HEARTLAND
New Zealand Limited

NZX and Media Release

HEARTLAND POSTS $10.7M HALF YEAR PROFIT

25 February 2013

Achievements for half year

- Bank registration achieved
- Dividend policy set, special dividend paid
- Interim dividend announced
- Investment grade credit rating reaffirmed

Milestones going forward

- Acceptable and sustainable earnings

FINANCIAL PERFORMANCE[1]

Heartland New Zealand Limited (**Heartland**) (NZX : HNZ) today announced a net profit after tax (**NPAT**) of $10.7m for the half year ended 31 December 2012 (the **Current Reporting Period**). This is up $0.9m from the $9.8m NPAT (which included a one-off deferred tax benefit of $6.2m) for the previous corresponding half year ended 31 December 2011 (the **Previous Corresponding Reporting Period**).

Net profit before tax was $14.9m for the Current Reporting Period. This is up $9.3m from the $5.6m net profit before tax for the Previous Corresponding Reporting Period.

Earnings Per Share was $0.03 calculated on weighted average shares.

Balance sheet[2]

Heartland's total assets were stable during the Current Reporting Period, growing by $2.0m.

- Net finance receivables reduced from $2.1bn at 30 June 2012 to $2.0bn at 31 December 2012, a reduction of $33.5m, as asset growth overall in the "core" business (Rural, Business and Consumer channels) was offset by reductions in Non-Core Property and Retail (where the mortgage book declined).
- Cash and cash equivalents increased from $89.7m at 30 June 2012 to $125.4m at 31 December 2012 as higher cash holdings are held to support ongoing liquidity targets.

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[1] This announcement is based on the 31 December 2012 unaudited summary consolidated financial statements of Heartland New Zealand Limited. For more detailed analysis and explanation please refer to the attached interim financial statements.

[2] Heartland Trust and CBS Canterbury Charitable Trust were deconsolidated on 1 July 2012.

- Borrowings remained $1.9bn at 30 June 2012 and 31 December 2012, due to the small movement in total assets.

Net Tangible Assets (**NTA**) increased from $343.7m to $350.0m during the Current Reporting Period - on a per share basis NTA was $0.90 at 31 December 2012 compared to $0.88 at 30 June 2012 and $0.85 at 31 December 2011.

Net Operating Income
Net Operating Income (**NOI**) was $51.8m for the Current Reporting Period, up from $44.9m for the Previous Corresponding Reporting Period. The increase in NOI was mostly attributable to:

- The acquisition of PGG Wrightson Finance Limited (**PWF**) on 31 August 2011; and
- Lower cost of funds.

Costs
Operating costs were $31.9m for the Current Reporting Period, a decrease of $3.7m 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 62% for the Current Reporting Period, compared to 79% for the Previous Corresponding Reporting Period.

Impairments and revaluations of investment properties
Impaired asset expense was $5.3m for the Current Reporting Period, up from $3.8m for the Previous Corresponding Reporting Period. The higher impairment expense came from the non-core property book given that the RECL Agreement was regarded as fully utilised as at 30 June 2012, meaning that Heartland now has to bear any further losses in the legacy non–core property book.

The non-core property book had an impairment expense of $4.0m (or 76% of the total impaired asset expense) during the Current Reporting Period compared to $1.6m in the Previous Corresponding Reporting Period. Impairments remain low in the core areas of rural, business and retail consumer lending.

Investment properties held on balance sheet reduced by $0.2m to $55.3m during the Current Reporting Period. There were no revaluations of these properties during this six month period.

Net impaired, restructured and past due loans over 90 days were $80.2m (or 3.9% of net finance receivables - **Net Impairment Ratio**) as at 31 December 2012 – down from $90.5m (or 4.4% of net finance receivables) as at 30 June 2012. The level of impaired, restructured and past due loans are primarily due to the legacy non-core property book and are expected to continue to reduce as a percentage of total assets as lending in the core business grows and the non-core property book runs down.

The Net Impairment Ratio on the core business (excluding the non-core property book) was 1.7% as at 31 December 2012, compared to 1.8% as at 30 June 2012.

Funding and liquidity
The liquidity of Heartland Bank Limited (**Heartland Bank**) (Heartland's principal operating subsidiary) was $482.4m as at 31 December 2012, which consisted of cash, liquid assets and unutilised available

funding lines. The liquidity mix continues to evolve with increased holdings of cash and liquid assets replacing unutilised funding lines.

Investment grade rating reaffirmed

On 17 December 2012 Standard & Poor's affirmed Heartland Bank's investment grade credit rating of BBB- 'stable' after bank registration approval by the Reserve Bank of New Zealand.

BUSINESS PERFORMANCE – HEARTLAND'S CORE BUSINESS DIVISIONS

Business

The business receivables book contracted by $9.7m to $530.5m during the Current Reporting Period. NOI was $12.6m, an increase of $2.7m from the Previous Corresponding Reporting Period. The current lending pipeline is solid, however, higher levels of repayments in a low credit growth market causes monthly variability. The business receivables book grew in January 2013.

Rural

The rural receivables book grew from $478.6m to $480.6m during the Current Reporting Period. NOI was $11.5m, an increase of $3.6m from the Previous Corresponding Reporting Period due to a full six months earnings from the PWF book. The minimal book growth was due to low seasonal demand in livestock trading and a low credit growth environment. Growth is expected in the second half of the 2013 financial year through anticipated higher turnover in livestock resulting in undrawn client limits being drawn.

Retail and Consumer

The retail & consumer receivables book contracted by $9.0m to $945.8m during the Current Reporting Period. NOI was $24.1m, an increase of $2.3m from the Previous Corresponding Reporting Period. Strong motor vehicle receivables growth of $39.0m was offset by the residential mortgage book which was impacted by a competitive market and reduced by $48.0m during the Current Reporting Period.

NON-CORE BUSINESS

Property

Total non-core property assets reduced by 11% during the Current Reporting Period - from $160.2m at 30 June 2012 to $143.2m at 31 December 2012. These non-core property assets are made up of net receivables of $87.9m and investment properties of $55.3m. RECL manages the ex-MARAC non-core property assets.

A review of the strategy of managing the 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. The outcome of this review will be determined by the end of the 2013 financial year.

BANK REGISTRATION AND CORPORATISATION OF SUBSIDIARY

Heartland Bank became a registered bank on 17 December 2012, and converted to a company on 31 January 2013. The corporatisation process included a change in Heartland Bank's name from its previous name "Heartland Building Society" to its current name "Heartland Bank Limited".

INTERIM DIVIDEND
The directors of Heartland have resolved to pay an interim dividend of 2.0 cents per share on 5 April 2013 to shareholders on the company's register as at 5.00pm on 20 March 2013. This dividend will be fully imputed.

BOARD COMPOSITION
A review of board composition is being undertaken, at both the parent company (i.e. Heartland New Zealand Limited) board level, and the bank subsidiary (i.e. Heartland Bank Limited) level. Objectives include increasing the representation of broader shareholder interests on the parent company board, increasing diversity and the depth of professional bank experience on the bank board, and moving to the position where at least 50% of the bank board is fully independent from the parent company board. Progress to date has included the recent appointment of Richard Wilks to the Heartland Bank Limited board (for a brief profile of Richard Wilks see the NZX release of 1 February 2013). In addition, the Heartland New Zealand Limited board has now resolved to invite Greg Tomlinson to join the parent company board. Greg Tomlinson is from Marlborough, and maintains private investments in the wine, healthcare, pharmaceutical and finance industries, including a substantial investment in Heartland.

LOOKING FORWARD
Heartland is focused on generating acceptable and sustainable earnings from the 2014 financial year onwards. Strategies are being formulated to ensure that in the 2014 financial year there is increasing NOI through both asset growth and cost of funds reduction, reduced costs throughout the business, reducing non-core property impairments and more efficient use of capital.

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