

# HEARTLAND

New Zealand Limited

*NZX and Media Release*

## Heartland Bank Releases Third Quarter Disclosure Statement

28 May 2013

### HEARTLAND BANK THIRD QUARTER DISCLOSURE STATEMENT<sup>1</sup>

Heartland Bank Limited (**the Bank or Heartland**) (NZDX: MAR010), the banking subsidiary of Heartland New Zealand Limited (**HNZ**) (NZX : HNZ), today released its disclosure statement for the nine months ended 31 March 2013 in accordance with the Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order 2013.

The Bank recorded a net profit after tax (**NPAT**) of \$17.3m for the nine months ended 31 March 2013 (the **Current Reporting Period**). This is up \$1.7m from the \$15.6m NPAT (which included a one-off deferred tax benefit of \$6.2m) for the previous corresponding nine months ended 31 March 2012 (the **Previous Corresponding Reporting Period**) demonstrating significant improvement in underlying performance.

**Net profit before tax for the Bank was \$24.1m for the Current Reporting Period. This is up \$10.1m from the \$14.0m net profit before tax for the Previous Corresponding Reporting Period.**

#### Balance sheet

The Bank's total assets increased \$123.3m during the Current Reporting Period.

- Asset growth overall in the "core" business (Rural, Business and Consumer channels) was \$53.7m. This is offset by a reduction of \$86.8m in Non-Core Property and Retail (where the residential mortgage book declined). Net finance receivables reduced from \$2.1bn at 30 June 2012 to \$2.0bn at 31 March 2013, a reduction of \$33.2m.
- Cash and cash equivalents increased from \$89.2m at 30 June 2012 to \$214.0m at 31 March 2013 as higher cash holdings are held to support ongoing liquidity targets and a changing liquidity mix.
- Borrowings increased \$114.2m from \$1.9bn at 30 June 2012 to \$2.1bn 31 March 2013 reflecting an increase in retail deposits since bank registration was achieved in December 2012 and a changing funding mix.

#### Net Operating Income

Net Operating Income (**NOI**) for the Bank was \$78.7m for the Current Reporting Period, up from \$69.4m for the Previous Corresponding Reporting Period. The increase in NOI was mostly attributable to lower cost of funds.

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<sup>1</sup> This announcement is based on the 31 March 2013 unaudited off-quarter disclosure statement of Heartland Bank Limited.

## **Costs**

Operating costs for the Bank were \$46.6m for the Current Reporting Period, a decrease of \$2.7m from the Previous Corresponding Reporting Period. This is due to cost reductions made in the last half of the 2012 financial year having an impact in the current year. The operating expense ratio was 59% for the Current Reporting Period, compared to 71% for the Previous Corresponding Reporting Period.

## **Impairments**

Impaired asset expense for the Bank was \$7.9m for the Current Reporting Period, up from \$6.1m for the Previous Corresponding Reporting Period. The higher impairment expense came from the non-core property book.

## **NON-CORE PROPERTY UPDATE**

As previously announced, a review of the strategy of managing the non-core property book is being undertaken for the purpose of testing the current exit strategy (being a managed exit over a five year period beginning in January 2011) against alternatives with respect to value maximisation. It is currently anticipated that the outcome of this review will be determined and announced in June 2013. If the outcome of that review is to change strategy, this may impact currently anticipated full year financial results for the Bank and for HNZ.

## **BOND REPAYMENT**

The Bank has NZX Debt Market quoted bonds maturing on 15 July 2013 with a principal amount of \$104m. The Bank will be repaying these bonds on the maturity date from existing cash resources. Following the repayment, the Bank will still retain a strong liquidity position.

The Bank has made no decision on undertaking a further bond issue. However, it will continue to monitor opportunities within the debt capital market as part of its regular funding and liquidity management.

## **KIWIBANK RESIDENTIAL MORTGAGE ALLIANCE**

Heartland and Kiwibank Limited (**Kiwibank**) have entered into an exclusive arrangement under which Heartland customers can now access Kiwibank's market-leading residential mortgage products and rates.

Heartland will continue to manage its customers general banking requirements, but those customers can also be introduced to Kiwibank by Heartland for their residential mortgage requirements, subject to applicable lending criteria being met. This arrangement with Kiwibank, with respect to residential mortgages, allows Heartland to attract new customers while utilising its balance sheet for other core activities in the Business, Rural and Household sectors which currently offer a better risk/return.

Heartland's strategy does not contemplate competing against major banks in residential mortgages and this arrangement allows Heartland to derive income in the market without participating in the risk. The concerns expressed by Standard and Poor's regarding housing prices have served to reinforce the soundness of this strategy.

Heartland is delighted that in Kiwibank it has a banking partner who mirrors Heartland's commitment to New Zealand. Heartland's aim is to give customers a standard of service which includes market-leading

products. Where Heartland cannot provide a market-leading product, it will outsource it. Kiwibank's scale and market position mean it can offer a better residential mortgage product.

This capability has been in pilot since mid-April in selected branches and early indications are very positive and will now be offered in all branches.

- Ends -

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