HEARTLAND

New Zealand Limited

BUSINESS | RURAL | FAMILIES

Acquisition of Home Equity Release Portfolios – Investor Presentation

14 February 2014

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Heartland Market Update – Progress to Date

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Heartland's Progress to Date

Heartland has made significant progress restructuring the existing business and is now poised for growth

- Merger successfully completed
- Investment grade credit rating achieved
- Bank licence obtained
- Costs normalising
- Consistent growth in earnings
- Asset rebalancing being completed (see over page)
- Significant acquisition secured - meaningful balance sheet growth

Heartland is now poised for growth

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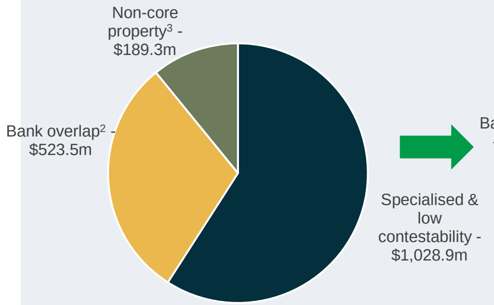
Effect of Balance Sheet Changes

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

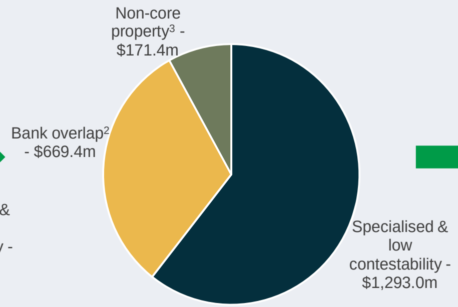
30 June 2011



Total Net Receivables[7] - $1.7b

NPAT - $7.1m
EPS - 5c
ROE - 2.8%

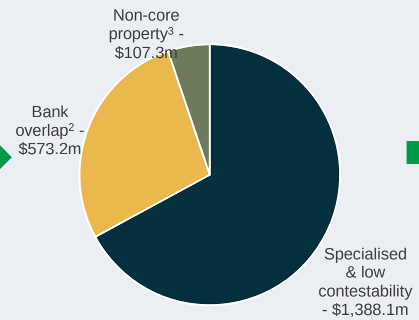
30 June 2012[1]



Total Net Receivables[7] - $2.1b

Normalised NPAT[5] - $14.2m
Normalised EPS - 4c
Normalised ROE - 4.2%

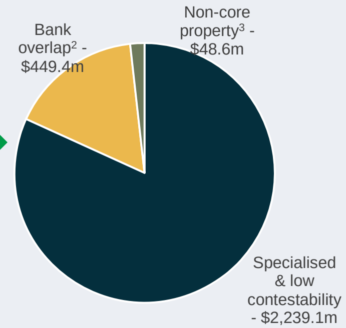
30 June 2013



Total Net Receivables[7] - $2.1b

Normalised NPAT[6] - $24.3m
Normalised EPS - 6c
Normalised ROE - 6.5%

30 June 2014 (forecast)[4]



Total Net Receivables[7] - $2.7b

[1]Uplift in net receivables partly attributable to acquisition of PGW Finance
[2]Bank overlap assumed to be residential mortgages and 50% of business and rural
[3]Includes investment properties
[4]Includes forecast HER loan balances
[5]Adjusted for tax legislation changes ($6.2m) and prior year taxes ($3.2m)
[6]Change in strategy provisions ($18.0m), RECL fee ($6.1m), RECL expenses ($0.2m) added back
[7]Net finance receivables include residential mortgages, property, plant& equipment, business, IF, livestock, other rural and HER. Other asset categories (e.g. cash, investments etc.) are not included

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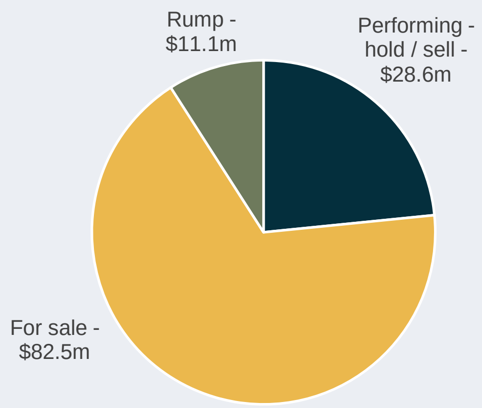
Significant Reduction in Non-Core Property

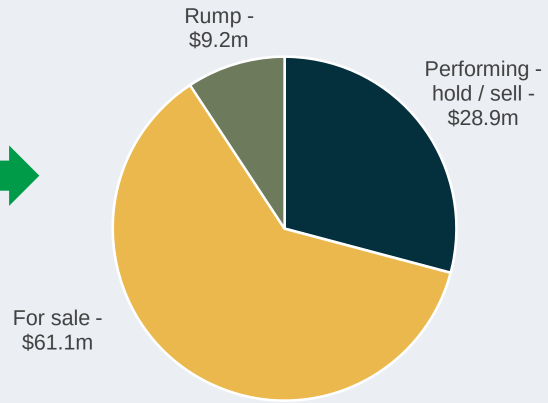
Heartland continues to significantly reduce its non-core property holdings

30 June 2013



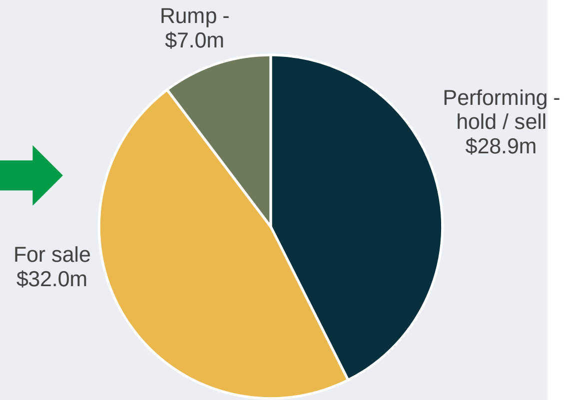
Total Property Book[2] - $122.3m

31 December 2013



Total Property Book[1] - $99.2m

30 June 2014 (Forecast)[1]



Total Property Book[1] - $67.9m

[1] Based on conditional contracts
[2] Excludes general provisions of $14.9m (30 June 2013), $12.1m (31 December 2013) and c.$10m (30 June 2014)

Implementing Acquisitive Growth Strategy

Heartland has established a specialist team for strategic growth, new product assessment and development

- The team is headed by Michael Jonas, recently appointed as Head of Strategic and Product Development and includes:
  - Andrew Dixson (Senior Manager – Strategy and Products);
  - Antony Bowyer (Product Development Manager); and
  - Nerissa Tuang (Senior Business Analyst)
- The team gives Heartland targeted capability to evaluate and progress acquisition opportunities, and to evaluate, design and embed new products
- Key criteria in assessing acquisition and product development opportunities include strategic fit (see page 21), competitive advantage, and the potential for growth in the market sector
- Potential acquisitions are measured primarily with reference to ROE and EPS accretion
- Heartland's growth strategy requires agility in order to avoid mainstream competition and Heartland seeks to do this by:
  - Minimising fixed cost investment in mono-line infrastructure; and
  - Maintaining a high degree of variable cost flexibility in its Distribution model

Over the last 4 years, Heartland has successfully integrated 5 businesses and developed new products – this is a core competency

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Home Equity Release Acquisition Overview

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Acquisition Summary

1 Heartland New Zealand Limited (Heartland) will acquire the Sentinel New Zealand (Sentinel) and Australian Seniors Finance (ASF) businesses, with combined assets of approximately NZ$760m[1] from Seniors Money International Ltd. (SMI), (including their respective home equity release (HER) loan portfolios, operational infrastructure and funding arrangements) for a purchase price of NZ$87m

2 The agreement is subject to a number of conditions, including that SMI obtain shareholder approval for the transaction. The SMI Board is supportive of the transaction and will recommend it to its shareholders

3 SMI is focussed exclusively on providing HER loans for seniors and, as an early entrant into its core markets, has established an excellent operating track record and brand

- Sentinel operates exclusively in New Zealand where it enjoys the number one position in the market, an approximate 80% market share[2].
- ASF operates exclusively in Australia, where it is the largest non bank provider, with an approximate 20% market share[2]

4 The HER loan product caters for an aging population with much of its wealth invested in real estate. As a result of the acquisition, Heartland is well placed to take advantage of the compelling sector fundamentals

5 The acquired Sentinel and ASF businesses will sit outside of Heartland Bank. Over time the existing New Zealand HER loans will be migrated onto Heartland Bank's balance sheet, with new New Zealand loans being written directly by Heartland Bank. Existing Australian HER loans will remain outside of Heartland Bank as will new Australian HER loans

6 Commonwealth Bank of Australia, SMI's existing primary banker, has agreed to continue to provide committed facilities to Heartland to fund the Sentinel and ASF portfolios for a term of five and a half years, on similar terms to those that are in place today

7 The Transaction will be funded through a combination of (i) Heartland issuing approximately 43m new shares (at $0.90 per share) to the vendor, (ii) a $20m equity raising conducted by way of a $15m placement to institutional and habitual investors and a $5m share purchase plan and (iii) with the balance being funded by cash

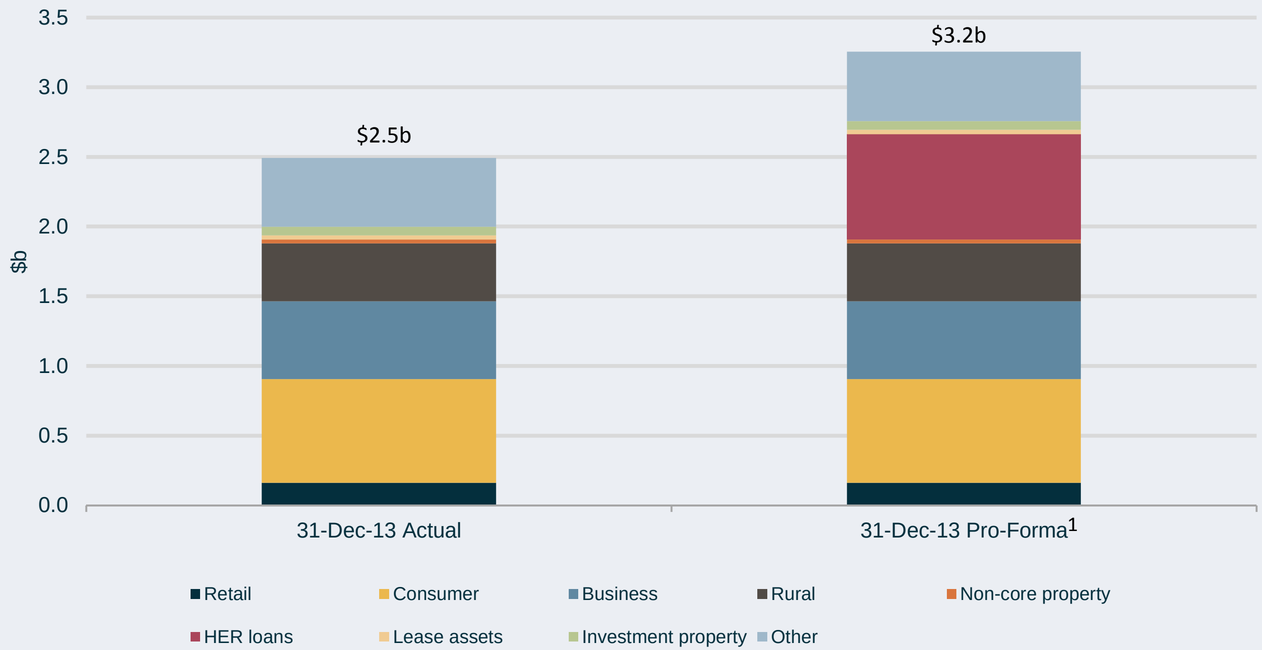
8 The Transaction is expected to be accretive to Heartland's FY15 Earnings Per Share and improve Heartland's Return on Equity

[1]Includes NZ$30.5m of Sentinel HER loans purchased by Heartland in December 2013
[2]SMI Management

Meaningful Balance Sheet Expansion

The acquisition considerably expands Heartland's balance sheet

Composition of Total Assets



[1]Assuming acquisition had occurred at 31 December 2013

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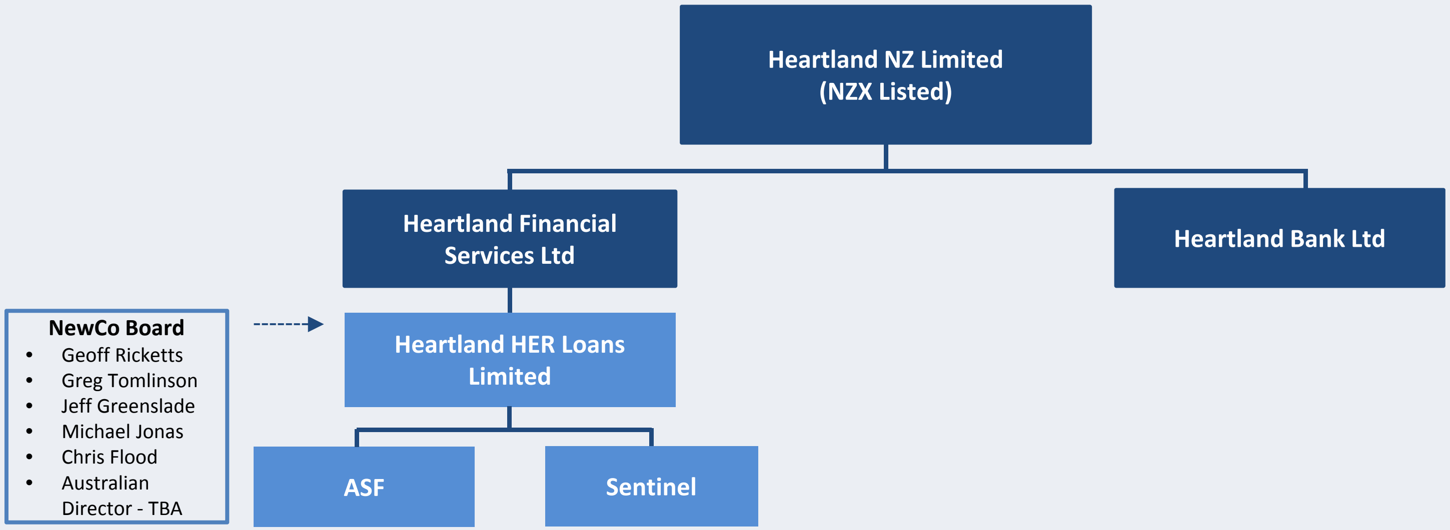
Corporate Structure

ASF and Sentinel will reside under Heartland Financial Services, outside of the banking group. Sentinel HER loans will migrate to Heartland Bank over time



* Chris Flood (Head of Retail) will be responsible for the overall strategic direction of the HER business Chris currently oversees the highly successful motor vehicle and depositor strategies for Heartland Bank.

Home Equity Release Loans Overview

HER loans allow seniors to borrow against the equity in their homes

- Borrower must be of a minimum age (Sentinel and ASF require borrows to be 60+), live in his/her own home, and have equity in it
- The borrower will never have to repay more than the value of the property
- There are no principal or interest payments required while the borrower occupies the property
- The borrower has the right to continue to reside in the property as long as they wish
- The product is a timely response to the demographic changes of an ageing population with much of its wealth invested in real estate. The ability to monetise these assets without the need to sell and exit the family home or to demonstrate external sources of debt servicing allows seniors to remain independent and to age with dignity in their own homes

HER Markets Overseas

The US, UK and Canada have large and established HER markets

- The United States Federal Government supports the home equity release product, via the Home Equity Conversion Mortgage (HECM), a reverse mortgage designed by the Department of Housing and Urban Development and insured by the Federal Housing Administration. The programme provides significant social benefits by allowing seniors to age in their homes, promoting independence and dignity. Research by the National Reverse Mortgage Lenders Association shows that the cost to seniors of ageing in place is less than a third of the cost of nursing home care
- Over 90 percent of reverse mortgages in the United States are written under the HECM program. There are currently 582 thousand loans outstanding, valued at US$136 billion written under the HECM program
- HOMEQ is the only national provider of HER loans in Canada and effectively has a monopoly position. Prior to being taken private in 2012, HOMEQ had an HER loan portfolio with aggregate assets of approximately CAD$1.3b
- In the United Kingdom, the market is dominated by a small number of large providers. Most of the major lenders are members of the Equity Release Council, the industry body for the equity release sector. This body has drawn up a voluntary code of practice for equity release products which puts in place safeguards and guarantees for consumers. Since the formation of the Equity Release Council's predecessor (Safe Home Income Plans) in 1990, the market has grown from £30 million to approximately £1 billion today.
- Heartland's executive team has been researching the HER product for over 12 months and has met with HER providers and industry bodies in the US, UK and Canada

Sources: The Smith Institute, Key Retirement Solutions, HOMEQ company filings, Reverse Mortgages Report to Congress (US)

Sentinel and ASF Summary

Sentinel is the leading HER loan provider in New Zealand, while ASF is the largest non-bank provider in Australia

- Sentinel is the number one Home Equity Release (HER) mortgage provider in New Zealand with approximately 80% market share[1]
- ASF is the largest non-bank HER loan provider in Australia, with approximately 20% market share[1]
- Both Sentinel and ASF are seasoned and diversified, having been established in 2003 and 2004 respectively

Key Metrics	New Zealand (Sentinel)[2]	Australia (ASF)
Established	2003	2004
Approximate market share	80%	20%
Portfolio Size	~NZ$340m	~A$380m
Loans #	4,048	4,245
Average Loan - Current	NZ$84.2k	A$89.8k
Average Loan - At Origination	NZ$39.5k	A$45.1k
Average Property Value	NZ$324.7k	A$344.3k
Weighted Average Age[3]	77.8 years	76.2 years
Weighted Average Current LVR	32.7%	31.8%
Weighted Average Original LVR	15.6%	17.1%

[1] SMI Management
[2] Includes NZ$30.5m of New Zealand HER loans purchased by Heartland in December 2013
[3] Age of youngest policy holder if joint

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Product Summary – Lifetime Loans

Key product features are described below

Prudent Origination Criteria

- Minimum age criteria (> 60 years)
- Initial borrowing limits (LVR) set with reference to borrower age (youngest borrower if joint)
- First ranking mortgage over real property
- Lending against the value of the secured property. The borrower is not subject to income requirements
- All loans subject to a formal property valuation and title search
- Borrowers are required to obtain independent legal advice prior to entering into loan

No Negative Equity Guarantee

- The Borrower will never have to repay more than the value of their property ("No Negative Equity Guarantee")
- The loans are designed for lifetime occupancy of the house. Negative equity does not trigger repayment

Interest

- The vast majority (>95%) of lifetime loans are variable rate
- Aim to keep interest rates within a target range above the standard variable mortgage rates (1.5-2.0%)
- Interest is compounded monthly during the life of the loan
- Borrowers may choose to make periodic payments to reduce the final loan balance – there are no break cost or exit fees included for variable rate loans

Repayments

- Repayment is due within 6 months of the earlier of sale of property, moving to aged care, death of the nominated borrower(s) or default (failure to maintain property or be insured)
- No monthly payments required and interest is capitalised – although borrower(s) are free to make periodic payments
- Mortgage is transferable on moving house, provided relevant criteria are met
- Borrowers are not required to borrow the full approved amount at outset and may apply for further drawdowns (Top Ups) at a later date
- Top Ups are subject to meeting Sentinel / ASF criteria (such as maintaining an acceptable Loan to Value Ratio (LVR)) and are not a contractual commitment for Sentinel / ASF

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Underwriting Criteria and Procedure

An initial borrowing limit is set with reference to the age of the borrower (youngest if joint)

LVR / Age Table

Age (years)	LVR Range (%)
60-64	15%-19%
65-69	20%-24%
70-74	25%-29%
75-79	30%-34%
80-84	35%-39%
85-90	40%-44%
90+	45%

Example

Age:	70 years
House Value:	$300k
LVR applicable:	25%
Borrowing Capacity:	$75k

Borrowers may chose to draw the full amount initially or revert back for Top Ups in the future to reduce interest cost.
After 5 years, the borrowing capacity would increase as the applicable LVR increases from 25% to 30%.

Subject to meeting other lending criteria, value of the property and existing loan outstanding, the borrower may be in a position to draw further under a Top Up request

Borrowers

- Age of youngest borrower must not be less than 60 years
- Maximum of two nominated residents
- Family consultation strongly encouraged
- Must be legally competent to enter into HER loans including being of sound mind, not subject to a court order of management (or ward of court order) or external pressure
- Minimum requirement of NZ$10k / A$10k

Property

- Established house of standard construction (e.g. on a single section, zoned residential, serviced by an all weather road, with power and water supply)
- Good condition, weather tight and maintained
- Minimum value of c.NZ$150k / A$150k
- Must be the main residence of the nominated residents
- Mortgage free (*although the HER loan can be used to refinance an existing mortgage*)
- House must be insured

Borrowing Capacity

- Borrowing capacity is determined by the age of the youngest borrower and applying the LVR / Age table
- LVR / Age table is derived using internal and external mortality and mobility experience and ratified by specialist actuaries

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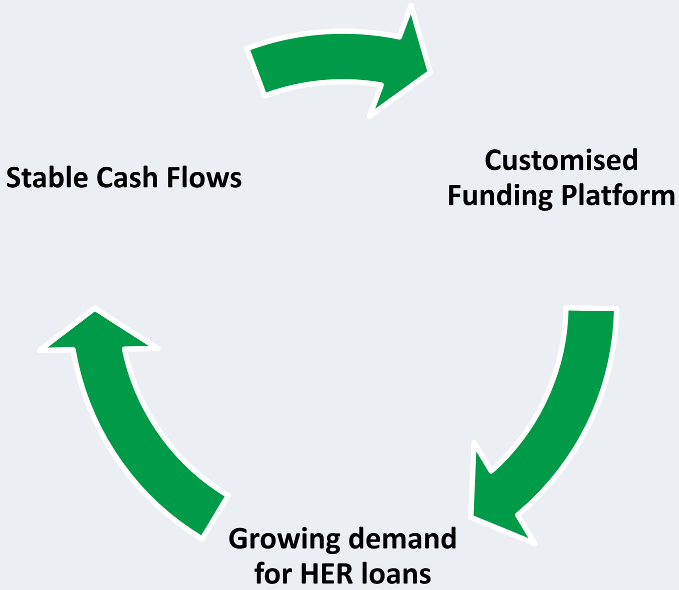
Optimal HER loan business profile

The current Sentinel / ASF portfolios are seasoned and generate stable cash flows



- A typical portfolio goes through 3 distinct phases:
  - **Build Up (0-7 years):** Initial stages where new HER loans are written and typically has a net cash outflow for new writings and interest on capital deployed is capitalised
  - **Mature (7-25 years):** during this second phase the HER loan portfolio is typically able to generate consistent cash flows over defined periods of time
  - **Decline (25+ years):** typically the back end of the portfolio where a small portion of the HER loan portfolio remains outstanding
- The current Sentinel / ASF portfolios are now in the Mature phase and the expected cash flow profile benefits from the seasoning and scale of the portfolios (number of loans)
- Extending the Mature phase depends on the ability to consistently write new HER loans that will mature in the future (weighted towards the back end of the current Mature phase)
- The current seasoning provides a window of opportunity to establish a sustainable funding platform that will support new asset writing to meet existing demand and continuously extend the Mature phase of the portfolio

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Operational Management

New Zealand HER loans held by Heartland Bank will be managed through Sentinel / ASF

- Heartland will acquire the existing expertise and operational infrastructure of Sentinel / ASF, will increase governance oversight and management capability, and modify origination practices through (among other things):
    - Establishing a separate board for Sentinel / ASF's holding company chaired by Geoff Ricketts (Chair of Heartland, and with considerable Australian governance experience as former Chair of Lion Nathan and a current director of SunCorp);
    - Chris Flood (Head of Retail) will be responsible for overall strategy. Chris oversees the highly successful motor vehicle and depositor strategies for Heartland Bank;
    - Appointing a GM in Australia to report to its Board;
    - Increasing property expertise in each jurisdiction; and
    - Adopting a more granular approach to geographic spread (excluding areas that do not have a deep secondary property market)
- In New Zealand, Heartland will promote the product and sell directly though it own distribution channels, whilst in Australia a combination of existing SMI relationships, building societies and small banks will be used

Commonwealth Bank (CBA) Facility

Under Heartland ownership, CBA will continue to provide lending facilities to Sentinel and ASF

- CBA, SMI's existing primary banker, has agreed to continue to provide committed facilities to fund the Sentinel and ASF portfolios for a term of five and a half years on similar terms to those in place today
- The CBA facility will fund growth in Australia as Sentinel HER loans are migrated to Heartland Bank
- Interest is accrued on the facilities in a similar manner to the underlying HER loans.
- Further diversifies Heartland's funding base

Acquisition Fits with Heartland's Strategy

Heartland's Strategy

Heartland wants to be known as New Zealand's specialist bank

Heartland's strategy is to:

1. Avoid competing directly with the larger commercial banks, which are generally weighted towards the Household sector and within that conventional Residential Mortgages;
2. Seek to operate in areas where it can achieve market leading, best in category, positions;
3. Aim to balance its asset portfolio across 3 key segments of the economy:
   - Households;
   - SME's; and
   - The agricultural sector
4. Look to leverage its existing relationships and capabilities;
5. Operate in areas with compelling sector fundamentals; and
6. Focus on sustainable earnings and growth

Acquisition Fits Heartland's Objectives

Heartland's Strategic Objectives	Sentinel / Australian Seniors Finance (ASF) Strategic Fit
1. Low contestability, specialist products	✓ Reverse mortgages occupy a specialist sector ✓ Sentinel and ASF are Australasia's only specialist provider of HER products (competing HER products are typically a small component of larger banks overall product offering and not actively promoted)
2. Best in category & strong market position	✓ Sentinel has the leading market position in the New Zealand market with around 80% market share ✓ ASF in Australia remains the largest non-main bank provider with 20% market share
3. Fits key area of focus	✓ In 2012, Heartland identified the Senior demographic as a key strategic area within the household sector - Researched externally reverse mortgage product - Focus on acquiring existing operations, processes and seasoned portfolio - Use the Sentinel and ASF brands to target demographic and specific growth

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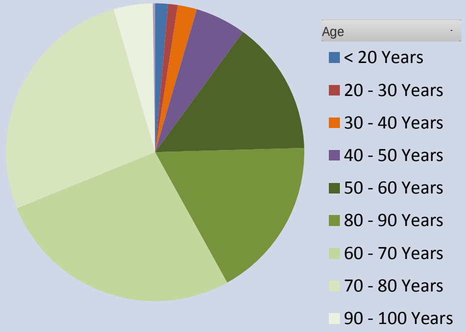
Acquisition Fits Heartland's Objectives

Heartland's Strategic Objectives	Sentinel / Australian Seniors Finance (ASF) Strategic Fit
4. Leverage existing relationships / infrastructure	✓ Sentinel/ASF have existing strong networks of distribution relationships in both jurisdictions ✓ Strong existing connections and influence on regulators, key Seniors representative groups and community stakeholders ✓ Sentinel and ASF borrowers occupy the same demographic as Heartland's loyal depositor base ✓ Significant opportunity for Heartland to cross-sell via targeted marketing ✓ Proven low cost system which can be easily integrated

Balance of Deposits by Depositor Age



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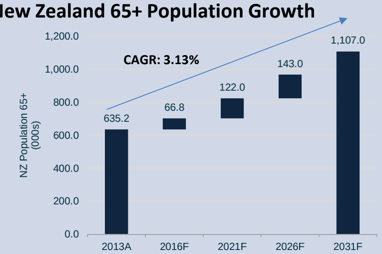
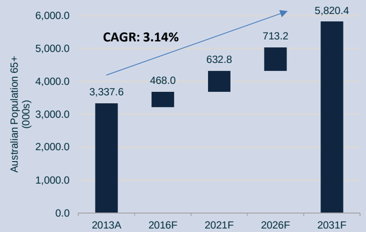
Acquisition Fits Heartland's Objectives

Heartland's Strategic Objectives	Sentinel / Australian Seniors Finance (ASF) Strategic Fit
5. Compelling sector fundamentals **New Zealand 65+ Population Growth**  *Source: Statistics New Zealand* **Australia 65+ Population Growth**  *Source: Australian Bureau of Statistics*	✓ New Zealand and Australia's older population is projected to grow rapidly… ✓ A significant portion of their wealth is accumulated in their primary residential dwellings - Approximately 82% of New Zealanders aged 65+ own their own home, with 92% of these being owned mortgage free, while 83% of Australian's aged 65+ own their own homes, with 93% of these owned mortgage free - New Zealand's housing stock is valued at NZ$700 billion, while Australia's housing stock is valued at A$4.5 trillion ✓ Seniors often have low levels of income - The median household income of New Zealanders aged 65+ is just NZ$20.2k, with government superannuation accounting for 57% of the average income - The mean household income of Australian couples aged 65+ is approximately A$34.1k with government pensions accounting for 61% of this income. The mean household income for single Australians aged 65+ is approximately A$27.3k with government pensions accounting for 76% of this income.

Sources: Statistics New Zealand, Australian Bureau of Statistics, New Zealand Treasury, Australian Treasury, Department of Families, Housing, Community Services and Indigenous Affairs (Australia)

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Acquisition Fits Heartland's Objectives

Heartland's Strategic Objectives	Sentinel / Australian Seniors Finance (ASF) Strategic Fit
6. Sustainable earnings and growth	✓ Sentinel / ASF have predictable and sustainable earnings ✓ Opportunity to grow that earnings stream with new origination ✓ Step increase for HNZ in terms of earnings and balance sheet (forecast increase in pre tax earnings represents a material increase for Heartland) ✓ Low risk assets and low risk transaction

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Summary Financial Information

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Summary Financial Information

The transaction is expected to be both EPS and ROE accretive to Heartland from FY15

Acquisition price	**$87m**
First full year NPAT from acquisition	**~$8-9m**
Integration costs	**~$2m (post tax)**
HNZ forecast FY14 NPAT	**$34-$37m**
HNZ forecast FY15 NPAT (after acquisition costs and expenses associated with integration)	**$42-44m**

Australian earnings do not create a material currency translation risk

Funding the Acquisition

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Funding the Acquisition

The acquisition is part financed by a capital raising - a NZ$15m Placement and NZ$5m SPP

- The acquisition consideration of NZ$87m is being funded by Heartland:
  - To the extent of NZ$48.3m in cash. Heartland is conducting a capital raising of $20m (via a Placement and SPP) to partially fund the NZ$48.3m cash component and will fund the balance with existing balance sheet cash; and
  - By issuing 43m shares to the vendor at a price of $0.90 each. All shares issued to the Vendor are subject to a minimum 12 month lock-up escrow arrangement

Heartland has this morning successfully completed a NZ$15m equity placement to a range of existing and new investors and will launch a NZ$5m share purchase plan in the coming days

Key Terms of Placement

No. of shares issued	Price	Close Price (13 February 2014)	Discount to Close (13 February 2014)
17,045,455	$0.88	$0.89	1.12%

Terms of SPP

- Under the SPP, each Heartland shareholder on the register at 5pm on **Thursday, 27 February 2014** will be eligible to invest up to NZ$15,000 in new Heartland shares. The minimum application amount is NZ$2,500. The price per share will be the lower of:
  - A 2.5% discount to the average end of day market price of Heartland shares over the 5 day trading period from to **Thursday, 13 March 2014** and **Wednesday, 19 March 2014**; and
  - The Placement Issue Price (reduced by the amount of any cash dividend per share declared by HNZ with an ex date falling prior to the allotment of shares under the SPP)

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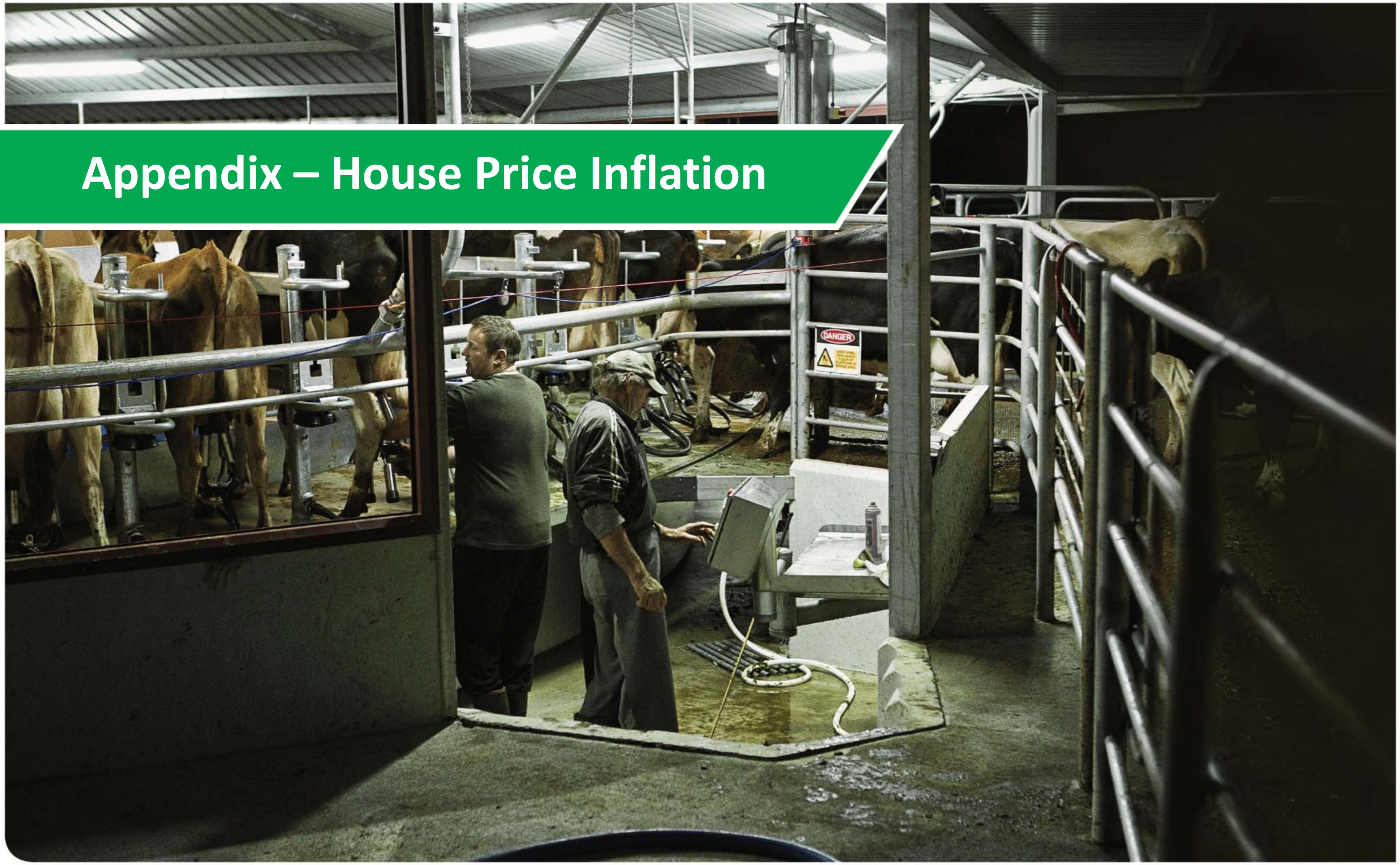
Timetable

The key dates are as follows

Placement conducted	**Thursday, 13 February 2014**
Announcement of acquisition and completion of placement	**Friday, 14 February 2014**
Placement allotment	**Wednesday, 19 February 2014**
Ex date for SPP entitlements	**Tuesday, 25 February 2014**
Record date for SPP entitlements	**Thursday, 27 February 2014**
Opening date of SPP	**Friday, 28 February 2014**
Closing date of SPP	**Tuesday, 18 February 2014**
SPP pricing period	**Thursday, 13 March 2014 to Wednesday, 19 March 2014**
SPP price announced	**Thursday, 20 March 2014**
SPP allotment	**Tuesday, 25 March 2014**
Proposed acquisition settlement	**Tuesday, 1 April 2014**

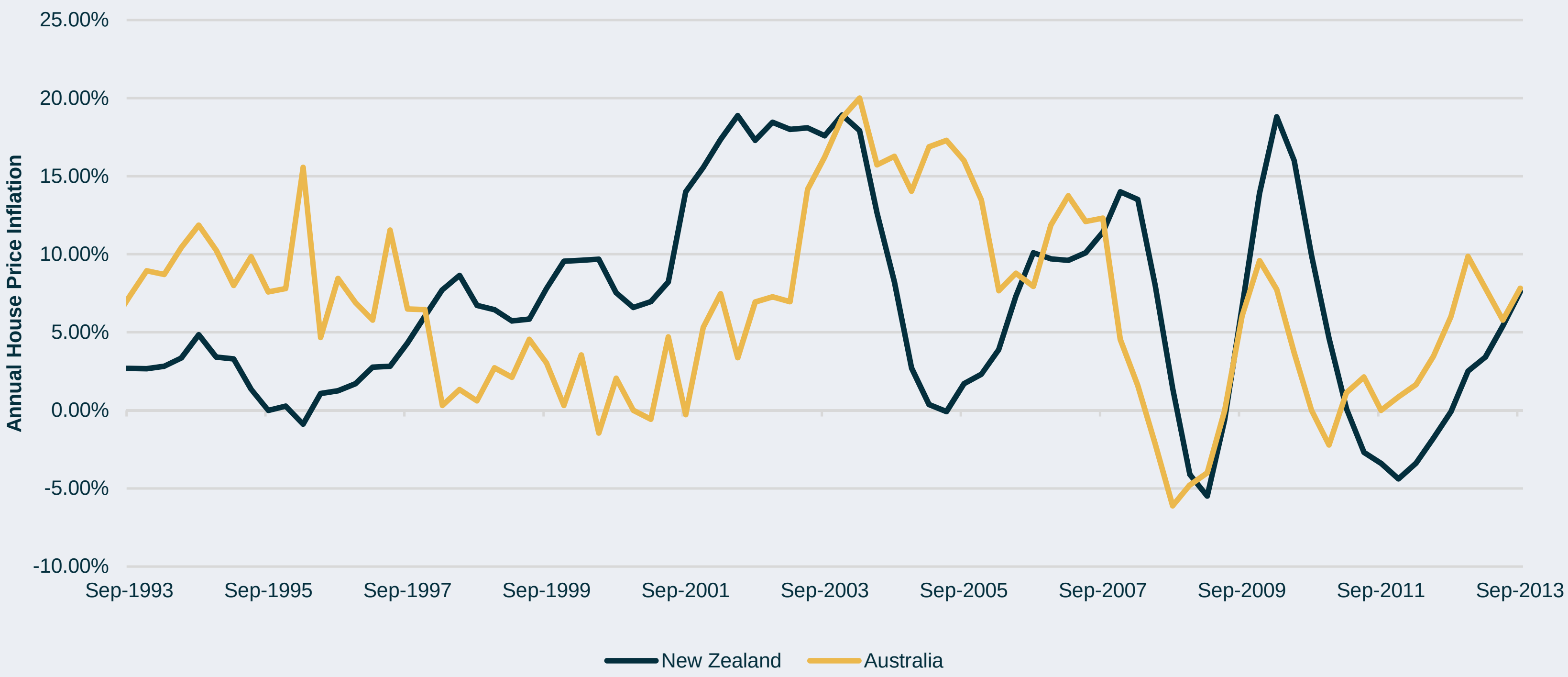
Appendix – House Price Inflation



Historical House Price Inflation

Since September 1993, house price inflation has averaged approximately 6.5% p.a. in both New Zealand and Australia

Historical Annual House Price Inflation – New Zealand and Australia



Sources: New Zealand- REINZ house Price Index, using median price of dwelling
Australia - Australian Bureau of Statistics using price index of established houses weighted average of 8 capital cities

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