HEARTLAND
BANK

2018 ANNUAL MEETING

CHIEF EXECUTIVE OFFICER'S REPORT

1. INTRODUCTION – SLIDE 13

E ngā mana, e ngā reo, e ngā rau rangatira, tēnā koutou katoa

Greetings to all of you, all voices, all authorities and leaders

Ki ngā iwi o te whenua nei, ki a Ngāi Tai, Ngāti Paoa, me Ngāti Whātua o Ōrākei, tēnā koutou

To you the local iwi, I acknowledge your role as tangata whenua

Ki Te Wai o Taiki kei waho nei, tēnā koe

To the Tamaki estuary we see outside, I acknowledge you and your history, its strands and pathways, bringing us all here today

Tēnā koutou ki a koutou katoa kua hui mai nei i tēnei rā, kei te mihi, kei te mihi, kei te mihi

To each and every one of you, welcome and thank you for your support

Ki ngā kaumātua o te kāhui nei, ki a Chris kōrua ko Geoff, tēnā kōrua

Thank you for joining us this afternoon. Firstly, I would like to cover some aspects of Heartland's financial results for the 2018 financial year. I will then provide an update on our strategy and outline some significant strategic achievements. I will then turn to the outlook for Heartland for the 2019 financial year.

2. FINANCIAL PERFORMANCE – SLIDE 14

For the 2018 financial year, we achieved a Net Operating Income of $196.8m which in turn resulted in a Net Profit after Tax of $67.5m. This was an increase of 11% from the previous year and in line with our expectations.

Balance sheet growth was strong, with Net Finance Receivables increasing by 12% to $4.0bn.

We achieved a Return on Equity of 11.1%. Although net earnings improved in 2018, the additional equity raised during the year resulted in a slight decrease from the ROE achieved in 2017 of 11.6%.

We were pleased to see our Net Interest Margin remained in line with where it has been, at 4.42% compared to 4.46% for 2017. The slight reduction is primarily a result of changes to the asset mix.

Operating costs were $80.4 million, an increase of 12% from 2017. This increase was due to business growth driving additional staff and operational expenses. It also included a number of one-off expenses in relation to the implementation of our new core banking system and preparation for the proposed corporate restructure. Notwithstanding these additional one-off expenses, the cost to income ratio improved to 40.9% for 2018 compared to 41.9% in 2017.

SLIDE 15

2018 was an intensive year of internal focus for Heartland. We completed the implementation of the new Oracle core banking system which absorbed a significant amount of time, resources and infrastructure. This resulted in additional head count and diversion of existing staff driving up costs, along with increased impairments resulting from the distraction.

These and other one-off costs were in turn offset by some positive one-offs, including the sale of our invoice finance book and the sale of some remaining assets from the legacy MARAC property book, which were realised at a profit.

The fact that after removing one-off negatives and positives, we achieved the financial results that we did, while investing in long term capability and efficiency, is testament to the commitment, resourcefulness and culture of our people and the resilience of our strategy.

3. STRONG ASSET GROWTH – SLIDE 16

Turning now to look at our net finance receivables growth in more detail. Our Reverse Mortgage book grew strongly in New Zealand and more particularly in Australia. We are focused on maximising the leading position we have in both of markets. In Australia, our market share continues to increase and this is not expected to slow down, with the product becoming increasingly in demand as a result of the demographics. In Australia, 20,000 people are turning 65 every month. In New Zealand, the population aged 65 and above is expected to grow by 230,000 between 2021 and 2031.

Motor was our next biggest growth area in 2018, resulting from our intermediated strategy and distribution relationships with Holden, Jaguar Land Rover and AA Finance. We operate at the quality end of the motor vehicle market where impairments are relatively low.

The Harmoney platform provides us with a low cost distribution model for other consumer lending. Having worked with Harmoney for some time now, we are building confidence in their platform and that their decisioning tool is providing a satisfactory impairment experience resulting in a highly attractive risk/return.

Our growth in the business market was driven by activity at the smaller end of the market through intermediated channels via plant and equipment wholesale and our online platform for small business loans called Open for Business.

We've made a strategic decision to move away from the top end of the business market for two reasons. Competition from the bigger banks is higher at this end of the market, making it difficult for us to compete on price. The larger lending exposures also result in concentration risk issues for us given the overall size of our balance sheet.

Similarly in Rural, we have decided to move away from the larger relationship-managed lending, with the bigger banks increasingly moving into this end of the market. Instead, our focus has been on strengthening our livestock finance proposition. We had a good year for livestock finance in 2018, with new business written through that book up 62% from the prior year.

4. HEARTLAND'S STRATEGY – SLIDE 17

Our strategy continues to be based on "best or only" products. By this I mean a focus on markets where we either have one of the "best" products, such as motor vehicle finance, or the "only" product in the market, such a Reverse Mortgages and Open for Business.

The common features of these "best or only" products are that they offer high value returns, have acceptable risk outcomes and, in varying degrees, are remote from big bank competition.

This is where we want to maximise our efforts. Part of what we are here today to do, to approve the corporate restructure, is dedicated to that objective; providing our Australian business with the ability to maintain its high levels of growth.

The flip-side of this strategy is to avoid distraction and wastage on activities that are not high value, that do not enjoy "best or only" status in the market. Legacy activities which are a drag on resources and returns must be exited. As I mentioned earlier, we have already identified the larger end of the Business and Rural books as areas we wish to exit to release capital and resources and to de-risk the book.

Overall Heartland's business is in a good position for growth but we will continuously review what constitutes "core". Also we are cognisant of the fact that in these days of heightened financial technology, businesses that stay still are doomed. Indeed the next phase of development will be to harness technology and expand our reach through digital platforms and invest in more automation, especially in Deposits and Open for Business. We must constantly strive to do more, faster, and at a lower cost.

We remain open to acquisitions in both New Zealand and Australia provided they are value accretive and deliver access to innovation, distribution capability or alignment with Heartland's core products and competencies.

5. FY18 HIGHLIGHTS

I would like to mention three highlights from 2018.

***1. Open for Business* – SLIDE 18**

As I mentioned earlier, our focus in the business market is moving to small end of the market, targeting lower average loan sizes. This strategy brings scalability and distribution challenges that we are solving through our digital platform Open for Business and increased automation.

Open for Business is New Zealand's largest dedicated online platform for small business lending. We achieved strong growth of 98% in 2018, with the book currently sitting at around $100m.

We have piloted the platform for the last two years, taking time to test the technology and how the decisioning tool performs. We are now confident in the technology and risk experience and have this week launched a major advertising campaign for Open for Business, with a new TV commercial and supporting digital activity. We will play the new TV commercial in a moment.

***2. Heartland Mobile App* – SLIDE 19**

Deposits remain the major source of funding for Heartland Bank. In 2018, we raised an additional $308m of net new deposits to support our lending activity. We were awarded with the "Bank of the Year – Savings Award" from CANSTAR, recognising Heartland as the financial institution that provides the strongest combination of savings products and services to our customers. We believe this award is a reflection of the strong culture within Heartland, offering transparent and fair products to our customers in the savings area.

We launched our first mobile app in June 2018, enabling customers to have better control over their Heartland savings accounts and term deposits. Our objective was to develop an app that was simple and easy to use, giving our customers freedom to access their deposit accounts or open new ones, without needing to contact us by phone or in person. These simple, accessible tools are a better alternative to our internet banking capabilities where we lack the scale of big banks.

***3. Reverse Mortgages Australia* – SLIDE 20**

We are continuing to maximise the significant opportunity in Australia with our Reverse Mortgage business, Heartland Seniors Finance, growing 31% in 2018. This was achieved through broadening our intermediary network of brokers in Australia, together with increased marketing and activity by our direct sales team based in Melbourne.

For the last three years in a row we have been recognised as market-leading, winning “Best Reverse Mortgage Provider” from CANSTAR and “Best Reverse Mortgage” from Money Magazine. We also achieved a major milestone in January, helping our 15,000th customer in Australia.

The Australian Securities & Investments Commission (ASIC) recently released a review of reverse mortgage lending in Australia. ASIC have been working on the review for over a year.

The ASIC media release stated “reverse mortgage products can help many Australians achieve a better quality of life in retirement.”

In the report, ASIC also highlighted the growing need for reverse mortgages, noting that Australia’s population is rapidly aging, and that research suggests that 83% of older Australians strongly prefer to ‘age in place’.

The report outlined several areas where ASIC would like to see improvements from lenders. These include a greater focus on long term needs and for lenders to do more to detect elder abuse. Heartland is supportive of this and has already introduced staff training and an Elder Abuse Guide.

Overall, we consider the report is very thorough and balanced.

6. OUR PEOPLE, OUR COMMUNITY AND OUR CULTURE – SLIDE 21

The sustainability of our business is dependent upon having people realising their best and driven by a culture to do good in our communities.

We are a different bank. We don't follow the mainstream; we focus only where we can be "best or only". This point of difference has evolved over the past 10 years and is manifested in our financial results. We enjoy strong growth, the highest margin and the best cost to income ratio of the New Zealand owned banks.

I am proud to say that this difference is also demonstrated in who we are. We are increasingly diverse across gender, age, heritage and background. Our vision is to continue to promote this diversity of thought and for Heartland to be an accepting and welcoming work environment.

In particular, we wish to create an environment where Māori language, culture and values are embraced so that Heartland can become an employer of choice for Māori. Initiatives we have undertaken so far include providing free te reo and tikanga Māori classes for our staff, translations of the main pages of our website and Annual Report, the introduction of Māori signage in our workplace, and the establishment of a Māori speaker series.

The people at Heartland represent 21 different ethnic groups and we want to be engaging with and inclusive of all forms of diversity. We see the initiatives with regard to Māori inclusion as the pathway to all forms of diversity and inclusion.

In terms of gender diversity, we are actively working to develop and attract females into senior leadership positions to promote diversity of thought. Our Strategic Management Group has been 50% female and 50% male for over a year now. The wider Senior Leadership Team is now 33% female and 67% male and we recognise there is more work to be done here. Initiatives are underway to ensure we have a strong pipeline of female talent in the business.

Heartland has very little incumbency. Unlike other banks, our customers are not 'stuck' with us, they choose us for a particular need. We acknowledge and are grateful for that choice and believe that in return we must demonstrate a positive contribution to our communities, for example, through putting New Zealander's into better cars or helping seniors live a more comfortable retirement.

7. OUTLOOK – SLIDE 22

In the 2019 financial year, we expect underlying asset growth to continue, particularly in reverse mortgages, motor vehicle and small business lending. We will shift more distribution onto platforms, expanding our reach. The changes we are voting on today give us ability to grow in Australia but give flexibility with regard to our business in New Zealand and demonstrate that we are not an ordinary bank.

I would like to take this opportunity to thank our people for the significant contribution they have made towards achieving our financial results and living Heartland's values.

Finally, I would like to thank you, our loyal shareholders and depositors for continuing to support Heartland.