NZX and Media Release

Quarterly results and investor update

18 May 2018

Heartland Bank Limited (Heartland) (NZX: HBL) is pleased to announce its results for the three months, and also the nine months, ended 31 March 2018.

Under the new Reserve Bank of New Zealand (RBNZ) Dashboard Disclosure, the RBNZ will release the key metrics of all banks for the three months ending 31 March 2018 on 29 May 2018. The new Dashboard Disclosure replaces the previous requirement for each bank to issue a Disclosure Statement each quarter.

The information included in this announcement provides an overview of Heartland's operating results and key performance metrics for the periods ended 31 March 2018 ahead of RBNZ's release of Heartland's Dashboard Disclosure.

Unaudited net profit after tax (NPAT) for Heartland was $17.5 million for the three months ended 31 March 2018, an increase of 11% from the corresponding three month period ended 31 March 2017. Unaudited net profit after tax (NPAT) for Heartland was $48.6 million for the nine months ended 31 March 2018, an increase of 8% from the corresponding nine month period ended 31 March 2017.

The result was driven by continued growth in net finance receivables across all divisions, despite the continued exit of larger loans as part of a strategy to reduce concentration risk in rural and business lending. Net finance receivables grew from $3,546 million as at 30 June 2017 to $3,882 million as at 31 March 2018, which equates to 13% annualised growth (9% growth for the nine month period).

A continued strong Net Interest Margin (NIM) of 4.49% was achieved for the three months ended 31 March 2018 bringing the NIM for the nine months ended 31 March 2018 to 4.43% consistent with the half year. Heartland's NIM is a significant positive point of difference between Heartland and other banks, as a result of identifying and focusing on niche markets offering attractive margins.

Heartland's cost to income ratio was particularly pleasing for the quarter at 38.4%. The cost to income ratio was 41.3% for the nine months ended 31 March 2018 compared to 42.0% for the nine months ended 31 March 2017. Heartland is working hard to manage the cost base while continuing to grow income.

Impairment expense was similar to the previous quarter, but above the corresponding quarter last financial year. Impairment expense has been impacted by growth in receivables over the last year as well as an increased impairment rate in the Motor and Personal Loan portfolios. Impairment expense in the rural division also increased compared to a very low level in the previous corresponding quarter. Given Heartland's motor vehicle loans and reverse mortgages books are well seasoned with history going back before the Global Financial Crisis, Heartland can analyse performance through downturns and is able to gauge expected losses with greater certainty.

Non-performing loans improved to 1.70% of gross receivables at 31 March 2018 compared to 1.80% at 30 June 2017.

While growth has been maintained overall, Heartland's strategy has been to grow those areas which are core to future growth including motor, reverse mortgages, small business, livestock and personal lending. This has meant a reduced focus on larger business and rural relationship lending which, as a result of some significant repayments, has reduced the net growth in receivables for business and rural.

Development of digital channels continues to be a focus with our Open for Business product continuing to grow strongly. Heartland has also been developing a new mobile application for depositors, which is the first stage of our planned end to end fully automated online deposit platform.

Market Developments

The Australian Government recently announced the extension of its Pension Loan Scheme (PLS), which is an income supplement reverse mortgage. The changes are not expected to have an impact on Heartland's business, with demographics overwhelmingly positive for continued growth in demand. Further details of these developments are covered by a separate article in this release.

Outlook

Heartland expects underlying asset growth to continue during the remainder of the 2018 financial year and expects its NPAT for the year ending 30 June 2018 to be at the upper end of its previously advised range of $65 million to $68 million.

Key Highlights

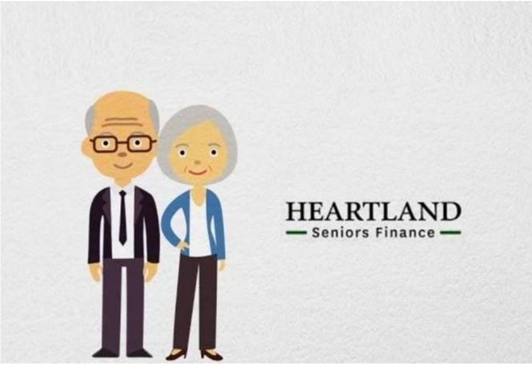
	3 months to 31 March 2018 ($'000)	**9 months to 31 March 2018 ($'000)**	**9 months to 31 March 2017 ($'000)**
Net interest income	46,724	136,818	119,512
Net operating income	49,107	143,016	125,846
Net profit after tax	17,515	48,601	44,854
Net Interest Margin (NIM)[1]	4.49%	4.43%	4.42%
Cost to income ratio	38.4%	41.3%	42.0%
Impairment expense ratio	0.61%	0.58%	0.44%
Return on Equity (ROE)[2]	11.1%	10.9%	11.8%

	31 March 2018	**30 June 2017**
Net Finance Receivables ($'000)	3,882,136	3,545,897
Total Capital Ratio	14.1%	13.6%
Non-Performing Loans (NPL) ratio	1.70%	1.80%

[1] NIM, Cost to Income ratio and Impairment expense ratio are based on quarterly results annualised for the number of days in the period.
[2] Return on Equity is based on daily results annualised for the number of days in the period.

Heartland Bank investor news

Australia Government acknowledges reverse mortgage benefits



On 8 May 2018, as part of the Federal Budget, the Australian Government announced that it was extending the Pension Loans Scheme (PLS). The extension will increase the existing allowance for seniors to top up their pension to 100% of the Age Pension to 150%. This now makes it available to those already on the full Age Pension, who will be able to top up their pension by 50%, and to self funded retirees.

The changes increase the eligibility of the previously little known scheme, which has existed since 1985, however we also note that the PLS remains purely an income supplement, with no ability for a lump sum drawdown.

Heartland Seniors Finance (HSF) in Australia prides itself on providing a full reverse mortgage product with many additional features, the most significant of which allows customers the ability to draw on a lump sum. In particular, 91%[3] of our customers take a lump sum greater than $10,000, using these funds for such things as home improvements, debt consolidation, travel or purchasing a new car. In addition to the lump sum, 70% of our customers have funds set aside in a Cash Reserve Facility for future needs. These key features are not available in the PLS. In addition to the lump sum drawdown, 16% of our customers also take out an income stream supplement as a top up to their pension and/or other retirement income.

We expect the changes will have a relatively minor impact on Heartland's business and actually will likely result in increased awareness, and greater acceptance, of reverse mortgages. Heartland is Australia's leading reverse mortgage provider and well positioned to take advantage of this and the growing demographic, with more than 20,000 Australian's turning 65 every month.

In January 2018, HSF conducted a customer survey to help it gather some insights on its customers, and find out whether it is delivering on its purpose.

We are immensely proud of the results which show a resounding 96% of customers would recommend Heartland to friends and family. In addition, 94% of customers said that they would recommend taking out a reverse mortgage to friends and family.

Overall, the results and the feedback provide an endorsement of the great work our team is doing and the positive impact a reverse mortgage can have on the lives of our customers; something we are very proud of.

HSF is achieving fantastic success, having grown 24% in the 12 months to 31 March 2018. HSF accounted for 69.9% of total market growth in the 12 months to 31 December 2017, and has grown its market share to 17.7% at 31 December 2017 up from 14.1% a year earlier.

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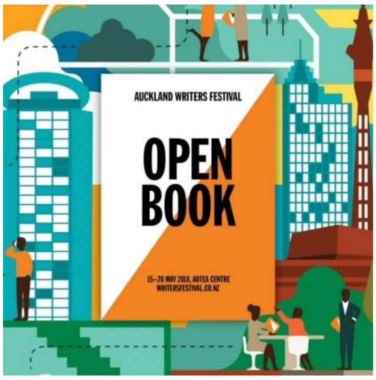
[3] Percentages in this paragraph are based on new business in the nine months ended 31 March 2018.

Heartland proud to sponsor Auckland Writers Festival



Heartland is pleased to be the platinum sponsor of the Auckland Writers Festival for the second year running.

Heartland is proud to support an initiative that caters to such a diverse audience and continues to evolve – every year there is something new that gives people pause to reconsider the world around them or engage with a new genre of literate they might otherwise steer away from.

The Auckland Writers Festival includes more than 200 public events, gathering together 230 of the world's best writers and thinkers with over 28,000 festival goers and up to 6,000 young people to celebrate the world of books and ideas.

The Festival brings the very best local and international writers of contemporary fiction and non-fiction, scientists, economists, poets, journalists and public intellectuals together with audiences to explore ideas, share stories and experience brilliant conversations.

http://www.writersfestival.co.nz/

Heartland Bank teams up with NZ Young Farmers

Heartland Bank has teamed up with NZ Young Farmers in a bid to support young people at the forefront of the rural industry. The agri-food sector is a vital part of New Zealand's economy and needs young, talented people to fuel it into the future.

NZ Young Farmers is an impressive organisation with a footprint of 80 clubs around New Zealand which provides young people with information, advice, training and networking opportunities.

Partnering with NZ Young Farmers gives Heartland the opportunity to promote its livestock finance products, which trade under the Open for Livestock banner, in front of the next rural generation.

The Open for Livestock platform has been designed with speed and simplicity in mind and the livestock finance products can help give young farmers a leg-up, whether it be buying cattle or sheep for trading, building or improving farm infrastructure, or entering the dairy industry as sharemilkers.