

# HEARTLAND

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## GROUP

## Remuneration Policy

### 1 Background

Heartland seeks to create a high performance culture which attracts and retains quality candidates by incentivising and rewarding exceptional performance. The key principles are that our remuneration policy:

- should support the attraction, retention and engagement of quality, diverse candidates;
- should not discriminate on the basis of gender, ethnicity, sexuality or any other individual factor
- should further Heartland's aspiration to achieve pay equity across the organisation;
- should reward our people for high performance;
- needs to be flexible in order to cater for Heartland's operational differences;
- should recognise the link between company performance and remuneration, and the importance of creation of shareholder value; and
- should be understood by employees.

This policy applies to Heartland's directors and all of its employees, including:

- the Executive, being the CEO and his or her direct reports; and
- Senior Management teams, being those who report directly to an Executive member (**Senior Employees**).

References to Heartland in this Policy shall include both Heartland Group Holdings Limited and Heartland Bank Limited where applicable.

### 2 Responsibility for this Policy

The Board of Heartland Group Holdings Limited is ultimately responsible for setting this Policy, and does so with the assistance of the Corporate Governance, People, Remuneration and Nominations Committee (**Remuneration Committee**).

### 3 Director Remuneration

#### 3.1 Non-executive Directors

Heartland's general policy on non-executive director remuneration is to pay in the upper quartile of market rates. This reflects Heartland's desire to attract the best possible directors, and Heartland considers it fairly reflects the time commitment and responsibilities of the role. External

benchmarking is used in order to determine the level of remuneration required in order to reflect that policy (most recently by PricewaterhouseCoopers in 2016). However, total remuneration available to directors of Heartland Group Holdings Limited and its subsidiaries must be approved by Heartland's shareholders.

Heartland currently pays a base fee for non-executive directors. No separate fees are payable for committee memberships, as all directors sit on one or more committees and are welcome to attend all committee meetings. Heartland does, however, pay additional fees to chairs of committees, given the extra workload involved in that role.

Heartland's policy is to pay directors' fees in cash. There is no requirement for directors to take a portion of their remuneration in shares and there is no requirement for directors to hold shares in Heartland. In order to ensure there is no bias in decision making, there is no performance based remuneration for non-executive directors.

### **3.2 Executive Directors**

Executive directors do not receive any additional remuneration for their role as a director.

## **4 Staff Remuneration**

Total remuneration includes a mix of fixed and (in certain cases) variable components.

Heartland's general policy is to provide total salary packages benchmarked against the 50<sup>th</sup> percentile of our peers for all roles, other than:

- banking specific roles (where Heartland's general policy is to provide salary packages benchmarked against the 75th percentile of our peers); and
- roles which are unique to Heartland and difficult to benchmark externally (in which case Heartland has flexibility to increase packages in order to attract and retain key staff).

While the general policy is to set remuneration against the relevant benchmark, Heartland recognises that some flexibility will always be necessary in order to adjust for factors such as experience and exceptional performance.

### **4.1 Fixed Remuneration**

Fixed remuneration includes base salary, employer KiwiSaver contributions, and other benefits, and is intended to compensate for performance of the core requirements of the particular role.

### **4.2 Short-term Performance Incentives / bonuses**

Short term performance incentives (**STIs**) are discretionary bonuses which are paid at the end of a financial year to reward Executives and Senior Employees who have exceeded performance and behavioural or leadership expectations in the relevant financial year.

The proportion of each Executive or Senior Employee's total remuneration paid as STI increases in line with their role within Heartland. Accordingly, the CEO has the greatest proportion of total remuneration paid as STI (the CEO is entitled to an STI of up to 100% of fixed remuneration). This reflects that the CEO, as leader of the organisation, has the greatest bearing on creating shareholder value over time, and a significant part of his or her remuneration should depend upon the creation of that value. STI payments to the Executives (other than the CEO) and Senior Employees are up to 75% of fixed remuneration, depending upon the role.

STI payments are entirely discretionary and entitlement is not guaranteed even if KPIs have been exceeded. STI payments are determined, in the case of the Executives, by the Board (with the assistance of the Remuneration Committee) and, in the case of the Senior Employees, by the CEO. However, the Board has an overriding discretion in the case of all STI payments, to allow for appropriate adjustments where unanticipated circumstances may impact performance, positively or negatively.

### **4.3 Long-term Performance Incentives**

Selected Executives, and a limited number of selected Senior Employees, are eligible for long term incentives (**LTIs**), which are at-risk payments designed to align the interests of those people with the longer-term interests of shareholders.

The proportion of each selected Executive's or Senior Employee's total remuneration paid as LTI increases in line with their role within Heartland. Accordingly, the CEO has the greatest proportion of total remuneration paid as LTI (the CEO is entitled to an LTI of up to 100% of fixed remuneration). This reflects that the CEO, as leader of the organisation, has the greatest bearing on creating shareholder value over time, and a significant part of his or her remuneration should depend upon the creation of that value. LTI payments to the selected Executives (other than the CEO) and Senior Employees are up to 75% of fixed remuneration, depending upon the role. All recipients of LTIs have the potential to receive additional LTI payments if aspirational targets are met.

Whereas STI payments are made in cash, LTI payments are made in performance rights which may vest as shares. This further aligns the interests of participants with those of shareholders.

As with the STI payments, the Board retains discretion over the final outcome of LTI payments, to allow appropriate adjustments where unanticipated circumstances may impact performance, positively or negatively, over the measurement period.

### **4.4 Annual review**

Heartland undertakes an annual remuneration review, which is informed by an assessment of relative external market data and organisational context, and remuneration is reviewed based on individual performance, remuneration relativity and market information.

## **5 Effective Date**

This Policy takes effect from the date of approval by the Heartland Group Holdings Board.

## **6 Policy Review Date**

This policy will have a full review and approval each year, or earlier if deemed necessary. Notwithstanding planned policy review dates, this policy remains effective and applies until a revised version is distributed.

General Counsel maintains records of Policy Owner approvals.

#### Version History

<b>Version</b>	<b>Date</b>	<b>Amendments</b>
1.0	24 July 2017	Document created.
2.0	August 2018	Annual review, reference pay equity and behavioural considerations for bonuses
3.0	October 2018	Updated to reflect demerger

**Approved by:** Heartland Group Holdings Limited Board

**Approval Date:** 18 October 2018

**Policy Owner:** Head of People and Culture

**Distribution List:** All Heartland staff