TOI FOUNDATION

A THRIVING, INCLUSIVE & EQUITABLE TARANAKI

Information on TSB share sale proposal

A letter from our Chair

Tēnā koutou katoa.

Taranaki maunga, Taranaki tāngata ē tū kau i te uru,
Ākina a-hau, ākina a-tai kia manawanui
He toi whenua, he toi tāngata, ko te whakakorikori ē
Te kaupapa o te waka nei, ko te oranganui ē
Tuia mai ko te tāngata, ki ngā kaupapa nui ē,
ko te oranga mō te hapori, ki te ata tauira
He toi whenua, he toi tāngata ko te whakakorikori ē
He toi whenua, he toi tāngata ko te whakakorikori ē

Toi Foundation's purpose is to support our communities to build a thriving, inclusive and equitable Taranaki. We achieve this in traditional philanthropic ways, while also looking to the future with a focus on strategic and innovative granting and impact investing. We do this to achieve enduring, intergenerational, and transformational benefits for our communities.

For almost 40 years, TSB has played an important role in the success of Toi Foundation's investment strategy. Through dividends, long-term capital growth, and enabling the acquisition of Fisher Funds, our ownership of TSB has helped build a substantive investment base that has benefited our communities. When compared with other Trusts and Foundations in New Zealand, Toi Foundation distributes the most per head of population through its grant-making.

Reflecting on this legacy, the Toi Foundation Trustees remain proud of TSB – of its people, its purpose, and its enduring connection to the Taranaki region. TSB is a well-capitalised and profitable bank that serves its customers and community with care and integrity. The Trustees of Toi Foundation have a responsibility to balance the interests of people who live in Taranaki today with those of future generations. That responsibility requires us to regularly assess whether our current investment settings remain the best way to achieve our objectives.

Over the lifetime of our investment in TSB, the environment in which banks operate has changed significantly. Regulatory complexity, rising compliance and technology costs, and capital requirements now place a significant burden on smaller, regional banks.

While TSB's long-term performance has been very good, more recent returns have been materially lower, and the level of investment in the bank required to meaningfully lift returns is substantial.

The Trustees are also mindful that Toi Foundation has concentration risk with large ownership stakes in TSB and Fisher Funds, and that diversification of investments is important to reduce potential volatility in returns and preserve capital long term.

As part of the process to date, Toi Foundation's Trustees have undertaken a careful and comprehensive review of Toi Foundation's investment in TSB. This included testing the market for potential partners or purchasers, assessing the status quo outlook, and considering how best to balance the needs of current and future beneficiaries, the need for diversifying our investment portfolio, optimising regional outcomes, and the future of TSB itself.

This information guide explains the context for that review, the challenges facing the status quo, the objectives guiding our decision-making, and the process that has led to the proposed sale of Toi Foundation's shares in TSB to Heartland Group Holdings Limited (Heartland Group), and TSB's merger with Heartland Bank Limited (Heartland Bank) to create TSB Heartland Bank. It also outlines the strategic rationale for the proposed sale of TSB shares and becoming a shareholder in Heartland Group, and the steps that would occur should the transaction proceed.

Importantly, this is not a process that has been driven by short-term considerations. It reflects a thoughtful assessment of how to:

- Take steps towards diversifying Toi Foundation's investment risk for the next 40 years.
- Increase sustainable, long-term cash returns available for community distribution (through grant-making, investment and partnerships).
- Ensure TSB has a platform to continue operating successfully in a challenging banking environment.
- Enable TSB to maintain a strong connection to Taranaki.

Trustees have also considered a range of possible impacts from this proposal on the Taranaki community, and how to mitigate those to the best of our ability.

Community consultation with Taranaki residents* is a vital part of this process. We recognise the importance of TSB to its customers, staff, and the wider region, and we are committed to listening carefully to feedback before any final decision is made. I encourage you to read this booklet in full, consider the information it presents, and provide your written feedback. The Trustees believe this booklet provides a clear and balanced explanation of why this proposal has been brought forward for discussion and how it aligns with Toi Foundation's purpose and responsibilities.

Your feedback is an important part of the Trustees' decision-making process. There is no word count limit for submissions, and they can be provided in English, or Te Reo Māori, or both. Details on providing feedback can be found on Page 8 of this booklet and on our website: www.toifoundation.org.nz/your-feedback

Thank you for taking the time to engage in this important conversation.

Ngā mihi nui,

CHRIS USSHER
Heamana – Chair, Toi Foundation

* Residents are defined as any people residing in the Taranaki region (the Specified Area of the Trust).

Contents

Toi Foundation's role and purpose

Established as a Charitable Trust in 1988, Toi Foundation has played a critical role in the ongoing growth and development of Taranaki.

When Toi Foundation was formed (then as TSB Community Trust), its income was derived solely from TSB. Over time, Toi Foundation also purchased shares in Fisher Funds Management Ltd (Fisher Funds), and it now has a controlling share in Fisher Funds.

As Toi Foundation's income has grown, so has its philosophy and focus.

TOI FOUNDATION'S PURPOSE

Kia toka ia nei te ara whakakaha i te hapori, kia toitū te whenua, kia toitū te tāngata, kia toitū te maunga.

To support our communities to build a thriving, inclusive and equitable Taranaki.

Toi Foundation's purpose for Taranaki and continued commitment to building a thriving, inclusive and equitable community is underpinned by strong values and an impactful strategic framework comprised of three pou (pillars):

1. **Funding**
   Toi Foundation's funding is designed to be flexible and responsive, meeting both immediate needs and long-term opportunities. Through strategic investment and collaboration, Toi Foundation helps Taranaki communities bring ideas to life and enable change that matters.
2. **Effective Organisation**
   With effective governance, management and staff, and appropriate plans, policies and procedures, Toi Foundation's people, systems, technology and resources are fit for purpose and operate effectively to meet its strategies.
3. **Asset Management**
   Toi Foundation's aim is to preserve capital and maximise the funding available for grant making and investing in Taranaki communities, with flexibility to respond to opportunities as they arise. It does this through oversight and direction of asset management and growth.

Since its establishment, Toi Foundation has contributed approximately $300 million to Taranaki people and projects. This has included charitable, cultural, philanthropic, recreational, and other purposes – all of which are designed to benefit the environment and local organisations and people.

TOI FOUNDATION TRUST DEED

Toi Foundation operates under a Trust Deed, which sets out the legal obligations the Toi Foundation Trustees must uphold.

The Trust Deed stipulates that Toi Foundation must give notice to the community before voting on a resolution to sell a controlling stake in TSB, and consider any submissions received in response to that notice.

The Trustees look forward to hearing the views of Taranaki residents* on this proposal.

TOI FOUNDATION'S INVESTMENT SETTINGS

Toi Foundation currently owns 100% of TSB and 66% of Fisher Funds. This creates concentration risk, with 100% of Toi Foundation's investment portfolio allocated to financial services companies.

Although the current portfolio has enabled Toi to grow its asset base faster than would have been possible via a typical diversified portfolio, it creates a risk profile that the Trustees of Toi Foundation believe is important to address, in order to support our long-term goal of increasing the amount we can give back to the community.

Diversification has been difficult to achieve to date because:

1. Our investments are less liquid which makes them more challenging to easily convert to cash for reinvestment
2. The markets our assets operate in are thin, meaning there are fewer available buyers for assets.
3. With regard to TSB, increasing regulatory capital requirements increases the capital that needs to be retained in TSB, which reduces the cash flow available for dividends or reinvestment / reallocation. For every $100 of net profit before tax, Toi Foundation is only able to distribute around $14 after tax and other requirements. This makes it difficult to diversify the portfolio while also meeting our ability to grow the amount we give back to the community.
4. Toi Foundation has limited free capital available to pursue diversification through the acquisition and growth of new investments.

Although Toi Foundation's assets have been high performing, there is a need to address the current concentration risk and take steps towards diversifying our investment portfolio.

* Residents are defined as any people residing in the Taranaki region (the Specified Area of the Trust).

Objectives for testing the market

Prior to testing the market, the Trustees agreed that, if a decision were made to consider a proposal to sell Toi Foundation's shares in TSB in more detail, that it would need to be the best possible proposal for Toi Foundation (on behalf of the Taranaki community) and for TSB.

Trustees agreed that a successful proposal would need to help Toi Foundation diversify its risk by moving away from a concentrated investment portfolio to one that would have greater diversification over time, including a more balanced mix of equity and debt instruments, and would help Toi Foundation optimise price, returns and community benefit.

PROCESS OVERVIEW

To oversee the process, Toi Foundation sought extensive professional advice, including independent investment and legal advice, independent valuations and economic and financial advice.

This advice helped Trustees evaluate the options against Toi Foundation's strategic philanthropic and investment objectives, their obligations under the trust deed, and the strategic goals of TSB.

The process has involved:

- Market testing
- Assessing offers against each other and the status quo
- Independent valuations
- Progressing with detailed financial, tax, legal, technology, and commercial due diligence assessments of the preferred proposal
- Negotiation of a conditional Merger Implementation Agreement for the preferred proposal.

Although the market is not extensive, indicative and confidential offers were received from more than one party.

Of those offers, Heartland Group's proposal was the most compelling.

We are now progressing with community consultation to hear feedback from Taranaki residents before we decide whether to proceed with the proposal.

PROPOSAL OVERVIEW

Toi Foundation is seeking Taranaki community feedback on a proposal to sell 100% of the ordinary shares in TSB to Heartland Group, the parent company of Heartland Bank, and receive an aggregate consideration of $620 million. This would be comprised of debt, equity and cash.

If the proposal proceeds, Toi Foundation would hold a 17.5% shareholding in Heartland Group. TSB and Heartland Bank would merge, with the merged bank renamed TSB Heartland Bank.

TSB and Heartland Bank have complementary strengths:

- TSB brings strong funding capabilities through its retail banking activities.
- Heartland Bank specialises in higher-margin lending products, such as reverse mortgages, in segments that do not directly compete with most other banks.

For banks, having scale has become increasingly critical to financial sustainability. Rising compliance costs, regulatory complexity, and technology investment all disproportionately affect smaller banks.

TSB Heartland Bank will be a challenger bank with increased scale and intends to retain a strong association with the Taranaki region with full-service capability. It would also be focused on delivering superior shareholder returns through its specialist, high-value products as part of a larger retail bank.

Importantly for TSB customers, there would be no change to the range of TSB's current products or services.

FINANCIAL CONSIDERATIONS

If the current proposal goes ahead, the aggregate consideration of $620 million would be comprised of:

- $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 an approximate 17.5% stake in Heartland Group
- $50 million pre-completion cash dividend from TSB (which is facilitated by the sale and merger).

This payment structure means Toi Foundation would have:

1. A range of banking investments that provide a much greater degree of flexibility, liquidity and the potential to provide higher returns than is currently possible through its 100% ownership of TSB.
2. The ability over time, as loans (including Tier 2 capital) mature, to further diversify Toi Foundation's investment portfolio.

The table below provides an indicative guide to the expected returns that would be received from the merged bank, versus the status quo of a 100% shareholding in TSB.

HGH Merger					TSB Status Quo
Consideration	Consideration Value	Cash Income Type	Yield*	Annual Yield $mill.	Annual Yield $mill.*
Cash	50	Interest	3.9%	2	-
Tier 2	56	Interest	6.1%	3	-
Vendor Loan	264	Interest	6.9%	18	-
Yield Instruments	**370**	**Interest**		**24**	-
Shares	250	Dividends	5.2-6.3 CPS	10-13	11
Total	**620**	**Total**		**34-37**	**11**

* Notes:

HGH MERGER

- Interest rate yield is based on interest rates as at 21 April 2026.
- Cash yield is based on TSB's current 1 year term deposit rate.
- Vendor Loan assumes Toi enter a swap to switch floating base rate explsure to fixed. Yield presented is therefore indicative. The loan has a 2 year term and is repayable at any time.
- The dividend range is based on Heartland's target payout ratio of 50% of proforma LTM NPAT pre & post synergies.

TSB SATUS QUO

- Average dividend over last 10 years (FY16 to FY25).

Process and rationale

FUTURE GIVING CONSIDERATIONS

If the merger is to proceed, Toi Foundation forecasts that its average annual total return to the community could increase to between $50 – 60 million per year over time, a significant increase from the current level of approximately $30 million per year.

This would be achieved through the expected higher returns from the merged bank and the ability to continue to diversify Toi Foundation's investment portfolio.

REGIONAL CONSIDERATIONS

Toi Foundation and Heartland Group have undertaken some preliminary planning for the potential merger, should it proceed.

Toi Foundation believes the proposed TSB Heartland Bank branding recognises the strong heritage and legacy of the TSB brand and would help ensure its continued presence in Taranaki.

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 existing nationwide presence).

These intentions reflect the important role these operations play today, while recognising the financial services sector is evolving rapidly.

If the merger proceeds, an establishment panel will oversee the implementation of the merger, before governance transitions to an independent bank board.

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

CONDITIONAL ELEMENTS

The proposed transaction is subject to several conditions' precedent, the most significant of which are:

- Toi Foundation Trustees consulting with the Taranaki community, in line with Toi Foundation's Trust Deed, considering residents' submissions, and then deciding to proceed or not
- Heartland Group shareholder approval
- Regulatory approval from regulators, including the Reserve Bank of New Zealand and (if required) the Financial Markets Authority

Consultation overview

Community consultation in Taranaki is a vital part of this process. Toi Foundation recognises the importance of TSB to its customers, staff, and the Taranaki region, and is committed to listening carefully to feedback before any final decision is made.

All Taranaki residents are invited to provide feedback on this proposal. Indicated in this map (right).

Toi Foundation respects the views of its community and is particularly keen to understand any perspectives it may not have considered.

Consultation now open

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.

All feedback will be considered before Toi Foundation Trustees make a final decision about whether to proceed with the proposal.

You can provide your feedback by making a written submission.

How to provide feedback

A Feedback Form is available to download from Toi Foundation's website, or from reception. You can also complete your feedback form online. Simply scan this QR Code for details.

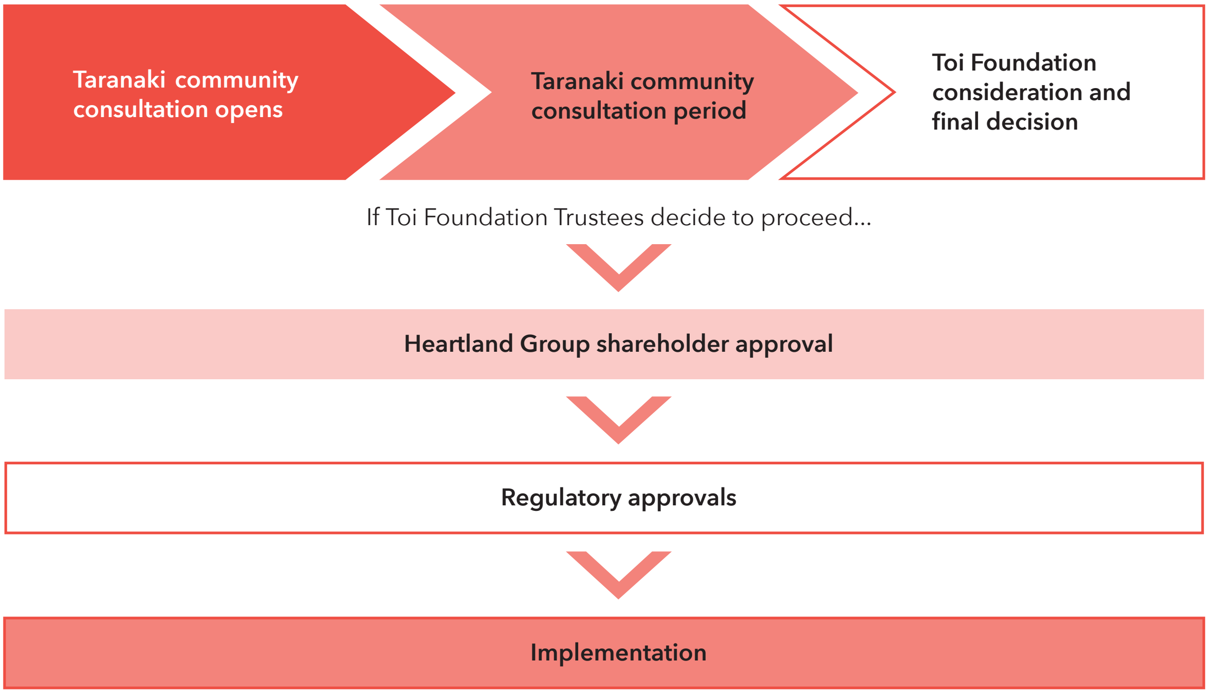
There is no word count limit on feedback. They can be provided in either English, or Te Reo Māori, or both.

- Email completed form to:
  info@toifoundation.org.nz
  with the subject line:
  Community Consultation
- Post completed form to:
  Toi Foundation
  PO Box 667,
  New Plymouth 4340
- Hand completed form to Toi Foundation reception counter at:
  Toi Foundation,
  121 Gill Street, New Plymouth

YOUR FEEDBACK

Thank you for taking the time to share your views and be part of this important conversation.

Next steps



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

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