TSB AND HEARTLAND BANK MERGER PROPOSAL

IMPORTANT INFORMATION

Toi Foundation has signed a conditional merger implementation agreement to sell Toi Foundation's 100% shareholding in TSB to Heartland Group, to enable TSB to merge with Heartland Bank, as part of its strategy to grow philanthropic giving in Taranaki.

Taranaki residents are being consulted and asked to provide feedback on this proposal, via written submissions. No decision on whether to approve the proposal will be made by Toi Foundation trustees until they have considered the feedback received through this consultation process.

If the conditional proposal proceeds in its current form, Toi Foundation, the owner of TSB, would use a portion of the proceeds from the sale of its shares in TSB to reinvest in the merged bank, to hold a 17.5% shareholding in Heartland Group.

Heartland Group and Heartland Bank will also issue debt instruments and borrow money from Toi Foundation as part of the proposed merger. The combination of these interests will assist Toi Foundation to start diversifying its investment portfolio and increase philanthropic giving in Taranaki.

PARTIES INVOLVED

- Toi Foundation Holdings Limited (Toi Foundation) – currently owns 100% of the shares in TSB Bank Limited (TSB).
- Heartland Group Holdings Limited (Heartland Group) – owns 100% of the shares in Heartland Bank Limited (Heartland Bank).

BACKGROUND

- The conditional merger proposal followed an unsolicited approach regarding the potential sale of some or all of Toi Foundation's shares in TSB.
- Toi Foundation Trustees then undertook a confidential and competitive process with independent advisors and interested parties to ensure it secured the best possible proposal for the community.

DEAL STRUCTURE

- If the conditional proposal is approved in its current form, Toi Foundation would sell its 100% shareholding in TSB to Heartland Group and receive an aggregate consideration of NZD$620 million.
- Heartland Bank and TSB would amalgamate and be known as TSB Heartland Bank.
- The $620 million aggregate consideration to Toi Foundation comprises:
  - $264 million vendor loan provided by Toi Foundation to Heartland Group
  - $56 million of subordinated debt regulatory instrument (issued by Heartland Bank as Tier 2 capital)
  - $250 million in ordinary shares in Heartland Group (200 million shares at NZ$1.25 each), giving Toi Foundation an approximate 17.5% shareholding in Heartland Group
  - $50 million pre-completion cash dividend from TSB (which is facilitated by the sale and merger).

BRAND AND CUSTOMER CONSIDERATIONS

- The merged bank would be called TSB Heartland Bank.
- There would be no change to the range of TSB's retail banking products or services.
- There would be no change in the near-term to the range of Heartland Bank's specialist product offering and services.
- Both organisations intend for the merged bank to maintain a strong regional presence, including retaining Taranaki as a key operational hub for customer-based banking services, maintaining a local branch network, retaining customer-facing roles, continuing to operate TSB's New Plymouth based operations, contact centres, and lending centre of excellence (alongside Heartland Bank's nationwide presence).

GOVERNANCE

- If the proposed transaction and merger proceeds, and subject to Heartland Group shareholder approval, it is expected that one Toi Foundation nominee would be appointed to the Heartland Group Board. It is also expected that on completion, two existing TSB directors would join the TSB Heartland Bank Board.

ANALYSIS OF THE PROPOSAL

- Both parties have undertaken due diligence.
- Toi Foundation has also obtained independent valuation assessments, and its investment bank has been actively involved in the development of a detailed implementation plan and business plan (respectively) for the merger and the merged bank.
- This process involves working closely with Heartland and TSB senior management to design organisational and operating structures that will best support the merged bank.

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TOI FOUNDATION

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IMPORTANT INFORMATION

TSB to merge with Heartland = NZ bank with scale

Toi Foundation to sell its shares in TSB to facilitate the merger

Sale consideration of $620 million - cash, debt and equity

Toi Foundation's new stake = 17.5% in Heartland Group Holdings

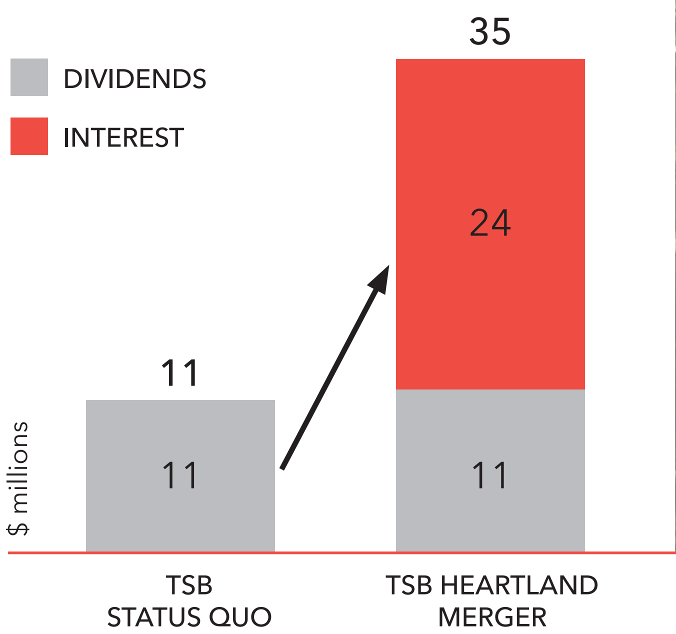
WHAT WOULD STAY

- Jobs
- TSB brand
- Branches
- Commitment to Taranaki
- Community funding and grants into Taranaki
- TSB products and services

WHAT WOULD GROW

- $20 million a year in extra funding and grants for the Taranaki community
- TSB's scale and ability to compete
- TSB's access to capital for technology and business improvements
- Access to more products and services
- Both banks will be stronger together

ANNUAL CASH INCOME TO TOI FOUNDATION FROM TSB



WHY IS THIS PROPOSAL BEING CONSIDERED?

- To help Toi Foundation give back more to the Taranaki community via granting today and for future generations
- To support TSB's future strengthening and growth
- To start diversifying Toi Foundation's investments

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IMPORTANT INFORMATION

ABOUT TOI FOUNDATION

- Every dollar has purpose – building a thriving, inclusive and equitable Taranaki. Toi Foundation exists for one reason – to invest back into our region's people, places and projects.
- Toi Foundation has an investment portfolio that generates returns to do this – it owns 100% of the shares in TSB and 66% of Fisher Funds. Those investments support initiatives that strengthen communities, improve our environment, create opportunities for tamariki and rangatahi, support housing, arts, culture, recreation and many other projects, programmes and events that make Taranaki a better place to live.
- All of Toi Foundation's grants are distributed in Taranaki – currently ~$30 million a year – should the proposal proceed, over time this could increase by $20 million annually. Increased giving will continue to be in Taranaki.
- Last year alone, Toi Foundation committed the equivalent of $282.74 for every person living in our region, one of the highest rates of community giving in New Zealand.
- Our responsibility is to ensure we can continue building on that legacy for decades to come. Toi Foundation Trustees follow rigorous processes for considering and managing investments prudently for the benefit of Taranaki over the long-term.

WHAT DOES TOI FOUNDATION FUND

(All examples provided are from the 2024/25 financial year)

- **Capital grants:**
  From flagship support for cancer treatment equipment at Taranaki Base Hospital that has enabled patients to access treatment locally (previously only available in Palmerston North) through to sports clubs across Taranaki, schools, neighbourhood watch, charities, all councils, clubs, and rest homes – Toi Foundation funds buildings, equipment, gear and other capital initiatives to keep organisations thriving.
- **Impact and innovation:**
  Strategic programmes, or longer, multi-year initiatives, that have deeper impact in the region – like housing initiatives, youth programmes, Big Brothers, Big Sisters, environmental initiatives and support for disadvantaged members of our communities.
- **Individuals thriving in their chosen field:**
  More than 150 individuals represented Taranaki in sporting, cultural and academic events across New Zealand and around the world.
- **Programmes and events:**
  From flagship events like Festival of Lights and WOMAD to local community programmes at schools, councils, churches, societies, clubs, charities and marae.
- **Stronger communities:**
  From Access Radio, Zipper Cardiac Support Club, to South Taranaki Coast Guard and Women's Refuge – Toi Foundation funded clubs, charities, schools, societies, churches, all three councils, and food banks from its strengthening communities fund.
- **Over the past 4-year Toi Foundation has provided grants across multiple sectors:**

Arts, hobbies, culture, sport & recreation	$38.1m
Education & research	$19.4m
Health	$7.9m
Social services	$15.9m
Environment	$11.4m
Housing	$7.1m
Law & advocacy	$2.4m

Every year, Toi Foundation receives more funding requests than it is able to support. We know the need across Taranaki is growing, and we're always looking for responsible ways to grow and sustain our support, so more people, projects and communities can benefit.

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ABOUT HEARTLAND

- Heartland Bank offers specialist products with over 150 years of banking and finance experience with regional roots dating back to Ashburton in 1875.
- In 2024, Heartland Bank became the first New Zealand registered bank to acquire an Australian bank (Challenger Bank).
- Today, Heartland Bank have eight key offices nationwide.
- Heartland Bank is owned by Heartland Group Holdings, which is listed on the NZX and ASX.
- Approximately 90% of Heartland Group Holdings' shareholders are in New Zealand, around 5% in Australia and around 5% are international institutional investors.
- Heartland Bank is the 9th largest New Zealand bank by total assets with core product portfolios including motor finance, reverse mortgages, rural and business finance.

MERGER PROPOSAL SUMMARY

- The proposal is for TSB to merge with Heartland to form a larger bank with scale – TSB Heartland Bank.
- To enable this, Toi Foundation would sell its 100% shareholding in TSB to Heartland Group Holdings.
- The two banks are complementary, meaning existing operations, products and services in Taranaki would be retained.
- The sale consideration of $620 million would be comprised of debt, equity and cash.
- The equity component would make Toi Foundation the largest shareholder in Heartland Group Holdings, with a 17.5% shareholding in a significantly larger ~$1.4 billion business.

PROCESS TO DATE

- In 2024 Toi Foundation received an unsolicited inquiry about its willingness to sell TSB.
- Toi Foundation tested the market: several parties held discussions, some did not proceed, and multiple proposals were ultimately received. These remain confidential.
- Heartland's proposal was best for TSB, strongly supported TSB's continued presence in the region, and best met Toi Foundation's purpose to make a positive impact on the community.
- No other proposal advocated a merger with TSB.
- This is the proposal that we have been consulting on, and we have now embarked on a second consultation round. No decision has been made.

Consultation now open

Submit written feedback (in English or Te Reo Māori):

Online: www.toifoundation.org.nz/your-feedback/

Email: info@toifoundation.org.nz

Post/drop-in: 121 Gill Street, New Plymouth

Phone: 0800 769 9471

ALL SUBMISSIONS WILL BE CONSIDERED

There is no word count limit. Submissions can be in English, Te Reo Māori, or both.

Trustees will review all submissions before making a final decision. A summary of feedback will be published when the final decision is announced.

The final closing date for written submissions from any person residing in the Specified Area of the Trust is: Midnight on Wednesday, 12 August 2026.

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IMPORTANT INFORMATION

Common questions

Why are Toi Foundation reconsulting?
There was an error in the days consultation was open. To remain fair, transparent and complient, we opened up a second consultation round. All submitted feedback counts.

Can't we just leave TSB as it is?
Over time it would put TSB further behind other banks. TSB needs funds to grow for technology and business upgrades, and to comply with the Reserve Bank's capital retention rules. Some of these rules are changing, however, TSB still needs a lot of money to be compliant and fund its improvements.

Why are you selling Taranaki's "family silver"?
Toi Foundation understands and supports the strong regional pride in TSB. We owe the leaders in the 1980s who made the decision to keep TSB independent a lot of gratitude. They made a brave decision that went against conventional wisdom. We also have to acknowledge that times have changed significantly, and TSB operates in a very different environment – it needs support to get access to capital. Toi Foundation is committed to prioritising things that matter for Taranaki as part of this proposal – including jobs, bank operations, branches and customer service.

Do Toi Foundation Trustees benefit financially?
No Trustee receives any financial gain as a result of this proposal.

Is this just about Toi Foundation wanting money?
This is about long-term viability for TSB and growing Toi Foundation's investments for future generations of Taranaki residents. This will also enable the Foundation to grant more into Taranaki.

Is Heartland an Australian bank?
Heartland was founded in Ashburton and is 90% owned by New Zealand shareholders. Around 5% is owned by Australian shareholders, and around 5% by international institutional investors. Heartland acquired an Australian bank – the only New Zealand bank to have done this.

What does Heartland do?
Heartland and TSB are different but complementary. TSB is a full-service retail bank, Heartland is a leading provider of reverse equity mortgages, asset finance and vehicle finance. Because of the complementary nature of these, there is less duplication in roles.

Why aren't we buying out Heartland?
Toi Foundation does not have the free cash to acquire Heartland.

Is TSB being sold too cheaply?
TSB was valued independently as part of this process. The $620 million is in the range of this valuation. This isn't about selling to the highest bidder – it needed to be a fair deal where community and strategic fit mattered.

Will TSB slowly disappear?
Heartland understands the importance of Taranaki and is committed to regional New Zealand. The merged bank would be called TSB Heartland Bank. Taranaki remains a key operational hub and jobs are retained. No branch closures are planned.

Why is Toi Foundation loaning money to Heartland Group Holdings?
Part of the $620 million consideration is a vendor loan from Toi Foundation to Heartland. It must be repaid within two years and will earn a market interest rate for Toi Foundation.

Does a 17.5% shareholding in Heartland Group Holdings give you enough say?
Toi Foundation would be the largest shareholder in Heartland Group Holdings and have representation on the board of TSB Heartland Bank and Heartland Group Holdings.

Have you already decided?
No final decision has been made. Community feedback is important and all formal submissions will be considered by Trustees before they decide.

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FOUNDATION

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IMPORTANT INFORMATION

Next steps

Taranaki community consultation opens	Taranaki community consultation period	Toi Foundation consideration and final decision

Toi Foundation will undertake a consultation programme with Taranaki residents to seek their feedback on the proposal. Toi Foundation Trustees will consider the feedback received then meet to make a final decision.

If Toi Foundation Trustees decide to proceed...

Heartland Group to seek shareholder approval

Regulatory approvals
Approvals will be sought from regulators, including the Reserve Bank of New Zealand (RBNZ) and (if required) the Financial Markets Authority (FMA) by TSB and Heartland Bank.

Implementation
Completion by Toi Foundation and Heartland Group of certain other conditions precedent, including finalising their respective due diligence investigations, finalising the implementation plan for the merger and putting in place arrangements for the representations and warranties to be provided respectively by Heartland Group and Toi Foundation for the sale and merger.

MORE INFORMATION
www.toifoundation.org.nz/your-feedback/