

HEARTLAND NEW ZEALAND LIMITED  
**INTERIM FINANCIAL STATEMENTS**

For the six months ended 31 December 2012

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## DIRECTORS' RESPONSIBILITY STATEMENT

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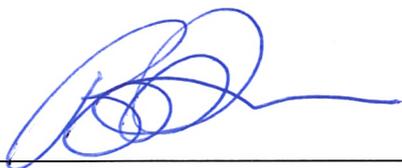
The directors are responsible for ensuring that the interim financial statements give a true and fair view of the financial position of Heartland New Zealand Limited (Company) and its subsidiaries and joint venture (Group) as at 31 December 2012 and the financial performance and cash flows for the six months ended 31 December 2012.

The directors consider that the interim financial statements of the Group have been prepared using appropriate accounting policies consistently applied and supported by reasonable judgements and estimates and that all the relevant financial reporting and accounting standards have been followed.

The directors believe that proper accounting records have been kept which enable, with reasonable accuracy, the determination of the financial position of the Group and facilitate compliance of the interim financial statements with the Financial Reporting Act 1993.

The Board of Directors of Heartland New Zealand Limited authorised the interim financial statements set out on pages 3 to 14 for issue on 25 February 2013.

For and on behalf of the Board



Director



Director

## INTERIM STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 31 December 2012

	NOTE	Unaudited 6 mths to Dec 2012 \$000	Unaudited 6 mths to Dec 2011 \$000	Audited 12 mths to Jun 2012 \$000
Interest income	5	103,280	101,770	205,148
Interest expense	5	56,520	62,647	121,502
<b>Net interest income</b>		<b>46,760</b>	<b>39,123</b>	<b>83,646</b>
Operating lease income		7,712	7,463	15,064
Operating lease expenses		5,029	4,803	9,954
<b>Net operating lease income</b>		<b>2,683</b>	<b>2,660</b>	<b>5,110</b>
Lending and credit fee income		795	895	1,798
Other income		1,611	2,257	4,330
<b>Net operating income</b>		<b>51,849</b>	<b>44,935</b>	<b>94,884</b>
Selling and administration expenses	6	31,943	35,691	65,547
<b>Profit before impaired asset expense and income tax</b>		<b>19,906</b>	<b>9,244</b>	<b>29,337</b>
Impaired asset expense	7	5,254	3,788	5,642
Decrease in fair value of investment properties		-	-	3,900
<b>Operating profit</b>		<b>14,652</b>	<b>5,456</b>	<b>19,795</b>
Share of equity accounted investee's profit		246	167	534
<b>Profit before income tax</b>		<b>14,898</b>	<b>5,623</b>	<b>20,329</b>
Income tax expense / (benefit)		4,194	(4,144)	(3,277)
<b>Profit for the period</b>		<b>10,704</b>	<b>9,767</b>	<b>23,606</b>
<b>Other comprehensive income</b>				
Cash flow hedges:				
Effective portion of changes in fair value, net of income tax		274	(595)	378
Reserves:				
Net change in available for sale reserve, net of income tax		46	(104)	(103)
Net change in defined benefit reserve, net of income tax		203	(236)	(435)
<b>Other comprehensive income / (loss) for the period, net of income tax</b>		<b>523</b>	<b>(935)</b>	<b>(160)</b>
<b>Total comprehensive income for the period</b>		<b>11,227</b>	<b>8,832</b>	<b>23,446</b>
<b>Earnings per share from continuing operations</b>				
Basic earnings per share	8	3c	3c	6c
Diluted earnings per share	8	3c	3c	6c

All comprehensive income for the period is attributable to owners of the Group.

The notes on pages 7 to 14 are an integral part of these interim financial statements.

## INTERIM STATEMENT OF CHANGES IN EQUITY

For the six months ended 31 December 2012

	NOTE	Share Capital \$000	Available for sale Reserve \$000	Defined benefit Reserve \$000	Hedging Reserve \$000	Retained Earnings \$000	Total Equity \$000
<b>Unaudited - December 2012</b>							
<b>Balance at 1 July 2012</b>		<b>192,020</b>	<b>8</b>	<b>(421)</b>	<b>(1,010)</b>	<b>184,201</b>	<b>374,798</b>
<b>Total comprehensive income for the period</b>							
Profit for the period		-	-	-	-	10,704	10,704
Other comprehensive income, net of income tax		-	46	203	274	-	523
<b>Total comprehensive income for the period</b>		<b>-</b>	<b>46</b>	<b>203</b>	<b>274</b>	<b>10,704</b>	<b>11,227</b>
<b>Contributions by and distributions to owners</b>							
Dividends paid	9	-	-	-	-	(5,888)	(5,888)
Own shares distributed		954	-	-	-	-	954
<b>Total transactions with owners</b>		<b>954</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(5,888)</b>	<b>(4,934)</b>
<b>Balance at 31 December 2012</b>		<b>192,974</b>	<b>54</b>	<b>(218)</b>	<b>(736)</b>	<b>189,017</b>	<b>381,091</b>
<b>Unaudited - December 2011</b>							
<b>Balance at 1 July 2011</b>		<b>137,074</b>	<b>111</b>	<b>14</b>	<b>(1,388)</b>	<b>160,595</b>	<b>296,406</b>
<b>Total comprehensive income for the period</b>							
Profit for the period		-	-	-	-	9,767	9,767
Other comprehensive loss, net of income tax		-	(104)	(236)	(595)	-	(935)
<b>Total comprehensive income for the period</b>		<b>-</b>	<b>(104)</b>	<b>(236)</b>	<b>(595)</b>	<b>9,767</b>	<b>8,832</b>
<b>Contributions by and distributions to owners</b>							
Capital raising proceeds	10	57,347	-	-	-	-	57,347
Transaction costs associated with capital raising		(1,402)	-	-	-	-	(1,402)
Own shares acquired		(999)	-	-	-	-	(999)
<b>Total transactions with owners</b>		<b>54,946</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>54,946</b>
<b>Balance at 31 December 2011</b>		<b>192,020</b>	<b>7</b>	<b>(222)</b>	<b>(1,983)</b>	<b>170,362</b>	<b>360,184</b>
<b>Audited - June 2012</b>							
<b>Balance at 1 July 2011</b>		<b>137,074</b>	<b>111</b>	<b>14</b>	<b>(1,388)</b>	<b>160,595</b>	<b>296,406</b>
<b>Total comprehensive income for the year</b>							
Profit for the year		-	-	-	-	23,606	23,606
Other comprehensive income / (loss), net of income tax		-	(103)	(435)	378	-	(160)
<b>Total comprehensive income for the year</b>		<b>-</b>	<b>(103)</b>	<b>(435)</b>	<b>378</b>	<b>23,606</b>	<b>23,446</b>
<b>Contributions by and distributions to owners</b>							
Capital raising proceeds	10	57,347	-	-	-	-	57,347
Transaction costs associated with capital raising		(1,402)	-	-	-	-	(1,402)
Own shares acquired		(999)	-	-	-	-	(999)
<b>Total transactions with owners</b>		<b>54,946</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>54,946</b>
<b>Balance at 30 June 2012</b>		<b>192,020</b>	<b>8</b>	<b>(421)</b>	<b>(1,010)</b>	<b>184,201</b>	<b>374,798</b>

The notes on pages 7 to 14 are an integral part of these interim financial statements.

## INTERIM STATEMENT OF FINANCIAL POSITION

As at 31 December 2012

	NOTE	Unaudited Dec 2012 \$000	Unaudited Dec 2011 \$000	Audited Jun 2012 \$000
<b>Assets</b>				
Cash and cash equivalents		125,421	119,741	89,689
Investments		24,406	24,309	24,327
Investment properties		55,316	58,083	55,504
Finance receivables	11	2,044,793	2,075,211	2,078,276
Operating lease vehicles		34,359	35,333	34,550
Current tax asset		2,131	2,230	5,635
Other assets		18,410	23,402	15,785
Investment in joint venture		4,062	2,582	3,116
Intangible assets		22,986	21,981	22,997
Property, plant and equipment		10,071	10,031	10,067
Deferred tax asset		8,146	7,640	8,143
<b>Total assets</b>		<b>2,350,101</b>	<b>2,380,543</b>	<b>2,348,089</b>
<b>Liabilities</b>				
Borrowings	12	1,935,116	1,985,551	1,939,489
Trade and other payables		33,894	34,808	33,802
<b>Total liabilities</b>		<b>1,969,010</b>	<b>2,020,359</b>	<b>1,973,291</b>
<b>Equity</b>				
Share capital	10	192,974	192,020	192,020
Retained earnings and reserves		188,117	168,164	182,778
<b>Total equity</b>		<b>381,091</b>	<b>360,184</b>	<b>374,798</b>
<b>Total equity and liabilities</b>		<b>2,350,101</b>	<b>2,380,543</b>	<b>2,348,089</b>

The notes on pages 7 to 14 are an integral part of these interim financial statements.

# INTERIM STATEMENT OF CASH FLOWS

For the six months ended 31 December 2012

	NOTE	Unaudited 6 mths to Dec 2012 \$000	Unaudited 6 mths to Dec 2011 \$000	Audited 12 mths to Jun 2012 \$000
<b>Cash flows from operating activities</b>				
Interest received		99,210	97,876	197,152
Operating lease income received		6,529	6,392	13,099
Proceeds from sale of operating lease vehicles		4,683	4,952	7,932
Lending, credit fees and other income received		2,406	3,152	6,219
Net decrease in finance receivables		32,192	-	-
<b>Total cash provided from operating activities</b>		<b>145,020</b>	<b>112,372</b>	<b>224,402</b>
Payments to suppliers and employees		32,768	34,424	68,183
Interest paid		54,048	63,572	121,742
Purchase of operating lease vehicles		8,082	10,794	16,905
Net increase in finance receivables		-	24,376	20,547
Taxation paid		815	-	23
<b>Total cash applied to operating activities</b>		<b>95,713</b>	<b>133,166</b>	<b>227,400</b>
<b>Net cash flows from / (applied to) operating activities</b>	13	<b>49,307</b>	<b>(20,794)</b>	<b>(2,998)</b>
<b>Cash flows from investing activities</b>				
Proceeds from sale of investment property		188	-	832
<b>Total cash provided from investing activities</b>		<b>188</b>	<b>-</b>	<b>832</b>
Purchase of office fit-out, equipment and intangible assets		859	1,260	3,191
Purchase of investments		79	6,478	6,496
Purchase of subsidiary		-	24,898	24,898
Investment in joint venture		700	-	-
Purchase of investment property		-	-	937
<b>Total cash applied to investing activities</b>		<b>1,638</b>	<b>32,636</b>	<b>35,522</b>
<b>Net cash flows applied to investing activities</b>		<b>(1,450)</b>	<b>(32,636)</b>	<b>(34,690)</b>
<b>Cash flows from financing activities</b>				
Increase in share capital		-	57,347	57,347
<b>Total cash provided from financing activities</b>		<b>-</b>	<b>57,347</b>	<b>57,347</b>
Repurchase of own shares		-	999	999
Dividends paid		5,888	-	-
Transaction costs associated with capital raising		-	1,402	1,402
Net decrease in borrowings		6,237	210,605	256,399
<b>Total cash applied to financing activities</b>		<b>12,125</b>	<b>213,006</b>	<b>258,800</b>
<b>Net cash flows applied to financing activities</b>		<b>(12,125)</b>	<b>(155,659)</b>	<b>(201,453)</b>
<b>Net increase / (decrease) in cash held</b>		<b>35,732</b>	<b>(209,089)</b>	<b>(239,141)</b>
Opening cash and cash equivalents		89,689	267,187	267,187
Cash impact of acquisition of subsidiary		-	61,643	61,643
<b>Closing cash and cash equivalents</b>		<b>125,421</b>	<b>119,741</b>	<b>89,689</b>

The notes on pages 7 to 14 are an integral part of these interim financial statements.

# NOTES TO THE INTERIM FINANCIAL STATEMENTS

For the six months ended 31 December 2012

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## 1 Reporting entity

The interim financial statements presented are the consolidated financial statements comprising Heartland New Zealand Limited (Company) and its subsidiaries and joint venture (Group).

The significant subsidiaries included in the Group are Heartland Bank Limited (Bank), MARAC Finance Limited (MARAC), PGG Wrightson Finance Limited (PWF), VPS Parnell Limited, VPS Properties Limited and Heartland Financial Services Limited. Heartland Financial Services Limited holds a 50% joint venture interest in MARAC JV Holdings Limited (MJV) with the New Zealand Automobile Association, refer to Note 14 - Significant subsidiaries and interests in jointly controlled entities.

The Group also includes Heartland ABCP Trust 1 and CBS Warehouse A Trust (collectively known as the Trusts), which are special purpose vehicles holding securitised loans purchased from MARAC and the Bank.

The Bank acquired PWF on 31 August 2011, as a result comparatives for the year ended 30 June 2012 and the six months ended 31 December 2011 only include the PWF result from the date of acquisition.

All entities within the Group offer financial services or are special purpose entities. The Group operates and is domiciled in New Zealand. The registered office address is 75 Riccarton Road, Christchurch.

## 2 Basis of preparation

The financial statements presented here are for the following periods:

- 6 month period ended 31 December 2012 - Unaudited
- 6 month period ended 31 December 2011 - Unaudited
- 12 month period ended 30 June 2012 - Audited

### (a) Statement of compliance

The condensed interim financial statements have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand (NZ GAAP) and NZ IAS 34 Interim Financial Reporting. They do not include all of the information required for full annual financial statements and should be read in conjunction with the annual report for the year ended 30 June 2012. The Group is also in compliance with IAS 34 Interim Financial Statements.

The Company and all the entities within the Group are profit-oriented entities. The Company is a reporting entity and an issuer for the purposes of the Financial Reporting Act 1993 and its interim financial statements comply with that Act. The interim financial statements have been prepared in accordance with the requirements of the Companies Act 1993 and the Securities Regulations 2009.

### (b) Basis of measurement

The interim financial statements have been prepared on a going concern basis in accordance with historical cost, unless stated otherwise.

### (c) Comparative information

Certain comparatives have been restated to comply with current period presentation.

## 3 Significant accounting policies

The accounting policies applied by the Group in these consolidated interim financial statements are the same as those applied by the Group in its consolidated financial statements as at and for the year ended 30 June 2012.

## 4 Segmental analysis

Segment information is presented in respect of the Group's operating segments which are those used for the Group's management and internal reporting structure.

All income received is from external sources, except those transactions with related parties, refer to Note 16 - Related party transactions and balances. Certain selling and administration expenses, such as premises, IT and support centre costs are not allocated to operating segments and are included in Other.

# NOTES TO THE INTERIM FINANCIAL STATEMENTS

For the six months ended 31 December 2012

## 4 Segmental analysis (continued)

### Operating segments

The Group operates predominantly within New Zealand and comprises the following main operating segments:

<b>Retail and Consumer</b>	Providing a comprehensive range of financial services to New Zealand businesses and families, including term, transactional and savings based deposit accounts together with residential mortgage lending, motor vehicle finance and asset finance.
<b>Business</b>	Providing term debt, plant and equipment finance, commercial mortgage lending and working capital solutions for small-to-medium sized New Zealand businesses.
<b>Rural</b>	Specialist financial services to the farming sector primarily offering livestock finance, rural mortgage lending, seasonal and working capital financing, as well as leasing solutions to farmers.
<b>Non-core property</b>	Funding assets of the non-core property division.

	<b>Retail &amp; Consumer</b>	<b>Business</b>	<b>Rural</b>	<b>Non-core Property</b>	<b>Other</b>	<b>Total</b>
	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>
<b>Unaudited - 6 months ended Dec 2012</b>						
Interest income	45,371	26,388	23,545	4,605	3,371	103,280
Interest expense	24,228	13,895	12,084	4,156	2,157	56,520
<b>Net interest income</b>	<b>21,143</b>	<b>12,493</b>	<b>11,461</b>	<b>449</b>	<b>1,214</b>	<b>46,760</b>
Net operating lease income	2,664	19	-	-	-	2,683
Net other income	284	91	22	1,503	506	2,406
<b>Net operating income</b>	<b>24,091</b>	<b>12,603</b>	<b>11,483</b>	<b>1,952</b>	<b>1,720</b>	<b>51,849</b>
Depreciation and amortisation	-	-	-	-	866	866
Other selling and administration expenses	6,061	2,887	3,046	3,248	15,835	31,077
<b>Selling and administration expenses</b>	<b>6,061</b>	<b>2,887</b>	<b>3,046</b>	<b>3,248</b>	<b>16,701</b>	<b>31,943</b>
<b>Profit / (loss) before impaired asset expense and income tax</b>	<b>18,030</b>	<b>9,716</b>	<b>8,437</b>	<b>(1,296)</b>	<b>(14,981)</b>	<b>19,906</b>
Impaired asset expense	756	817	(299)	3,980	-	5,254
<b>Operating profit / (loss)</b>	<b>17,274</b>	<b>8,899</b>	<b>8,736</b>	<b>(5,276)</b>	<b>(14,981)</b>	<b>14,652</b>
Share of equity accounted investee's profit	-	-	-	-	246	246
<b>Profit/ (loss) before income tax</b>	<b>17,274</b>	<b>8,899</b>	<b>8,736</b>	<b>(5,276)</b>	<b>(14,735)</b>	<b>14,898</b>
Income tax expense	-	-	-	-	4,194	4,194
<b>Profit / (loss) for the period</b>	<b>17,274</b>	<b>8,899</b>	<b>8,736</b>	<b>(5,276)</b>	<b>(18,929)</b>	<b>10,704</b>
<b>Total assets</b>	<b>980,183</b>	<b>530,496</b>	<b>480,572</b>	<b>143,217</b>	<b>215,633</b>	<b>2,350,101</b>
<b>Total liabilities</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,969,010</b>	<b>1,969,010</b>
<b>Total equity</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>381,091</b>	<b>381,091</b>

## NOTES TO THE INTERIM FINANCIAL STATEMENTS

For the six months ended 31 December 2012

### 4 Segmental analysis (continued)

	Retail & Consumer \$000	Business \$000	Rural \$000	Non-core Property \$000	Other \$000	Total \$000
<b>Unaudited - 6 months ended Dec 2011</b>						
Interest income	47,920	24,788	17,703	7,217	4,142	101,770
Interest expense	29,377	14,858	9,850	5,664	2,898	62,647
<b>Net interest income</b>	<b>18,543</b>	<b>9,930</b>	<b>7,853</b>	<b>1,553</b>	<b>1,244</b>	<b>39,123</b>
Net operating lease income	2,651	9	-	-	-	2,660
Net other income	566	13	33	2,145	395	3,152
<b>Net operating income</b>	<b>21,760</b>	<b>9,952</b>	<b>7,886</b>	<b>3,698</b>	<b>1,639</b>	<b>44,935</b>
Depreciation and amortisation	-	-	-	-	952	952
Other selling and administration expenses	6,478	2,723	2,698	3,240	19,600	34,739
<b>Selling and administration expenses</b>	<b>6,478</b>	<b>2,723</b>	<b>2,698</b>	<b>3,240</b>	<b>20,552</b>	<b>35,691</b>
<b>Profit / (loss) before impaired asset expense and income tax</b>	<b>15,282</b>	<b>7,229</b>	<b>5,188</b>	<b>458</b>	<b>(18,913)</b>	<b>9,244</b>
Impaired asset expense	365	1,745	54	1,624	-	3,788
<b>Operating profit / (loss)</b>	<b>14,917</b>	<b>5,484</b>	<b>5,134</b>	<b>(1,166)</b>	<b>(18,913)</b>	<b>5,456</b>
Share of equity accounted investee's profit	-	-	-	-	167	167
<b>Profit / (loss) before income tax</b>	<b>14,917</b>	<b>5,484</b>	<b>5,134</b>	<b>(1,166)</b>	<b>(18,746)</b>	<b>5,623</b>
Income tax expense	-	-	-	-	(4,144)	(4,144)
<b>Profit / (loss) for the period</b>	<b>14,917</b>	<b>5,484</b>	<b>5,134</b>	<b>(1,166)</b>	<b>(14,602)</b>	<b>9,767</b>
<b>Total assets</b>	<b>1,014,138</b>	<b>518,502</b>	<b>466,401</b>	<b>169,587</b>	<b>211,915</b>	<b>2,380,543</b>
<b>Total liabilities</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2,020,359</b>	<b>2,020,359</b>
<b>Total equity</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>360,184</b>	<b>360,184</b>
<b>Audited - 12 months Jun 2012</b>						
Interest income	94,606	49,867	41,391	12,630	6,654	205,148
Interest expense	55,572	28,911	22,340	10,370	4,309	121,502
<b>Net interest income</b>	<b>39,034</b>	<b>20,956</b>	<b>19,051</b>	<b>2,260</b>	<b>2,345</b>	<b>83,646</b>
Net operating lease income	5,097	13	-	-	-	5,110
Net other income	927	57	66	4,104	974	6,128
<b>Net operating income</b>	<b>45,058</b>	<b>21,026</b>	<b>19,117</b>	<b>6,364</b>	<b>3,319</b>	<b>94,884</b>
Depreciation and amortisation	-	-	-	-	1,830	1,830
Other selling and administration expenses	11,475	5,273	5,837	6,350	34,782	63,717
<b>Selling and administration expenses</b>	<b>11,475</b>	<b>5,273</b>	<b>5,837</b>	<b>6,350</b>	<b>36,612</b>	<b>65,547</b>
<b>Profit / (loss) before impaired asset expense and income tax</b>	<b>33,583</b>	<b>15,753</b>	<b>13,280</b>	<b>14</b>	<b>(33,293)</b>	<b>29,337</b>
Impaired asset expense	1,991	2,445	689	517	-	5,642
Decrease in fair value of investment properties	-	-	-	3,900	-	3,900
<b>Operating profit / (loss)</b>	<b>31,592</b>	<b>13,308</b>	<b>12,591</b>	<b>(4,403)</b>	<b>(33,293)</b>	<b>19,795</b>
Share of equity accounted investee's profit	-	-	-	-	534	534
<b>Profit/ (loss) before income tax</b>	<b>31,592</b>	<b>13,308</b>	<b>12,591</b>	<b>(4,403)</b>	<b>(32,759)</b>	<b>20,329</b>
Income tax expense	-	-	-	-	(3,277)	(3,277)
<b>Profit / (loss) for the year</b>	<b>31,592</b>	<b>13,308</b>	<b>12,591</b>	<b>(4,403)</b>	<b>(29,482)</b>	<b>23,606</b>
<b>Total assets</b>	<b>989,352</b>	<b>540,228</b>	<b>478,582</b>	<b>160,168</b>	<b>179,759</b>	<b>2,348,089</b>
<b>Total liabilities</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,973,291</b>	<b>1,973,291</b>
<b>Total equity</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>374,798</b>	<b>374,798</b>

## NOTES TO THE INTERIM FINANCIAL STATEMENTS

For the six months ended 31 December 2012

5 Net interest income	Unaudited 6 mths to Dec 2012 \$000	Unaudited 6 mths to Dec 2011 \$000	Audited 12 mths to Jun 2012 \$000
<b>Interest income</b>			
Cash and cash equivalents	1,598	3,642	5,149
Finance receivables	100,532	98,128	199,526
Derivatives held for risk management: - Net interest income on cash flow hedges	1,150	-	473
<b>Total interest income</b>	<b>103,280</b>	<b>101,770</b>	<b>205,148</b>
<b>Interest expense</b>			
Retail deposits and debenture stock	46,689	52,010	100,769
Bank and securitised borrowings	9,831	10,634	20,733
Derivatives held for risk management: - Net interest expense on cash flow hedges	-	3	-
<b>Total interest expense</b>	<b>56,520</b>	<b>62,647</b>	<b>121,502</b>
<b>Net interest income</b>	<b>46,760</b>	<b>39,123</b>	<b>83,646</b>

Included within the Group's interest income on finance receivables is \$1,380,000 (December 2011: \$1,594,000; June 2012: \$2,674,000) on individually impaired assets.

6 Selling and administration expenses	Unaudited 6 mths to Dec 2012 \$000	Unaudited 6 mths to Dec 2011 \$000	Audited 12 mths to Jun 2012 \$000
Personnel expenses	16,673	18,530	34,186
Directors' fees	421	459	804
Superannuation	201	240	475
Audit fees	251	206	576
Audit related fees	30	26	35
Amortisation - intangible assets	512	569	1,075
Depreciation - property, plant and equipment	354	383	755
Operating lease expense as a lessee	822	834	1,648
Legal and professional fees	1,679	3,239	5,914
Other operating expenses	11,000	11,205	20,079
<b>Total selling and administration expenses</b>	<b>31,943</b>	<b>35,691</b>	<b>65,547</b>

Audit related fees include professional fees in connection with trustee reporting, review of prospectus documentation for various Group entities, accounting advice and review work completed.

7 Impaired asset expense	NOTE	Unaudited 6 mths to Dec 2012 \$000	Unaudited 6 mths to Dec 2011 \$000	Audited 12 mths to Jun 2012 \$000
Individually impaired assets expense	17(b)	3,611	3,385	6,921
Collectively impaired assets expense / (benefit)	17(b)	1,643	403	(1,279)
<b>Total impaired asset expense</b>		<b>5,254</b>	<b>3,788</b>	<b>5,642</b>

### 8 Earnings per share

The calculation of basic and diluted earnings of 3c per share at 31 December 2012 (31 December 2011: 3c per share; 30 June 2012: 6c per share) is based on the profit for the period of \$10,704,000 (31 December 2011: \$9,767,000; 30 June 2012: \$23,606,000), and a weighted average number of shares on issue of 388,704,000 (31 December 2011: 359,136,000; 30 June 2012: 373,879,475).

The earnings per share calculated on the closing number of shares rather than the weighted average number of shares, results in basic and diluted earnings per share of 3c at 31 December 2012 (31 December 2011: 3c; 30 June 2012: 6c).

### 9 Dividends paid

On 21 December 2012, the Company paid a dividend of 1.5 cents per share, totalling \$5.8 million and a supplemental dividend of \$0.1 million to shareholders.

## NOTES TO THE INTERIM FINANCIAL STATEMENTS

For the six months ended 31 December 2012

### 10 Share capital

The share capital reflected in the following note represents the share capital of the Company. This differs from the share capital reflected in the Groups Interim Statement of Financial Position as a result of the reverse acquisition accounting applied.

	COMPANY		
	Unaudited Dec 2012	Unaudited Dec 2011	Audited Jun 2012
	Number of shares		
	\$000	\$000	\$000
<b>Issued shares</b>			
Opening balance	388,704	300,000	300,000
Shares issued during the period	-	88,704	88,704
<b>Closing balance</b>	<b>388,704</b>	<b>388,704</b>	<b>388,704</b>

On 31 August 2011, the Company issued 23,257,528 new shares at \$0.52 per share to existing shareholders under a share purchase plan, issued 34,164,396 new shares at \$0.65 per share to underwriters of the share purchase plan, placed 4,615,385 new shares at \$0.65 per share and placed 26,666,666 new shares at \$0.75 per share to institutions and investors. The total new capital raised was \$57,346,857.

The shares have equal voting rights, rights to dividends and distributions and do not have a par value.

### 11 Finance receivables

	Unaudited Dec 2012	Unaudited Dec 2011	Audited Jun 2012
	\$000	\$000	\$000
<b>Non-securitised</b>			
Gross finance receivables	1,795,562	1,817,639	1,828,201
Less allowance for impairment	26,801	28,668	26,693
<b>Total non-securitised finance receivables</b>	<b>1,768,761</b>	<b>1,788,971</b>	<b>1,801,508</b>
<b>Securitised</b>			
Gross finance receivables	276,708	286,952	277,501
Less allowance for impairment	676	712	733
<b>Total securitised finance receivables</b>	<b>276,032</b>	<b>286,240</b>	<b>276,768</b>
<b>Total</b>			
Gross finance receivables	2,072,270	2,104,591	2,105,702
Less allowance for impairment	27,477	29,380	27,426
<b>Total finance receivables</b>	<b>2,044,793</b>	<b>2,075,211</b>	<b>2,078,276</b>

### 12 Borrowings

	Unaudited Dec 2012	Unaudited Dec 2011	Audited Jun 2012
	\$000	\$000	\$000
Bank borrowings sourced from New Zealand	-	50,075	50,010
Deposits sourced from New Zealand	1,587,901	1,644,900	1,549,468
Deposits sourced from overseas	82,855	26,169	75,652
Securitised borrowings sourced from New Zealand	264,360	264,407	264,359
<b>Total borrowings</b>	<b>1,935,116</b>	<b>1,985,551</b>	<b>1,939,489</b>

As at 31 December 2012, 36% (December 2011: 41%; June 2012: 42%) of deposits are from the Canterbury region.

Bank facilities	Maturity	Unaudited Dec 2012	Unaudited Dec 2011	Audited Jun 2012
		\$000	\$000	\$000
Heartland ABCP Trust 1	07-Aug-13	400,000	300,000	300,000
CBS Warehouse A Trust	22-Jan-14	150,000	175,000	150,000
Heartland Bank Limited	30-Sep-13	50,000	200,000	200,000
<b>Total bank facilities</b>		<b>600,000</b>	<b>675,000</b>	<b>650,000</b>

Bank facilities and deposits (which include NZDX bonds) rank equally and are unsecured. Investors in Heartland ABCP Trust 1 rank equally with each other and are secured over the securitised assets of that Trust. Investors in the CBS Warehouse A Trust rank equally with each other and are secured over the securitised assets of that Trust.

## NOTES TO THE INTERIM FINANCIAL STATEMENTS

For the six months ended 31 December 2012

13 Reconciliation of profit after tax to net cash flows from operating activities	Unaudited Dec 2012 \$000	Unaudited Dec 2011 \$000	Audited Jun 2012 \$000
<b>Profit for the period</b>	<b>10,704</b>	<b>9,767</b>	<b>23,606</b>
Add / (less) non-cash items:			
Depreciation and amortisation expense	866	952	1,830
Change in fair value of investment properties	-	-	3,900
Impaired asset expense	5,254	3,788	5,642
Deferred tax benefit	(3)	(2,475)	(2,978)
Derivative financial instruments revaluation	795	(992)	(219)
Accruals	(340)	822	529
<b>Total non-cash items</b>	<b>6,572</b>	<b>2,095</b>	<b>8,704</b>
Add / (less) movements in working capital items:			
Other assets	(1,024)	(4,144)	2,239
Current tax	3,504	(3,380)	(6,785)
Other liabilities	(666)	1,941	154
<b>Total movements in working capital items</b>	<b>1,814</b>	<b>(5,583)</b>	<b>(4,392)</b>
<b>Net cash flows from operating activities before movements in finance receivables and operating lease vehicles</b>	<b>19,090</b>	<b>6,279</b>	<b>27,918</b>
Movement in operating lease vehicles	191	(2,606)	(1,823)
Movement in finance receivables	30,026	(24,467)	(29,093)
<b>Net cash flows from / (applied to) operating activities</b>	<b>49,307</b>	<b>(20,794)</b>	<b>(2,998)</b>

14 Significant subsidiaries and interests in jointly controlled entities	Unaudited Dec 2012 % held	Unaudited Dec 2011 % held	Audited Jun 2012 % held
<b>Significant subsidiaries</b>			
<b>Nature of business</b>			
Heartland Bank Limited	100%	100%	100%
and its subsidiaries:			
MARAC Finance Limited	100%	100%	100%
VPS Parnell Limited	100%	100%	100%
VPS Properties Limited	100%	100%	100%
PGG Wrightson Finance Limited	100%	100%	100%
Heartland Financial Services Limited	100%	100%	100%
and its jointly controlled entity:			
MARAC JV Holdings Limited	50%	50%	50%
and its subsidiary:			
MARAC Insurance Limited	50%	50%	50%

The Group includes Heartland ABCP Trust 1, CBS Warehouse A Trust, and Heartland Cash and Term PIE Fund, refer to Note 15 - Special purpose entities.

### 15 Special purpose entities

#### **Heartland Cash and Term PIE Fund**

The Group controls the operations of Heartland Cash and Term PIE Fund (PIE Fund), a portfolio investment fund that invests in the Group's deposits. Investments of the PIE Fund are represented as follows:

	Unaudited Dec 2012 \$000	Unaudited Dec 2011 \$000	Audited Jun 2012 \$000
Deposits sourced from New Zealand	21,136	8,203	12,347

## NOTES TO THE INTERIM FINANCIAL STATEMENTS

For the six months ended 31 December 2012

### 15 Special purpose entities (continued)

#### **Heartland ABCP Trust 1 and CBS Warehouse A Trust Securitisation**

The Group has securitised a pool of receivables comprising residential, commercial and motor vehicle loans to the Trusts. The Group substantially retains the credit risks and rewards associated with the securitised assets, and continues to recognise these assets and associated borrowings on the Interim Statement of Financial Position. Despite this presentation in the interim financial statements, the loans sold to the Trusts are set aside for the benefit of investors in the Trusts and are represented as follows:

	Unaudited Dec 2012 \$000	Unaudited Dec 2011 \$000	Audited Jun 2012 \$000
Cash and cash equivalents - Securitised	16,574	9,039	15,579
Finance receivables - Securitised	276,032	286,240	276,768
Borrowings - Securitised	(264,360)	(264,407)	(264,359)

### 16 Related party transactions and balances

MARAC provided administration services to MARAC Insurance Limited and the PIE Fund, and received insurance commission from MARAC Insurance Limited.

All transactions were conducted on normal commercial terms and conditions.

	Unaudited Dec 2012 \$000	Unaudited Dec 2011 \$000	Audited Jun 2012 \$000
<b>Transactions with related parties</b>			
Lending and credit fee income	176	237	368
Other income	180	168	328
<b>Total transactions with other related parties</b>	<b>356</b>	<b>405</b>	<b>696</b>
<b>Due to other related parties</b>	<b>-</b>	<b>104</b>	<b>-</b>

### 17 Credit risk and asset quality

Credit risk is the risk of financial loss to the Group caused by the failure of a customer to meet their contractual obligations that arise from the Group's lending activities. Credit risk carries the greatest risk of resulting in a material adjustment to the carrying amounts of the Group's assets within the next financial year.

To manage this risk the Risk Committee, a committee of the Board of Directors, has been delegated the task of overseeing a formal credit risk management strategy. The Risk Committee reviews the Banking Group's credit risk exposures to ensure consistency with the Banking Group's credit policies to manage all aspects of credit risk.

#### (a) Asset quality of finance receivables

	Unaudited Dec 2012 \$000	Unaudited Dec 2011 \$000	Audited Jun 2012 \$000
Neither at least 90 days past due or impaired	1,964,610	1,987,483	1,987,787
At least 90 days past due	49,173	62,597	52,004
Individually impaired	49,418	45,082	56,825
Restructured assets	9,069	9,429	9,086
Provision for impairment	(27,477)	(29,380)	(27,426)
<b>Total finance receivables</b>	<b>2,044,793</b>	<b>2,075,211</b>	<b>2,078,276</b>

# NOTES TO THE INTERIM FINANCIAL STATEMENTS

For the six months ended 31 December 2012

## 17 Credit risk (continued)

(b) Provision for impaired assets	Unaudited Dec 2012 \$000	Unaudited Dec 2011 \$000	Audited Jun 2012 \$000
<b>Provision for individually impaired assets</b>			
Opening individual impairment	19,394	26,157	26,157
Impairment loss for the period			
- charge for the period	3,611	3,385	6,921
- recoveries	128	91	227
- write offs	(4,079)	(12,138)	(14,636)
- assumed on acquisition	-	1,284	1,284
- effect of discounting	(664)	(463)	(559)
<b>Closing individual impairment</b>	<b>18,390</b>	<b>18,316</b>	<b>19,394</b>
<b>Provision for collectively impaired assets</b>			
Opening collective impairment	8,032	12,140	12,140
Impairment loss for the period			
- charge for the period	1,643	403	(1,279)
- recoveries	157	206	351
- write offs	(745)	(1,685)	(3,180)
<b>Closing collective impairment</b>	<b>9,087</b>	<b>11,064</b>	<b>8,032</b>
<b>Total provision for impairment</b>	<b>27,477</b>	<b>29,380</b>	<b>27,426</b>

## (c) Real Estate Credit Limited management agreement (RECL Agreement)

On 5 January 2011, MARAC entered into the RECL agreement with Real Estate Credit Limited (RECL) under which RECL assumed the risk of loss on certain non-core property loans for a 5 year period (ending 5 January 2016). The maximum amount payable by RECL in respect of loss (including interest accruing on loss payments until the due date for payment) is limited to \$30 million and payment is due at the end of the 5 year period (\$2.0 million has been paid to date). The RECL Agreement covers MARAC non-core property loans with a net book value of \$84 million as at 31 December 2012 (December 2011: \$88 million; June 2012: \$94 million).

In determining the impairment charge for the year, the RECL Agreement has been taken into consideration. In assessing the requirements for provisions, the Group has identified loans for which a loss is expected to be covered by the RECL Agreement of \$28.0 million as at 31 December 2012 (December 2011: \$16.6 million; June 2012: \$28.5 million). Claims of \$28.0 million are expected to be made under the RECL Agreement in relation to these loans, and to this extent, the RECL Agreement is fully utilised.

Further information about the RECL Agreement is included in the Group's financial statements for the year ended 30 June 2012.

## 18 Contingent liabilities and commitments

	Unaudited Dec 2012 \$000	Unaudited Dec 2011 \$000	Audited Jun 2012 \$000
Letters of credit, guarantees and performance bonds	8,358	2,530	13,404
<b>Total contingent liabilities</b>	<b>8,358</b>	<b>2,530</b>	<b>13,404</b>

## 19 Events after the reporting date

On 31 January 2013, in accordance with Part 7A of the Building Societies Act 1965, Heartland Building Society (HBS) converted to a limited liability company named Heartland Bank Limited registered under the Companies Act 1993.

As a result of the conversion:

- All shareholders of HBS on 31 January 2013 became shareholders of Heartland Bank Limited and received one fully paid ordinary share in Heartland Bank Limited for every one share in HBS held by the shareholder.
- All of the property, rights and liabilities of HBS automatically vested in Heartland Bank Limited and all contracts and licences held by HBS become binding and enforceable in favour of Heartland Bank Limited.

There have been no material events subsequent to reporting date that would affect the interpretation of the interim financial statements or the performance of the Group.



## Independent auditor's review report

### To the shareholders of Heartland New Zealand Limited

We have reviewed the interim financial statements on pages 3 to 14. The interim financial statements provide information about the past financial performance and cash flows of Heartland New Zealand Limited and its controlled entities (the "Group") and its financial position as at 31 December 2012.

#### Directors' responsibilities

The directors are responsible for the preparation of interim financial statements which give a true and fair view of the financial position of the Group as at 31 December 2012 and its financial performance and cash flows for the six month period ended on that date.

#### Reviewer's responsibilities

Our responsibility is to express an independent opinion on the interim financial statements presented by the directors and report our opinion to you.

We have performed our review in accordance with the review engagement standard RS-1 issued by the External Reporting Board and the review engagement guideline RG-1 issued by the New Zealand Institute of Chartered Accountants. A review is limited primarily to enquiries of Group personnel and analytical review procedures applied to the financial data and thus provides less assurance than an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

Our firm has also provided other services to the Group in relation to general accounting services. Subject to certain restrictions, partners and employees of our firm may also deal with the Group on normal terms within the ordinary course of trading activities of the business of the Group. These matters have not impaired our independence as auditor of the Group. The firm has no other relationship with, or interest in, the Group.

#### Review opinion

Based on our review, nothing has come to our attention that causes us to believe that the interim financial statements on pages 3 to 14 do not give a true and fair view of the financial position of the Group as at 31 December 2012 and its financial performance and cash flows for the six month period ended on that date, in accordance with NZ IAS 34 *Interim Financial Reporting*.

Our review was completed on 25 February 2013 and our opinion is expressed as at that date.

KPMG

Auckland