

HEARTLAND

GROUP

NZX/ASX Release

RBNZ Capital Adequacy Framework for Registered Banks

5 December 2019

The Reserve Bank of New Zealand (**RBNZ**) released a consultation paper in December last year in relation to proposed changes to the Capital Adequacy Framework for Registered Banks in New Zealand (the **Framework**). Following a period of consultation, RBNZ has today announced its final decision on the revised Framework.

The revised Framework requires Heartland Bank Limited (**Heartland Bank**), as a standardised registered bank, to increase its Total Capital ratio to 16% over a seven year transitional period. Heartland Bank's Total Capital ratio was 12.9% as at 30 September 2019. This means the revised Framework requires Heartland to increase its Total Capital ratio by 3.1% over the transitional period. This equates to an increase of 0.45% (or approximately \$18m) per year, based on Heartland Bank's financial position as at 30 September 2019.

Importantly, the revised Framework will not, of itself, cause NZX and ASX listed Heartland Group Holdings Limited (**Heartland**) to need to change its approach to dividends or to raise equity from shareholders. Given:

- the quantum of the capital requirement;
- that some of the capital requirement may be satisfied through hybrid capital instruments rather than common equity;
- the length of the transitional period;
- Heartland Bank's existing capital position,

Heartland has a number of other options available to it in order to satisfy the requirement, which include using its dividend reinvestment plan. Heartland's corporate structure also provides it with flexibility to mitigate the impact of the revised Framework on Heartland Bank:

- Heartland Australia's reverse mortgage business (with assets of A\$760m as at 30 June 2019) is not part of Heartland Bank's banking group. Hence, the revised Framework does not apply to those assets.
- Heartland's corporate structure provides for various capital raising options. For example, Heartland could potentially raise debt, and use the proceeds to subscribe for new capital in Heartland Bank.

Heartland will continue to assess the options available to it to meet the requirements of the revised Framework over the transitional period and will update shareholders in due course. Heartland reiterates that it does not expect the revised Framework to result in any changes to Heartland's underlying business model.

- Ends –

For further information, please contact:

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