

Interim Report

To 31 December 2013



HEARTLAND

New Zealand Limited



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Chairman and Managing Director's Report



Geoffrey Ricketts
Chairman



Jeffrey Greenslade
Managing Director

Achievements for half year

- Earnings in line with guidance
- Exit of non-core property assets on track
- Interim dividend of 2.5 cents per share announced
- Standard & Poor's investment grade credit rating reaffirmed – outlook revised from 'negative' to 'developing'
- Fitch credit rating of BBB- stable assigned
- Significant acquisition announced

The strategy of Heartland Bank Limited (Heartland Bank), the main operating subsidiary of Heartland New Zealand Limited (Heartland), is to be known as New Zealand's specialist bank.

We want to operate in areas where we can achieve market leading, best in category positions while maintaining a balanced risk portfolio across three key segments of the economy – households, small-to-medium sized businesses and the agricultural sector.

We have previously reported that for the period ended 30 June 2013 our focus was to successfully complete our 'start-up' phase. For the period ended 31 December 2013 our focus shifted to business as usual, and creating a pathway to future success through increased product capability and growth through acquisitions. We have made good progress, as outlined later in this report. The half year financial performance detailed in the table below shows net profit after tax of \$16.7m, which is in line with forecast guidance.

Business Performance

Net operating income (NOI) increased across all three of our core business divisions – Business, Rural and Retail and Consumer – primarily driven by lower cost of funds and better product mix.

(i) Business

NOI was \$14.7m, an increase of \$2.1m from the previous corresponding half year ended 31 December 2012 (the **Previous Corresponding Reporting Period**). The increase in NOI was driven by lower cost of funds. The Business receivables book increased by \$9.0m to \$558.1m during the half year ended 31 December 2013 (the **Current Reporting Period**). The Business division has faced increasing competitive pressure which has had an impact on asset growth over the Current Reporting Period.

(ii) Rural

NOI was \$12.1m, an increase of \$0.6m from the Previous Corresponding Reporting Period. The increase in NOI was also driven by lower cost of funds off-setting reduced revenue on fewer receivables. The Rural receivables book decreased by \$40.8m to \$415.9m during the Current Reporting Period. This decrease was driven by reductions in the receivables book acquired from PGG Wrightson Limited, in areas of either higher risk or in competition with major banks. Heartland's emphasis is mainly on livestock lending, with the pipeline looking good for the next few months. Livestock lending continued to perform well, growing 10.6% over the 12 months ended 31 December 2013.

(iii) Retail and Consumer

NOI was \$30.0m, an increase of \$5.9m from the Previous Corresponding Reporting Period, driven primarily by lower cost of funds as well as increased revenues. The Retail and Consumer receivables book contracted by \$49.7m to \$938.1m during the Current Reporting Period. The motor vehicle receivables book grew \$21.4m during the Current Reporting Period. In line with Heartland's strategy to realign its product mix towards products where it has market leadership and can achieve a better risk/return, the residential mortgage book reduced by \$71.1m during the Current Reporting Period. Customer response to Heartland's residential mortgage arrangements, with Kiwibank as the provider, has been pleasing.

Financial Performance at a Glance	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	70.4
Profit before impairments and tax	26.7	20.2	37.0
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	9.4
Tax	6.7	4.2	2.5
Net profit after tax (reported)	16.7	10.7	6.9

*Net operating income includes share of MARAC Insurance profit.

Net Tangible Assets (NTA) increased from \$331.2m to \$348.2m during the Current Reporting Period – on a per share basis NTA was \$0.89 at 31 December 2013 compared to \$0.85 at 30 June 2013 and \$0.90 at 31 December 2012.

More than 50% of mortgages refinancing externally migrated to Kiwibank in the Current Reporting Period.

(iv) Non-Core Property

The changed strategy for the non-core property book¹ has progressed favourably and ahead of expectations. Total non-core property assets reduced by 19% for the six months up to 31 December 2013. As at this date, non-core property assets comprised net receivables of \$25.6m and investment properties of \$61.5m. We remain confident that future earnings will not be impacted by these assets.

Heartland's Interim Financial Statements are available from page 7.

Growth Strategy

Over the last four years, Heartland has successfully integrated five separate businesses. As we move forward, our strategy for future growth will continue to be through prudent acquisitions and specialist product development.

To support this strategy, we have established a specialist team for strategic growth. Headed by Michael Jonas, recently appointed as Head of Strategic and Product Development, 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, the potential for growth and contributing positively to shareholder value (with particular reference to Earnings Per Share and Return on Equity). 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

Acquisition Announcement

On 14 February 2014, Heartland advised that it had entered into a Sale and Purchase Agreement with Seniors Money International Limited (SMI) for the acquisition of its New Zealand and Australian Home Equity Release (HER) mortgage business².

This acquisition provides Heartland Bank with the product capability to meet the needs of the 60+ demographic, which is a growing demographic and is typified by those with the majority of their personal wealth tied up in their primary residential dwelling. The acquisition advances Heartland's ongoing strategy of pursuing niches within the Household, Business and Rural sectors where it can obtain a market leading position.

The opportunity to purchase SMI's New Zealand and Australian businesses arose during Heartland's strategic evaluation of the HER product, giving Heartland a fast-track entry into strong and established market positions. Following due diligence it was confirmed that SMI's processes and underwriting standards are consistent with best practice. Key staff, both in New Zealand and Australia (with experience in the HER market since 2003), will be retained. In addition, prior to this announcement, Heartland has approved risk parameters for the HER product and the training of a dedicated distribution team has commenced. Heartland will hold the Australian business at the parent company level, but the New Zealand business will be migrated into Heartland Bank over time.

Products for people

HER loans allow seniors (an often asset rich but income poor demographic) to access the equity in their homes. Seniors must be a minimum age (60+), live in their own home, and have equity in it. The important distinction between an HER loan and a conventional mortgage is that there are no principal or interest payments required while the borrower occupies the property, meaning that qualifying borrowers can access this finance type without having a regular source of income. With Heartland the product will also come with three promises to customers:

Promise One: Lifetime occupancy guarantee

Your home will remain the place you live for as long as you choose.

Promise Two: No negative equity guarantee

The amount required to repay the loan will never exceed the net sale proceeds of the property.

Promise Three: Loan repayment guarantee

There is no requirement to make any loan repayment until the end of the loan.

This acquisition is a tangible example of how we will seek out opportunities that focus on areas we believe demonstrate compelling sector fundamentals, areas where we can deliver best-in-breed products, helping customers where it really matters. We are confident that the time is right for HER loan products. Furthermore, we believe that this acquisition will offer strong and sustainable growth potential in the future.

Interim Dividend

The directors of Heartland have resolved to pay an interim dividend of 2.5 cents per share on 4 April 2014 to shareholders on the company's register as at 5.00pm on 12 March 2014. This dividend will be fully imputed.

The Dividend Reinvestment Plan announced on 23 April 2013 (DRP) was available, with a discount of 2.5% applied (that is, the strike price under the DRP will be 97.5% of the volume weighted average sale price of Heartland shares over the 5 trading days following the Record Date)³. Participation in the DRP was entirely optional, with shareholders wishing to participate making 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 wished to participate in the DRP was 12 March 2014.

The Future

We have realised some key achievements in successfully integrating five businesses and achieving bank registration, but now it is time to look forward to realising our growth potential. Generally, we expect credit and asset growth to remain subdued in mainstream areas, although it is in areas such as HER loans – which offer growth driven by factors other than economic growth – where we aim to perform.



Geoffrey Ricketts
Chairman

Jeffrey Greenslade
Managing Director

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

2. For further details see Heartland's market announcement of 14 February 2014.

3. 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.

DIRECTORS' RESPONSIBILITY STATEMENT

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 2013 and the financial performance and cash flows for the six months ended 31 December 2013.

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.

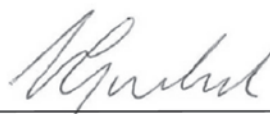
The directors believe that proper accounting records have been kept which enable, with reasonable accuracy, the determination of the financial position of the Group and facilitate compliance of the interim financial statements with the Financial Reporting Act 1993.

The Board of Directors of Heartland New Zealand Limited authorised the interim financial statements set out on pages 7 to 21 for issue on 25 February 2014.

For and on behalf of the Board



Director



Director

INTERIM STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 31 December 2013

	NOTE	Unaudited 6 mths to Dec 2013 \$000	Unaudited 6 mths to Dec 2012 \$000	Audited 12 mths to Jun 2013 \$000
Interest income	6	100,500	103,280	206,349
Interest expense	6	48,114	56,520	110,895
Net interest income		52,386	46,760	95,454
Operating lease income		6,781	7,712	14,861
Operating lease expenses		3,937	5,029	9,687
Net operating lease income		2,844	2,683	5,174
Lending and credit fee income		1,195	795	1,760
Other income		2,528	1,611	4,499
Net operating income		58,953	51,849	106,887
Selling and administration expenses	7	32,417	31,943	70,347
Profit before impaired asset expense and income tax		26,536	19,906	36,540
Impaired asset expense	8	3,325	5,254	22,527
Decrease in fair value of investment properties		-	-	5,101
Operating profit		23,211	14,652	8,912
Share of equity accounted investee's profit		195	246	504
Profit before income tax		23,406	14,898	9,416
Income tax expense		6,680	4,194	2,504
Profit for the period		16,726	10,704	6,912
Other comprehensive income				
Items that are or may be reclassified subsequently to profit or loss:				
Effective portion of changes in fair value of cash flow hedges, net of income tax		922	274	1,056
Net change in available for sale reserve, net of income tax		106	46	276
Items that will not be reclassified to profit or loss:				
Net change in defined benefit reserve, net of income tax		85	203	462
Other comprehensive income for the period, net of income tax		1,113	523	1,794
Total comprehensive income for the period		17,839	11,227	8,706
Earnings per share from continuing operations				
Basic earnings per share	9	4c	3c	2c
Diluted earnings per share	9	4c	3c	2c

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

The notes on pages 11 to 21 are an integral part of these interim financial statements.

INTERIM STATEMENT OF CHANGES IN EQUITY

For the six months ended 31 December 2013

	NOTE	Share capital \$000	Employee benefits reserve \$000	Available for sale reserve \$000	Defined benefit reserve \$000	Hedging reserve \$000	Retained earnings \$000	Total Equity \$000
Unaudited - December 2013								
Balance at 1 July 2013		192,020	629	284	41	46	177,522	370,542
Total comprehensive income for the period								
Profit for the period		-	-	-	-	-	16,726	16,726
Total other comprehensive income		-	-	106	85	922	-	1,113
Total comprehensive income for the period		-	-	106	85	922	16,726	17,839
Contributions by and distributions to owners								
Dividends paid	10	-	-	-	-	-	(9,703)	(9,703)
Staff share ownership expense		-	651	-	-	-	-	651
Shares vested		88	(88)	-	-	-	-	-
Effect of amalgamation of subsidiaries	14	149,269	-	-	-	-	(149,269)	-
Dividend reinvestment plan	14	3,181	-	-	-	-	-	3,181
Total transactions with owners		152,538	563	-	-	-	(158,972)	(5,871)
Balance at 31 December 2013		344,558	1,192	390	126	968	35,276	382,510
Unaudited - December 2012								
Balance at 1 July 2012		192,020	-	8	(421)	(1,010)	184,201	374,798
Total comprehensive income for the period								
Profit for the period		-	-	-	-	-	10,704	10,704
Total other comprehensive income		-	-	46	203	274	-	523
Total comprehensive income for the period		-	-	46	203	274	10,704	11,227
Contributions by and distributions to owners								
Dividends paid	10	-	-	-	-	-	(5,888)	(5,888)
Staff share ownership expense		-	477	-	-	-	-	477
Total transactions with owners		-	477	-	-	-	(5,888)	(5,411)
Balance at 31 December 2012		192,020	477	54	(218)	(736)	189,017	380,614
Audited - June 2013								
Balance at 1 July 2012		192,020	-	8	(421)	(1,010)	184,201	374,798
Total comprehensive income for the year								
Profit for the year		-	-	-	-	-	6,912	6,912
Total other comprehensive income		-	-	276	462	1,056	-	1,794
Total comprehensive income for the year		-	-	276	462	1,056	6,912	8,706
Contributions by and distributions to owners								
Dividends paid	10	-	-	-	-	-	(13,591)	(13,591)
Staff share ownership expense		-	629	-	-	-	-	629
Total transactions with owners		-	629	-	-	-	(13,591)	(12,962)
Balance at 30 June 2013		192,020	629	284	41	46	177,522	370,542

The notes on pages 11 to 21 are an integral part of these interim financial statements.

INTERIM STATEMENT OF FINANCIAL POSITION

As at 31 December 2013

		Unaudited Dec 2013 \$000	Unaudited Dec 2012 \$000	Audited Jun 2013 \$000
	NOTE			
Assets				
Cash and cash equivalents		178,533	125,421	174,262
Investments		255,427	24,406	165,223
Investment properties		61,481	55,316	58,287
Finance receivables	11	1,905,850	2,044,793	2,010,376
Operating lease vehicles		31,911	34,359	32,395
Current tax asset		267	2,131	-
Other assets		10,281	17,456	10,133
Investment in joint venture		4,205	4,062	4,320
Intangible assets		22,891	22,986	22,963
Property, plant and equipment		9,775	10,071	10,281
Deferred tax asset		11,469	8,146	16,387
Total assets		2,492,090	2,349,147	2,504,627
Liabilities				
Borrowings	13	2,076,968	1,935,116	2,097,553
Current tax liabilities		-	-	2,859
Trade and other payables		32,612	33,417	33,673
Total liabilities		2,109,580	1,968,533	2,134,085
Equity				
Share capital	14	344,558	192,020	192,020
Retained earnings and reserves		37,952	188,594	178,522
Total equity		382,510	380,614	370,542
Total equity and liabilities		2,492,090	2,349,147	2,504,627

The notes on pages 11 to 21 are an integral part of these interim financial statements.

INTERIM STATEMENT OF CASH FLOWS

For the six months ended 31 December 2013

		Unaudited 6 mths to Dec 2013 \$000	Unaudited 6 mths to Dec 2012 \$000	Audited 12 mths to Jun 2013 \$000
	NOTE			
Cash flows from operating activities				
Interest received		98,784	99,210	199,279
Operating lease income received		6,645	6,529	11,958
Proceeds from sale of operating lease vehicles		5,157	4,683	10,710
Lending, credit fees and other income received		3,723	2,406	6,259
Net decrease in finance receivables		94,594	32,192	32,908
Total cash provided from operating activities		208,903	145,020	261,114
Payments to suppliers and employees		31,568	32,768	61,009
Interest paid		49,216	54,048	112,820
Purchase of operating lease vehicles		7,182	8,082	15,611
Taxation paid		5,171	815	2,946
Total cash applied to operating activities		93,137	95,713	192,386
Net cash flows from operating activities	15	115,766	49,307	68,728
Cash flows from investing activities				
Proceeds from sale of investment properties		5,067	188	3,194
Dividends received from joint venture		310	-	-
Proceeds from sale of property, plant and equipment		25	-	-
Total cash provided from investing activities		5,402	188	3,194
Purchase of office fit-out, equipment and intangible assets		601	859	2,256
Net increase in investments		90,098	79	130,687
Investment in joint venture		-	700	700
Total cash applied to investing activities		90,699	1,638	133,643
Net cash flows applied to investing activities		(85,297)	(1,450)	(130,449)
Cash flows from financing activities				
Net increase in borrowings		-	-	159,885
Total cash provided from financing activities		-	-	159,885
Dividends paid		6,522	5,888	13,591
Net decrease in borrowings		19,676	6,237	-
Total cash applied to financing activities		26,198	12,125	13,591
Net cash flows (applied to) / from financing activities		(26,198)	(12,125)	146,294
Net increase in cash held		4,271	35,732	84,573
Opening cash and cash equivalents		174,262	89,689	89,689
Closing cash and cash equivalents		178,533	125,421	174,262

The notes on pages 11 to 21 are an integral part of these interim financial statements.

NOTES TO THE INTERIM FINANCIAL STATEMENTS

For the six months ended 31 December 2013

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 Company, through a subsidiary owns 100% of Heartland Bank Limited (Bank) and owns 100% of Heartland Financial Services Limited (HFSL) which holds a 50% joint venture interest in MARAC JV Holdings Limited (MJV) with the New Zealand Automobile Association. Refer to Note 5 - Significant subsidiaries and interests in jointly controlled entities for more details.

The Group includes Heartland ABCP Trust 1 and CBS Warehouse A Trust (collectively the Trusts), which are special purpose vehicles holding securitised loans purchased from the Bank, refer to Note 17 - Special purpose entities.

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 2013 - Unaudited
- 6 month period ended 31 December 2012 - Unaudited
- 12 month period ended 30 June 2013 - 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), NZ IAS 34 Interim Financial Reporting and also comply with 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 2013.

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 2013.

The amendments to the standards NZ IFRS 13 Fair Value Measurement and NZ IAS 34 Interim Financial Reporting (consequential amendments) have been adopted from 1 July 2013 and have been applied in the preparation of these interim financial statements. Amendments to NZ IAS 34 require the inclusion of certain fair value disclosures in interim financial statements, and accordingly a new note has been included, refer to Note 18 - Fair value.

Adoption of these standards has not resulted in any other changes to the Group's interim financial statements.

NOTES TO THE INTERIM FINANCIAL STATEMENTS

For the six months ended 31 December 2013

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.

Operating segments

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

Retail & Consumer	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.
Business	Providing term debt, plant and equipment finance, commercial mortgage lending and working capital solutions for small-to-medium sized New Zealand businesses.
Rural	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.
Non-core Property	Funding and realisation of assets of the non-core property division.

	Retail & Consumer	Business	Rural	Non-core Property	Other	Total
	\$000	\$000	\$000	\$000	\$000	\$000
Unaudited - 6 months ended Dec 2013						
Net interest income	26,446	14,527	12,083	(811)	141	52,386
Net operating lease income	2,844	-	-	-	-	2,844
Net other income	709	215	30	2,211	558	3,723
Net operating income	29,999	14,742	12,113	1,400	699	58,953
Selling and administration expenses	5,970	2,504	2,694	2,515	18,734	32,417
Profit / (loss) before impaired asset expense and income tax	24,029	12,238	9,419	(1,115)	(18,035)	26,536
Impaired asset expense	261	2,797	323	(56)	-	3,325
Operating profit / (loss)	23,768	9,441	9,096	(1,059)	(18,035)	23,211
Share of equity accounted investee's profit	-	-	-	-	195	195
Profit/ (loss) before income tax	23,768	9,441	9,096	(1,059)	(17,840)	23,406
Income tax expense	-	-	-	-	6,680	6,680
Profit / (loss) for the period	23,768	9,441	9,096	(1,059)	(24,520)	16,726
Total assets	938,105	558,127	415,890	87,120	492,848	2,492,090
Total liabilities	-	-	-	-	2,109,580	2,109,580
Total equity	-	-	-	-	382,510	382,510

NOTES TO THE INTERIM FINANCIAL STATEMENTS

For the six months ended 31 December 2013

4 Segmental analysis (continued)

	Retail & Consumer \$000	Business \$000	Rural \$000	Non-core Property \$000	Other \$000	Total \$000
Unaudited - 6 months ended Dec 2012						
Net interest income	21,143	12,493	11,461	449	1,214	46,760
Net operating lease income	2,664	19	-	-	-	2,683
Net other income	284	91	22	1,503	506	2,406
Net operating income	24,091	12,603	11,483	1,952	1,720	51,849
Selling and administration expenses	6,061	2,887	3,046	3,248	16,701	31,943
Profit / (loss) before impaired asset expense and income tax	18,030	9,716	8,437	(1,296)	(14,981)	19,906
Impaired asset expense	756	817	(299)	3,980	-	5,254
Operating profit / (loss)	17,274	8,899	8,736	(5,276)	(14,981)	14,652
Share of equity accounted investee's profit	-	-	-	-	246	246
Profit / (loss) before income tax	17,274	8,899	8,736	(5,276)	(14,735)	14,898
Income tax expense	-	-	-	-	4,194	4,194
Profit / (loss) for the period	17,274	8,899	8,736	(5,276)	(18,929)	10,704
Total assets	980,183	530,496	480,572	143,217	214,679	2,349,147
Total liabilities	-	-	-	-	1,968,533	1,968,533
Total equity	-	-	-	-	380,614	380,614
Audited - 12 months ended Jun 2013						
Net interest income	44,380	25,418	22,810	967	1,879	95,454
Net operating lease income	5,151	23	-	-	-	5,174
Net other income	622	285	49	3,860	1,443	6,259
Net operating income	50,153	25,726	22,859	4,827	3,322	106,887
Selling and administration expenses	11,696	5,864	6,152	12,438	34,197	70,347
Profit / (loss) before impaired asset expense and income tax	38,457	19,862	16,707	(7,611)	(30,875)	36,540
Impaired asset expense	2,770	3,360	(195)	16,592	-	22,527
Decrease in fair value of investment properties	-	-	-	5,101	-	5,101
Operating profit / (loss)	35,687	16,502	16,902	(29,304)	(30,875)	8,912
Share of equity accounted investee's profit	-	-	-	-	504	504
Profit / (loss) before income tax	35,687	16,502	16,902	(29,304)	(30,371)	9,416
Income tax expense	-	-	-	-	2,504	2,504
Profit / (loss) for the year	35,687	16,502	16,902	(29,304)	(32,875)	6,912
Total assets	987,796	549,177	456,647	107,438	403,569	2,504,627
Total liabilities	-	-	-	-	2,134,085	2,134,085
Total equity	-	-	-	-	370,542	370,542

NOTES TO THE INTERIM FINANCIAL STATEMENTS

For the six months ended 31 December 2013

5 Significant subsidiaries and interests in jointly controlled entities

Significant subsidiaries	Nature of business	Unaudited Dec 2013 % held	Unaudited Dec 2012 % held	Audited Jun 2013 % held
Heartland Bank Limited and its subsidiaries:	Financial services	100%	100%	100%
MARAC Finance Limited	Financial services	*	-	100%
PGG Wrightson Finance Limited	Financial services	*	-	100%
VPS Parnell Limited	Investment property holding company	100%	100%	100%
VPS Properties Limited	Investment property holding company	100%	100%	100%
Heartland NZ Trustee Limited	Holding company	100%	100%	100%
Heartland Financial Services Limited and its jointly controlled entity:	Holding company	100%	100%	100%
MARAC JV Holdings Limited and its subsidiary:	Holding company	50%	50%	50%
MARAC Insurance Limited	Insurance services	50%	50%	50%

* On 1 December 2013, MARAC Finance Limited (MARAC) and PGG Wrightson Finance Limited (previously subsidiaries of the Bank) were amalgamated into the Bank.

The Group includes Heartland ABCP Trust 1 (ABCP Trust), CBS Warehouse A Trust, and Heartland Cash and Term PIE Fund, refer to Note 17 - Special purpose entities.

6 Net interest income

	Unaudited 6 mths to Dec 2013 \$000	Unaudited 6 mths to Dec 2012 \$000	Audited 12 mths to Jun 2013 \$000
Interest income			
Cash and cash equivalents and investments	5,571	1,598	5,736
Finance receivables	94,929	100,532	197,999
Net interest income on derivative financial instruments	-	1,150	2,614
Total interest income	100,500	103,280	206,349
Interest expense			
Retail deposits	41,127	46,689	94,198
Bank and securitised borrowings	6,599	9,831	16,697
Net interest expense on derivative financial instruments	388	-	-
Total interest expense	48,114	56,520	110,895
Net interest income	52,386	46,760	95,454

Included within the Group's interest income on finance receivables is \$1,720,000 (December 2012: \$1,380,000; June 2013: \$2,591,000) on individually impaired assets.

NOTES TO THE INTERIM FINANCIAL STATEMENTS

For the six months ended 31 December 2013

7 Selling and administration expenses

	Unaudited 6 mths to Dec 2013 \$000	Unaudited 6 mths to Dec 2012 \$000	Audited 12 mths to Jun 2013 \$000
Personnel expenses	17,670	16,673	33,448
Directors' fees	432	421	726
Superannuation	306	201	413
Audit fees	239	251	419
Audit related fees	90	30	104
Amortisation - intangible assets	641	512	1,226
Depreciation - property, plant and equipment	463	354	714
Operating lease expense as a lessee	819	822	1,651
RECL Agreement fees	-	1,100	7,700
Legal and professional fees	2,144	1,679	3,631
Other operating expenses	9,613	9,900	20,315
Total selling and administration expenses	32,417	31,943	70,347

Audit related fees include professional fees in connection with RBNZ reporting and other regulatory compliance, accounting advice and review work completed.

8 Impaired asset expense

	NOTE	Unaudited 6 mths to Dec 2013 \$000	Unaudited 6 mths to Dec 2012 \$000	Audited 12 mths to Jun 2013 \$000
Individually impaired assets expense	12	5,131	3,611	13,101
Collectively impaired assets expense	12	(1,806)	1,643	9,426
Total impaired asset expense		3,325	5,254	22,527

9 Earnings per share

The calculation of basic and diluted earnings of 4c per share at 31 December 2013 (31 December 2012: 3c per share; 30 June 2013: 2c per share) is based on the profit for the period of \$16,726,000 (31 December 2012: \$10,704,000; 30 June 2013: \$6,912,000), and a weighted average number of shares on issue of 390,587,423 (31 December 2012: 388,703,975; 30 June 2013: 388,703,975).

10 Dividends paid

On 4 October 2013, the Company paid a dividend of 2.5 cents per share, totalling \$9.7 million (31 December 2012: \$5.9 million; 30 June 2013: \$13.6 million).

NOTES TO THE INTERIM FINANCIAL STATEMENTS

For the six months ended 31 December 2013

11 Finance receivables

	NOTE	Unaudited Dec 2013 \$000	Unaudited Dec 2012 \$000	Audited Jun 2013 \$000
Non-securitised				
Neither at least 90 days past due nor impaired		1,577,598	1,689,396	1,687,480
At least 90 days past due		18,397	47,685	24,837
Individually impaired		53,100	49,412	69,301
Restructured assets		3,994	9,069	3,566
Gross finance receivables		1,653,089	1,795,562	1,785,184
Less provision for impairment		33,579	26,801	49,786
Total non-securitised finance receivables		1,619,510	1,768,761	1,735,398
Securitised				
Neither at least 90 days past due nor impaired		285,854	275,214	273,922
At least 90 days past due		1,121	1,488	1,761
Individually impaired		-	6	-
Gross finance receivables		286,975	276,708	275,683
Less provision for impairment		635	676	705
Total securitised finance receivables		286,340	276,032	274,978
Total				
Neither at least 90 days past due nor impaired		1,863,452	1,964,610	1,961,402
At least 90 days past due		19,518	49,173	26,598
Individually impaired		53,100	49,418	69,301
Restructured assets		3,994	9,069	3,566
Gross finance receivables		1,940,064	2,072,270	2,060,867
Less provision for impairment	12	34,214	27,477	50,491
Total finance receivables		1,905,850	2,044,793	2,010,376

12 Provision for impairment

Provision for individually impaired assets				
Opening individual impairment		34,530	19,394	19,394
Impairment loss for the period				
- charge for the period		5,131	3,611	13,101
- RECL recovery		-	-	9,809
- recoveries		5	128	162
- write offs		(17,513)	(4,079)	(6,679)
- effect of discounting		(1,194)	(664)	(1,257)
Closing individual impairment		20,959	18,390	34,530
Provision for collectively impaired assets				
Opening collective impairment		15,961	8,032	8,032
Impairment loss for the period				
- (credit) / charge for the period		(1,806)	1,643	9,426
- RECL recovery		-	-	216
- assumed on acquisition of loans		549	-	-
- recoveries		74	157	268
- write offs		(1,523)	(745)	(1,981)
Closing collective impairment		13,255	9,087	15,961
Total provision for impairment		34,214	27,477	50,491

NOTES TO THE INTERIM FINANCIAL STATEMENTS

For the six months ended 31 December 2013

13 Borrowings

	Unaudited Dec 2013 \$000	Unaudited Dec 2012 \$000	Audited Jun 2013 \$000
Deposits	1,805,954	1,670,756	1,838,619
2018 Subordinated Bond	3,369	-	-
Securitised borrowings	267,645	264,360	258,934
Total borrowings	2,076,968	1,935,116	2,097,553

Bank borrowings and deposits rank equally and are unsecured. Investors in ABCP Trust rank equally with each other and are secured over the securitised assets of that trust.

The Group has securitised bank facilities totalling \$400 million, all in relation to the ABCP Trust. This securitisation facility matures on 7 August 2014. The facilities are drawn by \$268 million (December 2012: \$264 million; June 2013: \$259 million).

14 Share capital

The share capital reflected in the following note represents the share capital of the Company.

As a result of the amalgamation of MARAC on 1 December 2013, the reverse acquisition accounting originally applied when the Company was formed was unwound. The effect of this unwinding is that from 1 December 2013 the Group's share capital represents that of the Company.

	COMPANY Number of shares		
	Unaudited Dec 2013 000	Unaudited Dec 2012 000	Audited Jun 2013 000
Issued shares			
Opening balance	388,704	388,704	388,704
Dividend reinvestment plan	3,851	-	-
Closing balance	392,555	388,704	388,704

On 3 October 2013, the Company issued 3,850,604 new shares at 82.6 cents per share under the Dividend reinvestment plan. The shares have equal voting rights, rights to dividends and distributions and do not have a par value.

NOTES TO THE INTERIM FINANCIAL STATEMENTS

For the six months ended 31 December 2013

15 Reconciliation of profit after tax to net cash flows from operating activities

	Unaudited 6 mths to Dec 2013 \$000	Unaudited 6 mths to Dec 2012 \$000	Audited 12 mths to Jun 2013 \$000
Profit for the period	16,726	10,704	6,912
Add / (less) non-cash items:			
Depreciation and amortisation expense	1,104	866	1,940
Change in fair value of investment properties	-	-	5,101
Impaired asset expense	3,325	5,254	22,527
Deferred tax benefit	4,919	(3)	(8,244)
Derivative financial instruments revaluation	(229)	795	1,100
Accruals	1,066	(340)	(836)
Total non-cash items	10,185	6,572	21,588
Add / (less) movements in working capital items:			
Other assets	255	(1,024)	6,022
Current tax	(3,126)	3,504	8,494
Other liabilities	(1,940)	(666)	(2,337)
Total movements in working capital items	(4,811)	1,814	12,179
Net cash flows from operating activities before movements in finance receivables and operating lease vehicles	22,100	19,090	40,679
Movement in operating lease vehicles	484	191	2,155
Movement in finance receivables	93,182	30,026	25,894
Net cash flows from operating activities	115,766	49,307	68,728

16 Related party transactions and balances

(a) Transactions with related parties

The Group provided administrative assistance to MARAC Insurance Limited (a wholly owned subsidiary of MARAC JV Holdings Limited of which the Company holds a 50% joint venture interest with the New Zealand Automobile Association) and received insurance commission from MARAC Insurance Limited. MARAC Insurance Limited also invested in the Group's deposits.

	Unaudited 6 mths to Dec 2013 \$000	Unaudited 6 mths to Dec 2012 \$000	Audited 12 mths to Jun 2013 \$000
Transactions with related parties			
Lending and credit fee income	105	176	312
Other income	189	180	335
Interest expense	(11)	-	(4)
Total transactions with other related parties	283	356	643
	Unaudited Dec 2013 \$000	Unaudited Dec 2012 \$000	Audited Jun 2013 \$000
Due to related parties			
MARAC Insurance Limited	500	-	500
Total due to related parties	500	-	500

NOTES TO THE INTERIM FINANCIAL STATEMENTS

For the six months ended 31 December 2013

16 Related party transactions and balances (continued)

(b) Transactions with key management personnel

Key management personnel, being directors of the Company and those staff reporting directly to the Chief Executive Officer and their immediate relatives, have transacted with the Group during the year as follows:

	Unaudited 6 mths to Dec 2013 \$000	Unaudited 6 mths to Dec 2012 \$000	Audited 12 mths to Jun 2013 \$000
Interest income	26	-	-
Interest expense	(58)	(16)	(28)

	Unaudited Dec 2013 \$000	Unaudited Dec 2012 \$000	Audited Jun 2013 \$000
Finance receivables	748	-	-
Borrowings - deposits	15,071	426	825

17 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 2013 \$000	Unaudited Dec 2012 \$000	Audited Jun 2013 \$000
Deposits sourced from New Zealand	41,594	21,136	33,226

Heartland ABCP Trust 1

The Group has securitised a pool of receivables comprising commercial and motor vehicle loans to the ABCP Trust.

CBS Warehouse A Trust (CBS Trust)

Prior to 15 August 2013, the Group had securitised a pool of receivables comprising residential mortgages to the CBS Trust. On 31 July 2013, the Group cancelled \$50 million of the CBS Trust's \$100 million securitisation facility. On 15 August 2013, the remaining \$50 million CBS Trust facility was cancelled and all of the receivables in the CBS Trust were sold back to the Bank. The CBS Trust will remain dormant for the foreseeable future.

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 Trusts are set aside for the benefit of investors in the Trusts and are represented as follows:

	Unaudited Dec 2013 \$000	Unaudited Dec 2012 \$000	Audited Jun 2013 \$000
Cash and cash equivalents - securitised	7,969	16,574	11,586
Finance receivables - securitised	286,340	276,032	274,978
Borrowings - securitised	(267,645)	(264,360)	(258,934)
Derivative financial asset - securitised	1,644	-	567
Derivative financial liabilities - securitised	-	(764)	(30)

NOTES TO THE INTERIM FINANCIAL STATEMENTS

For the six months ended 31 December 2013

18 Fair value

The following methods and assumptions were used to estimate the fair value of each class of financial asset and liability.

Finance receivables

The fair value of the Group's finance receivables is calculated using a valuation technique which assumes current market interest rates for loans of a similar nature and term.

The current average market rate used to fair value finance receivables with a fixed interest rate is 9.46%. Finance receivables with a floating interest rate are deemed to be at current market rates. The current amount of credit provisioning has been deducted from the fair value calculation of finance receivables as a proxy for future losses. Prepayment rates have not been factored into the fair value calculation as they are not deemed to be material.

Investments

Investments in public sector securities and corporate bonds are classified as being available for sale and are stated at fair value less impairment, with the fair value being based on quoted market prices (Level 1 under the fair value hierarchy) or modelled using observable market inputs (Level 2 under the fair value hierarchy).

Other financial assets and liabilities

The fair value of all other financial assets and liabilities is considered equivalent to their carrying value due to their short term nature.

Derivative items

The fair value of interest rate contracts is modelled using observable market inputs (Level 2 under the fair value hierarchy).

Borrowings

The fair value of deposits, bank borrowings and other borrowings is the present value of future cash flows and is based on the current market interest rates payable by the Group for debt of similar maturities.

	Held for trading	Loans and receivables	Available for sale	Financial liabilities at amortised cost	Total Carrying Value	Total Fair Value
	\$000	\$000	\$000	\$000	\$000	\$000
December 2013						
Cash and cash equivalents	-	178,533	-	-	178,533	178,533
Investments	-	-	255,427	-	255,427	255,427
Finance receivables	-	1,619,510	-	-	1,619,510	1,618,601
Finance receivables - securitised	-	286,340	-	-	286,340	289,540
Derivative financial assets	1,770	-	-	-	1,770	1,770
Other financial assets	-	6,078	-	-	6,078	6,078
Total financial assets	1,770	2,090,461	255,427	-	2,347,658	2,349,949
Borrowings	-	-	-	1,809,323	1,809,323	1,814,013
Borrowings - securitised	-	-	-	267,645	267,645	267,645
Other financial liabilities	-	-	-	16,894	16,894	16,894
Total financial liabilities	-	-	-	2,093,862	2,093,862	2,098,552

19 Contingent liabilities and commitments

	Unaudited Dec 2013 \$000	Unaudited Dec 2012 \$000	Audited Jun 2013 \$000
Letters of credit, guarantees and performance bonds	4,155	8,358	5,033
Total contingent liabilities	4,155	8,358	5,033
Undrawn facilities available to customers	121,760	106,242	106,702
Conditional commitments to fund at future dates	60,091	45,448	48,428
Total commitments	181,851	151,690	155,130

NOTES TO THE INTERIM FINANCIAL STATEMENTS

For the six months ended 31 December 2013

20 Events after the reporting date

On 14 February 2014, the Company entered into a Sale and Purchase Agreement with Seniors Money International Limited for the full acquisition of its New Zealand and Australian Home Equity Release mortgage businesses, with an expected acquisition date of 1 April 2014.

The acquisition advances the Company's ongoing strategy of pursuing niches within the Household, Business and Rural sectors where it can obtain a market leading position.

The Company will acquire the Sentinel New Zealand and Australian Seniors Finance businesses, including their respective mortgage portfolios with an aggregate asset value of approximately \$760 million as at 31 December 2013, for the total consideration of \$87 million.

This consideration of \$87 million is being funded by the Company:

- To the extent of \$48.3 million, in cash. The Company is conducting a capital raising of \$20 million (\$15 million of which will be raised through the issue of 17 million Heartland New Zealand Limited shares to institutions, and \$5 million of which will be raised through a Heartland New Zealand Limited underwritten share purchase plan). The balance of the \$48.3 million will be funded with existing cash held; and
- \$38.7 million by issuing 43 million Heartland New Zealand Limited shares to the vendor at a price of \$0.90 each (subject to a minimum 12 month lock-up escrow arrangement).

There have been no other 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 completed a review of the interim financial statements on pages 7 to 21 in accordance with the Review Engagement Standard RS-1 issued by the External Reporting Board. The 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 2013.

Directors' responsibilities

The Directors of Heartland New Zealand Limited 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 2013 and the results of its operations and cash flows for the 6 month period ended on that date.

Reviewer's responsibilities

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

Basis of opinion

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 and advisory. 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 7 to 21 do not give a true and fair view of the financial position of Group as at 31 December 2013 and the results of its operations and cash flows for the 6 month period ended on that date in accordance with NZ IAS 34 *Interim Financial Reporting*.

Our review was completed on 25 February 2014 and our opinion is expressed as at that date.

KPMG

Auckland

Directory

Heartland New Zealand Limited

Directors

Geoffrey Ricketts	Chairman
Jeffrey Greenslade	Managing Director
Graham Kennedy	Director
Gary Leech	Director
Christopher Mace	Director
Gregory Tomlinson	Director

Executives

Laura Byrne	Group General Counsel
Chris Flood	Head of Retail & Consumer
Michael Jonas	Head of Strategic & Product Development
James Mitchell	Chief Operating Officer
Mark Mountcastle	Chief Risk Officer
Simon Owen	Chief Financial Officer
Will Purvis	Head of Business & Rural
Sarah Selwood	Head of Human Resources

Registered Office

75 Riccarton Road
Riccarton
Christchurch 8011

PO Box 8623
Riccarton
Christchurch, 8440

T 0508 432 785
E info@heartland.co.nz
W www.heartland.co.nz

Heartland Bank Limited

Directors

Bruce Irvine	Chairman
Jeffrey Greenslade	Managing Director
Nicola Greer	Director
John Harvey	Director
Graham Kennedy	Director
Geoffrey Ricketts	Director
Richard Wilks	Director
Michael Jonas	Executive Director

Executives

Laura Byrne	Group General Counsel
Chris Flood	Head of Retail & Consumer
Michael Jonas	Head of Strategic & Product Development
James Mitchell	Chief Operating Officer
Mark Mountcastle	Chief Risk Officer
Simon Owen	Chief Financial Officer
Will Purvis	Head of Business & Rural
Sarah Selwood	Head of Human Resources

Registered Office

75 Riccarton Road
Riccarton
Christchurch 8011

PO Box 8623
Riccarton
Christchurch 8440

T 0508 432 785
E info@heartland.co.nz
W www.heartland.co.nz

Auditors

KPMG
KPMG Centre, 18 Viaduct Harbour, Auckland
1140
T 09 367 5800

Share Registry

Link Market Services Limited
Level 7, Zurich House
21 Queen Street, Auckland 1010
T 09 375 5998
F 09 375 5990
E enquiries@linkmarketservices.co.nz
W www.linkmarketservices.co.nz

HEARTLAND
New Zealand Limited