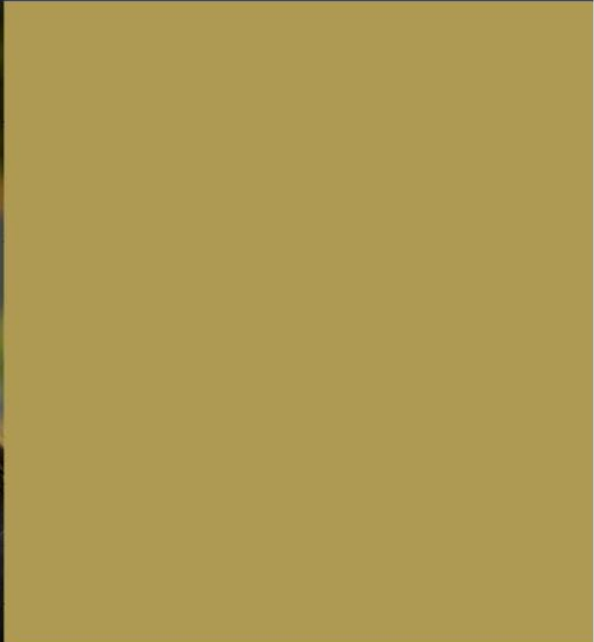
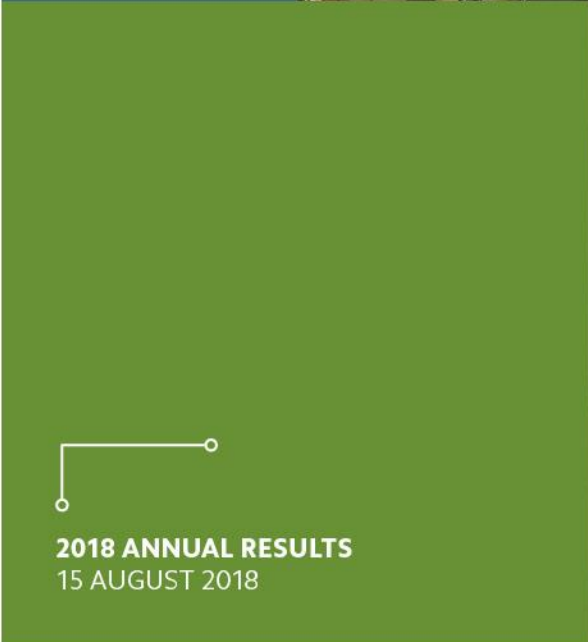




HEARTLAND BANK



2018 ANNUAL RESULTS
15 AUGUST 2018

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- The information in this presentation is of a general nature and does not constitute financial product advice, investment advice or any recommendation. Nothing in this presentation constitutes legal, financial, tax or other advice.
- Unless otherwise indicated in this presentation, all financial results are those for the 12 months ending 30 June 2018 and all comparisons in respect of profitability measures are to the previous corresponding financial period of the 12 months ending 30 June 2017.

A year in review

JEFF GREENSLADE, CEO



Asset growth driving profitability

Net operating income

12 months to 30 June 2018

\$196.8m

▲ **15%** from FY2017

Net profit after tax

12 months to 30 June 2018

\$67.5m

▲ **11%** from FY2017

Net finance receivables

As at 30 June 2018

\$4.0bn

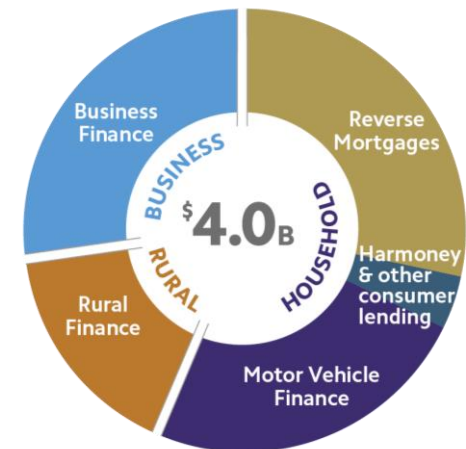
▲ **12%** from FY2017

Highlights

- 12% growth in net finance receivables from 30 June 2017
- Return on equity of 11.1%
- NIM strong at 4.42%
- Cost to income ratio improved to 40.9%
- Impairment expense increased, but underlying expense stable
- Final dividend declared 5.5 cps, full year dividend 9.0 cps

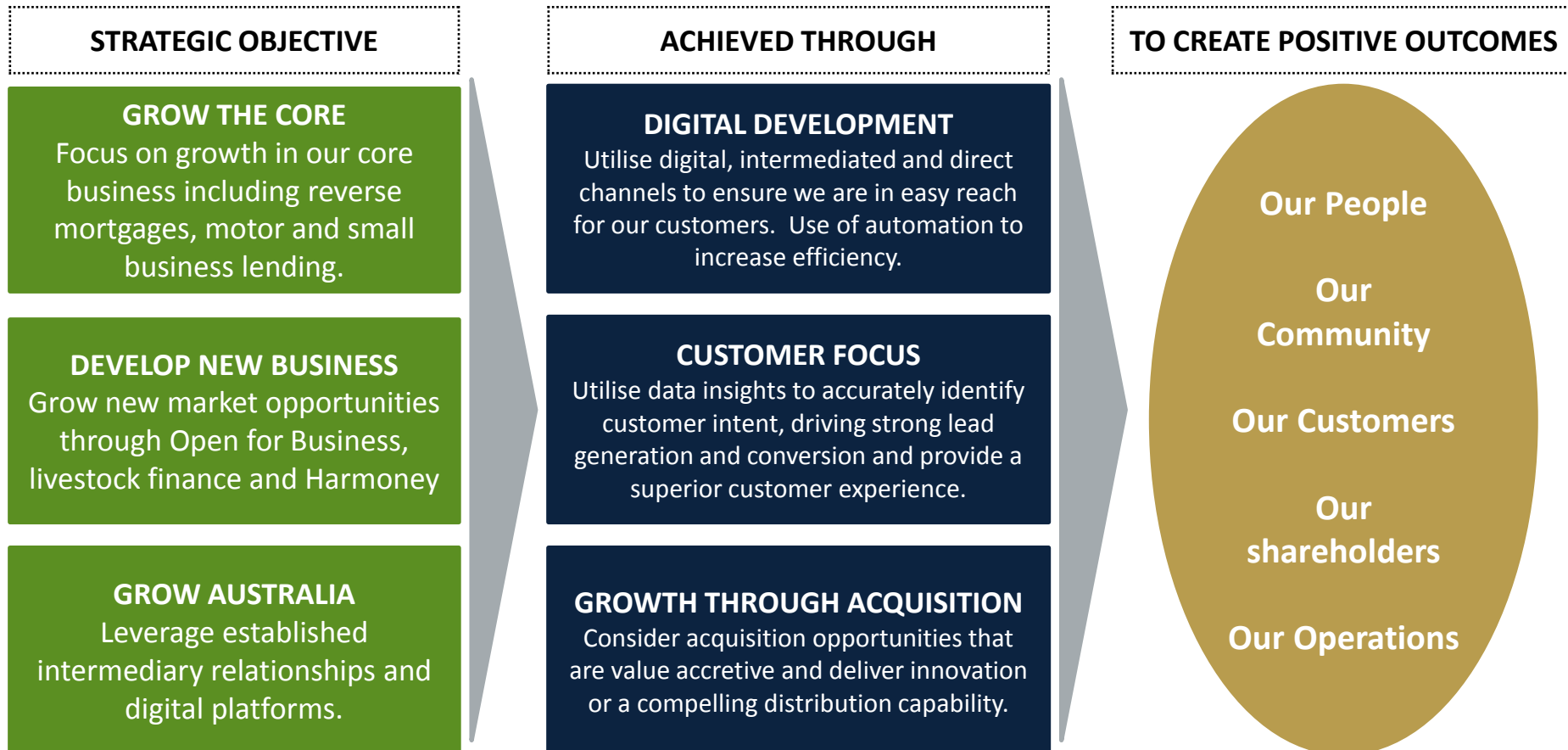
Net Finance Receivables

30 June 2018



Growth strategy is delivering results

To provide 'best or only' specialist products in niche markets that are under-serviced by the mainstream banks



Growing our business and our people

Another strong financial result – in a year where we focused on infrastructure and digital development

Strategy continues to deliver asset growth – particularly in Australian reverse mortgages and other core areas including NZ reverse mortgages, motor and small business loans

Achieved significant progress towards non-financial objectives

- Developing our people and our workplace
 - Creating a culture that strives for excellence
-

Announced intention to conduct a corporate restructure to:

- remove constraints on the growth of the Group's business currently arising from Reserve Bank regulations;
- provide greater flexibility for the Group to explore and take advantage of future growth opportunities in New Zealand and Australia; and
- facilitate a Foreign Exempt Listing on the ASX, which will expand the capital sources available to the Group in order to fund growth

The financial results in detail

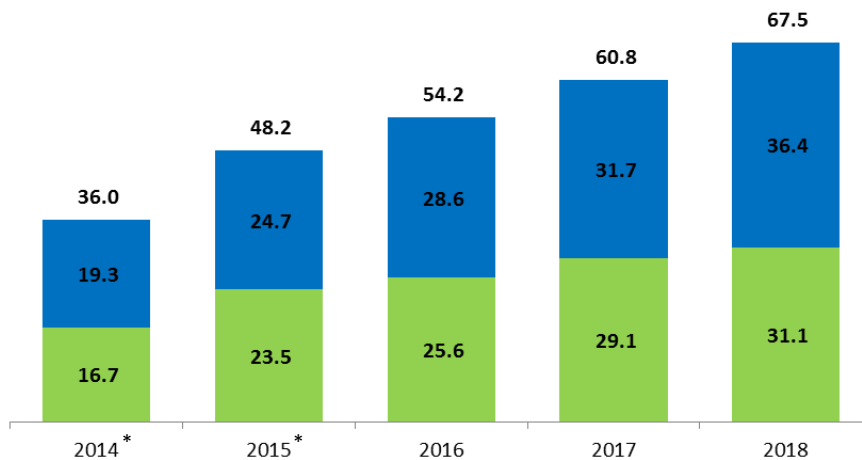
DAVID MACKRELL, CFO



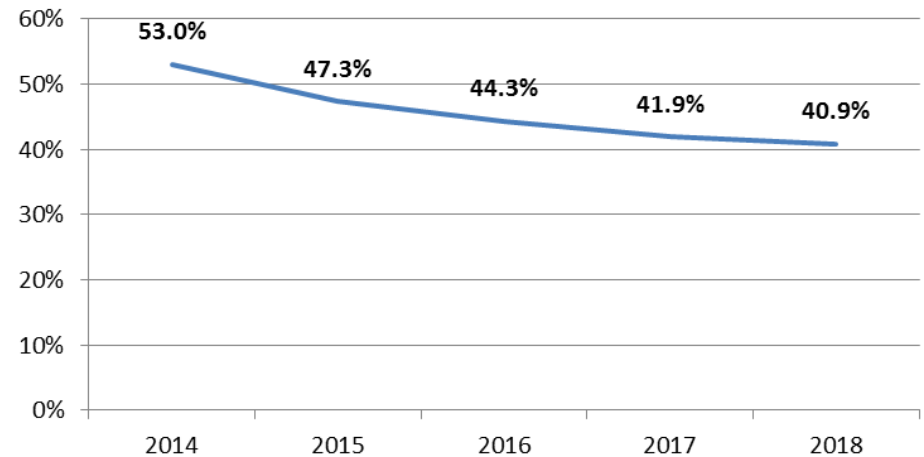
Growth in income and profitability

- Net interest income up 13%
- Net profit after tax up 11% driven by asset growth
- Market leading Net Interest Margin at 4.42%
- Cost to income ratio improved to 40.9%
- Impairment expense increased due to asset growth and increased provisioning

Net Profit After Tax (\$m)

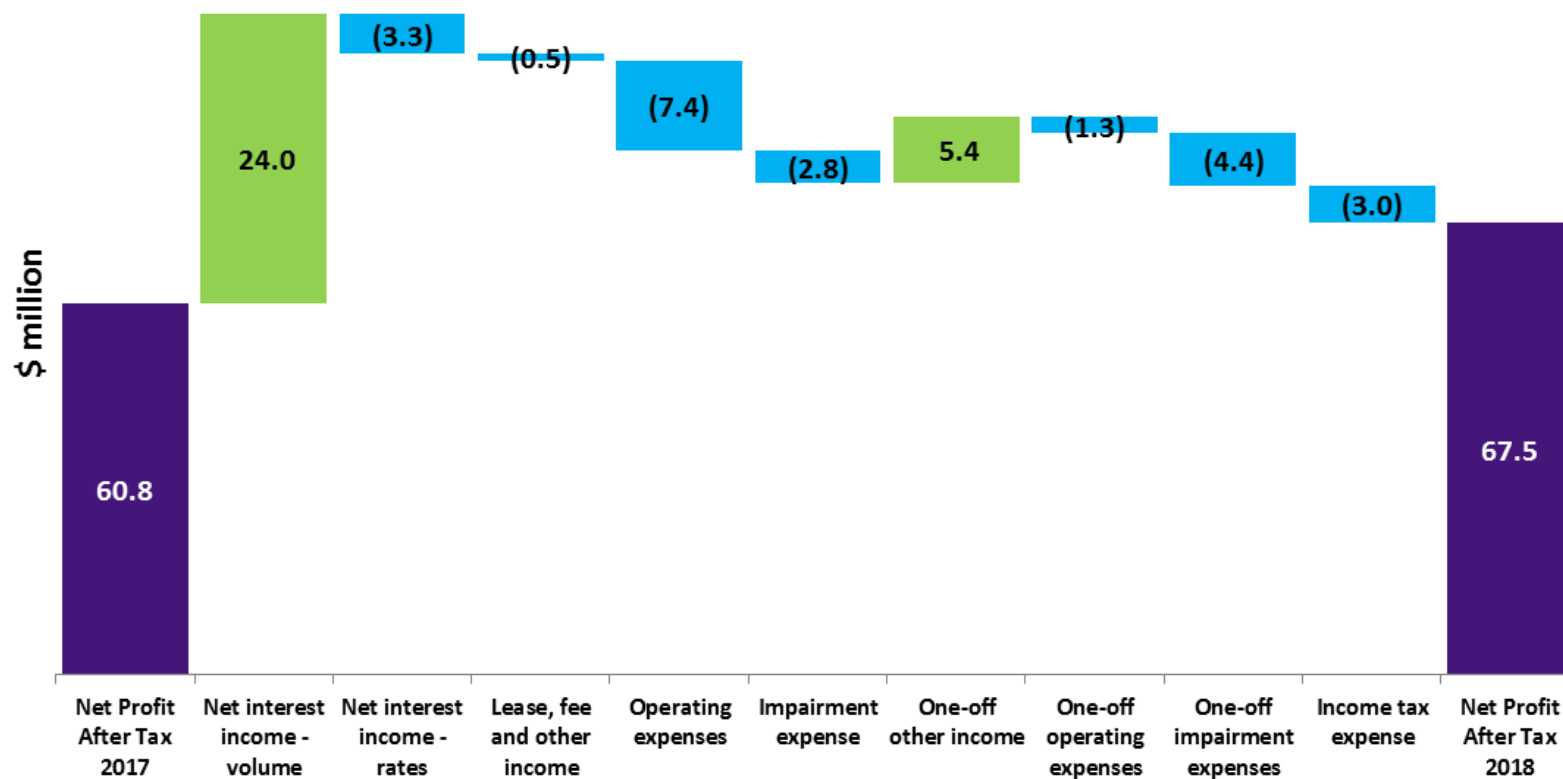


Cost to income ratio



*Net profit after tax belongs to Heartland New Zealand Limited

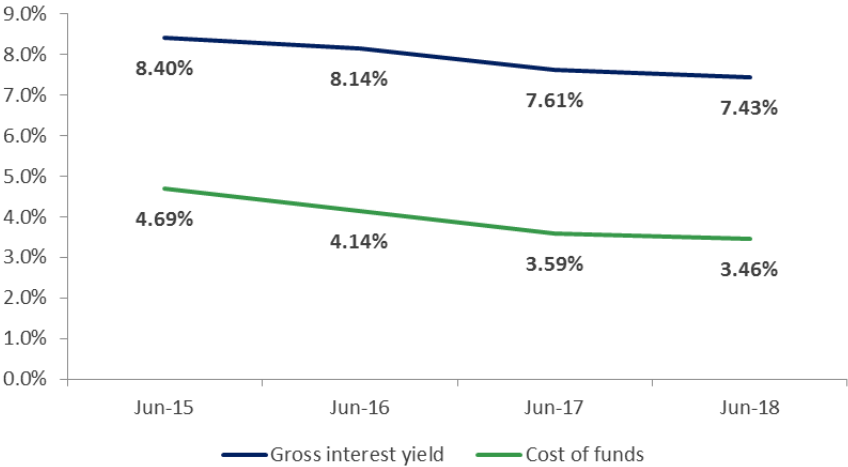
Change in profitability



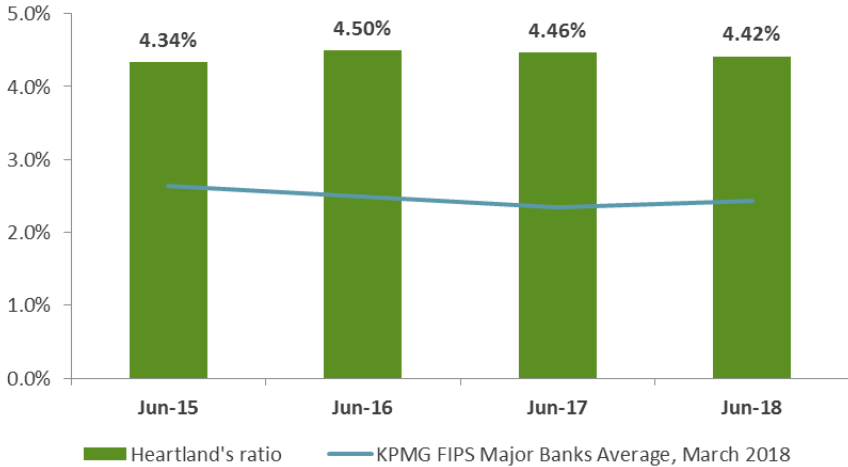
- One-off other income includes gain on sale of property (\$4.8m) and gain on sale of invoice finance business (\$0.6m).
- One-off operating expenses includes new system implementation expenses (\$0.5m), legacy systems costs (\$0.3m) and expenses in relation to the proposed corporate restructure (\$0.5m).
- One off impairment expenses includes additional provisioning for large relationship loans (\$2.2m), insurance recovery write-back in prior year (\$1.2m), and reduced collections due to system implementation issues (\$1.0m).

Market leading NIM maintained

Gross interest yield and Cost of funds



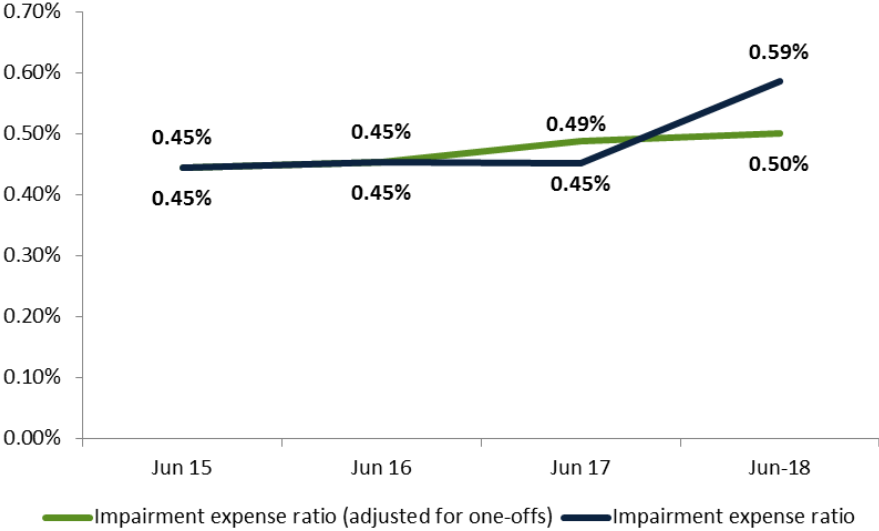
Net interest margin



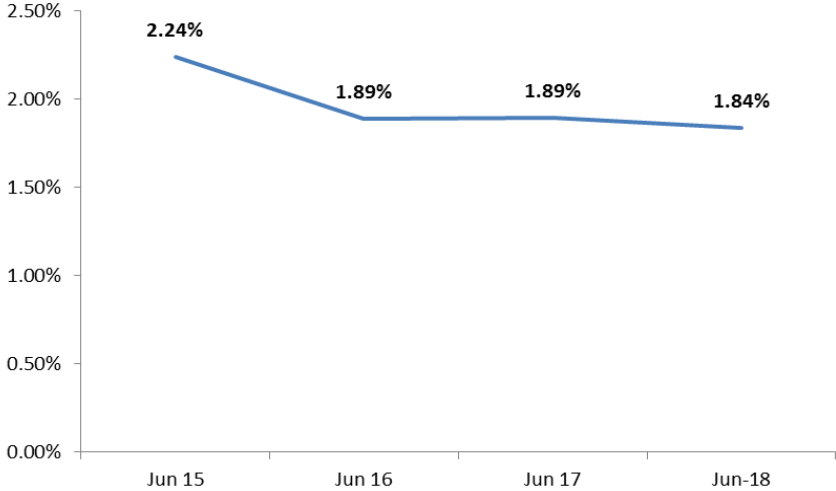
- Gross interest yield = Interest Income divided by Average Interest Bearing Assets
- Cost of funds = Interest Expense divided by Average Interest Bearing Liabilities
- Net Interest Margin (NIM) = (Interest Income – Interest Expense) divided by Average Interest Bearing Assets

Asset quality

Impairment Expense Ratio



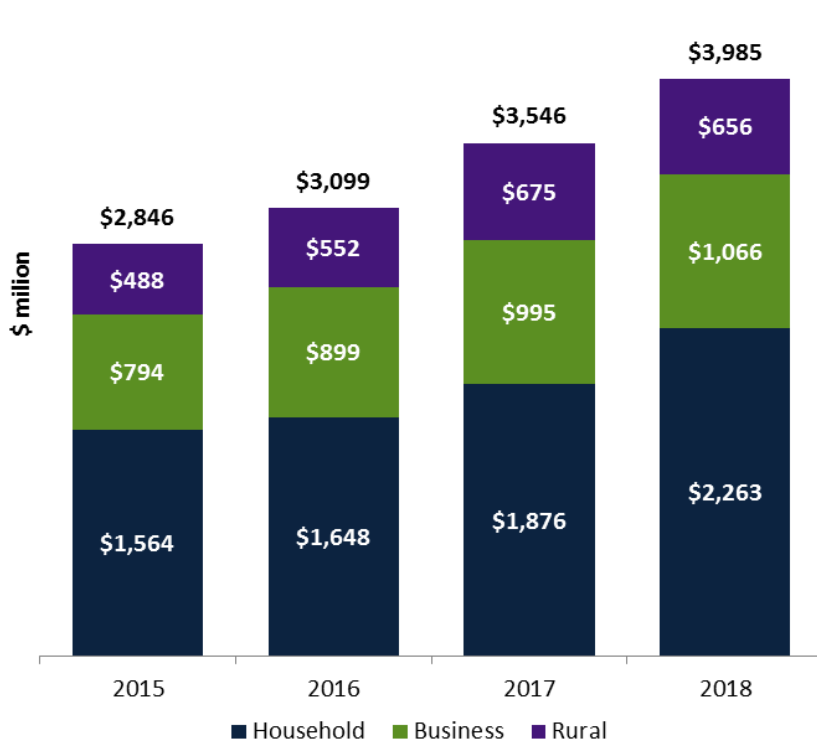
Gross Non Performing Loans Ratio



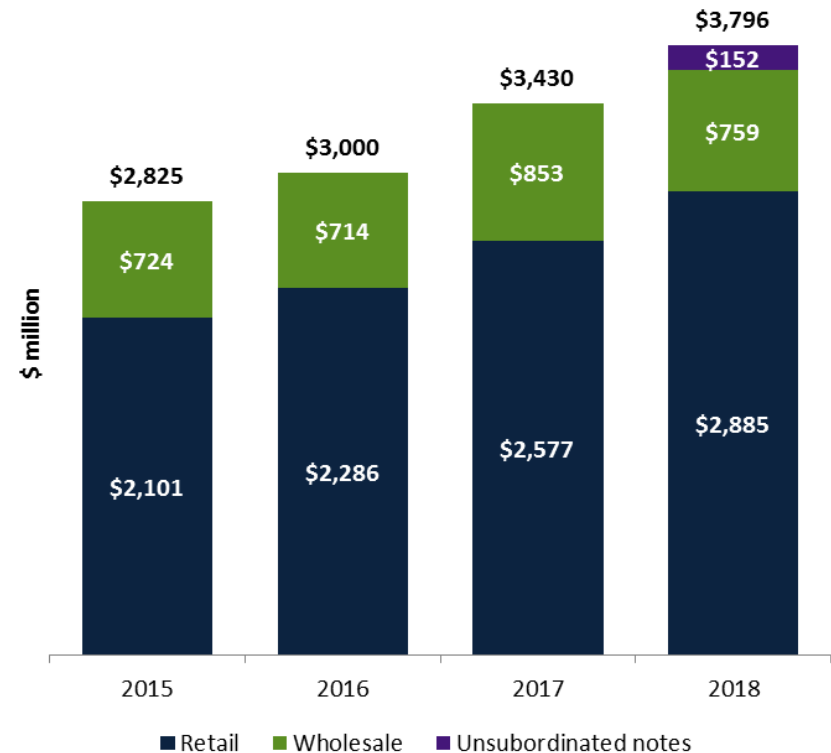
Asset growth supported by retail deposit growth

- 12% growth in net finance receivables
- Supported by 12% growth in retail deposits

Net Finance Receivables (\$m)

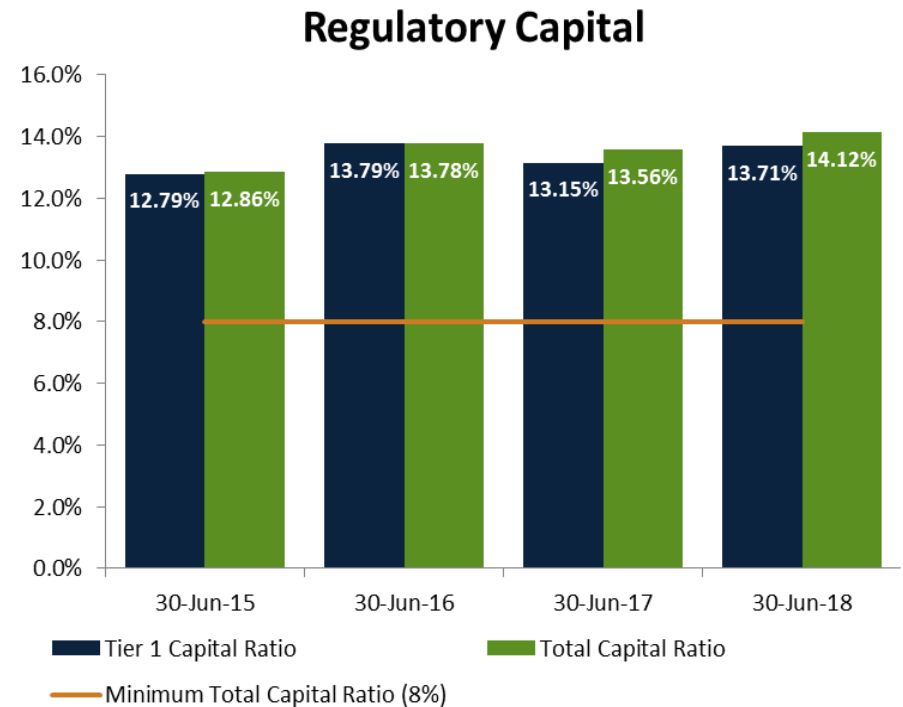


Borrowings (\$m)



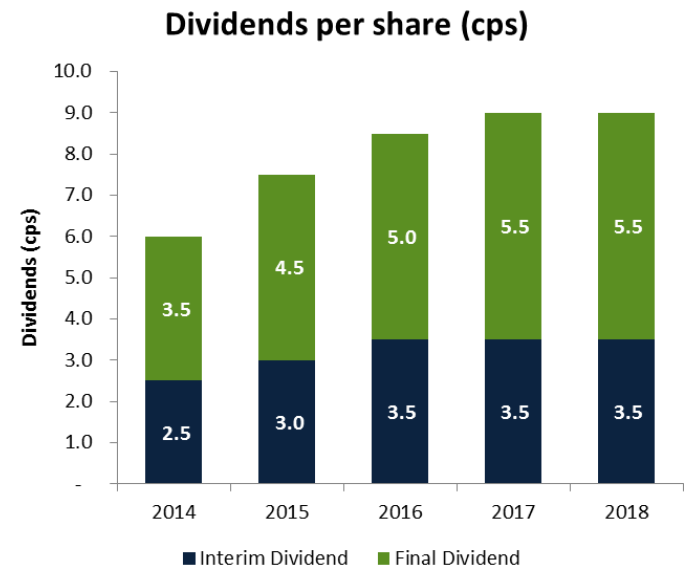
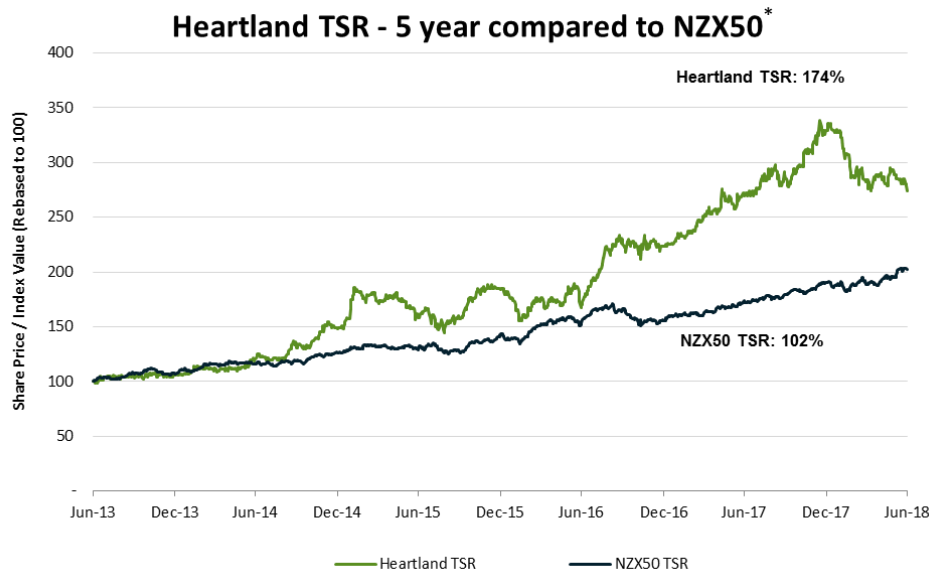
Capital for growth

- Regulatory capital ratio of 14.12%
- \$59m rights issue issued in December 2017 to support continued growth and maintain a strong balance sheet
- ROE 11.1% - a reduction due to increase in capital
- Earnings per share increased to 13cps
- RBNZ capital review



Returns to shareholders

- Final dividend 5.5cps – full year dividend 9.0cps
- Dividend pay-out ratio 74.5%
- Total Shareholder Return (TSR) of 174% over the last 5 years



* Total Shareholder Return means share price appreciation plus dividend received. TSR has been calculated including the benefit of imputation credits.

Impact of adoption of IFRS9 on provisions

- IFRS9 to be adopted for the 2019 financial year
- Requires provisions to be calculated on an estimate of 12 month or lifetime expected credit losses
- Predictive models built to enable estimates
- Impact of adoption will be an increase in provisions of \$20 – 25 million
- Adjustment to equity upon adoption of new standard
- Net impact on equity to be \$14 – 18 million

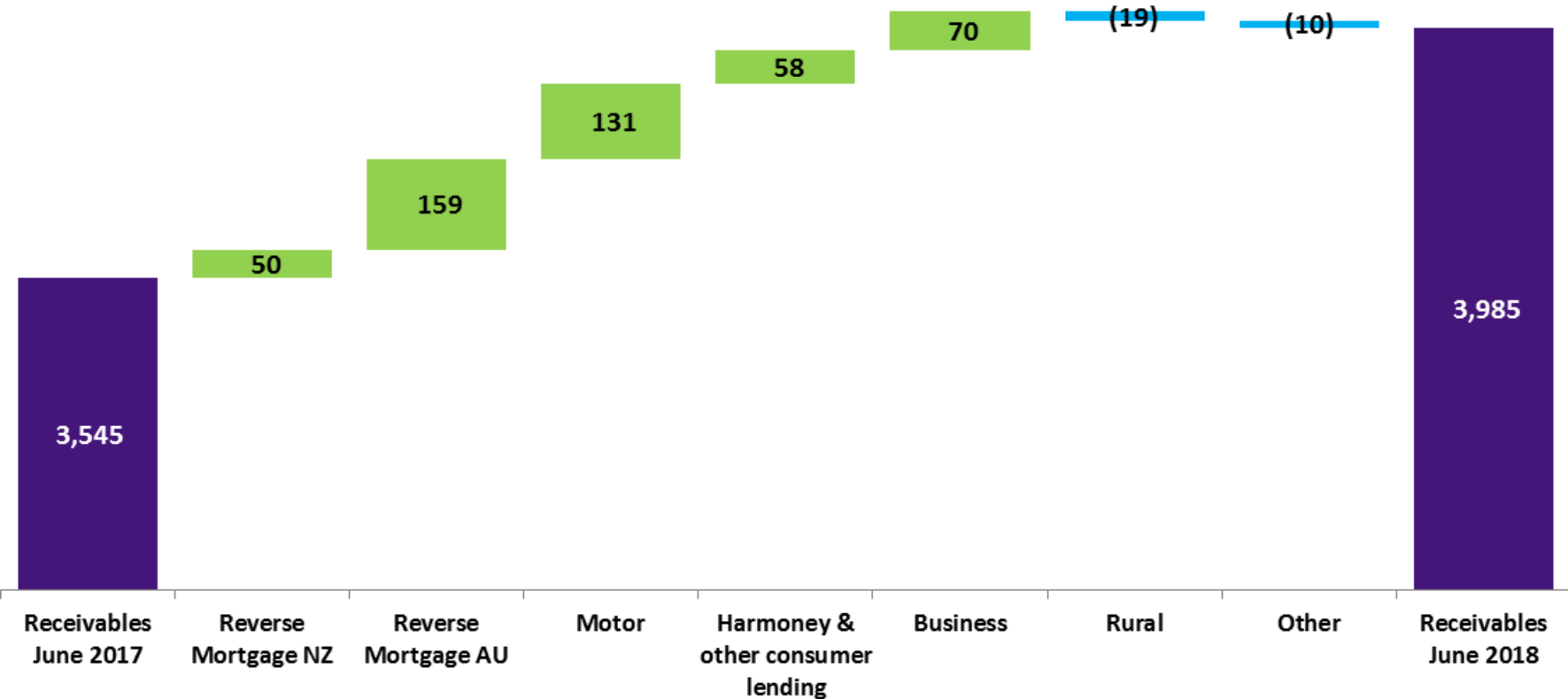
Divisional summary

JEFF GREENSLADE, CEO



Significant growth in reverse mortgages and motor

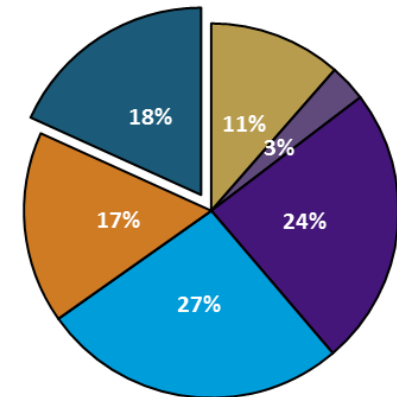
Net Finance Receivables Movement in 2018 (\$m)



Australia

Our Australian business continues to achieve significant growth:

- Reverse mortgages increased 31% to \$677 million
- Harmoney consumer lending in Australia commenced, growing to \$26 million
- Business lending through our partnership with Spotcap grew to \$19 million.



■ NZ Reverse Mortgages ■ NZ Harmoney & Consumer
■ Motor ■ NZ Business
■ Rural ■ Australia

Australia

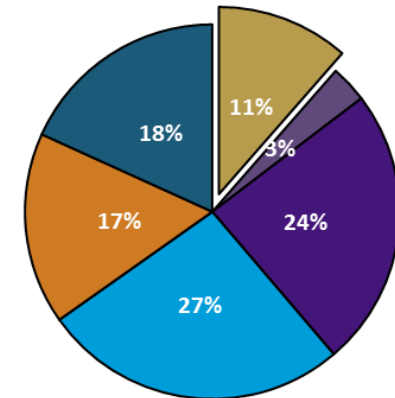
As at 30 June 2018

\$721m

▲ **39%** from FY2017

New Zealand Reverse Mortgages

- NZ Reverse Mortgage net finance receivables increased 12% to \$453 million
- NZ Reverse Mortgage Net Operating Income increased 17% to \$18.5 million
- Increased brand awareness and digital distribution
- Growth to 15,000 customers in New Zealand.



■ NZ Reverse Mortgages ■ NZ Harmony & Consumer
■ Motor ■ NZ Business
■ Rural ■ Australia

Three promise reverse mortgage guarantee:

Lifetime Occupancy Guarantee	Your home will remain the place you live in for as long as you choose
No Negative Equity Guarantee	The loan repayment will never exceed the net sale proceeds of the property
Loan Repayment Guarantee	There is no requirement to make any repayment until the end of the loan

NZ Reverse Mortgages

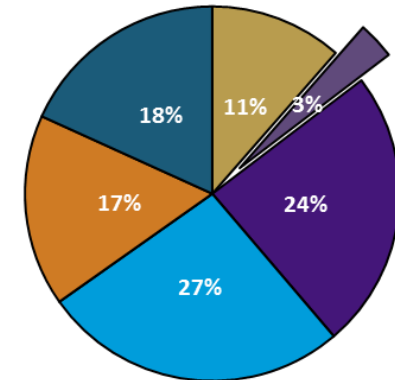
As at 30 June 2018

\$453m

▲ **12%** from FY2017

Harmony and other consumer lending (New Zealand)

- NZ Harmony and other consumer lending net finance receivables increased 34% to \$127 million
- NZ Harmony and other consumer lending Net Operating Income increased 15% to \$9.9 million
- Increased distribution through Harmony
- Higher volume of lending slightly offset by lower rates.



■ NZ Reverse Mortgages
 ■ NZ Harmony & Consumer

■ Motor
 ■ NZ Business

■ Rural
 ■ Australia

Harmony and other consumer lending

As at 30 June 2018

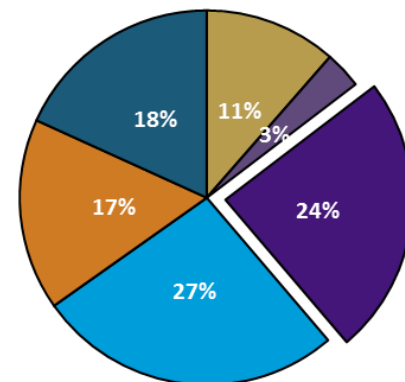
\$127m

▲ **34%** from FY2017

Harmony

Motor

- Motor net finance receivables increased 16% to \$955 million
- Motor Net Operating Income increased 3% to \$51.9 million
- Higher volume of lending slightly offset by lower rates
- Increased partnership with intermediaries to offer vehicle finance at point of sale.



■ NZ Reverse Mortgages ■ NZ Harmony & Consumer
■ Motor ■ NZ Business
■ Rural ■ Australia

Motor

As at 30 June 2018

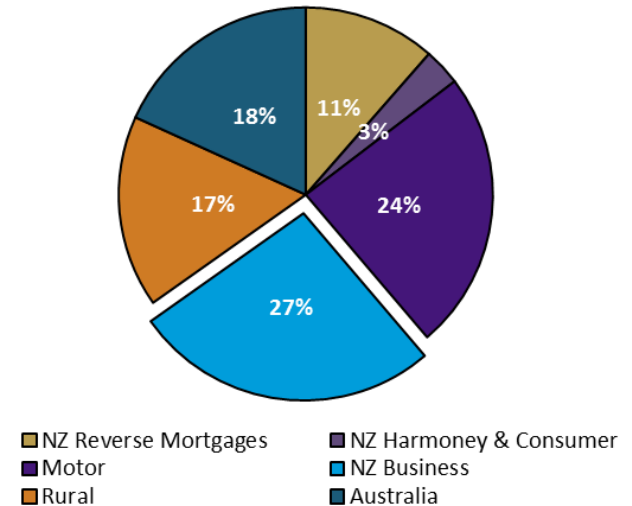
\$955m

▲ **16%** from FY2017

New Zealand Business

New Zealand Business lending increased 6% in the year to \$1,047 million

- Growth achieved in lending through our online platform for small business loans, *Open for Business*, and intermediary partnerships
- Strategic reduction in relationship-managed business lending to decrease higher risk concentration
- New Zealand Business net operating income increased 12% to \$52.7 million for the year.



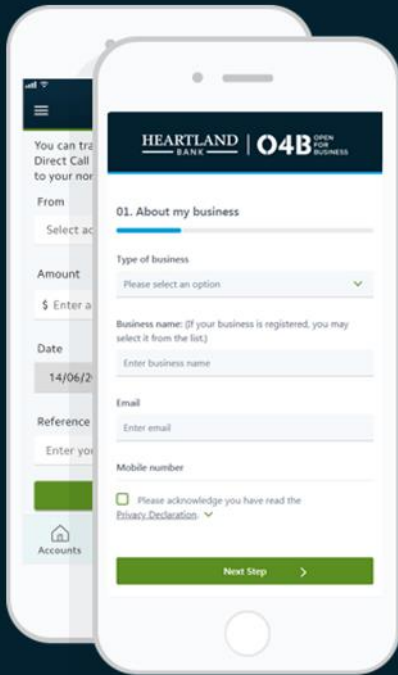
NZ Business

As at 30 June 2018

\$1,047m

▲ **6%** from FY2017

O4B OPEN FOR BUSINESS



Open for Business

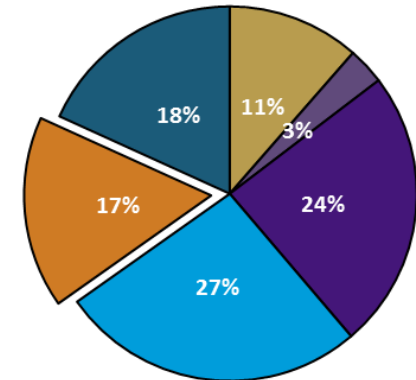
- NZ's largest dedicated online business loan platform
- Almost 98% growth in FY2018
- Proven stable technology and loan book performance consistent with expectations
- Reached over 5,000 clients based on search engine marketing only
- TV Commercial on the way

Rural

- Rural lending decreased 3% in the year to \$656 million
- Average net receivables increased from \$614 million in 2017 to \$666 million in 2018
- Net Operating Income increased 10% to \$32.3 million due to higher average lending compared to 2017.

Product and distribution through digital channels:

- Increase livestock lending through *Open for Livestock*
- Strategic focus to reduce traditional rural relationship lending and larger risk concentration loans.



Rural

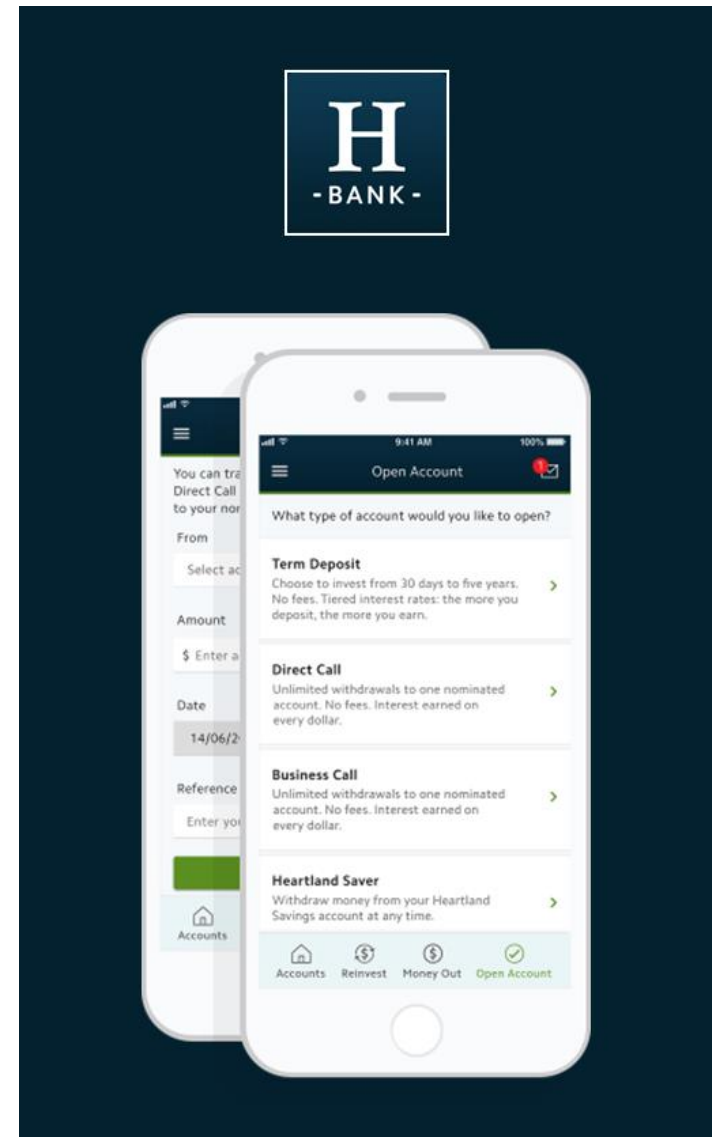
As at 30 June 2018

\$656m

▼ **3%** from FY2017

Retail deposits

- Raised \$308 million of new deposits in FY18
- CANSTAR Bank of the year – Saving Award and Outstanding Value for our Direct Call Account
- New Heartland Mobile App for Savings and Deposits



Corporate Restructure

DAVID MACKRELL, CFO

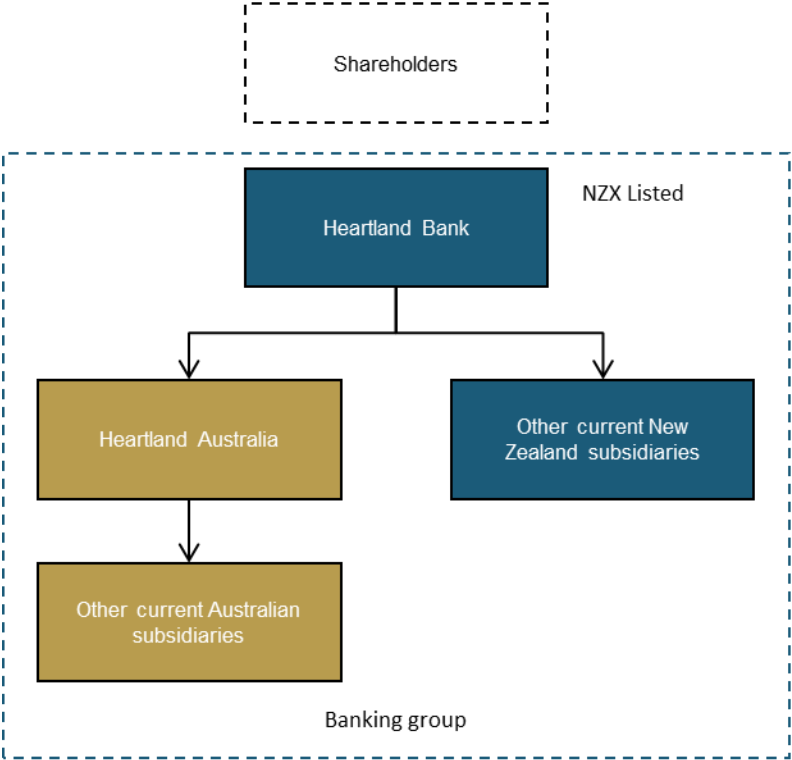


Corporate Restructure – to remove growth constraints

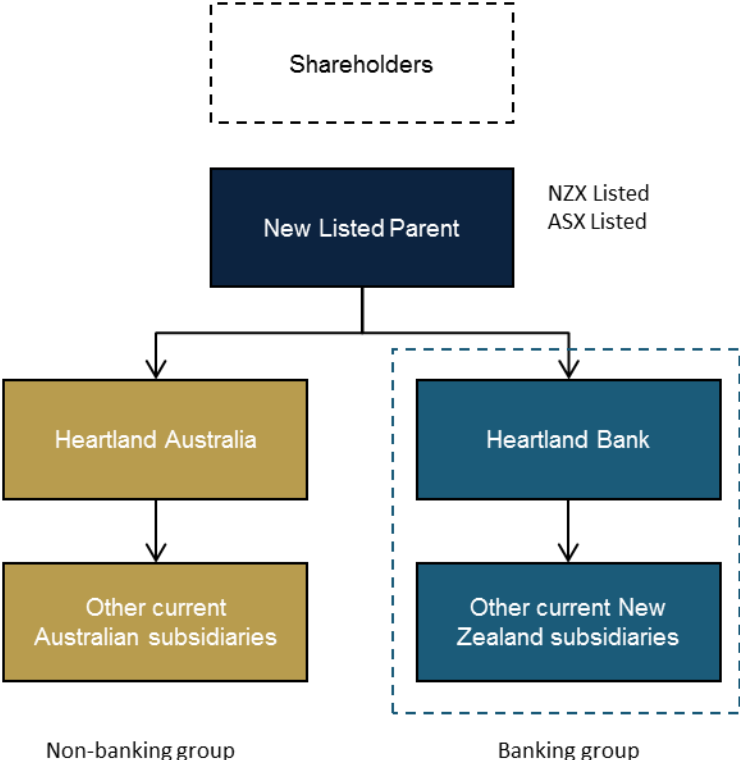
- Heartland has announced its intention to conduct a corporate restructure which will result in **Heartland Bank Limited** becoming a wholly owned subsidiary of a new listed parent company, called **Heartland Group Holdings Limited**.
- Existing shareholders' shares in Heartland Bank will be exchanged with new shares in the Heartland Group Holdings on a one-for-one basis.
- Heartland's Australian group companies will be transferred from Heartland Bank to Heartland Group Holdings, which will result in the Australian group companies no longer forming part of Heartland's banking group regulated by the Reserve Bank of New Zealand.
- The Restructure will remove constraints on the growth of the Group's business currently arising from Reserve Bank regulations, and will provide greater flexibility for the Group to explore and take advantage of future growth opportunities in New Zealand and Australia outside the banking group.
- In addition, the Restructure will facilitate a Foreign Exempt Listing on the ASX, which will expand the capital sources available to the Group in order to fund growth.

Corporate Restructure – the new group

Current Heartland Group



New Heartland Group



Removing growth constraints and providing greater flexibility

- Future growth in the reverse mortgage business is expected to be constrained due to current Reserve Bank's regulation:
 - limits the extent to which Heartland Bank is able to fund its operations with secured funding
 - limits the size of its operations outside New Zealand
- Moving the current Australian Group of companies outside of the banking group allows the Australian reverse mortgage business to continue to grow using its preferred method of funding – secured wholesale funding.
- Creation of a non-banking group will provide greater flexibility to take advantage of future growth opportunities in New Zealand and Australia outside the banking group.
- There is no current intention to change the core business of the Group.
- Heartland Bank will remain a registered bank in New Zealand regulated by the Reserve Bank, and will continue to operate the Group's current New Zealand business.

Foreign exempt listing on the ASX

- Heartland is also seeking a foreign exempt listing on the ASX as part of the Restructure.
- Provides improved access to additional sources of capital for future growth opportunities.
- The Restructure facilitates a foreign exempt listing by Heartland Group Holdings, removing the word “bank” from the listed entity’s name.
- Heartland Group Holdings will have its primary listing on the NZX Main Board, and a foreign exempt listing on the ASX.

Corporate Restructure – Key Dates

Event	Key Date
Scheme Booklet, Notice of Meeting, and Voting Forms sent to shareholders	15 August 2018
Voting Forms to be received by Link Market Services	10am, 17 September 2018
Date for determining eligibility to vote at the Annual Meeting	5pm, 17 September 2018
Annual Shareholder Meeting	10am, 19 September 2018
IF THE RESTRUCTURE IS APPROVED BY SHAREHOLDERS (The times and dates below may change and, among other things, are subject to Court approval)	
Receipt of the Final Court Orders	19 October 2018
Last day of trading in Heartland Bank Shares on the NZX Main Board	26 October 2018
Record Date	5pm, 30 October 2018
Implementation Date	31 October 2018
Heartland Group Holdings Shares begin trading on the NZX Main Board and on the ASX, and holding statements mailed to shareholders	1 November 2018

All times and dates referred to in this Scheme Booklet are times and dates in New Zealand, unless otherwise indicated. Heartland Bank reserves the right to amend the times and dates without prior notice.

Outlook: Continued growth in FY2019

- Asset growth through continued execution of strategy with digital distribution and intermediated channels providing low cost growth opportunities.
- Heartland expects net profit after tax for the year ending 30 June 2019 to be in the range of \$75 million to \$77 million.

Appendices



Appendix – Financial Year overview

Summary Financial Performance

	12 months 30 June 2018 \$'000	12 months 30 June 2017 \$'000	Movement %
Net interest income	183,801	163,110	13%
Other income	12,993	8,142	60%
Net Operating Income	196,794	171,252	15%
Operating expenses	80,433	71,684	12%
Impaired asset expense	22,067	15,015	47%
Profit before taxation	94,294	84,553	12%
Taxation expense	26,781	23,745	13%
Net profit after tax	67,513	60,808	11%

Appendix – Financial Year overview

Summary Balance Sheet

	30 June 2018 \$'000	30 June 2017 \$'000	Movement %
Assets			
Cash and cash equivalents	49,588	57,040	-13%
Investments and investment properties	349,742	323,607	8%
Finance receivables	3,984,941	3,545,897	12%
Other assets	111,655	108,127	3%
Total assets	4,495,926	4,034,671	11%
Liabilities			
Borrowings	3,796,058	3,429,741	11%
Current tax liabilities	11,459	9,856	16%
Other liabilities	24,249	25,479	-5%
Total liabilities	3,831,766	3,465,076	11%
Equity			
Share capital	542,315	470,516	15%
Retained earnings and reserves	121,845	99,079	23%
Total equity	664,160	569,595	17%

Appendix – Financial Year overview

Summary Ratios

	30 June 2018	30 June 2017
Regulatory Total Equity Ratio	14.12%	13.56%
Net Tangible Assets (\$m)	584.4	490.5
Net Tangible Assets per share (\$)	1.04	0.95
Earnings per share (\$)	0.13	0.12
Return on Equity (%)	11.1%	11.6%
Net Interest Margin (NIM)	4.42%	4.46%
Cost to income ratio	40.9%	41.9%
Gross interest yield	7.43%	7.61%
Cost of funds	3.46%	3.59%
NPL ratio (Gross)	1.84%	1.89%
Impairment ratio	0.59%	0.45%