

Our sustainability journey

Tō mātou hinonga whakaukauka

As an organisation trusted by thousands of customers and shareholders across New Zealand and Australia, Heartland has a corporate responsibility to ensure its business is operating in a way that's sustainable for our communities, the environment and our stakeholders.

Through our sustainability framework, which sets out the three key pillars of our sustainability strategy, Heartland achieved significant milestones in FY2021 and set further goals for the coming year.



Mahi tika Do the right thing.

Kia tika, kia pono – do what's right and true. In the spirit of 'Mahi tika', Heartland is working towards ambitious sustainability targets across the organisation. By making sustainability a strategic priority, we're doing our part to protect the planet, serve our people and communities, and improve economic outcomes for our stakeholders."

Laura Byrne - Chief Operating Officer



Environmental conservation

Acting as kaitiaki of our natural environment

Reducing our direct impact on the environment.

Creating an internal culture of environmental awareness and conscientiousness.

Creating business practices that support good environmental outcomes.

Our FY2021 achievements

- GHG emissions reduced from 1,157 tCO₂e in FY2019, to 955 tCO₂e in FY2020.
- Published ambitious GHG emissions reduction targets.
- Reduced the size of our vehicle fleet and began evaluating options to transition to a primarily hybrid and electric fleet.
- Contracted for certified renewable energy for all of our New Zealand electricity consumption.
- Established an internal Green Team to champion environmental initiatives and drive change.

Our goals for the year ahead

- Undertake an official waste audit to determine how we can reduce the environmental impact of our wastage.
- Promote and encourage our people to commute sustainably.
- Continue our transition towards digitalising paper-based customer letters and lowering our vehicle emissions.
- Begin to trial a number of sustainable lending projects.



Social equity

Caring for our people, customers and communities

Ensuring our conduct and culture drives fair outcomes for our customers.

Making a positive difference in our communities.

Creating and fostering internal and external cultures of diversity and inclusivity.

Our FY2021 achievements

- Completed our Conduct and Culture Work Plan.
- Developed our new Iho Pūmanawa recruitment strategy.
- Became New Zealand's first Hearing Accredited Workplace.
- Increased the proportion of Māori employees at Heartland by over 3%.

Our goals for the year ahead

- Complete the final steps to achieve the Rainbow Tick.
- Continue our work towards achieving gender balance at all levels of the organisation.
- Evaluate the diversity of our current supply chain and consider ways to support a more diverse network.



Economic prosperity

Creating sustainable economic outcomes for our stakeholders

Positively contributing to the New Zealand and Australian economies.

Enhancing economic outcomes for customers through digitalisation.

Creating sustainable economic value for our shareholders.

Our FY2021 achievements

- Launched Rocket, an app for school leavers designed to bridge financial literacy gaps in New Zealand.
- Developed a self-serve online home loan application, reducing the cost of onboarding and thereby providing cost-savings for customers in the form of market-leading rates.
- Built multiple app features designed to create a frictionless in-app experience and save customers valuable time and energy.
- Paid a total dividend of 11.0 cents per share, despite RBNZ restrictions on dividends by banks.

Our goals for the year ahead

- Present Rocket to 10+ schools in FY2022.
- Promote Heartland's values amongst our new and existing supply chain partners as part of an updated Procurement Policy.
- Continue our digitalisation work to save customers time while offering competitive rates.

Environmental conservation

Te atawhai ā-taiao

HIGHLIGHTS

955 tCO₂e
 GHG emissions in FY2020, reduced from 1,157 tCO₂e in FY2019



By 2025, we aim to reduce GHG emissions from the FY2019 baseline by

35%



7%

decrease in the size of Heartland's vehicle fleet

503

trees planted on behalf of Heartland employees as part of Christmas gift



POTENTIAL IMPACT OF DIGITALISING THE SIGNING OF DOCUMENTS BY CUSTOMERS

328,004

sheets of paper saved

39

trees protected

132,854 L

water conserved

13,390 kg

CO₂ emissions averted

878 kg

waste avoided

Heartland's ambitious Greenhouse Gas emissions reduction targets

Heartland is a proud member of the Climate Leaders Coalition, working with other Kiwi organisations to limit global warming within 2°C of pre-industrial levels. During FY2021, Heartland formulated and published our GHG emissions reduction targets which go a step further than what is outlined in the Paris Agreement, aiming to keep global temperatures within 1.5°C.

During FY2021, the carbon reporting for our FY2019 baseline year was independently audited by Toitū Envirocare, and minor corrections and methodology improvements have now been incorporated.

Heartland's mandatory GHG emissions reported for FY2020 were 955 tCO₂e, of which 406.4 tonnes are direct emissions (Scope 1), 87.5 tonnes are from electricity indirect emissions (Scope 2) and 461 tonnes are indirect Scope 3 emissions. This is an absolute reduction of 17% from the 1,157 tCO₂e reported for FY2019, plus a significant reduction per business unit once the growth in the overall business is considered. The reduction can be attributed to both the initial activities in our emissions reduction plan, as well as the inadvertent reduction in our travel emissions due to COVID-19.

As we begin actively working to reduce our emissions, we encourage interested parties to find out more about sustainability at Heartland by visiting shareholders.heartland.co.nz (see the About Heartland menu item on the website). Here you can read more about the specifics of our GHG emissions reduction targets, as well as updates on our sustainability initiatives moving forward.

Optimising our vehicle fleet

Heartland's vehicle fleet allows our lending relationship managers to visit customers and intermediaries across New Zealand. Since the beginning of FY2021, we've

worked to reduce our fleet size by 7%, which alone could decrease our carbon emissions by as much as 32.2 metric tonnes of CO₂ per year. We will continue to identify opportunities to decrease our fleet size over the next financial year.

In addition, we are in the process of reviewing the types of vehicles that currently make up Heartland's fleet and which are candidates for replacement. We are currently creating a full transition plan for multiple Heartland locations, including the installation of charging stations, which we will begin to implement throughout FY2022.

Launching the Green Team

FY2021 saw the creation of an internal Green Team, made up of Heartland employees with a passion for environmental conservation and the drive to implement change across the business. The Green Team has been split into focus groups, each looking into how Heartland can make sustainable changes to waste management, commuting habits, customer communications, properties and more.

One project in progress is the switching of fluorescent lights for LED lights in the Newmarket, Auckland offices, which house over half of Heartland's people. This project has the potential to reduce our annual CO₂ emissions by 4 tonnes and our power consumption by 41,000kWh.

Looking forward to FY2022

In addition to the achievements above, over the last financial year, Heartland has laid the foundation for other exciting initiatives that we aim to bring to fruition. The Green Team will be spearheading multiple initiatives, including undergoing a waste audit, installing composting methods and setting an overall waste reduction target, as well as looking into a new environmentally friendly commuting incentive programme.



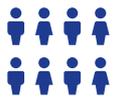
Green Team

Social equity

Te tōkeke ā-hapori

GRANTED BY THE HEARTLAND TRUST¹

\$448,183

8 

new members appointed to the Rangatahi (Youth) Advisory Board



7.1% 

of Heartlanders identify as Māori, compared with 2.3% industry average

3

new internal groups and committees formed, including Kainga Pasifika (Pasifika Committee)



Became New Zealand's first Hearing Accredited Workplace

Read more about Heartland's diversity initiatives on page 33.

¹ The Heartland Trust is a registered charitable trust which is independent from, but closely supported by, Heartland and Heartland Bank.

Completing our Conduct and Culture Work Plan

As part of cultivating a sustainable business, Heartland has a core focus on maintaining good conduct and culture in everything we do. Heartland launched its Conduct and Culture Work Plan in FY2020, following the recommendations that came out of the 2018 Financial Markets Authority and RBNZ conduct and culture review. The plan was then completed in 2021, including the following key initiatives.

- Published Manawa-Taki, an internal digital resource that is central to providing good outcomes for our customers.
- Improved tools and reporting for customer feedback.
- Created an alert in our core banking system to help identify vulnerable customers and mitigate possible issues before they occur.
- Launched a quality assurance programme to review phone calls and identify areas where we can improve our services.

Supporting our communities through the Heartland Trust

Through the Heartland Trust (the **Trust**), we support a number of organisations, clubs and schools. The Trust is funded by dividends paid by its Heartland shareholding. Despite the RBNZ's dividend restrictions in FY2021 reducing the amount of funding received, the Trust was able to make grants totalling \$448,183 in areas like education, arts and culture, sport and wellbeing. The Trust's criteria were recently reviewed to better align with Heartland's *mātāpono* (values) and strategic objectives, leading to the addition of two new sponsorship pillars to allow the Trust to more readily support initiatives which foster environmental conservation and promote mental health.

The Trust is proud to be a long-term supporter of the InZone Education Foundation (**InZone**), which aims to enhance the educational outcomes of Māori and Pasifika youth by providing hostels in high performing school zones. Heartland's Manawa Ako internship programme was developed from our relationship with InZone. A number of InZone students have participated in the programme and are now working in permanent roles at Heartland, or have continued to tertiary education.

Read more about Manawa Ako and our Manawa Ako alumni in the Diversity Report on page 33.

The Trust has maintained many of its other existing sponsorships, including four boys' rugby teams and three girls' rugby teams, as well as Auckland University's Kupe Leadership Scholarship, Lifeline, Auckland Writers Festival and WORD Christchurch Festival.

Fostering a diverse group of leaders at Heartland

Heartland recognises the benefits of cultivating leadership skills earlier on in women's careers, in particular because a number of the female leaders within the Strategic Management Group grew into those roles over time. We have recently welcomed a new cohort to Kia Eke, a group created to help women at Heartland build confidence and ambition. The programme for 2021 includes sessions on imposter syndrome, developing people leadership skills and learning from Heartland's female directors.

Heartland also aims to grow a culturally diverse group of leaders from within the organisation. In April 2021, 14 people graduated from Hīkina, Heartland's Māori leadership programme with Indigenous Growth Limited. The programme was designed to encourage Māori employees to take leadership opportunities, and demonstrate how their cultural values are transferable and add value to the organisation.

In FY2020, Heartland acknowledged the importance of diversifying the perspectives of its strategic leadership by creating the Rangatahi Advisory Board, a group of employees aged 35 and under. Their purpose is to diversify the perspectives of Heartland's Senior Management Group, and ultimately the Board, by providing unique insights on our people and customers to enhance Heartland's strategic initiatives. In FY2021, the Rangatahi Advisory Board accepted eight new members of different genders, cultures, backgrounds and business areas who contribute their perspectives and experience towards Heartland's strategy.

Looking forward to FY2022

Over the coming year, one of our main focuses in the social equity space will be on working towards achieving gender balance at all levels of the organisation – this includes growing more female leaders, ensuring our hiring processes are equitable, and creating a space for gender diverse people to be represented in the workplace. This is described within the Diversity Report from page 36.

Another area on which we'll be focusing is our supply chain and the diversity of our partners. The first step will be evaluating Heartland's current supply chain to determine how diverse it is – from there, we will begin looking into ways we can support a more diverse and inclusive network. For example, supporting more female or Māori-owned businesses.

Economic prosperity Te tōnuitanga ohaoha

HIGHLIGHTS

\$200m

approved from Home Loans online applications received during FY2021

\$188m

loaned to consumers and businesses through Heartland Extend



270

students and school leavers introduced to financial literacy app Rocket

“

My daughter came home enthusiastic and engaged about the presentation. She was able to clearly explain it to me and has already used it to plan for her next steps at university and long-term travel goals.”

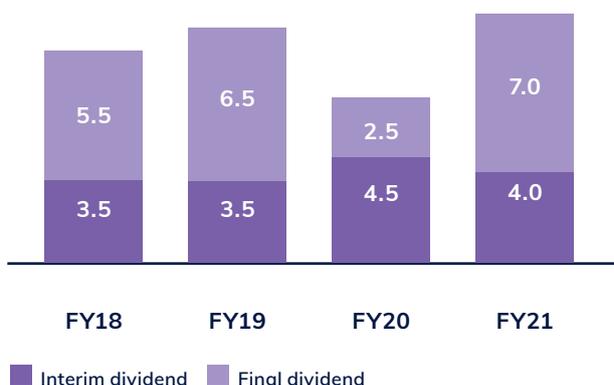
– St. Dominic’s College parent

DELIVERING SHAREHOLDER VALUE

107.2%

total shareholder return over the last five years (20 August 2016 – 20 August 2021)

Dividend per share (cents per share)



Bridging financial literacy gaps

In FY2021, Heartland built and launched its financial literacy app called Rocket, designed to help school leavers become familiar with important financial concepts as they step into the real world. The Rangatahi Advisory Board held 15 workshops at secondary schools around Auckland during the second half of FY2021, presenting to hundreds of students on banking basics and demonstrating how the app works.

The response from students and parents has been positive, with a number of learnings resulting from the workshops and impacting the future direction of Rocket. Over the next financial year, the goal is to deliver workshops to at least 10 schools, while continuing to develop our presentations.



Creating a frictionless customer experience

Heartland's vision is to be the service provider that customers find easiest to deal with, which we aim to achieve by digitalising everything we do. We are already in the process of replacing traditionally manual processes, like loan applications and banking transactions, with digital solutions. The benefits of this approach from an economic perspective are twofold.

Firstly, customers can engage with Heartland in the way that best suits them, whether from the Heartland Mobile App, the website or through Heartland Digital. By removing or reducing traditional constraints, such as the requirement to visit a bank branch or call, we're saving precious time for customers.

Secondly, digital solutions have a positive economic impact on Heartland as they significantly reduce the cost to onboard. In some cases, these savings can then be passed on to customers in the form of market-leading rates. A great example of this was the relaunch of Heartland Home Loans in October 2020, where we disrupted the market with the lowest fixed rate in the country at the time. This was made possible because of Heartland's self-serve, online application, which allowed customers to apply on their own time without needing to speak to a mortgage manager or bank representative.

During FY2021, Heartland designed, built and released a number of digital updates designed to make the Heartland Mobile App even better for customers to use, and to increasingly allow customers to self-serve. Some of these included the ability to personalise the app, open some accounts end-to-end within the app as a new customer, set automatic regular payments and transfers, self-reset their password, download documents and more.

Delivering sustainable economic value for shareholders

Heartland continued to deliver positive economic outcomes for shareholders despite the economic challenges presented by COVID-19, including the RBNZ restrictions on dividends by banks. After the easing of RBNZ restrictions, we were pleased to be able to pay a final dividend of 7.0 cents per share (cps), bringing our total dividend in respect of FY2021 to 11.0 cps.

In addition to this, Heartland delivered total shareholder return (TSR) of 107.2% for the five-year period 20 August 2016 - 20 August 2021, compared with the NZX50 Index TSR of 81.9% in the same period, while also delivering growth in earnings per share (EPS) (up 2.4 cps to 14.9 cps).¹

Looking forward to FY2022

Over the next financial year, Heartland aims to solidify the strategic direction of the Rocket app and determine market fit. We will also continue running financial literacy presentations with our established pilot schools with whom we can work to continue to develop our presentations. In addition to this digital solution for financial literacy, Heartland will continue exploring other ways to streamline traditionally manual banking processes through digitalisation. In doing so, we can save our customers valuable time while lowering the cost to onboard, which can then lead to further cost savings for customers in the form of low rates.

Heartland's sustainability efforts have the potential to reach even further if we're able to use our spending power to influence our customers and partners to follow our lead. One of our goals for FY2022 is to update our Procurement Policy to tie it more closely with our sustainability framework. The updated framework will put processes in place for promoting Heartland's values amongst our new and existing supply chain partners. By doing so, we can enable positive economic outcomes for businesses that share our commitment to sustainability, as well as increase our shared impact.

¹ Underlying EPS was 15.1 cps, up 1.8 cps from FY2020.

HEARTLAND

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