NZX and Media Release

HEARTLAND POSTS HALF YEAR PROFIT OF $29.1M

21 February 2017

Heartland Bank Limited (**Heartland**) (NZX: HBL) achieved a net profit after tax (**NPAT**) of $29.1m for the half year ended 31 December 2016 (the **Current Reporting Period**), an increase of 14% from the half year ended 31 December 2015 (the **Previous Corresponding Reporting Period**). The increase in profitability was driven primarily by growth in receivables across all divisions – Household, Business and Rural.

Achievements for half year

- Increase in profitability of 14%
- Strong growth in receivables of 7%
- Return on equity (**ROE**) of 11.6%
- $20m institutional placement completed
- Launch of multiple digital platforms

FINANCIAL PERFORMANCE[1]

Profitability

NPAT was $29.1m for the Current Reporting Period. This is up $3.5m (14%) from the $25.6m NPAT for the Previous Corresponding Reporting Period.

Earnings for the half year result in an ROE of 11.6%, being an increase from 11.1% for the full year ended 30 June 2016.

Earnings per share was 6 cents calculated on weighted average shares.

Balance sheet

Net finance receivables increased by $220.8m (7%) to $3.33bn during the Current Reporting Period. Total assets increased by $273.0m with the difference between net finance receivables and total assets being primarily attributable to an increase in cash and cash equivalents and investments. Major movements during the Current Reporting Period included:

- Household net receivables increased $106.1m with reverse mortgages, motor vehicle loans and personal loans (including Harmoney) increasing $57.1m, $27.1m and $29.9m respectively.

[1] This announcement is based on the 31 December 2016 unaudited consolidated interim financial statements of Heartland Bank Limited. For more detailed analysis and explanation please refer to the attached interim financial statements.

- Business and Rural divisions' net receivables increased $48.6m and $66.2m respectively.
- Cash and cash equivalents and investments increased by $47.6m.
- Borrowings increased by $247.0m reflecting the movement in total assets.

Net Assets increased from $498.3m to $528.0m during the Current Reporting Period. Net Tangible Assets (**NTA**) increased from $433.5m to $455.1m during the Current Reporting Period. On a per share basis, NTA was $0.91 at 31 December 2016 compared to $0.91 at 30 June 2016 and $0.90 at 31 December 2015.

Net Operating Income
Net Operating Income (**NOI**) was $83.0m for the Current Reporting Period, up $5.3m (7%) from $77.8m for the Previous Corresponding Reporting Period. The increase in NOI was primarily attributable to the increased level of receivables.

Heartland's Net Interest Margin (**NIM**) for the Current Reporting Period was 4.44% compared to 4.52% for the six months ending 30 June 2016. This decrease has primarily been driven by customer behaviour (higher levels of early repayments for motor vehicle loans) and changes to asset mix (less higher earning livestock loans). Heartland expects to maintain its NIM for the remainder of FY17 through a combination of changes to asset mix (with livestock trading conditions improving), re-pricing of selected existing loans, increasing new business rates and focusing distribution on lower loan size and higher earn rate lending.

Costs
Operating costs were $36.0m for the Current Reporting Period, a decrease of $1.1m from the Previous Corresponding Reporting Period. This decrease was partly the result of the higher level of marketing expenditure incurred in the Previous Corresponding Reporting Period relating to the launch of the digital lending channels for personal loans and small business loans. In addition, approximately $1.0m of one-off project and compliance related costs were incurred in the Previous Corresponding Reporting Period. The operating expense ratio was 43% for the Current Reporting Period compared to 48% in the Previous Corresponding Reporting Period.

Impairments
Impaired asset expense increased by $1.3m to $6.9m for the Current Reporting Period, up from $5.6m for the Previous Corresponding Reporting Period.

Impairment expense in the Household division was up $2.2m compared to the Previous Corresponding Reporting Period. The increase was largely attributable to higher write-offs in the motor vehicle loan book than in the Previous Corresponding Reporting Period together with growth in the personal loan and motor vehicle loan books. Whilst motor vehicle loan impairments were higher, they remain acceptable at 0.7%.

Impairment expense in the Business division was down $0.9m compared to the Previous Corresponding Reporting Period primarily due to recoveries on loans provided for in previous periods.

Impairments in the Rural division were low at $0.4m, the same as the Previous Corresponding Reporting Period. An improvement in the dairy sector outlook also occurred.

Net impaired, restructured and past due loans over 90 days reduced from $37.8m (or 1.2% of net finance receivables) as at 30 June 2016 to $33.1m (or 1.0% of net finance receivables) as at 31 December 2016.

BUSINESS PERFORMANCE BY DIVISION

Business

NOI was $23.1m, an increase of $1.9m (9%) from the Previous Corresponding Reporting Period. The increase in NOI was driven by growth in receivables. Net receivables for the Business division increased by $48.6m (5%) to $947.5m during the Current Reporting Period. This growth was achieved from the continuation of the division's strategy to extend reach through intermediaries together with pleasing growth achieved in the Open for Business digital origination platform for small business loans, which grew by $16.0m (142%) to $27.3m.

Rural

NOI was $13.9m, an increase of $0.8m (6%) from the Previous Corresponding Reporting Period that was also driven by receivables growth. Net receivables for the Rural division grew strongly, increasing by $66.2m (12%) to $618.6m during the Current Reporting Period. This growth was primarily through term loans (to both existing and new customers) across all key rural sectors, including dairy, sheep and beef, horticulture and viticulture. Higher yielding assets in livestock finance and working capital declined in volume in the current reporting period, primarily due to seasonal factors, and the change in portfolio mix led to some loss of margin across the portfolio.

In December 2016, Heartland launched Open for Livestock, a digital livestock finance platform, and an increase in livestock facilities is expected during the second half as stock trading volumes increase.

Trading conditions for Heartland's dairy customers improved over the course of the Current Reporting Period, with farmers enjoying increases in payments from dairy companies. Dairy customers have generally responded well to the difficult trading conditions over the past two years, with most customers managing to significantly lower their operating costs, and where necessary, to consolidate their financial position. Heartland has and will continue to selectively bring new dairy farming and share milking customers to the bank.

Household (Retail, Consumer and Reverse Mortgages)

NOI was $45.5m, an increase of $2.8m (7%) from the Previous Corresponding Reporting Period. Net receivables for the Household division increased by $106.1m to $1.8bn during the Current Reporting Period.

NOI from the Consumer division (which includes motor vehicle loans, personal loans and lending through the Harmoney platform) increased $0.3m (1%) from the Previous Corresponding Reporting Period to $30.4m. Consumer net receivables grew $57.0m (7%) to $879.1m during the Current Reporting Period. Despite stronger growth in net receivables NOI was only up 1% due to lower earning rates on motor vehicle and personal loans than the Previous Corresponding Reporting Period as well as less operating lease income on a smaller lease book.

Net motor vehicle loan receivables continued to grow strongly, increasing by $27.1m (4%) to $794.5m during the Current Reporting Period. Heartland remains optimistic about continued growth in the motor vehicle loan book with its comparatively lower cost of funds continuing to provide an advantage over non-bank competitors in the motor vehicle finance market.

Strong growth in personal lending was also achieved in the Current Reporting Period with net receivables from personal loans increasing by $4.6m (26%) to $22.5m and lending through the Harmoney platform increasing by $25.3m (69%) to $62.1m.

NOI for reverse mortgages increased $3.1m from the Previous Corresponding Reporting Period to $14.3m. Net receivables from reverse mortgages in New Zealand and Australia grew strongly by $17.0m (5%) and $40.0m (9%) respectively during the Current Reporting Period to $379.7m and $472.2m. Growth was particularly strong in Australia, driven by continued broadening of the broker distribution network and favourable market conditions.

Net receivables from residential mortgages reduced by $8.1m during the Current Reporting Period to $37.7m.

FUNDING AND LIQUIDITY

Funding and liquidity remain strong, despite the market tightening, with deposits growing $229.8m to $2.5b during the Current Reporting Period. The market continues to respond well to Heartland's direct call and business call accounts which give customers a competitive rate of interest and unlimited on call access to their money.

STRATEGIC PRIORITIES

Heartland's early strategic focus was product-centric, delivering innovative banking products in niches that were underserviced by the other banks. Heartland has entered the next phase of its strategy, focusing on the channels through which its products are delivered. Execution of this strategy is two-fold, with digital channels being utilised to provide a fast and simple customer experience and, for depositors and reverse mortgage customers, maintaining a high touch telephony service.

As part of Heartland's execution of this strategy, a key priority for the remainder of FY17 will be to continue the development of Heartland's digital origination platforms across a number of its products as well as the continued improvement of back office processes to support the origination power of these platforms. The emerging technology for digital platforms will also enable Heartland to reduce the cost of loan origination through the use of highly predictive credit tools. To date Heartland has successfully launched digital platforms for small business loans (Open for Business), livestock loans (Open for Livestock) and most recently, residential mortgages (Open for Home Loans).

Heartland yesterday announced it had taken a 25% shareholding in Fuelled Limited, an online small-to-medium business (**SME**) lender. This equity investment (being less than $1.0m) has been provided alongside a $2.0m committed debt facility enabling Fuelled to accelerate its Australasian growth plans. Fuelled is a New Zealand-based business whose simple on-demand service enables SMEs to receive an immediate cash advance on their outstanding invoices. Fuelled's integration with Xero enables its advanced credit assessment engine to make real time credit and financing decisions. The Fuelled customer experience is fully online and the entire process takes just a few minutes. This investment in Fuelled provides Heartland with the opportunity to gain further exposure to digital SME lending.

Another key strategic priority will be expansion of certain product offerings in Australia, for example, small business loans. Heartland recently announced its new partnership with Spotcap Australia, an online lender providing unsecured credit lines and business loans to SMEs by utilising a unique, proprietary credit algorithm which provides deep insight into the financial condition of a business. The partnership with Spotcap provides Heartland with the opportunity to gain exposure to digital SME lending in Australia and support an innovative fintech solution that aligns with some of Heartland's key strategic priorities including expanding its digital origination strategy and growing its presence in Australia.

Strong systems infrastructure to support Heartland's ambitions for growth also continues to be a key priority. The implementation of Heartland's new core banking system (Oracle) is nearing completion and will provide Heartland with significantly enhanced capability to execute its strategy.

Acquisitions remain a part of Heartland's growth strategy, but any acquisition must be value accretive and either deliver innovation or a compelling distribution capability. Heartland remains focussed on growing quality sustainable earnings and improving return on equity.

INTERIM DIVIDEND

The directors of Heartland have resolved to pay an interim dividend of 3.5 cents per share. The interim dividend will be paid on 7 April 2017 to shareholders on the company's register as at 5.00pm on 24 March 2017 (**Record Date**) and will be fully imputed.

The Dividend Reinvestment Plan (**DRP**) will apply to the interim dividend with a 2.5% discount[2]. While participation in the DRP is entirely optional, shareholders are encouraged to participate in order to support Heartland's capital needs given recent strong asset growth. Shareholders who do not currently participate in the DRP but wish to do so should make a participation election in one of the ways specified in the DRP offer document by 24 March 2017.

SHARE PURCHASE PLAN

Following a $20 million institutional placement in December last year, Heartland announced its intention to offer its shareholders an opportunity to subscribe for up to $10 million of ordinary shares through a Share Purchase Plan (**SPP**). Given the strong interest that investors have shown in the SPP and Heartland's desire to provide its loyal retail shareholder base with an opportunity to make a meaningful further investment, Heartland has decided to increase the size of the SPP to up to $20 million of ordinary shares.

Heartland is pleased to announce that the SPP opens today. The SPP gives each Heartland shareholder recorded in the share register with a New Zealand address as at 5.00pm on 20 February 2017 an opportunity to subscribe for up to $15,000 of shares at a price which is not more than $1.46 (being the price paid by investors in Heartland's share placement to institutional investors in December 2016).

The full terms and conditions of the SPP are contained in the attached Heartland Share Purchase Plan offer document, and accompanying Chairman's letter, which has also been posted or electronically

[2] That is, the strike price under the DRP will be 97.5% of the volume weighted average sale price of Heartland shares over the five trading days following the Record Date. For the full details of the DRP and the Strike Price calculation, refer to Heartland's DRP offer document dated 1 January 2016.

communicated to all eligible shareholders. Acceptances must be received by 5.00pm on 10 March 2017 and shares will be allotted on 15 March 2017.

A copy of the notice of offer of same class financial products for issue and Appendix 7 for the SPP accompany this announcement.

LOOKING FORWARD

Looking forward, Heartland expects underlying asset growth to continue for the second half of the financial year, with strong Household, Business and Rural volumes projected.

Heartland has entered a new phase of capital management, having now reached a normalised state in relation to its capital position. Going forward, Heartland intends to tap the market to access capital through multiple issuances that are timed and sized to meet its on-going capital requirements. Heartland is currently in the process of finalising an offer of approximately A$15m of Tier 2 regulatory capital to wholesale investors in Australia.

Heartland expects its NPAT for the year ended 30 June 2017 to be at the upper end of the previously advised range of $57.0m to $60.0m. This guidance range does not take into account the impact of any capital management initiatives.

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For further information, please contact:

Jeff Greenslade
Chief Executive Officer
Heartland Bank Limited
DDI 09 927 9149
M 021 563 593

Chris Flood
Deputy Chief Executive Officer
Heartland Bank Limited
DDI 09 927 9139
M 027 226 6508