

NOTICE OF 2016 ANNUAL MEETING

Heartland Bank Limited (Heartland) invites you, our shareholders, to join us at its annual meeting. The meeting will be held at Rydges Latimer Christchurch on Tuesday 22 November 2016, starting at 3pm.

We hope to see you there.

AGENDA

A. CHAIR'S WELCOME AND ADDRESS

B. CHIEF EXECUTIVE OFFICER'S REPORT

C. SHAREHOLDER DISCUSSION

D. BUSINESS

To consider and, if thought appropriate, pass the following resolutions:

Resolution 1: Re-election of Bruce Irvine

That Bruce Irvine, who retires by rotation and is eligible for re-election, be re-elected as a director of Heartland.

Resolution 2: Re-election of John Harvey

That John Harvey, who retires by rotation and is eligible for re-election, be re-elected as a director of Heartland.

Resolution 3: Election of Vanessa Stoddart (appointed by the board as a director on 3 October 2016)

That Vanessa Stoddart, who retires and is eligible for election, be elected as a director of Heartland.

Resolution 4: Directors' remuneration

That the total annual remuneration available to all non-executive directors be increased from \$1,000,000 to \$1,200,000, with such sum to be divided amongst the directors as the board may from time to time determine.

Resolution 5: Auditor's remuneration

That the board be authorised to fix the remuneration of Heartland's auditor, KPMG, for the following year.

Resolutions 1 – 5 are ordinary resolutions, which require the approval of a simple majority of the votes cast. The board unanimously supports each resolution.

E. CONCLUSION

Following conclusion of the meeting, the board invites shareholders to join them for refreshments.

On behalf of the board,

Geoffrey Ricketts

Chairman

4 November 2016

EXPLANATORY NOTES

Resolutions 1 and 2: Re-election of Bruce Irvine and John Harvey

Heartland's constitution and the NZX Main Board Listing Rules (**Listing Rules**) require at least one third of the directors (or the number nearest to one third) to retire by rotation at the annual meeting each year.¹ Those directors are, however, eligible for re-election at that meeting. Jeff Greenslade and Vanessa Stoddart are excluded from this under Heartland's constitution and the Listing Rules.

The directors who have been longest in office since their last election are ordinarily required to retire by rotation. As all of the directors (excluding Vanessa Stoddart) were elected at the 2015 annual meeting, the board determined that, in substance, Bruce Irvine and John Harvey have been the longest in office since their previous election.

Bruce and John are therefore retiring by rotation this year, and both are standing for re-election with the full support of the board.



Bruce Irvine²

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BCom, LLB, FCA, CFInstD, FNZIM
Independent,
non-executive director

Bruce is a chartered accountant and was admitted into the Christchurch partnership of Deloitte in 1988. He was Managing Partner from 1995 to 2007 before his retirement from Deloitte in May 2008 to pursue

his career as an independent director. Bruce is also Chairman of Christchurch City Holdings Limited, and a director of several public and private companies, including House of Travel Holdings Limited, Market Gardeners Limited, PGG Wrightson Limited, Rakon Limited, Scenic Circle Hotels Limited and Skope Industries Limited.

Bruce is involved in a voluntary capacity as a trustee of Christchurch Symphony.



John Harvey²

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BCom, CA
Independent,
non-executive director

John has considerable financial services experience and 36 years in the professional services industry, including 23 years as a partner of PricewaterhouseCoopers. Since his retirement from

PricewaterhouseCoopers in 2009, John has pursued a career as an independent director of a number of companies, including Port Otago Limited, Ballance Agri-Nutrients Limited, NZX listed Stride Property Limited and NZX/ASX listed Kathmandu Holdings Limited. He is also chairman of NZ Opera Limited.

Resolution 3: Election of Vanessa Stoddart

Heartland's constitution and the Listing Rules require a director appointed by the board during the year to retire at the next annual meeting. That director is, however, eligible to stand for election by shareholders at that meeting. As the board appointed Vanessa Stoddart on 3 October 2016, she retires at the meeting and stands for election by shareholders.

Vanessa is an experienced director and brings outstanding professional leadership and governance experience to the board. She joined Air New Zealand in 2003 as part of the executive team to transform the airline, and has been responsible for a wide portfolio that includes the Engineering Group, HR, Industrial Relations, Training, Facilities and Health & Safety. Prior to this, she was Chief Executive of Carter Holt Harvey's Australian Packaging Group.

Vanessa has been recognised for her achievements in both the HR and Engineering professions – as a Companion of IPENZ and Honorary Fellow of HRINZ. She is a Graduate of the Australian Institute of Directors and a Chartered Member of the New Zealand Institute of Directors. Vanessa previously chaired the Otago University Business School Advisory Board and is currently on the Board of Global Women and King's College.

Vanessa stands for election with the full support of the board.

¹ NZX granted Heartland a waiver from the requirement that all of the directors appointed to the board on the amalgamation of Heartland New Zealand Limited and Heartland Bank Limited on 31 December 2015 seek re-election at this meeting. See the Important Information section for more details.

² John and Bruce were directors of Heartland Bank Limited prior to its amalgamation with Heartland New Zealand Limited on 31 December 2015. They became directors of Heartland New Zealand Limited (which was renamed Heartland Bank Limited) on amalgamation. They were directors of the former Heartland Bank Limited since its formation on 31 January 2013, with Bruce being its Chair. For a full list of their other directorships, please refer to Heartland's latest Disclosure Statement.



Vanessa Stoddart

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BCom, LLB (Hons), PGDip.
Professional Ethics, GAICD,
CM Inst D
Independent,
non-executive director

Vanessa is an experienced director and currently serves on the boards of New Zealand Refining Company Limited, The Warehouse Group Limited,

Alliance Group Limited, Tertiary Education Commission and the Financial Markets Authority. Government appointments include MBIE's Audit and Risk Committee, DOC's Audit and Risk Committee, and Business New Zealand's representative on DESC.

Following an early legal career, Vanessa gained broad commercial and leadership experience with some of New Zealand's largest companies, including Air New Zealand and Carter Holt Harvey.

Resolution 4: Directors' remuneration

The fees payable to Heartland's non-executive directors have not been increased since they were fixed at \$75,000 when Heartland listed on the NZX in January 2011.³ Since listing, Heartland has made two significant acquisitions (being PGG Wrightson Finance Limited and the New Zealand and Australian reverse mortgage businesses of Seniors Money International Limited), its total shareholder return has been 152%,⁴ and it has grown its net profit after tax from \$7.7m to \$54.2m.⁵ It has also been subject to an increasing level of regulation, which has required higher levels of governance and oversight.

Heartland's general policy on board and executive remuneration is to pay in the upper quartile of market rates.

Given that Heartland had not increased its non-executive director fees in over five years, following the 30 June 2016 financial year, the board commissioned an independent report from PricewaterhouseCoopers to compare its base fees for non-executive directors against those of its peers and other market competitors. The report concluded that a base fee of \$100,000 was at the 75th percentile of comparative market data (which met the board's remuneration objective), but that the board chair and committee chair fees were below the 75th percentile.

Based on the report, the board resolved to increase its base fee for non-executive directors from \$75,000 to \$100,000 from 1 October 2016. The board also resolved to no longer pay additional fees for committee membership, as all directors sit on one or more committees and are welcome to attend all committee meetings. It did, however, agree that it was appropriate to continue paying fees to chairs of committees, given the extra workload involved.

To give shareholders an indication of how the new fees compare with the previous fees, prior to the recent base fee increase, the total amount payable to Heartland's non-executive directors (not including Vanessa Stoddart) was \$607,500 per annum. After the base fee increase, the total amount payable rose to \$720,000 per annum. This represents an increase of approximately 18.5%, which is equivalent to an annual increase of 3.4% per year for the last five years to 30 June 2016. Taking into account the appointment of Vanessa Stoddart and the fees paid to non-executive directors of subsidiary companies (as required by the Listing Rules), the total amount payable is currently \$885,000 per annum.

There were a total of nine directors across the Heartland group when it listed in 2011. With the recent appointment of Vanessa Stoddart, Heartland now has eight directors and is looking to appoint another Australian based director.

The board is proposing to increase the total remuneration pool to ensure that it has the capacity to appoint further Australian based directors that have wide experience and a strong reputation in the Australian financial services sector (indeed, Australian regulators may require this). Directors' fees are also generally higher in Australia, so the board wants to ensure that the current cap of \$1m does not limit its ability to attract high calibre candidates.

The board has no current intentions to increase its non-executive director fees again (or pay additional fees), in the next few years.

Any votes cast by a director or any of their associates on this resolution will be disregarded in accordance with the Listing Rules. This does not apply to any votes cast by such persons as proxy under express directions to vote for or against this resolution (i.e. proxy's discretion will be disregarded).

Resolution 5: Auditor's remuneration

KPMG will be automatically reappointed as Heartland's auditor under section 207T of the Companies Act 1993. It is proposed that the directors be authorised to fix KPMG's remuneration for the following year in accordance with section 207S of the Companies Act 1993.

³ At that time, the base fees payable to the directors of Heartland New Zealand Limited were \$75,000. The base fees payable to the directors of Heartland Bank Limited were \$70,000. On the amalgamation of Heartland New Zealand Limited and Heartland Bank Limited, the directors of Heartland Bank Limited who became directors of Heartland New Zealand Limited (which was then renamed Heartland Bank Limited) became entitled to a \$75,000 base fee.

⁴ For the period 2 February 2011 to 30 September 2016. Total shareholder return (TSR) is calculated as share price appreciation plus dividends received (including imputation credits). Heartland's TSR of 152% compares to the NZ50G of 120% for the same period.

⁵ For the years ending 30 June 2011 and 30 June 2016 respectively.

IMPORTANT INFORMATION

Voting

Voting at the meeting shall be decided by a poll. Each shareholder will be entitled to one vote for every share held as at 5.00pm on Friday 18 November 2016.

Your right to vote may be exercised by:

- (a) attending and voting in person;
- (b) submitting a postal vote; or
- (c) appointing a proxy (or representative) to attend in person and vote in your place (**Proxy**).

If you intend to attend and vote in person at the meeting, please bring the enclosed voting form that will act as your admission card to the meeting.

How to cast a postal vote or appoint a Proxy

If you are entitled to vote at the meeting, you may cast a postal vote or appoint a Proxy to attend the meeting and vote on your behalf. You can do so either online or by completing and returning the enclosed voting form in accordance with the instructions set out on the form.

Your completed copy of the enclosed form must be received by Heartland's share registrar, Link Market Services Limited, or your online appointment or vote completed, no later than 3.00pm on Sunday 20 November 2016, 48 hours before the meeting.

You can submit your postal vote or appoint a Proxy (and give that Proxy your voting instructions) online at <https://investorcentre.linkmarketservices.co.nz/voting/HBL.aspx>. You will be required to enter your CSN/Holder Number and FIN.

Resolutions

All of the resolutions are ordinary resolutions, requiring approval by a simple majority (being more than 50%) of the votes of those shareholders entitled to vote and voting.

Statutory notice under FMCA

Heartland Bank Limited (company number 3152425) of 35 Teed Street, Newmarket, Auckland 1023, New Zealand, gives notice that it will fully transition to the Financial Markets Conduct Act 2013 (FMCA) with effect from 1 December 2016. From that date, all of the requirements of the FMCA will apply to Heartland.

NZX waiver

NZX granted Heartland a number of waivers in relation to the amalgamation of Heartland New Zealand Limited and Heartland Bank Limited on 31 December 2015. One of those waivers was granted on the basis that the waiver, and its implications, are explained in this notice of meeting.

NZX waived the requirement that the directors appointed to Heartland on the amalgamation (by being named in the resolutions

passed by the board) retire at the 2016 Annual Meeting on the basis that they were approved by shareholders at the 2015 Annual Meeting and the ordinary rotation requirements in Listing Rule 3.3.11 apply from 31 December 2015.

This means that, out of the directors who were appointed to the board on amalgamation, only John Harvey and Bruce Irvine are required to retire at this year's annual meeting (as they are the directors retiring by rotation this year).

The waiver was granted on the conditions that:

- (a) all of Heartland's existing directors retired at the 2015 Annual Meeting with effect from 31 December 2015 (however, they were eligible for election as directors of Heartland at the 2015 Annual Meeting);
- (b) the amalgamation resolutions, which specified the names of the persons who were to be the directors of Heartland upon amalgamation, only named persons who were elected by Heartland's shareholders at the 2015 Annual Meeting as directors of Heartland;
- (c) the waiver, its conditions and their implications are clearly and prominently disclosed in Heartland's annual report for each year the waiver is relied on;
- (d) the waiver and its implications were explained in Heartland's notice of meeting for the 2015 Annual Meeting; and
- (e) the waiver and its implications are explained in Heartland's notice of meeting for the 2016 Annual Meeting.

VENUE AND PARKING INFORMATION

The meeting is being held at Rydges Latimer Christchurch, 30 Latimer Square, Christchurch 8011.

Parking is available in the hotel carpark.

