Half Year Results to 31 December 2013

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Important Notice

This presentation has been prepared by Heartland New Zealand Limited (Heartland) (NZX: HNZ) for the purpose of briefings provided by HNZ in relation to its financial statements.

The presentation and the briefing constitute summary information only, and you should not rely on them in isolation from the full detail set out in the financial statements.

Heartland Bank Limited is the principal operating subsidiary of HNZ.

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Agenda

- Introduction
- Financial Overview
- Home Equity Release Acquisition Overview
- Acquisition Fits Heartland's Strategy
- Questions

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Introduction

Heartland's Progress to Date

Heartland has made significant progress restructuring the existing business and is now poised for growth

- ✓ Merger successfully completed
- ✓ Investment grade credit rating achieved
- ✓ Bank licence obtained
- ✓ Costs normalising
- ✓ Consistent growth in earnings
- ✓ Asset rebalancing being completed (see over page)
- ✓ Significant acquisition secured - meaningful balance sheet growth

Heartland is now poised for growth

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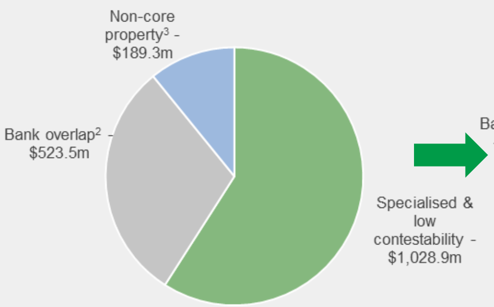
Effect of Balance Sheet Changes

Strategic changes to Heartland's balance sheet composition have resulted in increased EPS and ROE

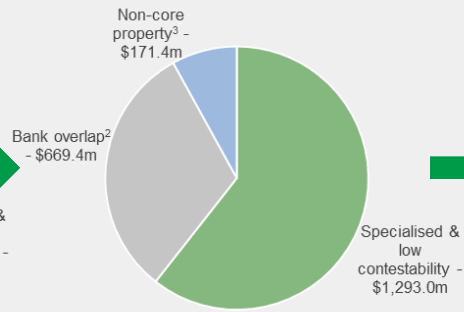
30 June 2011



Total Net Receivables[7] - $1.7b

NPAT - $7.1m
EPS - 5c
ROE - 2.8%

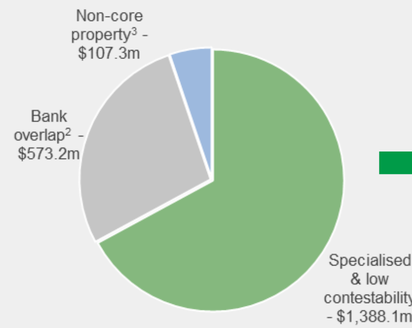
30 June 2012[1]



Total Net Receivables[7] - $2.1b

Normalised NPAT[5] - $14.2m
Normalised EPS - 4c
Normalised ROE - 4.2%

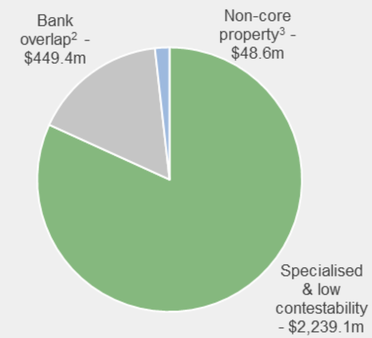
30 June 2013



Total Net Receivables[7] - $2.1b

Normalised NPAT[6] - $24.3m
Normalised EPS - 6c
Normalised ROE - 6.5%

30 June 2014 (forecast)[4]



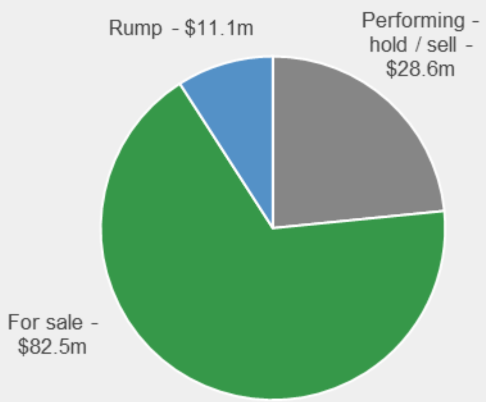
Total Net Receivables[7] - $2.7b

[1]Uplift in net receivables partly attributable to acquisition of PGW Finance
[2]Bank overlap assumed to be residential mortgages and 50% of business and rural
[3]Includes investment properties
[4]Includes forecast HER loan balances
[5]Adjusted for tax legislation changes ($6.2m) and prior year taxes ($3.2m)
[6]Change in strategy provisions ($18.0m), RECL fee ($6.1m), RECL expenses ($0.2m) added back
[7]Net finance receivables include residential mortgages, property, plant& equipment, business, IF, livestock, other rural and HER. Other asset categories (e.g. cash, investments etc.) are not included

Significant Reduction in Non-Core Property

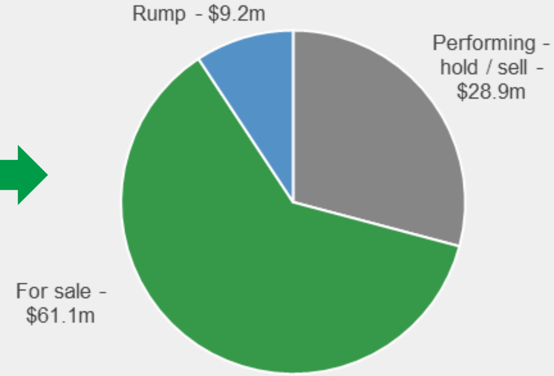
Heartland continues to significantly reduce its non-core property holdings

30 June 2013



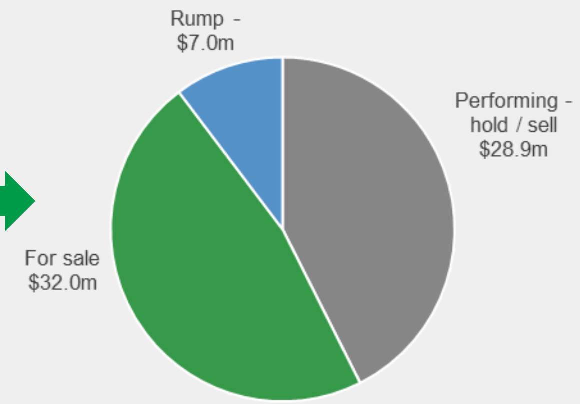
Total Property Book[2] - $122.3m

31 December 2013



Total Property Book[1] - $99.2m

30 June 2014 (Forecast)[1]



Total Property Book[1] - $67.9m

[1]*Based on conditional contracts*
[2]*Excludes general provisions of $14.9m (30 June 2013), $12.1m (31 December 2013) and c.$10m (30 June 2014)*

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Implementing Acquisitive Growth Strategy

Heartland has established a specialist team for strategic growth, new product assessment and development

- The team is headed by Michael Jonas, recently appointed as Head of Strategic and Product Development and includes:
  - Andrew Dixson (Senior Manager – Strategy and Products);
  - Antony Bowyer (Product Development Manager); and
  - Nerissa Tuang (Senior Business Analyst)
- The team gives Heartland targeted capability to evaluate and progress acquisition opportunities, and to evaluate, design and embed new products
- Key criteria in assessing acquisition and product development opportunities include strategic fit, competitive advantage, and the potential for growth in the market sector
- Potential acquisitions are measured primarily with reference to ROE and EPS accretion
- Heartland's growth strategy requires agility in order to avoid mainstream competition and Heartland seeks to do this by:
  - Minimising fixed cost investment in mono-line infrastructure; and
  - Maintaining a high degree of variable cost flexibility in its Distribution model

Over the last 4 years, Heartland has successfully integrated 5 businesses and developed new products – this is a core competency

Financial Overview

Financial Half Year Overview

56% increase in NPAT

- Achieved NPAT of $16.7m
- Increase in NPAT of $6m or 56%
- NOI increase of $7m or 13%
- Impairments are low
- Second half of 2013 Non-Core Property one off expense of $24.3m

	6 months to Dec 2013 (NZ$m)	6 months to Dec 2012 (NZ$m)	12 months to Jun 2013 (NZ$m)
Net interest income	52.4	46.8	95.5
Net other income	6.7	5.3	11.9
Net operating income *	**59.1**	**52.1**	**107.4**
Expenses	32.4	31.9	70.3
Profit before impairments and tax	**26.7**	**20.2**	**37.1**
Impaired asset expense	3.3	5.3	22.5
Decrease in fair value of investment properties	-	-	5.1
Net profit before tax	**23.4**	**14.9**	**9.5**
Tax	6.7	4.2	2.6
Net profit after tax (reported)	**16.7**	**10.7**	**6.9**

* Net operating income includes share of MARAC Insurance profit

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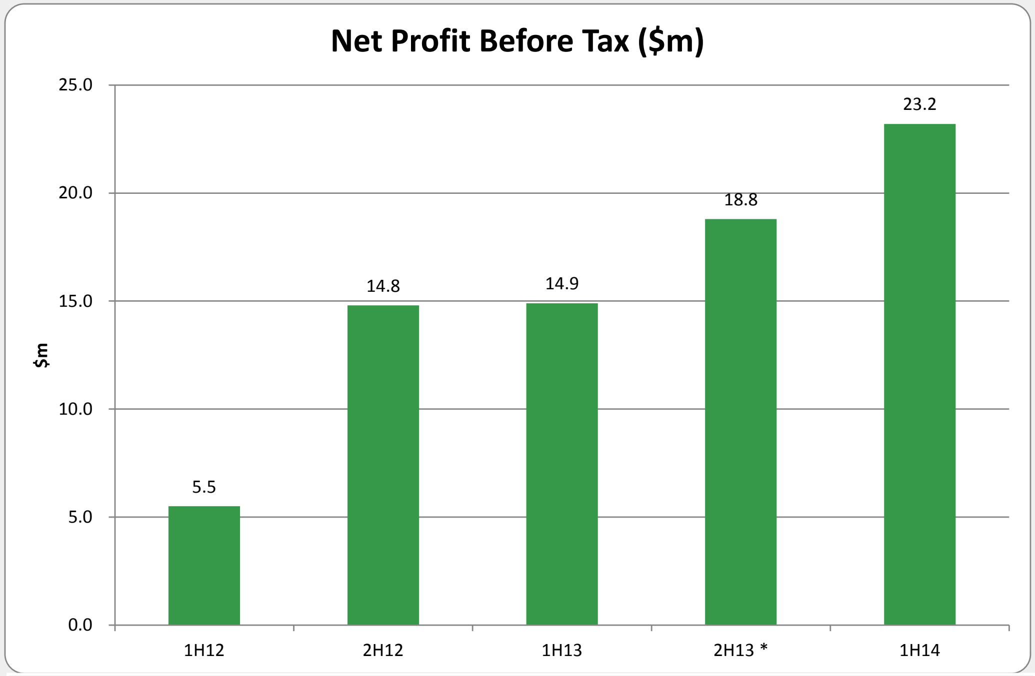
Net Profit Before Tax

Adjusted NPBT shows continued improvement

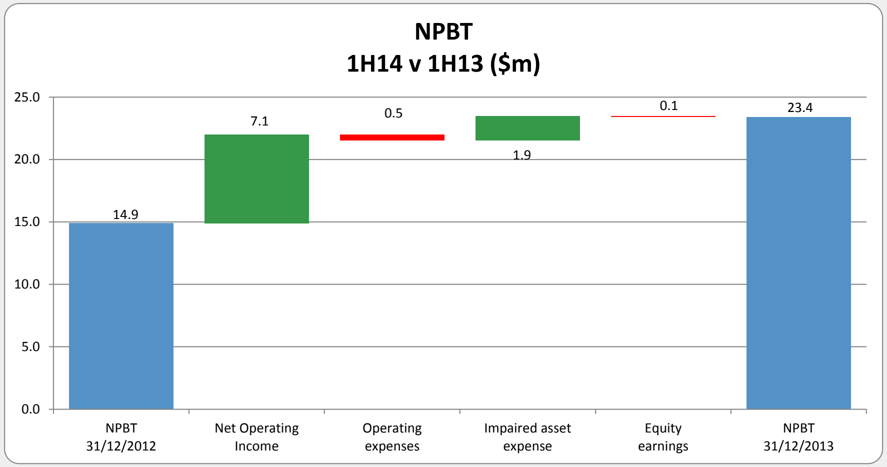
- Adjustment for one off Non-Core Property expense for like on like
- Interest margin big driver in growth
- Continued trend improvement
- To continue trend will need growth in assets

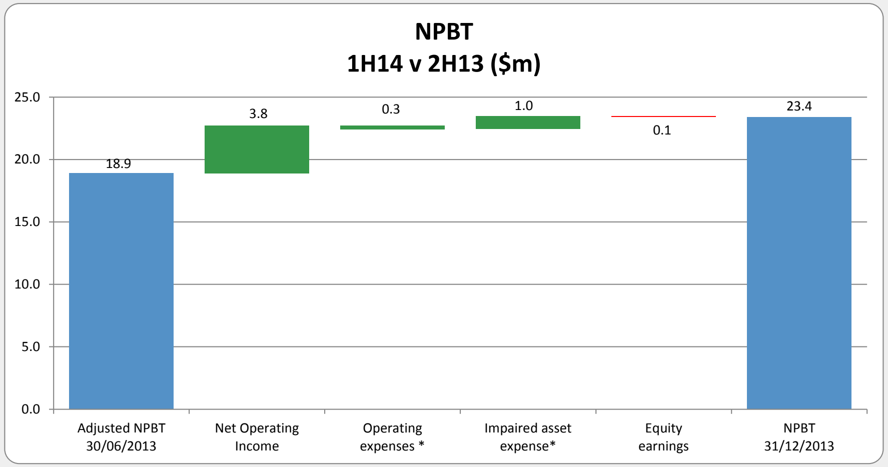


* Adjusted NPBT, calculated by adding back one-off non-cash expenses incurred as a result of the change in strategy

Net Profit Before Tax - Bridge

Breakdown of component parts





* 2H13 adjusted by adding back one-off non-cash expenses incurred as a result of the change in strategy

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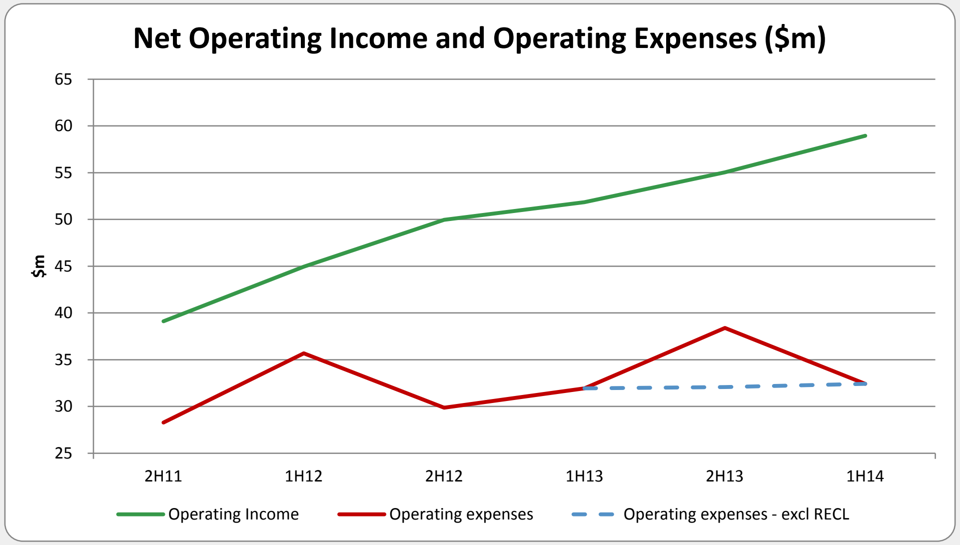
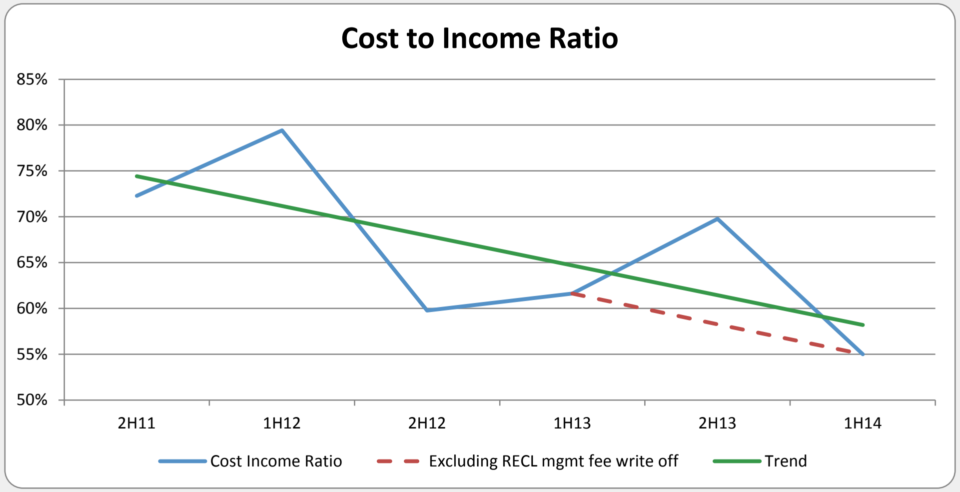
Operational Efficiency

Continued trend improvement in cost to income ratio

- Ratio lower as NOI continues to grow
- Cost to income ratio now at 55%
- Track shows right direction – nearing peers
- Some variability half on half
- Prior half increase in costs due to RECL termination of $6.3m



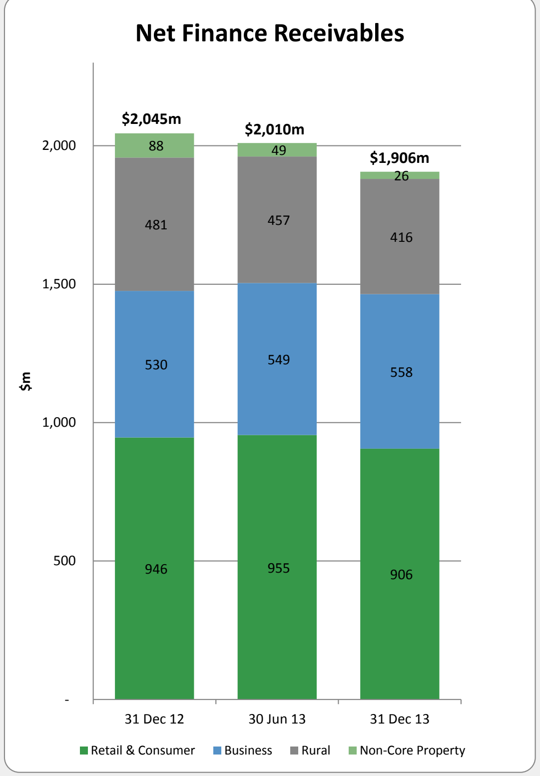


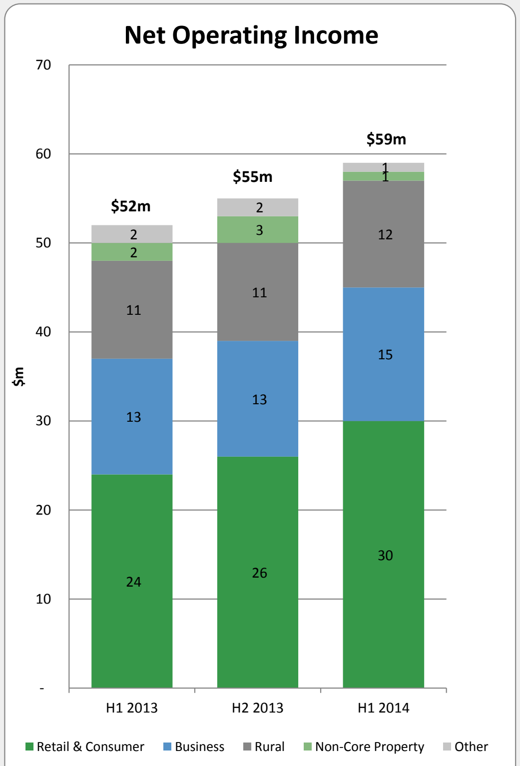
Balance Sheet Summary

Transformation on track

- Total assets declined by $12m
- Net finance receivables reduced by $104m
- Retail and non-core property back $95m as we look to exit
- Consumer and Business up $22m and $9m
- Rural back $41m – Livestock grew 10.6% year on year, while non-core parts of rural book drove reduction
- NTA increased to $0.88 per share

	31 Dec 2013 (NZ$m)	30 Jun 2013 (NZ$m)
Total assets	2,491.9	2,504.6
Total liabilities	2,110.1	2,134.1
Total equity	**381.7**	**370.5**
Equity ratio	15.3%	14.8%
Net tangible assets	**347.4**	**331.2**
NTA per share	$ 0.88	$ 0.85





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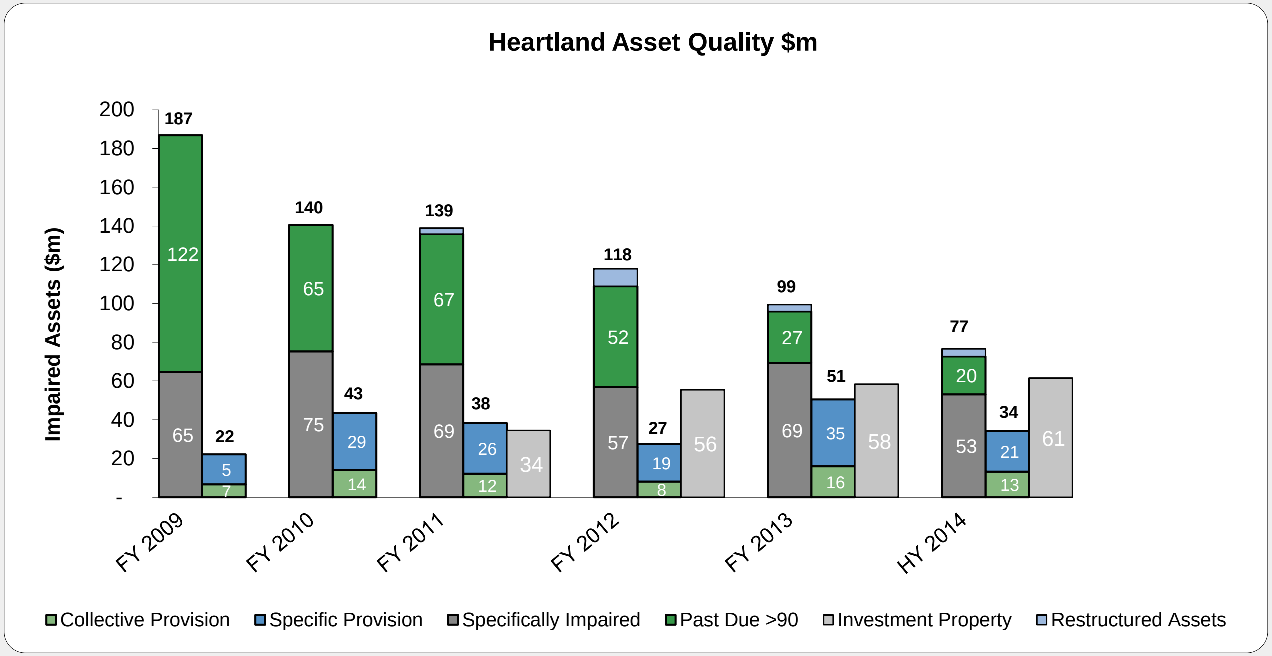
Asset Quality Trends

Trend improvement in underlying asset quality

- Asset quality improving overall
- Non-Core Property remains driver of elevated impairment levels
- Core business impairment is very low



	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	HY 2014
Net Finance Receivables ($bn)	2.0	1.8	1.7	2.1	2.0	1.9
Net Impairment (%)	8.3%	5.4%	5.9%	4.4%	2.4%	2.2%
Net Core Finance Receivables ($bn)			1.6	2.0	2.0	1.9
Net Impairment (%)			1.7%	1.3%	0.9%	1.1%

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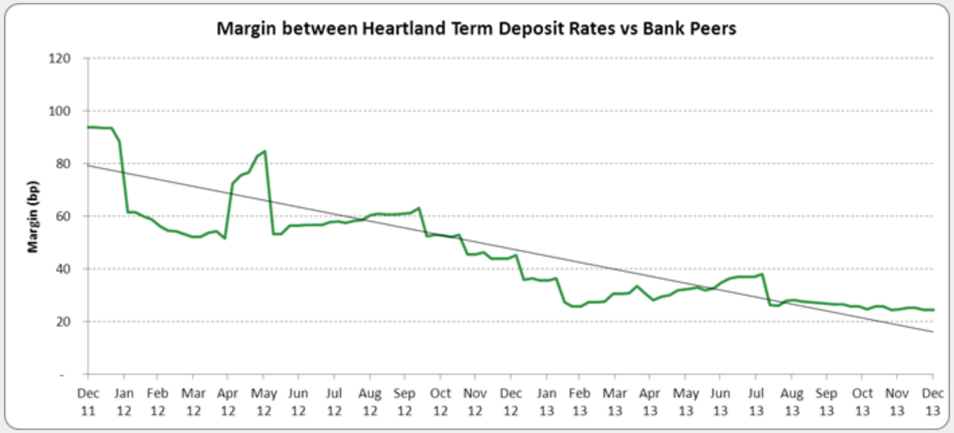
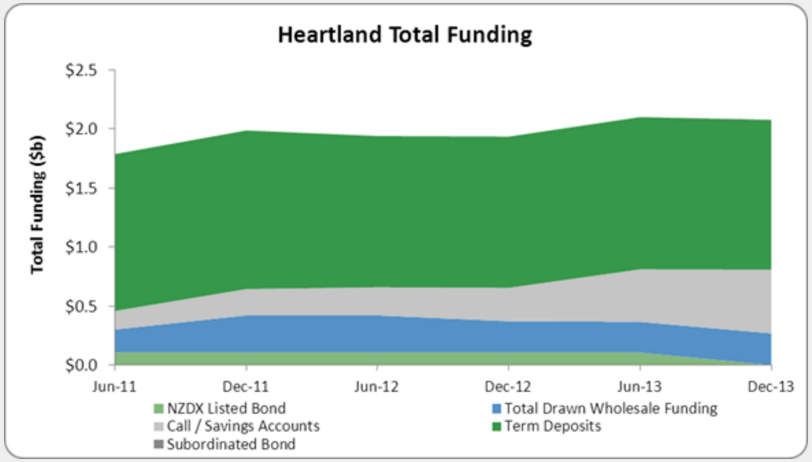
Cost of Funds

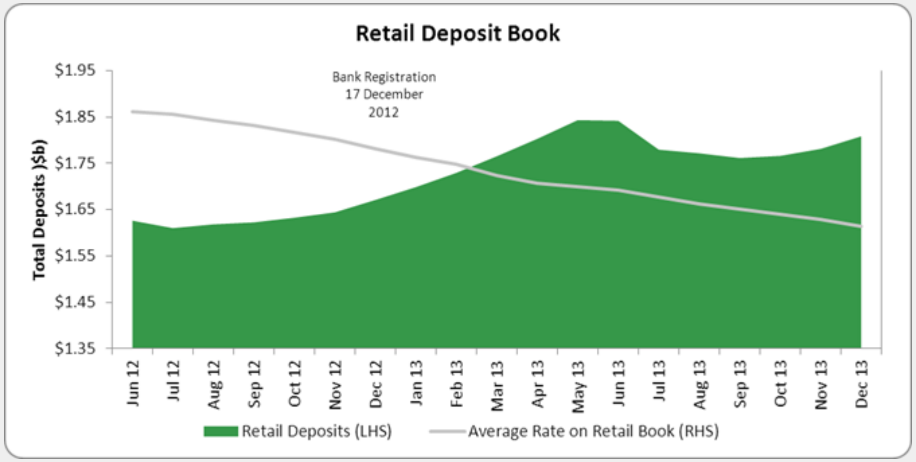
Cost of funds continue to track lower

Solid retail deposit growth and lower cost of funds driven by:

- Rate alignment with Bank peers
- Changing funding mix (increased retail, reduced wholesale)







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Home Equity Release Acquisition Overview

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Acquisition Summary

1. Heartland New Zealand Limited (Heartland) will acquire the Sentinel New Zealand (Sentinel) and Australian Seniors Finance (ASF) businesses, with combined assets of approximately NZ$760m[1] from Seniors Money International Ltd. (SMI), (including their respective home equity release (HER) loan portfolios, operational infrastructure and funding arrangements) for a purchase price of NZ$87m
2. The agreement is subject to a number of conditions, including that SMI obtain shareholder approval for the transaction. The SMI Board is supportive of the transaction and will recommend it to its shareholders
3. SMI is focussed exclusively on providing HER loans for seniors and, as an early entrant into its core markets, has established an excellent operating track record and brand
    - Sentinel operates exclusively in New Zealand where it enjoys the number one position in the market, an approximate 80% market share[2].
    - ASF operates exclusively in Australia, where it is the largest non bank provider, with an approximate 20% market share[2]
4. The HER loan product caters for an aging population with much of its wealth invested in real estate. As a result of the acquisition, Heartland is well placed to take advantage of the compelling sector fundamentals
5. The acquired Sentinel and ASF businesses will sit outside of Heartland Bank. Over time the existing New Zealand HER loans will be migrated onto Heartland Bank's balance sheet, with new New Zealand loans being written directly by Heartland Bank. Existing Australian HER loans will remain outside of Heartland Bank as will new Australian HER loans
6. Commonwealth Bank of Australia, SMI's existing primary banker, has agreed to continue to provide committed facilities to Heartland to fund the Sentinel and ASF portfolios for a term of five and a half years, on similar terms to those that are in place today
7. The Transaction will be funded through a combination of (i) Heartland issuing approximately 43m new shares (at $0.90 per share) to the vendor, (ii) a $20m equity raising conducted by way of a $15m placement to institutional and habitual investors and a $5m share purchase plan and (iii) with the balance being funded by cash
8. The Transaction is expected to be accretive to Heartland's FY15 Earnings Per Share and improve Heartland's Return on Equity

[1]Includes NZ$30.5m of Sentinel HER loans purchased by Heartland in December 2013
[2]SMI Management

Home Equity Release Loans Overview

HER loans allow seniors to borrow against the equity in their homes

- Borrower must be of a minimum age (Sentinel and ASF require borrows to be 60+), live in his/her own home, and have equity in it
- The borrower will never have to repay more than the value of the property
- There are no principal or interest payments required while the borrower occupies the property
- The borrower has the right to continue to reside in the property as long as they wish
- The product is a timely response to the demographic changes of an ageing population with much of its wealth invested in real estate. The ability to monetise these assets without the need to sell and exit the family home or to demonstrate external sources of debt servicing allows seniors to remain independent and to age with dignity in their own homes

Sentinel and ASF Summary

Sentinel is the leading HER loan provider in New Zealand, while ASF is the largest non-bank provider in Australia

- Sentinel is the number one Home Equity Release (HER) mortgage provider in New Zealand with approximately 80% market share[1]
- ASF is the largest non-bank HER loan provider in Australia, with approximately 20% market share[1]
- Both Sentinel and ASF are seasoned and diversified, having been established in 2003 and 2004 respectively

Key Metrics	New Zealand (Sentinel)[2]	Australia (ASF)
Established	2003	2004
Approximate market share	80%	20%
Portfolio Size	~NZ$340m	~A$380m
Loans #	4,048	4,245
Average Loan - Current	NZ$84.2k	A$89.8k
Average Loan - At Origination	NZ$39.5k	A$45.1k
Average Property Value	NZ$324.7k	A$344.3k
Weighted Average Age[3]	77.8 years	76.2 years
Weighted Average Current LVR	32.7%	31.8%
Weighted Average Original LVR	15.6%	17.1%

[1] SMI Management
[2] Includes NZ$30.5m of New Zealand HER loans purchased by Heartland in December 2013
[3] Age of youngest policy holder if joint

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Acquisition Fits with Heartland's Strategy

Acquisition Fits Heartland's Objectives

Heartland's Strategic Objectives	Sentinel / Australian Seniors Finance (ASF) Strategic Fit
1. Low contestability, specialist products	✓ Reverse mortgages occupy a specialist sector ✓ Sentinel and ASF are Australasia's only specialist provider of HER products (competing HER products are typically a small component of larger banks overall product offering and not actively promoted)
2. Best in category & strong market position	✓ Sentinel has the leading market position in the New Zealand market with around 80% market share ✓ ASF in Australia remains the largest non-main bank provider with 20% market share
3. Fits key area of focus	✓ In 2012, Heartland identified the Senior demographic as a key strategic area within the household sector - Researched externally reverse mortgage product - Focus on acquiring existing operations, processes and seasoned portfolio - Use the Sentinel and ASF brands to target demographic and specific growth

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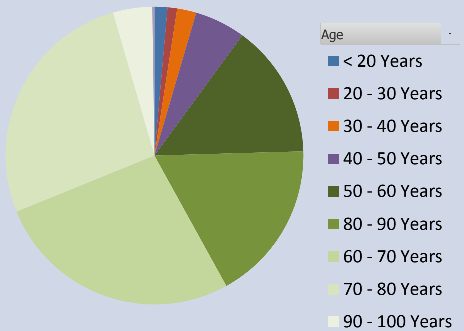
Acquisition Fits Heartland's Objectives

Heartland's Strategic Objectives	Sentinel / Australian Seniors Finance (ASF) Strategic Fit
4. Leverage existing relationships / infrastructure **Balance of Deposits by Depositor Age** 	✓ Sentinel/ASF have existing strong networks of distribution relationships in both jurisdictions ✓ Strong existing connections and influence on regulators, key Seniors representative groups and community stakeholders ✓ Sentinel and ASF borrowers occupy the same demographic as Heartland's loyal depositor base ✓ Significant opportunity for Heartland to cross-sell via targeted marketing ✓ Proven low cost system which can be easily integrated

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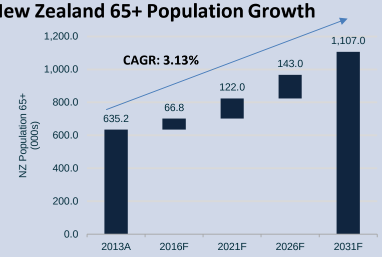
Acquisition Fits Heartland's Objectives

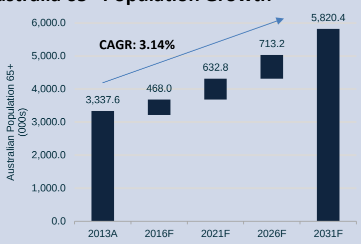
Heartland's Strategic Objectives	Sentinel / Australian Seniors Finance (ASF) Strategic Fit
5. Compelling sector fundamentals	✓ New Zealand and Australia's older population is projected to grow rapidly ✓ A significant portion of their wealth is accumulated in their primary residential dwellings - Approximately 82% of New Zealanders aged 65+ own their own home, with 92% of these being owned mortgage free, while 83% of Australian's aged 65+ own their own homes, with 93% of these owned mortgage free - New Zealand's housing stock is valued at NZ$700 billion, while Australia's housing stock is valued at A$4.5 trillion ✓ Seniors often have low levels of income - The median household income of New Zealanders aged 65+ is just NZ$20.2k, with government superannuation accounting for 57% of the average income - The mean household income of Australian couples aged 65+ is approximately A$34.1k with government pensions accounting for 61% of this income. The mean household income for single Australians aged 65+ is approximately A$27.3k with government pensions accounting for 76% of this income.

New Zealand 65+ Population Growth



Source: Statistics New Zealand

Australia 65+ Population Growth



Source: Australian Bureau of Statistics

Sources: Statistics New Zealand, Australian Bureau of Statistics, New Zealand Treasury, Australian Treasury, Department of Families, Housing, Community Services and Indigenous Affairs (Australia)

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Acquisition Fits Heartland's Objectives

Heartland's Strategic Objectives	Sentinel / Australian Seniors Finance (ASF) Strategic Fit
6. Sustainable earnings and growth	✓ Sentinel / ASF have predictable and sustainable earnings ✓ Opportunity to grow that earnings stream with new origination ✓ Step increase for HNZ in terms of earnings and balance sheet (forecast increase in pre tax earnings represents a material increase for Heartland) ✓ Low risk assets and low risk transaction

Questions

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