HEARTLAND
New Zealand Limited

NZX and Media Release

HEARTLAND POSTS $16.7M HALF YEAR PROFIT

25 February 2014

Heartland New Zealand Limited (**Heartland**) (NZX : HNZ) today announced a net profit after tax (**NPAT**) of $16.7m for the half year ended 31 December 2013 (the **Current Reporting Period**) an increase of 56% from the previous corresponding half year ended 31 December 2012 (the **Previous Corresponding Reporting Period**). The result was driven by continued improvement in cost of funds and is in line with expectation.

Significant progress was achieved in running down the legacy non-core property book and, as a result of the measures taken in the last financial year, these assets had no impact on the earnings for the Current Reporting Period.

The process of transforming the balance sheet continued. Under this areas of high risk or overlap with mainstream banks are steadily being reduced and replaced with more economic assets.

Achievements for half year

- Earnings in line with guidance
- Realisation of non-core property assets on track
- Interim dividend announced
- S & P Investment grade credit rating reaffirmed - outlook revised from 'negative' to 'developing'
- Fitch credit rating of BBB- stable
- Significant acquisition announced – meaningful balance sheet growth

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FINANCIAL PERFORMANCE[1]

NPAT was $16.7m for the Current Reporting Period. This is up $6.0m from the $10.7m NPAT for the Previous Corresponding Reporting Period.

Earnings Per Share was 4.3c calculated on weighted average shares.

[1] This announcement is based on the 31 December 2013 unaudited summary consolidated financial statements of Heartland New Zealand Limited. For more detailed analysis and explanation please refer to the attached interim financial statements.

Balance sheet

The transformation of the balance sheet composition continued and as a result, primarily driven by Heartland's exit of non-core loans, Heartland's total assets declined by $12.5m during the Current Reporting Period and net finance receivables reduced from $2.0bn at 30 June 2013 to $1.9bn at 31 December 2013. Major movements included:

- Reduction of $104.5m of non-core residential mortgage and property assets as well as a reduction in some non-core parts of the rural book (high risk or lower yielding mortgage lending).
- The motor vehicle book continued to perform well growing $21.4m.
- Cash and cash equivalents and Investments increased from $339.5m at 30 June 2013 to $434.0m at 31 December 2013 reflecting the move towards holding more liquidity on balance sheet.
- Borrowings remained stable at $2.1bn.

Net Tangible Assets (**NTA**) increased from $331.2m to $348.2m during the Current Reporting Period - on a per share basis NTA was $0.89 at 31 December 2013 compared to $0.85 at 30 June 2013 and $0.90 at 31 December 2012.

Net Operating Income

Net Operating Income (**NOI**) was $59.0m for the Current Reporting Period, up from $51.8m for the Previous Corresponding Reporting Period. The increase in NOI was attributable mostly to lower cost of funds, as well as product mix changes.

Costs

Operating costs were $32.4m for the Current Reporting Period, an increase of $0.5m from the Previous Corresponding Reporting Period. Operating costs increased due to expenses arising from acquisition activities. The operating expense ratio was 55% for the Current Reporting Period, compared to 62% for the Previous Corresponding Reporting Period reflecting the higher operating income.

Impairments and revaluations of investment properties

Impaired asset expense was $3.3m for the Current Reporting Period, down from $5.3m for the Previous Corresponding Reporting Period. The lower impairment expense came from there being no non-core property impairment expense during the period following the write down of assets in the year ended 30 June 2013, as part of the change in strategy.

Impairments in the core divisions remained low overall although impairments in the business division were higher. The increased business impairments were a timing issue rather than a trend, and these impairments are expected to reduce in the coming period.

There were no revaluations of investment properties during this six month period.

Net impaired, restructured and past due loans over 90 days reduced to $42.4m (or 2.2% of net finance receivables – the **Net Impairment Ratio**) as at 31 December 2013 from $49.0m (or 2.4% of net finance receivables) as at 30 June 2013. The non-core property book made up $21.6m of the net impaired, restructured and past due loans at 31 December 2013.

The Net Impairment Ratio of the core business (excluding the non-core property book) was 1.1% as at 31 December 2013, compared to 0.9% as at 30 June 2013. This remains a low level of impairment across the book.

Funding and liquidity

The liquidity of Heartland Bank Limited (**Heartland Bank**) (Heartland's principal operating subsidiary) was $566.0m as at 31 December 2013, which consisted of cash, liquid assets and unutilised available funding lines.

Investment grade rating reaffirmed

On 29 October 2013 Standard & Poor's affirmed Heartland Bank's investment grade credit rating of BBB- and revised the outlook from "negative" to "developing". This rating was affirmed on 14 February 2014 following announcement of the acquisition from Seniors Money International Limited described below, with the outlook remaining "developing".

On 4 November 2013 Fitch Australia Pty Ltd (**Fitch Ratings**) issued Heartland Bank with a long term credit rating of BBB- stable. On 16 February 2014, Fitch Ratings announced that the acquisition from Seniors Money International Limited would have no impact on Heartland Bank's rating.

BUSINESS PERFORMANCE – HEARTLAND'S CORE BUSINESS DIVISIONS

Business

NOI was $14.7m, an increase of $2.1m from the Previous Corresponding Reporting Period. The increase in NOI was driven by lower cost of funds. The business receivables book increased by $9.0m to $558.1m during the Current Reporting Period. The business division has faced increasing competitive pressure which has had an impact on asset growth over the Current Reporting Period.

Rural

NOI was $12.1m, an increase of $0.6m from the Previous Corresponding Reporting Period. The increase in NOI was also driven by lower cost of funds off-setting reduced revenue on fewer receivables. The rural receivables book decreased by $40.8m to $415.9m during the Current Reporting Period. This decrease was driven by reductions in the receivables book acquired from PGG Wrightson Limited, in areas of either higher risk or overlapping competition with major banks. Heartland's emphasis is mainly on livestock lending with the pipeline looking good for the next few months. Livestock lending continued to perform well, growing 10.6% over the 12 months ended 31 December 2013.

Retail and Consumer

NOI was $30.0m, an increase of $5.9m from the Previous Corresponding Reporting Period driven primarily by lower cost of funds as well as increased revenues. The retail and consumer receivables book contracted by $49.7m to $938.1m during the Current Reporting Period. The motor vehicle receivables book grew $21.4m during the Current Reporting Period. In line with Heartland's strategy to realign its product mix towards products where it has market leadership and can achieve a better risk/return, the residential mortgage book reduced by $71.1m during the Current Reporting Period. Customer response to the residential mortgage arrangement with Kiwibank has been pleasing. Greater than 50% of mortgages refinancing externally migrated to Kiwibank in the Current Reporting Period.

NON-CORE BUSINESS

Property

Total legacy non-core property assets reduced by 19% during the Current Reporting Period - from $107.4m at 30 June 2013 to $87.1m at 31 December 2013. As at 31 December 2013 non-core property assets comprised net receivables of $25.6m and investment properties of $61.5m.

The exit strategy for non-core property assets has progressed in accordance with expectations and Heartland remains confident that future earnings will not be affected by these assets.

ACQUISITION

On 14 February 2014 Heartland announced that it had entered into a Sale and Purchase Agreement (**SPA**) with Seniors Money International Limited (**SMI**) for the acquisition of its New Zealand and Australian Home Equity Release mortgage businesses. The consideration for the acquisition is NZ$87m and under the SPA, HNZ will acquire the Sentinel New Zealand and the Australian Seniors Finance businesses, including their respective mortgage portfolios with an aggregate asset value of approximately NZ$760m[2] and their operational infrastructure and funding arrangements. See the 14 February 2014 release for further details on the transaction.

Heartland believes that the timing is right for Home Equity Release products and is confident that it will offer strong and sustainable growth potential in the future.

INTERIM DIVIDEND

The directors of Heartland have resolved to pay an interim dividend of 2.5 cents per share on 4 April 2014 to shareholders on the company's register as at 5.00pm on 12 March 2014. This dividend will be fully imputed.

The Dividend Reinvestment Plan announced on 23 April 2103 (**DRP**) will be available, and a discount of 2.5% will apply (that is, the strike price under the DRP will be 97.5% of the volume weighted average sale price of Heartland shares over the 5 trading days following the Record Date)[3]. Participation in the DRP is entirely optional, and shareholders wishing to participate should make a participation election in one of the ways specified in the DRP offer document. The last date of receipt for a participation election from a shareholder who wishes to participate in the DRP is 12 March 2014.

LOOKING FORWARD

Looking forward Heartland expects asset growth to remain challenging given increased competition in the business and rural sectors. However, growth in "Households" through both motor vehicle and home equity release products looks strong. We will continue to focus on product substitution to improve NOI, continued management of operating expenses and impairment levels as well as investigation of potential acquisition targets.

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[2] Includes NZ$30.5 million of home equity release loans purchased by Heartland Bank Limited in December 2013.

[3] For the full details of the DRP and the Strike Price calculation, refer to Heartland's DRP offer document prepared as at 5 April 2013.

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For further information, please contact:

Jeff Greenslade
Chief Executive Officer
Heartland New Zealand Limited
DDI 09 927 9149
M 021 563 593

Simon Owen
Chief Financial Officer
Heartland New Zealand Limited
DDI 09 927 9195
M 027 629 4602