HEARTLAND
New Zealand Limited

NZX and Media Release

HEARTLAND FULL YEAR PROFIT OF $36.0M

25 August 2014

Heartland New Zealand Limited (**Heartland**) (NZX: HNZ) today announced a net profit after tax (**NPAT**) of $36.0m for the full year ended 30 June 2014, in line with expectations.

NPAT is up $11.6m or 48% on the prior year's adjusted NPAT of $24.4m. Adjusted NPAT for the prior year is calculated by excluding the one-off expenses of $24.3m (pre-tax) incurred as a result of the change in strategy with respect to the non-core legacy property asset portfolio (which included termination of a management agreement announced 5 June 2013) (**Change in Strategy**)[1].

The improvement in earnings (NPAT up approximately $29m or 421% on the prior year) is partially due to the one-off expenses incurred in the previous period, and also as a result of the expansion of operating income and continued management of operating expenses and impairment levels.

The earnings for 2014 equates to a return on average equity (**ROE**) of 9.0% for the full year. However, this has improved during the year with an ROE of approximately 9.7% being achieved in the last quarter.

Achievements for the full year include:

- Lift in profitability from $7m to $36m
- Dividend pay-out of 6¢
- S&P credit rating on Heartland Bank raised to BBB
- Sell down of non-core property exceeding forecasts
- Significant acquisition completed

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[1] For details of the Change in Strategy, see Heartland's market announcement of 5 June 2013.

FINANCIAL PERFORMANCE[2]

NPAT was $36.0m for the full year ended 30 June 2014 (the **Current Reporting Period**); this is up $29.1m from the $6.9m for the previous corresponding full year ended 30 June 2013 (the **Previous Corresponding Reporting Period**). NPAT for the Current Reporting Period is up by $11.6m or 48% from Adjusted NPAT from the Previous Corresponding Reporting Period.

Net profit before tax (**NPBT**) was $50.8m for the Current Reporting Period (up from $9.4m NPBT for the Previous Corresponding Reporting Period).

The $50.8m NPBT for the Current Reporting Period represents an increase of $17.1m over the Adjusted NPBT for the Previous Corresponding Reporting Period, illustrating the improvements in underlying business performance. Adjusted NPBT for the Previous Corresponding Reporting Period is calculated by excluding the one-off expenses of $24.3m (pre-tax) incurred as a result of the Change in Strategy.

The earnings for 2014 equates to a ROE of approximately 9.0% for the full year. However, this has improved during the year with the ROE of approximately 9.7% being achieved in the last quarter.

The ROE of 9.0% for the Current Reporting Period has improved when compared to ROE of 1.8% and Adjusted ROE of 6.4% for the Previous Corresponding Reporting Period. Adjusted ROE is calculated by excluding the one-off expenses of $24.3m (pre tax) incurred as a result of the Change in Strategy.

The contribution from the recently acquired (April 2014) New Zealand and Australian Home Equity Release (**HER**) mortgage businesses (**Acquisition**) contributed $0.7m to NPAT. The contribution included $1.2m of one-off acquisition costs.

Earnings Per Share was $0.09 based on weighted average shares on issue.

Balance sheet

Heartland's total assets increased by $512.3m (or 20%) over the Current Reporting Period (from $2.5bn at 30 June 2013 to $3.0bn at 30 June 2014).

- There was a $597.0m increase in net finance receivables (from $2.0bn at 30 June 2013 to $2.6bn at 30 June 2014). The increase was largely due to the acquisition of the HER mortgage business of $710.1m.
- Cash and cash equivalents and investments decreased by $63.3m (from $339.5m at 30 June 2013 to $276.2m at 30 June 2014) as liquidity was used to fund growth in receivables.
- Borrowings, being largely retail deposits and bank lines, increased by $426.9m (from $2.1bn at 30 June 2013 to $2.5bn at 30 June 2014) largely due to the acquisition of the HER mortgage business.

Heartland's Net Tangible Assets (**NTA**) increased by $68.7m over the Current Reporting Period (from $331.2m at 30 June 2013 to $399.9m at 30 June 2014) primarily due to the acquisition of the HER mortgage business. On a per share basis NTA was $0.86 at 30 June 2014 compared to $0.85 at 30 June 2013.

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[2] This announcement is based on the 30 June 2014 audited consolidated financial statements of Heartland New Zealand Limited. For more detailed analysis and explanation please refer to the attached full year financial statements.

Net Operating Income

Net Operating Income (NOI) was $122.2m for the Current Reporting Period, an increase of $15.3m (or 14%) from the Previous Corresponding Reporting Period. The increase in NOI was attributable to lower cost of funds, improved product mix and contribution from the Acquisition.

Costs

Operating costs were $64.7m for the Current Reporting Period, a decrease of $5.6m from the Previous Corresponding Reporting Period. However, operating costs for the Previous Reporting Period included $6.1m of prepaid expenses written off as a result of the Change in Strategy[3]. Adjusted operating costs (calculated by excluding expenses related to the Change in Strategy) were up $0.5m from the Previous Corresponding Reporting Period, due to costs associated with the Acquisition, but have reduced as a ratio to earnings.

The operating expense ratio was 53% for the Current Reporting Period, a reduction from 66% for the Previous Corresponding Reporting Period. The adjusted operating expense ratio (calculated by excluding the write-off of the expenses referred to above) was 60% for the Previous Current Reporting Period.

Impairments and revaluations of investment properties

Impaired asset expense was $5.9m for the Current Reporting Period, a decrease of $16.6m over the Previous Corresponding Reporting Period. This decrease was primarily in the non-core property division, which included an impairment expense of $12.9m made as part of the Change in Strategy[4] in the Previous Corresponding Reporting Period. Impairments remained low across the core areas of Rural, Business and Consumer lending.

A decrease in the fair value of investment properties of $1.2m was recognised, $3.9m less than the Previous Corresponding Reporting Period. As part of the Change in Strategy in the Previous Corresponding Reporting Period, a $5.1m fair value adjustment was also made against investment properties[5].

Asset quality continues to improve with net impaired, restructured and past due loans over 90 days standing at 1.9% of net finance receivables (**Net Impairment Ratio**) as at 30 June 2014; down from 2.4% of net finance receivables as at 30 June 2013.

The Net Impairment Ratio on the core business (excluding the non-core property book) was 1.4% as at 30 June 2014, compared to 0.9% as at 30 June 2013. While this has increased compared to the prior year, this remains at an acceptable level.

Funding and liquidity

Borrowings increased from $2.1bn at 30 June 2013 to $2.5bn at 30 June 2014. The increase was in order to fund the Acquisition and the assumption of bank borrowings associated with the business of $648.4m. Subsequent to acquisition date, these bank borrowings have reduced by $92.7m to

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[3] Specifically, the termination of a management agreement as part of that Change in Strategy.

[4] As part of the one-off non-cash write down in property assets by $18m (pre-tax) on the Change in Strategy.

[5] As part of the one-off non-cash write down in property assets by $18m (pre-tax) on the Change in Strategy.

$555.7m, as New Zealand HER mortgages have been transferred to Heartland Bank Limited (**Heartland Bank**) to utilise excess liquidity.

Credit rating raised

On 22 May 2014 Standard & Poor's (S&P) raised Heartland Bank's long term issuer credit rating to BBB from BBB- and assigned a negative outlook. The negative outlook reflects the negative economic risk trend assigned to the New Zealand banking system and S&P's concerns around economic imbalances, which are not specific to Heartland Bank.

BUSINESS PERFORMANCE – HEARTLAND'S CORE BUSINESS DIVISIONS

Business

NOI was $3.8m (15%) above the Previous Corresponding Reporting Period driven primarily by lower cost of funds. The business receivables book was stable at $547.2m. Receivables grew by $2.3m in the month of July, subsequent to balance date. It is expected the book will grow moderately in the year ahead.

Rural

NOI was flat at $22.9m compared to the Previous Corresponding Reporting Period, as the benefit of lower cost of funds was offset by a reduction in receivables.

The rural receivables book reduced by $46.4m (10%) from the Previous Corresponding Reporting Period as the division began to refocus on higher-yielding livestock and revolving credit business while reducing levels of lower-yielding term mortgage business. This decrease was driven by reductions in the receivables book bought from PGG Wrightson Limited, in areas of either higher risk or overlapping competition with major banks. Whilst lower-yielding term mortgages are expected to reduce further at a slower rate than previously, these will be replaced by more new business from new and existing products, meaning the rural book is expected to grow modestly in the year ahead. Receivables grew $3.2m in July, subsequent to balance date.

Household

NOI increased by $15.8m (32%) over the Previous Corresponding Reporting Period, driven by an increase in core receivables, lower cost of funds and the inclusion of one quarter of earnings from the recently acquired HER mortgage business.

Core motor vehicle receivables grew $55.3m (8%), offset by a $111.6m (48%) reduction in the residential mortgage book. The reduction in the residential receivables book continues the previously announced strategy to withdraw from this area of business and focus more on areas where Heartland can maintain a market leading position. More than $50.0m of residential receivables were placed through Heartland's partnership with Kiwibank in the Current Reporting Period.

HER receivables totalled $734.9m at 30 June 2014. The New Zealand book grew in June and July, reversing the declining book trend which has existed since 2012. TV advertising began in July in Australia, and as a result of this and through distribution partners, we expect growth to begin in September or October 2014.

NON CORE BUSINESS

Total legacy non-core property assets reduced by $66.6m (62%) over the Previous Corresponding Reporting Period to $40.8m at 30 June 2014. Non-core property assets were made up of $15.9m of net receivables and $24.9m of investment properties.

As previously advised, this reduction is ahead of that forecast when the Change of Strategy was originally announced. Heartland does not expect future earnings to be impacted by the future realisation of the remaining assets.

ACQUISITION OF HOME EQUITY RELEASE BUSINESSES

Heartland has now completed its review of the Acquisition. The fair value of consideration for the acquisition was NZ$86.1m[6] and the book values of the assets acquired and liabilities assumed were approximately NZ$721.4m and NZ$652.8m respectively, resulting in NTA of the acquired businesses of approximately NZ$68.6m[7]. The purchase price paid is a multiple of 1.26 times the book value of the NTA.

As required by accounting standards, Heartland has also now completed its allocation of the purchase price across the net assets acquired based on fair values. In doing so, Heartland has taken a fair value adjustment of NZ$7.5m against the HER loan portfolio acquired. This amount is conservative relative to the actual loss history in the acquired businesses[8]. However, Heartland has taken this amount as a fair value adjustment having considered actuarial modelling (based on conservative assumptions) as to portfolio performance in the future. While there is no material current loss history in the HER loan portfolio acquired, every HER loan portfolio (including those of the acquired businesses) will ultimately experience some loss across the life of the portfolio. As a result of the fair value adjustment of NZ$7.5m, Heartland will record the NTA of the acquired businesses as approximately NZ$61.2m.

FINAL DIVIDEND

The directors of Heartland have resolved to pay a final dividend for the full year ended 30 June 2014 of 3.5 cents per share. This dividend will be paid on 3 October 2014 to shareholders on Heartland's register as at 5.00pm on 19 September 2014 (**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 1.0% will apply (that is, the strike price under the DRP will be 99.0% of the volume weighted average sale price of Heartland shares over the 5 trading days following the Record Date)[9]. 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 September 2014.

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[6] Contractual consideration was $87m, to be in part satisfied by 38.7m Heartland shares at an ascribed value of $0.90 each. Given the market value of the Heartland shares was $0.88 on acquisition date, this results in a fair value acquisition price for accounting purposes of NZ$86m.

[7] NZ$30m of assets were acquired by Heartland from the businesses prior to the acquisition date.

[8] Since inception of the acquired businesses in 2003, actual losses of NZ$0.2m have occurred.

[9] 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.

The interim payment of 2.5¢ plus the announced 3.5¢ final dividend will mean a fully imputed 6.0¢ dividend payment in relation to the 2014 financial year.

NPAT FOR NEXT FINANCIAL YEAR (ENDING 30 JUNE 2015)

Heartland advises an increase in the top end of its forecast range for NPAT for the next financial year (ending 30 June 2015) to $42.0m - $45.0m. This is an increase in the top end of the range of $1.0m from $44.0m to $45.0m.

For the next financial year, Heartland is focused on continuing the earnings momentum achieved in 2014, with a specific focus on improving ROE. We will continue our product centric strategy, focusing on higher-yielding products where a market leading position can be achieved. In addition, Heartland will continue to investigate potential acquisition opportunities that are ROE accretive as well as assessing possible capital management options to improve ROE.

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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