HEARTLAND GROUP

NZX/ASX and Media Release

First Quarter Results for Heartland Bank

19 November 2018

Heartland Group Holdings Limited (NZX/ASX:HGH) (**Heartland Group**) is pleased to announce the results for Heartland Bank Limited (**Heartland Bank**) for the three months ended 30 September 2018.

Unaudited net profit after tax (NPAT) for Heartland Bank was $17.4 million for the three months ended 30 September 2018, an increase of 8.7% from the corresponding three month period ended 30 September 2017.

This result reflects Heartland Bank's differentiated offering and continuous growth in areas of Reverse Mortgages, online SME lending and Motor.

Net finance receivables grew from $3,984.9 million as at 30 June 2018 to $4,087.5 million as at 30 September 2018, a 10.2% annualised growth (2.6% growth in the quarter). Net finance receivables growth was particularly strong in reverse mortgages, intermediated business and lending through our online Open for Business platform. Heartland Bank continues to execute the strategy of exiting larger relationship business lending to reduce concentration risk.

Heartland Bank continued to optimise risk versus return, achieving another strong Net Interest Margin (NIM) of 4.44% for the three months ended 30 September 2018, compared to 4.42% for the year ended 30 June 2018. Heartland Bank's NIM is a significant and positive point of difference compared the NIM of its bank peers, and is a result of its strategy of identifying and focusing on niche markets and products that offer attractive margins.

Offsetting this Net Interest Margin, impairment expense was $6.2 million for the three months ended 30 September 2018, compared to $5.1 million for three months ended 30 September 2017 and $5.9 million for three months ended 30 June 2018. The impairment expense ratio (impairment expense as a percentage of average receivables) for the three months ended 30 September 2018 was 0.61%, an increase from 0.58% for the year ended 30 June 2018 and 0.56% for the three months ended 30 September 2017.

The increases in impairment expense and to the impairment expense ratio were a function of growth in net finance receivables and the application of the new IFRS9 accounting standard which requires provisions to be made earlier than the previous accounting standard required.

Heartland Bank's Net Interest Margin of 4.44%, offset by an impairment expense of 0.61%, results in a margin after impairments of 3.83%.

Total non-performing loans were 1.77% of gross receivables at 30 September 2018 compared to 1.84% at 30 June 2018.

Heartland Bank's cost to income ratio continued to improve to 40.48% for the three months ended 30 September 2018, compared to 40.87% for the year ended 30 June 2018 and 41.37% for the three months ended 30 September 2017.

Corporate Restructure and ASX Listing

Following approval by shareholders at the Annual Meeting and the receipt of final court orders, the corporate restructure was implemented on 31 October 2018. The restructure resulted in all of the shares in Heartland Bank being exchanged for shares in Heartland Group, with Heartland Bank becoming a wholly-owned subsidiary of Heartland Group. In addition, the Australian subsidiaries were transferred from Heartland Bank to Heartland Group. On 1 November 2018, shares in Heartland Group commenced trading on the NZX Main Board and the ASX under a Foreign Exempt Listing under the ticker code HGH.

The restructure and the ASX listing are significant milestones for the group and provide a more suitable platform for future growth. The restructure removes constraints on growth previously arising from Reserve Bank of New Zealand regulations, and will provide greater flexibility to explore and take advantage of future growth opportunities in New Zealand and Australia outside the banking group. A Foreign Exempt Listing on the ASX is expected to expand the capital sources available to Heartland Group in order to fund growth.

As the results in this announcement relate to a period that ended before the restructure was implemented, they include the Australian operations which formed part of Heartland Bank's banking group during that period.

RBNZ/FMA

The Financial Markets Authority and Reserve Bank of New Zealand recently released a report detailing findings from their review of conduct and culture in New Zealand retail banks. Heartland Bank supports the work that its regulators are doing in this area, and believes that a focus on good customer outcomes, conduct and culture are key components of sustainable, successful businesses.

The report focusses on the industry as a whole, rather than specific banks, and makes a number of findings. Heartland Bank is reviewing the findings in order to determine their specific application to Heartland Bank, including how they may affect Heartland Bank's on-going work in this area.

Heartland Bank, along with the other industry participants, expects to receive specific feedback from the regulators in due course, and will update the market at that time if required.

Outlook

Heartland Group reiterates the previous guidance provided by Heartland Bank and expects its NPAT for the year ending 30 June 2019 to be in the range of $75 million to $77 million.

Key Highlights

	3 months ended 30 Sept 2018 ($'000)	3 months ended 30 Sept 2017 ($'000)	12 months ended 30 June 2018 ($'000)
Net interest income	49,256	44,928	183,801
Net operating income	51,397	46,760	196,794
Net profit after tax	17,426	16,025	67,513
Net Interest Margin (NIM)[1]	4.44%	4.45%	4.42%
Cost to income ratio	40.48%	41.37%	40.9%
Impairment expense ratio	0.61%	0.56%	0.59%
Return on Equity (ROE)[2]	10.9%	11.3%	11.1%

	30 Sept 2018	30 Sept 2017	30 June 2018
Net Finance Receivables ($m)	4,088	3,684	3,985
Total Capital Ratio	13.39%	13.04%	14.12%
Non-Performing Loans (NPL) ratio	1.77%	1.93%	1.84%

– Ends –

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[1] NIM 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.