

HEARTLAND
BANK

Your Heartland



HEARTLAND BANK ANNUAL REVIEW 2018

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People



**often think
the word heartland
relates to a place.**





**We
think**



**it's a whakaaro
(a state of mind).**



**Your heartland isn't
about geography,
it's about knowing
what matters most
to you and what you
need to succeed.**



At Heartland Bank,



**we tautoko (champion)
the people and the
industries who are the real
heart of New Zealand.**



**We innovate and execute
at speed, providing our
customers with access to
opportunities that make
a real difference to them.**

2018 Performance Highlights

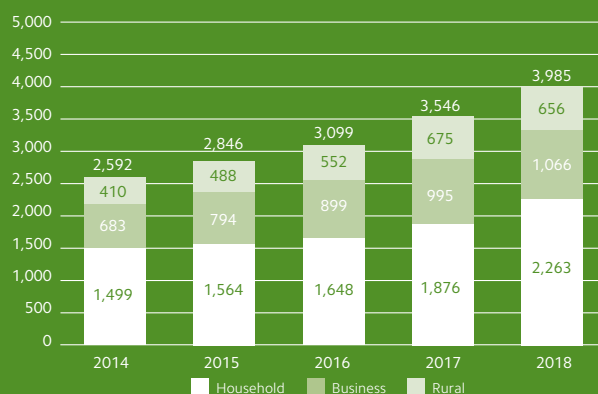


STRONG GROWTH ACROSS THE BUSINESS

Growth in net finance receivables
of 12% to \$4.0 billion.

↑ 12%

Net Finance Receivables (\$m)



DELIVERING SHAREHOLDER VALUE

↑ 174%

Total shareholder return of 174% **for the five years** ending 30 June 2018.¹

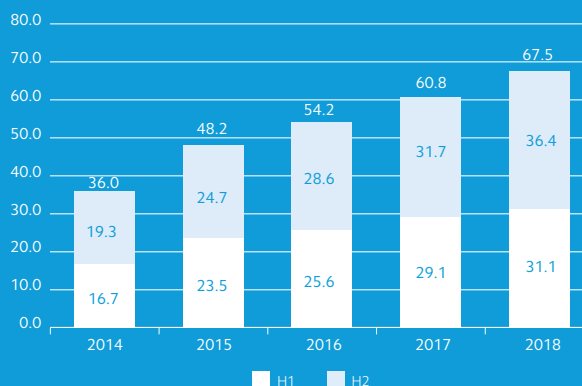
1. Total shareholder return means share price appreciation plus dividends received. TSR has been calculated including the benefit of imputation credits.

PROFITABILITY CONTINUES TO INCREASE

Net profit after tax of \$67.5m, an increase of 11% from FY2017.

 **11%**

Net Profit After Tax (\$m)



**NET INTEREST MARGIN
OF 4.42% - THE HIGHEST
AMONGST OUR
BANKING PEERS²**

4.42%

2. KPMG FIPS Report March 2018 and RBNZ Financial Strength Dashboard.

BBB

Heartland Bank credit rating (Fitch Rating)
Outlook Stable Investment Grade

11.1%

Return on Equity

13 CENTS PER SHARE

Earnings per share

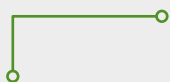
5.5 CENTS PER SHARE

Final dividend declared

9.0 CENTS PER SHARE

Total dividend for the year

Our Business



Business Finance

Net finance receivables up 7%

Working capital and plant and equipment finance distributed through Heartland's relationship managers, partners and intermediaries.

Finance for small-to-medium sized businesses available online including through Heartland's digital platform, Open for Business.

↑ 7%

\$1,066M

BUSINESS

\$4.

NET FINANCE



Rural Finance

Net finance receivables down 3%

Rural loans and livestock finance distributed through Heartland's relationship managers and alliance partners.

Online applications for livestock finance available through Heartland's digital platform, Open for Livestock.

↓ 3%

\$656M

RURAL

Note: These figures exclude \$26m of residential mortgage lending.



Reverse Mortgages

New Zealand

Net finance receivables \$453m,
up 12%

Primarily distributed through our
Heartland Seniors Finance sales
team in New Zealand.

Australia

Net finance receivables \$677m,
up 31%

Distributed through brokers and our
Heartland Seniors Finance sales team
in Australia.

↑ 23%

\$1,130M



Harmony and other consumer lending

Net finance receivables up 61%

Distributed through intermediary
partners and brokers.

Our partnership with Harmony
enables Heartland to
lend through Harmony's
online platform for personal loans.

Harmony

↑ 61%

\$152M



Motor Vehicle Finance

Net finance receivables up 16%

Distributed through our motor
vehicle dealer network to enable
customers to access finance at
the point of sale.

Available online through Heartland's
digital platform for car loans.

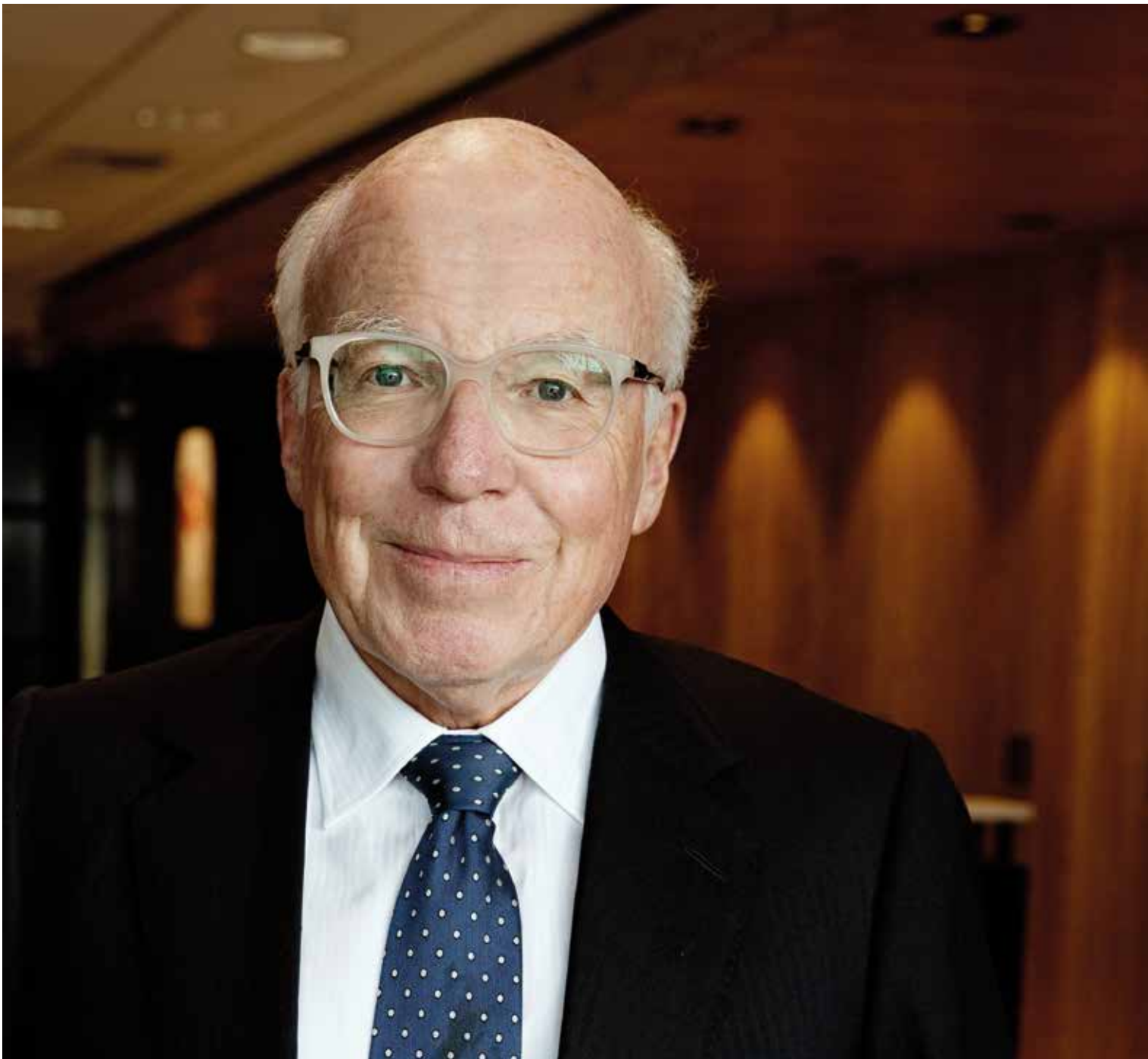
↑ 16%

\$955M

O_B

RECEIVABLES

HOUSEHOLD



“Heartland has continued to align its business operations with its strategy to increase customer reach through online channels and growing its intermediary, partner and referrer network.”

From the Chair



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 which represents a 11% growth in profitability. 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.

Social impact of our operations

Our conduct

Part of striving for excellence is that we are acutely aware of our conduct and the impact it has on our customers. We must constantly check that what we do every day aligns to our values of integrity, respect and professionalism, and the community's expectations. The Australian Royal Commission into misconduct in the banking and financial services industry is on-going at the time of writing this report and 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. Our conduct is driven by a desire to do the right thing for our customers, and to act consistently with the public's expectations of us. This year we have established an executive level Customer Outcomes Committee at Heartland which operates to ensure we do this across all of our operations.

Our products

At Heartland, we are proud to offer products that can create positive social outcomes. One of the best examples of this is our Heartland Reverse Mortgage. Our reverse mortgage customers regularly tell us that their home is what connects them to their friends, family and community. With a reverse mortgage, we can give seniors the opportunity to enjoy a better retirement with peace of mind, independence and security. It gives us huge satisfaction that in many cases we are making a life-changing difference to New Zealand and Australian seniors.

Some of the work we do was recently recognised at the 2018 Age Connect Champion Awards where we were nominated for three awards. In each case, the award nomination recognised the

outstanding contribution of Heartland and its staff to improving the lives of older people in the community. AgeConnect is an initiative set up by Age Concern to improve the lives of older people and reduce the rates of loneliness and isolation in the Nelson-Tasman region.

We are also proud to create better opportunities for small business owners in New Zealand, recognising that these businesses form a critical part of our economy. Through our digital platform, Open for Business, we have helped many New Zealanders buy into new franchise businesses, purchase machinery and plant and equipment. This helps our customers sustain and grow their business and provide working capital for these businesses to assist with the peaks and troughs of running a small business.

Contributing to our communities

At Heartland, we recognise we are in a privileged position to create a positive social impact. One of the ways in which we do this is by giving back to our communities through a range of sponsorships from Heartland Bank, and through the support the bank gives to the Heartland Trust¹ to enable it to make grants.

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 welcomed a number of the students to work at Heartland in paid internship positions over their summer holiday. The internship programme was based on the Māori concept of 'ako', which means to learn and to teach. Our objectives were to provide the students with experience and an understanding of what the 'world of work' will require of them. It also allows us to learn from them, particularly in relation to how we can make Heartland more welcoming and inclusive to Māori and Pasifika people.

I am also very pleased to announce the Heartland Trust has 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. The pilot service undertaken by Silver Line in Auckland in 2017 provides compelling evidence for the utility of the service they intend to provide. The helpline team will provide information, advice and friendship

¹ The Heartland Trust is a registered charitable trust which is independent from Heartland Bank.

“At Heartland, we recognise we are in a privileged position to create a positive social impact. One of the ways in which we do this is by giving back to our communities through a range of sponsorships.”

to seniors as well as protecting and supporting those who may be suffering abuse or neglect.

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.

Heartland Bank is also now the official partner and sponsor of Auckland Secondary Schools Rugby. Heartland has been a passionate supporter of grassroots rugby for many years. We are pleased to extend our support this year to both the boys' First XV competition and the girls' First XV competition in Auckland, which is now made up of eight teams. We believe that sport provides an outstanding vehicle to teach a multitude of life skills to students, including teamwork, leadership and work ethic.

This year, Heartland Bank paid \$44,000 and the Heartland Trust paid \$369,000 towards sponsorship and community activities.

Management changes

During the course of the year, Heartland appointed Grant Kemble to the role of Chief Risk Officer to replace Richard Lorraway following his resignation from the role. Grant has spent a significant part of his career as a partner at a leading New Zealand commercial law firm and was most recently Chief Executive Officer of Perpetual Guardian. Grant is a highly skilled professional who brings strong expertise, combined with a fresh perspective, to the role of Chief Risk Officer.

We thank Richard Lorraway for his strong contribution to Heartland in the areas of credit and operational risk and as a key member of the Senior Leadership Team through a period of significant change for Heartland.

Ashburton sales office relocated to original premises

Following a full restoration and seismic upgrade of the Ashburton sales office, the relocation back from the branch's temporary premises is now complete. At the same time, we took the opportunity to re-design the layout and set up a new retail contact centre. The contact centre is providing local jobs and has room to expand as Heartland's business continues to grow.

Creating shareholder value

The board has resolved to pay a fully-imputed final dividend of 5.5 cents per share on Friday 21 September 2018 to all shareholders 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 2017².

Total shareholder return³ (TSR) was 174% over the last five years to 30 June 2018, compared with TSR of 102% for the NZX50. This is an excellent outcome for our shareholders.

Capital management

During the course of the year, 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.

2 The Dividend Reinvestment Plan (DRP) is available and a discount of 2.5% will apply. The last date of receipt for a participation election from a shareholder who wishes to participate in the DRP is Friday 7 September 2018. For full information on the DRP, please see Heartland's Dividend Reinvestment Plan Offer Document dated 1 April 2017, which is available on our shareholder website shareholders.heartland.co.nz.

3 Total shareholder return means share price appreciation plus dividends received. TSR has been calculated including the benefit of imputation credits.

Corporate restructure

Heartland has announced a proposal to conduct a corporate restructure that will remove constraints on the growth of the group's business currently arising from Reserve Bank regulations and provide greater flexibility for the group to explore and take advantage of future growth opportunities in New Zealand and Australia outside the banking group.

At the same time as the restructure, Heartland is also seeking a Foreign Exempt Listing on the ASX. We believe this will provide access to additional sources of capital for future growth opportunities.

All shareholders will be sent a Scheme Booklet providing detailed information on the restructure, including an independent assessment of the merits of the restructure for shareholders. The board unanimously supports the proposed restructure and recommends that shareholders vote in favour of the restructure at the upcoming Annual Meeting to be held on 19 September 2018.

Outlook

The board is confident in Heartland's ability to continue achieving strong growth and profitability. Heartland expects its net profit after tax for the year ending 30 June 2019 to be in the range of \$75 million to \$77 million.

The potential for acquisitions remains a part of Heartland's strategy, both in New Zealand and Australia. Heartland will pursue acquisitions which align with its strategy, are value accretive, and which deliver access to innovation, distribution capability or alignment with Heartland's core products and competencies.

Finally, I wish to thank CEO Jeff Greenslade and all of the Heartland team for their significant efforts this year in helping Heartland to continue delivering value to its shareholders.



Geoffrey Ricketts
Chair of the Board



“Providing new opportunities is at the heart of what we do – new opportunities for our customers, our Heartland people and our communities.”

Chief Executive Officer's Report



Āku mihi nui ki a koutou katoa e noho mai na i ngā tōpito e whā o te motu. Mai i Te-Hiku-o-te-Ika, tae rawa atu ki Rakiura i te Moana Pounamu. Tēnā koutou katoa.

Providing new opportunities is at the heart of what we do – new opportunities for our customers, our Heartland people and our communities. We achieved another strong year from a financial perspective. However, I am equally pleased with the progress we have made towards achieving a number of non-financial objectives, particularly around developing our people and our workplace. Our aspiration is to create a culture that strives for excellence. The key pillars of this are valuing diversity of thought, being inclusive and welcoming to all, and supporting the wellbeing of our most important asset, our people.

Growth across all divisions

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 including reverse mortgages, motor vehicle loans, small business loans and livestock finance. This led to a reduced focus on larger business and rural relationship lending as part of our strategy to reduce concentration risk in these areas.

A continued strong Net Interest Margin (NIM) of 4.42% was achieved for the year. Our NIM is a significant positive point of difference between Heartland and other banks, as a result of identifying and focusing on niche markets offering attractive margins with a measured risk portfolio.

Return on Equity was 11.1%, down from 11.6% in 2017 due to additional equity raised during the period to support continued growth and maintain a strong Balance Sheet. Net Tangible Assets (NTA) increased from \$490.5 million at 30 June 2017 to \$584.4 million as at 30 June 2018. On a per share basis, NTA was \$1.04 as at 30 June 2018 compared to \$0.95 as at 30 June 2017.

Our focus on cost control and the efficiencies we have leveraged through scalable growth, together with our digital initiatives have resulted in a reduction in cost to income ratio which decreased to 40.9% from 41.9% for the prior year.

Impairment expense has been impacted by growth in receivables over the last year as well as increased impairment in the motor vehicle, Harmony and other consumer lending portfolios. Further provisioning has been made for large relationship loans which we are managing down due to concentration risk. Given Heartland's motor vehicle loans and reverse mortgage books are well-seasoned with history going back to before the Global Financial Crisis, Heartland can analyse performance through downturns and is able to estimate expected losses with a greater degree of certainty.

Motor

Heartland's motor vehicle finance book continued its strong growth, with a 16% increase in net receivables during the financial year. Growth in this market has been achieved through our nationwide network of motor vehicle dealers and partners. Customers can also contact us directly through our online application platform for car loans and further growth is expected through this channel in the future.

Reverse mortgages

Heartland achieved strong growth in its reverse mortgage book, with New Zealand reverse mortgage net receivables growing by 12% and Australian reverse mortgage net receivables growing by 31% during the financial year.

Our Australian reverse mortgage business was awarded "Provider of the Year – Reverse Mortgage Award" by independent financial services research company, CANSTAR. It was also named the winner of the Best Reverse Mortgage in 2018 by Money Magazine. This marks the third year in a row that Heartland has won both of these awards and is a testament to the hard work and dedication of the Heartland Australia team.

The Australian Government recently announced the extension of its Pension Loan Scheme (PLS), which is an income supplement reverse mortgage. The changes are not expected to have an impact on Heartland's business, with demographics overwhelmingly positive for continued growth in demand.

Business

Business net receivables increased 7% during the financial year. Strong growth was experienced across our intermediated business and through our online Open for Business platform for small business loans. This growth occurred despite a reduction in larger relationship lending following a strategic decision not to actively pursue this as part of our core business.

During the year, we successfully replicated our Open for Business platform for white-labelled offerings with selected partners including Hino Distributors NZ to access Hino's significant nationwide footprint and customer base to provide finance for truck purchases, repairs and maintenance. We also partnered with InnovateHQ to create Open for Growth, an online lending platform for small businesses looking to grow their operations.

Rural

Rural net receivables decreased 3% during the year following a strategic decision to move away from larger rural relationship lending. Livestock finance will be a core focus in the rural sector moving forward, through both intermediated and direct channels including our online platform, Open for Livestock.



This year, Heartland teamed up with NZ Young Farmers to support young people at the forefront of the rural industry. The agri-food sector is a vital part of New Zealand's economy and needs young, talented people to fuel it into the future. NZ Young Farmers is an impressive organisation with a footprint of 80 clubs. It provides young people with information, advice, training and networking opportunities. Partnering with NZ Young Farmers gives us an opportunity to raise awareness of our livestock finance offering to the next rural generation.

Deposits

Retail deposits grew strongly in the year, increasing \$307.8 million (12%) to \$2.9 billion as at 30 June 2018. This year, 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 its customers. Our Direct Call Account was also recognised as a "5-star Outstanding Value Savings Product" by CANSTAR under both its regular and flexible saver classifications. This is the third year in a row our Direct Call Account has received a 5-star rating from CANSTAR. The recognition demonstrates our dedication to giving Kiwis a flexible saving option with a competitive interest rate.

FY18 Financial Result

There are two aspects of the result which I would like to highlight. First, it was achieved in a time of considerable upheaval. All businesses must from time to time focus on their infrastructure, to invest in long-term capability and efficiency. FY18 was one of those years for Heartland.

We implemented the new Oracle core banking system in May 2017 but the consequences of this major change in core systems were felt in FY18. 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 occasional glitch a new system brings.

The additional resourcing required was significant as was the diversion of existing resources. That we still grew Net Finance Receivables by 12% and Net Profit After Tax by 11% during this period is a testament to the culture within Heartland.

Also during 2018 we completed the first stage of our digital strategy through building a range of platforms. From this base we have grown our online small business lending from \$45.4 million to \$89.9 million. In June 2018, we launched our first mobile app, enabling customers to have better control over their savings accounts and deposits.

“As an organisation, Heartland has been evolving over the past 10 years. I am proud to say that Heartlanders are becoming increasingly diverse across gender, age, heritage and background.”

The second distinctive feature of the result was the contribution, both positively and negatively, of one-offs. The negative one-offs related to the systems integration - the costs of additional resourcing and as a consequence of those, the distraction from critical activities, particularly in Collections. We also took the opportunity to boost collective provisions against larger relationship loans. In addition, we incurred costs of the proposed corporate restructure.

We were able to still grow profitability due to the strength of underlying earnings but were also assisted by a one-off positive result. One of the last remaining legacy property loans from MARAC property activities pre-GFC was realised at a profit.

Corporate Restructure

As referred to by our Chair, we have announced Heartland's intention to conduct a corporate restructure. The proposed restructure will provide greater flexibility for the group to explore and take advantage of future growth opportunities in New Zealand and Australia outside the banking group. I invite all shareholders to refer to the Scheme Booklet relating to the proposed restructure for further information.

Our people and our culture

As an organisation, Heartland has evolved over the past 10 years. I am proud to say that Heartlanders are becoming 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 working environment; a place where all of our people feel included and respect and value each other's differences. At the same time, we want Heartland to be a place where we get on with being the best we can be by doing the right thing for our customers.

One particular area of focus has been to create an environment where Māori language, culture and values are embraced, so that Heartland can become an employer of choice for Māori. This year, we appointed a Māori language and culture specialist to our People & Culture team to assist with this journey. Some of the initiatives in place include providing free te reo and Tikanga Māori classes for our staff, the introduction of Māori signage in our workplace, increased use of te reo and Tikanga Māori on formal occasions and the establishment of a Māori speaker series for our people to better understand the Māori world view on a number of important topics. While this is part of our aim to be recognised as an employer of choice for Māori talent, it is also a valuable pathway for our people to learn more about our rich and diverse culture and for Heartland to become a place that is welcoming to all cultures and ethnicities.

Our Diversity Committee, set up over a year ago, develops and implements initiatives to help create an environment at Heartland that is safe and welcoming to all people. Celebration of our diversity this year included events to recognise Diwali, Matariki and Chinese New Year and holding an international shared lunch.

This year, we surveyed our people about their ethnicity on a voluntary basis. The results of this baseline survey showed our people identify with 47 unique ethnic groups. Going forward, we will continue to collect ethnicity information from our people to understand who makes up our workforce, identify gaps in diverse representation and track our progress.

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% male and 50% female for over a year now. The wider Senior Leadership Team team is now 67% male and 33% female. However, we recognise there is more to be done and work is underway to ensure we have a strong pipeline of female talent in the business who will have the opportunity to be part of the future leadership of Heartland.

Looking forward

In the coming year, we expect underlying asset growth to continue, particularly in reverse mortgages, motor vehicle and small business lending. We will continue to expand our reach through digital and intermediary channels and explore opportunities for growth in Australia in areas where we have key competencies.

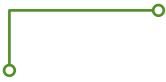
I would like to take this opportunity to thank our people for the significant contribution they have made towards achieving our financial results and living Heartland's values in what they do to enable us to continue providing new or enhanced opportunities for our customers. I would also like to thank our shareholders for their continued support of Heartland.

Ngā mihi nui.



Jeff Greenslade
Chief Executive Officer

Pūrongo a te Pou Whakahaere



Āku mihi nui ki a koutou katoa e noho mai na i ngā tōpito e whā o te motu. Mai i Te-Hiku-o-te-lka, tae rawa atu ki Rakiura i te Moana Pounamu. Tēnā koutou katoa.

Ko te waihanga āheinga, kei te uho o ā mātou mahi – āheinga hou mō ā mātou kiritaki, ā mātou kaimahi, me ā mātou hapori. I riro anō i a mātou ētahi hua nui whakaharahara e ai ki te tirohanga pūtea. Heoi, e pērā ana anō taku harikoa ki ngā whakawhanaketanga kua tutuki i a mātou o waho atu i ngā whāinga ā-pūtea, inarā, i te wāhi ki ā mātou kaimahi, me ā mātou wāhi mahi. Ko ā mātou tūmanako, ko te waihanga ake i tētahi ahurea e pīrangi ai te tangata kia tae ki ngā taumata tiketike. Ko ngā pouputa matua o tēnei, ko te matapopore i ngā momo whakaaro rerekē, ko te manaaki, ko te rauhi i te katoa, ko te tiaki hoki i te mauri ora o ā mātou tino, arā, o ā mātou kaimahi.

Kua tupu ngā wehenga pakihi katoa

E whanake tonu nei ngā rawa puta noa i te pakihi nā tā mātou rautaki. Ko tā mātou i aro ai i tēnei tau, ko ngā wāhanga e kitea tonutia ai te whanaketanga hei ngā tau kei te tū mai, pēnei i te mōkete tauaro, i te pūtea taurewa mō te waka, i te pūtea taurewa mō te pakihi iti me te ahumoni kararehe. Nā konā i iti ake ai tā mātou aro ki ngā pakihi nui ake me te tuku pūtea hononga taiwhenua hei wāhanga o tā mātou rautaki kia iti ai te mōrearea i te wāhi kotahi i ēnei wāhanga.

I tutuki tētahi Paenga Huamoni More (PHM) kaha tonu nei o te 4.42% i te tau. Nā tā mātou PHM i ahurei ake ai mātou i ētahi atu whare pēke, ā, i pēnā ai nā te tautuhi me te aro ki ngā mākete whāiti e whakarato nei i ētahi paenga pai kāore nei e kaha te mōrearea.

I heke te whakahokinga mai o ngā Pānga i te 11.6% ki te 11.1% i te tau 2017 nā ngā pānga tāpiri i tupu i te roanga o te wā hei āwhina i te whanake tonutanga me te whakaū i tētahi Tuhinga Toenga. I piki ngā Rawa Tūturu More (RTM) i te \$490.5 miriona tāra i te 30 o Pipiri i te tau 2017 ki te \$584.4 miriona tāra i te 30 o Pipiri i te tau 2018. I te pānga kotahi, \$1.04 te uara o ngā RTM i te 30 o Pipiri i te tau 2018, ā, e \$0.95 i te 30 o Pipiri i te tau 2017.

Kua whakaheke te ōwehenga o ngā utu ki ngā moni whiwhi, i heke ki te 40.9% i te 41.9% i te tau, nā tā mātou aro ki te whakahaere utu me te kore i mōmōu pūtea mā te tupu haumarū, tae atu hoki ki ā mātou kaupapa matihiko.

Kua pāngia ngā utu whakahauā e te whanaketanga o ngā nama mai i te tau kua hipa, ā, kua piki ake te whakahauātanga i te taha ki ngā waka me ngā nama matawhaiaro. Kei te tiakina ētahi atu hua mō ngā pūtea taurewa hononga e kaha whakahaerehia nei e mātou i runga i te mōrearea i te wāhi kotahi. Nā te pakari o ngā puka mōkete tauaro me ngā pūtea taurewa mō ngā waka a Heartland me tana tū i mua atu i te Mōrearea Ahumoni ā-Ao e āhei ai a Heartland ki te arohaehae i ngā mahi i roto i ngā whakahēkenga me te whakapae tika anō hoki i te ngaronga ka pā pea.

Ngā waka

I kaha tonu te tupu o te puka ahumoni waka a Heartland i te pikinga o te 16% i ngā nama mai more i te roanga o te tau pūtea. I kitea ai te whanaketanga i tēnei mākete nā te hapori ā-motu o ngā kaihoko waka me ngā āpiti. Ka āhei hoki ngā kiritaki ki te whakapā kau mai ki a mātou mā tā mātou pae tono ā-ipurangi mō ngā pūtea taurewa waka, ā, e tūmanako ana ka kitea tonutia tētahi whanaketanga i tēnei whakawhitinga hei ngā tau kei te heke.

Mōkete tauaro

Kua nui te whanake a Heartland i roto i ngā mahi Mōkete Tauaro, arā, e ai ki wā Aotearoa, mōkete tauaro moni mai a muri i te tāke, i piki ērā mā te 12%, me wā Ahitereiria Mōkete Tauaro moni mai hoki, i piki ērā mā te 31% i tēnei tau pūtea nei.

I riro i tō mātou umanga mōkete tauaro o Ahitereiria, te tohu, “Provider of the Year – Reverse Mortgage Award” i tētahi ratonga rangahau pūtea motuhake, CANSTAR, ā, i tapaina hoki ia hei toa whakaihūwaka mō ngā Mōkete Tauaro i te māheni a Money Magazine, i te tau 2018. E noho ana koinei te tau tuatoru, karapipiti nei, kua toa i a Heartland ēnei tohu e rua, ka mutu, he tohu tēnei nō te nui o ngā werawera i heke, me te tapatahi o te tīma nō Heartland Ahitereiria.

Nōnakuanei, i whakapuakina ai e te Kāwanatanga o Ahitereiria tō rātou hiahia ki te whakaroa i te Pension Loan Scheme, he whiwhinga pūtea āpiti ērā ki ngā mōkete tauaro. Kāore ngā panonitanga e whakarerekē ake i ngā mahinga a Heartland, inarā, e hari nui ana ngā tūmomo tāngata hūhū ki ngā whanaketanga tonutanga, me te pīrangitia nuitia o tērā e rātou.

Pakihi

I piki ngā nama mai ā-pakihi ki te 7% i te tau ahumoni kua hipa. I kitea te whanaketanga puta noa i ā mātou mahi tae atu ki tā mātou pae Open for Business mō ngā pūtea taurewa pakihi iti. I whakatauritetia tēnei whanaketanga e tētahi whanaketanga pōturi ake i te tuku pūtea whai hononga nui i muri mai i tētahi whakataunga ā-rautaki kia kaua e āta whāia tērā huarahi hei wāhanga matua o ā mātou mahi.

I waenga i te tau, i oti i a mātou tā mātou pae Open for Business te tārua mō ngā hua pinetohu-mā, ā, he mea āta kōwhiri ngā āpiti pēnei i a Hino Distributors NZ kia kitea ai te pānga ā-motu me te whānui o ngā kiritaki o Hino kia pai ai te ahumoni i ngā hokonga, i ngā whakatikanga me ngā whakaūnga taraka. I piri hoki mātou ki InnovateHQ ki te waihanga i a Open for Growth, he pae tuku pūtea ā-ipurangi mō ngā pakihi iti e hiahia nei ki te whakawhānui i ā rātou mahinga.

Taiwhenua

I heke ngā nama mai ā-taiwhenua mā te 3% i te tau i muri mai i tētahi whakataunga ā-rautaki kia whakarērea te tuku pūtea whai hononga taiwhenua nui. Ko te ahumoni kararehe tētahi aronga matua i te rāngai taiwhenua ka tirohia mā ngā whakawhitinga takawaenga, horipū anō hoki tae atu ki tā mātou pae ipurangi, Open for Livestock.

I tēnei tau i piri a Heartland ki a NZ Young Farmers hei tautoko i te rangatahi e mahi nei i te ahumahi taiwhenua. He wāhanga nui te rāngai whakatupu kai o te ōhanga o Aotearoa, ā, me whai rangatahi pūkenga hei kōkiri i tēnei rāngai hei ngā tau kei te heke. He whakahaere whaimana a NZ Young Farmers, ā, e 80 ōna kāhui. Ko tāna hoki he tuku pārongo, he tohutohu, he whakangungu, he whakatakoto huarahi whakapā hoki hei whai mā te rangatahi. Mā te piri ki a NZ Young Farmers e āhei ai mātou ki te whakamōhio i te reanga taiwhenua e heke mai nei ki tā mātou whakarātonga ahumoni kararehe.

Moni Tāpui

I whanake mārika ngā moni tāpui kaihoko i tēnei tau, i whānaki i te \$307.8 miriona (12%) ki te \$2.9 piriona, mai i te 30 Pipiri, 2018. I tēnei tau i riro i a mātou te tohu “Bank of the Year – Savings

Award", i a CANSTAR, te tohu e kī ana ko Heartland te uepū hoatu i ngā tino pākete penapena pūtea ā-rawa, ā-ratonga hoki ki ana kiritaki. I whakanuia hoki tā mātou Direct Call Account hei "5-star Outstanding Value Savings Product" i a CANSTAR, i raro mai i ana kaupapa penapena māori, penapena pīngore hoki. Koinei te tuatoro o ngā tau, karapīpiti nei, kua toa i a Direct Call Account te tohu 5-star i a CANSTAR. E whakatauiria ana te whakamānawa nei i tō mātou tapatahi kia riro ai i ngā tātanga nō Aotearoa ētahi kōwhiringa kē atu mō ngā kaupapa penapena, he pāpātanga moni hua autai āna.

FY18 Hua Ahumoni

E rua ngā āhuetanga o te putanga e hiahia nei au ki te kōrero. Tuatahi, i tutuki i te wā o te tutū mai o te puehu. Katoa ngā pakihi me aro i ōna wā ki ō rātou hanganga kia pai ai te haumi i ngā āheinga me ngā whakaputanga wā roa, ā, i pērā te āhua o te tau pūtea FY18 mō Heartland.

I whakatakoto mātou i te pūnaha pēke matua hou o Oracle i te marama o Haratua, i te tau 2017 engari i pā ngā hua o tēnei panonitanga nui ki ngā pūnaha matua i te tau pūtea FY18. He nui te wā i pau i ia peka o te whakahaere o Heartland ki te:

- whakauru i te pūnaha hou ki roto i ngā mahinga o ia rā;
- ki te whakatau i ngā rerekētanga ki ngā kaimahi o roto, o waho hoki; ā
- ki te whakatau i ngā ratonga ahakoa ngā hē i puta mai i ōna wā i te pūnaha hou.

I nui ngā rawa tāpiri i pīrangitia, pēnei i te autakitanga o ngā rawa o mua. He whakaatu te tupu tonutanga o te Nama mai Ahumoni More mā te 12% me te Painga More i muri mai i te Tāke mā te 11% i te roanga o tēnei wā i te ahurea o Heartland.

Waihoki, i te tau 2018 i oti i a mātou te wāhanga tuatahi o tā mātou rautaki matihiko mā te hanga i ētahi pae rerekē. Nā tēnei tūāpapa i tupu mai ai tā mātou tuku pūtea pakihi iti ā-ipurangi mai i te \$45.4 miriona tāra ki te \$89.9 miriona tāra. I te marama o Pipiri, i whakarewaina tā mātou taipānga tuatahi kia pai ake ai tā te kiritaki whakahaere i ā rātou pūtea penapena, ā rātou moni tāpui anō hoki.

Ko te tuarua o ngā āhuetanga ahurei i ngā putanga ko te whai wāhitanga o ngā one-offs, pai mai, kino mai. I hāngai ngā putanga tūtahi kino ki te whakaurunga o te pūnaha, arā ki te utu o ngā rawa tāpiri, ā, nā konā i kotiti ai i ngā mahinga whaitake, inā hoki ērā i roto i ngā kohinga pūtea. I whai hoki mātou ki te whakapiki i ngā pūtea tōpū i te taha o ngā pūtea taurewa whai hononga nui. Hei tāpiri atu, i utaina mai mātou e ngā utu e pā ana ki te hanganga rangatōpū i marohitia ai.

I tukua tonutia mātou kia tupu, kia whaihua nā te kaha o ngā moni utunga huna engari i āwhinatia hoki mātou e tētahi putanga tūtahi pai. I hua mai tētahi o ngā pūtea taurewa mōrehu nā ngā mahinga hanga a MARAC i mua i a GFC hei painga.

Hanga Whakahoutanga

Pēnei tonu i wā te Pūrongo a te Heamana i kī ai, kua whakapuakina ake e mātou ngā tūmanako o Heartland kia whakahoutia te āhua o te kāhui o runga, o te uepū nei. Ko tā te whakahoutanga he hoatu āheinga ki te kāhui o runga e māmā ake ai tā rātou mātirotiro, tā rātou kimi hoki i ētahi huarahi whakawhanake i Aotearoa, i Ahitereiria anō hoki, i waho atu i ngā uepū pēke. E pōhiri ana ahau i ngā kaiwhaipānga katoa kia tirohia ake te Booklet Scheme e rātou e kitea mai ai ngā tūmanako, me ētahi atu mokamoka, mō ngā whakahoutanga.

Ā mātou tātanga me te ahurea

Ā-pakihi nei, kua whanake a Heartland i roto i ngā tau tekau kua hori. E whakahā ana hoki ahau i te whanaketanga haeretanga o ngā kanohi o Heartlands, ahakoa ā-ira tangata, ā-pakeketanga, ā-whakapapa, ā-hītori anō hoki. Ko te āhua o te titiro anamata, kei roto i te whakatairanga tonutanga o rau whakaaro, kia tū a

Heartland hei taiwhanga mahi whai manaaki, he wāhi kia rangona e ngā kaimahi te whakaute mai, kia whakaute atu hoki rātou ki a rātou. Otirā, kei te hiahia tonutia kia whāia ngā taumata papai mā te mahinga o ngā mahi tika i te taha o ā mātou kiritaki.

Ko tētahi tonu o aua tirohanga rā, ko te waihanganga mai o tētahi taiao e maimoa nei i ngā tātanga katoa, i te ahurea, me ngā uara Māori anō hoki, kia noho mai ai hoki ko Heartland te tino wāhi e haerehia ai e te Māori. I te tau nei, i pōhiria e mātou tētahi kaiārahi reo Māori, ahurea Māori anō hoki ki tō mātou Kāhui Tātanga, Ahurea hoki e tautokona ai tētahi haerenga whakamuatanga. Ko ētahi o ngā whakaaro kua whai pakiaka ko ētahi whakaakoranga reo, tikanga Māori hoki mō ā mātou kaimahi, te kitea o ngā pānui whakatairanga Māori i te wāhi mahi, te rangona o te reo Māori me ngā tikanga ki ngā huihuinga ōkawa, ngā kauhau Māori e marama ake ai te tirohanga Māori e ai ki ētahi tino horopaki. Ahakoa he wāhanga nui tēnei, te mōhiatia ō mātou hei kōwhiringa matua e mahi ai te tangata Māori, he whakaaro rangatira hoki tēnei e ako ai ā mātou kaimahi e pā ana ki te hirahira, me matarau o tō mātou ahurea, ā, kia noho mai hoki ko Heartland hei wāhi hāneanea mō rau ahurea, mō rau iwi anō hoki.

Ko tō mātou Komiti Matarau, tērā rā kua kotahi tau e kaupapa haere ana, ko tāna he waihanganga, he whakatū hoki i ētahi kaupapa e rangona ai he taiao, i Heartland, e hāneanea ai, e haumaruru ai, e manawapoporehia ai hoki te tangata. Ko ētahi o ā mātou ahurei whakanui i tō mātou matarautanga, i tēnei tau, ko te Diwali, ko Matariki, ko te tau hou Hainamana, me tētahi tina hirahira e whakatairanga ana i tō mātou ā-aotanga.

I tēnei tau, i rangahaua e mātou tā mātou momo iwi e mahi ana mā mātou, ka mutu, katoa i mahia tūaotia. Ko ngā hua o tēnei rangahau ko te kite, e 47 ngā momo iwi rerekē e whai pānga ana ki a mātou. Haere ake nei, ka kohikohi tonu mātou i ngā mokamoka tōtika e mōhio ai mātou ko wai mātou, he aha ngā āputa, i ahu mai hoki mātou i hea.

E ai ki ngā matarautanga ā-ira nei, e mataara tonu ana mātou ki te kimi huarahi e whakatata mai ai te ira wahine ki ngā tūranga whakahaere rangatira, e rangona ai ētahi whakaaro rerekē. Ko Te Mana Whakahaere kua 50% tāne, 50% wāhine hoki, mō kotahi tau, neke atu, ināianei. Ko te Rōpū Kaiwhakahaere Whānui, he 67% he, 33% wāhine ināianei. Heoi anō, e mōhio ana mātou he nui tonu ngā mahi kei mua i te aroaro, ā, e mahia mai ana ērā e kitea mai ai e mātou ētahi kaimahi wāhine kē atu i roto i te pakihi ka whai wāhi pea ki te kāhui whakahaere ā tōna wā.

Te titiro whakamua

Hei te tau kei te heke mai, e whakapae ana mātou ka whanake tonu ngā rawa tūāpapa, ngā mōkete tauaro tonu, ngā pūtea taurewa mō te motoka, me te pūtea taurewa mō te pakihi iti. Ka ngana tonu mātou ki te whakawhānui i tō mātou mōhiotia mā te matihiko, ngā pūnaha takawaenga, ka kimi hoki mātou i ētahi huarahi e tupu ai mātou ki Ahitereiria, ki ngā wāhi tonu e whai tautōhito ai mātou.

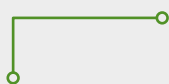
Hei konei ahau whakamānawa ai i ngā tini homaitanga a tēnā, a tēnā i tutuki ai ō mātou whāinga ā-pūtea, me te whakatinana hoki i ngā uara o Heartland's i taea ai e mātou ētahi whakaaro auaha hou, me ētahi āheinga kē atu anō mā ā mātou kiritaki. Hei konei hoki ahau whakamānawa atu ai ki ā mātou kaiwhaipānga mō te tautoko tonu mai i a Heartland.

Ngā mihi nui.



Jeff Greenslade
Pou Whakahaere

The Heartland Mobile App



Heartland recently launched its first mobile app, enabling customers to have better control over their Heartland savings accounts and term deposits.

The objective was to develop an app that was simple and easy to use, giving customers freedom to access their accounts or open new ones, without contacting Heartland by phone or in person.

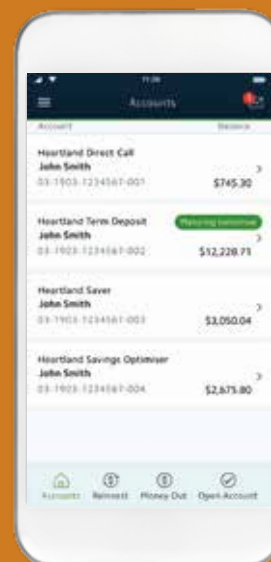
As part of the development, Heartland carried out considerable user experience testing with staff and customers prior to launch to help improve usability and seek input on the overall customer experience. This resulted in about 100 changes and improvements to the app functionality.

The first release of the Heartland Mobile App was launched in June 2018, with some of the customers who had pre-registered their interest given first access. The level of feedback was excellent and is being used to develop improvements for future releases of the App.

The launch of the Heartland Mobile App is an important milestone in Heartland's strategy to use digital channels to cost-effectively reach more customers. It also enables self-service capability for deposit customers who are seeking a fast and seamless online customer experience.

SIMPLICITY

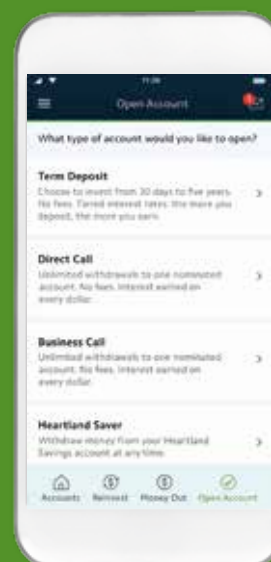
Deposit accounts and transactions can be viewed in one place from a phone or tablet.



CONVENIENCE

Open a new Heartland Term Deposit or Savings Account at any time, directly from our app.

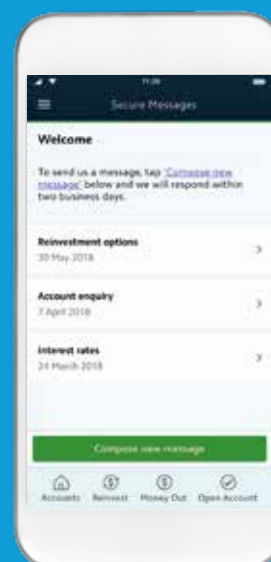
Provide instructions for when a term deposit is about to mature – select whether to re-invest, top up or repay the deposit.



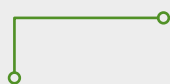
PEACE OF MIND

Money can be easily transferred to or from a single nominated account.

Questions or enquiries can be sent directly to Heartland through a secure message function.



Reverse Mortgages



26%

Growth in FY18
(in AUD)



96%

Customers who are likely or highly likely to recommend Heartland Seniors Finance to friends and family.



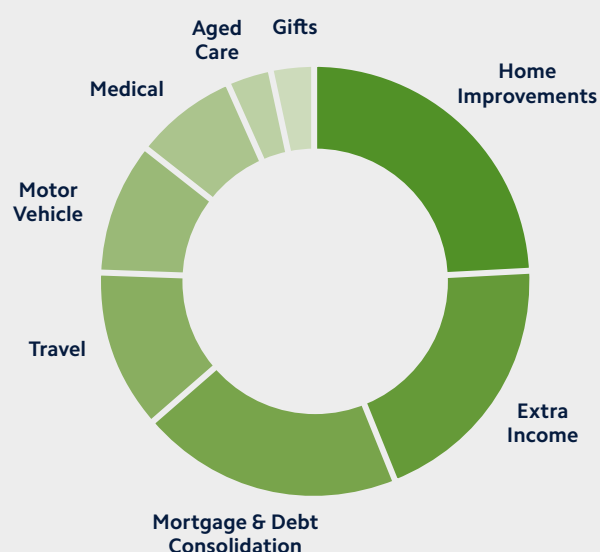
Australia – a growing market

In January 2018, Heartland Seniors Finance in Australia achieved a major milestone – helping our 15,000th customer. We've now helped nearly 30,000 people across New Zealand and Australia live a more comfortable retirement, by removing the stress of meeting living expenses or dealing with unexpected costs and enabling them to stay in their own home for as long as they choose.

Our market share of reverse mortgages in Australia continues to increase – to 18.6% as at 31 March 2018, up from 14.4% a year earlier. The total market in Australia grew 3.6% in the 12 months to March 2018, while Heartland grew 23.4% during this period.¹ This growth is not expected to slow down with 20,000 people turning 65 in Australia every month.

Heartland's product has been recognised as market-leading, winning Best Reverse Mortgage Provider from CANSTAR and Best Reverse Mortgage from Money Magazine three years in a row. Heartland has even been nominated as a finalist for Non-Bank of the Year at the Australian Mortgage Awards.

How our reverse mortgage customers use their funds



1. Source: APRA Quarterly, Authorised Deposit-taking Institution Performance Statistics and Heartland management reporting.

What is a reverse mortgage?

A reverse mortgage is just like a normal home loan that's been designed specifically for the needs of seniors. It allows homeowners over 60 to access a portion of the equity in their home. What sets it apart from a regular home loan is that no regular repayments are required. Instead, the debt is repaid from the future sale of the property. Most importantly, the homeowner continues to own the home, which is often what connects them to family, friends and their community. The funds borrowed can be used for a range of purposes including home improvements, travel, medical expenses or for extra cash flow in retirement.

Our aim is to provide New Zealand and Australian seniors with the freedom to enjoy a better retirement with peace of mind, independence and security. As part of this, we provide three promises to every reverse mortgage customer:

PROMISE 1:

Lifetime Occupancy Guarantee

Your home will remain the place you live in for as long as you choose.

PROMISE 2:

No Negative Equity Guarantee

The loan repayment will never exceed the net sale proceeds of the property.

PROMISE 3:

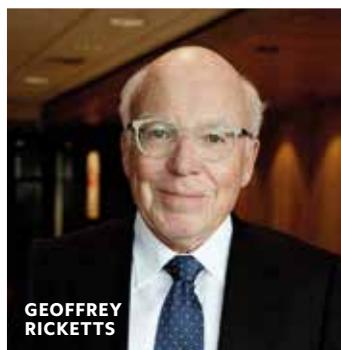
Loan Repayment Guarantee

There is no requirement to make any repayment until the end of the loan.

Andrew Ford
Heartland
Seniors Finance
Australia CEO



Our Board of Directors



GEOFFREY RICKETTS



BRUCE IRVINE



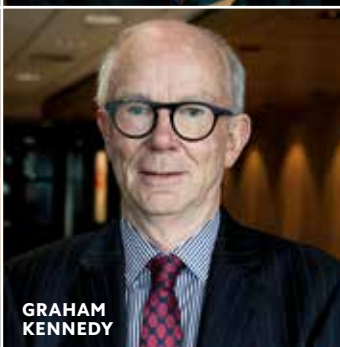
JEFF GREENSLADE



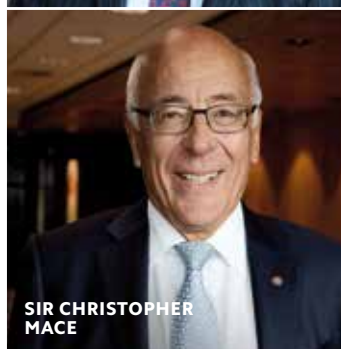
ELLIE COMERFORD



JOHN HARVEY



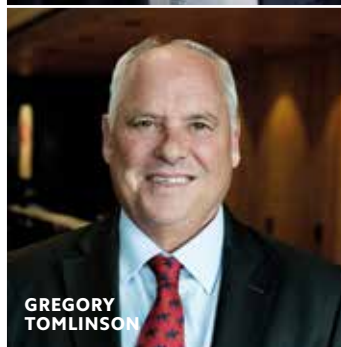
GRAHAM KENNEDY



SIR CHRISTOPHER MACE



VANESSA STODDART



GREGORY TOMLINSON

For a full list of each director's other directorships, please refer to Heartland's disclosure statement for the 12 months ended 30 June 2018 contained in our Financial Report 2018 document.

Geoffrey Ricketts

CNZM, LLB (Hons), LLD (honoris causa), CFInstD
Chair and Independent Non-Executive Director

Term of office

Appointed 30 September 2010, last elected 21 November 2017.

Board committees

Chair of the Corporate Governance, People, Remuneration and Nominations Committee, Chair of the Corporate Finance Committee and member of the Audit Committee.

Geoff is a company director and investor with wide experience in the New Zealand and Australian business environments. He holds a number of directorships, including Chair of Todd Corporation Limited, Chair of Suncorp Group (NZ) Limited and Chair of Vero Insurance New Zealand Limited. Geoff chairs The University of Auckland Foundation and is a strong supporter of community and philanthropic activities, particularly in relation to the arts and education in New Zealand.

Bruce Irvine

BCom, LLB, FCA, CFInstD, FNZIM
Deputy Chair and Independent Non-Executive Director

Term of office

Appointed 31 December 2015¹, last elected 22 November 2016.

Board committees

Chair of the Audit Committee, member of the Corporate Governance, People, Remuneration and Nominations Committee and member of the Corporate Finance Committee.

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 retiring from Deloitte in May 2008 to pursue his career as an independent director. Bruce is 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 the Christchurch Symphony Orchestra.

Jeff Greenslade

LLB – Executive Director and Chief Executive Officer

Term of office

Appointed 30 September 2010, last elected 31 December 2015.

Board committees

Member of the Corporate Finance Committee.

Jeff joined the Heartland Group as Chief Executive Officer of MARAC Finance Limited (MARAC) in 2009 and successfully guided the merger of Southern Cross Building Society, CBS Canterbury and MARAC to become Heartland in 2011.

Together with the Board, Jeff has set a strategy for Heartland focusing on delivery of best or only products to markets that are under-served by the other banks using low cost intermediated, direct and digital channels.

Jeff is a member of Champions for Change, an organisation facilitating the exchange of ideas with peers of appropriate ways to improve our diversity and inclusiveness.

¹ Bruce Irvine and John Harvey were directors of Heartland Bank Limited prior to the amalgamation with Heartland New Zealand Limited on 31 December 2015 and became directors of Heartland New Zealand Limited on amalgamation (which was then renamed Heartland Bank Limited).

Ellie Comerford

BEC – Independent Non-Executive Director

Term of office

Appointed 1 January 2017, last elected 21 November 2017.

Board committees

Member of the Risk Committee and member of the Corporate Finance Committee.

Ellie has worked for more than 30 years in financial services in Australia and overseas across a range of banking and insurance businesses in both an executive and non-executive capacity. Her most recent executive role was as CEO and Managing Director of Genworth Mortgage Insurance Australia Limited successfully listing the company on the ASX in 2014.

Ellie is a non-executive director for financial services businesses in Australia including Cash Converters International Limited and Holland Insurance Australia. Ellie has significant experience in strategy planning, business development, risk management, corporate finance, and operations management, and brings a track record of enhancing financial performance and leadership culture within organisations.

Ellie has a strong passion for promoting diversity and is a member of Chief Executive Women in Australia, a forum to educate and influence Australian business and government on the importance of gender balance.

John Harvey

BCom, CA, CF InstD – Independent Non-Executive Director

Term of office

Appointed 31 December 2015¹, last elected 22 November 2016.

Board committees

Chair of the Risk Committee and member of the Audit Committee.

John has considerable financial services experience and 36 years in the professional services industry, including 23 years as a partner of PricewaterhouseCoopers where he also held a number of leadership and governance roles. Since his retirement from PricewaterhouseCoopers in 2009, John has pursued a career as an independent director of a number of companies, including NZX-listed Stride Property Limited, Investore Property Limited and NZX/ASX-listed Kathmandu Holdings Limited. He is also chairman of NZ Opera Limited.

Graham Kennedy

MNZM, J.P., BCom, FCA, ACIS, ACIM, CFInstD
Independent Non-Executive Director

Term of office

Appointed 30 September 2010, last elected 31 December 2015.

Board committees

Member of the Audit Committee and member of the Risk Committee.

Graham has over 40 years' experience as a chartered accountant and business advisor. He is now an independent professional director and Chairman of a number of private companies, providing him with governance experience across a diverse range of business sectors including property, tourism, agribusiness, transport, construction and professional services. Graham is also actively involved, at a governance level, in a variety of community based charitable organisations. He has considerable experience in Mergers and Acquisitions, Human Resources, Finance and Banking having been involved in the Building Society sector since 1985.

Graham was awarded a New Zealand Order of Merit for services to Business, in the 2017 Queen's Birthday Honours.

Sir Christopher Mace

KNZM, CMInstD – Independent Non-Executive Director
Ngati Porou, Te Whanau-a-Apanui

Term of office

Appointed 30 September 2010, last elected 21 November 2017.

Board committees

Member of the Risk Committee.

Sir Chris is an Auckland-based company director with experience in the New Zealand and Australian business environments. Sir Chris is a past Chairman of the Crown Research Institutes ESR (forensic and environmental science), NIWA (climate, freshwater and ocean science) and the New Zealand Antarctic research unit, Antarctica New Zealand. He is a Commissioner for the Tertiary Education Commission. Sir Chris continues as a director and/or investor in a number of companies. In 2014, he was awarded the Companion of the New Zealand Order of Merit (CNZM) for services to Antarctica and the community and in 2016 was appointed as a Knight Companion of the New Zealand Order of Merit for services to science and education. Sir Chris was named Maori Business Leader of the Year in 2012 and was inducted into the Business Hall of Fame in 2015.

Vanessa Stoddart

BCom/LLB (Hons), PGDip Professional Ethics, GAICD, CMInstD
Independent Non-Executive Director

Term of office

Appointed 3 October 2016, last elected 22 November 2016.

Board committees

Member of the Risk Committee and member of the Corporate Governance, People, Remuneration and Nominations Committee.

Vanessa is an experienced director and serves on the boards of New Zealand Refining Company Limited, Alliance Group Limited, Tertiary Education Commission and the Financial Markets Authority. Her 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 transformation experience with a specific focus on people, culture and health and safety as well as best practice governance and business ethics with some of New Zealand's largest companies, including Air New Zealand and Carter Holt Harvey.

Vanessa's drive for enhanced diversity in New Zealand companies is demonstrated through her commitment to Global Women for which she is currently the Chair.

Gregory Tomlinson

AME – Non-Executive Director

Term of office

Appointed 18 March 2013, last elected 21 November 2017.

Board committees

Member of the Corporate Governance, People, Remuneration and Nominations Committee and member of the Corporate Finance Committee.

Greg is a Christchurch-based businessman and investor with 40 years' experience owning, managing and building businesses. An early pioneer of the mussel industry of Marlborough, he established Impact Capital with active investments in the aged care, animal pharmaceutical, finance and wine sectors. Greg and his wife Jill support a variety of charities in New Zealand and overseas.

Our Strategic Management Group



JEFF
GREENSLADE



CHRIS
FLOOD



LAURA
BYRNE



GRANT
KEMBLE



DAVID
MACKRELL



ROCHELLE
MOLONEY



SARAH
SMITH



LYDIA
ZULKIFLI

Jeff Greenslade

Chief Executive Officer

Jeff has over 20 years' experience as a senior banking executive, including with the ANZ National Banking Group, where he last held the position of Managing Director of Corporate and Commercial Banking for ANZ National Bank. From February 2006 until February 2008, he was on the board of UDC Finance Limited. Jeff has also held a number of senior positions in the Institutional and Capital Markets areas of The National Bank of New Zealand and its subsidiary, Southpac.

Jeff joined the Heartland Group as Chief Executive Officer of MARAC Finance Limited in 2009 and subsequently became Chief Executive Officer of Heartland Bank.

"Our aim is not simply to be a more agile version of a mainstream bank. We have a different model - a model based on a different approach to products, distribution and culture that makes a real difference to our customers.

He aha te mea nui o te ao? He tangata, he tangata, he tangata."

Chris Flood

Deputy Chief Executive Officer

Chris' experience spans 35 years in financial services including roles in New Zealand, Australia and the United Kingdom working with Westpac, National Australia Bank and UDC. Chris has been with Heartland Bank for 20 years, starting with the company in December 1997 in Christchurch before moving to Auckland 2002 as General Manager Consumer. He has also held the roles of Head of Retail and Head of Distribution before being appointed Deputy Chief Executive Officer in September 2016.

Chris serves on the boards of MARAC Insurance Limited, Fuelled Limited, Heartland Australia Group Limited and Heartland NZ Trustee Limited.

"It's been a positive year for Heartland with strong financial performance and achievement of key milestones. This is testament to the dedication and creativity of our people. Looking ahead, we're aiming to widen our market reach, and develop partnership opportunities to bring our products to new customers."

Laura Byrne

Chief People & Culture Officer

Laura is a former lawyer and joined Heartland in 2013 as Group General Counsel following an early legal career in private practice and in-house with the Telecom Group. Since then she has held a number of senior management roles at Heartland, including as Chief Strategy Advisor and Chief Operating Officer. In early 2018 Laura was appointed as Chief People & Culture Officer and, in addition to leading the People and Culture Team, she is now responsible for implementing Heartland's diversity and inclusion, wellbeing, culture and other people-related strategies.

"Our people are what set us apart; they are the reason we can deliver what matters most to our customers and provide opportunities that make a real difference to them."

Grant Kemble

Chief Risk Officer

Following Grant's career as a partner at a leading New Zealand commercial law firm, his most recent role was as Chief Executive Officer of Perpetual Guardian in New Zealand. Grant is a highly skilled professional who brings a very strong skill set, combined with a fresh perspective, to the role of Chief Risk Officer.

"As we embrace the new, challenge the traditional, and provide advice and support across Heartland's business units, the Risk and Compliance team seek to run a 'customer and conduct' lens over everything we do. In 2018, we set up the Customer Outcomes Committee at an executive level to keep this top of mind as New Zealand's banking sector comes under increased scrutiny."

David Mackrell

Chief Financial Officer

David is a highly experienced finance professional who holds a Bachelor of Management Studies (Hons) majoring in both Finance and Accounting. David started his professional career at Ernst & Young as an Auditor before joining Air New Zealand in 1992 where he held a number of senior financial and commercial roles, including most recently Deputy Chief Financial Officer.

"My teams provide expert advice and insightful analysis to all parts of the business and are focussed on driving business results. We ensure that the business has the fuel for growth in terms of capital and funding and turn management information into competitive intelligence to support new ideas and initiatives."

Rochelle Moloney

Chief Marketing & Communications Officer

Rochelle commenced her career as a banking and finance solicitor with a commercial law firm in Auckland. Rochelle joined Heartland's in-house legal team in February 2011 and has since been involved in a number of Heartland's key corporate transactions and acquisitions. In her current role, Rochelle has responsibility for the full spectrum of marketing and communications for the Heartland Group.

"At Heartland we are continually exploring new ways to reach our potential customers and better serve our existing customers through targeted marketing campaigns and enhanced, personalised communications. We recognise the trust our customers place in us and that we are in a privileged position to create new opportunities for our customers through the products and services we provide."

Sarah Smith

Chief Technology & Enablement Officer

Sarah has more than 30 years' experience in the financial services and banking sectors, and prior to joining Heartland was General Manager, Insurance for ANZ. Since joining Heartland in 2013 Sarah has held a number of leadership roles, including CEO of MARAC Insurance Ltd and Head of Business Support. Now, as Chief Technology & Enablement Officer, Sarah leads a team who is focussed on delivering innovative solutions in line with Heartland's strategy.

"Our Technology and Business Enablement team are continuously innovating, looking for solutions that are customer-centric, as well as evolving Heartland's business strategy. My team are creative problem-solvers who turn ideas into business-ready solutions to enhance our customer journey. A key focus for the year ahead will be greater automation and the implementation of Heartland's strategic technology plan."

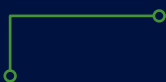
Lydia Zulkifli

Chief Digital Officer

Lydia is an experienced banking executive with a career spanning investments, treasury, lending and digital. Lydia has been with Heartland for over 10 years and is currently leading Heartland's digital transformation in order to cost-effectively reach more customers and provide them with a fast and seamless online experience.

"Heartland wants to offer its customers personalised, safe, seamless end-to-end digital experiences. The team of developers, optimisation specialists, designers and user experience experts work closely with front line business units to understand what our customers want and how we can deliver innovative solutions quickly – we want to give our customers what they want before they know they want it."

How we create value



Heartland is committed to delivering value for its customers, shareholders, employees, communities, partners and intermediaries. This business model sets out the system of key inputs and business activities that contribute to Heartland's value outcomes.

Our Value Creation Business Model is based on the International Integrated Reporting Council (IIRC) <IR> Framework. Using the principles of this framework we have identified four key inputs and assess value through our operational activities and five value outcomes of the organisation.

We believe we are already making great progress towards Corporate Social Responsibility issues, and we have some strong aspirations of what we can do in the future to ensure the sustainability of our company and enhance our contribution to our community and environment.

As we progress on this journey we would love to hear any feedback from you. If you have any questions or feedback on this report, please email us at shareholders@heartland.co.nz.

INPUTS



Our people



Financial capital



Partners,
intermediaries
& other
stakeholders



Natural
resources

VALUE OUTCOMES



Retail deposits & raising investor/wholesale funds



Consumer, business & rural lending



Customer interactions via:

Relationship managers
Call centres
Digital
Intermediary networks



Governance & risk management



Innovation

ACTIVITIES



Our people

Providing a diverse and inclusive work environment that supports the wellbeing of our people



Our community

Providing support that makes a positive difference in our community



Our customers

Providing access to opportunities that make a real difference to our customers



Our shareholders

Providing strong sustainable economic returns

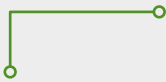


Our operations

Reducing our direct impact on the environment



Corporate Social Responsibility Framework Overview



Corporate Social Responsibility Framework



Our people



STRATEGIC MANAGEMENT GROUP

50%

Female

50%

Male

SENIOR LEADERSHIP TEAM

33%

Female

67%

Male

ALL STAFF

52%

Female

48%

Male



Our aspirations

To be a leader in diversity, to create a welcoming and inclusive work environment, and to support the wellbeing of our people.

Our objectives

- Address imbalances in gender and ethnic representation
- Create an environment where Māori language, culture and values are embraced, to become an employer of choice for Māori
- Provide best practice support to our people in relation to health and wellbeing
- Develop an approach to flexibility that will enable us to build a diverse and inclusive team.

Our activities

ACHIEVED:

- Heartland partnered with Global Women in 2017 to understand best practice in the promotion and facilitation of gender diversity. Heartland Chief Executive Officer, Jeff Greenslade, is also a member of Champions for Change, demonstrating a commitment to making Heartland an inclusive and welcoming working environment for all staff
- Heartland's Kia Eke group was established in 2018 as a talent development programme for females at an early stage in their career to support their development and confidence to grow into leadership roles in the future
- Heartland's Diversity Committee was established and its Diversity Policy implemented in 2017. The Diversity Committee is a forum where ideas to measure, celebrate and promote diversity and inclusion are shared. The committee arranges events and reports to the Board on diversity-related matters
- Heartland completed a voluntary baseline survey in 2017 to understand the ethnic diversity of its people, with the results showing that our people identify with 47 unique ethnic groups
- Celebrations of Heartland's diversity have included events for Diwali, Chinese New Year, Matariki, an international shared lunch day (where staff brought in food representing their culture or background) and Pink Shirt Day (an initiative to prevent bullying by celebrating diversity and promoting positive social relationships)
- Heartland introduced a flexible working policy in 2018. It encourages managers to take an open-minded approach to requests for flexible working, reinforcing the benefits to Heartland and its customers of providing flexibility to employees who value it

- Heartland has an Organisational Counselling Programme (OCP) in place for its people. OCP is an employee assistance programme available to all staff, spouses and partners as well as children living at home. It is a confidential service with trained counsellors available to discuss any work-related or personal issues
- Heartland provides financial support to its people to participate in team sports with their colleagues to support wellbeing and teamwork
- Heartland is working to create an environment where Māori language, culture and values are embraced and Māori feel confident to join Heartland and succeed authentically as Māori. We believe this will set a good foundation for Heartland to become a more welcoming place for people of all cultures and ethnicities. Initiatives to further this objective in 2018 include:
 - Appointment of a People & Culture team member dedicated to advising the leadership team and Board on culturally appropriate practices and co-ordinating the initiatives to create a welcoming and accepting environment for Māori
 - Introduction of te reo and tikanga Māori awareness classes which are available free of charge to all staff
 - Bilingual signage installed throughout our offices to create a visual cultural presence
 - Holding a Māori speaker series established to assist our people with better understanding of various kaupapa from a Māori world view.

UNDERWAY:

- Advancing the use of te reo and tikanga on formal occasions
- Promotion of te reo through internal initiatives including Māori language week
- Establishing a toolkit for our people to help cope with stress in the workplace
- Establishing a wellbeing working group at Heartland to better understand how Heartland can support the wellbeing of its people
- Initiatives to address the gender imbalance that currently exists on the Senior Leadership Team.



Heartland team members
Aleisha and Rachel
competing in the Fidelity Life
Corporate Challenge





Our community



LEFT: Heartland is a proud supporter of the Ashburton Schools Music Festival.



RIGHT: The Heartland Festival Room at the 2018 Auckland Writers Festival.

BELOW: Captains of the Auckland Rugby Girls' First XV teams.



Our aspirations

To make a positive difference in our community by providing support and opportunity to those in greater need.

Our objectives

- Enhance the educational outcomes and career opportunities for young Māori
- Support the development of young New Zealanders
- Improve the opportunities and quality of life available to the senior demographic.

Our activities

ACHIEVED:

- The Heartland Trust is a proud supporter of the InZone Education Foundation, a registered charitable trust that aims to enhance the educational outcomes of Māori and Pasifika youth. It does this by establishing and running 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 provided to the InZone Education Foundation, Heartland welcomed a number of the students to work in paid internship positions over their summer holiday. The internship programme was based on the Māori concept of 'ako', which means to learn and to teach. The objectives of the programme were to provide the students with experience and an understanding of what the 'world of work' will require of them and to enable Heartland to learn how it can become a more welcoming and inclusive environment for its people
- The Heartland Trust has been closely involved with First XV rugby in schools across the country for several years now. Support from the Trust assists with funding uniforms and training equipment. Team sports, like rugby, foster discipline, commitment and teamwork, essential values for leadership and success beyond school. This year, Heartland is also sponsoring the Auckland Rugby 1st XV Boys' and Girls' competitions
- This year, Heartland was once again the platinum sponsor of the Auckland Writer's Festival, an event that caters for a diverse range of cultures, interests and age groups, inspiring people to fall in love with books

- Heartland staff volunteer annually at the Special Children's Christmas Party, an event established for children who suffer from life threatening illness, physical and intellectual impairment, domestic violence or who are living in underprivileged circumstances
- Heartland provides scholarships to a number of Māori students to attend high-performing schools they would not be otherwise able to access.

UNDERWAY:

- Sponsorship of the Silverline charitable trust, a newly established charity in New Zealand that will provide a 24 hour support line for seniors and a befriending service for seniors who are experiencing loneliness
- Sponsorship of upcoming regional and national kapa haka competitions
- Further development of the internship programme for young Māori in cooperation with the InZone Education Foundation and King's College
- Sponsorship of the WORD Christchurch Festival 2018.

The Heartland Trust is a proud supporter of the InZone Education Foundation, a registered charitable trust that aims to enhance the educational outcomes of Māori and Pasifika youth.

The Heartland Trust is a registered charitable trust which is independent from, but closely supported by, Heartland Bank.



ABOVE: King's College Scholarship Recipients.

BELOW: Students supported by the InZone Education Foundation.





Our customers



LEFT: Ray and Tania Charman say their concrete services business couldn't have evolved as efficiently as it has without support from Heartland Bank and their great relationship manager.

RIGHT: Heartland's mobile deposit app gives customers better control over their savings.



Our aspirations

To provide consistently outstanding service to our customers, putting our customers' interests above all others when selling our products and providing a suite of products that have a positive social impact.

Our objectives

- Meet the needs of people whose needs are not met by mainstream banking (financial inclusion)
- Develop and drive innovation to better meet the needs of our diverse customers
- Lead the way in responsible lending.

Our activities

ACHIEVED:

- Heartland has attained the Consumer Trusted accreditation for its reverse mortgage product. The Consumer Trusted accreditation recognises businesses that are committed to delivering fair and exceptional customer experiences beyond the consumer law requirements
- This year, Heartland received 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 its customers. Heartland has also received the CANSTAR Award for the third year in a row for its Direct Call Account, recognising the outstanding value it provides to customers in relation to flexibility and returns
- Heartland Seniors Finance in Australia was awarded "Provider of the Year – Reverse Mortgage Award 2018" by CANSTAR and named winner of the Best Reverse Mortgage Product 2018 by Money Magazine, in each case for the third year running.

Heartland is proud of the products it offers and how it can assist people whose needs are not met by mainstream banking. Examples of how Heartland's products make a positive social impact include:

- Reverse mortgages which provide seniors with the opportunity to enjoy a better retirement with peace of mind, independence and security
- Car loans which provide families with the opportunity to buy safer and more fuel efficient motor vehicles
- Supporting the growth and development of small businesses through the provision of finance through the Open for Business platform
- Supporting the agriculture sector through the provision of specialist livestock finance which gives farmers the opportunity to purchase livestock in a flexible and efficient way
- Development of a Farm Transition Loan to provide a new option for farmers who want to retire from their farm
- Development of the Heartland Mobile App to enable customers to have better control over their savings and deposits and ultimately grow their wealth
- Heartland has always been focused on customers' interests. An executive level Customer Outcomes Committee has been established to monitor that our conduct is aligned with our aspirations and public expectations. Heartland has clear lending policies and staff training to ensure we meet and exceed responsible lending standards including to establish customer affordability and suitability for our products.

RIGHT: Heartland Seniors Finance Australia Sales Team Leader, Elisse, with correspondence from customers thanking the team for helping them to live a better retirement.



LEFT: Reverse mortgage customer, Leonard Jones, couldn't imagine having to leave the property he loves in West Auckland.



RIGHT: Vrinda and Sandeep Sharma of New Plymouth got the kick start they needed to become first-time business owners, thanks to an Open for Business loan.



LEFT: Entrepreneur Amber Fowler's online start-up business is bringing customer service back to event ticketing, thanks to support from an Open for Business loan.





Our shareholders

\$47.9m

Paid in dividends to more than 12,000 shareholders in FY2018

174%

Total Shareholder Return for the five years ending 30 June 2018

Our aspirations

- To provide sustainable economic returns to our shareholders.

Our objectives

- Continuation of a business model that provides sustainable economic returns to our investors.

Our activities

ACHIEVED:

- 2018 full year dividend 9.0 cps
- Paid \$47.9m in dividends to more than 12,000 shareholders in FY2018
- Provided shareholders with 174% Total Shareholder Return for the five years ending 30 June 2018, compared to 102% for the NZX50
- Return on Equity 11.1%
- Heartland is the only bank in New Zealand with its primary listing on the NZX:
 - 89% of shareholders based in New Zealand
 - 66% of shares held by retail investors (excluding Directors and Staff).

UNDERWAY:

- Corporate Restructure to provide greater flexibility for the group to explore and take advantage of future growth opportunities in New Zealand and Australia.

Our aspirations

- To conduct our business operations in a way that reduces our direct impact on the environment.

Our objectives

- Continuously improve the sustainability of our business operations.

Our activities

ACHIEVED:

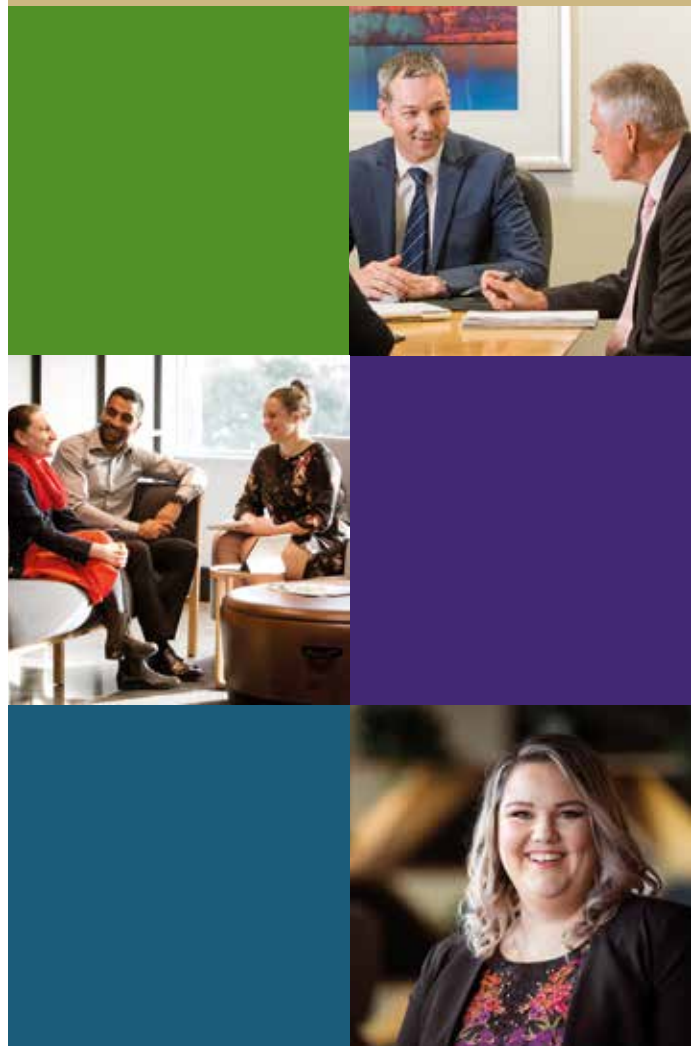
- Adoption of follow-me printing and a print on demand model for procurement with the objective of reducing paper and printing resources
- Our strategy to reach more customers through digital channels instead of through bricks and mortar infrastructure also reduces Heartland's direct impact on the environment.

UNDERWAY:

- Establishment of a formal sustainable procurement policy.



Our operations



Financial Commentary



Net profit after tax was \$67.5 million for the 12 months ended 30 June 2018, an increase of 11% on the previous year.

Heartland has achieved excellent growth in net finance receivables compared to the prior year, particularly in reverse mortgages, motor vehicle loans, small business loans, Harmony and other consumer lending. Overall net finance receivables grew by 12% (\$439.0 million) during the year to \$4.0 billion as at 30 June 2018. Our Australian operations stood out, with net finance receivables increasing 39% in the year ending 30 June 2018.

Net Operating Income

Net Operating Income (NOI) was \$196.8 million for the year ended 30 June 2018, up 15% from \$171.3 million in the 2017 financial year. In 2018, Net Operating Income included a \$4.8 million gain relating to the sale of property which was part of an arrangement established to recover legacy property loans, and \$0.6 million gain on the sale of the Bank's invoice finance business. Excluding these two one off items, Net Operating Income increased 12% on prior year, in line with the growth in net finance receivables.

Net Interest Margin (NIM) for 2018 was 4.42% compared to 4.46% for 2017. The reduction results primarily from changes in the asset mix.

Costs

Operating costs were \$80.4 million for the year ended 30 June 2018, an increase of 12% from 2017. This increase was due to business growth driving increased staff and operational expenses. Operating costs in 2018 included a number of one-off expenses including new system implementation costs, legacy systems costs and expenses in relation to the proposed corporate restructure.

Notwithstanding these one-off additional expenses, the cost to income ratio improved to 40.9% for 2018 compared to 41.9% in 2017.

Impairments

Impaired asset expense was \$22.1 million for the year ended 30 June 2018, an increase of \$7.1 million from \$15.0 million in 2017. The increased impairment cost resulted from increased receivables volume, increased rate due to reduced collections resulting from system implementation issues, together with the one-off impacts of additional provisioning for large relationship loans and the prior year benefiting from a one-off insurance recovery.

Impairment expense in the Household (comprising Reverse Mortgages, Motor, Harmony and other consumer lending and residential mortgages) division was \$13.0 million, up \$2.7 million compared to last year, an increase of 26% in line with the increase of Household net finance receivables of 21% combined with slightly higher write-offs in the Harmony and other consumer loan and motor vehicle loan books than 2017. Household impairment expense as a percentage of average net receivables was 0.63%.

Impairment expense in the Business division was \$7.9 million up \$3.5 million compared to 2017. This is due to asset growth combined with the \$1.2 million insurance recovery write back which occurred in 2017. As mentioned above, business impairments also increased due to further provisioning for large relationship business loans. Business impairment expense as a percentage of average net receivables was 0.76%.

Impairment expense in the rural division was \$1.2 million, compared to a low \$0.3 million charge in 2017. This is due to a higher average rural loan book in 2018 compared to 2017, together with an increased impairment rate against larger rural relationship lending. Heartland continues to be very supportive of the rural and dairy sector, and we are focusing our efforts to grow this division through increased livestock lending while reducing our exposure to large risk concentration. Rural impairment expense as a percentage of average net receivables was 0.17%.

Business Performance

Household (Reverse Mortgages, Motor, Harmony and other consumer lending and residential mortgages)

Net receivables for the Household division increased by \$387.9 million (21%) to \$2.3 billion as at 30 June 2018, due to growth in motor vehicle loans, Harmony and other consumer lending and reverse mortgages in both New Zealand and Australia. Household net operating income was \$104.8 million for the year ended 30 June 2018, an increase of \$11.9 million (13%) from 2017.

Consumer net receivables (comprising Motor, Harmony and other consumer lending) grew \$188.6 million (21%) to \$1,107.6 million as at 30 June 2018. Motor net receivables increased by \$130.8 million (16%) to \$955.1 million as at 30 June 2018, while Harmony and other consumer lending net receivables increased by \$57.8 million (61%) to \$152.6 million.

Consumer net operating income increased \$4.0 million (7%) from 2017 to \$65.3 million for the year ended 30 June 2018. Net operating income growth did not mirror the strong growth in net receivables due to a strategic change in mix towards higher quality motor vehicle lending.

New Zealand Reverse Mortgages net receivables grew by \$49.8 million (12%) to \$453.1 million as at 30 June 2018, while Australia Reverse Mortgages net receivables grew very strongly by \$159.3 million (31%) to \$676.8 million as at 30 June 2018. Growth in Australia continues to be driven through increased marketing and continued broadening of the broker distribution network. Our market share in Australia Reverse Mortgages was 18.6% as at 31 March 2018, up from 17.7% as at 31 December 2017 and 14.4% as at 31 March 2017.¹

Net operating income for Reverse Mortgages increased \$8.3 million (28%) from 2017 to \$38.1 million for the year ended 30 June 2018. Residential mortgages net receivables reduced by \$9.8 million during 2018 to \$25.7 million as this portfolio continues to be run down.

Business

Business net operating income was \$53.2 million for the year ended 30 June 2018, an increase of \$6.1 million (13%) from 2017. The increase in net operating income was driven by growth in net receivables, which increased by \$70.4 million (7%) to \$1,065.4 million as at 30 June 2018. Our Business division growth strategy this year focused on growth through intermediaries and through our digital platform, Open for Business, which is driving significant growth in lending to small to medium sized enterprises.

¹ Source: APRA Quarterly, Authorised Deposit-taking Institution Performance Statistics and Heartland management reporting.

Rural

Rural net operating income was \$32.3 million for the year ended 30 June 2018, an increase of \$3.1 million (10%) from 2017. While rural net receivables decreased by 3% to \$656.2 million as at 30 June 2018, average net receivables increased from \$614.0 million in 2017 to \$665.8 million in 2018, resulting in an increase in net operating income. The focus for rural has been on livestock lending, particularly through our digital platform Open for Livestock, an easy online loan application platform similar to our hugely successful Open for Business platform. This will continue to be a priority over traditional rural relationship lending and larger risk concentration loans.

Net assets

Net Assets increased from \$569.6 million to \$664.2 million during the year, an increase of 17%. Net Tangible Assets (NTA) increased from \$490.5 million to \$584.4 million during the year, an increase of 19%. On a per share basis, NTA was \$1.04 at 30 June 2018 compared to \$0.95 as at 30 June 2017, an increase of 9%.

Funding and liquidity

Funding and liquidity remain strong with retail deposits growing \$307.8 million (12%) to \$2.9 billion as at 30 June 2018. The market continues to respond well to Heartland's direct call and business call accounts which give customers a competitive rate of interest and unlimited availability to their money.

In September 2017, Heartland successfully completed a five year, unsecured, unsubordinated, medium term, fixed rate notes offer. The offer closed with the final amount being issued totalling \$150 million at a fixed interest rate of 4.50% reflecting a margin of 1.88% over the underlying five year swap rate. The notes were issued on 21 September 2017 with a maturity date of 21 September 2022 and are quoted on the NZX Debt Market.

Capital management

The regulatory capital ratio (Total Capital expressed as a percentage of total risk weighted exposures) was 14.12% as at 30 June 2018, above the 13.56% as at 30 June 2017.

In December 2017, Heartland successfully completed a 1 for 15 rights issue, which raised \$59 million to support continued growth in its loan portfolio and strengthened its balance sheet. The offer included a shortfall bookbuild open to both retail and institutional shareholders. The bookbuild price was set at \$2.02 per share, which represented a premium of \$0.32 per share above the issue price of \$1.70 per share under the rights issue. The new shares were issued and commenced trading on the NZX Main Board on 14 December 2017.

A 2018 final ordinary dividend of 5.5 cents per share was declared bringing the 2018 full year ordinary declared dividends to 9.0 cents per share, consistent with the total dividend paid for 2017. Retaining the dividend at the same level of 2017 allows us to invest for future growth. The Dividend Reinvestment Plan (DRP) will remain in effect for the final dividend with a 2.5% discount.

Although net earnings improved in the 2018 year, the additional equity raised during the period, resulted in a reduction in Return on Equity (ROE) to 11.1%, from 11.6% in 2017. Earnings per share for the year ending 30 June 2018 was 13 cents, up from 12 cents for the year ending 30 June 2017.

Change in profitability (\$million)

June 2017 net profit after tax	60.8	
Net Interest Income	20.7	Net interest income increased 13% in line with growth in net finance receivables of 12%.
Lease, fee and other income	(0.5)	Lease income decrease due to reduction in lease receivables.
Selling and administration expenses	(7.4)	Operating expenses (excluding one-offs) increased 10% due to business growth driving increased staff and operating expenses, offset by improved automation and efficiencies.
Impairment expense	(2.8)	Impairment expenses (excluding one-offs) increased due to business growth and increase in overall impairment rate.
One-off other income	5.4	Gain on sale of property and gain on sale of invoice finance business.
One-off operating expenses	(1.3)	New system implementation expenses, legacy systems costs and expenses in relation to the proposed corporate restructure.
One-off impairment expenses	(4.4)	Additional provisioning for large relationship loans, insurance recovery write-back in prior year, combined with reduced collections due to system implementation issues.
Income tax expense	(3.0)	Income tax expense increased due to improved profitability with the effective tax rate unchanged from 2017.
June 2018 net profit after tax	67.5	

Summary Financials



Statement of Comprehensive Income

For the year ended 30 June 2018

\$'000	Jun 2018	Jun 2017
Interest income	309,284	278,279
Interest expense	125,483	115,169
Net interest income	183,801	163,110
Net operating lease income	1,670	1,794
Lending and credit fee income	2,351	3,005
Other income	8,972	3,343
Net operating income	196,794	171,252
Selling and administration expenses	80,433	71,684
Profit before impaired asset expense and income tax	116,361	99,568
Impaired asset expense	22,067	15,015
Profit before income tax	94,294	84,553
Income tax expense	26,781	23,745
Net profit attributable to shareholders of the Bank	67,513	60,808
Other comprehensive income for the year, net of income tax	3,708	1,432
Total comprehensive income for the year	71,221	62,240
Basic and diluted earnings per share (cents)	13	12

Statement of Cash Flows

For the year ended 30 June 2018

\$'000	Jun 2018	Jun 2017
Operating inflows	295,810	274,638
Operating outflows	(221,273)	(208,328)
Changes in operating assets and liabilities	(125,716)	(154,407)
Net Cash Flows from operating activities	(51,179)	(88,097)
Net cash flows from investing activities	(35,931)	(94,298)
Net cash flows from financing activities	79,658	155,281
Net decrease in cash held	(7,452)	(27,114)
Cash and cash equivalents at the beginning of the year	57,040	84,154
Closing cash and cash equivalents	49,588	57,040

Statement of Changes in Equity

For the year ended 30 June 2018

\$'000	Jun 2018	Jun 2017
Balance at beginning of the year	569,595	498,341
Net profit attributable to shareholders of the Bank	67,513	60,808
Other comprehensive income for the year, net of income tax	3,708	1,432
Dividends paid net of reinvested dividends	(35,150)	(31,387)
Issue of share capital net of transaction costs	58,315	39,348
Other Movements	179	1,053
Balance at end of the year	664,160	569,595

Statement of Financial Position

As at 30 June 2018

\$'000	Jun 2018	Jun 2017
Cash and cash equivalents	49,588	57,040
Investments	340,546	318,698
Investment properties	9,196	4,909
Finance receivables	3,984,941	3,545,897
Operating lease vehicles	17,524	19,038
Other assets	14,411	10,000
Intangible assets	74,401	71,237
Deferred tax asset	5,319	7,852
Total assets	4,495,926	4,034,671
Borrowings	3,796,058	3,429,741
Current tax liabilities	11,459	9,856
Trade and other payables	24,249	25,479
Total liabilities	3,831,766	3,465,076
Share capital net of treasury shares	542,315	470,516
Retained earnings	117,260	97,642
Revaluation reserves	510	(543)
Foreign currency translation reserve	1,260	(1,055)
Employee benefits and defined benefits reserve	2,815	3,035
Total equity	664,160	569,595
Total equity and liabilities	4,495,926	4,034,671

Corporate Directory



Directors

Geoffrey Ricketts

Chair and Independent
Non-Executive Director

Bruce Irvine

Deputy Chair and Independent
Non-Executive Director

Jeff Greenslade

Executive Director and
Chief Executive Officer

Ellen Comerford

Independent Non-Executive Director

John Harvey

Independent Non-Executive Director

Graham Kennedy

Independent Non-Executive Director

Sir Christopher Mace

Independent Non-Executive Director

Vanessa Stoddart

Independent Non-Executive Director

Gregory Tomlinson

Non-Executive Director

Strategic Management Group

Jeff Greenslade

Chief Executive Officer

Chris Flood

Deputy Chief Executive Officer

Laura Byrne

Chief People & Culture Officer

Grant Kemble

Chief Risk Officer

David Mackrell

Chief Financial Officer

Rochelle Moloney

Chief Marketing & Communications Officer

Sarah Smith*

Chief Technology & Enablement
Officer

Lydia Zulkifli

Chief Digital Officer

* Subject to pending application for Reserve Bank
of New Zealand approval.

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