m to \$10m
- Includes four months' income and expenses of PWF following acquisition, and fully loaded corporate overheads following separation from PGC
- Improved impaired asset expense
- \$6.2m one-off deferred tax benefit

- Key value drivers remain:

- Net interest margin
- Operating expenses
- Asset growth / mix
- Asset quality

	6 months to Dec 2011 (NZ\$m)	A minus B 6 months to Jun 2011 (NZ\$m)	A 12 months to Jun 2011 (NZ\$m)	B 6 months to Dec 2010 (NZ\$m)
Net interest income	39.1	34.3	61.6	27.3
Net other income	6.0	4.9	9.0	4.1
Net operating income *	45.1	39.2	70.6	31.4
Expenses	35.7	28.3	45.7	17.4
Profit before impairments and tax	9.4	10.9	24.9	14.0
Impaired asset expense	3.8	7.2	13.3	6.1
Net profit before tax	5.6	3.7	11.6	7.9
Tax	(4.2)	1.7	4.5	2.8
Net profit after tax (reported)	9.8	2.0	7.1	5.1

* Net operating income includes share of MARAC Insurance profit

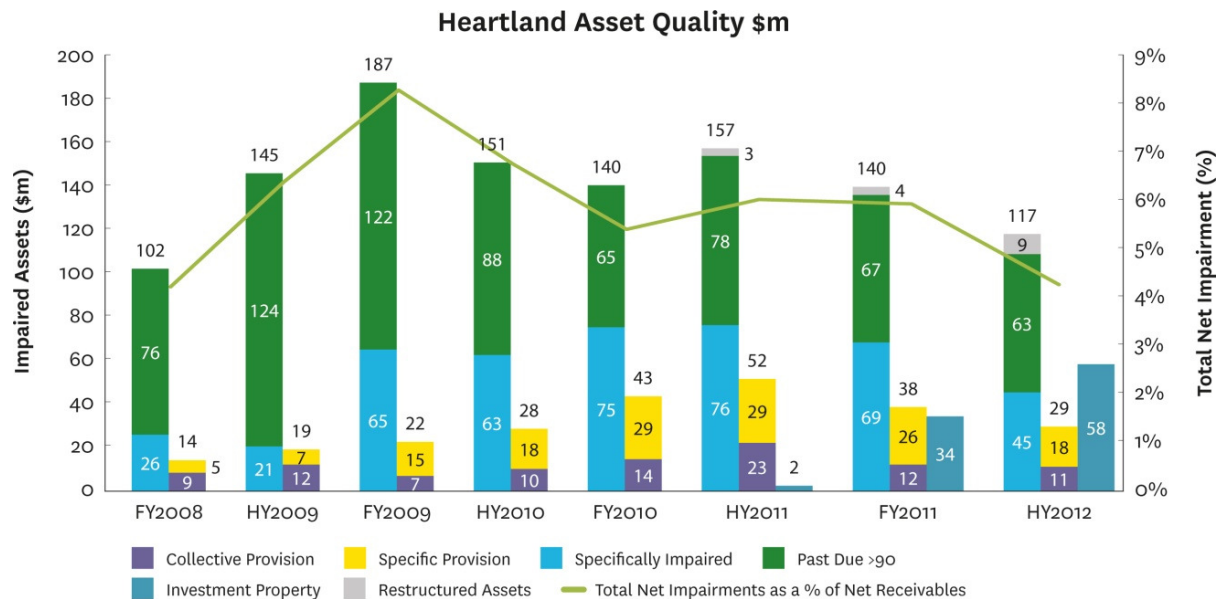
Balance Sheet Summary

- Total assets increased by \$262m
- Cash holdings reduced as planned
- Net finance receivables increased \$368m (mostly due to PWF acquisition)
- Share capital up by net \$55m
- Strong equity ratio and Heartland Building Society NBDT regulatory capital
- NTA per share \$0.85 following PWF acquisition and capital raising

	31 Dec 2011 (NZ\$m)	30 Jun 2011 (NZ\$m)	7 Jan 2011 (NZ\$m)
Total assets	2,380.5	2,118.0	2,185.3
Total liabilities	2,020.3	1,821.5	1,891.2
Total equity	360.2	296.4	294.1
Equity ratio	15.1%	14.0%	13.5%
HBS regulatory capital - NBDT	9.92%	9.82%	9.58%
Net tangible assets (NTA)	330.6	270.1	265.2
NTA per share	\$0.85	\$0.90	\$0.88

Asset Quality Trends

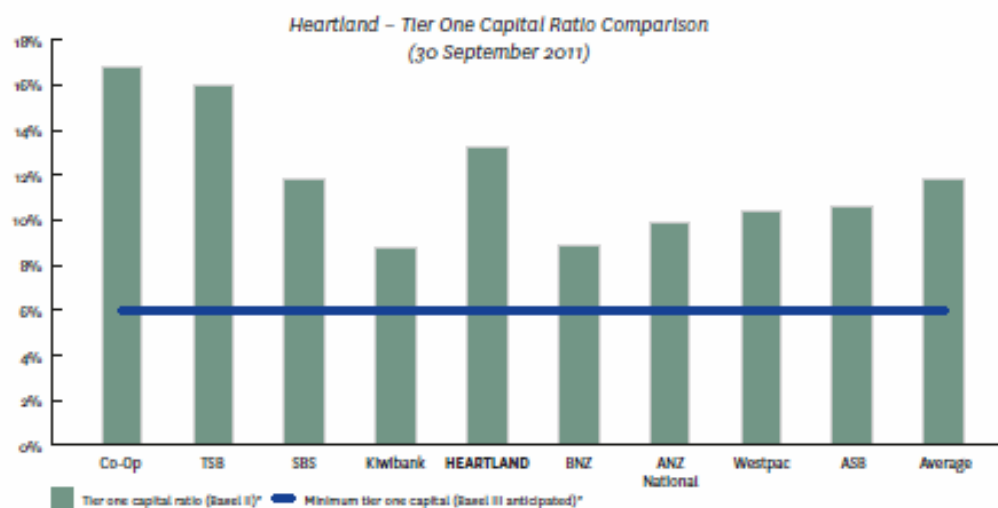
- Arrears and impaired assets remain at elevated levels due to non-core legacy property development assets
- Will reduce as a percentage as core lending grows
- Investment property acquired as security position improved through enforcement
- Ex-MARAC book managed under RECL contract
- \$30m of PWF receivables subject to PGW guarantee
- Net core ratio 1.1% (1.2% June 2011)



Periods prior to HY 2011 are a notional amalgamation (MARAC & Southern Cross at 30 June and 31 December, CBS Canterbury – 31 March and 30 September).

Management of Capital

- The Heartland Group has minimum capital requirements which it is required to maintain in accordance with its Trust Deed, borrowing facilities and the Deposit Takers (Credit Ratings, Capital Ratios, and Related Party Exposures) Regulations 2010
- The Heartland Group seeks to maintain an appropriate buffer above these ratios and reports these to its Board of Directors at least monthly
- NZSX listed parent company (HNZ) with approximately 8,000+ shareholders - provides 'financial flexibility' – potential to access further capital to fund growth if required



* Basel is a global regulatory standard on bank capital adequacy, stress testing and market liquidity risk. Basel II was the second of the Basel accords, which is now extended and effectively superseded by Basel III.

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Strategic Outlook & Key Value Drivers



Milestones

		Timing
1. Investment grade credit rating	✓	5 January 2011
2. Merger	✓	7 January 2011
3. Parent company NZSX listing	✓	1 February 2011
4. In specie distribution of HNZ	✓	30 May 2011
5. Rebrand (Parent, Business and Rural)	✓	1 June 2011
6. HNZ NZX50 inclusion	✓	20 June 2011
7. Inaugural profit in line with forecast	✓	19 August 2011
8. PWF acquisition	✓	31 August 2011
9. Investment grade affirmed	✓	6 December 2011
10. Expiry of Crown guarantee	✓	31 December 2011
11. Bank registration		?
12. Sustainable and acceptable ROE		2012/13

Strategic and Operational Initiatives

- Drivers of Financial Performance
 1. **Asset Growth & Mix** Economic conditions, credit demand and switching into relatively higher margin products
 2. **Improving Margin** Lending rates (lift ROA)
Lower Cost of Funds – average versus marginal
 3. **Costs** Leveraging fixed costs and managing variable costs in line with performance
 4. **Liquidity & Funding** Primarily the cost of exiting the guarantee
 5. **Asset Quality** Positive improvement in core assets
- Objective is to consolidate and improve our industry position whilst delivering a sustainable and acceptable return on equity

				Scenario	
				[A]	[B]
Total Assets (\$m)	2,000.0	2,500.0	3,000.0	2,000.0	3,000.0
Return on Assets (%)	1.00%	1.25%	1.50%	1.50%	1.00%
NPAT (\$m)	20.0	31.3	45.0	30.0	30.0
Equity (\$m)	350.0	350.0	350.0	350.0	350.0
ROE	5.7%	8.9%	12.9%	8.6%	8.6%

Management Profile

Management has executed business plans and strategies with success

“...Standard & Poor's maintains a favourable view of Heartland's management, which has to date successfully managed a range of complex issues relating to formation of the new group...”

Summary - Strengths of Heartland

Heartland's combined strengths include the following:

- **NZX listed parent company** – HNZ is listed on the NZX and has over 8,000 shareholders
- **Strong governance** – the Directors and the executive management team of Heartland are experienced in the financial services and banking industries
- **'Investment grade' credit rating** – Heartland Building Society has a credit rating of BBB- from Standard & Poor's – and commitment to maintain and improve the rating
- **Substantial balance sheet, sound cash flow** – Heartland's focus is on lending against assets that generate cash flow, assets that have essential uses and assets that have sound realisable values
- **100% for New Zealand** – Heartland is New Zealand operated and managed. All Heartland's lending is on New Zealand based assets
- **Lending diversity** – Heartland's lending is diversified across the business, rural and household sectors, and geographically across New Zealand to reduce risk
- **Funding diversity** – Heartland is funded through retail deposits, committed bank facilities, securitisation and NZDX listed bonds. This diversity reduces Heartland's reliance on any single funding source
- Reserve Bank of Zealand Supervision and Non-Bank Depositor Taker regulation

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Questions



Governance

A STRONG GOVERNANCE FRAMEWORK IS CRITICAL

Heartland Building Society Board



- Bruce Irvine - Chairman



- Christopher Mace



- Jeff Greenslade - Chief Executive Officer



- Geoffrey Ricketts



- John Harvey



- Michelle Smith



- Graham Kennedy



- Gary Leech

Management Profile

Management has executed business plans and strategies with success.

“...Standard & Poor's maintains a favourable view of Heartland's management, which has to date successfully managed a range of complex issues relating to formation of the new group...”



JEFF GREENSLADE, CHIEF EXECUTIVE OFFICER

Jeff is responsible for the strategy and operational management of Heartland Building Society. He joined MARAC Finance Limited as Chief Executive Officer in 2009, and was appointed to the respective boards in December of that year. Jeff brings to this position 20 years' experience as a senior executive in the ANZ National Banking Group, where he last held the position of Managing Director of Corporate and Commercial Banking for ANZ National Bank. From 2003 until May 2008 he spent time on the board of UDC Finance. Jeff has also held a number of senior positions in the Institutional and Capital Markets areas of The National Bank of New Zealand and its subsidiary Southpac.



CRAIG STEPHEN, GROUP TREASURER

A qualified economist, Craig has 20 years experience in the banking and finance industry, and has held a variety of senior positions in both the banking (Westpac) and corporate (Fonterra) sectors. He has also managed a successful consultancy business in recent years. Craig is a member of the Institute of Directors and a former board member of the NZ Society of Corporate Treasurers and Institute of Finance Professionals of New Zealand. He currently holds the status of Certified Finance and Investment Professional. Craig was also Chief Investment Officer of PGC and MARAC responsible for treasury, capital raising, investor relations, and mergers and acquisitions.



SEAN KAM, CHIEF FINANCIAL OFFICER

Sean is Chief Financial Officer of Heartland Building Society, having responsibility for the financial reporting and accounting functions. Sean has 20 years' experience in senior finance positions, predominantly in the banking sector in New Zealand and the United Kingdom. Directly prior to joining Heartland he was the Chief Operating Officer of New Zealand registered bank ABN AMRO Bank NV, preceded by roles at Merrill Lynch New Zealand and BZW Barclays New Zealand. Sean has broad experience in financial analysis and public reporting, dealing with complex financial transactions including IFRS, NZ taxation, capital markets operations and securities law aspects. He is also Treasury and Financial markets qualified including Regulatory and Risk management.

Management Profile



CHRIS FLOOD, HEAD OF RETAIL

Chris has spent 28 years in the finance and banking sectors, having also previously worked in management positions with National Australia Bank and UDC Finance. Chris has broad experience in consumer and commercial finance, and has been with MARAC Finance Limited for 14 years, eight years as MARAC Finance Limited's General Manager Consumer Finance where he was responsible for the Motor Division.



JAMES MITCHELL, HEAD OF BUSINESS & OPERATIONS

James has over 20 years' banking and financial services experience gained working for ANZ and ASB Bank. Prior to leaving ASB Bank in early 2010, he was Chief Executive Relationship Banking responsible for business, commercial, rural and corporate banking and was a member of the ASB Bank Executive Management Committee from 2000. James' career experience includes marketing, cards and payments, investments, insurance and relationship banking. He has experience in New Zealand, Australian and Indonesian business environments, and was Project Manager for the merger between CBS Canterbury, MARAC Finance Limited and Southern Cross Building Society.



WILL PURVIS, HEAD OF RURAL

Will has over 20 years' banking experience gained working for the Rural Bank, ASB Bank and Bank of New Zealand. Prior to leaving Bank of New Zealand in May 2010, Will was General Manager BNZ Partners responsible for business, rural and private banking. His career experience also includes retail banking.

Management Profile



SARAH SELWOOD, HEAD OF HUMAN RESOURCES

Sarah has 20 years' experience in financial services, including 17 years with Heartland. She has held senior roles in sales, marketing, credit and operations and was appointed to lead our Human Resources function in September 2010. Sarah brings hands-on experience in leading large teams and a strong interest in employment relations.



MARK MOUNTCASTLE, CHIEF RISK OFFICER

Mark, has over 20 years' experience in banking and finance and an extensive background in risk, originally in the credit risk area. Mark has held a number of senior roles across a variety of organisations and business sectors including ASB Bank Credit, Spiers Finance and Westpac where he commenced his general banking career. He also has managed a trading operation and owned a business advisory consultancy for five years.



MICHAEL JONAS, GENERAL COUNSEL

Michael is an experienced banking and finance lawyer, with the major part of his practice acting for New Zealand banks and financial institutions on cross border structured finance transactions. During the course of his legal career he has been a partner with the following New Zealand law firms: Bell Gully, from 1990 to 1998; Chapman Tripp, from 1998 to 2007; and Mayne Wetherell, from 2007 to 2010.