HEARTLAND
New Zealand Limited

NZX and Media Release

HEARTLAND POSTS $23.5M HALF YEAR PROFIT

23 February 2015

Heartland New Zealand Limited (**Heartland**) (NZX: HNZ) today announced a net profit after tax (**NPAT**) of $23.5m for the half year ended 31 December 2014 (the **Current Reporting Period**), an increase of 41% from the previous corresponding half year ended 31 December 2013 (the **Previous Corresponding Reporting Period**). The result was driven by strong growth in core assets.

Excellent growth was achieved in core Consumer, Business and Rural divisions. The home equity release (**HER**) business contributed well in terms of earnings although growth in this book was flat, reflecting higher than expected repayment rates. Initiatives are in place and growth is expected in the HER business in the second half of the financial year.

Achievements for half year

- Increase in profitability
- Strong growth in core assets
- Return on equity (**ROE**) of 10.2%
- Fitch credit rating for Heartland Bank Limited (**Heartland Bank**) raised to BBB
- Regulatory capital requirements for Heartland Bank reduced by the Reserve Bank of New Zealand effective 31 January 2015
- Successful integration of HER business
- Investment in Harmoney Corp Limited (**Harmoney**)

FINANCIAL PERFORMANCE[1]

NPAT was $23.5m for the Current Reporting Period. This is up $6.8m from the $16.7m NPAT for the Previous Corresponding Reporting Period.

NPAT included a tax benefit of NZ$1.0m relating to the utilisation of unrecognised tax losses carried forward by Australian Seniors Finance Pty Limited (**ASF**). Approximately A$7m of tax losses were available after the acquisition of ASF and these are expected to be fully utilised by the first half of the 2016 financial year.

[1] This announcement is based on the 31 December 2014 unaudited consolidated interim financial statements of Heartland New Zealand Limited. For more detailed analysis and explanation please refer to the attached interim financial statements.

Earnings for the half year result in a ROE of 10.2%. This is up from a ROE of approximately 9.0% for the full year ending 30 June 2014.

Earnings Per Share was 5c calculated on weighted average shares.

Balance sheet
Heartland's total assets increased by $145.3m during the Current Reporting Period with net finance receivables increasing from $2.6bn at 30 June 2014 to $2.7bn at 31 December 2014. Major movements included:

- The Business and Rural divisions both experienced strong growth, increasing by $80.9m and $44.3m respectively.
- The Consumer book continued to perform well growing $46.9m.
- The HER book declined $14.0m, including $10.5m resulting from foreign exchange movements.
- The non-core residential mortgage book and non-core property assets reduced by $30.3m and $11.8m respectively.
- Cash and cash equivalents and investments increased from $276.2m at 30 June 2014 to $304.8m at 31 December 2014.
- Borrowings increased by $132.6m reflecting the growth in receivables.

Net Tangible Assets (**NTA**) increased from $399.9m to $406.4m during the Current Reporting Period - on a per share basis NTA was $0.87 at 31 December 2014 compared to $0.86 at 30 June 2014 and $0.89 at 31 December 2013.

Net Operating Income
Net Operating Income (**NOI**) was $70.1m for the Current Reporting Period, up from $59.0m for the Previous Corresponding Reporting Period. The increase in NOI was primarily attributable to the acquisition of the HER business in April 2014 as well as increased contributions from Consumer and Business lending.

Costs
Operating costs were $33.5m for the Current Reporting Period, an increase of $1.1m from the Previous Corresponding Reporting Period. The increase in operating expenses was primarily attributable to the inclusion of the HER business, partially offset by a reduction in non-core property expenses. The operating expense ratio was 48% for the Current Reporting Period, compared to 55% for the Previous Corresponding Reporting Period, reflecting the higher operating income.

Impairments
Impaired asset expense was $5.1m for the Current Reporting Period, up from $3.3m for the Previous Corresponding Reporting Period. The higher impairment expense included $1.1m of collective provisions relating to the HER book as well as higher provisions in the Consumer book (this increase being due to a reduction in provisions in the Previous Corresponding Reporting Period and growth in the Consumer book). There were no specific provisions or write offs against the HER book during the Current Reporting Period.

Impairments in the Consumer book were very low in the Previous Corresponding Reporting Period and the increase has brought impairments closer to expected levels. Impairments in the Rural division remain low while impairments in the Business division were at expected levels.

Net impaired, restructured and past due loans over 90 days reduced to $40.8m (or 1.5% of net finance receivables – the **Net Impairment Ratio**) as at 31 December 2014 from $49.4m (or 1.9% of net finance receivables) as at 30 June 2014. The non-core property book made up $3.1m (7.7%) of the net impaired, restructured and past due loans at 31 December 2014.

The Net Impairment Ratio of the core business (excluding the non-core property book) was 1.4% as at 31 December 2014, the same level as at 30 June 2014. This is a satisfactory level of impairment across the book.

Funding and liquidity
The liquidity of Heartland Bank (Heartland's principal operating subsidiary) was $340.7m as at 31 December 2014, which consisted of cash, liquid assets and unutilised available funding lines.

Credit rating upgrade
On 28 October 2014 Fitch Australia Pty Ltd (**Fitch Ratings**) upgraded Heartland Bank's long term credit rating to BBB stable from BBB- stable.

BUSINESS PERFORMANCE – CORE BUSINESS DIVISIONS

Business[2]
NOI was $19.5m, an increase of $1.2m from the Previous Corresponding Reporting Period. The increase in NOI was driven by an increase in receivables. Business net receivables increased by $80.9m (12%) to $750.1m during the Current Reporting Period. This growth has been achieved through increased market presence, a focus on delivering specialist products as well as continued support of Heartland's existing customer base.

Rural
NOI was $11.8m, a decrease of $0.4m from the Previous Corresponding Reporting Period, reflecting lower average receivables compared to the Previous Corresponding Reporting Period (due to the reduction in net receivables in the Previous Corresponding Reporting Period being greater than the growth experienced in the Current Reporting Period). Rural net receivables increased by $44.3m (11%) to $454.6m during the Current Reporting Period. Early settlements were significantly lower in the Current Reporting Period as the division completed the exit of loans that were either higher risk or were in areas that overlapped with major banks. In addition the division enjoyed favourable conditions for livestock lending.

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[2] During the Current Reporting Period, a business unit previously reported in the Household division was moved to the Business division. Comparative information for the Business and Household divisions has been restated to be consistent with the Current Reporting Period.

Household
NOI was $37.5m, an increase of $11.0m from the Previous Corresponding Reporting Period driven by the inclusion of the HER business as well as growth in Consumer receivables. Household net receivables increased by $2.6m to $1.5b during the Current Reporting Period. Consumer net receivables grew $46.9m during the Current Reporting Period while residential mortgage net receivables reduced by $30.3m, continuing Heartland's strategy to realign its asset mix towards products where it has market leadership and can achieve a better risk/return.

HER net receivables reduced $14.0m (including $10.5m as a result of foreign exchange movements) over the Current Reporting Period. The reduction was driven by higher repayments together with lower than expected new business. High repayment rates are positive from a risk perspective and are in line with international experience for HER loans. With integration of the HER business now complete, focus is on increasing new business to offset repayments and achieve strong growth. Growth is beginning to pick up in Australia, with indications that the broker channel is an effective distribution model for the Australian market. Senior sales staff have been employed in Australia to drive development of this broker channel. In New Zealand, growth will be facilitated by the general repositioning of Heartland's branch network as a sales focused channel. HER will be a core focus of the new branch strategy, which will involve a new look and feel for the branch network in order to drive sales activity. Further investment in advertising for HER is also planned for the second half of this financial year.

BUSINESS PERFORMANCE – NON-CORE BUSINESS

Property
Total legacy non-core property assets reduced by 29% during the Current Reporting Period - from $40.8m at 30 June 2014 to $29.0m at 31 December 2014. As at 31 December 2014 non-core property assets comprised net receivables of $3.2m and investment properties of $25.8m. Heartland remains confident that future earnings will not be impacted by the future realisation of these assets.

HARMONEY INVESTMENT

Heartland has acquired an approximate 10% shareholding in Harmoney Corp Limited (**Harmoney**), New Zealand's only licenced peer to peer lender, having invested $3.5m to date. Based on the most recent capital raise by Harmoney in January 2015, the current implied value of Heartland's investment in Harmoney is in excess of $5.0m.

Harmoney operates a lending model that challenges those being offered by traditional banks. This model is complementary to Heartland's strategy of occupying leading positions in niche markets through specialist products which are different to those operated by mainstream banks.

Trade Me has acquired a 15% shareholding in Harmoney. Harmoney has advised that it will partner with Trade Me, which it believes will provide Harmoney with considerable distribution opportunities via Trade Me's online platform.

Heartland Bank has lent approximately $17m to date through the Harmoney platform to provide initial momentum and complement investments made by retail investors. Heartland is pleased with the lending levels achieved by Harmoney since its official launch in September 2014.

INTERIM DIVIDEND

The directors of Heartland have resolved to pay an interim dividend of 3 cents per share on 2 April 2015 to shareholders on the company's register as at 5.00pm on 19 March 2015 (**Record Date**). This dividend will be fully imputed.

The Dividend Reinvestment Plan announced on 23 April 2013 (**DRP**) will be available, and a discount of 1% will apply (that is, the strike price under the DRP will be 99% 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 19 March 2015.

LOOKING FORWARD

Looking forward Heartland expects underlying asset growth to continue for the second half of the financial year, with strong Business, Rural and Consumer volumes projected. Initiatives in place mean that growth is expected in the HER book in the second half of the financial year. Heartland has also identified key growth opportunities in the Consumer division, being those customers whose requirements are not being met by the mainstream banks. These opportunities will be pursued through targeted new product development.

- Ends -

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

[3] For the full details of the DRP and the Strike Price calculation, refer to Heartland's DRP offer document dated 12 December 2014.