

October 11th 2021

Heartland Group Holdings Ltd (HGH)

The company will hold its Annual Shareholders Meeting at **2.00pm Thursday 28 October 2021**.

The location in the original Notice of Meeting was **Eden Park, Reimers Avenue, Kingsland, Auckland**, although we appreciate that this is unlikely to occur given current Covid-19 restrictions in Auckland.

You can also join the meeting online at <https://www.virtualmeeting.co.nz/agm/hgh21/register>

Company Overview

The company was listed on the NZX in February 2011. It has a long history going back to 1875 as the Ashburton Permanent Building and Investment Society. Heartland Bank is the result of the merger of Southern Cross, CBS Canterbury and MARAC. It is also listed on the ASX. It employs 490 people in New Zealand and 22 in Australia. It has over 125,000 customers with deposits of \$3.2 billion. Its lending comprises Reverse Mortgages \$1.67 billion, Business Finance \$1.27 billion, Motor Vehicle Finance \$1.29 billion, Rural Finance \$586 million, and Personal Lending \$132 million and 59 million residential mortgages.

Current Strategy

The strategy is to provide frictionless service at the lowest cost, reducing the cost to income ratio and passing the benefits on to customers through lower pricing.

Key

The following sections calculate an objective rating against criteria contained within NZSA policies.

Colour	Meaning
G	Strong adherence to NZSA policies
A	Part adherence or a lack of disclosure as to adherence with NZSA policies
R	A clear gap in expectations compared with NZSA policies
n/a	Not applicable for the company

Disclaimer

To the maximum extent permitted by law, New Zealand Shareholders Association Inc. (NZSA) will not be liable, whether in tort (including negligence) or otherwise, to you or any other person in relation to this document, including any error in it.

Forward looking statements are inherently fallible

Information on www.nzshareholders.co.nz and in this document may contain forward-looking statements and projections. For any number of reasons, the future could be different – potentially materially different. For example, assumptions may be wrong, risks may crystallise, unexpected things may happen. We give no warranty or representation as to any future financial performance or any other future matter. We may not update our website and related materials for changes.

There is no offer or financial advice in our documents/website

Information included on www.nzshareholders.co.nz and in this document is for information purposes only. It is not an offer of financial products, or a proposal or invitation to make any such offer. It is not financial advice and does not take into account any person's individual circumstances or objectives. Prior to making any investment decision, NZSA recommends that you seek professional advice from a licensed financial advice provider.

There are no representations as to accuracy or completeness

The information, calculations, and any opinions on www.nzshareholders.co.nz and in this document are based upon sources believed reliable. The NZSA, its officers and directors make no representations as to their accuracy or completeness. All opinions reflect our judgement on the date of communication and are subject to change without notice.

Please observe any applicable legal restrictions on distribution

Distribution of our documents and materials on www.nzshareholders.co.nz (including electronically) may be restricted by law. You should observe all such restrictions which may apply in your jurisdiction.

Governance

NZSA assessment against its key policy criteria is summarised below:

Policy Theme	Assessment	Notes
Directors Fees	G	See comments below.
Director share ownership	G	Director not required to own shares.
Executive Remuneration	A	See comments below.
Golden parachutes/handshakes	A	Not disclosed if these or similar payments are offered.
Director Independence	G	Majority of Independent Directors
Board Composition	G	See comments below.
Director Tenure	G	All Directors have served less than 9 years.
ASM Format	G	Hybrid meeting
Company Sec independence	A	Not disclosed.

Directors Fees: While disclosure is generally clear, there is no disclosure as to whether retirement benefits or share options are available for Directors. We do note, however, the disclosure in the annual report that *“Heartland’s policy is to pay directors’ fees in cash.”*

Executive Remuneration: Heartland’s CEO is paid in the form of fixed remuneration, short-term incentive (STI) and a long-term incentive (LTI). NZSA encourages fulsome disclosure in relation to these incentives, including disclosure of measures (or measure ‘groups’), weightings, targets and the level of achievement associated with any awards – a position broadly supported by the NZX Code of Corporate Governance.

NZSA also prefers a weighting towards long-term incentive rewards, based on total shareholder return. Based on values disclosed in the annual report, this is not the case with HGH.

Heartland discloses the maximum STI percentage award, however, limits disclosures around the measure groups to simply say *“financial and non-financial performance expectations.”*

We note and appreciate the improvement in how Heartland has disclosed the LTI value awarded. Again, however, we note the limited disclosure around the basis for how LTI is awarded.

Board Composition: The company does not disclose a skills matrix to help shareholders assess whether the individual Directors skill sets are appropriate to the company.

We note that the company does not participate in the IoD’s “Future Directors Programme”. NZSA feels that given the status of Heartland within the NZX-listed community, it would provide an effective experience for emerging directors. We do note, however, that the company offers its own leadership development programme through the “Rangatahi Shadow Board” as a means of developing emerging capability. The programme offers both executive and board exposure.

Director Tenure: NZSA looks for evidence of ongoing succession or ‘staggered’ appointment dates that allow effective knowledge transfer in the event of succession. We note that Heartland has appointment dates in either 2018 (4 directors) or 2021 (3 directors). The 2018 appointments are likely to have resulted from the restructuring of Heartland Bank into Heartland Group at that time.

NZSA appreciates clear signals from companies in relation to succession, in order to ensure long-term governance sustainability.

ASM Format: We appreciate HGH’s commitment to a ‘hybrid’ ASM (ie, physical and virtual) in the original Notice of Meeting as a way of promoting shareholder engagement while maximising participation. We understand that given the current Covid-19 situation in Auckland, the ‘physical’ element of that meeting will not occur.

Audit

NZSA assessment against its key policy criteria is summarised below:

Policy Theme	Assessment	Notes
Audit independence	G	Generally good disclosure but not disclosed if the Lead Audit Partner attends the ASM.
Audit rotation	A	See comments below.

Audit Rotation: Whilst the company ensures the Lead Audit Partner is rotated at 5 years it does not disclose if the Audit Firm is rotated at 10 years. Like many other companies on the NZX, it also does not disclose the appointment dates of the Lead Audit Partner or the Audit Firm.

Ethical and Social

NZSA assessment against its key policy criteria is summarised below:

Policy Theme	Assessment	Notes
Whistleblowing	G	Good disclosure
Political donations	A	Not disclosed if donations were made.

We appreciate the disclosure of the relationship of CEO salary to that of the average salary paid to other Heartland employees.

Political Donations: NZSA policy is that companies should not make donations to political parties. We expect disclosure to this effect, even if none have been made.

Financial & Performance

Policy Theme	Assessment	Notes
Dividends and Imputation	G	Good disclosure
Capital Raise process	n/a	There was no capital raising

Heartland's share price rose from \$1.27 to \$2.35 (as of September 30th) over the last 12 months – a 85% increase. This compares favourably with the NZX 50 which increased by 12% in the same period. The Performance Factor for HGH is 7.25.

Metric	2021	2020	Change
Interest Income	\$328m	\$347m	-5%
Net Interest Income	\$234m	\$217m	8%
Interest Margin	71%	62%	14%
NPAT	\$87.0m	\$72.0m	21%
EPS ¹	\$0.149	\$0.124	20%
PE Ratio	16	10	
Current Ratio	n/a	n/a	n/a
Debt Equity	6.45	6.60	-2%
Operating CF ²	\$26.9m	\$45.9m	-41%
NTA Per Share ¹	\$1.18	\$1.08	9%
Dividend Per Share ¹	\$0.153	\$0.097	57%

¹ per share figures based off actual shares at balance date (not weighted average)

² Net Operating cashflows before changes in operating assets and liabilities

Heartland bank had a stellar year. Its share price improved markedly by 85% as at 30th September 2021. Interest Income was down by 5% on 2020, but this may be a reflection of lower interest rates both here and abroad. Net interest income, however, was up by 8%, driven by an increase in interest margin from 62% to 71%. This enabled HGH to deliver NPAT of \$87m an increase of 21% on the prior year. On 27th September 2021, in a [forward-looking statement](#), HGH announced in the Annual Report that: "Noting uncertainties associated with the ongoing impacts of Covid-19, Heartland expects its NPAT for the year ending 30 June 2022 (FY2022) to be in the range of \$93 million to \$96 million". This would be an improvement on this years already impressive profit.

HGH currently trades on a PE of 16 which is higher than it has been in the past.

The Debt Equity ratio reduced slightly to 6.45 and this may seem high but for the industry that HGH operates in, high debt equity ratios are the norm.

HGH have NTA of \$1.18 per share an improvement of 9% on 2020. The shares trade at a large premium to NTA indicating the market expects continuing good performance and dividends.

The company paid a 57% increased fully imputed gross dividend of \$0.153 cents per share for FY2021.

We note that the Balance Sheet may be difficult to assess for investors not accustomed to reviewing finance or banking industry accounts. The traditional breakdown of Current Assets (ie, readily 'liquid') and Current Liabilities (due on demand or within 12 months) is not shown on the Balance Sheet, although there is strong disclosure of the nature of each item in the notes to the accounts. Investors should use their judgement or take appropriate advice around assessing relevant liquidity and funding metrics for Heartland.

We note this format is usual practice amongst finance and/or banking organisations.

Resolutions

1. To re-elect Ellen Comerford as an Independent Director.

Ellen (Ellie) Comerford was appointed to the Board in October 2018. The Noticer of Meeting describes her as a Senior Strategic Advisor and executive director for Hollard Holdings Australia Pty Ltd as well as non-executive director for other companies including The Hollard Insurance Company Pty Ltd, Lendi Group Pty Ltd and Airtasker Limited (listed on ASX in March 2021).

Her prior roles include Group CFO Hollard Insurance in Australia, CEO and Managing Director for Genworth Mortgage Insurance Australia Limited and a range of senior executive positions at First American Financial Services and Citigroup.

NZSA's policy is cautious in supporting salaried executives of another company for more than one governance role – we note Ellen Comerford's multiple (existing) directorships.

We understand that she has now retired from her executive roles allowing her to focus on her professional directorships. She provides the Heartland Board with an insight into the Australian finance industry.

Given this clarification, we will vote undirected proxies **IN FAVOUR** of this resolution.

2. To elect Geoff Summerhayes as an Independent Director.

Geoff Summerhayes was appointed to the Board 1 October 2021 and is therefore required to offer himself for election. He is currently a senior advisor to the Pollination Group, a climate advisory and investment firm, and is on the advisory board of CSIRO Agriculture and Food. He also co-authored an insurance submission for COP26 for the University of Cambridge. He was a Board member of the Australian Prudential Regulation Authority (APRA) for a five-year term until December 2020. Prior to his Board role at APRA, he was CEO of Suncorp Life in Australia and New Zealand.

We will vote undirected proxies **IN FAVOUR** of this resolution.

3. To elect Kate Mitchell as an Independent Director.

Kate Mitchell was appointed to the Board 1 October 2021 and is therefore required to offer herself for election. She was appointed to the Board of Heartland subsidiary, Heartland Bank Limited, in March 2019 and continues in that role. She is currently a Director of a number of companies including Christchurch International Airport Limited, The New Zealand Merino Company Limited, Link Engine Management Limited, and FarmRight Limited.

We will vote undirected proxies **IN FAVOUR** of this resolution.

4. That the Board is authorised to fix the auditor’s remuneration for the coming year.

This is an administrative resolution.

We will vote undirected proxies **IN FAVOUR** of this resolution.

Proxies

You can vote online or appoint a proxy at <https://vote.linkmarketservices.com/HGH/>

Instructions are on the Proxy/voting paper sent to you.

Voting and proxy appointments close **2,00pm Tuesday 26 October 2021.**

Please note you can appoint the Association as your proxy. We will have a representative attending the meeting.

STANDING PROXIES - AUTOMATICALLY APPOINT NZSA AS YOUR PROXY

MAKE YOUR VOTE COUNT!

Details on the NZSA website.

<http://www.nzshareholders.co.nz/shareholders-standing-proxies.cfm>

The Team at NZSA