



## Fitch Affirms Heartland Bank; Assigns Ratings to 2 Heartland Entities

Fitch Ratings - Sydney - 01 November 2018: Fitch Ratings has affirmed the ratings on New Zealand-based Heartland Bank Limited (HBL) and assigned Heartland Group Holdings Limited (HGL) a Long-Term Foreign-Currency Issuer Default Rating (IDR) of 'BBB' and Heartland Australia Group Pty Ltd (HAG) a Long-Term Foreign-Currency IDR of 'BBB-'. The Outlooks are Stable.

The rating actions follow a corporate restructuring that resulted in the creation of bank holding company HGL, with HBL as the main operating subsidiary that accounted for 82% of total assets at the end of the year to June 2018 (FYE18), and HAG as the operator of the Australian business.

The affirmation of the ratings on HBL and the new ratings reflect our view that the restructuring will not have a material impact on the credit profile of the group. The group is likely to continue to perform solidly over the next year or two, absent a significant acquisition. The group's franchise benefits from niche positions in some products, which has facilitated a strong net interest margin relative to peers. Fitch has observed improvements in underwriting standards and risk controls in recent years, which is important, considering some of the higher-risk segments the group focuses on.

### RATING ACTIONS

ENTITY	RATING	PRIOR
Heartland Bank Limited	Support 5 Affirmed	5
	Viability bbb Affirmed	bbb
	Support Floor NF Affirmed	NF
	LC ST IDR F2 Affirmed	F2
	LC LT IDR BBB ● Affirmed	BBB ●
	ST IDR F2 Affirmed	F2
	LT IDR BBB ● Affirmed	BBB ●

senior unsecured	ST F2 Affirmed		F2
senior unsecured	LT BBB Affirmed		BBB
Heartland Australia Group Pty Ltd	Support 2 New Rating		
	ST IDR F3 New Rating		
	LT IDR BBB- ● New Rating		
Heartland Group Holdings Limited	LT IDR BBB ● New Rating		
	ST IDR F2 New Rating		
	LC LT IDR BBB ● New Rating		
	LC ST IDR F2 New Rating		
	Viability bbb New Rating		

## KEY RATING DRIVERS

### IDRS AND VIABILITY RATINGS

#### HBL and HGL

The ratings on the demerged bank and the top-level holding company are driven by the consolidated risk profile of the group. This reflects the very close correlation between failure and default probabilities at HBL and HGL.

The consolidated risk profile reflects the group's higher risk appetite compared with its peers, as well as its sound profitability and capitalisation. The bank focuses on higher-risk products where it has a competitive advantage and does not need to compete with the major banks. The higher risk of its products is evident from the weaker collateral compared with the residential mortgage books of other New Zealand banks. The group's underwriting standards and lending profile have improved over time and have led to faster and better decision making.

The improvements in the group's underwriting standards and controls and the benign operating environment have contributed to relatively stable asset quality in recent years. However, Fitch expects the group's financial profile to be more vulnerable to deterioration relative to its peers, albeit still adequate, through a full credit cycle. This is owing to the bank's stronger-than-domestic-peer net interest margin and improved cost efficiency. Both provide sufficient buffers to absorb larger impairment charges in an economic downturn.

The group's strong asset growth could result in deterioration in its risk-weighted capital ratios, although capitalisation and leverage continue to have satisfactory buffers over regulatory minimums. The group has proven in recent years that it is able to access the equity markets for fresh capital to support growth.

The group's funding is confidence sensitive and the funding profile remains more reliant on wholesale funding markets than that of peers. The group has some cushion should it need to reprice deposits to attract depositors, given the wider margin on its loans. Liquidity may become less stable during periods of stress, but the group generally has lower maturity mismatches than domestic peers.

## HAG

HAG's IDR is ultimately driven by institutional support from HGL, based on HAG's role in the group. HAG provides similar products, has common management, and shared services with the rest of the group. The group will also leverage from experiences in its home market to introduce products and concepts into the Australian market to support growth and product diversification. HAG is 100% owned by HGL, its management is deeply integrated with its parent's and they share board members. HAG also makes use of corporate services offered by the group, further cementing its role in the group.

However, due to its small size, Fitch sees HAG as complementing the group rather than as a key and integral part of the group. As such, Fitch classifies HAG as a strategically important subsidiary and rates it one notch lower than the group's ratings.

## SUPPORT RATING AND SUPPORT RATING FLOOR

### HBL

The Support Rating and Support Rating Floor on HBL reflect Fitch's view that while support from the New Zealand sovereign (AA/Stable) is possible, it cannot be relied on. We believe the Open Bank Resolution (OBR) framework reduces the propensity of the sovereign to support its banks. The OBR framework allows for the imposition of losses on depositors and senior debt holders to make up capital shortfalls if a deposit-taking institution fails.

### HAG

HAG's Support Rating reflects Fitch's view that there is a high probability of support from HGL.

## DEBT RATINGS

HBL's senior unsecured notes and commercial paper programme are rated at the same level as its Long- and Short-Term Foreign-Currency IDRs, respectively, in accordance with Fitch's criteria.

## **RATING SENSITIVITIES**

### RATING SENSITIVITIES

#### IDRS AND VIABILITY RATINGS

##### HBL and HGL

The IDRs and Viability Ratings are most sensitive to a change in Fitch's assessment of the group's risk appetite. An aggressive expansion by the group into new or existing market segments while compromising its risk-management practices would be negative for the ratings. Excessive growth over a sustained period could weaken the consolidated financial profile, including funding and liquidity, and pressure the ratings. There is little scope for the ratings to be upgraded unless the

franchise were to strengthen significantly relative to peers, which is not probable without increasing its risk appetite. Fitch expects HGL's ratings to continue to be equalised with those of HBL over the next two years.

#### HAG

Any change in the propensity or ability of the group to provide support to HAG is likely to result in changes to the entity's IDRs and Support Rating.

#### SUPPORT RATING AND SUPPORT RATING FLOOR

##### HBL

The Support Rating and Support Rating Floor are sensitive to any change in assumptions around the propensity of the New Zealand sovereign to provide timely support to the bank.

#### HAG

The Support Rating is sensitive to any change in the ability or propensity of HGL to provide support.

#### DEBT RATINGS

The ratings on HBL's senior unsecured notes and commercial paper programme are sensitive to the same factors as the IDRs and Viability Rating.

#### DATE OF RELEVANT COMMITTEE

31 October 2018

Additional information is available on [www.fitchratings.com](http://www.fitchratings.com)

#### FITCH RATINGS ANALYSTS

##### Primary Rating Analyst

Bert Jansen

Director

+61 2 8256 0345

Fitch Australia Pty Ltd

Level 15 77 King Street

Sydney NSW 2000

##### Secondary Rating Analyst

Tim Roche

Senior Director

+61 2 8256 0310

##### Committee Chairperson

Heakyu Chang

Senior Director

+822 3278 8363

#### MEDIA CONTACTS

Peter Hoflich

Singapore

+65 6796 7229

[peter.hoflich@thefitchgroup.com](mailto:peter.hoflich@thefitchgroup.com)

#### Applicable Criteria

Non-Bank Financial Institutions Rating Criteria (pub. 12 Oct 2018) (</site/re/10044407>)

Bank Rating Criteria (pub. 12 Oct 2018) (</site/re/10044408>)

#### Additional Disclosures

Dodd-Frank Rating Information Disclosure Form (</site/dodd-frank-disclosure/10050056>)  
Solicitation Status  
Endorsement Policy (</site/regulatory>)

## **DISCLAIMER**

ALL FITCH CREDIT RATINGS ARE SUBJECT TO CERTAIN LIMITATIONS AND DISCLAIMERS. PLEASE READ THESE LIMITATIONS AND DISCLAIMERS BY FOLLOWING THIS LINK: <HTTPS://WWW.FITCHRATINGS.COM/UNDERSTANDINGCREDITRATINGS> (<HTTPS://WWW.FITCHRATINGS.COM/UNDERSTANDINGCREDITRATINGS>). IN ADDITION, RATING DEFINITIONS AND THE TERMS OF USE OF SUCH RATINGS ARE AVAILABLE ON THE AGENCY'S PUBLIC WEB SITE AT <WWW.FITCHRATINGS.COM> (<https://www.fitchratings.com/site/home>). PUBLISHED RATINGS, CRITERIA, AND METHODOLOGIES ARE AVAILABLE FROM THIS SITE AT ALL TIMES. FITCH'S CODE OF CONDUCT, CONFIDENTIALITY, CONFLICTS OF INTEREST, AFFILIATE FIREWALL, COMPLIANCE, AND OTHER RELEVANT POLICIES AND PROCEDURES ARE ALSO AVAILABLE FROM THE CODE OF CONDUCT SECTION OF THIS SITE. DIRECTORS AND SHAREHOLDERS RELEVANT INTERESTS ARE AVAILABLE AT <HTTPS://WWW.FITCHRATINGS.COM/SITE/REGULATORY> (<https://www.fitchratings.com/site/regulatory>). FITCH MAY HAVE PROVIDED ANOTHER PERMISSIBLE SERVICE TO THE RATED ENTITY OR ITS RELATED THIRD PARTIES. DETAILS OF THIS SERVICE FOR RATINGS FOR WHICH THE LEAD ANALYST IS BASED IN AN EU-REGISTERED ENTITY CAN BE FOUND ON THE ENTITY SUMMARY PAGE FOR THIS ISSUER ON THE FITCH WEBSITE.

## **COPYRIGHT**

Copyright © 2018 by Fitch Ratings, Inc., Fitch Ratings Ltd. and its subsidiaries. 33 Whitehall Street, NY, NY 10004. Telephone: 1-800-753-4824, (212) 908-0500. Fax: (212) 480-4435. Reproduction or retransmission in whole or in part is prohibited except by permission. All rights reserved. In issuing and maintaining its ratings and in making other reports (including forecast information), Fitch relies on factual information it receives from issuers and underwriters and from other sources Fitch believes to be credible. Fitch conducts a reasonable investigation of the factual information relied upon by it in accordance with its ratings methodology, and obtains reasonable verification of that information from independent sources, to the extent such sources are available for a given security or in a given jurisdiction. The manner of Fitch's factual investigation and the scope of the third-party verification it obtains will vary depending on the nature of the rated security and its issuer, the requirements and practices in the jurisdiction in which the rated security is offered and sold and/or the issuer is located, the availability and nature of relevant public information, access to the management of the issuer and its advisers, the availability of pre-existing third-party verifications such as audit reports, agreed-upon procedures letters, appraisals, actuarial reports, engineering reports, legal opinions and other reports provided by third parties, the availability of independent and competent third-party verification sources with respect to the particular security or in the particular jurisdiction of the issuer, and a variety of other factors. Users of Fitch's ratings and reports should understand that neither an enhanced factual investigation nor any third-party verification can ensure that all of the information Fitch relies on in connection with a rating or a report will be accurate and complete. Ultimately, the issuer and its advisers are responsible for the accuracy of the information they provide to Fitch and to the market in offering documents and other reports. In issuing its ratings and its reports, Fitch must rely on the work of experts, including independent auditors with respect to financial statements and attorneys with respect to legal and tax matters. Further, ratings and forecasts of financial and other information are inherently forward-looking and embody assumptions and predictions about future events that by their nature cannot be verified as facts. As a result, despite any verification of current facts, ratings and forecasts can be affected by future events or conditions that were not anticipated at the time a rating or forecast was issued or affirmed.

The information in this report is provided "as is" without any representation or warranty of any kind, and Fitch does not represent or warrant that the report or any of its contents will meet any of the

requirements of a recipient of the report. A Fitch rating is an opinion as to the creditworthiness of a security. This opinion and reports made by Fitch are based on established criteria and methodologies that Fitch is continuously evaluating and updating. Therefore, ratings and reports are the collective work product of Fitch and no individual, or group of individuals, is solely responsible for a rating or a report. The rating does not address the risk of loss due to risks other than credit risk, unless such risk is specifically mentioned. Fitch is not engaged in the offer or sale of any security. All Fitch reports have shared authorship. Individuals identified in a Fitch report were involved in, but are not solely responsible for, the opinions stated therein. The individuals are named for contact purposes only. A report providing a Fitch rating is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents in connection with the sale of the securities. Ratings may be changed or withdrawn at any time for any reason in the sole discretion of Fitch. Fitch does not provide investment advice of any sort. Ratings are not a recommendation to buy, sell, or hold any security. Ratings do not comment on the adequacy of market price, the suitability of any security for a particular investor, or the tax-exempt nature or taxability of payments made in respect to any security. Fitch receives fees from issuers, insurers, guarantors, other obligors, and underwriters for rating securities. Such fees generally vary from US\$1,000 to US\$750,000 (or the applicable currency equivalent) per issue. In certain cases, Fitch will rate all or a number of issues issued by a particular issuer, or insured or guaranteed by a particular insurer or guarantor, for a single annual fee. Such fees are expected to vary from US\$10,000 to US\$1,500,000 (or the applicable currency equivalent). The assignment, publication, or dissemination of a rating by Fitch shall not constitute a consent by Fitch to use its name as an expert in connection with any registration statement filed under the United States securities laws, the Financial Services and Markets Act of 2000 of the United Kingdom, or the securities laws of any particular jurisdiction. Due to the relative efficiency of electronic publishing and distribution, Fitch research may be available to electronic subscribers up to three days earlier than to print subscribers.

For Australia, New Zealand, Taiwan and South Korea only: Fitch Australia Pty Ltd holds an Australian financial services license (AFS license no. 337123) which authorizes it to provide credit ratings to wholesale clients only. Credit ratings information published by Fitch is not intended to be used by persons who are retail clients within the meaning of the Corporations Act 2001

Fitch Ratings, Inc. is registered with the U.S. Securities and Exchange Commission as a Nationally Recognized Statistical Rating Organization (the "NRSRO"). While certain of the NRSRO's credit rating subsidiaries are listed on Item 3 of Form NRSRO and as such are authorized to issue credit ratings on behalf of the NRSRO (see <https://www.fitchratings.com/site/regulatory> (<https://www.fitchratings.com/site/regulatory>)), other credit rating subsidiaries are not listed on Form NRSRO (the "non-NRSROs") and therefore credit ratings issued by those subsidiaries are not issued on behalf of the NRSRO. However, non-NRSRO personnel may participate in determining credit ratings issued by or on behalf of the NRSRO.

## **SOLICITATION STATUS**

The ratings above were solicited and assigned or maintained at the request of the rated entity/issuer or a related third party. Any exceptions follow below.

## **Fitch Updates Terms of Use & Privacy Policy**

We have updated our Terms of Use and Privacy Policies which cover all of Fitch Group's websites. Learn more (<https://www.thefitchgroup.com/site/policies>).

## **Endorsement Policy**

Fitch's approach to ratings endorsement so that ratings produced outside the EU may be used by regulated entities within the EU for regulatory purposes, pursuant to the terms of the EU Regulation with respect to credit rating agencies, can be found on the EU Regulatory Disclosures (<https://www.fitchratings.com/regulatory>) page. The endorsement status of all International ratings is provided within the entity summary page for each rated entity and in the transaction detail pages for all structured finance transactions on the Fitch website. These disclosures are updated on a daily basis.