



NZX/ASX Release

Further release regarding RBNZ Capital Review Consultation Paper

19 December 2018

On 17 December 2018, Heartland noted that the Reserve Bank of New Zealand (**RBNZ**) had released a consultation paper titled "Capital Review Paper 4: How much capital is enough?"

At this stage, there is some detail to be clarified and RBNZ is yet to have made any final decisions.

Heartland's Tier 1 capital ratio is currently approximately 13.2%. If the proposal was to be implemented in its current form, Heartland would be required to lift its Tier 1 capital ratio to 15% over a 5 year transitional period. This equates to an increase in Tier 1 capital of less than 0.4% (or approximately \$15m) per year, based on Heartland's current financial position.

Following the recent corporate reorganisation, Heartland's new corporate structure gives it some flexibility to mitigate the impact of any future changes:

- Heartland's Australian reverse mortgage business (with approximately A\$640m of assets) is not part of Heartland's banking group. Hence any new capital requirements will not apply directly to those assets.
- Heartland's corporate structure provides for various capital raising options. For example, Heartland Group Holdings Limited could potentially raise debt, and use the proceeds to subscribe for new Tier 1 capital in Heartland Bank Limited.

It is too soon to decide how any future capital requirement would be met but, given the quantum of the requirement and the length of the transition period, and based on Heartland's forecasts, it would be possible for Heartland to satisfy the requirement using its dividend reinvestment plan.

The Reserve Bank is yet to decide whether Tier 2 should remain in the capital framework.

Heartland will monitor its position as it becomes clearer. In the meantime, Heartland does not expect the proposal to result in any changes to Heartland's underlying business model, but does believe that the proposal may give rise to increased M&A activity. Acquisitions remain a part of Heartland's growth strategy, and Heartland will consider any acquisition which is value accretive.

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