



## 2016 ANNUAL MEETING

### CHAIRMAN'S ADDRESS

#### 2016 RESULT

I am extremely pleased to be able to report another strong financial performance for Heartland in the 2016 financial year.

Profitability increased once again - with net profit after tax up 12.5% to \$54.2 million.

Our CEO Jeff Greenslade will provide more detail on this shortly, but we are pleased to see this has been achieved while improving return on equity (or ROE) – up to 11.1%.

The solid financial performance allowed Heartland to pay a final dividend of 5 cents per share, which brought total dividends for the 2016 financial year to 8.5 cents per share – an increase of 13% on prior year.

#### OPERATIONAL PERFORMANCE

Many of you will be aware of the successful launch of our *Open for Business* on-line origination platform during the year, which was one of the first exciting steps in our *digital transformation*.

Again, Jeff will speak to you more about that, and Heartland's strategy more generally, in a moment.

Now, I would like to take the opportunity to talk about two important factors that are having a fundamental impact on the banking and financial services industry.

One of those factors is – not surprisingly – *technology* - and the other is *culture*.

## **FIRST, TECHNOLOGY**

As a result of the coming of the internet - and then smartphones - we are now living in a *digital age*.

This has, in the space of just a few years, completely transformed the way in which people work - as well as the way in which they live their lives.

And it means that expectations of the way in which products and services will be delivered – including financial products and services – has changed fundamentally.

Today customers expect to be able to access products and services anytime of the day or night – and from anywhere.

They expect to be able to complete a transaction entirely on-line, and to do it quickly.

They are not only more connected, but they are more informed, more demanding, and more accustomed to sharing their views and experiences on-line.

So banking, like so many other services, is moving out of branches to on-line.

At Heartland, we are not weighed down by a large existing branch network or large legacy computer systems – so we are we are able to move quickly to rise to this new challenge, to continually adjust and adapt to this changing environment, and - in doing so – to exceed our customers' expectations.

## **SECOND, CULTURE**

Because a sound and efficient banking system is fundamental to the global economy, there has always been strong public interest in ensuring banks act in an ethical manner – particularly in the 8 years since the GFC.

As a result, banks have always been heavily regulated.

That regulation has historically always covered *hard risk* - capital levels and liquidity, for example – but now, increasingly, regulators are also interested in *soft risk, or culture*.

A *good culture* is one which embodies and promotes ethical behaviour, acting with integrity - ‘*Doing the right thing*’ to best serve the bank’s customers, shareholders, employees and – more broadly – the wider community and economy.

A *good culture* promotes integrity, greater transparency, and fewer breaches – which in turn builds greater trust in the banking sector.

A *good culture* isn’t easy to define, but you know it when you see it. It depends on the values of the organisation’s leadership, which then permeate throughout the group.

Heartland has been founded and has grown from building society roots - building societies which were founded with a clear commitment *do the right thing* for their members.

While today we are a five year old NZX listed company, those roots are still an intrinsic part of our culture.

Your Board and our Executive team - all agree with the regulators, on the need to continually monitor the culture - and develop and refine it – so that Heartland’s culture always supports *doing the right thing*.

A priority, embedded in our culture, is to always *do the right thing* for our customers. We believe that if we *do the right thing* for our customers, we will also serve the interests of our other stakeholders, including our shareholders and employees.

## **HEARTLAND TRUST – COMMUNITY SUPPORT**

I turn now to the activities of the Heartland Trust during the financial year.

The Heartland Trust is a charitable trust that was established to support organisations, clubs and schools across the country that are dedicated to helping young New Zealanders unlock their true potential.

For example, the Heartland Trust is closely involved with First XV rugby in schools around the country, helping to fund playing kit and training equipment.

One of those schools is Tangaroa College in Otara. It's a school that takes rugby seriously and we are delighted to be supporting them.

For more than 20 years, Heartland has sponsored the annual Heartland Bank Music Festival in Ashburton. Over 3 nights around 500 primary school children perform at the event. We are proud to support an initiative that brings together family, friends and the wider community.

The pictures shown here are just some examples of the groups and individuals that we helped during the year. The Heartland Trust has made over approximately \$300,000 of charitable grants and donations during the financial year, supporting close to 40 organisations across the country.

The Heartland Trust is exploring some exciting opportunities next year and I look forward to updating you all as they evolve.

## **OUR HEARTLAND PEOPLE**

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

I particularly wish to thank Nicola Greer who retired during the year for her contribution and input during her tenure as a director.

I also welcome Vanessa Stoddart to our board – more on Vanessa later.

Importantly, I also wish to thank Jeff Greenslade, our Chief Executive Officer, and Chris Flood, his Deputy CEO, for their very effective leadership.

They set high standards and expectations and continue to grow our Heartland business.

They are ably supported by an Executive team with a strong and diverse skill set.

Thanks to them, and to all of Heartland's people, for their important contributions to our success to date.

Last but not least, I would like to thank you, our shareholders, for the confidence you have placed in Heartland. We look forward to continuing to deliver strong returns to you, as Heartland continues to execute its strategy and build on its success.

Thank you.