

HEARTLAND

New Zealand Limited

NZX Release

Amalgamation has no impact on credit rating

6 November 2015

Heartland New Zealand Limited (**Heartland**) (NZX: HNZ) advises that Fitch Ratings has confirmed the proposed amalgamation by Heartland with its wholly-owned subsidiary, Heartland Bank Limited (**Heartland Bank**), will not impact the current credit rating of Heartland Bank.

As announced to the market earlier today, Heartland intends to amalgamate with Heartland Bank with a view towards implementing a more efficient structure within which the group can best achieve its objectives and which provides transparency for its stakeholders. The amalgamation will take effect on 31 December 2015.

Heartland welcomes the confirmation from Fitch Ratings that the amalgamation will not impact Heartland Bank's current credit rating of BBB (outlook stable). A copy of the full press release from Fitch Ratings is attached.

- Ends -

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Fitch Ratings

Fitch: Heartland Bank's Restructure Credit Neutral

Fitch Ratings-Sydney-06 November 2015: Fitch Ratings says that Heartland Bank Limited's (HBL, rated BBB/ Stable) planned amalgamation with its ultimate parent, Heartland New Zealand Limited (HNZ), will not impact the bank's ratings. Potential capital management strategies as announced today may weaken our view of HBL's capitalisation although capital is likely to remain a strength of the bank's current rating level.

Today's amalgamation announcement between HNZ and its main operating subsidiary, HBL, is effective 31 December 2015. The new entity will be named Heartland Bank Limited.

HBL accounted for 83% and 78% of HNZ's total assets and total equity, respectively at financial year end 30 June 2015 (FY15). The main additions to HBL's balance sheet following the amalgamation will be HNZ's Australian-based home equity release (HER) mortgage business and a small insurance company. These businesses will provide some additional asset and revenue diversification by region and product to HBL's current business profile. We believe these additional risks are manageable as the Australian HER and insurance businesses accounted for 15% of HNZ's total assets at end-FY15.

HBL plans to issue Tier-2 capital in FY16, a portion of which may be used to buy-back ordinary equity if an adequate acquisition opportunity does not arise. We expect both scenarios to weaken the bank's capital mix which could change our opinion of HBL's currently strong capital position. However, capital is not a constraining factor to HBL's ratings unless the total capital ratio deteriorates close to the bank's current internal limits.

The amalgamation of the group will remove complexity and should reduce operating expenses, supporting profitability. Fitch does not expect a material change in HBL's funding and liquidity structure as a result of the amalgamation. HBL does not require regulatory consent to the amalgamation from the Reserve Bank of New Zealand. HNZ is not required to obtain shareholder approval although shareholders will participate in the appointment of the directors on the new Heartland Bank Limited board.

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Additional information is available on www.fitchratings.com

Related Research:

Fitch Affirms Heartland Bank at 'BBB'; Outlook Stable, 15 October 2015:
<https://www.fitchratings.com/site/fitch-home/pressrelease?id=992316>

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