



2018 ANNUAL MEETING

CHAIR'S ADDRESS

1. 2018 FINANCIAL YEAR OVERVIEW

On behalf of the Board, it is my pleasure to report on another successful year for Heartland. The company delivered a net profit after tax of \$67.5 million, an 11% growth in profitability, driven by strong growth in net finance receivables of 12%.

Heartland has continued to align its business operations with its strategy to increase customer reach through online channels and grow its intermediary, partner and referrer network. This strategy is delivering results for Heartland, our shareholders, our customers and the communities in which we operate.

2. SOCIAL RESPONSIBILITY AND REGULATION

As part of our strive for excellence, we know that we must align everything we do with our values of integrity, respect and professionalism. We are acutely aware of our conduct and our impact on customers, employees and the community. You would have seen a lot of discussion in the media regarding the Australian Royal Commission into misconduct in the banking and financial services industry in Australia.

Regulators in New Zealand are reviewing the conduct and culture of New Zealand banks and insurance providers as a result. Heartland prides itself on being a willing complier with regulation and has open and honest relationships with its regulators, including the Reserve Bank of New Zealand and the Financial Markets Authority. Our conduct is driven by a desire to do the right thing for our customers, and this year we have established an executive level Customer Outcomes Committee that operates to ensure we do this across all of our operations.

3. **THE YEAR IN REVIEW**

Our strategy continues to deliver strong asset growth across the business. Our focus this year has been on the areas which are core to future growth - particularly reverse mortgages, motor vehicle loans and small business loans.

This strong financial result was achieved in quite a disruptive year of change for Heartland. We implemented a new Oracle core banking system in May 2017, but the consequences of this major change were felt in the 2018 financial year. Considerable time was spent by virtually every part of Heartland's organisation in integrating the new system into everyday processes; dealing with change, for internal and external users; and addressing service levels through the almost inevitable glitches that a new system brings.

These changes during the year now put us on a stronger technology platform going forward to leverage internal and external capabilities for growth and to ensure we are taking advantage of the advances in technology which are changing the way people live, work and bank.

I would like to recognise Jeff Greenslade and all of the Heartland team for their efforts this year; together they have enabled Heartland to successfully execute its strategy and continue to deliver value to you our shareholders.

A fully-imputed final dividend of 5.5 cents per share will be paid on Friday 21 September 2018 to shareholders who were on Heartland's register at 5.00pm on Friday 7 September 2018. Together with the interim dividend of 3.5 cents per share, the total dividend for the year was 9.0 cents per share, consistent with the total dividend for 2017. We have kept this dividend consistent with last year while we are in a strong growth phase of our journey to allow us to reinvest these funds into future growth of the company.

The Board is confident in Heartland's ability to continue achieving strong growth and profitability, and expects Net Profit After Tax for the 2019 financial year to be in the range of \$75 million to \$77 million.

4. **CAPITAL RAISING**

In December 2017, Heartland successfully completed a \$59 million pro rata rights issue supported by a shortfall bookbuild to support continued growth in its loan portfolio and maintain a strong balance sheet. We were encouraged by the strong level of support from existing shareholders for both the rights offer and the shortfall bookbuild.

5. **HEARTLAND TRUST AND COMMUNITY SPONSORSHIP**

Heartland is in a privileged position to make a positive contribution to our communities through a range of sponsorships from Heartland Bank, and through the Heartland Trust.

This year, the Heartland Trust continued to support the InZone Education Foundation. The Foundation aims to enhance the educational outcomes of Māori and Pasifika youth. It does this by establishing boarding hostels that provide an opportunity for motivated Māori and Pasifika students to access high-performing state schools within the school zones. As part of the support of InZone, we also welcomed a number of the students to work at Heartland in paid internship positions over their summer holiday. Our objectives were to provide the students with experience and an understanding of what the 'world of work' will require of them. It also provided us with an opportunity to learn from them, particularly in relation to how we can make Heartland more welcoming and inclusive to Māori and Pasifika people.

The Heartland Trust also supports the Auckland City Mission, and has recently agreed to support the Silver Line Charitable Trust NZ, which has been established to provide a free, dedicated telephone helpline and befriending service for older New Zealanders. Silver Line NZ is working in collaboration with, and is based on, the very successful Silver Line charity in the United Kingdom.

This was our second year as the platinum sponsor of the Auckland Writer's Festival which once again featured a variety of speakers from a wide range of backgrounds. Through the Heartland Trust, we are proud to support an initiative that caters to a

hugely diverse audience, giving those people the opportunity to consider the world around them through bringing the written word to life.

This year, Heartland Bank was the official partner and sponsor of the Auckland Secondary Schools Rugby competition. Heartland has been a passionate supporter of grassroots rugby for many years. We were pleased to extend our support to both the boys' First XV competition and the girls' First XV competition in Auckland, which is now made up of eight teams.

6. **CORPORATE RESTRUCTURE**

I would like to discuss the proposed corporate restructure ahead of the voting on the resolution.

The corporate restructure is designed to provide the group with a more suitable platform for future growth – a structure that provides more flexibility for Heartland to take advantage of growth opportunities in both New Zealand and Australia.

More specifically, the restructure will remove constraints on the growth and funding capabilities of the group's business currently arising from Reserve Bank regulations.

The constraints:

- limit the extent to which Heartland Bank is able to fund its operations with secured wholesale funding facilities – to not more than 20% of its assets; and
- limit the size of Heartland Bank's operations outside New Zealand – to not more than 33% of its total assets.

The New Zealand business of Heartland Bank is largely funded by retail deposits and the Reserve Bank reasonably limits the amount of secured funding the bank can borrow, so as to protect those depositors.

However our Australian business is largely funded by secured wholesale funding facilities, rather than retail deposits. The wholesale funding market is much deeper in Australia. Accordingly, Heartland is of the view that it is in the Group's and shareholders best interests to fund the Australian activities outside the New Zealand

Bank, so that the Australian business can continue to grow using its current funding sources.

The proposed restructure will not change the core business of the group, the biggest part of which is Heartland Bank, which will remain a registered bank regulated by the Reserve Bank, and continue to operate in the same way as it does now.

If approved, the restructure will take effect on 31 October. On that day, shareholders will receive shares in Heartland Group Holdings Limited, and no longer hold shares in Heartland Bank Limited – which will become a subsidiary of Heartland Group Holdings. Shareholders will receive the same number of shares in Heartland Group Holdings as they have in Heartland Bank on the record date – which is 5pm on 30 October.

In terms of governance, the 9 current directors of Heartland Bank will sit on one or more of the group's boards on completion of the restructure. The directors of Heartland Group Holdings will be myself (as Chair), Ellie Comerford, Jeff Greenslade, Sir Chris Mace and Greg Tomlinson. The directors of Heartland Bank will be Bruce Irvine (as Chair), Ellie Comerford, Jeff Greenslade, John Harvey, Graham Kennedy, Vanessa Stoddart, and myself.

At the same time as the restructure, Heartland is also seeking a Foreign Exempt Listing on the ASX. The Board has been considering an ASX listing for some time, as it is expected to provide access to additional sources of capital, which will provide greater flexibility for future growth opportunities. If the restructure is approved, Heartland Group Holdings will trade on both exchanges on 1 November.

All shareholders were sent a Scheme Booklet along with your Notice of Meeting and Proxy Forms providing detailed information on the restructure, including the Cameron Partners report on the merits of the restructure for shareholders.

The Board unanimously supports the proposed restructure and recommends that shareholders vote in favour of the restructure today.

7. CONCLUSION

I wish to conclude my address this afternoon by expressing my thanks and gratitude to my fellow directors for their wise counsel and support.

Thank you to Jeff, Chris Flood and the Senior Leadership Team who continue to lead Heartland with their diligence and strong and diverse skill set. I also wish to acknowledge all of our Heartland staff who go above and beyond to make Heartland a successful organisation. We are grateful to you.

Last, but certainly not least, I would like to thank you, our shareholders and customers, for supporting Heartland. We appreciate the confidence you place in us and we look forward to continuing to deliver strong shareholder returns.

Thank you.