

**Mahi  
tika**

**Mahi  
tahi**

**Mahi  
toa**

**Mahi  
tipu**

**Our mātāpono  
(values) underpin who  
we are and everything  
we do. They were  
created by our people  
to be shared with our  
customers, partners,  
communities and  
shareholders.**



## **Mahi tika**

**DO THE RIGHT THING**  
Kia tika, kia pono. Do what's  
right and true.



## **Mahi taahi**

**BE ONE TEAM**  
He waka eke noa. We're all  
in this together.



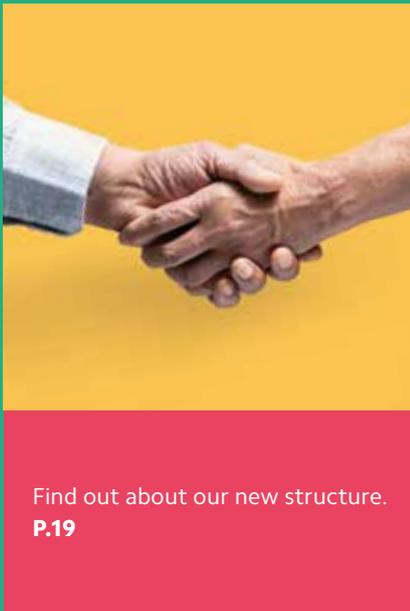
## **Mahi toa**

**HAVE BIG AMBITION**  
Tū whitia te hopo. Feel the  
fear and do it anyway.



## **Mahi tipu**

**BE ALWAYS EVOLVING**  
Whāia te iti kahurangi.  
Strive for excellence.



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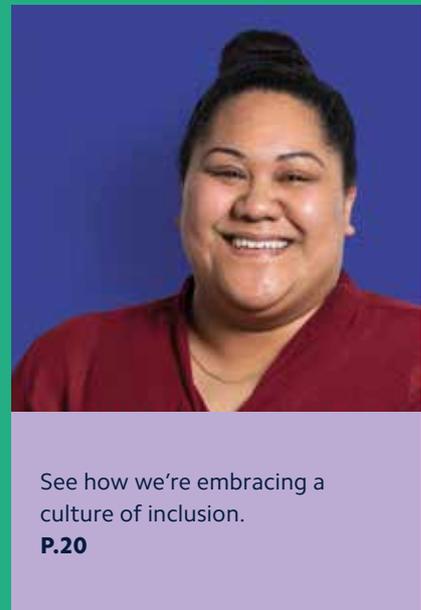
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Find out how we keep our customers at the heart of everything we do.

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**Our whakapapa goes back nearly 150 years and we're always evolving – mahi tipu. We're constantly looking for new ways to grow, deliver more for our customers and adapt to their needs.**

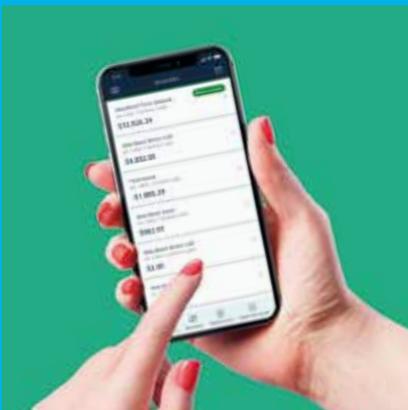
WHĀIA TE ITI KAHURANGI



# Kia ora

STRIVE FOR EXCELLENCE

**We have big ambition – mahi toa. This last year we said kia ora to a new structure, new products and new markets. We enhanced our digital platforms, renewed focus on the values which underpin our culture and took our customer experiences to new heights.**



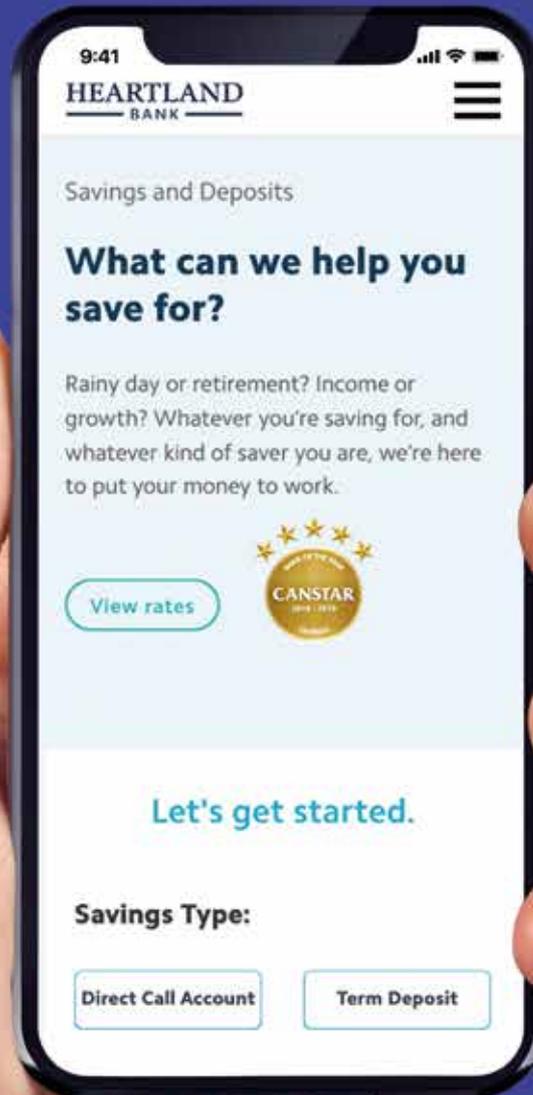
Find out more about our digital developments.  
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Read what our Chair and CEO have to say about the year that's been and what's ahead.

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TŪ WHITIA TE HOPO





Find out how we're building a sustainable business.

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For the year ahead, our sights are set on welcoming more customers through even better customer experiences, benefits and outcomes. We're confident this focus will deliver greater opportunities for our people and more value for our shareholders.

FEEL THE FEAR AND DO IT ANYWAY

# HELLO



See our results for the 2019 financial year.

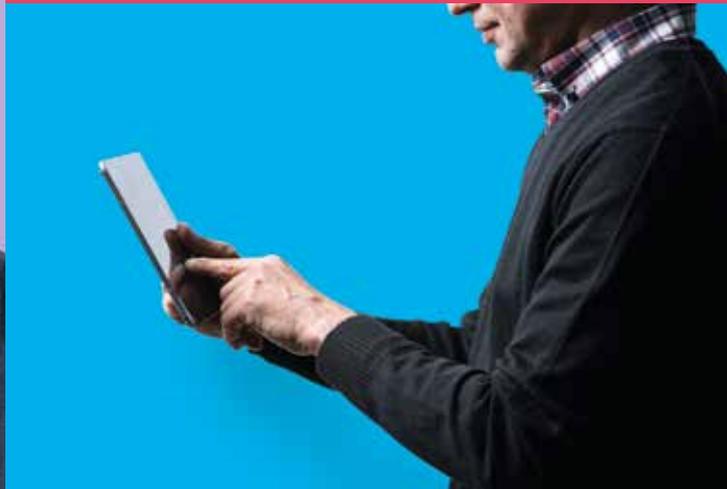
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**DELIVERING SHAREHOLDER VALUE**

Total shareholder return of 132% for the five years ending 30 June 2019<sup>1</sup>.

↑ **132%**



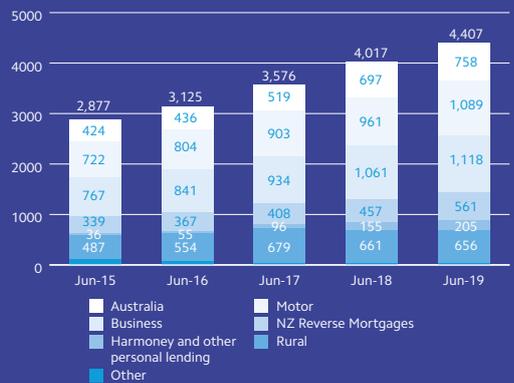
**2019 Results**

**STRONG GROWTH ACROSS THE GROUP**

Growth in gross finance receivables of 10.5% to \$4.4 billion.

↑ **10.5%**

**Gross finance receivables (\$million)**



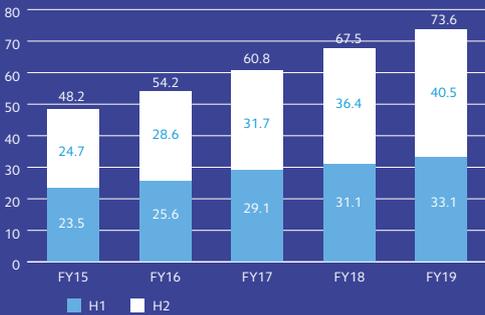
<sup>1</sup> Total shareholder return (TSR) means share price appreciation plus dividends received. TSR has been calculated including the benefit of imputation credits.  
<sup>2</sup> KPMG FIPS Report March 2019.

**PROFITABILITY CONTINUES TO INCREASE**

Net profit after tax of \$73.6 million, an increase of 9.0%.

**↑ 9.0%**

**Net profit after tax**



2019 HIGHLIGHTS

**11.1%**

**RETURN ON EQUITY**

**13.0**

**CENTS PER SHARE**  
Earnings per share

**6.5**

**CENTS PER SHARE**  
Final dividend declared

**10.0**

**CENTS PER SHARE**  
Total dividend for the year

**BBB**

**HEARTLAND BANK CREDIT RATING (FITCH RATING)**  
Outlook Stable  
Investment Grade



**CONSISTENTLY HIGH NET INTEREST MARGIN**

Net interest margin of 4.33% - higher than our banking peers<sup>2</sup>.

**4.33%**

# Our business

OUR BUSINESS

## Reverse Mortgages



### AUSTRALIA

- Gross finance receivables \$757.6m, up 24.0%.
- Distributed through brokers and our sales team in Australia.

### NEW ZEALAND

- Gross finance receivables \$561.2m, up 11.4%.
- Primarily distributed through our sales team in New Zealand.

## Motor Vehicle Finance



- Gross finance receivables \$1,088.6m, up 13.3%.
- Distributed direct to customers and through our motor vehicle dealer network to enable customers to access finance at the point of sale.

1,318.8M

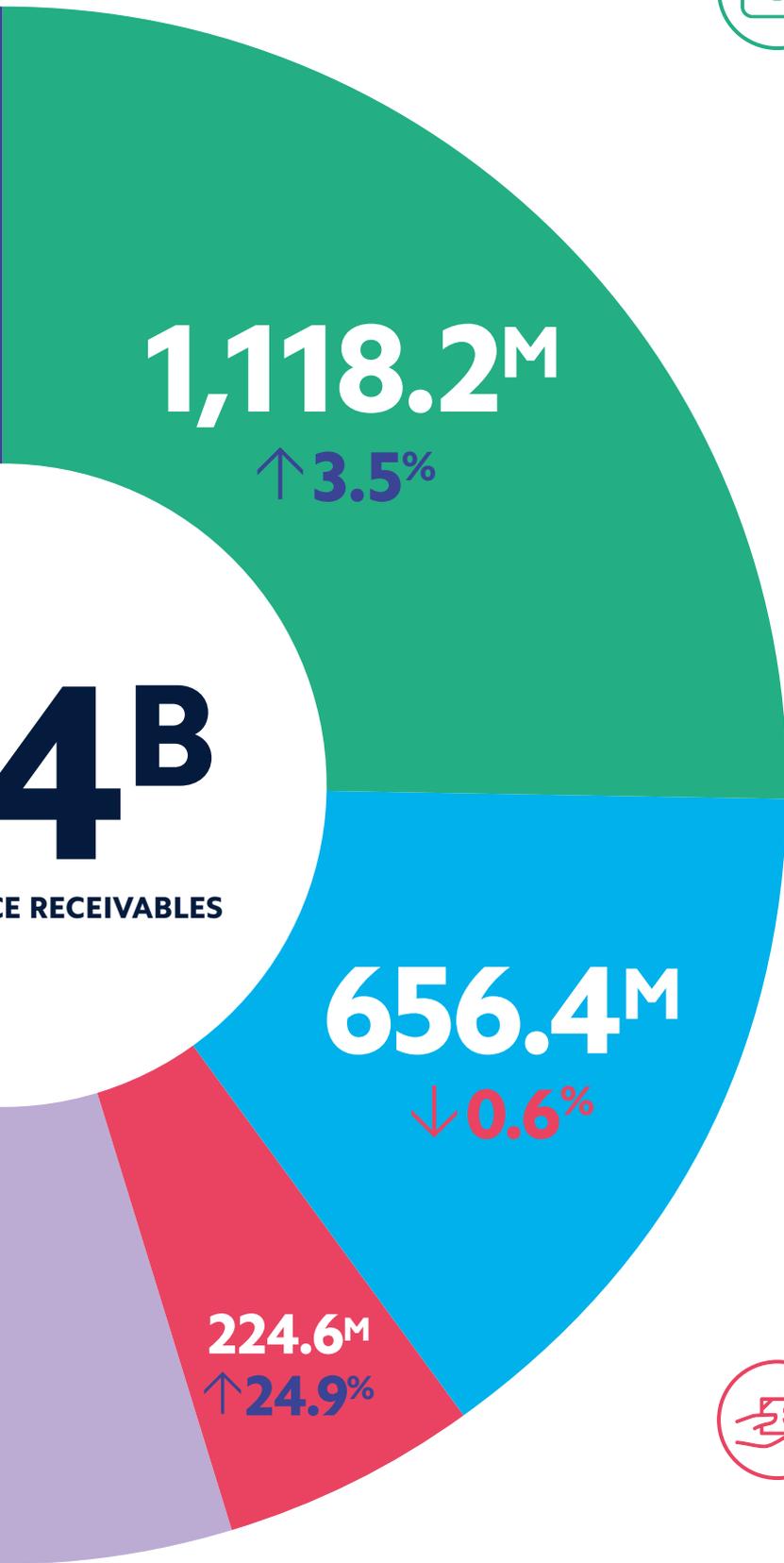
↑19.4%

4.4

GROSS FINANCING

1,088.6M

↑13.3%



## Business Finance

### OPEN FOR BUSINESS

- Gross finance receivables \$133.3m, up 48.2%.
- Finance for small-to-medium sized businesses available online through Heartland's digital Open for Business platform.

### BUSINESS INTERMEDIATED

- Gross finance receivables \$425.4m, up 31.4%.
- Working capital and plant and equipment finance distributed through our partners and intermediaries.

### BUSINESS RELATIONSHIP

- Gross finance receivables \$559.4m, down 16.1%.
- Working capital and plant and equipment finance distributed through our relationship managers.



## Rural Finance

### LIVESTOCK FINANCE

- Gross finance receivables \$121.6m, up 18.8%.
- Livestock finance for farmers available online through Heartland's Open for Livestock platform.

### RURAL RELATIONSHIP

- Gross finance receivables \$534.8m, down 4.2%.
- Rural loans distributed through Heartland's relationship managers.



## Harmony and other consumer lending

- Gross finance receivables \$224.6m, up 24.9%.
- Distributed through intermediary partners and brokers, and enabled by Heartland's partnership with Harmony.

# Mahi tika. Do the right thing.



FROM THE CHAIR



INCREASE IN PROFITABILITY  
FOR HEARTLAND.

On behalf of the Board, it is my pleasure to report another successful year for Heartland. The Group delivered a net profit after tax of \$73.6 million, representing an increase of 9.0% in profitability. At the centre of Heartland's continued growth is an intensified focus on our customers and support for the communities we serve.

**KEEPING CUSTOMERS AT OUR HEART**

Doing the right thing for our customers is essential to building a sustainable, successful business. We build a strong foundation for this when we keep our customers’ needs at heart and focus on their long-term outcomes in everything we do. Doing the right thing is something we pride ourselves on, and is reflected in one of Heartland’s mātāpono (values) – mahi tika.

Heartland is proud to offer products that can contribute to positive social outcomes. Examples of this include through our Heartland Reverse Mortgage, both in New Zealand and Australia, which provides people with the ability to enjoy a more comfortable retirement in their own home – a place that so often connects people with their friends, family and community.

Heartland’s small business loans are another great example – we recognise the crucial role these businesses play in our economy. We support the growth of these businesses, helping the owners to reach their goals with secured or unsecured loans – meaning they don’t have to mortgage the family home to finance their business.

The financial services sector has seen considerable regulatory activity this financial year with the FMA and RBNZ reporting on their findings following a review of conduct and culture in New Zealand retail banks. Overall, the findings from the review concluded that there does not appear to be widespread conduct and culture issues in New Zealand banks<sup>1</sup>, but there is room for improvement.

Heartland is committed to continuous improvement in all areas identified by the FMA and RBNZ. On 29 March 2019, as required of all banks, Heartland submitted a workplan to the FMA and RBNZ addressing improvement in conduct and culture and is currently working through the plan and focusing on iterative improvement across the organisation.

**\$617.3k**

**PAID TOWARDS SPONSORSHIP AND COMMUNITY ACTIVITIES THIS YEAR BY THE HEARTLAND TRUST.**

**SUPPORTING OUR COMMUNITIES**

Heartland recognises the responsibility it has to the communities in which we serve and aims to give back and provide a positive social impact through a range of sponsorships from the Heartland Trust<sup>2</sup>.

This year, the Heartland Trust continued its support of education through the InZone Education Foundation which aims to enhance the educational outcomes of Māori and Pasifika youth by providing them opportunities to access high-performing state schools through boarding hostels within school zones.

As part of our support of InZone, Heartland’s internship programme continued, this time welcoming 20 students into paid internship positions over their summer holiday. The internship programme has been a success so far, leading to seven interns continuing employment with Heartland Bank, and we look forward to welcoming more students in December.

Furthering our support of te reo Māori and education, the Heartland Trust this year began sponsorship of Te Matatini festival (New Zealand’s national kapa haka festival held every two years), and the Kupe Leadership Scholarship (a scholarship which aims to develop our country’s future leaders).

Mental wellbeing is another area of high importance to Heartland, and this year the Heartland Trust continued to sponsor Lifeline (a confidential phone line service for New Zealanders going through difficult times) and Auckland City Mission’s HomeGround project (a purpose-built facility which aims to provide much needed support to those who need it most).

<sup>1</sup> The “Bank Conduct and Culture – Findings from an FMA and RBNZ review of conduct and culture in New Zealand retail banks” report, dated November 2018 and published by the FMA and RBNZ, which summarised the results of their joint review on conduct and culture found that “conduct and culture issues do not appear to be widespread in banks in New Zealand”.

<sup>2</sup> The Heartland Trust is a registered charitable trust which is independent from, but closely supported by, Heartland Bank and Heartland Group.

This year was the Heartland Trust's third year as the platinum sponsor of the Auckland Writer's Festival which once again featured a variety of speakers from a range of backgrounds. We're proud to sponsor an event that caters to a diverse audience, encouraging and inspiring people to fall in love with the written word.

This year, the Heartland Trust paid \$617,309 towards sponsorship and community activities.

### BOARD APPOINTMENTS

During the year, we welcomed Kate Morrison to the Heartland Bank Board as an independent director. Kate brings outstanding leadership and governance experience, further diversifying the Board's skill set.

Kate has 20 years of experience of working in investment banking and co-runs a Christchurch-based consulting business, advising SMEs on succession planning, strategy and governance, as well as holding directorships with a number of companies.

### CREATING SHAREHOLDER VALUE

The Board resolved to pay a fully imputed final dividend of 6.5 cents per share on Friday 6 September 2019 to all shareholders on Heartland's register at 5.00pm on Friday 23 August 2019.

Together with the interim dividend of 3.5 cents per share, the total dividend for the year was 10.0 cents per share, an increase of 1.0 cent per share from the total dividend for 2018.

Total shareholder return<sup>3</sup> (TSR) was 132% for the five years ending 30 June 2019, compared with TSR of 104% for the NZX50. This is an excellent outcome for our shareholders.

### OUTLOOK

The Board is confident in Heartland's ability to continue achieving strong growth and profitability, while maintaining positive outcomes for customers. Heartland expects its net profit after tax for the year ending 30 June 2020 to be in the range of \$77 million to \$80 million.

Finally, I wish to thank the Heartland team for their significant efforts this year in helping Heartland continue to deliver value to its customers, communities and shareholders.



**Geoff Ricketts**  
Chair

<sup>3</sup> Total shareholder return (TSR) means share price appreciation plus dividends received. TSR has been calculated including the benefit of imputation credits.

# Mahi toa. Have big ambition.



FROM THE CEO

Heartland achieved another strong year of growth. Importantly, we also made great progress towards non-financial goals. In particular, our renewed Heartland mātāpono (values) reflect the importance we place on diversity, inclusion, and supporting the wellbeing of our people while keeping our customers' needs at the forefront of our business decisions.

## FINANCIAL PERFORMANCE

Heartland's Net Profit after Tax (NPAT) was \$73.6 million (9% increase) and was impacted by one-off costs of \$4.2 million associated with the corporate restructure and ASX listing. We consider this to be a good financial result.

A Net Interest Margin (NIM) of 4.33% was achieved for the year. The NIM was 0.09% lower than the previous financial year despite relatively strong growth in lower margin reverse mortgages and \$1.1 million of break costs incurred due to the early repayment of the Tier 2 Australian dollar subordinated bond. Excluding the break costs, NIM was 4.35%.

Return on Equity (ROE) was 11.1%, unchanged from the previous financial year. However, ROE in the second half of this financial year improved to 12.2% from 10.3% in the first half. Net Tangible Assets (NTA) increased by \$9.0 million to \$593.5 million. NTA per share was \$1.04, unchanged from the previous financial year.

Continued efficiencies leveraged through scalable growth, digital initiatives and cost control resulted in a cost to income ratio of 41.6%. Excluding one-off costs related to the corporate restructure and ASX referred to above, the cost to income ratio was 39.9% – an improvement from 40.9% the prior year.

The new accounting standard relating to impairments, IFRS9, came into effect on 1 July 2018. This new standard requires impairments to be provided for on an expected loss basis at the date of loan origination. As a result, impairment expense for this year was not directly comparable to the previous year primarily due to the new requirement to provide for impairment losses on all loans, not just those past due or impaired. This particularly impacted Harmony and Motor which had high growth and, in the case of Harmony, higher expected loss rates than other segments.

### GROWTH ACROSS THE GROUP

Our ambitions are big. Heartland's attention remains on providing banking and financial products to people who have traditionally been under-served by mainstream banks. We do this across our three areas of strategic focus: New Zealand Banking, Australian Reverse Mortgages and Digital.

### NEW ZEALAND BANKING

Heartland Bank's focus remains on delivering best or only products to depositors and borrowers through continued growth in niche markets.

Strong growth was achieved in **New Zealand Reverse Mortgages**, with net receivables growing by 11.4%. Reported growth increased 22.8% to \$561.2 million due to \$54.7 million of Australian Reverse Mortgages being transferred from Australia to New Zealand, offset by an adverse foreign exchange impact of \$2.0 million. There are significant growth opportunities for New Zealand Reverse Mortgages and increased investment in marketing is planned for the 2020 financial year to raise product awareness.

Heartland's **Motor vehicle finance** book continued its strong growth with a 13.3% increase in net receivables through motor dealer lending (car dealerships, brokers and partnerships such as Holden and Jaguar Land Rover).

**Business Intermediated lending** continues to deliver growth, with net receivables up 31.4%. Business Relationship lending continues to be managed down as part of our strategy to reduce low margin risk concentration. Accordingly, Business Relationship receivables reduced by \$107.0 million.

Open for Livestock is Heartland's livestock finance online channel which helps farmers to purchase and trade livestock without having to mortgage their farm. **Livestock Finance** receivables increased 18.8%. Overall Rural receivables decreased by 0.6% as Heartland continues to manage down larger **Rural Relationship** lending to reduce low margin risk concentration in this area.

**Retail deposits** increased by \$271.9 million (9.4% growth) to \$3.2 billion. Heartland continues to provide market leading call account and competitive term deposit offerings, providing customers with competitive interest rates and unlimited on call access to their money through the Heartland Direct Call Account. For the second year in a row, Heartland was awarded Canstar's 2019 Bank of the Year – Savings Award, and for the fourth year in a row, Heartland's Direct Call Account was awarded Canstar's 5-Star Rating for Outstanding Value Savings Account.

This year we also entered into a new Retail market with the launch of YouChoose – a savings account with an arranged overdraft. YouChoose offers customers the flexibility to save when they can and spend when they want to with competitive savings and overdraft interest rates.

### AUSTRALIAN REVERSE MORTGAGES

**Australian Reverse Mortgage** net receivables increased by 24.0%, excluding the impact of changes in foreign currency exchange rates and reverse mortgage transfers to New Zealand. Reported growth was \$79.6 million (11.7% growth) to \$757.6 million due to the transfer of reverse mortgages to New Zealand and an adverse foreign exchange impact of \$31.0 million.

Reflecting the work our team does to enable people to live a more comfortable retirement while staying in their home, our Australian Reverse Mortgages business was awarded Best Reverse Mortgage 2019 by Money Magazine for the fourth consecutive year.

### DIGITAL

We continue to evolve into a financial technology group with a bank licence, from a conventional bank. This distinction ensures a focus on customer experience which we believe is integral to good customer outcomes.

Our digital strategy aims to make products more easily available to customers through online channels, and to achieve low cost reach to a broad target market. Uptake of the Heartland Mobile App continues to rise, increasing by 72% in the six months from January to June 2019.

Alongside this, Heartland must remain responsive to all customer needs recognising that even in a digital world, people to people contact is important. Accordingly, increased investment is being made in telephony and customer service capability through our Ashburton office.

**Open for Business (O4B)** is Heartland's digital-led small business lending product. The product supports small businesses to grow with secured or unsecured finance. O4B lending was up 48.2% this financial year. In July 2019 a new television campaign, accompanied by other marketing activity, was launched to grow product awareness and target market reach.

### CORPORATE RESTRUCTURE

The corporate restructure was completed in October 2018. All of the shares in Heartland Bank were exchanged for shares in Heartland Group, and Heartland Bank became a wholly owned subsidiary of Heartland. In addition, the Australian group companies were transferred from Heartland Bank to Heartland Group.

The corporate restructure provides greater flexibility for growth and access to funding options in New Zealand and Australia.

### MANAGEMENT CHANGES

During the year, Heartland welcomed Cherise Barrie to the role of Chief Financial Officer. Cherise is a Chartered Accountant with significant financial service and executive experience, and is a passionate advocate of women in business, being a member of Global Women.

This year we also reviewed our internal structure and made changes to our Business Enablement and Technology teams, establishing these teams as separate functions to enable greater investment in these areas to set them up to better support the business and our customers.

Future investment is also planned in Finance and Compliance, reflecting the increased regulatory requirements and heightened demands in these areas.

### HE MANAWA TANGATA – OUR PEOPLE

This year, we refreshed Heartland's mātaḗpono (values).

The mātaḗpono underpin a culture that strives for excellence (mahi tipu) and respects the diversity we each bring to the workplace. Heartland must be a place where people feel included and value each other's differences (mahi tahi). Doing the right thing for our customers, communities and shareholders

(mahi tika) is paramount in an ever changing environment, where we continue to evolve to meet their needs and expectations.

This year we continued to improve the gender balance across the organisation, including increasing the number of females on the strategic management group to 37.5% male and 62.5% female.

Our internship initiative ran for the second year, this time welcoming 20 Māori and Pasifika students to work at Heartland. See more information in our 'Embracing a culture of inclusion' story on page 20.

In 2018, Heartland also began working towards achieving the Rainbow Tick, and our Diversity Committee continued to celebrate the diversity of our people by holding events recognising Diwali, Matariki, Chinese New Year and Māori Language and Samoan Language Weeks, among many other events and initiatives to help create a safe, welcoming and inclusive environment.

### LOOKING FORWARD

In the coming year, we expect to see continued asset growth from core lending activities, particularly in Australian and New Zealand reverse mortgages and small business lending, combined with the continuation of a managed reduction in Business and Rural relationship lending.

We will continue to invest in growth through increased marketing activity to build awareness and by increasing processing capacity in areas of new growth.

A lot has been achieved in the past year. I would like to take this opportunity to thank our people for living our Heartland mātaḗpono. I also wish to thank our shareholders for their continued support of Heartland.

Ngā mihi nui,



**Jeff Greenslade**  
Chief Executive Officer

# Nā te kaiwhakahaere matua

**He tau hāwera anō tēnei mō Heartland. Mātua rā, i pai te ahunga whakamuatanga i te wāhi ki ngā whāinga utukore. Pēnei i te whakahoutanga o ngā mātāpono o Heartland, e whai nei ki te whakanui i te kanorau, i te whakakotahitanga, me te tautoko i te oranga tonutanga o ō mātou kaimahi, i a mātou e whakamātāmua ana i ngā hiahia o te kiritaki mō ngā whakatau ā-pakihi.**

## HE KITENGA PŪTEA

I te \$73.6 miriona ngā Painga More i muri i te Tāke (PMMT) a Heartland (9% te pikinga), ā, i tukia e ngā utu tukutahi o te \$4.2 miriona. E whai pānga ana tēnei utu ki ngā panonitanga ā-pakihi me te rārangi ASX. Ki a mātou nei, he pai te hua i puta.

I tae te nui o te Paenga Huamoni More (PHM) ki te 4.33%, 0.09% noa iho te hekenga nō tērā tau pūtea, ahakoa te tipunga nui i te mōkete tauaro hauraro me tētahi pūtea tukuwehe \$1.1 miriona, nā te whakahoki wawe o te pūtea ki te pūtea taurewa Ahitereiria Taumata 2. Ka kore ana e aro ki ēnei utu, kei te 4.35% te PHM.

I te 11.1% te Whakahokinga Tūtanga (WT), kāhore he rerekētanga nō tērā tau pūtea. Heoi, i pai ake te wāhanga tuarua o te tau pūtea, i eke ki te 12.2% mai i te 10.3% nō te wāhanga tuatahi o te tau. I piki ngā Rawa Tūturu More (RTM) mā te \$9.0 miriona, ki te \$593.5 miriona. Ko te utu o ia hea RTM ko te \$1.04, kāhore he rerekētanga nō tērā tau pūtea.

Nā te toaitanga o ngā mahinga i eke ai i roto i ngā pūtea aupiki auheke, ā, ko te ōwehenga utu ki te whiwhinga pūtea ko te 41.6%. Hāunga ngā utu tukutahi e whai pānga ana ki ngā panonitanga ā-pakihi me ngā kōrero ASX o runga ake, ko te ōwehenga utu ki te whiwhinga pūtea ko te 39.9% - he pai ake i te 40.9% nō tērā tau.

I te 1 o Hōngongoi 2018, i whakaturehia te paerewa kaute hou e whai pānga ana ki ngā whakahauātanga, IFRS9. I te paerewa nei, me tuku ngā whakahauātanga me ngā whakakitenga o ngā whakangarotanga hei te rangi ka mana te pūtea taurewa. Me te aha, kāore i taea te whakataurite hāngai i ngā utu whakahauātanga o tēnei tau ki ngā utu o tērā tau, nā tēnei paerewa hou, ki te whakaora i ngā ngarohanga whakahauā i ngā pūtea taurewa katoa, kua noa iho i ngā pūtea taurewa tārea,

whakahauā rānei. Ko Harmony me Motor i tino whai pānga ki tēnei. I tino tipu a Motor, ā, nā Harmony ngā whakakitenga whakangarohanga tiketike tēnā i ētahi atu wāhi.

## TE WHAKATIPURANGA WHĀNUI

Kei ngā rangi ō mātou whakaeaea. Ka aro tonu a Heartland ki te tuku i ngā āhuatanga pūtea katoa ki ngā tangata, i ōna wā, kua noho-mūhore ki ngā pēke auraki. Koinā tā mātou i ngā wāhanga aronui e toru: Te mahi pēke i Aotearoa, Ngā mōkete tauaro o Ahitereiria, Te Pae Mamati.

## TE MAHI PĒKE I AOTEAROA

Ko tā Heartland he aro ki te kounga o te tuku i ngā hua katoa ki ngā kaiwhakakuhu pūtea me ngā kaitono pūtea taurewa mā te whakatipu i ngā mākete motuhake.

He nui te tipu i te wāhanga **Mōkete Tauaro o Aotearoa**. I tipu ngā raumata nama mai mā te 11.4%. Ko te tipunga ā-ripoata ka tipu mā te 22.8%, arā, ki te \$561.2 miriona, nā te \$54.7 miriona o ngā Mōkete Tauaro Ahitereiria i whakawhiti mai i Ahitereiria ki Aotearoa, i whakatauritehia ai e te pāpātanga whakawhiti nui, arā, e te \$2.0 miriona. He nui ngā āheinga whakatipu hirahira mō ngā Mōkete Tauaro Aotearoa, ā, kei te whakamaheretia te whakatipunga whakangao mō te tau pūtea 2020 ki te whakatairanga i ngā mahinga pēke.

I tipu tonu te pukapuka **Ahumoni Waka** a Heartland mā te pikinga 13.3% o te raumata nama mai mā ngā ahumoni i ngā wāhi hoko waka (wāhi hoko waka, kaitakawaenga hoko waka, me ngā haumitanga pērā i a Holden, Jaguar Land Rover).

Kei te tipu tonu te wāhanga **Tuku Pūtea Pakihi Paewaenga**, kua piki ngā raumata nama mai ki te 31.4%. Kei te whakaheketa te tuku pūtea Hononga Pakihi, inā rā, ko tā mātou rautaki ko te whakaheke i te tūraru paeraro. Nā konā i whakaheketa te nama mai o te Hononga Pakihi mā te \$107.0 miriona.

Mō te wāhi ki te Kararehe Pāmu, ko te hanga ahumoni a Heartland e āwhina ana i ngā kaipāmu ki te hoko me te whakawhiti kararehe pāmu, kāore nei he take ki te mōkete i tā rātou pāmu. I piki ngā nama mai o te **Ahumoni Kararehe Pāmu** mā te 18.8%. I heke ngā nama mai o te wāhanga Taiwhenua whānui

mā te 0.6%, i a Heartland e whakaheke tonu ana i ngā **Hononga Taiwhenua** nui, e tuku pūtea ana ki te whakaheke i ngā tūraru paeraro o tēnei wāhanga.

I piki ngā **moni kuhu kaihoko** mā te \$271.9 miriona (9.4% te tipu) ki te \$3.2 piriona. Ka tukuna tonu e Heartland tētahi o ngā tino kōwhiringa utu moni kuhu, e tuku nei ki ngā kirihoko ngā utu pūtea āpiti pai, e wātea ana ki te tango pūtea mā te Heartland Direct Call Account. Koinei te tau tuarua karapīpiti kua riro i a Heartland te tohu Pūtea Tiaki a Canstar Bank of the Year. Mō te tau tuawhā karapīpiti kua riro i a Heartland te taumata tuarima mō te Outstanding Value Savings Account.

I tēnei tau, i kuhu mātou ki tētahi mākete hokohoko hou me te whakaputanga o YouChoose – he pēke pūtea tiaki me te pūtea tarepa kua whakaritea. Ka whakangāwari a YouChoose i te ara ki te tiaki pūtea mō ngā kirihoko, i a rātou e hiahia tonu ana ki te hokohoko, inā rā, he pai ngā utu āpiti i te wāhi ki ngā pūtea tiaki me te pūtea tarepa.

### MŌKETE TAUARO AHITEREIRIA

I piki ngā raumata nama mai i te wāhi ki te **Mōkete Tauaro Ahitereiria** mā te 24.0%, hāunga te whai pānga o ngā panonitanga i te utu whakawhiti pūtea o tāwāhi me ngā whakawhitinga mōkete tauaro ki Aotearoa. I ripoatanga te tipunga \$79.6 miriona (11.7% te tipunga) ki te \$757.6 miriona nā te whakawhitinga o ngā mōkete tauaro ki Aotearoa, ā, ko te \$31.0 miriona te nui o te whai pānga o te utu whakawhiti pūtea o tāwāhi.

Hei āpiti ki ngā mahi ka tutuki i tō mātou kāhui ki te whakawātea i te iwi kia hāneanea te tāōki i te noho ki ō rātou kāinga, tā mātou pakihi Mōkete Tauaro Ahitereiria te tohu Best Reverse Mortgage 2019 nā te maheni Money Magazine mō te tau tuawhā karapīpiti.

### PAE MAMATI

Kei te tipu tonu mātou hei rōpū Hangarau Pūtea me tētahi raihana pēke, tēnā i te pēke noa. Nā tēnei āhuatanga i aro ai mātou ki te hononga i waenganui i te wheako kirihoko me ngā putanga kirihoko pai.

Hei tā tā mātou rautaki pae mamati, ka whakangāwari ake te ara mā ngā kirihoko ki te wherawhera i ngā mahinga pēke mā te pae ipurangi,

waihoki kia whānui te toro ki te makiu tāngata me te utu o te paeraro. Kei te whanake tonu te taupānga Heartland Mobile, i tipu mā te 72% i ngā marama e ono mai i te Kohitātea ki te Pipiri 2019.

Tuia ki tēnei, me whakawhiti kōrero tonu a Heartland ki ngā kirihoko, ā, e mōhio ana, ahakoa he ao pae mamati, me whakawhiti kupu tonu te tangata. Nā konā kua tino aro ki te whakapiki i ngā pukenga ā-waea me te manaaki kirihoko i Hakatere.

Ko **Open for Business (O4B)** te mahinga pūtea o runga mā ngā pakihi iti. Hei tā tēnei mahinga pēke he tautoko i ngā pakihi iti ki te tipu me te pūtea haumarua, pūtea haumarua-kore rānei. I piki te tukunga pūtea a O4B mā te 48.2% i tēnei tau pūtea. I te Hōngongoi 2019 i puta tētahi whakatairanga pouaka whakaata hou, me ētahi atu mahi whakatairanga, kia mōhio ai te makiu mō ngā mahinga pēke, kia whānui ake ai te toro ki te makiu.

### PANONITANGA Ā-PAKIHI

I tutuki ngā panonitanga ā-pakihi i te Whiringa-ā-nuku 2018, inā rā te whakawhitinga o ngā hea katoa i te Heartland Bank ki ngā hea i te Heartland Group, ā, ka noho a Heartland Bank hei whakahaeretanga turuki mā Heartland. Tuia ki tērā, i whakawhiti ngā kamupene i te peka Ahitereiria mai i te Heartland Bank ki te Heartland Group.

Mā te panonitanga ā-pakihi ka wātea ake ngā kōwhiringa whai pūtea i Aotearoa me Ahitereiria.

### PANONITANGA Ā-WHAKAHAERE

I roto i te tau, i pōhiritia a Cherise Barrie e Heartland ki te tūranga Tumu Whakahaere Pūtea. He Kaikaute Paerunga a Cherise, ā, he nui ngā wheako whakawhiti pūtea i te ao paerunga, ā, e ngākaunui ana ki te wahine i te pakihi, inā rā, he mema ia nō Global Women.

I tēnei tau, i arotakengia ngā paemahi o roto i te whare, ā, i panonihia ngā tari Business Enablement me te Technology. I whakawehea ēnei ohu mahi kia nui ake ai ngā hua i ēnei wāhanga, kia pai ake ai tā rātou taunaki i te kamupene me ā mātou kirihoko anō hoki.

Ā raurangi, ka arohia hoki te tari Finance and Compliance, inā rā, kua piki ngā here me ngā tono i ēnei wāhanga.



**I TE \$73.6 MIRIONA NGĀ PAINGA  
MORE I MURI I TE TĀKE A HEARTLAND  
(9% TE PIKINGA), Ā, I TUKIA E NGĀ UTU  
TUKUTAHU O TE \$4.2 MIRIONA.**

#### HE MANAWA TANGATA – Ā MĀTOU TĀNGATA

I tēnei tau, i whakahoutia ngā mātāpono o Heartland. Koinei te tūāpapa o te ahurea mahi e whai ana i te karamatamata (mahi tipu), ā, ka whakautengia te pukenga rau o tēnā, o tēnā, e āpiti nei ki te wāhi mahi. Me wāhi whakauruuru, me wāhi whakaute tangata rau a Heartland (mahi tahi). E mātāmua ana te tika o ngā mahi (mahi tika) ki ā mātou kiritaki, hapori, kaupuri hea anō hoki, i tēnei ao tūnekeneke, i a mātou e whanake tonu ana hoki kia whakaeatia ā rātou hiahia.

I tēnei tau, i whanake hoki mātou i te wāhi ki te kanorau ira tangata, tae noa ki ngā wāhine i te pae whakahaere. I tēnei wā, 37.5% he tāne, 62.5% he wahine.

Koinei te tau tuarua o tā mātou rautaki kaimahi tauira, ā, i pōhiritia te 20 tauira Māori, Moana Nui a Kiwa ki Heartland – he tārua i te nama kaimahi tauira nō tērā tau. Tirohia ngā mokamoka katoa o tēnei kaupapa i te wāhanga 'Embracing a culture of inclusion' whārangi 20.

I te 2018, i tīmata a Heartland ki te whai i te Rainbow Tick, waihoki, i whakanui tonutia te Komiti Kanorau te kanorau o ō mātou tāngata, e whakanui ana i a Matariki, i te Diwali, i te tau hou Haina, ngā wiki o te reo Māori me te Hāmoa, me te huhua noa atu, kia haumarū, kia whakamanuhiri, kia whakauruuru te taiao mahi.

#### TE AHUNGA WHAKAMUA

Hei te tau e tū mai nei, ko ngā whakakitenga ko te whakatipunga tonutanga o ngā rawa nā ngā mahinga tuku pūtea matua, ina koa ko ngā Mōkete Tauaro i Ahitereiria me Aotearoa, ngā pakihi iti, waihoki te whakahaerenga tonutanga o ngā whakahaerenga whakahekenga i te hononga tuku pūtea i te Pakihi me te Taiwhenua.

Ka whakangaoa tonutia ngā rawa mā te whakapiki i ngā mahi whakatairanga, me te whakapiki i te nui o te whakatutukihanga i ngā wāhanga o te whakatipunga hou.

Kua nui ngā hua i tēnei tau. Anei e tuku nei i ngā mihi ki ō tātou tāngata, mō rātou nei e whakatinana ana i ā mātou mātāpono. E mihi ana hoki ki ngā kaupuri hea i tā rātou tautoko nui mai i a Heartland ao noa, pō noa.

Ngā mihi nui,



**Jeff Greenslade**

Kaiwhakahaere Matua

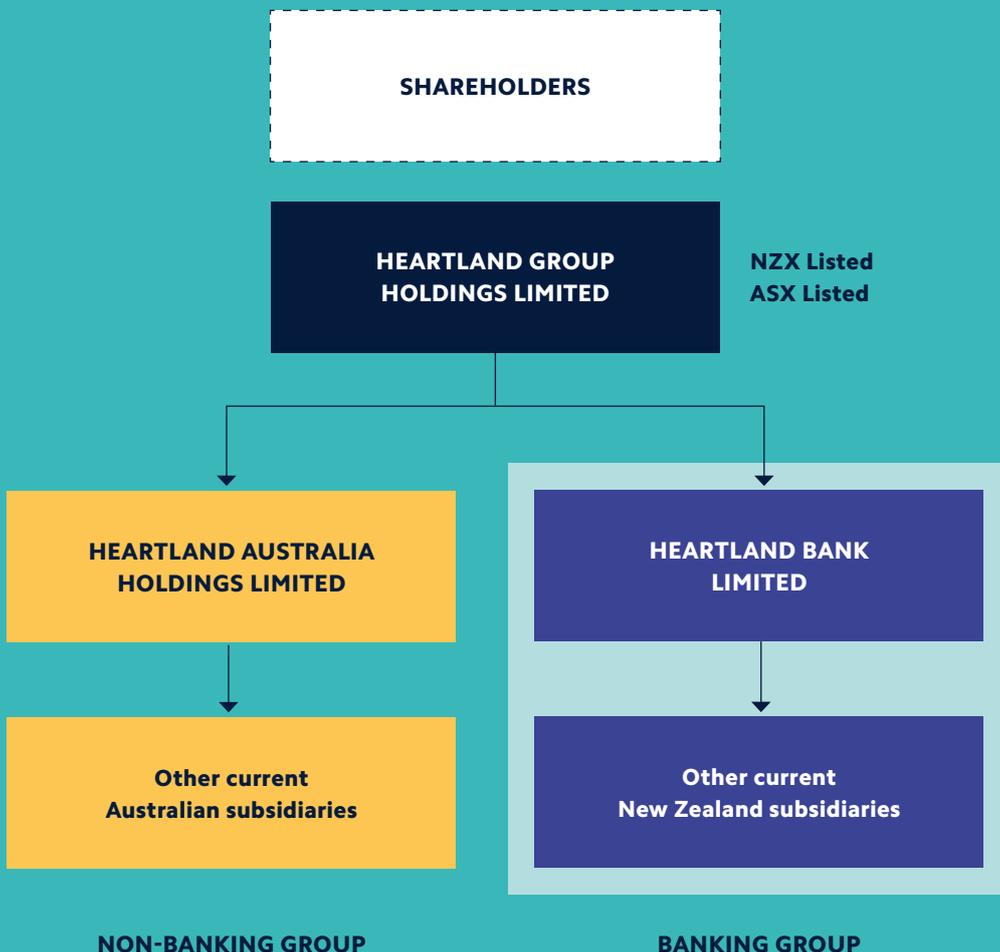
# Heartland's corporate restructure

**On 31 October 2018, Heartland completed its corporate restructure. As a result of the restructure, shares in Heartland Group were listed on both the NZX Main Board and the ASX (under a Foreign Exempt Listing) and Heartland Group commenced trading under the HGH ticker code from 1 November 2018.**

Heartland Bank became a wholly-owned subsidiary of Heartland Group and all of the shares in Heartland Bank were exchanged for shares in Heartland Group. In addition, the Australian group companies were transferred from Heartland Bank to Heartland Group.

The restructure and the ASX listing are significant milestones for the Group and provide a more suitable platform for future growth. The restructure removes constraints on growth previously arising from Reserve Bank of New Zealand regulations, and will provide greater flexibility to explore and take advantage of future growth opportunities in New Zealand and Australia outside the banking group. A Foreign Exempt Listing on the ASX is expected to expand the capital sources available to Heartland in order to fund growth.

As part of the restructure and in order to ensure greater efficiency and capacity, Chris Flood was appointed to the new role of CEO of Heartland Bank. Jeff Greenslade remains CEO of Heartland Group.



CORPORATE RESTRUCTURE

# Embracing a culture of inclusion

EMBRACING A CULTURE OF INCLUSION

**Inclusion is a vital element of a business' sustainability and social purpose. It is the right thing to do – mahi tika.**

The vision for Heartland is to be an accepting and welcoming workplace for all people, where diversity of thought and cultural intelligence is valued.

Diversity brings fresh ideas and different perspectives. This is at the heart of our aim to be always evolving – mahi tipu. A welcoming and accepting workplace makes it possible to realise the best of everyone, to have big ambition – mahi toa – and to work together as one team – mahi tahi.

One of Heartland's objectives is to be the employer of choice for Māori. Part of this means creating an environment where Māori language, culture and values are embraced. In doing so, the foundation is built to become an inclusive and welcoming environment for all cultures.



Piripi Gordon was one of the 20 students to join Heartland's internship programme in 2018/19.

Ko tētahi o ngā whāinga a Heartland kia noho mātāmua hei wāhi mahi mō Ngāi Māori. Inā rā, ka whakatūria he taiao mahi e manaaki nei i te reo Māori, i te ahurea Māori me ngā mātāpono Māori. Mā tēnei ka rite te tūāpapa kia tū ai te whare hei whakamanuhiri i ngā ahurea katoa.

Initiatives to increase the presence and use of Māori culture and language underway include:

- ▲ free reo and tikanga Māori lessons
- ▲ creation of Manawa Whenua, a group to support and inform Māori initiatives within Heartland
- ▲ Māori signage and Mahi Māori video series
- ▲ increased use of te reo Māori and tikanga in formal occasions
- ▲ Māori translations of website and annual reports
- ▲ Māori language and symbolism within Heartland mātāpono (values).

The benefits of these initiatives are starting to show internally, particularly in the increased capability of Heartland people in respect of te reo Māori. This has led to more use of te reo Māori throughout daily work life. The introduction of bilingual values was warmly welcomed by all employees, including in Australia, and reo and tikanga Māori lessons are being extended into an internal video series.

“Kua tawhiti kē te haerenga mai, kia kore e haere tonu. He nui rawa te mahi, kia kore e mahi tonu.”

We've gone too far not to go further.  
We've done too much not to do more.  
– Sir James Henare



Heartland's internship cohort for 2018/19. The internship programme is based on the Māori concept of 'ako'.

Although progress has been made over the last two years since we set out on this journey, Māori are still under-represented in Heartland's workplace – 4% of Heartland's people identify as Māori. While this is above average for the sector (of those who identify as Māori in the working population, 2.8% work in the financial and insurance services sector<sup>1</sup>), it is well below Māori representation in the workforce, where Māori make up 13% of the New Zealand labour force.<sup>2</sup>

This lack of representation of Māori in the financial sector means that the onus on us is not simply to recruit but to encourage participation generally.

Supporting the Māori community is just as important as ensuring we continue to encourage and develop Māori culture and inclusivity internally. In FY2019, the Heartland Trust sponsored:

- ▲ Te Matatini Festival – a Māori performing arts event central to Māori identity and culture
- ▲ Kupe Leadership Scholar Tāmami Rākena – a Masters of Education student with a passion for supporting Māori communities
- ▲ InZone Education Trust – an organisation that aims to enhance the outcomes of Māori youth by providing opportunities for students to attend high-performing state schools.

In addition, Heartland's internship programme is based on the Māori concept of 'ako' which means to learn and to teach. As such, it provides a rich opportunity for interns to learn from us about the world of work, and for us to learn from them.

By increasing the presence of Māori culture and language at Heartland, and by showing our commitment and support to Māori, we are creating a workplace where Māori can see a career pathway. In doing so, we are also providing a valuable opportunity for our people to increase their cultural awareness and intelligence by learning more about New Zealand's rich and diverse culture, setting Heartland up to become a place that is welcoming to all people.

Strong progress in FY2019 has been made towards inclusivity for Māori, and it is recognised that there is more to do.

1 Māori Labour Market trends - June 2019. Ministry of Business, Innovation & Employment.  
2 Household labour force survey: March 2019. Statistics New Zealand.



# Being digital

Digital is one of Heartland's three core strategic focus areas alongside Australian Reverse Mortgages and New Zealand Banking.

## WHAT IS DIGITAL?

The concept of digital is frequently defined by the internet or mobile phones or APIs (Application Programming Interface). These are digital tools. Being digital is a way of doing things:

*"Digging down, digital is about two things: speed and agility – externally to your customers and market and internally within your organisation."*  
– John Rossman<sup>1</sup>

One of Heartland's mātaḗpono, or values, is mahi tipu – always evolving. This is the essence of being digital. The purpose is to deliver great customer outcomes by always striving to deliver fast and simple service. Increasingly, how we are judged will be by how successful we are in delivering excellent User Experience (UX).

## WHAT IS UX?

UX encompasses all aspects of a customer's interaction with our products and services.<sup>2</sup>

A good UX is one which makes it easy for the customer to access services and which delivers the desired outcome quickly. UX is a constantly evolving challenge: identifying user pain points to address, gathering insights about how we can do things better, and letting our customers know that their experience with us matters.

Examples of UX in action at Heartland include: usability testing of new websites, updates to the Heartland Mobile App and new digital products; the introduction of online, real-time customer feedback mechanisms on the Heartland website; and using online qualitative analytics tools to record UX and customer journeys across all webpages.

Prioritising UX means we keep our customers at the forefront of decision making. This leads to better customer loyalty and retention, and better business outcomes.

## DIGITAL AT HEARTLAND

Our Digital strategy has two objectives.

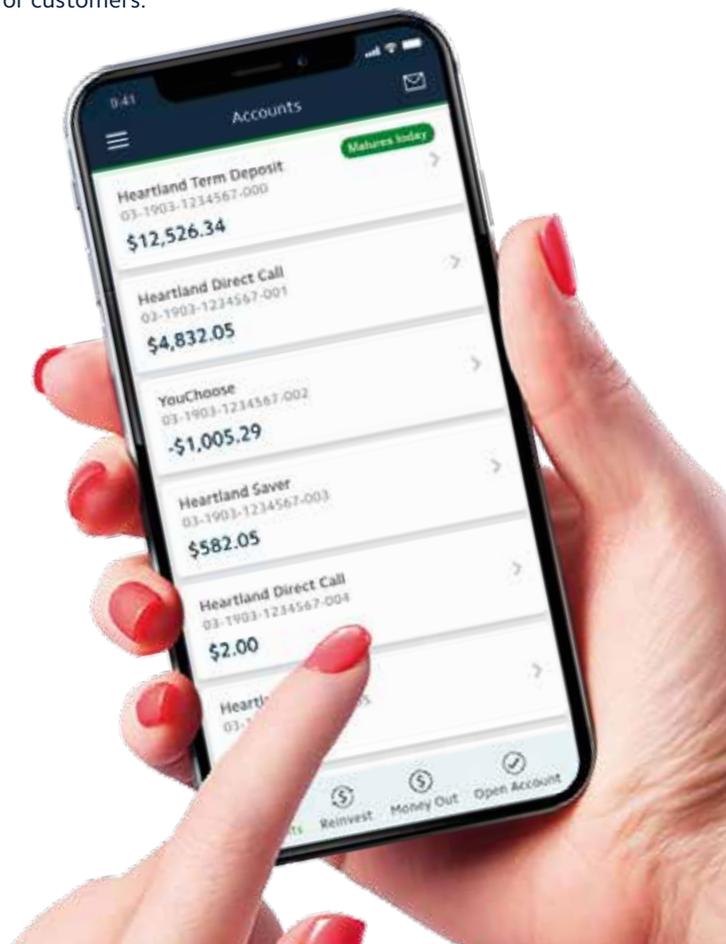
**1: To give our customers products accessible online or via an app, and provide simple, frictionless and fast on-boarding and processing.**

**2: To reach as many customers as possible at the lowest cost, through online and smartphone access and highly automated processes.**

In practice, digital is a way of operating – how we get things done. A digital mindset enables us to remain agile and innovate at speed to meet changing customer expectations.

To deliver low cost on-boarding and transaction processing we will ensure we have the right technology and infrastructure in place to provide a seamless customer experience that ultimately reduces costs across the business. According to research by PWC, people who manage their finances online are more cost effective to serve and are more likely to purchase financial services products than those who conduct their banking in person.<sup>3</sup>

By automating processes behind the scenes, Heartland will create more capacity to do more for customers.



## OUR DIGITAL ACHIEVEMENTS

As Heartland's digital offering increases, we expand our reach to customers. This presents an opportunity for digital innovation to help us grow and meet the needs of new customers. A number of digital achievements were realised in FY2019, including the following.

### YouChoose

In May 2019, Heartland Bank launched YouChoose – a savings account with an arranged overdraft, designed to provide customers with the flexibility to save when they can and spend when they want to.

### Biometrics, DocuSign and document uploads

Facial recognition technology (biometrics) for ID verification, online document signing via DocuSign and document upload functionality was introduced this year, enabling easier and faster customer on-boarding<sup>4</sup>.

### Heartland Mobile App

App downloads have increased significantly. The app has been installed over 5,900 times. This is a 72% increase since the start of 2019. This year, 24 app improvement updates saw more functionality built in to provide greater security with PIN and fingerprint login features, and to allow customers greater access to Heartland's products.

### Online EFTPOS

In order to provide customers with greater flexibility in how they spend their money, Heartland Bank has partnered with Paymark to deliver Online EFTPOS services to our YouChoose customers. Online EFTPOS will allow customers to shop online from participating retailers without the need for a debit card.

### Open for Business (O4B)

O4B is Heartland's digital-led small business lending product and has been continuously improved to ensure a frictionless end-to-end process. The three minute application with real-time technology manages credit risk by reviewing a number of data points to assess the applicant's situation and give them a more personalised response. The number of people visiting the O4B webpages in FY2019 increased by 163%<sup>5</sup>, and the number of online applications increased by 160%<sup>6</sup>.

### Guaranteed Minimum Future Value (GFV) finance calculator

Heartland Bank, in partnership with Jaguar Land Rover, launched their first fully integrated online GFV calculator for a third party finance provider. Customers can use the calculator to generate an indicative GFV finance quote which lets them know what the minimum trade value will be at the end of the vehicle loan, provided they keep within the terms of their agreement.

## THE YEAR AHEAD

In FY2019 we completed beta testing of our new Heartland Digital platform with a select group of customers. The Heartland Digital platform provides an efficient, user-friendly online banking solution that savings and deposits customers can access in place of internet banking on a desktop or devices which don't support the app. In FY2020 we will continue to roll the platform out to our Heartland customers.

FY2020 welcomes some exciting digital advancements. Online calculators and automated application decisioning, based on lending criteria, for Reverse Mortgage customers in New Zealand will help customers get the information they need to progress their loan applications. Similar online calculators are also being developed for Australian Reverse Mortgages to assist the huge broker network in Australia and will provide customers with more personalised information that is relevant to them. Work will also begin on the creation of a GFV calculator for Holden Financial Services, similar to the one launched this year for Jaguar Land Rover Financial Services.

Heartland has also taken a keen interest in the launch of two new API standards which help New Zealand take a step towards Open Banking. The standards provide the opportunity for banks to work together and with third parties to launch new financial services for customers. Heartland is working with PaymentsNZ to register as an API provider which will allow us to use the new standards. We believe Open Banking will improve banking processes and services for customers, and contribute towards the development of simple, secure, personalised banking for each customer's needs.

Being digital is a mindset and way of working. We've been incorporating that mindset throughout our products, services and operations throughout FY2019 and will increase that focus in the year ahead to ensure we're always evolving and continue to strive for excellence – whāia te iti kahurangi.

1 John Rossman, Think Like Amazon: 50 ½ Ideas to Become A Digital Leader (2019).

2 <https://www.nngroup.com/articles/definition-user-experience/>

3 <https://www.pwc.com/us/en/financial-services/publications/assets/pwc-fsi-whitepaper-digital-bank-transformation.pdf>

4 For customers using our biometric solution, the average time taken to complete is 10 minutes.

5 Data source: Google Analytics, 30 June 2019.

6 Data source: Proprietary data collection platform, 30 June 2019.



**JEFF GREENSLADE**  
Heartland Group CEO  
and Executive Director

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.

**GEOFF RICKETTS**  
Chair, Independent  
Non-Executive Director

Geoff is a company director and investor with wide experience in the New Zealand and Australian business environments.

**ELLIE COMERFORD**  
Independent Non-Executive  
Director

Ellie has worked for more than 30 years in financial services in Australia and overseas across a number of banking and insurance businesses.



# Heartland Group Board

HEARTLAND GROUP BOARD

**SIR CHRIS MACE**  
**Independent Non-Executive  
Director**

Sir Chris is an Auckland based businessman and company director with experience in the New Zealand and Australian business environments.

**GREG TOMLINSON**  
**Non-Executive  
Director**

Greg is a Christchurch based businessman and investor with 40 years' experience owning, managing and building businesses.



For full profiles, visit  
[shareholders.heartland.co.nz](https://shareholders.heartland.co.nz)

# Heartland Bank Board

HEARTLAND BANK BOARD



**VANESSA STODDART**  
**Independent Non-Executive Director**

Vanessa is an experienced director and currently serves on the boards of New Zealand Refining Company Ltd, OneFortyOne Plantations Pty Limited, Tertiary Education Commission and the Financial Markets Authority.

**BRUCE IRVINE**  
**Chair, Independent Non-Executive Director**

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 his retirement from Deloitte in May 2008 to pursue his career as an independent director.

**JEFF GREENSLADE**  
**Executive Director**

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.



HEARTLAND BANK BOARD

**ELLIE COMERFORD**

**Independent Non-Executive Director**

Ellie has worked for more than 30 years in financial services in Australia and overseas across a number of banking and insurance businesses.

**KATE MORRISON**

**Independent Non-Executive Director**

Kate has 20 years' experience working in investment banking in the UK in the areas of financial risk management, structured financing and investments.

**GEOFF RICKETTS**

**Independent Non-Executive Director**

Geoff is a company director and investor with wide experience in the New Zealand and Australian business environments.

**JOHN HARVEY**

**Independent Non-Executive Director**

John has considerable financial services experience and 36 years in the professional services industry, including 23 years as a partner of PricewaterhouseCoopers.



For full profiles, visit [shareholders.heartland.co.nz](https://shareholders.heartland.co.nz)

# Strategic Management Group

STRATEGIC MANAGEMENT GROUP





**From left to right:**

**ROCHELLE MOLONEY**  
Chief Culture & Communications  
Officer (joint)

**GRANT KEMBLE**  
Chief Risk Officer

**LYDIA ZULKIFLI**  
Chief Digital Officer

**JEFF GREENSLADE**  
CEO, Heartland Group

**LAURA BYRNE**  
Chief Culture & Communications  
Officer (joint)

**CHRIS FLOOD**  
CEO, Heartland Bank

**CHERISE BARRIE**  
Chief Financial Officer

**SARAH SMITH**  
Chief Technology Officer

 For full profiles, visit  
[shareholders.heartland.co.nz](https://shareholders.heartland.co.nz)

# Our sustainable business

OUR SUSTAINABLE BUSINESS

## Our customers



Delivering great customer outcomes.



## Our community



Making a contribution in our communities.

**He manawa whenua, he manawa tangata.**

Due to regulatory demand, Heartland is only at the start of our journey to better understand our environmental impact.

While Heartland has taken some small steps towards this, we know we need to do more and will be evaluating our overall Environmental, Social and Governance (ESG) strategy in FY2020.

OUR SUSTAINABLE BUSINESS

**He manawa whenua:  
Our Heartland**



Providing a diverse and inclusive work environment.



**Our environment**



Considering the impact of our operations on the environment.



# Our customers

OUR CUSTOMERS



**The sustainability of our business is only possible if we can demonstrate a relevant positive social contribution. Heartland seeks to do this in a number of ways, including by providing support to customers whose needs aren't met by mainstream banking.**

- Our Reverse Mortgage product enables us to provide people with the opportunity to enjoy a better retirement with the peace of mind, independence and security that comes from remaining in their own home.
- Open for Business supports the growth and development of small businesses through the provision of business loans – including unsecured up to \$100,000, so business owners don't have to mortgage the family home to finance their business.
- Heartland's Deposit products provide New Zealanders with competitive on call and term deposit rates to reach their savings goals.

- Heartland Bank and MARAC car loans give New Zealanders the opportunity to buy safer, more fuel efficient motor vehicles.
- Heartland's livestock finance supports the agriculture sector through specialist finance which gives farmers the opportunity to purchase livestock in a flexible and efficient way without having to use the farm as security.
- YouChoose gives customers the flexibility to choose how they use their money with just one account – save with a healthy interest rate, or spend with a competitive overdraft rate.

We recognise that how we behave toward our customers directly impacts lives and it is imperative that our products and services meet their needs over the longer term. The recent FMA and RBNZ review into banks' conduct and culture identified findings across four key themes for all banks:

- greater board ownership and accountability, including being able to properly measure and report on conduct and culture risks and issues.
- delivery of good customer outcomes through product design and management, sales processes, incentives and vulnerable customer handling.
- prioritising the identification of issues and accelerating remediation; prioritising investment in systems and frameworks, processes, controls and training, including staff reporting channels such as whistleblower processes.



Thanks to Heartland Bank support, Remarkables Towing in Central Otago has come a long way since co-owner Anna Tomkinson started the company as a side project.



For the second year, in July 2019 Heartland Bank received the Bank of Year – Savings Award from Canstar, recognising Heartland as the financial institution that provides the strongest combination of products and services for savers in New Zealand. Heartland’s Direct Call Account was also awarded Canstar’s 5-Star Rating for Outstanding Value Savings Account for the fourth year in a row.

Furthering our offering to New Zealanders, Heartland Bank this year launched YouChoose – a new savings account with an arranged overdraft. YouChoose aims to help people save when they can and spend when they want to, with competitive interest rates on credit and debit balances.

The introduction of DocuSign, biometrics and document upload functionality for Heartland’s products makes it easier and faster for new customers to open an account and verify their identity from a location that suits them – as customers can use these services online from their mobile device.

Heartland has developed a work plan to address the regulators’ observations and recommendations and believes that this work will strengthen the oversight, controls and processes Heartland has in place to manage its conduct risks.

**ACHIEVEMENTS AND NEW DEVELOPMENTS**

FY2019 saw many achievements and new developments aimed at improving our customers’ experience and outcomes.

Our Australian Reverse Mortgage product was awarded ‘Best Reverse Mortgage’ in Money Magazine’s ‘Best of the Best’ awards for the fourth year running. The award is a testament to Heartland’s Reverse Mortgage being flexible, yet simple, with considerable consumer protection and broad criteria. The Australian Reverse Mortgages team have helped more than 18,000 Australians live a more comfortable retirement.

Our Australian Reverse Mortgage business was also recognised as a finalist in the Australian Lending Awards and the Australian Mortgage Awards.

In April 2019, Heartland Bank celebrated a significant milestone – helping more than 15,000 New Zealanders enjoy a better retirement by enabling them to stay in their own home for as long as they choose.



Open for Business customer Kerry Bradburn recognises the power of an online business model.

**OUR CUSTOMERS**



# Our community

OUR COMMUNITY



**We recognise we have a responsibility to assist the communities we've served for over a century. We get involved and do what's right for our communities, local businesses and families – mahi tika. We aim to make a positive difference by providing support and opportunity to those in need.**

Through Heartland Bank and the Heartland Trust, we support a number of organisations, clubs and schools both regionally and nationally. The Heartland Trust is a registered charitable trust which is independent from, but closely supported by, Heartland Bank.

## NURTURING MĀORI LEADERSHIP

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 students to access high-performing state schools within the school zones.

As part of our support of InZone, Heartland runs an internship programme each year. The programme welcomes a number of students to work in paid internship positions throughout the business over their summer holiday. The internship programme is based on the Māori concept of 'ako' which means to learn and to teach. The programme provides students with experience in and exposure to the corporate world, and enables Heartland to learn how it can become a more welcoming and inclusive environment for its people.

Heartland also provided scholarships to a number of Māori students, enabling them to attend high-performing schools they would otherwise be unable to attend.



The Heartland Trust this year began sponsoring Kupe Leadership Scholarship recipient Tāmami Rākana, a Masters of Education student at Auckland University.

Through the Kupe Leadership Scholarship, Heartland provides funding to Heartland Scholar and Masters of Education student, Tāmāti Rākena. The prestigious Kupe scholarship aims to develop future leaders who are committed to New Zealand and to creating a successful future for our country. Through the scholarship, Tāmāti receives a generous stipend, personal mentor and participation in the leadership programme.

### CELEBRATING THE ARTS AND SPORT

The Heartland Trust was once again the platinum sponsor of the Auckland Writers Festival, an event that caters for a diverse range of ages, interests and cultures, inspiring people to fall in love with books. The Trust also sponsored the WORD Christchurch Festival, the largest literary event in the South Island. WORD partnered with Auckland Writers Festival in May this year for an autumn season event.

In 2019, the Heartland Trust was proud to sponsor Te Matatini Festival. Te Matatini is the pinnacle cultural event of Māori performing arts, central to Māori identity and culture, aligned to our aspirations to develop cultural awareness and intelligence at Heartland.

Heartland has, for a long time, been involved in supporting school and club rugby. This year, we continued to support many school First XV rugby teams across the country, with an increased focus on girls' rugby. Our support has assisted the teams with funding uniforms and training equipment.



The Heartland Trust continues to provide sponsorship for school and club rugby, including the Otago University women's team.



In 2019, Heartland was the platinum sponsor of the Auckland Writers Festival for the third year.

### WELLBEING IN THE COMMUNITY

Heartland employees 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 also supports Lifeline. With Heartland's sponsorship, among others, Lifeline is able to offer a free 24-hour, 7 days a week phone line service. The confidential service supports Kiwis going through difficult times.

Heartland Bank has provided sponsorship to Silverline, to support their establishment. Silverline is a free confidential 24/7 helpline offering information, friendship and advice to people over 55 throughout New Zealand.

The Heartland Trust provides donations towards Auckland City Mission's HomeGround project. Due to be complete in 2020, HomeGround is a purpose-built facility that will include 80 apartments for permanent housing, space for the Mission to continue to support those who need it most, a place where low-cost medical treatment will be offered and a commercial kitchen where the Mission will prepare meals and teach basic cooking skills.



# He manawa whenua: our Heartland

HE MANAWA WHENUA



## A DIVERSE WORKFORCE

Our vision is for Heartland to be an accepting and welcoming workplace to all people, where diversity of thought and culture is valued and we come together as one team – mahi tahi.

To help us achieve this, we have a few key areas of focus: addressing imbalances in gender and ethnic representation, becoming an employer of choice for Māori, celebrating diversity and inclusion, and providing best practice support to our people in relation to mental health and wellbeing.

Led by Heartland’s Diversity Committee, several celebrations of Heartland’s diversity have taken place throughout the year, including events celebrating cultural identity, gender diversity and overall inclusion in the workplace. A Rainbow Committee has also been formed to work towards obtaining the Rainbow Tick for Heartland. The Rainbow Tick will acknowledge Heartland as a workplace that supports and values our rainbow community.

In 2017, Heartland partnered with Global Women to access thought leadership and best practice in the promotion and facilitation of diversity. Heartland Group Chief Executive Officer Jeff Greenslade is a member of Champions for Change, demonstrating Heartland’s commitment to creating a more diverse workplace.

Heartland’s Kia Eke group, established in 2018, continues to provide support and development opportunities for female employees at an early stage in their career, supporting them to grow into leadership roles. While gender diversity at different levels across the organisation has improved on last year, there is more work to be done.

See the Diversity report in Heartland’s 2019 Financial Report for more information about Heartland’s progress towards encouraging diversity and inclusion in the workplace, including an employee gender breakdown.



Ten of the 12 people who make up Heartland’s recently formed shadow board.



### AN INCREASINGLY YOUNGER WORKFORCE

The workforce in New Zealand continues to evolve with Millennials now making way for Generation Z in the workplace. At a macro level, these generations are driving changes, among other things, around the way people relate to and interact with brands and consume products. Attitudes, beliefs and behavioural changes are also showing up in the workplace at an employment level and shifting the way employees have traditionally approached the workplace and their career.

At Heartland, 49% of our total workforce are aged 35 and under, and 76% of that group are aged 30 and under. The 25-30 age group are currently the largest demographic cohort in the organisation, making up 21% of our people. Heartland recognises the importance of understanding more about the needs of our younger people, and specifically what drives and motivates them about a workplace and career. A number of initiatives are in place to support this understanding.

This group is relatively balanced in gender and inherently more diverse across ethnicity – for example, 45% identify as New Zealanders, 11% as Indian, 7% as European, 6% as Chinese and 4% as Māori.

Heartland has recently formed a shadow board with the dual purpose of providing meaningful career development opportunities for our people aged under 35, as well as ensuring that the unique perspectives and expectations of the Millennial and Gen Z generations form part of our business decision-making. The shadow board is made up of 12 of our people, all aged under 35. The shadow board will be tasked with providing insights and perspectives to Heartland’s Strategic Management Group, and ultimately the Board, in relation to a number of areas including our sales and distribution strategy, customer experience, internal culture and digital projects.

### OUR WELLBEING – WELL AT HEART

Heartland’s Wellbeing Committee has organised various wellbeing events for Heartlanders, including facilitating yoga and mindfulness sessions, access to corporate massages, sport and team challenges, and has hosted a number of speakers to present to our people about managing and supporting their mental health and wellbeing.

Heartland employees are also encouraged to take a day to give back by volunteering. The volunteer day gives teams an opportunity to connect outside of the office, give back to their community and look after their mental wellbeing.

In May 2019, Heartland launched its new Prevention of Harassment, Discrimination and Bullying Framework. The framework intends to provide our people with a safe and inclusive work environment that is free from all forms of harassment, discrimination and bullying, to ensure all people feel valued and treat one another with dignity and respect. The framework consists of four pillars: discuss, inform and educate, support and respond. As part of the support pillar, 18 people across the organisation have been identified and trained as support people. Their role is to be the first point of contact for anyone who would like to talk to someone about having potentially experienced or witnessed harassment, discrimination or bullying.

Heartland also provides financial support for our people to participate in team sports with their colleagues to support wellbeing and teamwork.



# Our environment

OUR ENVIRONMENT



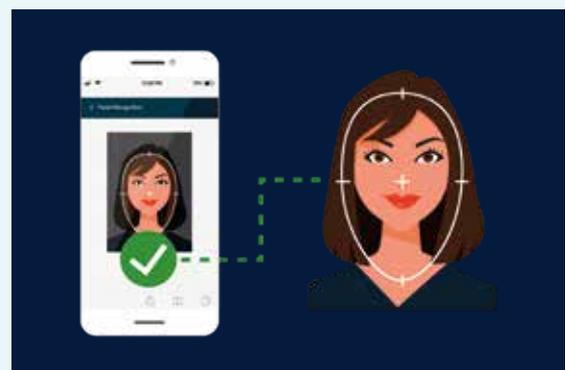
**Heartland is committed to operating a sustainable business that delivers excellent customer experiences and outcomes while operating in a way that minimises our impact on the environment. We know this is important to our customers, our communities, our people and our shareholders and it's the right thing to do – kia tika, kia pono.**

We are at the start of our journey to better understand our environmental impact. To catalyse action, we've recently joined the Climate Leaders Coalition and committed to measuring and reporting our greenhouse gas emissions and setting an emissions reduction target. We also hope to use the experience of other members in the Coalition to guide us in making faster progress toward this commitment.

### OUR PROGRESS SO FAR

Over the last year we have made small steps toward improving our operations so that they are more environmentally sustainable. Pepa Iti and the implementation of various online technologies are some of the ways we're working towards achieving this.

Pepa Iti aims to build scalability and create capacity without increasing our impact on the environment. The project will enable an end-to-end digital process, improving customer experience, reducing print costs and paper wastage, and automating manual processes. Introducing secure facial recognition, online document uploading and digital signature solutions have been core deliverables of the project.



The introduction of facial recognition, document upload and digital signature solutions enables our people to work more digitally.



The volume of printing from office printers in FY2019 has only slightly increased by 1% from FY2018. Given the business growth (receivables are 7% higher in June 2019 versus June 2018), this is a good result. Encouragingly, print volumes for the month of June 2019 are down 12% on June 2018. We anticipate further roll out of automation and paperless initiatives will see continued efficiencies in this space. This is both a good outcome for our environmental footprint and cost efficiencies.

### LOOKING AHEAD

We are committed to working together to do the right thing and start the journey towards helping New Zealand transition to a zero carbon economy. While we have taken some small steps toward this, we know we need to do more and are evaluating our overall sustainability strategy.

To achieve this, we will assess our current state and set reduction targets to monitor and measure Heartland's progress. Initiatives we are considering include:

- establishing a decarbonisation roadmap for the business to identify initial projects that can be implemented
- looking for opportunities to fund research and development initiatives that are aligned to and share our sustainability goals
- converting our vehicle fleet to electric and/or hybrid vehicles
- encouraging our people to use their volunteer days to support organisations and projects which align with our sustainability goals.



Heartland is looking to convert its vehicle fleet to electric or hybrid vehicles.

# Financial commentary

Net profit after tax (**NPAT**) was \$73.6 million for the year ended 30 June 2019, an increase of 9.0% from the previous financial year ended 30 June 2018.

Heartland has achieved excellent growth in net finance receivables of 9.1% after the adoption of the new accounting standard for provisioning, IFRS9. Excluding the impact of IFRS9, net finance receivables increased by 10.7%.

## NET OPERATING INCOME

Net Operating Income (**NOI**) was \$205.8 million for the year ended 30 June 2019, an increase of \$9.0 million (4.6% growth). Excluding the impact of the prior year's one off income of \$5.4 million, the growth was \$14.4 million (7.3% growth).

Heartland's Net Interest Margin (**NIM**) for the year ended 30 June 2019 was 4.33% compared to 4.42% for the year ended 30 June 2018. NIM was impacted by the proportional changes in Receivables, in particular the strong growth in reverse mortgages which has a lower NIM relative to other products (but with correspondingly lower impairments). NIM was further impacted by \$1.1 million of break cost incurred due to the early repayment of the Tier 2 Australian dollar subordinated bond. Excluding these costs, NIM was 4.35%.

## COSTS

Operating costs were \$85.6 million for the year ended 30 June 2019, an increase of \$5.1 million (6.4% growth). Higher operating expenses were due to growth, one-off corporate restructure and ASX listing costs of \$1.8 million and one-off foreign currency costs of \$1.3 million also incurred in relation to the corporate restructure.

The cost to income ratio increased to 41.6%, compared to 40.9% for 2018. Excluding one-off costs related to the corporate restructure and ASX listing referred to above, the cost to income ratio was 39.9% compared to 40.9% for 2018.

## IMPAIRMENTS

The new accounting standard relating to impairments, IFRS9, came into effect on 1 July 2018. This new standard requires impairments to be provided for on an expected loss basis at the date of loan origination. As a result, impairment expense for the year ended 30 June 2019 is not directly comparable to the year ended 30 June 2018

primarily due to the new requirement to provide for impairment losses on all loans, not just those past due or impaired. This particularly impacted Harmony and Motor which had high growth and, in the case of Harmony, higher expected loss rates than other segments.

Impaired asset expense decreased by \$1.4 million (6.3%) to \$20.7 million for the year ended 30 June 2019. \$3.1 million of that was the result of increases in provisions on loans not past due or impaired as a result of the application of the new IFRS9 methodology. This would not have been recognised in the year ended 30 June 2019 under the previous applicable accounting standard.

Impaired asset expense as a percentage of average Receivables decreased from 0.58% in 2018 to 0.49% in 2019. Excluding the impact of IFRS9, the ratio was 0.42% in 2019.

Impairment and collection rates in Motor improved during the year following changes to collection processes, and as a result reduced impairment expense by \$2.1 million.

Impaired and past due loans over 90 days decreased by \$3.0 million to \$70.9 million, and decreased from 1.84% to 1.61% as a percentage of Receivables.

## IFRS ADJUSTMENTS

The initial adoption of IFRS9 also resulted in opening adjustments to provisions for impairments of \$25.3 million and retained earnings of \$19.3 million, after allowance for a deferred tax benefit. IFRS9 also introduced a change in the way Reverse Mortgages are valued. Under IFRS9 they are 'fair-valued'.

## BUSINESS PERFORMANCE

### New Zealand Reverse Mortgages

New Zealand Reverse Mortgage Receivables increased \$52.0 million (11.4%). Reported growth was \$104.4 million (22.8% growth) to \$561.2 million due to \$54.7 million of Australian Reverse Mortgages transferred from Australia to New Zealand, offset by an adverse foreign exchange impact of \$2.0 million.

New Zealand Reverse Mortgages net operating income was \$20.9 million, an increase of \$2.4 million (13.3%).

### Motor

Motor Receivables increased \$127.6 million (13.3%) to \$1,088.6 million through Motor dealer lending (car dealerships, brokers and partnerships such as Holden and Jaguar/Land Rover).

Motor net operating income was \$57.1 million, an increase of \$4.2 million (8.0%).

### Harmony and other personal lending

Harmony and other personal lending Receivables increased \$45.1 million (24.9%), excluding the impact of changes in foreign currency exchange rates. New Zealand Harmony and other personal lending increased \$31.5 million (20.3%) to \$186.3 million and Australia Harmony increased \$13.6 million (52.0%), excluding the impact of changes in foreign currency exchange rates, to \$38.3 million.

Harmony and other personal lending net operating income was \$18.9 million, an increase of \$4.1 million (27.6%).

### Business

Business Receivables increased by \$38.0 million (3.5% growth) to \$1,118.2 million. Heartland's growth focus continues to be on Intermediated Business and lending through our digital platform, Open for Business. These markets continue to deliver results with Business Intermediated lending up \$101.7 million (31.4%) to \$425.4 million and Open for Business lending up \$43.4 million (48.2%) to \$133.3 million. Business Relationship lending continues to be managed down as part of our strategy to reduce low margin risk concentration resulting in Business Relationship Receivables reducing by \$107.0 million.

Business lending net operating income was \$55.9 million, an increase of \$3.5 million (6.8%).

### Rural

Rural Receivables decreased by \$4.1 million (0.6%) to \$656.4 million. We continue to manage down large Rural Relationship lending to reduce low margin risk concentration in this area resulting in Rural Relationship Receivables reducing by \$23.4 million. Livestock Receivables increased by \$19.3 million (18.8%) to \$121.6 million.

Rural lending net operating income was \$31.7 million, a decrease of \$0.6 million (1.9%).

### Australia

Australian Reverse Mortgage Receivables increased \$163.0 million (24.0%) excluding the impact of changes in foreign currency exchange rates and reverse mortgage transfers to New Zealand. Reported growth was \$79.6 million (11.7%) to \$757.6 million due to \$54.7 million of reverse mortgage transfers to New Zealand and an adverse foreign exchange impact of \$31.0 million.

Net operating income from Australian operations was \$22.7 million, an increase of \$2.2 million (10.7%).

### NET ASSETS

During the reporting period, Net Assets increased by \$11.5 million to \$675.7 million after taking into account a reduction of \$19.3 million as a result of the initial adoption of IFRS9. Net Tangible Assets (NTA) increased by \$9.0 million to \$593.5 million. On a per share basis, NTA was \$1.04, unchanged from 2018.

### FUNDING AND LIQUIDITY

Heartland operates a diversified funding base that continues to grow with the business.

Deposits increased by \$271.9 million (9.4% growth) to \$3.2 billion. Heartland continues to provide market leading call and competitive term deposit offerings, providing customers with competitive interest rates and unlimited on call access to their money through the Heartland Direct Call Account.

In August 2018, the Asset-Backed Commercial Paper programme was replaced with a new externally rated auto loan warehouse which is bank funded. The facility was utilised during the year but undrawn as at 30 June 2019.

Heartland Bank successfully completed a \$125 million five-year unsubordinated, unsecured, medium term fixed rate note offer, which included \$50 million of oversubscriptions. The notes were issued on 12 April 2019 with a maturity date of 21 September 2022 and are quoted on the NZX Debt Market.

Heartland Australia Group Pty Limited issued an A\$50 million two-year unsubordinated, medium-term note on 8 March 2019 with a maturity date of 8 March 2021.

The Seniors Warehouse Trust Securitisation facility increased A\$50m during the year.

In May 2019, Heartland introduced leverage capacity to the holding company with a \$50 million corporate debt facility, which was undrawn as at 30 June 2019.

### CAPITAL

Heartland did not need to undertake an issue of capital during the current financial year, with the increase in new shares being due to the Dividend Reinvestment Plan (DRP).

A 2019 final ordinary dividend of 6.5 cents per share was declared bringing the 2019 full year ordinary declared dividend to 10.0 cents per share, 1.0 cent higher than the total dividend paid for 2018. The increase in the dividend reflects the performance of Heartland, particularly Australia, and also allows for investment in growth. The DRP remained in effect for the final dividend with a 2.0% discount.

Return on Equity (ROE) of 11.1% was consistent with 2018 as was Earnings per Share (EPS) at 13.0 cents.

### CHANGE IN PROFITABILITY (\$MILLION)

<b>June 2018 net profit after tax</b>	<b>67.5</b>
Net Interest Income	14.9
Lease, fee and other income	(4.7)
Selling and administration expenses	(2.1)
Impairment expense	1.4
Fair value movement on investment property	1.9
One-off operating expenses and break cost	(4.2)
Income tax expense	(1.1)
<b>June 2019 net profit after tax</b>	<b>73.6</b>

# Summary financials

## Consolidated Statement of Comprehensive Income

For the year ended 30 June 2019

\$000's	June 2019	June 2018
Interest income	334,330	309,284
Interest expense	136,747	125,483
<b>Net interest income</b>	<b>197,583</b>	<b>183,801</b>
Net operating lease income	1,835	1,670
Lending and credit fee income	3,117	2,351
Other income	3,307	8,972
<b>Net operating income</b>	<b>205,842</b>	<b>196,794</b>
Operating expenses	85,589	80,433
<b>Profit before impaired asset expense and income tax</b>	<b>120,253</b>	<b>116,361</b>
Fair value movement on investment property	1,936	-
Impaired asset expense	20,676	22,067
<b>Profit before income tax</b>	<b>101,513</b>	<b>94,294</b>
Income tax expense	27,896	26,781
<b>Net profit attributable to shareholders</b>	<b>73,617</b>	<b>67,513</b>
Other comprehensive income for the year, net of income tax	(7,161)	3,708
<b>Total comprehensive income for the year</b>	<b>66,456</b>	<b>71,221</b>
Basic and diluted earnings per share (cents)	13	13

SUMMARY FINANCIALS

## Consolidated Statement of Cash Flows

For the year ended 30 June 2019

\$000's	June 2019	June 2018
Operating inflows	314,339	295,810
Operating outflows	(250,906)	(221,273)
Changes in operating assets and liabilities	(113,345)	(125,716)
Net cash flows applied to operating activities	(49,912)	(51,179)
Net cash flows from investing activities	(15,981)	(35,931)
Net cash flows from financing activities	96,889	79,658
Net increase/(decrease) increase in cash held	30,996	(7,452)
Cash and cash equivalents at the beginning of the year	49,588	57,040
<b>Closing cash and cash equivalents</b>	<b>80,584</b>	<b>49,588</b>

## Statement of Changes in Equity

For the year ended 30 June 2019

\$000's	June 2019	June 2018
Balance at beginning of the year	664,160	569,595
NZ IFRS9 adjustment	(19,283)	-
Restated balance at beginning of the year	644,877	569,595
Net profit attributable to shareholders	73,617	67,513
Other comprehensive income for the year, net of income tax	(7,161)	3,708
Dividends paid net of reinvested dividends	(36,266)	(35,150)
Issue of share capital net of transaction cost	(18)	58,315
Other movements	619	179
<b>Balance at end of the year</b>	<b>675,668</b>	<b>664,160</b>

## Consolidated Statement of Financial Position

As at 30 June 2019

\$000's	June 2019	June 2018
Cash and cash equivalents	80,584	49,588
Investments	354,928	340,546
Investment properties	11,132	9,196
Derivative financial instruments	12,675	923
Finance receivables	3,029,231	3,984,941
Finance receivables - reverse mortgages	1,318,819	-
Operating lease vehicles	15,516	17,524
Other assets	21,309	14,411
Intangible assets	72,679	74,401
Deferred tax asset	9,531	5,319
<b>Total assets</b>	<b>4,926,404</b>	<b>4,496,849</b>
Retail deposits	3,153,681	2,881,805
Other borrowings	1,056,653	914,253
Tax liabilities	7,532	11,459
Derivative financial instruments	10,372	2,562
Trade and other payables	22,498	22,610
<b>Total liabilities</b>	<b>4,250,736</b>	<b>3,832,689</b>
<b>Equity</b>		
Share capital	558,970	542,315
Retained earnings and other reserves	116,698	121,845
<b>Total equity</b>	<b>675,668</b>	<b>664,160</b>
<b>Total equity and liabilities</b>	<b>4,926,404</b>	<b>4,496,849</b>

## DIRECTORS

### HEARTLAND GROUP BOARD

**Geoff Ricketts**

Chair and Independent Non-Executive Director

**Jeff Greenslade**

Executive Director and CEO

**Ellie Comerford**

Independent Non-Executive Director

**Sir Chris Mace**

Independent Non-Executive Director

**Greg Tomlinson**

Non-Executive Director

### HEARTLAND BANK BOARD

**Bruce Irvine**

Chair and Independent Non-Executive Director

**Ellie Comerford**

Independent Non-Executive Director

**Jeff Greenslade**

Executive Director

**John Harvey**

Independent Non-Executive Director

**Kate Morrison**

Independent Non-Executive Director

**Geoff Ricketts**

Independent Non-Executive Director

**Vanessa Stoddart**

Independent Non-Executive Director

## STRATEGIC MANAGEMENT GROUP

**Jeff Greenslade**

CEO, Heartland Group

**Chris Flood**

CEO, Heartland Bank

**Cherise Barrie**

Chief Financial Officer

**Laura Byrne**

Chief Culture & Communications Officer (joint)

**Grant Kemble**

Chief Risk Officer

**Rochelle Moloney**

Chief Culture & Communications Officer (joint)

**Sarah Smith**

Chief Technology Officer

**Lydia Zulkifli**

Chief Digital Officer

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**Do the  
right thing**

**Be one  
team**

**Have big  
ambition**

**Be always  
evolving**