

## CHAIRMAN'S ADDRESS

### HEARTLAND NEW ZEALAND ANNUAL MEETING

31 OCTOBER 2014

#### INTRODUCTION

This is my second year as Chairman of Heartland New Zealand Limited and I am pleased to report to you, our shareholders, that in the result for the financial year ending 30 June 2014, shareholders are seeing the impact of the successful implementation of the vision that led to the merger of Canterbury Building Society, Southern Cross Building Society, Marac Finance Limited and PGG Wrightson Finance Limited. The year has also seen a steady increase in the share price and an increase in dividends.

The roots of our businesses stretch back for 140 years, and today we are in the strongest financial position in our history. In particular, it is worth reflecting on what has been achieved in the last five years – a journey of transformation:

- **2009-2010 – Vision**  
Canterbury Building Society, Southern Cross Building Society and PGC/Marac Finance agree the vision for the merger of those companies (Heartland was the codename), negotiated the principles of the merger, and successfully completed and settled the transactions to create Heartland.
- **2011-2012 – Stabilise**  
Saw the New Zealand Stock Exchange listing of Heartland, the acquisition of PGG Wrightson Finance Limited, the successful operational integration of these four businesses, the obtaining of and S&P investment grade credit rating and towards the end of 2012 successfully obtaining a Banking Licence from the Reserve Bank of New Zealand.
- **2013-2014 – Growth**  
Saw emerging success of our differentiated specialty bank strategy, the divestment of some noncore property loans and assets, an increased focus on specialist sectors culminating in the acquisition of the Home Equity Release mortgage business, a Net Profit After Tax of \$36 million, and increased credit ratings from Fitch and Standard & Poors.

I think you will agree that this is a very significant transformation and our Heartland people have been critical to that success. Clearly, the Heartland story does not end in 2014, but it is this background that gives me confidence that in the coming year, and beyond Heartland has a real opportunity to sustain the growth trend achieved in this year, building on the businesses and strengths we inherited.

#### HIGHLIGHTS OF FY2014

Notable highlights of the FY2014 year include:

- A material lift in net profit after tax from \$7m to \$36m
- Acquisition of the New Zealand and Australian home equity release mortgage businesses of Seniors Money International
- Consistent growth in earning – net operating income up 14%
- Standard & Poor's credit rating on Heartland Bank Limited raised to BBB. (The outlook was negative to reflect the negative economic risk assigned to the NZ banking system and concerns around economic imbalances which are not specific to Heartland Bank)
- The rating agency of Fitch also announced this week that it had raised its credit rating on Heartland Bank Limited to "BBB" rating with a Stable Outlook

- Non-core property assets reduced by \$67m (or 62%)
- Dividend payout of six cents per share
- Return on equity increased to 9%
- Strong growth in our core asset financing and rural businesses.
- Acquisition of a 10% interest in Harmony, a P2P lender.

## **SHAREHOLDERS**

As shareholders at your AGM today, here are some matters you may wish to consider in relation to your investment:

- Our strategy is to occupy leading positions in specialist and less contested areas of the banking market
- Our vision is to be New Zealand's specialist bank – a different bank, operating in household, business and rural sectors offering specialist products
- Our primary focus is on the New Zealand market where we have a long history and confidence to grow our businesses
- We currently have a strong portfolio of specialist products, brands and channels.
- We will grow both organically and by bolt on and other acquisitions that are consistent with our strategy and meet our hurdle rates of returns
- The core of our business is Heartland Bank and it and its antecedents have been part of the New Zealand landscape serving our communities for over 140 years and today the fundamentals of our business continue to be about protecting the funds of our depositors and providing our borrowers with financial services
- We recognise that there is significant change in the world in technology, demographics, products and distribution channels. As we have in the past, we will continue to adapt to these changes
- The milestones achieved and performance delivered in FY2014, have demonstrated we have a strong platform and strategy for future growth. Today we are comfortable with our forecast for FY2015 of a net profit after tax of \$42 million to \$45 million.

## **HEARTLAND TRUST – COMMUNITY SUPPORT**

Heartland's predecessor groups established the Heartland Trust for the benefit of the communities that Heartland serves. The Trust holds over 5 million shares in Heartland New Zealand Limited and also deposits its cash surpluses with Heartland Bank Limited.

The purpose of the Trust is to make charitable distributions, and the intention of establishing the Trust and of the Trustees is to focus distributions on communities throughout New Zealand, and in particular those communities where Heartland Bank operates.

During the financial year ending June 2014, approximately \$300,000 of charitable grants and sponsorships were made supporting close to 100 organisations across the country. As the dividends of Heartland grow, the charitable distributions will increase and in this way Heartland will seek to continue to support New Zealand communities at the grass roots level.

## **OUR HEARTLAND PEOPLE**

First, I would like to thank Jeff Greenslade who has successfully led the execution of our strategy and unravelled the potential of our core businesses as demonstrated by the result for 2014 and the forecast for the financial year 2015. Secondly, special thanks and recognition should also go to the hard work and dedication of all the Heartland people who supported Jeff on this journey.

Also, I would like to acknowledge my board colleagues for their wise counsel and support.

As mentioned in the Annual Report, Gary Leech has advised the Board that he intends to resign from the Heartland board following this 2014 Annual Meeting, given a recent board appointment and

other new commitments. Gary has made an outstanding contribution to Heartland in bringing the merger together in 2010/11 and subsequently as a director and Chair of the Heartland New Zealand Audit Committee. We thank Gary for his strong contribution and dedication to the Group and indeed wish him well in his new roles. As a result of Gary Leech's resignation from our Board, we are currently undertaking a process to assess the skills and experiences required for a new board member and a search to ensure the best candidate is identified and appointed. We anticipate we will be in a position to announce a new appointment prior to Christmas.

#### **CONCLUSION**

So in concluding, I can say the financial year ended 30 June 2014, was one of solid progress and notable achievements for the group. For FY2015, the objective is continued growth through product development and acquisitions. We have forecast a net profit after tax for the year of between \$42 and \$45 million, and for the first quarter ending 30 September 2014 we are on track to achieve that, having produced an encouraging quarterly net profit after tax (unaudited) of \$11.0 million for the three months to the end of September.

Finally, I want to thank you – our shareholders, investors and customers for your loyalty, support, and patience since our NZX listing in February 2011. Our vision was to deliver long term sustainable returns, and I consider we are now firmly on that journey.

Thank you.