HEARTLAND GROUP

NZX/ASX Release

Heartland announces half year profit of $39.9 million

18 February 2020

Heartland Group Holdings Limited (**Heartland**) (NZX/ASX: **HGH**) achieved a net profit after tax (**NPAT**) of $39.9 million for the six months to 31 December 2019 (**1H2020**), an increase of 20.4% from the six months to 31 December 2018 (**1H2019**)[1].

Highlights for 1H2020[2]

- NPAT of $39.9 million, up 20.4% ($6.7 million).
- Gross finance receivables[3] (**Receivables**) of $4.6 billion, up $177 million (8% annualised growth)[4] since June 2019.
- Return on equity (**ROE**) of 11.7%, up 165 basis points (**bps**).
- Net interest margin (**NIM**)[5] of 4.72%, flat on the six months to 30 June 2019 (**2H2019**) and 5 bps down compared to 1H2019.
- Cost to income ratio (**CTI**) of 46.0%, up 3.5%. After allowing for changes in the accounting treatment and one-off impacts, the underlying CTI is 43.3%, up 4.3% as a result of significant investments.
- 32% ($4.3 million) lower impairment expense reflecting significant efforts to enhance collections processes and discipline.
- 2020 Interim Dividend of 4.5 cents per share (**cps**), an increase of 1.0 cps from 1H2019.
- Significant progress made on implementing Heartland's workplan to address improvements across conduct and culture.
- 47% of employees were aged 35 years and under.
- 35 interns joined Heartland Bank's Manawa Ako internship programme – 10 more interns than last year's intake.
- Heartland Bank awarded Canstar's 2019 Bank of the Year – Savings and Canstar's 5-Star Rating for Outstanding Value Savings Account for its Direct Call Account.
- Australian Reverse Mortgages awarded Money Magazine's Best Reverse Mortgage 2019.

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[1] This announcement is based on the 31 December 2019 unaudited interim consolidated financial statements of Heartland Group Holdings Limited (**Heartland**). Following a corporate restructure on 31 October 2018, Heartland Bank Limited (**Heartland Bank**) became a 100% controlled subsidiary of Heartland, and ownership of the Australian group of companies (comprising Heartland Australia Holdings Pty Limited and its subsidiaries) transferred from Heartland Bank to Heartland. As common control has remained the same both before and after the corporate restructure, management believes that the operations of Heartland from 1 November 2018 are directly comparable to those of Heartland Bank prior to 1 November 2018.
[2] All comparative results are based on 31 December 2018 unaudited interim consolidated financial statements of Heartland Bank and its subsidiaries up to 31 October 2018, and Heartland and its subsidiaries from 1 November 2018 to 31 December 2018 (financial performance), or 30 June 2019 audited full year consolidated financial statements of Heartland (financial position), unless otherwise noted.
[3] Gross finance receivables also includes Reverse Mortgages.
[4] Excluding the impact of changes in foreign currency exchange (**FX**) rates.
[5] NIM calculated based on average interest earning assets excluding liquid assets.

FINANCIAL POSITION

Receivables increased by $177 million (8% annualised growth)[6] mainly due to growth in Reverse Mortgages, Business Intermediated, Motor, Harmoney and Open for Business (**O4B**), offset by decreases in non-core lending, specifically Business and Rural Relationship.

Total assets increased by $263 million (11% annualised growth), primarily driven by the increase in net finance receivables. Liquid assets, comprising cash, cash equivalents and investments, increased $75 million (36% annualised growth) in line with business growth.

Total borrowings[7] increased by $235 million (11% annualised growth).

During the reporting period, net assets increased by $12 million to $687 million. Net tangible assets (**NTA**) increased by $12 million to $605 million, resulting in an NTA per share of $1.05 (30 June 2019: $1.04; 31 December 2018: $1.01).

FINANCIAL PERFORMANCE

Profitability

NPAT was $39.9 million for 1H2020, a $6.7 million (20.4%) increase on 1H2019.

ROE was 11.7%, up 165 bps from 1H2019.

Earnings per share (**EPS**) was 6.9 cps, up 1.0 cps from 1H2019 as a result of an increase in NPAT.

	1H2020	2H2019	1H2019
NOI[8]	118.6	103.7	102.1
NPAT	39.9	40.5	33.1
NIM	4.27%	4.29%	4.34%
NIM excl. liquid assets[9]	4.72%	4.72%	4.77%
ROE	11.7%	11.0%	10.0%

Income

Total net operating income (**NOI**) was $118.6 million, an increase of $16.5 million (16%) on 1H2019.

Fair value gains on equity investments and recent accounting standard change in respect of upfront reverse mortgage fees contributed $2.1 million and $4.4 million respectively to 1H2020 NOI (correspondingly, mentioned accounting standard change contributed $5.1 million to operating expenses in 1H2020). Adjusted for this, NOI increased by $10.3 million (10%) compared to 1H2019, largely due to a $7.2 million (7%) increase in underlying net interest income. Underlying other

[6] Excluding the impact of changes in FX rates.
[7] Total borrowings includes retail deposits and other borrowings.
[8] NOI includes fair value gains/losses on investments.
[9] NIM calculated based on average interest earning assets excluding liquid assets.

income increased by $3.1 million (83%) compared to 1H2019, primarily due to a stronger Treasury result.

Heartland's NIM for 1H2020 was 4.27%, 7 bps down on 1H2019 and 2 bps down on 2H2019.

NIM was primarily impacted by the reduction in interest rates, lending and deposit portfolio mix changes, and the increased holding of lower yielding cash and investment assets necessary to support the business activity through the Christmas/New Year period – a period of traditionally lower deposit flows and volumes. Excluding liquid assets, NIM was 4.72%, 5 bps down on 1H2019 however unchanged from 2H2019.

Expenses

Operating expenses were $54.6 million, an increase of $11.2 million (26%) on 1H2019. The required accounting standard change in respect of upfront reverse mortgage costs contributed $5.1 million to 1H2020 operating expenses. Adjusted for this, the underlying operating expenses were $6.7 million (16%) higher compared to 1H2019.

Higher underlying operating expenses were primarily due to a $1.8 million increase in marketing investment. The marketing spend was driven by the additional activity across both markets to drive product and brand awareness. Higher underlying operating expenses were also due to a $4.3 million (19%) increase in staff expenses.

The latter they reflect Heartland's significant investment in responding to regulatory and compliance commitments, including increasing the number of full-time equivalent (**FTE**) employees in relevant areas. Heartland has also invested in technical expertise in key areas (for example, in its digital and finance teams) to reduce the reliance on external service providers and enable Heartland to adopt a more agile delivery model, reflecting the growing maturity of the business and the need to respond to an increasingly complex operating environment.

As a result, the cost to income ratio increased to 46.0%, compared to 42.5% in 1H2019, while on an underlying basis this was 43.3% in the current period, compared to 39.0% in 1H2019.

Impairments

Impairment expense decreased by $4.3 million (32%) to $9 million. This reflects continued focus on improving the collections processes. Furthermore, the new provisioning methodology in accordance with IFRS9 was further refined following its initial adoption in 1H2019 thus benefiting impairment expense in the subsequent periods.

Impairment expense as a percentage of average receivables decreased from 0.64% in 1H2019 to 0.40% in 1H2020.

BUSINESS PERFORMANCE

New Zealand Reverse Mortgages

New Zealand Reverse Mortgages NOI was $13.0 million, an increase of $2.7 million (26%) compared to 1H2019.

New Zealand Reverse Mortgage Receivables increased $26 million (10% annualised growth) to $536 million, driven by an investment in marketing to increase brand awareness and digital channel enhancements.

Motor

Motor NOI was $30.1 million, an increase of $1.9 million (7%) compared to 1H2019.

Motor Receivables increased $35 million (6% annualised growth) to $1,124 million mainly due to an increase in the Motor dealer book (car dealerships, brokers and partnerships such as Holden, Kia and Jaguar/Land Rover).

Harmoney and other personal lending

Harmoney NOI was $8.4 million, an increase of $2.2 million (36%) compared to 1H2019.

Harmoney Receivables increased $30 million (31% annualised growth), with the New Zealand Harmoney portfolio increasing $7 million (10% annualised growth) to $159 million, while the Australia Harmoney portfolio increased $22 million (116% annualised growth) to $61 million.

Business

Business lending NOI was $21.9 million, a decrease of $1.4 million (6%) compared to 1H2019.

Business Receivables increased by $24 million (5% annualised growth) to $1,009 million. Heartland Bank's growth focus continues to be on Business Intermediated, with Receivables in this portfolio up $69 million (32% annualised growth) to $494 million. The Business Relationship portfolio, on the other hand, decreased by $44 million (16% annualised decrease) as a result of the strategic focus on reducing concentration risk in low margin exposures.

O4B

O4B NOI was $6.6 million, an increase of $2.3 million (54%) compared to 1H2019.

O4B Receivables increased $25 million (37% annualised growth) to $158 million. Ongoing investment in operational capacity, automation and marketing to increase product awareness are expected to fuel growth in future periods.

Rural

Rural lending NOI was $15.5 million, a decrease of $0.3 million (2%) compared to 1H2019.

Rural Receivables decreased by $36 million (11% annualised decrease) to $621 million. Rural Relationship Receivables reduced by $22 million (8% annualised decrease) as optimisation of non-core Rural Relationship lending to reduce low margin concentration continues. At the same time, Livestock Receivables decreased by $13 million (22% annualised decrease) to $108 million.

Australia

Australian operations NOI was $16.6 million, an increase of $4.9 million (42%) compared to 1H2019.

Australian Reverse Mortgage Receivables increased $79 million (20% annualised growth)[10] to $887 million. Strong growth in the portfolio, driven by investment in marketing, resulted in market share increasing to 26%[11], with a similar trend expected to continue in the future.

FUNDING AND LIQUIDITY

Heartland operates a diversified funding base that continues to grow with the business. The corporate restructure continues to enable new opportunities to expand and diversify funding across Heartland.

Heartland Bank increased borrowings by $125 million, primarily through deposits which increased by $80 million (3% growth) to $3.2 billion. Term deposits increased by $101 million (4%) reflecting Heartland Bank's competitive interest rates. A specific focus has been on extending the duration of the term deposits to support effective liquidity management for Heartland Bank. On average, Heartland Bank retains 88% of all maturing term deposits.

Heartland Bank utilises other funding sources in addition to deposits, including:

- 90-day registered certificate of deposits
- externally rated auto loan warehouse
- money market lines.

Heartland Bank held $429 million of liquid assets, up $47 million (12%) on 30 June 2019. This has positioned Heartland Bank well in excess of all liquidity ratio requirements imposed by the Reserve Bank of New Zealand (**RBNZ**). Liquidity was increased through the end of the December period to ensure sufficient liquidity over the Christmas/New Year period.

Heartland Australia increased borrowings by $235 million to support business growth. $145 million of new securitised borrowings, $100 million of which was from a new major bank provider, were drawn, together with a A$100 million medium-term (2.5-year) note issued in November 2019. This additional MTN issuance provides funding for growth in the Reverse Mortgage business and for O4B that was recently launched in Australia, and allowed for the repayment of intercompany funding. The extension of the duration of funding together with further diversification of funding programmes remains a strategic focus.

Heartland Group extended its corporate debt facility by 6 months, and reduced its limit from $50 million to $25 million. It remained undrawn at 31 December 2019.

REGULATORY UPDATE

The financial services sector has continued to see considerable regulatory activity and review, including the Financial Markets Authority (**FMA**) and RBNZ review of conduct and culture in New Zealand retail banks (**Culture and Conduct Review**), the Treasury's review of the Reserve Bank of New Zealand Act 1989 and the RBNZ's review of the capital adequacy framework for registered banks.

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[10] Excluding the impact of changes in FX rates.
[11] Based on APRA ADI Property Exposure and Heartland Seniors Finance data as at 30 September 2019.

Heartland is committed to continuous improvement in all areas identified by the FMA and RBNZ in their Culture and Conduct Review, and has been working through the implementation of its workplan to address improvements across the organisation. This has contributed to the increase in operating expenses as Heartland invests in resources to deliver on regulatory and customer expectations.

Specifically, this has included the establishment of a Customer Care team focused on obtaining customer feedback and ensuring a good customer experience is delivered across Heartland's products and services.

Following a period of consultation, in December the RBNZ announced its final decision on the revised Capital Framework for Registered Banks in New Zealand (the **Framework**). The revised Framework requires Heartland Bank, as a standardised registered bank, to increase its Total Capital ratio to 16% over a seven-year transitional period commencing July 2020. The revised Framework is not expected to impact Heartland Bank's capital ratio requirements until 2022 when minimum regulatory capital requirements increase from 8% to 9%, therefore not having a material impact on Heartland Bank. Heartland Bank's Total Capital ratio was 12.9% as at 31 December 2019.

STRATEGIC PRIORITIES

Heartland's activity comprises three areas of strategic focus: New Zealand, Australia and Digital.

New Zealand

<u>Product optimisation and distribution</u>

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

Heartland Group's corporate restructure, its investment in digital distribution capability and its increased emphasis on customer experience, also provide Heartland Bank with an opportunity to broaden its focus beyond providing 'best or only' products, and to challenge and disrupt banks and financial technology companies by finding ways to deliver banking products more cost effectively and with less friction for customers. For example:

- Heartland Bank differentiates its small business lending offering from others in the market by providing a fast and simple digital application process with decisioning
- development of Open for Commercial, Heartland Bank's online portal for Business Intermediated customers, enables intermediaries to complete plant and equipment loan applications online on behalf of their clients – this has since been launched
- the Heartland Mobile App allows Deposits customers greater self-service access to Heartland Bank's products and to managing their accounts
- the online calculator and application form for Heartland Bank's reverse mortgage product allows customers to determine how much they might be able to drawdown, before completing an application in their own time online.

Investment in marketing activity for New Zealand Reverse Mortgages took place in 1H2020 in order to raise product and brand awareness. There has been an increase in lead volumes during this time.

Results of the marketing activity, through a combination of digital and offline channels, will continue to be monitored and optimised. Investment in TV and radio marketing activity to promote this product and its benefits will continue in the second half of FY2020.

In July 2019, a new television campaign for O4B was launched to help achieve increased reach and awareness of the small business lending platform. Together with the increased marketing activity through other channels, this has resulted in a significant uplift in visits to the O4B website. There has been an uplift in application and drawdown volumes in 1H2020 (compared to 1H2019). Heartland will continue to monitor activity and refine its advertising placements, creatives and media to raise brand awareness, reach its targeted audience and appeal to that audience.

In FY2019, Heartland Bank recognised an opportunity in the millennial market to deliver a savings product with features that appeal to that particular generation. The YouChoose savings account (with an optional overdraft) was subsequently launched, and Heartland Bank has since been using digital channels to reach the millennial market and seek their feedback on the product to enable continued product optimisation and enhancements.

Partnerships

Heartland Bank successfully entered into a partnership with Kia Motors to provide motor vehicle finance. Kia customers now have access to vehicle finance under Heartland Bank's Kia Finance label.

Heartland Bank and Turners Automotive Group entered into a distribution agreement to provide insurance products under Turners Automotive Group's DPL Insurance 'Autosure' brand. Heartland Bank's insurance products were previously provided by MARAC Insurance Limited, a subsidiary of Heartland Bank. By partnering with Autosure, a specialist, market-leading insurance provider in New Zealand, Heartland Bank can maintain its focus on customer outcomes and be confident that customers have access to a broader range of consumer insurance policies to meet their needs. The agreement came into effect in January 2020 – existing MARAC Insurance customer policies are unaffected.

Customer outcomes

A dedicated Customer Care team was formed in Ashburton to support customers in both New Zealand and Australia, and a Customer Experience and Insights team created to support Heartland's products and services across the Group. Both teams have been established to ensure good customer experiences and outcomes are delivered across Heartland.

Australia

Reverse Mortgages

Heartland remains the primary originator of reverse mortgages in Australia. In addition, Heartland's market share continued to grow to 26%[12] in September 2019, up from 24%[13] in March 2019.

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[12] Based on APRA ADI Property Exposure and Heartland Seniors Finance data as at 30 September 2019.
[13] Based on APRA ADI Property Exposure and Heartland Seniors Finance data as at 31 March 2019.

With a focus on product simplicity and increased importance placed on customer experience and continued improvement and ease of use for the website and application, Heartland expects to see continued growth in its Australian Reverse Mortgage business.

Heartland has seen Australian Reverse Mortgage leads increase in the past six months due to increased marketing activity, and expects to continue to see results from this activity through the remainder of FY2020.

O4B

The Heartland Group corporate restructure undertaken in 2018 has provided Heartland with the opportunity to launch existing products in other markets. Heartland's small business lending platform O4B is an example of this, which was launched in Australia in November. The launch was accompanied by light digital marketing activity while the platform is piloted to ensure the product was set up and operating well. Increased marketing activity will begin in the second half of FY2020 to raise awareness of the product and drive leads.

Funding

Heartland's Australian funding strategy is to source funding that provides:

- capacity – enabling continued growth in line with the business
- diversity – avoiding concentration risk from a range of sources and type
- longevity – is reliable, sustainable and matches duration of the assets being funded
- efficiency – minimises the use of, and enhances the return on capital deployed in the business.

Heartland continues to execute that strategy, having completed the following during the six months to 31 December 2019:

- a new A$250 million committed reverse mortgage funding facility with a major Australian financial institution, with A$100 million drawn to date
- a second issuance from its A$ medium-term note programme, A$100 million of 2.5-year notes to a key Australian institutional fixed income investor.

Work on diversification and new funding opportunities continues.

Digital

Digital services, platforms and processes remains a core focus of Heartland's overall strategy – particularly to achieve Heartland's key digital strategy objectives:

- to make products available to customers online or via an app, providing simple, frictionless and fast on-boarding and processing
- to achieve low cost reach to the broadest target market, through online and mobile access and highly automated processes
- to broaden the reach of products across other markets by using existing platforms and capabilities, a benefit that arises from the corporate restructure

- to enable customer self-service and flexibility to apply for and manage their Heartland products when they want
- to respond to and adapt Heartland's customer experience to meet the expectation of customers to be able to use any device
- to provide opportunities to challenge other banks and financial technology companies by identifying alternative ways to deliver banking products more cost effectively and with less friction for customers.

In 1H2020, digital achievements have been centred around customer facing developments, back office automation and efficiency features, improved staff engagement tools to contribute to culture and better customer outcomes, together with extending Heartland's best or only products to alternate markets.

Customer facing highlights

- Heartland Bank's O4B product was launched in Australia with a website and online application now available for Australians to access small business finance.
- Improvements to the Heartland Mobile App continue, including from customer feedback.
- Australian Reverse Mortgage customers can now apply for their reverse mortgage online and receive an indication of approval.
- New Zealand Reverse Mortgage customers can now calculate online how much they may be able to borrow, before they begin their reverse mortgage application.

Automation and efficiency highlights

- Robotics process automation has been rolled out across multiple processes, reducing manual interventions.
- The integration of DocuSign has automated the signing process for loan documents.
- Through the use of APIs, the time required to complete the fulfilment process of Australian Reverse Mortgage applications has reduced, improving customer experience.
- YouChoose customers can now make purchases online with the integration of Online EFTPOS.
- Development of an online platform to allow Business Intermediated customers to receive automated decisions for their online loan applications – this has since been launched.
- Document management tool rolled out internally to reduce paper usage.

INTERIM DIVIDEND

Heartland is pleased to declare a fully imputed 2020 interim dividend of 4.5 cps, an increase of 1.0 cps from 1H2019. The resulting gross dividend yield was 8.3%[14]. The dividend reflects the continued consistent performance of Heartland Bank and Heartland's Australian business.

[14] Total fully imputed dividends for 2H19 (**final**) and 1H20 (**interim**) divided by the closing share price as at 14 February 2020 of $1.84.

Heartland has a Dividend Reinvestment Plan (**DRP**), giving eligible shareholders the opportunity to reinvest some or all of their dividend payments into new ordinary shares. The DRP will apply to the interim dividend with a 2.0% discount[15].

The DRP offer document and participation form is available on our shareholder website at: https://shareholders.heartland.co.nz/shareholder-resources/dividends.

LOOKING FORWARD

Asset growth from Heartland's core lending activities is expected to continue in the second half of FY2020, particularly in Australia and New Zealand reverse mortgages and small business lending.

Investment will continue, specifically in marketing, to continue building awareness of reverse mortgages (in Australia and New Zealand) and O4B, as well as in new areas of opportunity. Some of these costs are anticipated to be one-off and will contribute to growth beyond FY2020.

Further diversification of funding is expected, particularly in Australia to support growth.

Looking ahead to the rest of FY2020, Heartland will continue its focus on evaluating its overall Environment, Social and Governance (**ESG**) strategy and the ways in which it can continue to reduce its environmental impact.

The underlying balance sheet growth supports a result in line with the original NPAT forecast in the range of $77 million to $80 million.

– Ends –

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[15] That is, the strike price under the DRP will be 98.0% of the volume weighted average sale price of Heartland shares over the five trading days following the Record Date. For the full details of the DRP and the Strike Price calculation, refer to Heartland Group Holdings Limited DRP offer document dated 10 December 2018.

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Results announcement

(for Equity Security issuer/Equity and Debt Security issuer)

Updated as at 17 October 2019

Results for announcement to the market		
Name of issuer	Heartland Group Holdings Limited	
Reporting Period	6 months to 31 December 2019	
Previous Reporting Period	6 months to 31 December 2018	
Currency	NZD	
	Amount (000s)	**Percentage change**
Revenue from continuing operations	$118,634	16.2%
Total Revenue	$118,634	16.2%
Net profit/(loss) from continuing operations	$39,865	20.4%
Total net profit/(loss)	$39,865	20.4%
Interim/Final Dividend		
Amount per Quoted Equity Security	$0.04500000	
Imputed amount per Quoted Equity Security	$0.01750000	
Record Date	26/02/2020	
Dividend Payment Date	11/03/2020	
	Current period	**Prior comparable period**
Net tangible assets per Quoted Equity Security	$1.05	$1.01
A brief explanation of any of the figures above necessary to enable the figures to be understood	Please refer to the 31 December 2019 unaudited interim consolidated financial statements of Heartland Group Holdings Limited that accompany this announcement for a further explanation of these figures.	
Authority for this announcement		
Name of person authorised to make this announcement	Michael Drumm	
Contact person for this announcement	Michael Drumm	
Contact phone number	09 927 9136	
Contact email address	Michael.Drumm@Heartland.co.nz	
Date of release through MAP	18/02/2020	

Unaudited financial statements accompany this announcement.

HEARTLAND GROUP

Distribution Notice

Updated as at 18 December 2019

Please note: all cash amounts in this form should be provided to 8 decimal places

Section 1: Issuer information				
Name of issuer	Heartland Group Holdings Limited			
Financial product name/description	Ordinary Shares			
NZX ticker code	HGH			
ISIN (If unknown, check on NZX website)	NZHGHE0007S9			
Type of distribution (Please mark with an X in the relevant box/es)	Full Year		Quarterly	
	Half Year	X	Special	
	DRP applies	X		
Record date	26/02/2020			
Ex-Date (one business day before the Record Date)	25/02/2020			
Payment date (and allotment date for DRP)	11/03/2020			
Total monies associated with the distribution[1]	$25,986,063.87			
Source of distribution (for example, retained earnings)	Retained earnings			
Currency	NZD			
Section 2: Distribution amounts per financial product				
Gross distribution[2]	$0.06250000			
Gross taxable amount [3]	$0.06250000			
Total cash distribution[4]	$0.04500000			
Excluded amount (applicable to listed PIEs)	NIL			
Supplementary distribution amount	$0.00794118			
Section 3: Imputation credits and Resident Withholding Tax[5]				
Is the distribution imputed	Fully imputed – YES			
	~~Partial imputation~~			

[1] Continuous issuers should indicate that this is based on the number of units on issue at the date of the form

[2] "Gross distribution" is the total cash distribution plus the amount of imputation credits, per financial product, before the deduction of Resident Withholding Tax (**RWT**).

[3] "Gross taxable amount" is the gross distribution minus any excluded income.

[4] "Total cash distribution" is the cash distribution excluding imputation credits, per financial product, before the deduction of RWT. This should *include* any excluded amounts, where applicable to listed PIEs.

[5] The imputation credits plus the RWT amount is 33% of the gross taxable amount for the purposes of this form. If the distribution is fully imputed the imputation credits will be 28% of the gross taxable amount with remaining 5% being RWT. This does not constitute advice as to whether or not RWT needs to be withheld.

	~~No imputation~~	
If fully or partially imputed, please state imputation rate as % applied[6]	28%	
Imputation tax credits per financial product	$0.01750000	
Resident Withholding Tax per financial product	$0.00312500	
Section 4: Distribution re-investment plan (if applicable)		
DRP % discount (if any)	2.0%	
Start date and end date for determining market price for DRP	27/02/2020	04/03/2020
Date strike price to be announced (if not available at this time)	05/03/2020	
Specify source of financial products to be issued under DRP programme (new issue or to be bought on market)	New issue	
DRP strike price per financial product	$	
Last date to submit a participation notice for this distribution in accordance with DRP participation terms	27/02/2020, 5:00pm (NZT)	
Section 5: Authority for this announcement		
Name of person authorised to make this announcement	Michael Drumm	
Contact person for this announcement	Michael Drumm	
Contact phone number	09 927 9136	
Contact email address	Michael.Drumm@Heartland.co.nz	
Date of release through MAP	18/02/2020	

[6] Calculated as (imputation credits/gross taxable amount) x 100. Fully imputed dividends will be 28% as a % rate applied.

2020 Half Year Results

18 February 2020

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Important Notice

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1H2020 Highlights

Financial Performance

Net operating income[1]

$118.6m

+16% vs 1H2019

Net profit after tax

$39.9m

+20% vs 1H2019

Gross finance receivables[2]

$4.585m

+8% annualised growth[3]

Return on equity

11.7%

+165 bps vs 1H2019

1. Net operating income includes fair value gains/losses on investments.
2. Gross finance receivables includes Reverse Mortgages.
3. Excluding the impact of changes in foreign currency exchange (**FX**) rates.

Strategy

- Continued focus on business simplification and growing core portfolios where best or only.
- Launch of Heartland's digital small business lending platform Open for Business (O4B) in Australia.
- Leveraging corporate restructure, existing platforms and capabilities to broaden the reach of Heartland's best or only products across other markets.
- Further diversification and expansion of Australian funding.

Customers and Culture

Customers

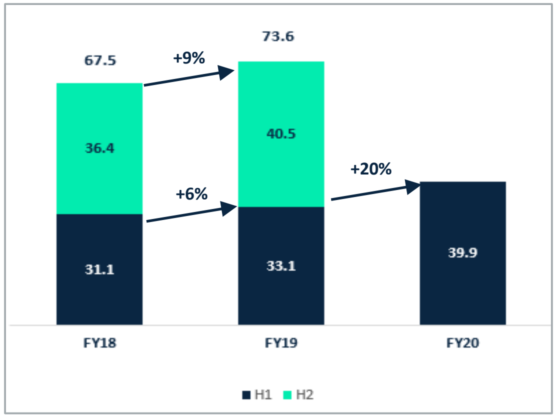
- Increased focus on customer experience, demonstrated through the introduction of a dedicated Customer Experience team and continual digital improvements.
- Product feature enhancements to meet customer needs, e.g. YouChoose and Australian Reverse Mortgages.
- Continued rollout of automation and paperless initiatives to reduce print volumes, e.g. DocuSign and the rollout of a document management tool.

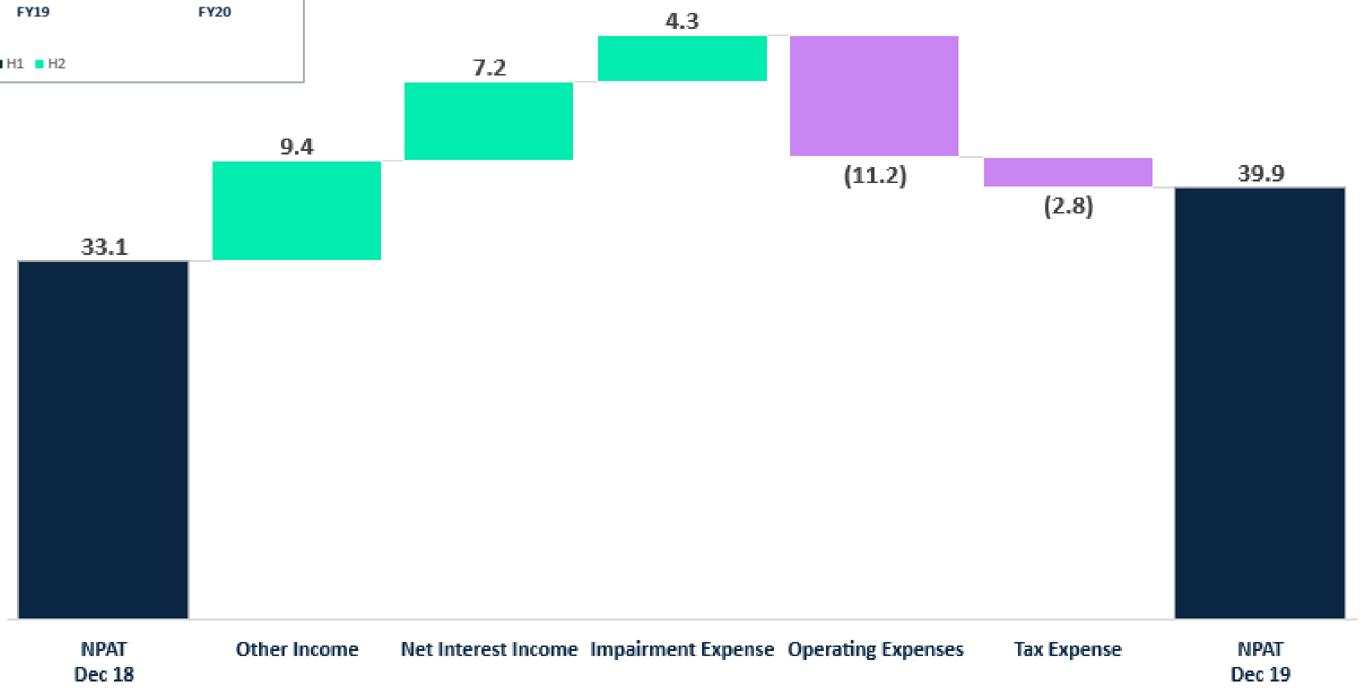
Culture

- Continued focus on increased compliance and regulation requirements, including:
  - increase in FTE and strengthened technical expertise
  - focus on activity-based results
  - launch of Heartland's refreshed mātāpono (values).
- 47% of employees were aged 35 years and under.
- Continuation of Heartland's Manawa Ako internship programme, attracting 35 young Māori and Pacifica students this year.

Financial Results

Growth in Profitability

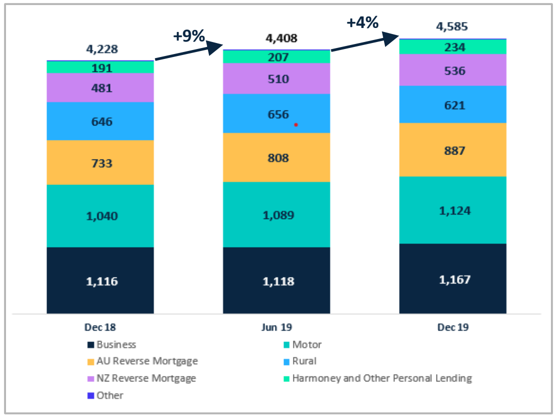


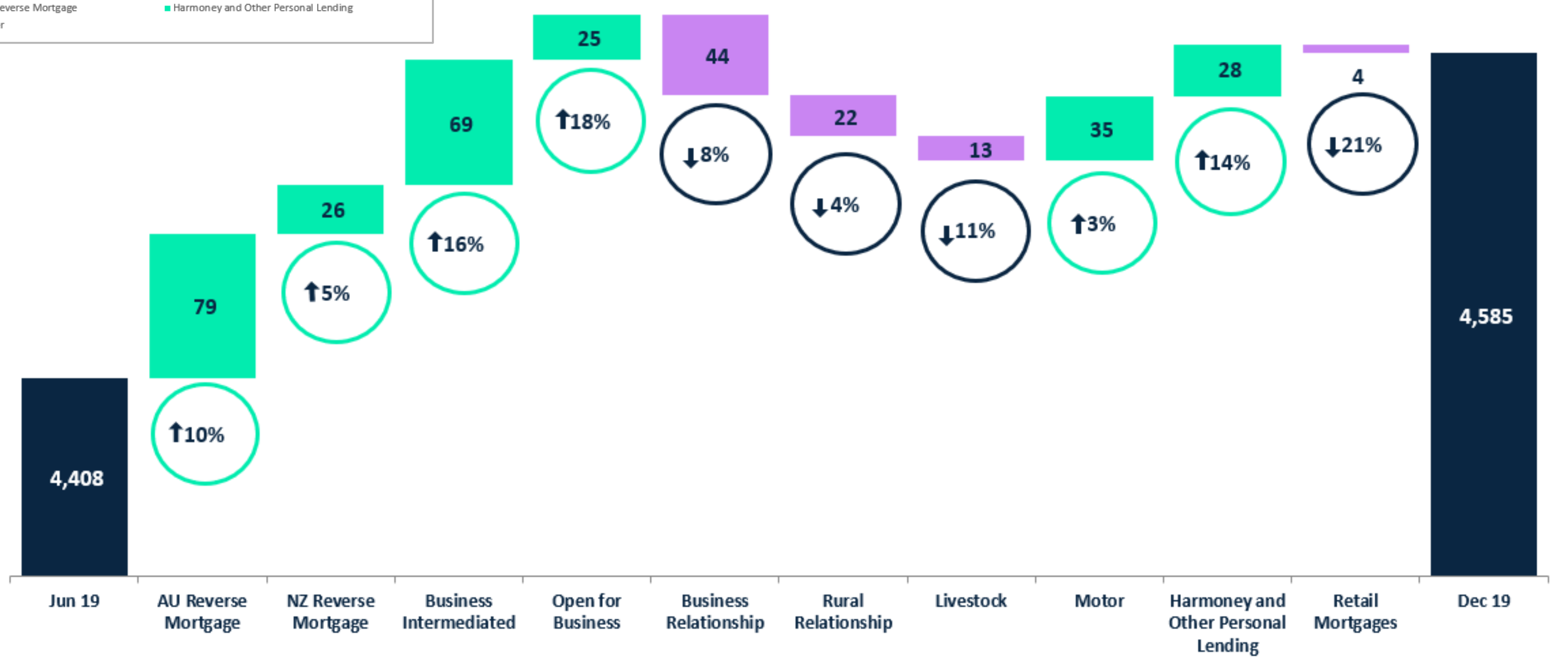


1. All figures in NZ$m.

HEARTLAND GROUP

Growth in Receivables



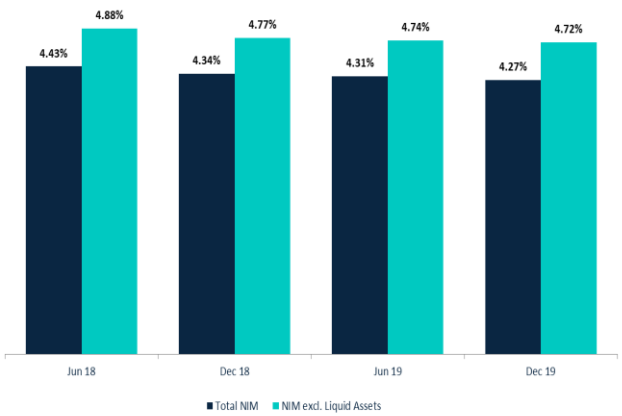


1. The graph shows year-to-date (YTD) movement in Receivables by individual portfolio excluding the FX impact.
2. All figures in NZ$m.

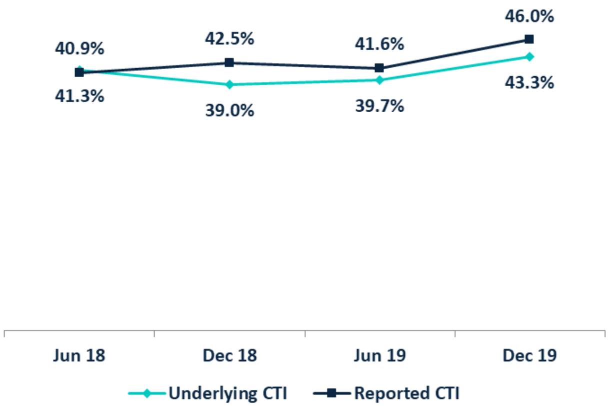
HEARTLAND GROUP

Key Performance Measures

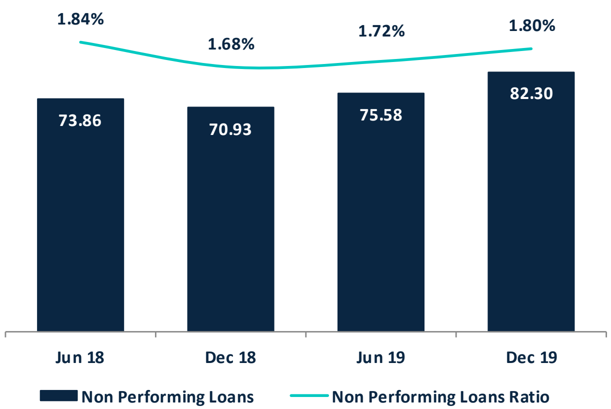
Net Interest Margin (NIM)[1]



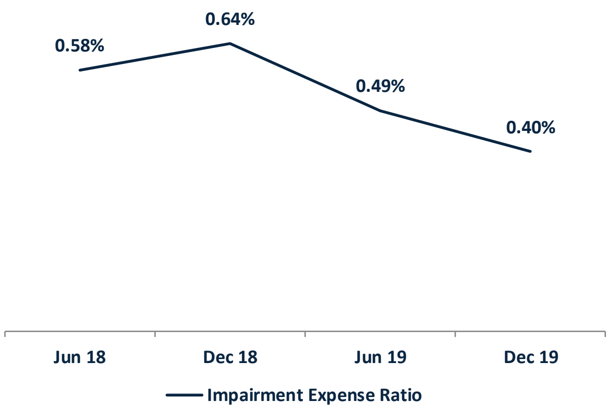
Cost to Income (CTI) Ratio[2]



Non Performing Loans (NPL) Ratio



Impairment Expense Ratio[3]

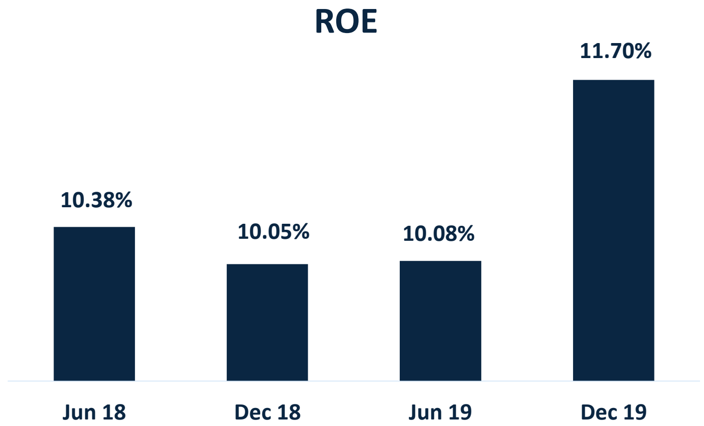


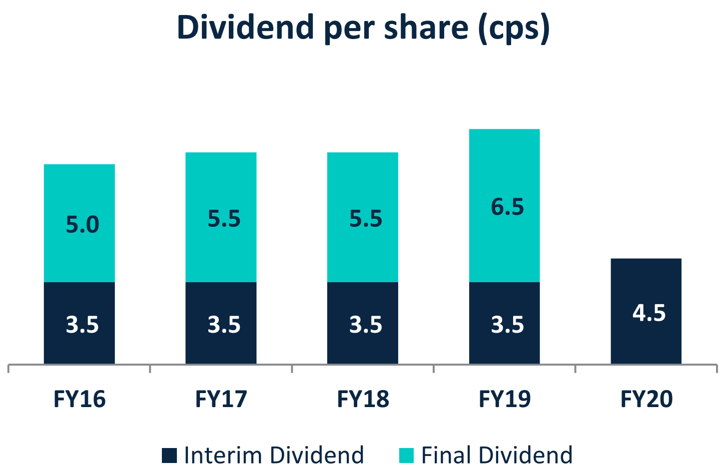
1. NIM is calculated as full year (for June periods) or annualised half year (for December periods) net interest income/average interest earning assets.
2. Underlying CTI excludes impacts of the required accounting standard change and one-off impacts.
3. Impairment expense ratio is calculated as impairment expense/average gross finance receivables.

HEARTLAND GROUP

Shareholder Return

- Earnings per share (EPS) of 6.9 cps, up 1.0 cps compared to 1H19.
- Interim dividend of 4.5 cps, up 1.0 cps from 1H19.
- Interim dividend reflects consistent performance, with return on equity (ROE) increasing 165 bps since December 2018 to 11.7%.
- Resulting gross dividend yield of 8.3%[1].





1. Total fully imputed dividends for 2H19 (final) and 1H20 (interim) divided by the closing share price as at 14 February 2020 of $1.84.

HEARTLAND GROUP

Divisional Summary

O4B

- O4B portfolio increased $25m since June 2019 to $158m (37% annualised growth).
- Net Operating Income of $6.6m is 53.9% up on 1H19.
- Supported more than 800 small Kiwi businesses with $48 million of new financing in 1H2020 to achieve their business goals and grow the New Zealand economy.
- O4B launched in Australia.
- Investment in marketing to increase product awareness, and operational capacity for the next growth phase.

O4B

As at 31 December 2019

$158m

+37%

annualised growth since June 2019

AU Reverse Mortgages

- Receivables increased $79m since June 2019 to $887m (20% annualised growth)[1].
- Net Operating Income of $16.6m is 41.6% up on 1H19.
- Another 800 families helped live a more comfortable retirement.
- Heartland remains the leading originator of reverse mortgages in Australia with market share increasing from 24%[2] to 26%[3], and similar trend expected in the future.
- Continued enhancements to digital channel and investment in marketing to increase product and brand awareness.

AU Reverse Mortgages

As at 31 December 2019

$887m

+20%

annualised growth since June 2019[1]

1. Excluding the FX impact.
2. Based on APRA ADI Property Exposure and Heartland Seniors Finance data as at 31 March 2019.
3. Based on APRA ADI Property Exposure and Heartland Seniors Finance data as at 30 September 2019.

NZ Reverse Mortgages

- Receivables increased $26m since June 2019 to $536m (10% annualised growth).
- Net Operating Income of $13.0m is 26.4% up on 1H19.
- Another 400 Kiwi families helped live a more comfortable retirement.
- Continued enhancements to digital channel and investment in marketing to increase product and brand awareness.

NZ Reverse Mortgages

As at 31 December 2019

$536m

+10%

annualised growth since June 2019

Business Intermediated

- Receivables increased $69m since June 2019 to $494m (32% annualised growth).
- Net Operating Income of $10.1m is 27.7% up on 1H19.
- Supported more than 1,100 businesses with over $172 million of new financing in 1H2020 to purchase equipment and machinery through intermediary partners.
- Strong growth driven by market share gains through continued expansion and strengthening of partnerships with distributors and vendors of plant equipment, including Hino, Isuzu and Mainfreight.

Business Intermediated

As at 31 December 2019

$494m

+32%

annualised growth since June 2019

Motor Finance

- Receivables increased $35m since June 2019 to $1,124m (6% annualised growth).
- Net Operating Income of $30.1m is 6.8% up on 1H19.
- Growth continued in spite of market slowdown.
- More than 12,000 customers supported in purchasing a new car during 1H2020.
- Launch of new white label finance product in partnership with Kia Motors New Zealand.
- Further expanding and strengthening strategic distributor partnerships, and continued focus on broadening intermediary relationships.

Motor Finance

As at 31 December 2019

$1,124m

+6%

annualised growth since June 2019

Harmoney and Other Personal Lending

- New Zealand Harmoney portfolio continues to grow steadily, increasing $7m since June 2019 to $159m (10% annualised growth).
- Strong growth in Australian Harmoney portfolio to $61m, up $22m since June 2019 (116% annualised growth).
- Net Operating Income of $11.0m is 16.3% up on 1H19.

Harmoney and other personal lending
As at 31 December 2019

$234m

+27%
annualised growth since June 2019

Livestock

- Livestock portfolio increased $16m to $108m since December 2018 (17% annual growth)[1].
- Net Operating Income of $3.4m is 20.2% up on 1H19.
- More than 900 existing customers supported with finance to purchase and trade livestock without having to mortgage their farm.

Livestock

As at 31 December 2019

$108m

+17%

growth since December 2018[1]

1. Comparison against 31 December 2018 better reflects portfolio performance due to its seasonal profile.

Relationship

- Receivables decreased $66m since June 2019 to $1,028m (12% annualised decrease).
- Net Operating Income of $23.3m is 16.7% down on 1H19.
- Continued managed reduction of low margin concentration in non-core Business and Rural Relationship portfolios.

Relationship

As at 31 December 2019

$1,028m

-12%

annualised decrease since June 2019

1. Relationship includes non-core Business Relationship and Rural Relationship portfolios.

Funding

- Heartland operates a diversified funding base that continues to grow with the business, with focus on matching asset duration, increasing leverage and improving capital efficiency.

- Heartland Bank utilises deposits and other funding sources as required:
  - 90-day registered certificate of deposits
  - externally rated auto loan warehouse
  - money market lines.

- Deposits increased $80m since June 2019 to $3,234m (5% annualised growth) due to strong growth in Term Deposit book of $101m (9% annualised growth).

- 1,567 new savings accounts opened during 1H2020, bringing the total number of customers helped reach their savings goals faster to more than 24,000.

- Strong performance in the deposit book is supported by Heartland's competitive and flexible deposit product offering, providing a competitive strength amidst a highly competitive market, and resulting in a high retention rate of 88%.

Funding Continued

- Optimisation of the Heartland Mobile App to enable a better user experience.
- Awarded Canstar's Bank of the Year – Savings Awards (second year running).
- Awarded Canstar's 5-Star Rating for Outstanding Value Savings Account for the Direct Call Account (fourth year running).
- Product enhancements made to YouChoose to allow savings without an overdraft.

CANSTAR OUTSTANDING VALUE SAVINGS ACCOUNT

CANSTAR BANK OF THE YEAR 2019 SAVINGS

YouChoose.

Strategic Update

New Zealand Banking

- Achieving sustainable growth and performance underpinned by customer success through providing best or only products.
- Reduced concentration risk on low margin Business and Rural portfolios.
- Focus on building new, and further strengthening and broadening existing strategic Business Intermediated and Motor Finance relationships and partnerships.
- Using better, more cost efficient channels to challenge and disrupt banks and financial technology companies.

Australia

- Continued growth in Australian Reverse Mortgages distributed through broker and direct channels, with an increased focus on direct channels.

- Funding diversification work continues, with A$100m of new funding obtained in November 2019 via an MTN issuance.

- A new securitisation facility with a new major bank provider secured.

- Broadening Heartland's offering in Australia where opportunities exist, for example, the launch of O4B in Australia in 1H2020.

Digital

- Developing digital services, platforms and processes to enable the provision of high-quality customer outcomes, superior customer experiences and seamless access to products and services. Including through:

  - free online calculator of potential lending amount now available for New Zealand Reverse Mortgage customers
  - online application now available for Australian Reverse Mortgage customers
  - small business lending platform O4B launched in Australia
  - implementation of DocuSign allowing for automation of the loan documents signing process
  - Online EFTPOS for YouChoose customers for online purchases
  - automated decisioning available for Business Intermediated customers.

Regulatory Update

FMA and RBNZ review of conduct and culture in New Zealand retail banks[1]

- The review found no conduct and culture issues of material concern but urged banks to strengthen management of conduct risks.
- The findings are consistent with Heartland's constant internal focus on positive customer outcomes and the values of Mahi Tika.
- On 29 March 2019, Heartland submitted a workplan addressing the findings, and progress has been made on implementation.

RBNZ capital review

- In December 2019, the RBNZ announced the final outcome of the review of the capital adequacy framework for locally incorporated banks.
- The revised framework requires Heartland Bank to increase its Total Capital ratio to 16% over a seven-year transitional period commencing July 2020.
- The changes will not impact Heartland Bank until 2022 when minimum regulatory capital requirements increase from 8% to 9%, therefore not having a material impact on Heartland Bank.
- Heartland Bank's Total Capital ratio was 12.9% as at 31 December 2019.

1. "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.

2H2020 Outlook

- Asset growth in core lending, particularly reverse mortgages in New Zealand and Australia, and O4B.

- Continued investment in:
  - increasing brand and product awareness in both markets, particularly for O4B and Reverse Mortgages
  - increasing operational capacity to support opportunities and growth in core strategic areas
  - meeting regulatory and compliance commitments
  - Innovation and new growth opportunities.

- Heartland expects net profit after tax for the full FY2020 to be in the range of $77 million to $80 million, in line with the earlier guidance.

Appendices

Appendix – Financial Position

$m	31 Dec 2019	30 June 2019	Movement ($m)	Movement (%)
Liquid Assets	492	417	75	17.9%
Net Finance Receivables	4,521	4,350	171	3.9%
Other Assets	177	162	15	9.0%
TOTAL ASSETS	**5,190**	**4,929**	**260**	**5.3%**
Retail Deposits	3,234	3,154	80	2.5%
Other Borrowings	1,210	1,055	155	14.7%
Other Liabilities	59	45	14	30.2%
Equity	688	676	12	1.7%
TOTAL EQUITY & LIABILITIES	**5,190**	**4,929**	**260**	**5.3%**

Appendix – Financial Performance

$m	1H2020	1H2019	Change ($)	Change (%)
Net Operating Income[1]	118.6	102.1	16.5	16.2%
Operating Expenses	(54.6)	(43.4)	11.2	25.9%
Impairment Expense	(9.0)	(13.3)	(4.3)	(32.1%)
Profit Before Tax	**55.0**	**45.5**	**9.5**	**21.0%**
Tax Expense	(15.1)	(12.4)	2.8	22.6%
Net Profit After Tax	**39.9**	**33.1**	**6.7**	**20.4%**

Net Interest Margin	4.27%	4.34%	(7 bps)
Cost to Income Ratio	46.0%	42.5%	3.5%
Return on Equity	11.7%	10.0%	165 bps
Earnings per Share	6.9 cps	5.9 cps	1.0 cps

1. Net operating income includes fair value gains/losses on investments.

Thank you

Financial Statements

For the 6 months ended 31 December 2019

Contents

GENERAL INFORMATION

Heartland Group Holdings Limited (**HGH** or the **Company**) is incorporated in New Zealand and registered under the Companies Act 1993. The shares in HGH are listed on the New Zealand exchange (**NZX**) main board and the Australian Securities exchange (**ASX**) under a foreign exempt listing.

The Company's address for service is Level 3, Heartland House, 35 Teed Street, Newmarket, Auckland.

DIRECTORS

As at the date this Interim Financial Statements was signed, the Directors of the Group are:

Geoffrey T Ricketts (Chair) – Independent Non-Executive Director

Gregory R Tomlinson (Deputy Chair) – Non-Executive Director

Jeffrey K Greenslade – Executive Director and Group Chief Executive Officer

Sir Christopher R Mace – Independent Non-Executive Director

Ellen F Comerford – Independent Non-Executive Director

AUDITOR

KPMG

KPMG Centre

18 Viaduct Harbour Avenue

Auckland

DIRECTORS' STATEMENTS

This Consolidated Interim Financial Report for HGH and its subsidiaries (together **the Group**) is dated 17 February 2020 and has been signed by all the Directors.

G T Ricketts (Chair)

G R Tomlinson (Deputy Chair)

J K Greenslade

Sir C R Mace

E F Comerford

CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 31 December 2019

$000's	NOTE	Unaudited 6 months to December 2019	Unaudited 6 months to December 2018	Audited 12 months to June 2019
Interest income	3	172,536	166,260	334,330
Interest expense	3	67,353	68,238	136,747
Net interest income		**105,183**	**98,022**	**197,583**
Operating lease income		2,910	2,871	5,262
Operating lease expenses		1,962	1,801	3,427
Net operating lease income		**948**	**1,070**	**1,835**
Lending and credit fee income		6,827	1,444	3,117
Other income		3,579	1,575	3,307
Net operating income		**116,537**	**102,111**	**205,842**
Operating expenses	4	54,597	43,356	85,589
Profit before impaired asset expense and income tax		**61,940**	**58,755**	**120,253**
Fair value movement on investment property		-	-	1,936
Fair value gain on investment		2,097	-	-
Impaired asset expense	5	9,023	13,286	20,676
Profit before income tax		**55,014**	**45,469**	**101,513**
Income tax expense		15,149	12,355	27,896
Profit for the period/year		**39,865**	**33,114**	**73,617**
Other comprehensive income				
Items that are or may be reclassified subsequently to profit or loss:				
Effective portion of changes in fair value of derivative financial instruments, net of income tax		(225)	781	(4,762)
Movement in fair value reserve, net of income tax		(968)	170	2,968
Movement in foreign currency translation reserve, net of income tax		(513)	(4,003)	(5,281)
Items that will not be reclassified to profit or loss:				
Movement in defined benefit reserve, net of income tax		-	-	(86)
Other comprehensive income for the year, net of income tax		**(1,706)**	**(3,052)**	**(7,161)**
Total comprehensive income for the period/year		**38,159**	**30,062**	**66,456**
Earnings per share				
Basic earnings per share	6	7c	6c	13c
Diluted earnings per share	6	7c	6c	13c

Total comprehensive income for the period/year is attributable to the owners of the Group.

The notes on pages 9 to 29 are an integral part of this consolidated interim financial statement.

CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY

For the six months ended 31 December 2019

$000's	NOTE	Share Capital	Employee Benefits Reserve	Foreign Currency Translation Reserve	Fair Value Reserve	Defined Benefit Reserve	Cash Flow Hedge Reserve	Retained Earnings	Total Equity
Unaudited - December 2019									
Balance at 1 July 2019		**558,970**	**838**	**(4,021)**	**4,558**	**171**	**(5,843)**	**120,995**	**675,668**
NZ IFRS 16 adjustment	1	-	-	-	-	-	-	(639)	(639)
Restated balance at beginning of period		**558,970**	**838**	**(4,021)**	**4,558**	**171**	**(5,843)**	**120,356**	**675,029**
Total comprehensive income for the period									
Profit for the period		-	-	-	-	-	-	39,865	39,865
Other comprehensive income/(loss) net of income tax		-	-	(513)	(968)	-	(225)	-	(1,706)
Total comprehensive income for the period		**-**	**-**	**(513)**	**(968)**	**-**	**(225)**	**39,865**	**38,159**
Contributions by and distributions to owners									
Dividends paid	9	-	-	-	-	-	-	(37,007)	(37,007)
Dividend reinvestment plan	9	11,296	-	-	-	-	-	-	11,296
Transaction costs associated with capital raising		(30)	-	-	-	-	-	-	(30)
Share based payments		-	153	-	-	-	-	-	153
Shares vested		420	(420)	-	-	-	-	-	-
Total transactions with owners		**11,686**	**(267)**	**-**	**-**	**-**	**-**	**(37,007)**	**(25,588)**
Balance as at 31 December 2019		**570,656**	**571**	**(4,534)**	**3,590**	**171**	**(6,068)**	**123,214**	**687,600**
Unaudited - December 2018									
Balance at 1 July 2018		**542,315**	**2,559**	**1,260**	**1,590**	**257**	**(1,081)**	**117,260**	**664,160**
NZ IFRS 9 adjustment (Restated)		-	-	-	-	-	-	(19,283)	(19,283)
Restated balance at beginning of period		**542,315**	**2,559**	**1,260**	**1,590**	**257**	**(1,081)**	**97,977**	**644,877**
Total comprehensive income for the period									
Profit for the period		-	-	-	-	-	-	33,114	33,114
Other comprehensive income/(loss) net of income tax		-	-	(4,003)	170	-	781	-	(3,052)
Total comprehensive income for the period		**-**	**-**	**(4,003)**	**170**	**-**	**781**	**33,114**	**30,062**
Contributions by and distributions to owners									
Dividends paid	9	-	-	-	-	-	-	(30,808)	(30,808)
Dividend reinvestment plan	9	8,584	-	-	-	-	-	-	8,584
Share based payments		-	383	-	-	-	-	-	383
Total transactions with owners		**8,584**	**383**	**-**	**-**	**-**	**-**	**(30,808)**	**(21,841)**
Balance as at 31 December 2018		**550,899**	**2,942**	**(2,743)**	**1,760**	**257**	**(300)**	**100,283**	**653,098**

The notes on pages 9 to 29 are an integral part of this consolidated interim financial statement.

CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY

For the six months ended 31 December 2019 (continued)

$000's	NOTE	Share Capital	Employee Benefits Reserve	Foreign Currency Translation Reserve	Fair Value Reserve	Defined Benefit Reserve	Cash Flow Hedge Reserve	Retained Earnings	Total Equity
Audited - 30 June 2019									
Balance at 1 July 2018		**542,315**	**2,559**	**1,260**	**1,590**	**257**	**(1,081)**	**117,260**	**664,160**
NZ IFRS 9 adjustment		-	-	-	-	-	-	(19,283)	(19,283)
Restated balance at beginning of year		**542,315**	**2,559**	**1,260**	**1,590**	**257**	**(1,081)**	**97,977**	**644,877**
Total comprehensive income for the year									
Profit for the year		-	-	-	-	-	-	73,617	73,617
Other comprehensive income/(loss) net of income tax		-	-	(5,281)	2,968	(86)	(4,762)	-	(7,161)
Total comprehensive income for the year		**-**	**-**	**(5,281)**	**2,968**	**(86)**	**(4,762)**	**73,617**	**66,456**
Contributions by and distributions to owners									
Dividends paid	9	-	-	-	-	-	-	(50,599)	(50,599)
Dividend reinvestment plan	9	14,333	-	-	-	-	-	-	14,333
Transaction costs associated with capital raising		(18)	-	-	-	-	-	-	(18)
Share based payments		-	619	-	-	-	-	-	619
Shares vested		2,340	(2,340)	-	-	-	-	-	-
Total transactions with owners		**16,655**	**(1,721)**	**-**	**-**	**-**	**-**	**(50,599)**	**(35,665)**
Balance as at 30 June 2019		**558,970**	**838**	**(4,021)**	**4,558**	**171**	**(5,843)**	**120,995**	**675,668**

The notes on pages 9 to 29 are an integral part of this consolidated interim financial statement.

CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION

As at 31 December 2019

$000's	NOTE	Unaudited 6 months to December 2019	Unaudited 6 months to December 2018 (Restated)	Audited 12 months to June 2019
Assets				
Cash and cash equivalents		185,732	89,161	80,584
Investments		321,990	318,961	354,928
Investment properties		11,132	9,196	11,132
Derivative financial assets		11,936	1,238	12,675
Finance receivables	7(a)	3,101,366	2,934,170	3,029,231
Finance receivables - reverse mortgages	7(b)	1,419,557	1,232,353	1,318,819
Right of use assets		19,844	-	-
Operating lease vehicles		18,549	16,430	15,516
Other assets		17,492	16,128	21,309
Intangible assets		72,159	73,085	72,679
Deferred tax asset		9,912	9,650	9,531
Total assets		**5,189,669**	**4,700,372**	**4,926,404**
Liabilities				
Retail deposits	8	3,234,025	2,988,365	3,153,681
Other borrowings	8	1,209,540	1,039,420	1,056,653
Lease liabilities		21,306	-	-
Tax liabilities		5,588	1,835	7,532
Derivative financial liabilities		9,843	148	10,372
Trade and other payables		21,767	17,506	22,498
Total liabilities		**4,502,069**	**4,047,274**	**4,250,736**
Equity				
Share capital	9	570,656	550,899	558,970
Retained earnings and other reserves		116,944	102,199	116,698
Total equity		**687,600**	**653,098**	**675,668**
Total equity and liabilities		**5,189,669**	**4,700,372**	**4,926,404**

The notes on pages 9 to 29 are an integral part of this consolidated interim financial statement.

CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS

For the six months ended 31 December 2019

$000's	NOTE	Unaudited 6 months to December 2019	Unaudited 6 months to December 2018	Audited 12 months to June 2019
Cash flows from operating activities				
Interest received		173,788	149,255	304,991
Operating lease income received		2,450	2,961	4,761
Lending, credit fees and other income received		9,381	3,363	4,587
Operating inflows		**185,619**	**155,579**	**314,339**
Interest paid		73,520	50,799	89,607
Payments to suppliers and employees		59,797	71,393	135,404
Taxation paid		12,512	19,730	25,895
Operating outflows		**145,829**	**141,922**	**250,906**
Net cash flows from operating activities before changes in operating assets and liabilities		**39,790**	**13,657**	**63,433**
Proceeds from sale of operating lease vehicles		1,101	2,414	4,641
Purchase of operating lease vehicles		(6,614)	(2,996)	(5,495)
Net movement in finance receivables		(174,276)	(196,828)	(384,367)
Net movement in deposits		80,344	105,388	271,876
Net cash flows (applied to) / from operating activities		**(59,655)**	**(78,365)**	**(49,912)**
Cash flows from investing activities				
Net decrease in investments		45,373	21,928	-
Total cash provided from investing activities		**45,373**	**21,928**	**-**
Purchase of office fit-out, equipment and intangible assets		6,989	2,379	4,512
Net increase in investments		-	-	11,468
Total cash applied to investing activities		**6,989**	**2,379**	**15,980**
Net cash flows from / (applied to) investing activities		**38,384**	**19,549**	**(15,980)**
Cash flows from financing activities				
Net increase/(decrease) in wholesale funding		49,720	143,459	31,000
Proceeds from issue of Unsubordinated Notes		103,167	-	125,000
Total cash provided from financing activities		**152,887**	**143,459**	**156,000**
Dividends paid	9	25,711	22,224	36,266
Repayments of subordinated Notes		-	22,846	22,846
Principal elements of lease payments		757	-	-
Total cash applied to financing activities		**26,468**	**45,070**	**59,112**
Net cash flows from financing activities		**126,419**	**98,389**	**96,888**
Net increase / (decrease) in cash held		**105,148**	**39,573**	**30,996**
Opening cash and cash equivalents		80,584	49,588	49,588
Closing cash and cash equivalents		**185,732**	**89,161**	**80,584**

The notes on pages 9 to 29 are an integral part of this consolidated interim financial statement.

CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS

For the six months ended 31 December 2019 (continued)

$000's	NOTE	Unaudited 6 months to December 2019	Unaudited 6 months to December 2018	Audited 12 months to June 2019
Profit for the period		**39,865**	**33,114**	**73,617**
Add / (less) non-cash items:				
Depreciation and amortisation expense		4,357	2,701	5,760
Depreciation on lease vehicles		1,962	1,676	3,363
Capitalised net interest income		(24,859)	(12,040)	(29,417)
Impaired asset expense	5	9,023	13,286	20,676
Fair valuation gain on investments		(2,097)	-	(1,936)
Total non-cash items		**(11,614)**	**5,623**	**(1,554)**
Add / (less) movements in operating assets and liabilities:				
Finance receivables		(174,276)	(196,828)	(384,367)
Operating lease vehicles		(4,652)	(582)	(1,354)
Other assets		(4,337)	(5,377)	(8,260)
Current tax		(1,944)	(9,624)	(3,927)
Derivative financial instruments revaluation		(757)	(1,948)	(8,701)
Deferred tax		(381)	(4,630)	3,759
Deposits		80,344	105,388	271,876
Right of use asset		19,884	-	-
Other liabilities		(1,787)	(3,501)	8,999
Total movements in operating assets and liabilities		**(87,906)**	**(117,102)**	**(121,975)**
Net cash flows applied to operating activities		**(59,655)**	**(78,365)**	**(49,912)**

The notes on pages 9 to 29 are an integral part of this consolidated interim financial statement.

NOTES TO THE INTERIM FINANCIAL STATEMENTS

For the 6 months ended 31 December 2019

1 Financial statements preparation

Basis of preparation

The interim financial statements of the Group incorporated in this Interim Report have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand (**NZ GAAP**) as defined in the Financial Reporting Act 2013, the NZX Main Board Listing Rules, and the ASX Listing Rules. The financial statements comply with NZ IAS 34 Interim Financial Reporting as appropriate for publicly accountable for-profit entities and IAS 34 Interim Financial Reporting.

The interim report does not include all notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2019 and any public announcements made by the Group during the interim reporting period.

The interim financial statements presented here are for the following periods:

- 6 month period ended 31 December 2019 – Unaudited
- 6 month period ended 31 December 2018 – Unaudited
- 12 month period ended 30 June 2019 – Audited

The accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period with the exception of the adoption of new and amended standards as set out below.

Impact of adopting NZ IFRS 16 Leases

The Group has adopted NZ IFRS 16 retrospectively from 1 July 2019, but has not restated comparatives for the 2019 reporting period, as permitted under the specific transitional provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on 1 July 2019.

Accounting treatment for leasing activities

The Group leases office space, car parks, equipment and cars. Rental contracts are typically made for fixed periods but may have extension options. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions.

Until 30 June 2019, leases of property, plant and equipment were classified as either finance or operating leases. Payments made under operating leases (net of any incentives received from the lessor) were charged to profit or loss.

From 1 July 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group. The right-of-use assets are initially measured at cost, comprising the amount of the initial measurement of lease liability, any lease payments made at or before the commencement date less any lease incentives received, any initial direct costs and restoration costs. The right-of-use asset is depreciated over the shorter of the asset's estimated useful life and the lease term on a straight-line basis. The estimated useful lives of right-of-use assets are determined on the same basis as those of property, plant and equipment.

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option. Extension options are only included in the lease term if the lease is reasonably certain to be extended.

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less.

On adoption of NZ IFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of NZ IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as at 1 July 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 July 2019 was 2.9%.

1. Financial statements preparation (continued)

The Group elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date, the Group relied on its assessment made applying NZ IAS 17 and NZ IFRIC 4 Determining whether an Arrangement contains a Lease.

$000's	
Operating lease commitments as at 30 June 2019	**12,385**
Discounted using the Group's incremental borrowing rate on initial application	(1,060)
Adjustments relating to changes in the index or rate effective variable payments	316
Lease liability recognised as at 1 July 2019	**11,641**
Of which are:	
Current lease liabilities	1,947
Non-current lease liabilities	9,694
Total lease liabilities	**11,641**

The associated right-of-use assets of which are substantially in relation to property leases were measured on a retrospective basis as if the new rules had always been applied. There were no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application.

The change in accounting policy affected the following items in the balance sheet on 1 July 2019:

- Right-of-use assets: increased by $10.7 million
- Deferred tax assets: increased by $0.3 million
- Lease liabilities: increased by $11.6 million

The net impact on retained earnings on 1 July 2019 was a decrease of $0.6 million.

The adoption of NZ IFRS 16 has no material impact to the Group's leasing business where the Group acts as the lessor.

There have been no other changes to accounting policies or other new or amended standards that are issued and effective that are expected to have a material impact on the Group.

Accounting standards issued but not yet effective

NZ IFRS 17 Insurance Contracts was issued in July 2017 and is applicable to general and life insurance contracts. NZ IFRS 17 will replace NZ IFRS 4 Insurance Contracts. In mid-2019 an Exposure Draft on amendments to NZ IFRS 17 was issued and proposed that the effective date of NZ IFRS 17 be deferred by one year. As such it is expected that the standard will be effective for the Group for the financial year ending 30 June 2023. The Group is in the process of restructuring its insurance business and will assess the impact arising from NZ IFRS 17 in conjunction with the restructure. Further information on the restructure is included in Note 17 of the financial statements.

Other amendments to existing standards that are not yet effective are not expected to have a material impact to the Group.

PERFORMANCE

2 Segmental analysis

Segment information is presented in respect of the Group's operating segments which are those used for the Group's management and internal reporting structure.

Operating segments

Motor	Motor vehicle finance.
Reverse Mortgages	Reverse mortgage lending.
Other Personal	A comprehensive range of financial services – including term, transactional and savings-based deposit accounts and personal loans to individuals.
Business	Term debt, plant and equipment finance, commercial mortgage lending and working capital solutions for small-to-medium businesses.
Rural	Specialist financial services to the farming sector primarily offering livestock finance, rural mortgage lending, seasonal and working capital financing, as well as leasing solutions to farmers.
Australia	Reverse mortgage lending and other financial services within Australia.

Certain operating expenses and assets, such as premises, IT and support centre costs are not allocated to operating segments and are included in Other.

$000's	Motor	Reverse Mortgages	Other Personal	Business	Rural	Australia	Other	Total
Unaudited - 6 months ended 31 December 2019								
Net interest income	28,204	11,826	9,238	28,026	15,380	12,549	(40)	105,183
Net other income	1,895	2,779	646	1,317	535	1,567	2,615	11,354
Net operating income	**30,099**	**14,605**	**9,884**	**29,343**	**15,915**	**14,116**	**2,575**	**116,537**
Operating expenses	1,615	3,178	1,934	5,980	1,396	6,828	33,666	54,597
Profit/(loss) before impaired asset expense and income tax	**28,484**	**11,427**	**7,950**	**23,363**	**14,519**	**7,288**	**(31,091)**	**61,940**
Fair value gain on investment	-	-	-	-	-	-	2,097	2,097
Impaired asset expense	3,611	-	3,345	1,880	139	48	-	9,023
Profit/(loss) before income tax from continuing operations	**24,873**	**11,427**	**4,605**	**21,483**	**14,380**	**7,240**	**(28,994)**	**55,014**
Income tax expense	-	-	-	-	-	2,173	12,976	15,149
Profit/(loss) for the period	**24,873**	**11,427**	**4,605**	**21,483**	**14,380**	**5,067**	**(41,970)**	**39,865**
Total assets	1,127,408	536,462	244,498	1,148,614	615,072	883,668	633,947	**5,189,669**
Total liabilities	-	-	-	-	-	824,880	3,677,189	**4,502,069**

2 Segmental analysis (continued)

$000's	Motor	Reverse Mortgages	Other Personal	Business	Rural	Australia	Other	Total
Unaudited - 6 months ended 31 December 2018								
Net interest income	27,716	9,937	8,304	26,904	15,426	11,555	(1,820)	98,022
Net other income	467	112	1,195	723	404	196	992	4,089
Net operating income	**28,183**	**10,049**	**9,499**	**27,627**	**15,830**	**11,751**	**(828)**	**102,111**
Operating expenses	1,203	1,261	2,975	4,539	1,899	2,633	28,846	43,356
Profit / (loss) before impaired asset expense and income tax	**26,980**	**8,788**	**6,524**	**23,088**	**13,931**	**9,118**	**(29,674)**	**58,755**
Impaired asset expense / (benefit)	4,654	-	5,036	3,812	(135)	(322)	241	13,286
Profit / (loss) before income tax	**22,326**	**8,788**	**1,488**	**19,276**	**14,066**	**9,440**	**(29,915)**	**45,469**
Income tax expense	-	-	-	-	-	931	11,424	12,355
Profit / (loss) for the period	**22,326**	**8,788**	**1,488**	**19,276**	**14,066**	**8,509**	**(41,339)**	**33,114**
Total assets (restated)	1,021,673	478,037	200,823	1,083,029	634,486	754,933	527,391	**4,700,372**
Total liabilities	-	-	-	-	-	-	4,047,274	**4,047,274**

$000's	Motor	Reverse Mortgages	Other Personal	Business	Rural	Australia	Other	Total
June 2019 – Audited								
Net interest income	54,753	20,673	16,345	54,334	30,865	21,148	(535)	197,583
Net other income	2,313	224	2,563	1,524	816	1,582	(763)	8,259
Net operating income	**57,066**	**20,897**	**18,908**	**55,858**	**31,681**	**22,730**	**(1,298)**	**205,842**
			-	-	-	-	-	-
Operating expenses	2,543	2,279	5,602	9,163	3,263	5,115	57,624	85,589
Profit/(loss) before impaired asset expense and income tax	**54,523**	**18,618**	**13,306**	**46,695**	**28,418**	**17,615**	**(58,922)**	**120,253**
Fair value movement on investment property	-	-	-	-	-	-	1,936	1,936
Impaired asset expense / (benefit)	5,009	268	8,307	7,102	(132)	-	122	20,676
Profit/(loss) before income tax from continuing operations	**49,514**	**18,350**	**4,999**	**39,593**	**28,550**	**17,615**	**(57,108)**	**101,513**
Income tax expense	-	-	-	-	-	5,016	22,880	27,896
Profit/(loss) for the year	**49,514**	**18,350**	**4,999**	**39,593**	**28,550**	**12,599**	**(79,988)**	**73,617**
Total assets	1,074,446	561,211	215,253	1,096,253	643,278	758,268	577,695	**4,926,404**
Total liabilities	**-**	**-**	**-**	**-**	**-**	740,111	3,510,625	**4,250,736**

3 Net interest income

$000's	Unaudited 6 months to December 2019	Unaudited 6 months to December 2018	Audited 12 months to June 2019
Interest income			
Cash and cash equivalents	309	312	717
Investments	4,364	4,906	10,864
Finance receivables	124,658	128,687	242,556
Finance receivables - reverse mortgages	43,205	32,355	80,193
Total interest income	**172,536**	**166,260**	**334,330**
Interest expense			
Retail deposits	47,731	48,595	97,119
Other borrowings	18,223	18,233	36,382
Net interest expense on derivative financial instruments	1,399	1,410	3,246
Total interest expense	**67,353**	**68,238**	**136,747**
Net interest income	**105,183**	**98,022**	**197,583**

4 Operating expenses

$000's	Unaudited 6 months to December 2019	Unaudited 6 months to December 2018	Audited 12 months to June 2019
Personnel expenses	27,108	23,285	47,427
Directors' fees	514	612	1,099
Audit and review of financial statements [1]	401	338	614
Other assurance services paid to auditor [2]	31	15	52
Depreciation - property, plant and equipment	1,112	898	1,867
Amortisation - intangible assets	2,102	1,803	3,893
Depreciation - right of use asset	1,143	-	-
Operating lease expense as a lessee	-	912	1,807
Legal and professional fees	1,787	1,843	3,130
Other operating expenses	20,399	13,650	25,700
Total operating expenses	**54,597**	**43,356**	**85,589**

[1] Audit and review of financial statements includes fees paid for both audit of financial statements and review of interim financial statements.
[2] Other assurance services paid to the auditor comprise review of regulatory returns, trust deed reporting, registry audits and other agreed upon procedures engagements.

5 Impaired asset expense

At each reporting date, the Group applies a three stage approach to measuring expected credit loss (ECL) to finance receivables not carried at fair value. The following table details impairment charges of those finance receivables for the six months ended 31 December 2019.

$000's	Unaudited 6 months to December 2019	Unaudited 6 months to December 2018	Audited 12 months to June 2019
Non-securitised			
Individually impaired expense/(benefit)	553	(425)	1,311
Collectively impaired expense	8,469	13,740	19,024
Total non-securitised impaired asset expense	**9,022**	**13,315**	**20,335**
Securitised			
Collectively impaired expense/(benefit)	1	(29)	341
Total securitised impaired asset expense	**1**	**(29)**	**341**
Total			
Individually impaired expense/(benefit)	553	(425)	1,311
Collectively impaired expense	8,470	13,711	19,365
Total impaired asset expense	**9,023**	**13,286**	**20,676**

6 Earnings per share

	December 2019			**December 2018**			**June 2019**		
	Earnings per share (cents)	**Net profit after tax $000's**	**Weighted average no. of shares 000's**	**Earnings per share (cents)**	**Net profit after tax $000's**	**Weighted average no. of shares 000's**	**Earnings per share (cents)**	**Net profit after tax $000's**	**Weighted average no. of shares 000's**
Basic earnings	7	39,865	574,277	6	33,114	561,188	13	73,617	563,364
Diluted earnings	7	39,865	574,277	6	33,114	561,188	13	73,617	563,364

FINANCIAL POSITION

7 Finance Receivables

(a) Finance receivables held at amortised cost

$000's	Unaudited December 2019	Unaudited December 2018 (Restated)	Audited June 2019
Non-securitised			
Neither 90 days past due nor impaired	3,049,814	2,766,520	3,016,844
At least 90 days past due	46,780	34,854	44,466
Individually impaired	28,433	36,773	26,412
Gross finance receivables	**3,125,027**	**2,838,147**	**3,087,722**
Less provision for impairment	(60,381)	(57,803)	(58,491)
Total non-securitised finance receivables	**3,064,646**	**2,780,344**	**3,029,231**
Securitised			
Neither 90 days past due nor impaired	36,843	154,642	-
At least 90 days past due	-	197	-
Individually impaired	-	-	-
Gross finance receivables	**36,843**	**154,839**	**-**
Less provision for impairment	(123)	(1,013)	-
Total securitised finance receivables	**36,720**	**153,826**	**-**
Total			
Neither 90 days past due nor impaired	3,086,657	2,921,162	3,016,844
At least 90 days past due	46,780	35,051	44,466
Individually impaired	28,433	36,773	26,412
Gross finance receivables	**3,161,870**	**2,992,986**	**3,087,722**
Less provision for impairment	(60,504)	(58,816)	(58,491)
Total finance receivables	**3,101,366**	**2,934,170**	**3,029,231**

7 Finance Receivables (continued)

(a) Finance receivables held at amortised cost (continued)

Movement in provision

The following table details the movement from the opening balance to the closing balance of provision for impairment by class.

$000's	12- month ECL	Lifetime ECL Not credit impaired	Lifetime ECL Credit impaired	Specific provision	Total
Unaudited - December 2019					
Non-securitised					
Impairment allowance as at 1 July 2019	30,421	1,780	18,427	7,863	58,491
Changes in loss allowance					
Transfer between stages	(925)	(127)	1,046	-	(6)
New and increased provision (net of collective provision releases)	168	665	8,196	1,638	10,667
Recovery of amounts written off	-	-	(1,767)	-	(1,767)
Credit impairment charge	**(757)**	**538**	**7,475**	**1,638**	**8,894**
Recovery of amounts previously written off	-	-	1,767	-	1,767
Write offs	-	-	(8,671)	(100)	(8,771)
Impairment allowance as at 31 December 2019	**29,664**	**2,318**	**18,998**	**9,401**	**60,381**
Securitised					
Impairment allowance as at 1 July 2019	-	-	-	-	-
Changes in loss allowance					
Transfer between stages	122	-	-	-	122
New and increased provision (net of collective provision releases)	-	1	-	-	1
Recovery of amounts written off	-	-	-	-	-
Credit impairment charge	**122**	**1**	**-**	**-**	**123**
Recovery of amounts previously written off	-	-	-	-	-
Write offs	-	-	-	-	-
Impairment allowance as at 31 December 2019	**122**	**1**	**-**	**-**	**123**
Total					
Impairment allowance as at 1 July 2019	30,421	1,780	18,427	7,863	58,491
Changes in loss allowance					
Transfer between stages	(803)	(127)	1,046	-	116
New and increased provision (net of collective provision releases)	168	666	8,196	1,638	10,668
Recovery of amounts written off	-	-	(1,767)	-	(1,767)
Credit impairment charge	**(635)**	**539**	**7,475**	**1,638**	**9,017**
Recovery of amounts previously written off	-	-	1,767	-	1,767
Write offs	-	-	(8,671)	(100)	(8,771)
Impairment allowance as at 31 December 2019	**29,786**	**2,319**	**18,998**	**9,401**	**60,504**

7 Finance Receivables (continued)

(a) Finance receivables held at amortised cost (continued)

$000's	12-month ECL (Restated)	Lifetime ECL Not credit impaired (Restated)	Lifetime ECL Credit impaired (Restated)	Collective provision June 2018	Specific provision (Restated)	Total (Restated)
Unaudited - December 2018						
Non-securitised						
Impairment allowance as at 30 June 2018	-	-	-	20,301	9,066	29,367
Restated for adoption of NZ IFRS 9	31,784	1,365	14,945	(20,301)	(169)	27,624
Restated impairment allowance as at 1 July 2018	31,784	1,365	14,945	-	8,897	56,991
Changes in loss allowance						
Transfer between stages	(607)	(108)	637	-	-	(78)
New and increased provision (net of collective provision releases)	106	354	11,095	-	1,791	13,346
Recovery of amounts written off	-	-	(293)	-	(13)	(306)
Credit impairment charge	**(501)**	**246**	**11,439**	**-**	**1,778**	**12,962**
Recovery of amounts previously written off	-	-	293	-	13	306
Write offs	-	-	(7,953)	-	(4,503)	(12,456)
Impairment allowance as at 31 December 2018	**31,283**	**1,611**	**18,724**	**-**	**6,185**	**57,803**
Securitised						
Impairment allowance as at 30 June 2018	-	-	-	304	-	304
Restated for adoption of NZ IFRS 9	400	20	345	(304)	-	461
Restated impairment allowance as at 1 July 2018	400	20	345	-	-	765
Changes in loss allowance						
Transfer between stages	616	-	(369)	-	-	247
New and increased provision (net of collective provision releases)	-	1	-	-	-	1
Recovery of amounts written off	-	-	-	-	-	-
Credit impairment charge	**616**	**1**	**(369)**	**-**	**-**	**248**
Recovery of amounts previously written off	-	-	-	-	-	-
Write offs	-	-	-	-	-	-
Impairment allowance as at 31 December 2018	**1,016**	**21**	**(24)**	**-**	**-**	**1,013**
Total						
Impairment allowance as at 30 June 2018	-	-	-	20,605	9,066	29,671
Restated for adoption of NZ IFRS 9	32,184	1,385	15,290	(20,605)	(169)	28,085
Restated impairment allowance as at 1 July 2018	32,184	1,385	15,290	-	8,897	57,756
Changes in loss allowance						
Transfer between stages	9	(108)	268	-	-	169
New and increased provision (net of collective provision releases)	106	355	11,095	-	1,791	13,347
Recovery of amounts written off	-	-	(293)	-	(13)	(306)
Credit impairment charge	**115**	**247**	**11,070**	**-**	**1,778**	**13,210**
Recovery of amounts previously written off	-	-	293	-	13	306
Write offs	-	-	(7,953)	-	(4,503)	(12,456)
Impairment allowance as at 31 December 2018	**32,299**	**1,632**	**18,700**	**-**	**6,185**	**58,816**

7 Finance Receivables (continued)

(a) Finance receivables held at amortised cost (continued)

$000's	12-month ECL	Lifetime ECL Not credit impaired	Lifetime ECL Credit impaired	Collective provision June 2018	Specific provision	Total
Audited - June 2019						
Non-securitised						
Impairment allowance as at 30 June 2018	-	-	-	20,301	9,066	29,367
Restated for adoption of NZ IFRS 9	31,784	1,365	14,945	(20,301)	(169)	27,624
Restated impairment allowance as at 1 July 2018	31,784	1,365	14,945	-	8,897	56,991
Changes in loss allowance						
Transfer between stages	(1,071)	(205)	11,671	-	(43)	10,352
New and increased provision (net of collective provision releases)	(292)	620	7,531	-	4,002	11,861
Recovery of amounts written off	-	-	(829)	-	-	(829)
Credit impairment charge	**(1,363)**	**415**	**18,373**	**-**	**3,959**	**21,384**
Recovery of amounts written off	-	-	829	-	-	829
Write offs	-	-	(15,720)	-	(4,993)	(20,713)
Impairment allowance as at 30 June 2019	**30,421**	**1,780**	**18,427**	**-**	**7,863**	**58,491**
Securitised						
Impairment allowance as at 30 June 2018	-	-	-	304	-	304
Restated for adoption of NZ IFRS 9	400	20	345	(304)	-	461
Restated impairment allowance as at 1 July 2018	400	20	345	-	-	765
Changes in loss allowance						
Transfer between stages	(400)	(21)	(345)	-	-	(766)
New and increased provision (net of collective provision releases)	-	1	-	-	-	1
Recovery of amounts written off	-	-	-	-	-	-
Credit impairment charge	**(400)**	**(20)**	**(345)**	**-**	**-**	**(765)**
Recovery of amounts written off	-	-	-	-	-	-
Write offs	-	-	-	-	-	-
Impairment allowance as at 30 June 2019	**-**	**-**	**-**	**-**	**-**	**-**
Total						
Impairment allowance as at 30 June 2018	-	-	-	20,605	9,066	29,671
Restated for adoption of NZ IFRS 9	32,184	1,385	15,290	(20,605)	(169)	28,085
Restated impairment allowance as at 1 July 2018	32,184	1,385	15,290	-	8,897	57,756
Changes in loss allowance						
Transfer between stages	(1,471)	(226)	11,326	-	(43)	9,586
New and increased provision (net of collective provision releases)	(292)	621	7,531	-	4,002	11,862
Recovery of amounts written off	-	-	(829)	-	-	(829)
Credit impairment charge	**(1,763)**	**395**	**18,028**	**-**	**3,959**	**20,619**
Recovery of amounts written off	-	-	829	-	-	829
Write offs	-	-	(15,720)	-	(4,993)	(20,713)
Impairment allowance as at 30 June 2019	**30,421**	**1,780**	**18,427**	**-**	**7,863**	**58,491**

7 Finance Receivables (continued)

(b) Finance receivables held at fair value

When the Group enters into a reverse mortgage loan the Group has set expectations regarding the loan's current and future risk profile and expectation of performance. This expectation references a wide range of assumptions including:

- mortality and move to care;
- voluntary exits;
- house price changes;
- no negative equity guarantee; and
- interest rate margin.

At balance date the Group does not consider any of the above expectations to have moved outside of the original expectation range. Therefore the Group has continued to estimate the fair value of the portfolio at transaction price. There has been no fair value movement recognised in profit or loss during the period. Given the loan terms and the current market conditions the fair value as recorded is not considered to be sensitive to changes in house prices or interest rates.

$000's	Unaudited 6 months to December 2019	Unaudited 6 months to December 2018	Audited 12 months to June 2019
Finance receivables - reverse mortgages	1,419,557	1,232,353	1,318,819

8 Borrowings

$000's	Unaudited 6 months to December 2019	Unaudited 6 months to December 2018	Audited 12 months to June 2019
Deposits	3,234,025	2,988,365	3,153,681
Total borrowings relating to deposits	**3,234,025**	**2,988,365**	**3,153,681**
Unsubordinated notes	444,128	151,902	337,680
Bank borrowings	-	-	25,002
Certificates of deposit	69,811	144,555	34,836
Borrowings - securitised	695,601	742,963	659,135
Total other borrowings	**1,209,540**	**1,039,420**	**1,056,653**
Total borrowings	**4,443,565**	**4,027,785**	**4,210,334**

Deposits and unsubordinated notes rank equally and are unsecured.

The Group has the following unsubordinated notes on issue at balance sheet date:

Principal	Valuation	NOTE	Issue date	Maturity Date	Frequency
$125 million	Fair value	11(a)	12 April 2019	12 April 2024	Half yearly
$150 million	Fair value	11(a)	21 September 2017	21 September 2022	Half yearly
AUD$50 million	Amortised cost	11(b)	8 March 2019	8 March 2021	Quarterly
AUD$100 million	Amortised cost	11(b)	13 November 2019	13 May 2022	Quarterly

9 Share capital and dividends

000's	Unaudited December 2019 Number of shares	Unaudited December 2018 Number of shares	Audited June 2019 Number of shares
Issued shares			
Opening balance	569,338	560,588	560,588
Dividend reinvestment plan	7,314	5,283	9,191
Shares issued during the period	816	-	-
Cancelled shares	-	(441)	(441)
Closing balance	**577,468**	**565,430**	**569,338**

The Company had issued 7,313,501 new shares at $1.5445 per share on 6 September 2019 under the dividend reinvestment plan for the period (2019: 5,282,619 new shares were issued at $1.6250 per share on 21 September 2018 and 3,907,858 at $1.4709 per share on 1 April 2019).

Dividends paid

	December 2019			June 2019		
	Date declared	Cents per share	$000's	Date declared	Cents per share	$000's
Final dividend	15 August 2019	6.5	37,007	15 August 2018	5.5	30,808
Interim dividend	-	-	-	19 February 2019	3.5	19,791
Total dividends paid			**37,007**			**50,599**

10 Related party transactions and balances

A person or entity that is a related party under the following circumstances:

a) A person or a close member of that person's family if that person:
   i) has control or joint control over HGH;
   ii) has significant influence over HGH; or
   iii) is a member of the key management personnel of HGH.

b) An entity is related to HGH if any of the following conditions applies:
   i) the entity and HGH are members of the same group;
   ii) one entity is an associate or joint venture of the other entity;
   iii) both entities are joint ventures of the same third party;
   iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
   v) the entity is a post-employment benefit plan for the benefit of employees of either the reporting entity or an entity related to HGH;
   vi) the entity is controlled, or jointly controlled by a person identified in (a); and
   vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

(a) Transactions with key management personnel

Key management personnel (**KMP**), are those who, directly or indirectly, have authority and responsibility for planning, directing and controlling the activities of HGH. This includes all executive staff reporting to the CEO, Directors and their close family members.

KMP receive personal banking and financial investment services from the Group in the ordinary course of business. The terms and conditions, for example interest rates and collateral, and the risks to HGH are comparable to transactions with other employees and did not involve more than the normal risk of repayment or present other unfavourable features.

$000's	**Unaudited 6 months to December 2019**	**Unaudited 6 months to December 2018**	**Audited 12 months to June 2019**
Transactions with key management personnel			
Interest income	-	-	-
Interest expense	(55)	(31)	(76)
Total transactions with key management personnel	**(55)**	**(31)**	**(76)**
Due from / (to) key personnel			
Borrowings - deposits	(2,322)	(2,960)	(3,019)
Total due (to) key management personnel	**(2,322)**	**(2,960)**	**(3,019)**

(b) Transactions with related parties

Heartland Group Holdings Limited is the ultimate parent company of the Group.

Entities within the Group have regular transactions between each other on agreed terms. The transactions include the provision of administrative services, tax transactions, and customer operations and call centre. Banking facilities are provided by Heartland Bank Limited to other Heartland Group entities on normal commercial terms as with other customers. There is no lending from subsidiaries within the Group to HGH.

Related party transactions between the Group eliminate on consolidation.

11 Fair value

(a) Financial instruments measured at fair value

The following table analyses financial instruments measured at fair value at the reporting date by the level in the fair value hierarchy into which each fair value measurement is categorised. The amounts are based on the values recognised in the Statement of Financial Position.

$000's	Level 1	Level 2	Level 3	Total
Unaudited - December 2019				
Assets				
Investments	282,428	16,572	16,020	315,020
Derivative financial instruments	-	11,936	-	11,936
Finance receivables - reverse mortgages	-	-	1,419,557	1,419,557
Total financial assets measured at fair value	**282,428**	**28,508**	**1,435,577**	**1,746,513**
Liabilities				
Derivative financial instruments	-	9,843	-	9,843
Unsubordinated notes	-	287,323	-	287,323
Total financial liabilities measured at fair value	**-**	**297,166**	**-**	**297,166**

$000's	Level 1	Level 2	Level 3	Total
Unaudited - December 2018				
Assets				
Investments	209,048	100,219	9,694	318,961
Derivative financial instruments	-	1,238	-	1,238
Finance receivables - reverse mortgages	-	-	1,232,353	1,232,353
Total financial assets measured at fair value	**209,048**	**101,457**	**1,242,047**	**1,552,552**
Liabilities				
Derivative financial instruments	-	148	-	148
Unsubordinated notes (restated)	-	151,902	-	151,902
Total financial liabilities measured at fair value	**-**	**152,050**	**-**	**152,050**
Audited - June 2019				
Assets				
Investments	255,875	86,618	12,435	354,928
Derivative financial instruments	-	12,675	-	12,675
Finance receivables - reverse mortgage	-	-	1,318,819	1,318,819
Total financial assets measured at fair value	**255,875**	**99,293**	**1,331,254**	**1,686,422**
Liabilities				
Derivative financial instruments	-	10,372	-	10,372
Unsubordinated notes (restated)	-	285,435	-	285,435
Total financial liabilities measured at fair value	**-**	**295,807**	**-**	**295,807**

11 Fair value (continued)

(b) Financial instruments measured not at fair value

The following assets and liabilities of the Group are not measured at fair value in the Consolidated Statement of Financial Position.

		Unaudited		Unaudited		Audited	
		Total Fair Value	Total Carrying Value	Total Fair Value	Total Carrying Value	Total Fair Value	Total Carrying Value
$000's		December 2019	December 2019	December 2018 (Restated)	December 2018 (Restated)	June 2019	June 2019
Assets							
Cash and cash equivalents	Level 1	185,732	185,732	89,161	89,161	80,584	80,584
Investments [1]	Level 2	6,961	6,970	-	-	-	-
Finance receivables	Level 2	3,082,052	3,101,366	2,919,721	2,934,170	3,017,327	3,029,231
Other financial assets	Level 3	1,805	1,805	1,383	1,383	3,277	3,277
Total financial assets		**3,276,550**	**3,295,873**	**3,010,265**	**3,024,714**	**3,101,188**	**3,113,092**
Liabilities (restated)							
Retail deposits	Level 2	3,245,194	3,234,025	2,993,208	2,988,365	3,160,426	3,153,681
Borrowings - securitised	Level 2	695,601	695,601	742,963	742,963	659,135	659,135
Other borrowings	Level 2	226,616	226,616	144,555	144,555	112,083	112,083
Other financial liabilities	Level 3	11,344	11,344	7,895	7,895	11,787	11,787
Total financial liabilities		**4,178,755**	**4,167,586**	**3,888,621**	**3,883,778**	**3,943,431**	**3,936,686**

[1] Included within investments are bank deposits which are held to support its contractual cash flows. Such investments are measured at amortised cost.

RISK MANAGEMENT

12 Enterprise risk management program

There have been no material changes in the Group's policies for managing risk, or material exposures to any new types of risk since the reporting date of the previous financial statement, refer to the Group's financial statements for the year ended 30 June 2019.

13 Credit risk exposure

(a) Maximum exposure to credit risk at the equivalent reporting dates

The following table represents the maximum credit risk exposure, without taking account of any collateral held. The exposures set out below are based on net carrying amounts as reported in the Statement of Financial Position.

$000's	Unaudited December 2019
Cash and cash equivalents	185,732
Investments	321,990
Finance receivables	3,101,366
Finance receivables - reverse mortgages	1,419,557
Derivative financial assets	11,936
Other financial assets	1,805
Total on balance sheet credit exposures	**5,042,386**

(b) Concentration of credit by geographical region

$000's	Unaudited December 2019
New Zealand:	
Auckland	1,155,990
Wellington	253,439
Rest of North Island	1,286,936
Canterbury	521,223
Rest of South Island	605,396
Australia:	
Queensland	178,662
New South Wales	481,462
Victoria	208,551
Western Australia	45,336
South Australia	30,898
Rest of Australia	18,998
Rest of the world [1]	255,495
Total on balance sheet credit exposures	**5,042,386**

[1] The overseas assets are primarily investments in AA+ and higher rated securities issued by offshore supranational agencies ("Kauri Bonds")

13 Credit risk exposure (continued)

(c) Concentration of credit by industry sector

	Unaudited December 2019
Agriculture	709,731
Forestry and Fishing	90,469
Mining	14,185
Manufacturing	86,612
Finance & Insurance	18,665
Wholesale Trade	40,768
Retail Trade	138,997
Households	2,380,554
Property and Business Services	249,981
Transport and Storage	256,182
Other[1]	1,116,746
	5,102,890
Collective provision	(60,504)
Total on balance sheet credit exposures	**5,042,386**

[1] Industry sectors classified within Other include religious services, parking services, laundry and dry cleaning, other machinery and equipment repair and maintenance.

14 Liquidity risk

The Group holds the following financial assets for the purpose of managing liquidity risk:

$000's	Unaudited December 2019
Cash and cash equivalents	185,732
Investments	305,970
Undrawn committed bank facilities	325,451
Total liquidity	**817,153**

Contractual liquidity profile of financial assets and liabilities

The following tables present the Group's financial assets and liabilities by relevant maturity groupings based upon contractual maturity date. The amounts disclosed in the tables represent undiscounted future principal and interest cash flows. As a result, the amounts in the tables below may differ to the amounts reported on the Consolidated Statement of Financial Position.

The contractual cash flows presented below may differ significantly from the actual cash flows. This occurs as a result of future actions by the Group and its counterparties, such as early repayment or refinancing of term loans and borrowings. Deposits and other public borrowings include customer savings deposits and transactional accounts, which are at call. History demonstrates that such accounts provide a stable source of long term funding for the Group.

The Group does not manage its liquidity risk on a contractual liquidity basis.

$000's	On Demand	0-6 Months	6-12 Months	1-2 Years	2-5 Years	5+ Years	Total
Unaudited - 31 December 2019							
Financial assets							
Cash and cash equivalents	185,732	-	-	-	-	-	185,732
Investments	-	98,350	18,643	62,779	130,199	5,145	315,116
Finance receivables	-	1,059,953	487,984	891,643	1,163,939	219,428	3,822,947
Finance receivables - reverse mortgage	-	17,138	17,138	32,533	96,315	4,147,037	4,310,161
Derivative financial assets	11,936	-	-	-	-	-	11,936
Other financial assets	-	1,805	-	-	-	-	1,805
Total financial assets	**197,668**	**1,177,246**	**523,765**	**986,955**	**1,390,453**	**4,371,610**	**8,647,697**
Financial liabilities							
Borrowings	991,345	1,548,685	475,476	313,245	500,461	-	3,829,212
Borrowings - securitised	-	38,877	6,342	15,129	675,187	-	735,535
Lease liabilities	-	1,167	1,397	2,838	10,874	8,139	24,415
Derivative financial liabilities	9,843	-	-	-	-	-	9,843
Other financial liabilities	-	11,344	-	-	-	-	11,344
Total financial liabilities	**1,001,188**	**1,600,073**	**483,215**	**331,212**	**1,186,522**	**8,139**	**4,610,349**
Net financial (liabilities) / assets	**(803,520)**	**(422,827)**	**40,550**	**655,743**	**203,931**	**4,363,471**	**4,037,348**
Undrawn facilities available to customers	134,743	-	-	-	-	-	134,743
Undrawn committed bank facilities	325,451	-	-	-	-	-	325,451

15 Interest rate risk

Contractual repricing analysis

The interest rate risk profile of financial assets and liabilities that follows has been prepared on the basis of maturity or next repricing date, whichever is earlier.

$000's	0-3 Months	3-6 Months	6-12 Months	1-2 Years	2+ Years	Non-interest bearing	Total
Unaudited - 31 December 2019							
Financial assets							
Cash and cash equivalents	185,729	-	-	-	-	3	185,732
Investments	34,690	60,279	15,534	59,787	135,680	16,020	321,990
Finance receivables	1,543,914	215,723	355,919	563,825	417,055	4,930	3,101,366
Finance receivables - reverse mortgages	1,419,557	-	-	-	-	-	1,419,557
Derivative financial assets	-	-	-	-	-	11,936	11,936
Other financial assets	-	-	-	-	-	1,805	1,805
Total financial assets	**3,183,890**	**276,002**	**371,453**	**623,612**	**552,735**	**34,694**	**5,042,386**
Financial liabilities							-
Borrowings	1,688,278	602,765	597,217	235,773	96,449	13,543	3,234,025
Other borrowings	228,470	968	-	-	284,501	-	513,939
Borrowings - securitised	695,601	-	-	-	-	-	695,601
Derivative financial liabilities	-	-	-	-	-	9,843	9,843
Lease liabilities	-	-	-	-	-	21,306	21,306
Other financial liabilities	-	-	-	-	-	11,344	11,344
Total financial liabilities	2,612,349	603,733	597,217	235,773	380,950	56,036	4,486,058
Effect of derivatives held for risk management	380,373	(437)	(94,721)	(291,712)	6,497	-	
Net financial assets / (liabilities)	**951,914**	**(328,168)**	**(320,485)**	**96,127**	**178,282**	**(21,342)**	**556,328**

The tables above illustrate the periods in which the cash flows from interest rate swaps are expected to occur and affect profit or loss.

The management of interest rate risk against interest rate gap limits is supplemented by monitoring the sensitivity of the Group's financial assets and liabilities to various standard and nonstandard interest rate scenarios. Standard scenarios which are considered on a monthly basis include a 100 basis point parallel fall or rise in the yield curve. There is no material impact on profit or loss in terms of a fair value change from movement in market interest rates. Furthermore there is no material cash flow impact on the Consolidated Statement of Cash flows from a 100 basis point change in interest rates.

Other Disclosures

16 Structured entities

A structured entity is one which has been designed such that voting or similar rights are not the dominant factor in deciding who controls the entity. Structured entities are created to accomplish a narrow and well defined objective such as the securitisation or hold of particular assets, or the execution of a specific borrowing or lending transaction. Structured entities are consolidated where the substance of the relationship is that the Group controls the structured entity.

(a) Heartland Cash and Term PIE (Heartland PIE Fund)

The Group controls the operations of the Heartland PIE Fund which is a portfolio investment entity that invests in the Group's deposits. Investments of Heartland PIE Fund are represented as follows:

	Unaudited	Unaudited	Audited
$000's	**31 December 2019**	**31 December 2018**	**30 June 2019**
Deposits	165,602	140,012	146,094

(b) Heartland Auto Receivables Warehouse Trust 2018-1 (Auto Warehouse)

The Group had securitised a pool of receivables comprising commercial and motor vehicle loans sold to Auto Warehouse.

The Group continues to recognise the securitised assets and associated borrowings in the Consolidated Statement of Financial Position as the Group remains exposed to and has the ability to affect variable returns from those assets and liabilities. Although the Group recognises those interests in Auto Warehouse, the loans sold to the Trust are set aside for the benefit of investors in Auto Warehouse and other depositors and lenders to the Group have no recourse to those assets.

	Unaudited	Unaudited	Audited
$000's	**31 December 2019**	**31 December 2018**	**30 June 2019**
Cash and cash equivalents - securitised	1,338	7,821	555
Finance receivables - securitised	36,720	153,826	-
Borrowings - securitised	(30,015)	(127,944)	-

(c) Seniors Warehouse Trust, Seniors Warehouse Trust No.2 (together the SW Trusts) and ASF Settlement Trust (ASF Trust)

SW Trusts and ASF Trust (collectively the trusts) form part of ASF's reverse mortgage business and were set up by ASF as asset holding entities. The Trustee for the trusts is ASF Custodians Pty Limited and the Trust Manager is ASF Trust. The reverse mortgage loans held by the Trusts are set aside for the benefit of the funders and bank depositors have no recourse to these assets. The balances of SW Trusts and ASF Trust are represented as follows:

	Unaudited	Unaudited	Audited
$000's	**31 December 2019**	**31 December 2018**	**30 June 2019**
Cash and cash equivalents - securitised	17,324	6,839	35,356
Finance receivables – reverse mortgages	833,554	674,226	759,749
Borrowings - securitised	(665,586)	(615,019)	(659,135)

17 Insurance business, securitisation, funds management, other fiduciary activities

Insurance business

The Group conducts insurance business through its subsidiary MARAC Insurance Limited (MIL).

The Group's aggregate amount of insurance business comprises the total consolidated assets of MIL of $11.6 million, which represents 0.2% of the total consolidated assets of the Group.

Since 30 June 2019, the Group has undertaken a strategic review of its insurance business in line with its core business. The Group has entered into a distribution agreement with DPL Insurance Limited (DPL) to distribute DPL's insurance products through the Group's network and has stopped writing insurance policies in December 2019.

Securitisation, funds management and other fiduciary activities

Changes to the Group's involvement in securitisation activities are set out in note 16. There have been no material changes to the Group's involvement in funds management and other fiduciary activities, in either case since the reporting date of the previous financial statement.

18 Contingent liabilities and commitments

Contingent liabilities are possible obligations, whose existence will be confirmed only by uncertain future events, or present obligations where the transfer of economic benefit is uncertain or cannot be reliably measured. Contingent liabilities are not recognised, but are disclosed, unless they are remote. Where some loss is probable, provisions have been made.

There are no pending legal proceedings or arbitrations concerning any member of the Group at the date of reporting that may have a material adverse effect on the Group.

Contingent liabilities and credit related commitments arising in respect of the Group's operations were:

$000's	Unaudited December 2019	Unaudited December 2018	Audited June 2019
Letters of credit, guarantee commitments and performance bonds	5,990	6,417	6,757
Total contingent liabilities	**5,990**	**6,417**	**6,757**
Undrawn facilities available to customers	134,743	80,633	102,285
Conditional commitments to fund at a future date	97,144	73,877	89,317
Total commitments	**231,887**	**154,510**	**191,602**

19 Events after the reporting date

The Group declared a fully imputed interim dividend of 4.5 cents per share on 17 February 2020, to be paid to shareholders on 11 March 2020.

Independent Review Report

To the shareholders of Heartland Group Holdings Limited

Report on the consolidated interim financial statements of Heartland Group Holdings Limited (the "Group")

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the consolidated interim financial statements on pages 4 to 30 do not:

i. present fairly in all material respects the Group's financial position as at 31 December 2019 and its financial performance and cash flows for the 6 month period ended on that date; and

ii. comply with NZ IAS 34 Interim Financial Reporting ("NZ IAS 34").

We have completed a review of the accompanying consolidated interim financial statements which comprise:

- the consolidated interim statement of financial position as at 31 December 2019;
- the consolidated interim statements of comprehensive income, changes in equity and cash flows for the 6 month period then ended; and
- notes to the interim financial statements.

Basis for conclusion

A review of consolidated interim financial statements in accordance with NZ SRE 2410 *Review of Financial Statements Performed by the Independent Auditor of the Entity* ("NZ SRE 2410") is a limited assurance engagement. The auditor performs procedures, consisting of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures.

As the auditor of Heartland Group Holdings Limited, NZ SRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial statements.

Our firm has also provided other services to the Group in relation to an assessment of Heartland Bank Limited's compliance with the quantitative requirements of BS13. Subject to certain restrictions, partners and employees of our firm may also deal with the Group on normal terms within the ordinary course of trading activities of the business of the Group. These matters have not impaired our independence as reviewer of the Group. The firm has no other relationship with, or interest in, the Group.

Use of this Independent Review Report

This report is made solely to the shareholders as a body. Our review work has been undertaken so that we might state to the shareholders those matters we are required to state to them in the Independent Review Report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the shareholders as a body for our review work, this report, or any of the opinions we have formed.

Responsibilities of the Directors for the consolidated interim financial statements

The Directors, on behalf of the Group, are responsible for:

- the preparation and fair presentation of the consolidated interim financial statements in accordance with NZ IAS 34 Interim Financial Reporting;
- implementing necessary internal control to enable the preparation of consolidated interim financial statements that are fairly presented and free from material misstatement, whether due to fraud or error; and
- assessing the ability to continue as a going concern. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the review of the consolidated interim financial statements

Our responsibility is to express a conclusion on the interim financial statements based on our review. We conducted our review in accordance with NZ SRE 2410. NZ SRE 2410 requires us to conclude whether anything has come to our attention that causes us to believe that the interim financial statements are not prepared, in all material respects, in accordance with NZ IAS 34.

The procedures performed in a review are substantially less than those performed in an audit conducted in accordance with International Standards on Auditing (New Zealand). Accordingly we do not express an audit opinion on these consolidated interim financial statements.

This description forms part of our Independent Review Report.

KPMG

KPMG
Auckland

17 February 2020