

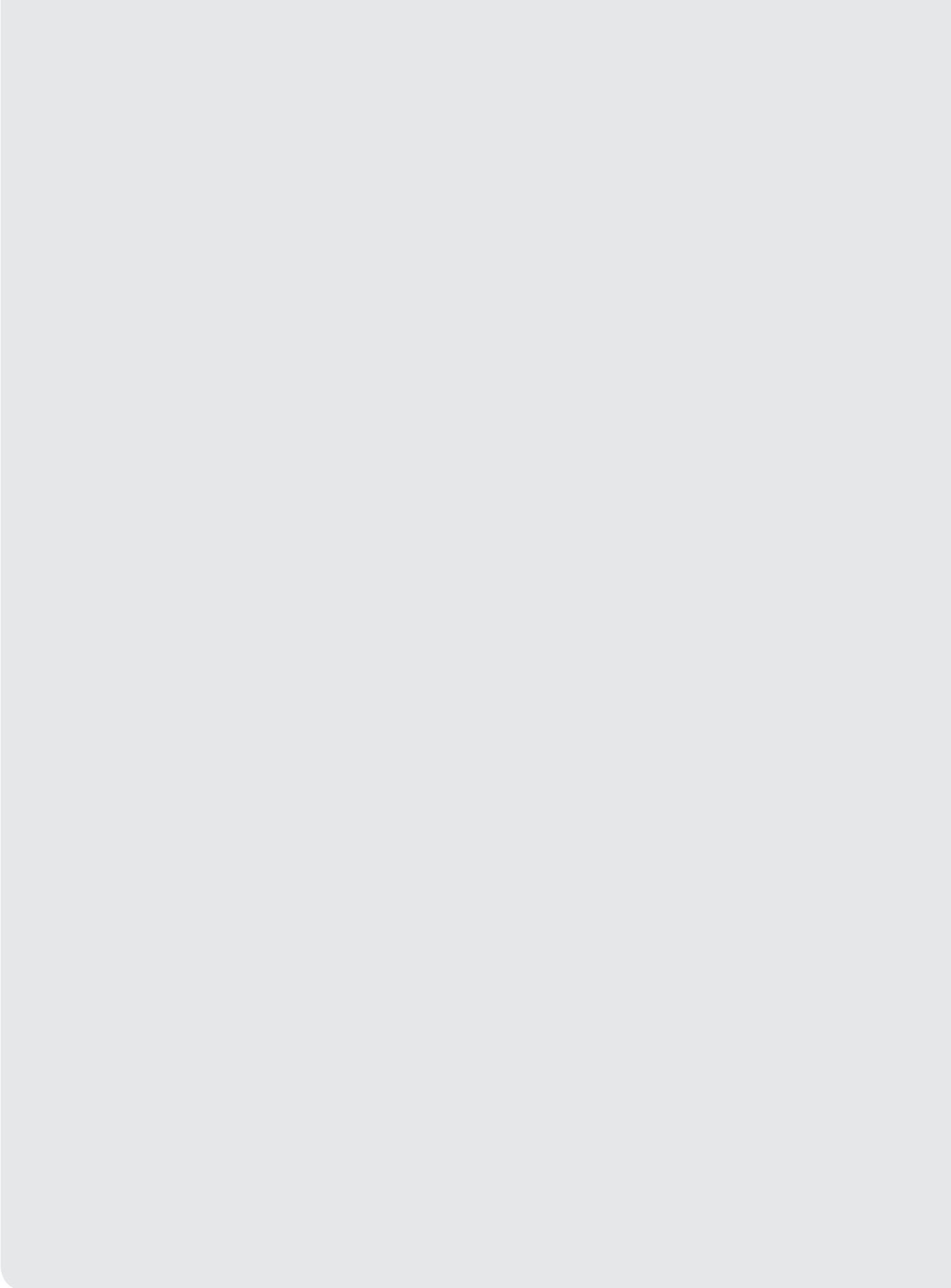
Notice of Annual Meeting

Friday 11 December 2015

Novotel Ellerslie, 72-112 Green Lane East, Auckland,
commencing at 1.30 pm

HEARTLAND

New Zealand Limited



In addition to the ordinary business of the Annual Meeting, shareholders will be asked to consider, and if thought fit, pass a number of resolutions relating to certain transactions proposed by Heartland New Zealand Limited.

This Notice of Meeting contains the following information for shareholders:

1	Chairman's letter – an introductory letter from your chairman	Page 4
2.	Agenda – the agenda of the business to be conducted at the Annual Meeting	Page 6
3.	Summary – a summary of the transactions proposed by Heartland	Page 8
4.	Explanatory Notes – more detailed information about the transactions proposed by Heartland and each of the resolutions to be put to shareholders at the Annual Meeting	Page 11
5.	Procedural Notes – procedural information about voting at the Annual Meeting	Page 22
6.	Arrangement Plan – a copy of the Arrangement Plan that shareholders will be asked to approve at the Annual Meeting	Page 24
7.	Venue and Parking Information	Page 26

1. Chairman's Letter



Geoffrey Ricketts
Chairman

26 November 2015

Dear shareholder,

On behalf of the board of directors I am pleased to invite you to the 2015 Heartland New Zealand Limited (**Heartland**) Annual Meeting to be held on Friday 11 December at 1.30pm.

At this year's Annual Meeting we will be updating shareholders on Heartland's recent progress, strategy and plans for future growth. The Annual Meeting will also be an opportunity to discuss a number of upcoming transactions for Heartland, namely:

- (a) the amalgamation of Heartland with its wholly-owned subsidiary, Heartland Bank Limited (**Heartland Bank**), which will take effect on 31 December 2015;
- (b) the issue of Tier 2 capital, which is expected to occur in April 2016; and
- (c) the proposed return of capital to shareholders by way of a Court-approved scheme of arrangement, which is expected to occur shortly after completion of the Tier 2 issuance.

These upcoming transactions are outlined in more detail in the Notice of Meeting. We appreciate there is a significant amount of information being provided and we encourage you to read the Summary section of the Notice of Meeting which provides a simple overview of what is happening.

There are a number of resolutions that we will be asking shareholders to approve at the Annual Meeting in relation to the upcoming transactions as well as the ordinary business of the Annual Meeting.

Why is Heartland returning capital to its shareholders?

The amalgamation and the issue of Tier 2 capital will result in Heartland holding an amount of capital that exceeds both the Reserve Bank of New Zealand's minimum regulatory capital requirements and Heartland's own internal requirements. Whilst Heartland remains interested in acquiring Motor Trade Finances Limited, there is currently no certainty that this acquisition will proceed and therefore no certainty that Heartland's excess capital will be required for this purpose. Accordingly, the board's current view is that it is appropriate for Heartland's excess capital to be returned to shareholders.

Why has Heartland chosen to return capital through a scheme of arrangement?

After full consideration of the options available, the board has determined that a Court-approved scheme of arrangement is the preferred way for Heartland to return capital to shareholders due to the certainty it provides in relation to timing and the amount of capital to be returned. A scheme of arrangement is also fair to all shareholders as it means capital will be returned on a pro rata basis. This means all shareholders will be treated equally and each shareholder will therefore continue to hold the same proportion of shares following the return of capital, subject only to rounding.

What do I need to do now?

We encourage you to read the more detailed explanation of the return of capital in the Notice of Meeting.

To enable the proposed return of capital to proceed, a resolution approving the proposal must be passed by at least 75% of the votes of those shareholders entitled to vote and voting. You can cast your vote by:

- (a) attending the Annual Meeting and voting in person;
- (b) submitting a postal vote; or
- (c) appointing a proxy (or representative) to attend in person and vote in your place.

All directors support the proposed return of capital and recommend that you vote in favour of the special resolution as set out in the Notice of Meeting.

If you are unable to attend the Annual Meeting, but would still like to follow its proceedings, you can view and listen to the Annual Meeting live by webcast at www.heartland.co.nz/content/shareholders/annual-meeting/default.aspx. We encourage shareholders who intend to follow proceedings by webcast to vote by submitting a postal vote prior to the meeting.

For those shareholders who are attending the Annual Meeting, please bring the enclosed form with you which will act as your admission card to the meeting.

Following the conclusion of the Annual Meeting, you are invited to join members of the board and executive team for afternoon tea and refreshments. I look forward to seeing you then.

Yours sincerely



Geoffrey Ricketts
Chairman

2. Agenda

Addresses

By the Chairman and Managing Director.

Shareholder discussion

Opportunity for shareholders to discuss the annual report and other matters.

Ordinary Resolutions

Auditor's remuneration

To record the automatic reappointment of KPMG as Heartland's auditor and, if agreed, pass the following resolution as an ordinary resolution:

Resolution 1: That the directors of Heartland are authorised to fix the auditor's remuneration.

Election of Directors

To re-elect the following persons as directors: Geoffrey Ricketts, Graham Kennedy, Christopher Mace, Gregory Tomlinson and Jeffrey Greenslade.

To elect the following additional persons as directors: Bruce Irvine, Nicola Greer and Edward (John) Harvey.

Accordingly, to consider and, if agreed, pass the following resolutions as ordinary resolutions (each as a separate ordinary resolution):

Resolution 2: That Geoffrey Ricketts be re-elected as a director of Heartland effective 31 December 2015.

Resolution 3: That Jeffrey Greenslade be re-elected as a director of Heartland effective 31 December 2015.

Resolution 4: That Graham Kennedy be re-elected as a director of Heartland effective 31 December 2015

Resolution 5: That Christopher Mace be re-elected as a director of Heartland effective 31 December 2015.

Resolution 6: That Gregory Tomlinson be re-elected as a director of Heartland effective 31 December 2015.

Resolution 7: That Bruce Irvine be elected as a director of Heartland effective 31 December 2015.

Resolution 8: That Nicola Greer be elected as a director of Heartland effective 31 December 2015.

Resolution 9: That Edward (John) Harvey be elected as a director of Heartland effective 31 December 2015.

Special Resolutions

Return of Capital

To consider, and if agreed, pass the following resolution as a special resolution:

Resolution 10: That the arrangement relating to the return of capital to shareholders, as described in the Arrangement Plan included in the Notice of Meeting, be approved.

Revocation of existing constitution and adoption of new constitution

To consider, and if agreed, pass the following resolution as a special resolution:

Resolution 11: That, effective 31 December 2015, the existing constitution of Heartland be revoked and a new constitution, in the form presented at the 2015 Annual Meeting, be adopted.

Other Business

To consider any other matters that may properly be brought before the Annual Meeting.

Conclusion

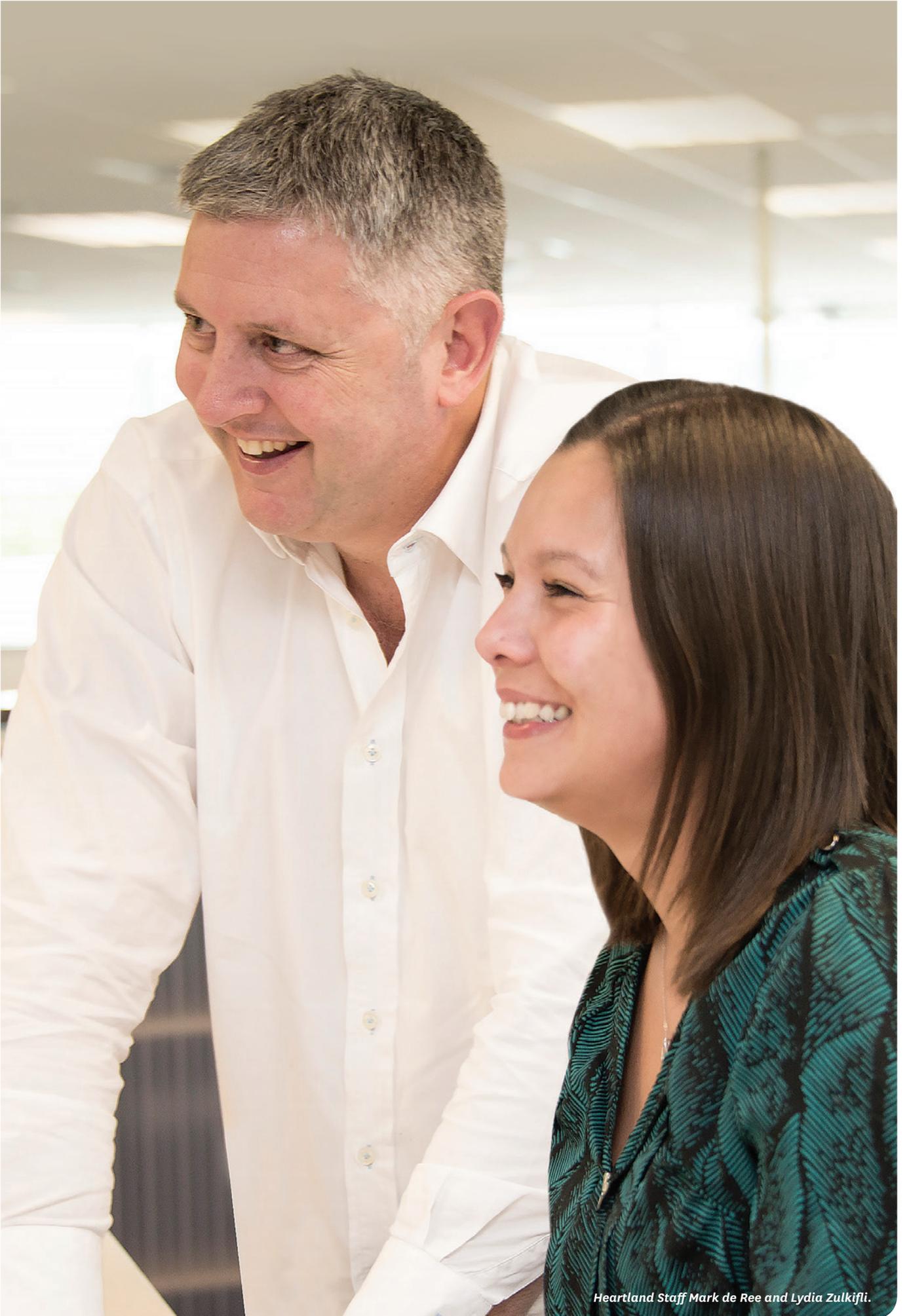
Following conclusion of the meeting, the directors invite shareholders to join them for light refreshments.

By order of the board

Anna-Lisa Strain

Company Secretary
Auckland, New Zealand

26 November 2015



Heartland Staff Mark de Ree and Lydia Zulkifli.

3. Summary

This Notice of Meeting includes information on a number of transactions that Heartland New Zealand Limited (**Heartland**) is proposing to undertake during this financial year. These transactions are:

1. an **amalgamation** of Heartland and Heartland Bank Limited (**Heartland Bank**), which will take effect on 31 December 2015;
2. an issue of **Tier 2 capital** which is expected to occur in April 2016; and
3. a **return of capital** to shareholders which is expected to occur shortly after completion of the Tier 2 issuance.

A simplified explanation of these transactions is set out in this Summary section. More detailed information on each of the transactions is provided in the Explanatory Notes section.

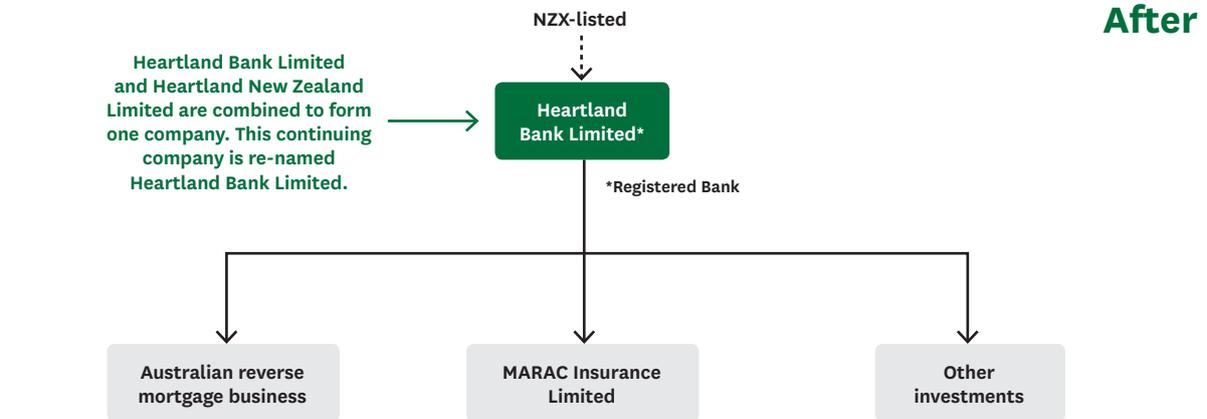
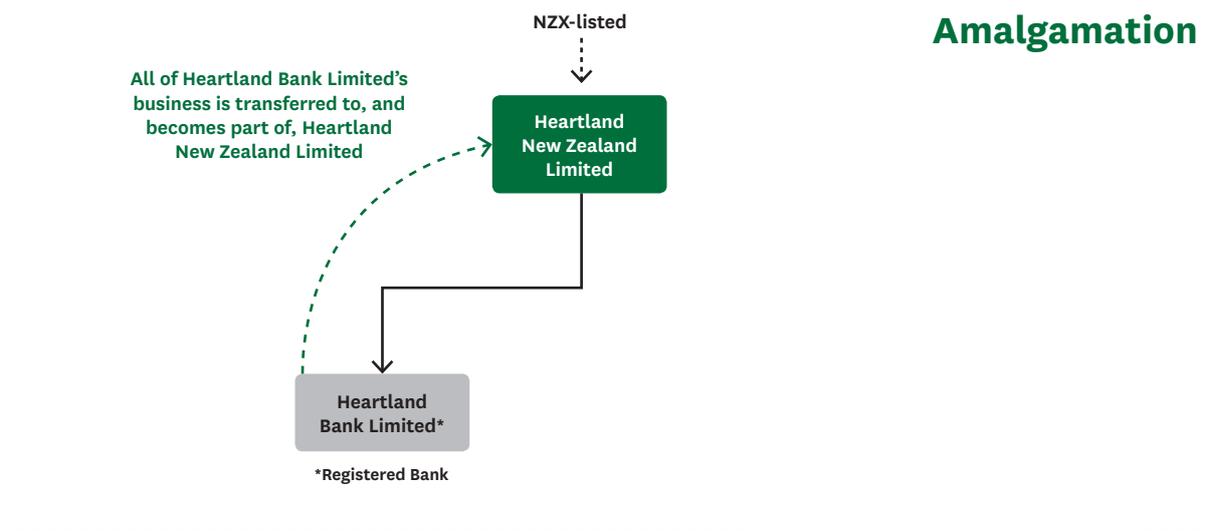
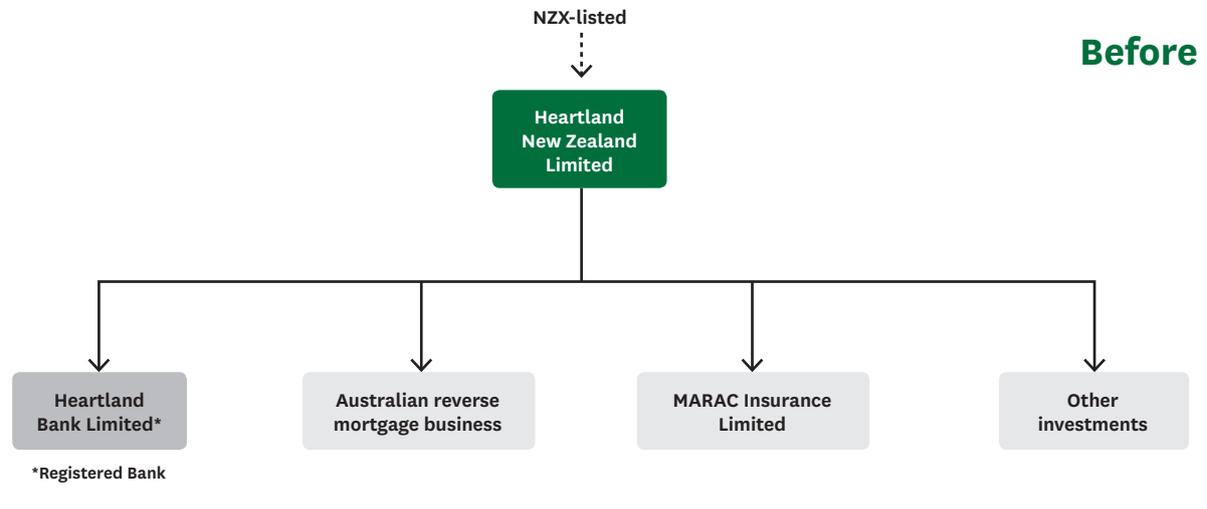
Amalgamation

The amalgamation of Heartland and Heartland Bank is being undertaken in order to simplify Heartland's current group structure. The current group structure is the product of the merger of three separate financial institutions in 2011, the corporatisation of what was then Heartland Building Society and a number of key business acquisitions. This has resulted in an overly complex structure for a business of Heartland's size.

Under the amalgamation, Heartland and Heartland Bank will be combined to form one company which will be named "Heartland Bank Limited" (the **Continuing Company**). The Continuing Company will hold all of the assets and liabilities that were previously held by each of Heartland and Heartland Bank. The Continuing Company will be a registered bank and will be listed on the NZX Main Board. The simplified structure diagram on the following page demonstrates how the amalgamation will work.

No shareholder approvals are required to effect the amalgamation and the Reserve Bank of New Zealand (**RBNZ**) is not required to provide its consent (although it has confirmed it has no objection to the amalgamation).

How will the Amalgamation work?



Issue of Tier 2 capital

Registered banks are required to hold a minimum amount of regulatory capital, which is prescribed by the RBNZ. The most common form of regulatory capital is ordinary shares, which are classified as “Tier 1 capital”. Other types of regulatory capital exist with different risk sharing characteristics, for example, “Additional Tier 1 capital” and “Tier 2 capital”.

There are a number of factors for a bank to consider in determining what types of regulatory capital it should hold, and in what amounts, in order to achieve an efficient regulatory capital structure that meets the RBNZ’s requirements.

Following consideration of how the existing regulatory capital structure could be improved, it is proposed that the Continuing Company issue up to \$75 million of Tier 2 capital. This is expected to occur in April 2016. No shareholder approvals are required in relation to the issue of Tier 2 capital.

Return of capital

Following the amalgamation and the issue of Tier 2 capital, the Continuing Company will hold excess capital (both in terms of the RBNZ’s requirements and its own internal requirements). Accordingly, it is proposed that the Continuing Company return capital to its shareholders.

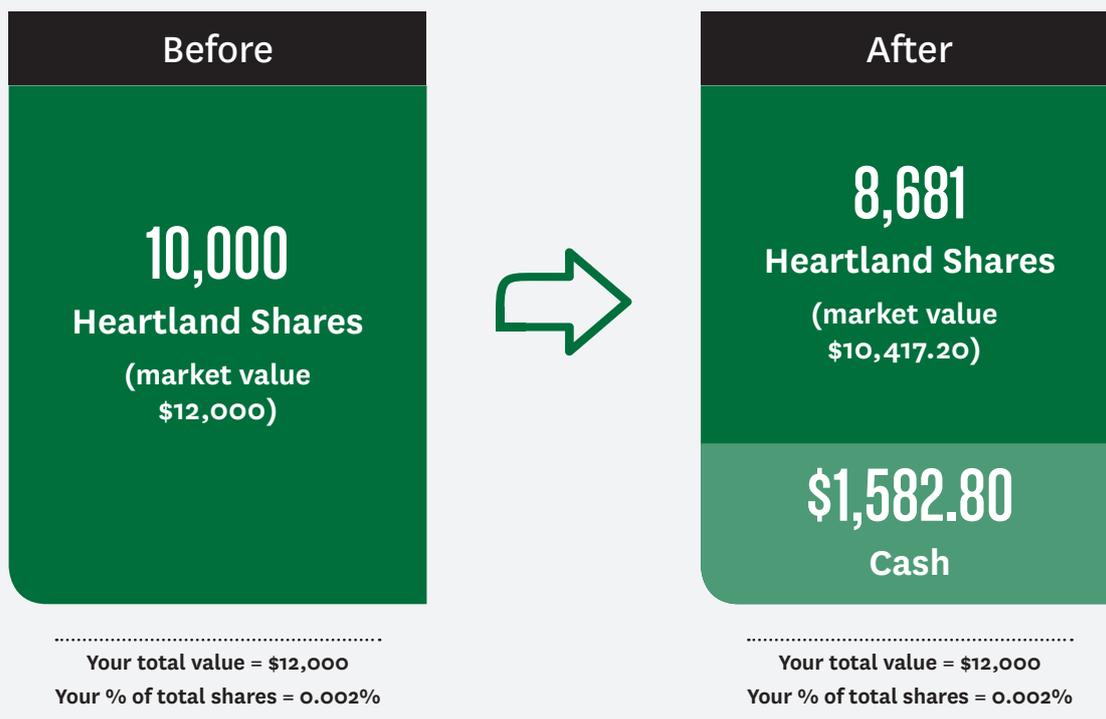
The return of capital will be conducted by way of a Court-approved scheme of arrangement (**Arrangement**). Under the Arrangement, a proportion of each shareholder’s shares will be cancelled and each shareholder will be given a cash payment in return for the cancellation of those shares. The Arrangement is fair to all shareholders as it means capital will be returned on a pro rata basis. This means all shareholders will be treated equally and each shareholder will therefore continue to hold the same proportion of shares following the return of capital, subject only to rounding.

Shareholder approval is required in order to proceed with the return of capital. Further information on the return of capital is included in the Explanatory Notes section.

The diagram below demonstrates how the return of capital will affect you as a shareholder. The example is based on a shareholder who currently holds 10,000 shares in Heartland.

Circumstances may arise whereby the return of capital may not proceed even if shareholder approval is given. In summary, this would be if the Tier 2 issue did not proceed (or did not complete successfully) or if the board identified an investment requirement or opportunity prior to the return of capital being undertaken and therefore no longer believed the most appropriate use of the Continuing Company’s excess capital was to return it to shareholders. The board has no reason to believe at this time that such a requirement or opportunity will arise.

How will the return of capital affect me?*



*Assuming \$75 million of capital is returned to shareholders and the market price is \$1.20 per share.

4. Explanatory Notes

Explanatory Notes on Resolution 1 – Auditor’s remuneration

It is intended that KPMG will be automatically reappointed as Heartland’s auditor under section 207T of the Companies Act 1993 (**Act**). Heartland proposes that the directors be authorised by way of ordinary resolution to fix KPMG’s remuneration as auditor for the following year for the purposes of section 207S of the Act.

Explanatory Notes on Resolutions 2 to 9 – Election of Directors

Background

On 6 November 2015, Heartland announced that it and its wholly-owned subsidiary Heartland Bank Limited (**Heartland Bank**) are proposing to merge by way of a short form amalgamation under section 222(1) of the Act (**Amalgamation**). On Amalgamation, Heartland will continue as the amalgamated company (**Continuing Company**) but will change its name from “Heartland New Zealand Limited” to “Heartland Bank Limited” (and will also change its NZX ticker code from “HNZ” to “HBL”). Heartland is also considering taking the opportunity to simplify its group structure even further by amalgamating a number of non-active subsidiaries into the Continuing Company as part of the Amalgamation. The Amalgamation and change of name will take effect on 31 December 2015 (**Effective Date**).

Pursuant to the Act, the persons named in the resolutions passed by the boards of the amalgamating companies to effect the Amalgamation will be the directors of the Continuing Company. Ordinarily, the NZX Main Board Listing Rules (**Listing Rules**) would require a number of Heartland directors to retire and seek re-election at this Annual Meeting. Instead, Heartland has obtained waivers from NZX Limited (**NZX**) to allow all of the directors of Heartland to retire with effect on the Effective Date and to allow shareholders to vote on the appointment of the directors of the Continuing Company at the Annual Meeting in accordance with Resolutions 2 to 9. This means shareholders will have the opportunity to vote on the composition of the board of the Continuing Company now, rather than at the 2016 annual meeting.

The proposed directors of the Continuing Company, each of whom is currently a director of Heartland and/or Heartland Bank, offer themselves for election or re-election to the board of the Continuing Company with effect from the Effective Date. Following the Annual Meeting, all of the current directors of Heartland will continue to hold office until the Effective Date. On the Effective Date, the appointment of the directors of the Continuing Company approved by shareholders at the Annual Meeting will automatically take effect and those directors will become the directors of the Continuing Company.

Proposed directors of the Continuing Company

Each of the proposed directors of the Continuing Company was nominated by Heartland’s Governance and Remuneration Committee and endorsed by the boards of Heartland and Heartland Bank. They are:



Geoffrey Ricketts

CNZM, LLB (Hons), F Inst D

Geoff has been a director of Heartland and Heartland Bank since their formation on 30 September 2010 and 31 January 2013 respectively and has been Chairman of Heartland since 27 August 2013. He is a commercial lawyer, company director and investor with wide experience in the New Zealand and Australian business environments. He holds a number of directorships, including Chairman of Todd Corporation, Chairman of Vero New Zealand Limited, and a director of ASX listed company Suncorp Group Limited.

Geoff chairs The University of Auckland Foundation and is a strong supporter of community and philanthropic activities, particularly in relation to the arts and education in New Zealand.

Geoff will qualify as an independent director and, if elected, will be Chairman of the Continuing Company.



Jeffrey Greenslade

LLB

Jeff has been Managing Director of Heartland and a director of Heartland Bank since their formation on 30 September 2010 and 31 January 2013 respectively. He has over 20 years' experience as a senior banking executive, including with the ANZ National Banking Group, where he last held the position of Managing Director of Corporate and Commercial Banking for ANZ National Bank. From February 2006 until February 2008 he spent time on the board of UDC Finance Limited. Jeff has also held a number of senior positions in the Institutional and Capital Markets areas of The National Bank of New Zealand and its subsidiary, Southpac.

Jeff joined the Heartland Group as Chief Executive Officer of MARAC Finance Limited in 2009 and subsequently became Chief Executive Officer of Heartland Bank.

Jeff will be a non-independent director of the Continuing Company (by virtue of his role as Chief Executive Officer).



Graham Kennedy

J.P., BCom, FCA, ACIS, ACIM, CF Inst D

Graham has been a director of Heartland and Heartland Bank since their formation on 30 September 2010 and 31 January 2013 respectively. He has over 40 years' experience as a chartered accountant and business advisor and is now an independent professional director and Chairman of a number of private companies providing him with governance experience across a diverse range of business sectors including property, tourism, agribusiness, transport, construction and professional services. Graham is also actively involved, at a governance level, in a variety of community-based charitable organisations.

Graham will qualify as an independent director of the Continuing Company.



Christopher Mace

CNZM, CM Inst D

Chris has been a director of Heartland since its formation on 30 September 2010. Chris is an Auckland based businessman and company director with experience in the New Zealand and Australian business environments. He is Chairman of the Crown Research Institute, the National Institute of Water and Atmospheric Research (NIWA), a Commissioner of the Tertiary Education Commission and a director of a number of companies.

Chris is a lifetime member of the Sir Peter Blake Trust and was instrumental in establishing the Trust in 2004. He is a passionate supporter of education, science and research as well as a keen supporter of the arts. He received a CNZM for services to Antarctica and the community and was named 2012 Māori Business Leader of the Year.

Chris will qualify as an independent director of the Continuing Company.



Gregory Tomlinson

AME

Greg has been a director of Heartland since 18 March 2013. He is a Christchurch based businessman and investor with 40 years' experience owning, managing and building businesses. An early pioneer of the mussel industry of Marlborough, he has established Impact Capital with active investments in the aged care, animal pharmaceutical, finance and wine sectors. Greg and his wife Jill support a variety of charities in New Zealand and abroad.

Greg will be a non-independent director of the Continuing Company (by virtue of his current shareholding in Heartland).



Bruce Irvine

BCom, LLB, FCA, CF Inst D, FNZIM

Bruce has been a director of Heartland Bank since its formation on 31 January 2013 and is currently its Chairman. He is a chartered accountant and was admitted into the Christchurch partnership of Deloitte in 1988. He was Managing Partner from 1995 to 2007 before his retirement from Deloitte in May 2008 to pursue his career as an independent director. Bruce is also Chairman of Christchurch City Holdings Limited, and a director of several public and private companies, including House of Travel Holdings Limited, Market Gardeners Limited, PGG Wrightson Limited, Scenic Hotels Limited and Skope Industries Limited. Bruce is involved in a voluntary capacity as a trustee of the Christchurch Symphony Orchestra.

Bruce will qualify as an independent director of the Continuing Company.



Nicola Greer

MCom

Nicola has been a director of Heartland Bank since 26 July 2013. Nicola has extensive experience in the banking and finance sector, both in New Zealand and overseas. Her career to date includes senior positions at ANZ Bank (New Zealand and Australia), Citibank and Goldman Sachs International, where she worked in financial markets and asset and liability management.

Nicola will qualify as an independent director of the Continuing Company.



Edward (John) Harvey

BCom, CA

John has been a director of Heartland Bank since its formation on 31 January 2013. He has considerable financial services experience and 36 years in the professional services industry, including 23 years as a partner of PricewaterhouseCoopers. Since his retirement from PricewaterhouseCoopers in 2009, John has pursued a career as an independent director of a number of companies, including Port Otago Limited, Ballance Agri-Nutrients Limited, NZX listed Stride Property Limited (formerly DNZ Property Fund Limited) and NZX/ASX listed Kathmandu Holdings Limited. He is also chairman of NZ Opera Limited.

John will qualify as an independent director of the Continuing Company.

The proposed board of the Continuing Company complies with the applicable requirements of the Reserve Bank of New Zealand (**RBNZ**) and the Listing Rules. It is also consistent with the principles contained in the NZX Corporate Governance Best Practice Code and the Financial Markets Authority Corporate Governance in New Zealand Principles and Guidelines. The RBNZ has confirmed that it has no objection to the proposed appointments of Christopher Mace and Gregory Tomlinson as directors and Geoffrey Ricketts as Chairman. The remainder of the proposed directors of the Continuing Company are already directors of Heartland Bank and accordingly the RBNZ has previously confirmed its non-objection to their appointments.

NZX waivers

Heartland has obtained waivers from the following Listing Rules in relation to the nomination, appointment, election and retirement of directors at the Annual Meeting:

Listing Rule 3.3.5 – NZX has waived the requirement that the proposed directors of the Continuing Company who are existing directors of Heartland Bank, but not existing directors of Heartland, be nominated by a shareholder on the basis that shareholders are already familiar with these proposed directors and therefore this requirement is an unnecessary procedural step. Heartland does not believe this waiver prejudices shareholders' rights under this Listing Rule, especially as shareholders still had the opportunity to nominate additional directors during Heartland's director nomination period (which closed on 12 October 2015).

Listing Rule 3.3.6 – NZX has waived the requirement that the directors appointed by the board during the course of the year are required to retire with effect at the Annual Meeting on the basis that all existing directors will retire or retire and seek re-election with effect on the Effective Date. The directors who would ordinarily have been required to retire and seek re-election at the Annual Meeting under Listing Rule 3.3.6 are Deborah (Jane) Taylor and Jeffrey Greenslade (who was reappointed by the board as an executive director before his term of appointment reached 5 years as required by Listing Rule 3.3.9). NZX has also waived the requirement that the directors appointed to the Continuing Company (by being named in the resolutions passed by the board) seek re-election at Heartland's 2016 Annual Meeting on the basis that they are approved by shareholders at the Annual Meeting and the ordinary rotation requirements in Listing Rule 3.3.11 will apply from the Effective Date.

Listing Rule 3.3.11 – NZX has waived the requirement that a number of Heartland's directors retire by rotation at the Annual Meeting on the basis that all existing directors will retire or retire and seek re-election with effect from the Effective Date. The directors who would ordinarily have been required to retire by rotation (but would be eligible for re-

election) at the Annual Meeting under Listing Rule 3.3.11 are one of Christopher Mace and Gregory Tomlinson (as determined by the board).

Further information

Further information on the Amalgamation more generally is contained in Heartland's Strategy Update announcement that was made on 6 November 2015.

Board recommendation

The board of Heartland unanimously recommends shareholders vote in favour of the above elections and re-elections. The board believes that the proposed directors will provide an appropriate range of skills, qualifications and experience to direct and supervise the management of the Continuing Company and have a proper understanding of, and competence to deal with, current and emerging issues of the business.

Explanatory Notes on Resolution 10 – Return of Capital

Background

On 6 November 2015, the board of directors of Heartland announced that, subject to certain conditions including the approval of shareholders and the High Court of New Zealand (**Court**), it would undertake a pro rata return of capital to ordinary shareholders. The proposed return of capital is part of a wider restructuring being undertaken by Heartland. The other components of this restructuring are the Amalgamation and the proposed issue of a Tier 2 regulatory capital instrument (**Tier 2 Issue**).

The Amalgamation will result in Heartland becoming the Continuing Company and a registered bank. Accordingly, the RBNZ will require the Continuing Company to hold a certain level of regulatory capital (in the same way Heartland Bank is currently required to do so). The Continuing Company will inherit the regulatory capital currently held by Heartland Bank, meaning that the Continuing Company will comply with the RBNZ's regulatory capital requirements from the Effective Date.

Currently, Heartland Bank's regulatory capital is almost entirely comprised of Common Equity Tier 1 regulatory capital (i.e. ordinary shares). This is because, up until 31 January 2015, Heartland Bank's ordinary shares were the only form of capital that counted towards its regulatory capital requirements. While ordinary shares are the most common form of regulatory capital that may be held by New Zealand registered banks, it is also common for banks to hold other types of regulatory capital known as "Alternative Tier 1" or "Tier 2" regulatory capital.

Heartland Bank's regulatory capital requirements were normalised by the RBNZ on 31 January 2015 to bring them in line with those of the other New Zealand registered banks. Accordingly, Tier 2 regulatory capital is now eligible to contribute towards Heartland Bank's minimum regulatory capital requirements. Compared to other banks that are also able to issue different types of regulatory capital, Heartland Bank currently holds a much greater proportion of Tier 1 regulatory capital (in particular, Common Equity Tier 1 regulatory capital).

The Continuing Company therefore has an opportunity to improve the efficiency of its capital structure by replacing Tier 1 regulatory capital with Tier 2 regulatory capital. This will result in a lower overall cost structure and in an improved return on equity. It will also result in a regulatory capital structure that is more closely aligned with other New Zealand registered banks.

The Continuing Company intends to raise at least \$50 million of Tier 2 regulatory capital through the Tier 2 Issue (subject to receipt of all relevant stakeholder non-objections and consents). It is also intended that the Tier 2 Issue will have the capacity for up to \$25 million of oversubscriptions, so the total amount to be raised will be up to \$75 million.

The proceeds raised from the Tier 2 Issue, together with the additional amount of regulatory capital arising as a result of the Amalgamation, will result in the Continuing Company having total regulatory capital in excess of the minimum capital levels required by the RBNZ, and the minimum levels required in terms of Heartland's Group Capital Management Policy.¹

Why is capital being returned to shareholders?

Heartland is currently engaging with Motor Trade Finances Limited (MTF) with a view towards making an offer to acquire MTF. At this stage, it is too early to know whether that transaction may proceed and, if so, what capital may be required to fund it.

Other than any potential transaction that may result from that engagement, Heartland has not identified any imminent significant acquisition or capital investment opportunities. Accordingly, the board's current view is that the most appropriate course of action for the Continuing Company is to return capital in excess of its requirements to shareholders.

Heartland believes that, following the proposed return of capital, the Continuing Company will remain in a strong position to withstand variable market conditions and is confident that it will continue to meet:

- (a) the RBNZ's minimum regulatory capital requirements;
- (b) all internal capital requirements (including those prescribed by Heartland's Group Capital Management Policy and its Internal Capital Adequacy Assessment Process), which operate as a buffer to minimum regulatory requirements; and
- (c) all other prudential requirements (including liquidity and funding requirements).

Further information on the financial impact of the capital return for the Continuing Company is provided below.

How much capital will be returned?

The exact amount of capital that Heartland will return to shareholders cannot be determined at this time. This is because the amount will depend on the extent of any oversubscriptions received under the Tier 2 Issue and the business and economic factors present at the time the return is expected to be conducted (which is currently expected to be in April 2016), including whether any MTF transaction proceeds.

Heartland is therefore seeking shareholder approval to return an amount of capital, within the range specified below, with the final amount determined by the board of the Continuing Company once the Tier 2 Issue is completed. The range is as follows:

- (a) a minimum of \$60 million;² and
- (b) a maximum of \$100 million.

The board of the Continuing Company will determine the exact amount to return to shareholders prior to seeking final orders from the Court that will sanction and give effect to the capital return.

How will the return of capital be conducted?

The Heartland board has determined to conduct the return of capital by way of a Court-approved scheme of arrangement under Part 15 of the Act (**Arrangement**). The terms of the Arrangement are set out in the Arrangement Plan included in this Notice of Meeting and are summarised below.

Under the Arrangement, a proportion of each shareholders' shares will be cancelled and each shareholder will be given a cash payment in return for the cancellation of those shares. The board believes the Arrangement is fair to all shareholders as it achieves a capital return to all shareholders on a pro rata basis, leaving the relative voting and distribution rights of all shareholders unaffected, subject only to rounding.

¹This policy requires the Continuing Company to hold additional regulatory capital to the minimum requirements set by the RBNZ, which operates as a "buffer" and is best practice in the banking industry.

²On 6 November 2015, Heartland announced the amount of capital to be returned would be between \$58 million to \$100 million. Following that announcement, Heartland has had further discussions with Inland Revenue and as a result the minimum amount of capital to be returned has been increased to \$60 million.

In determining the preferred method for the return, the Heartland board considered both on-market and off-market share buy-back transactions and the proposed Arrangement. The proposed Arrangement was the preferred method because it:

- (a) gives certainty that the capital return will proceed (if approved by shareholders) with a low level of execution risk;
- (b) gives certainty as to the amount of capital to be returned (other methods do not give the same level of certainty);
- (c) is fair to all shareholders by returning capital to all shareholders on a pro rata basis, leaving the relative voting and distribution rights of all shareholders undisturbed, subject only to rounding;
- (d) enables the return to be executed quickly, which minimises the cost to the Continuing Company of carrying the capital; and
- (e) ensures the capital reduction is tax efficient for shareholders (i.e. it is generally not taxable to shareholders).

The return of capital to shareholders will be primarily funded from the proceeds received under the Tier 2 Issue.

The shareholders entitled to receive the return of capital will be those shareholders whose names are on the share register at 5.00pm on the record date, expected to be in April 2016 (**Record Date**). Heartland will confirm the Record Date when more definitive dates are known. The amount per share that shareholders will receive will equal the volume weighted average sale price in New Zealand dollars for a Heartland ordinary share over the period of 5 days prior to the Record Date on which the NZX Main Board is open for trading and Heartland's shares are not suspended (**Market Price**).

If, in the opinion of the Heartland board, any exceptional or unusual circumstances (including any unusual or irregular trades) have affected the Market Price, the Market Price shall be adjusted in such manner as the board considers reasonably necessary.

Payment to shareholders will be made in the manner in which shareholders have elected to receive dividends (i.e. by cheque or direct credit). Cheques will be posted, or direct credits made, within 10 business days of the Record Date. Shareholders will be issued

with a new shareholding statement, showing the number of shares held, within 5 business days of the Arrangement taking effect.

Key dates for the proposed Arrangement are set out below:³

Annual Meeting	11 December 2015
Arrangement effective	Expected to be in April 2016
Payment to shareholders	Within 10 business days of the Record Date

In order to conduct the return of capital in an orderly manner, Heartland will seek a trading halt on its Shares prior to the open of trading on the Ex Date for the Arrangement (as defined in the Listing Rules) until the Arrangement is implemented (or such other period required by NZX).

Why is Heartland seeking shareholder approval for the return of capital now?

The Court will not sanction and give effect to the return of capital unless it is approved by a special resolution of shareholders. That is, a resolution passed by at least 75% of the votes of all shareholders entitled to vote and voting at the meeting. Heartland believes the Annual Meeting is an opportune time to seek shareholder approval for the proposed capital return, saving on time and costs associated with calling a special meeting in early 2016.

Effect of the return of capital on shareholders

The return of capital will apply to all shareholders equally. Following the cancellation of shares, each shareholder will have the same proportion of voting and distribution rights as they held before the cancellation of shares, subject only to rounding.

By way of example, if \$75 million is returned to shareholders and assuming the Market Price is \$1.20 per share, approximately 7 shares for every 53 shares held by each shareholder (together with all rights attaching to those shares) will be cancelled for \$1.20 per share.⁴

³Indicative only. Heartland will update shareholders when more definitive dates are known.

⁴Fractions of a share will be rounded down to the nearest whole number. If, following rounding, some of the shares necessary to be cancelled to ensure the full amount of capital is returned to shareholders would not be cancelled, those shareholders whose entitlements prior to rounding were closest to the nearest whole share will have one additional share cancelled until all of the shares necessary to be cancelled to ensure the full amount of capital is returned have been cancelled.

Financial impact of the return of capital for the Continuing Company

The following pro-forma balance sheet illustrates the expected effect on the Continuing Company's financial position, assuming \$75 million is received under the Tier 2 Issue and \$75 million of capital is returned to shareholders.⁵

This pro forma balance sheet is only intended to show how the return of capital (following the Tier 2 Issue) may affect the financial structure of the Continuing Company and the return on the funds employed. It is not intended to reflect the actual financial structure of the Continuing Company following the return of capital.

Financial position As at 30 June 2015 (NZ\$m)	Continuing Company⁶	Continuing Company adjusted to show effect of Tier 2 Issue and return of capital
Assets		
Cash, cash equivalents and investments	359.6	359.6
Finance receivables	2,862.1	2,862.1
Other non-current assets	137.6	137.6
Total Assets	3,359.3	3,359.3
<i>Financed by:</i>		
Shareholders' equity	480.1	405.1
Term liabilities	250.4	325.4
Current liabilities	2,628.8	2,628.8
Total equity and liabilities	3,359.3	3,359.3

In what circumstances will the return of capital not proceed?

The Court has granted initial orders directing that the return of capital be approved by a special resolution of shareholders. Final orders from the Court sanctioning and giving effect to the return of capital will therefore only be sought if it is approved by a special resolution of shareholders at the Annual Meeting. If the special resolution is not passed, the Continuing Company will not seek final orders from the Court and the return of capital will not proceed.

Circumstances may arise whereby the return of capital may not proceed even if it is approved by shareholders. In summary, this would be if the Tier 2 Issue did not proceed (or did not complete successfully) or if the board identified an investment requirement or opportunity prior to the return of capital being undertaken and therefore no longer believed the most appropriate use of the Continuing Company's excess capital was to return it to shareholders. The board has no reason to believe at this time that such a requirement or opportunity will arise.

⁵\$75 million has been used as an example for the amount of capital to be returned.

⁶Figures for the Continuing Company were prepared by combining Heartland's financial position and Heartland Bank's financial position.

Taxation

The Company has received confirmation from the Commissioner of Inland Revenue under section CD 22 of the Income Tax Act 2007 that the Commissioner is satisfied that the amount to be returned to shareholders on the share cancellation is not in lieu of the payment of a dividend.

The amount to be returned to shareholders will therefore be treated as a return of capital and not as a dividend for New Zealand income tax purposes. However, this amount may still be taxable to a shareholder in some circumstances, including the following:

- (a) where gains arise to a shareholder and the shareholder is a share dealer;
- (b) where gains arise to a shareholder and the shares were acquired for the purpose of resale; or
- (c) where gains arise to a shareholder and the gains are derived from a profit-making undertaking or scheme.

Shareholders, in particular those resident outside New Zealand, should obtain independent taxation advice in respect of the effect on their individual tax position.

Directors' holdings and Heartland's Long Term Incentive (LTI) Plan

The proposed directors of the Continuing Company, and their associated persons, who have a relevant interest in shares will participate in the capital return in exactly the same way as all other shareholders. The current directors of Heartland, and their associated persons, who have a relevant interest in shares are entitled to vote on the special resolution to approve the return of capital. The directors intend to vote their shares in favour of the return of capital.

Heartland does not expect that the return of capital will materially affect the terms of issue of options under the Heartland LTI Net Share Settled Options Plan. However, in the event that participants are adversely affected by the return of capital, Heartland's board has discretion to make such adjustments or alterations to the terms of the options or the calculation of the settlement amount as the Heartland board considers necessary to ensure that, so far as is reasonably possible, the participant concerned is in no worse a position than such participant would have been prior to the return of capital.

Further information

Copies of Court documents filed in relation to the return of capital are available on Heartland's website at www.heartland.co.nz/content/shareholders/annual-meeting/default.aspx. Printed copies of the Court documents will also be made available to shareholders on request by email to the Company Secretary at Anna-Lisa.Strain@heartland.co.nz.

The Court makes the final decision of whether or not to implement the Arrangement and can decide not to grant the final Court orders. If the Arrangement is approved by Heartland shareholders and the Tier 2 Issue is successfully completed, then the application for final Court orders is expected to be made in April 2016.

Heartland shareholders have the right to appear and be heard at the hearing for the final Court orders in respect of the Arrangement. Any Heartland shareholder who wishes to appear and be heard on the application for final Court orders must file a notice of appearance or a notice of opposition (both containing an address for service), together with any affidavit in opposition, by 5.00pm on 11 March 2016 and must also file submissions on which they intend to rely by 5.00pm on 18 March 2016. In each case, the shareholder must serve a copy on Heartland at its address for service on the same day. Heartland will promptly serve upon that shareholder, at their address for service, a copy of the application for final Court orders, together with the affidavits in support of that application. If any person other than Heartland is to be heard at the hearing for the final Court Orders, that hearing will be held on a date to be fixed by the Court.

Shareholders who have any questions about the effect of the return of capital on their investment should consult their financial adviser.

Board recommendation

The board of Heartland unanimously recommends that shareholders vote in favour of the proposed return of capital on the terms set out in the Arrangement Plan.

Explanatory Notes on Resolution 11 – Revocation and Adoption of New Constitution

Heartland's constitution was last amended in 2010. Since 2010, Heartland's name has changed from Building Society Holdings Limited and a number of changes have been made to applicable New Zealand legislation, particularly the Act. This special resolution seeks shareholder approval to alter Heartland's constitution with effect from the Effective Date to make it consistent with that legislation and the Amalgamation. In particular, the alterations include changes to:

- (a) reflect the Continuing Company's anticipated name change to "Heartland Bank Limited"; and
- (b) update the provisions governing meetings of shareholders to bring them into line with the updated provisions of the Act amended in 2012 (which, amongst other things, provide for increased use of audio, audio and visual, or electronic communication methods at meetings).

If any of the proposed amendments are inconsistent with the Listing Rules, the Listing Rules (as amended by any waiver or ruling granted to Heartland) will prevail. A copy of the Listing Rules are available at www.nzx.com.

The proposed amendments are set out in a marked-up copy of the constitution that will be tabled at the Annual Meeting and is available for inspection at Heartland's registered office, Level 3, Heartland House, 35 Teed Street, Newmarket, Auckland 1023, New Zealand, and on Heartland's website at www.heartland.co.nz/content/shareholders/annual-meeting/default.aspx.

The proposed amendments have been approved by NZX Limited in accordance with Listing Rule 6.1.

The proposed alterations to Heartland's constitution do not impose or remove a restriction on the activities of Heartland, and accordingly no rights arise under section 110 of the Act.

Board recommendation

The board of Heartland unanimously recommends shareholders vote in favour of the alterations to Heartland's constitution.

5. Procedural Notes

Annual Meeting and Voting

Resolutions 1 to 9 are ordinary resolutions, requiring a simple majority of the votes of those shareholders entitled to vote and voting. Resolutions 10 and 11 are special resolutions, requiring approval by at least 75% of the votes of those shareholders entitled to vote and voting.

Voting at the meeting shall be decided by a poll and therefore you will be entitled to one vote on each resolution for every fully paid Heartland share held as at 5.00pm on Wednesday 9 December 2015.

Your right to vote may be exercised by:

- (a) attending and voting in person;
- (b) submitting a postal vote; or
- (c) appointing a proxy (or representative) to attend in person and vote in your place (**Proxy**).

If you intend to attend and vote in person at the Annual Meeting, please bring the enclosed voting form that will act as your admission card to the meeting.

How to cast a Postal Vote or appoint a Proxy

If you are entitled to vote at the Annual Meeting, you may cast a postal vote or appoint a Proxy to attend the meeting and vote on your behalf either online or by completing and returning the enclosed voting form in accordance with the instructions set out on the form. Anna-Lisa Strain, as Heartland's Company Secretary, has been authorised by the board to receive and count postal votes at the Annual Meeting.

Your completed copy of the enclosed form must be received by Heartland's share registrar, Link Market Services Limited, or your online appointment or vote completed, no later than **1.30pm on Wednesday 9 December 2015**, 48 hours before the Annual Meeting.

You can submit your postal vote or appoint a Proxy (and give that Proxy your voting instructions) online at <https://investorcentre.linkmarketservices.co.nz/voting/HNZ.aspx>. You will be required for security purposes to enter your CSN/Holder Number and FIN to complete your online postal vote or Proxy appointment.

Webcast

If you are unable to attend the Annual Meeting, but would still like to follow its proceedings, you can view and listen to the Annual Meeting live by webcast at www.heartland.co.nz/content/shareholders/annual-meeting/default.aspx. If you intend to follow the proceedings by webcast, you can vote by submitting a postal vote or by appointing a Proxy to attend on your behalf.



Heartland Staff Michael Drumm and Sarah Smith.

6. Arrangement Plan

Relating to a return of capital on shares in Heartland New Zealand Limited pursuant to a Scheme of Arrangement under Part 15 of the Companies Act 1993

Dated: 26 November 2015

Background

- A. The Board intends to undertake a \$50 million of Tier 2 capital issuance (with up to \$25 million of oversubscriptions) to achieve a more efficient regulatory capital structure for Heartland following the amalgamation of Heartland New Zealand Limited with Heartland Bank. The amalgamation and the issue of Tier 2 capital will result in Heartland holding an amount of capital that exceeds both the RBNZ's minimum regulatory capital requirements and Heartland's own internal requirements.
- B. The Board is currently of the view that the most appropriate use of the surplus capital that Heartland will hold following the Tier 2 issuance is for it to be returned to Shareholders. This will result in a lower overall cost structure and in an improved return on equity.
- C. Accordingly, the Board proposes to undertake a pro rata return of capital to Shareholders by way of a Court-approved scheme of arrangement under Part 15 of the Companies Act 1993. The amount of capital to be returned to Shareholders will be determined by the Board and will be up to \$100 million. The Board believes the return of capital in accordance with this Arrangement Plan is fair to all Shareholders as it will be made on a pro rata basis, leaving the relative voting and distribution rights of all Shareholders unaffected.

1. Interpretation

1.1 Definitions

In this Arrangement Plan:

Arrangement Plan means this arrangement plan.

Board means the board of directors of Heartland.

Capital Return Amount means the amount of capital to be returned to Shareholders in accordance with this Arrangement Plan as determined by the Board on or about the Record Date, provided such amount shall be between:

- (a) \$60 million; and
- (b) \$100 million.

Court means the High Court of New Zealand.

Effective Date means 11 April 2016 or such later date (not later than 30 June 2016) as may be determined by the Board.

Heartland means Heartland New Zealand Limited (to be renamed Heartland Bank Limited with effect from the amalgamation of Heartland New Zealand Limited with Heartland Bank).

Heartland Bank means Heartland Bank Limited.

Market Price means the volume weighted average price of a Share on the NZX Main Board over the five Trading Days prior to the Record Date.

NZX Main Board means the main board equity securities market, operated by NZX Limited.

RBNZ means the Reserve Bank of New Zealand.

Record Date means 8 April 2016 or such later date (being at least one Trading Day prior to the Effective Date) as may be determined by the Board.

Return Price means the Market Price, provided that if, in the opinion of the Board, any exceptional or unusual circumstances (including any unusual or irregular trades or any dividend or distribution expectation) have artificially affected the Market Price, the Market Price shall be adjusted in such manner as the Board considers reasonably necessary.

Share means an ordinary share in the capital of Heartland.

Shareholder means any person recorded on the Heartland share register at 5.00pm on the Record Date.

Trading Day means a day on which the NZX Main Board is open for the trading of financial products and the Shares are not suspended from trading (including by reason of a trading halt).

1.2 Interpretation

In this Arrangement Plan, unless the context otherwise requires:

- (a) The division of this Arrangement Plan into clauses and the inclusion of headings are for convenience of reference only and do not affect the construction or interpretation of this Arrangement Plan.
- (b) The singular includes the plural and vice versa.
- (c) References to dates and times are to dates and times in New Zealand.

2. Scheme of Arrangement

2.1 At 8.00am on the Effective Date, the following will occur sequentially in the order specified in this clause without any further act or formality, except as otherwise provided:

- (a) The number of Shares registered in the name of each Shareholder at 5.00 pm on the Record Date calculated in accordance with the below (rounded down to the nearest whole number) shall be cancelled (together with all the rights attaching to those Shares):

$$x = \frac{\text{Capital Return Amount}}{\text{Return Price}} \times \frac{Y}{Z}$$

Where:

X = the number of Shares held by the Shareholder to be cancelled.

Y = the number of Shares held by the Shareholder at 5.00 pm on the Record Date.

Z = the total number of Shares on issue at 5.00 pm on the Record Date.

- (b) If, following the application of the above methodology, the aggregate Return Price of all Shares to be cancelled is less than the Capital Return Amount, those Shareholders with the highest fractional entitlement to have Shares cancelled prior to rounding will have one additional Share cancelled until the aggregate Return Price of all Shares to be cancelled is the same as the Capital Return Amount (provided that if two or more Shareholders had the same fractional entitlement and the difference between the aggregate Return Price of all Shares to be cancelled and the Capital Return Amount is sufficiently small that Heartland is unable to cancel one additional Share held by each of those Shareholders, then Heartland or its share registrar will randomly determine which of those Shareholders will have one additional Share cancelled so that the aggregate Return Price of all Shares to be cancelled is the same as, or as close as possible to, the Capital Return Amount).
- (c) Heartland will pay to each Shareholder an amount equal to the Return Price (as defined above) for each Share registered in the name of the Shareholder which has been cancelled in accordance with clause 2.1(a) or (b).

3. Amendment or withdrawal

- 3.1 Heartland reserves the right to amend, modify and/or supplement this Arrangement Plan at any time and from time to time, provided that any such amendment, modification or supplement has been approved by the Court and communicated to the Shareholders in the manner required by the Court (if so required).
- 3.2 Any amendment, modification or supplement to this Arrangement Plan shall be effective only if it is proposed, or consented to in writing, by Heartland.
- 3.3 Heartland reserves the right to withdraw this Arrangement Plan at any time on or before the Record Date, in which case this Arrangement Plan shall cease to have any force or effect.

7. Venue and Parking Information

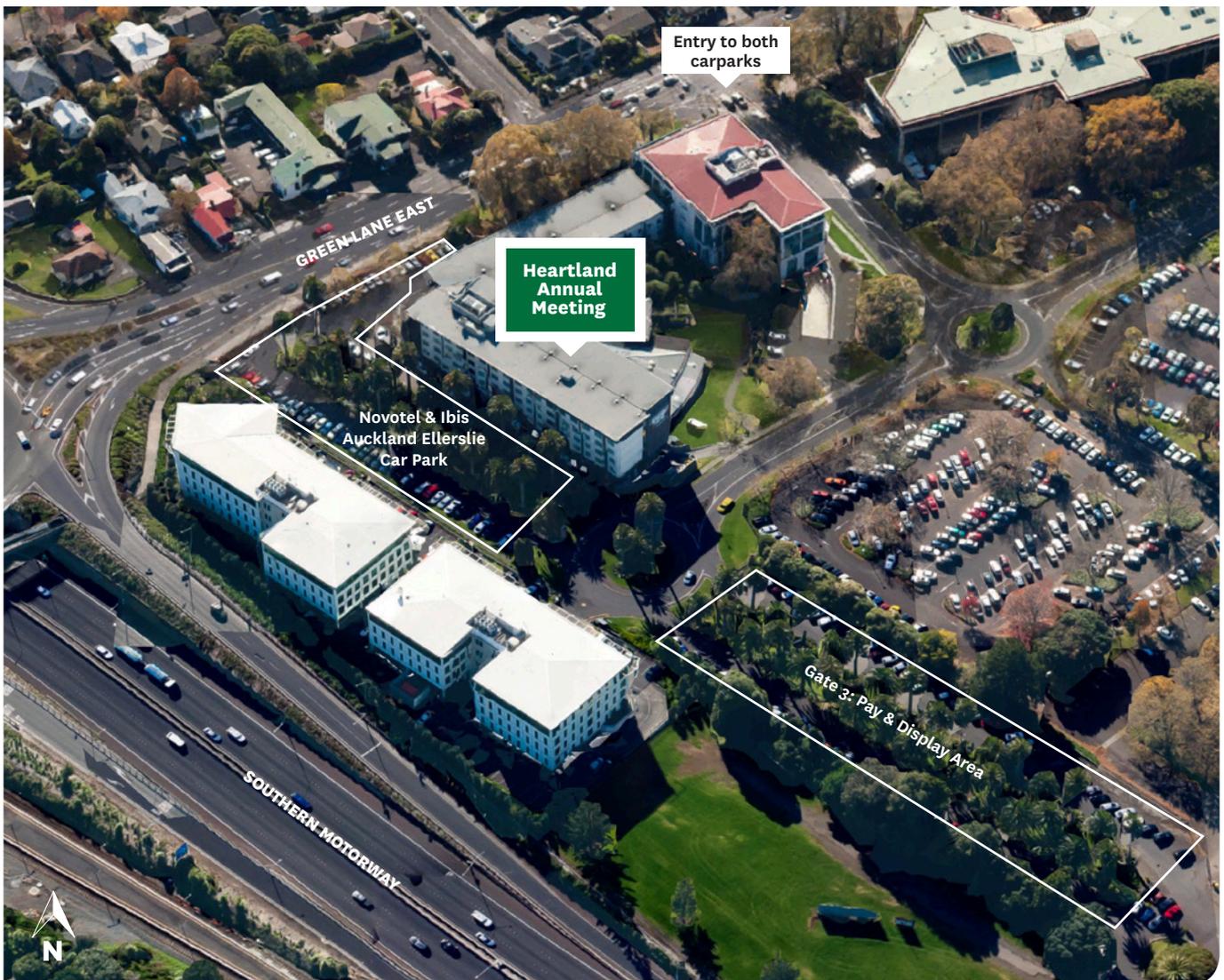
The Annual Meeting is being held at Novotel Ellerslie, 72-112 Green Lane East, Auckland.

Parking for the venue is marked on the map below and can be accessed via the entry on Green Lane East.

We recommend that you park in the car park which is accessed via Gate 3 of the Ellerslie Event Centre car park (next to the Novotel car park entrance). This is a pay and display car park.

Parking may also be available in the main Novotel car park. Payment for parking in this car park can be processed directly at the cashless machine outside the hotel entrance.

Please allow plenty of time to find a car park.



HEARTLAND

New Zealand Limited