Heartland Group Holdings Ltd

Independent Expert's Report

August 2026

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1. Introduction

1.1 The Proposed Transaction

Heartland Group Holdings Limited (**HGH or Heartland**), the parent company of Heartland Bank Ltd (**HBL or Heartland Bank**), is considering the acquisition of TSB Bank Ltd (**TSB**) from Toi Foundation (**Toi**). Immediately following the acquisition, HBL and TSB would undertake a legal amalgamation to form a single New Zealand bank of significantly enhanced scale and diversification (the **Merged Bank**). Together, this two-step process is referred to as the **Proposed Transaction**.

The Merged Bank would be wholly owned by HGH.

The proposed consideration to Toi for the acquisition of TSB is $620 million.

If the Proposed Transaction proceeds, the consideration to Toi would be a combination of cash, debt instruments and shares in HGH, as follows:

Instrument	$ million	Description
Pre-completion cash dividend	50.0	Dividend paid by TSB to Toi immediately prior to completion of the Proposed Transaction.
Equity	250.0	200 million HGH shares issued to Toi at a fixed price of $1.25, resulting in Toi owning 17.5% of HGH.
Vendor financing	264.0	Vendor finance loan facility provided by Toi. 2-year term, margin over NZ 1-month BKBM. Repayable at any point within loan term with no break fee.
Tier 2 capital	56.0	Capital issued by HBL to Toi. 10-year term, callable after 5 years with an initial fixed margin over the NZ 5-year swap, and a floating margin thereafter.
Total	620.0	

Following the Proposed Transaction, Toi would become a 17.5% shareholder in HGH.

1.2 Transaction rationale

The rationale for the Proposed Transaction is both strategic and financial. The transaction would result in the creation of a New Zealand bank with significantly enhanced scale and diversification. Scale is fundamental to the banking model, as it enables the generation of returns in excess of operating and funding costs, supporting shareholder value creation.

HGH and TSB offer distinct yet complementary product suites and differ in their regional concentrations of depositors. Combining these capabilities would broaden the product offering and diversify the loan portfolio, mitigating concentration and systemic risks.

A larger and more diversified Merged Bank is expected to benefit from a lower cost of funding as the funding mix will be widened to include more non-interest-bearing deposits via transaction accounts. It may also achieve an improvement in HBL's (and the HGH Group's) credit rating, which would further reduce funding costs. Collectively, these factors are anticipated to enhance shareholder returns.

1.3 Heartland shareholder approval

The Proposed Transaction requires the approval of HGH shareholders.

Relevant to this Report, there are two resolutions (the Resolutions) to be voted on:

Resolution 1: Merger of Heartland Bank and TSB

That the acquisition by Heartland of all of the shares in TSB and the subsequent amalgamation of Heartland Bank and TSB (with Heartland Bank being the amalgamated company) under the merger implementation agreement dated 1 June 2026 between Heartland, Toi Foundation and Toi Foundation Holdings Limited be approved, confirmed and ratified for all purposes, including section 129 of the Companies Act 1993 and NZX Listing Rule 5.1.1.

Resolution 2: Consideration shares

That the issue of 200,000,000 fully paid ordinary shares in Heartland to Toi Foundation at an issue price of NZ$1.25 per share on completion of, and as partial consideration for, the acquisition by Heartland of all of the shares in TSB be approved, confirmed and ratified for all purposes, including NZX Listing Rule 4.1.1.

Under the Agreement, completion is conditional on shareholder approval for both above resolutions. If one were voted down, the transaction would not proceed.

The Shareholder Meeting to consider the Proposed Transaction is proposed to be held on 30 September 2026.

The Board of HGH fully supports the Proposed Transaction and unanimously recommends that HGH shareholders vote in favour of the Resolutions.

Each Director of the Board of HGH has indicated that he or she will be voting the HGH shares that they control in favour of the Resolutions.

1.4 Scope of this Report

There is no specific requirement for an independent report on the Proposed Transaction under the Takeovers Code or the NZX Listing Rules. However, the NZX Listing Rules require that a notice of meeting include, or be accompanied by, sufficient information to enable a reasonable shareholder to understand the effect of each proposed resolution.

HGH has obtained this independent expert's report (**Report**) to assist shareholders in voting on the Proposed Transaction.

1.5 Key issues to be considered by shareholders

Key issues for shareholders to consider:

- We consider the proposed consideration for TSB is reasonable, considering TSB's scale and return on equity relative to listed peers.
- HGH would acquire TSB at a discount to book value. The discount reflects the lack of economies of scale characteristic of a small bank, rather than a concern with the quality of the underlying assets that would require an impairment.
- The Proposed Transaction creates a bank of substantially greater scale, with a larger capital base and a more diversified loan book.
- The Proposed Transaction is expected to yield significant cost synergies in the Merged Bank; however, synergies do carry risk in terms of timing, cost to extract and the final value that is realised on a continuing basis.
- The Proposed Transaction is expected to be meaningfully Earnings Per Share (**EPS**) and Dividend Per Share (**DPS**) accretive. Together with the expected higher Return on Equity (**ROE**) and growth opportunities from the enhanced ability to serve customers throughout their financial lifecycle across respective customer bases, this is supportive of a directional increase in the Price to Book Value (**P/BV**) multiple for HGH over time.
- HGH would acquire regulatory capital at a discount to its book value; it would effectively be acquiring capital more cheaply than it could generate organically or could raise externally.
- A larger, more diversified entity is likely to be less sensitive to systemic risks and provide greater financial stability to the HGH shareholders.
- The Proposed Transaction increases HGH's exposure to residential lending which is a competitive market with lower net interest margins than Heartland's other product lines. Residential lending would be the largest component of the loan portfolio in the merged group. Whilst Heartland has historically offered residential mortgages, it has not previously been able to achieve meaningful scale in this product line. The acquisition of TSB however provides immediate scale with $6.5 billion of residential mortgage loans as at 31 December 2025.
- As with all mergers, there are integration risks (especially technology transformation) associated with the merger of HBL and TSB.

> **In our opinion, the proposed consideration for TSB is reasonable. On balance we consider the positives of the Proposed Transaction outweigh the negatives for HGH shareholders.**

The above should be read in conjunction with the whole of this Report.

Voting on the Proposed Transaction is a matter for individual shareholders based on their own views as to the value and future market conditions, risk profile, liquidity preference, portfolio strategy, tax position and other factors. Shareholders will need to consider these consequences and, if appropriate, consult their own professional adviser.

1.6 Other

The key sources of information we have relied upon are set out in Appendix 1.

This Report should be read in conjunction with the statements and declarations set out in Appendix 2 regarding our independence, qualifications, general disclaimer and indemnity, as well as restrictions on the use of this Report.

Unless specified otherwise:

- References to '$' and 'NZD' are to New Zealand Dollars.
- References to 'A$' and 'AUD' are to Australian Dollars.

All amounts are in NZD unless stated otherwise.

When referring to TSB, references to financial years or 'FY' mean TSB's financial years ended 31 March. References to interim period, half years or 'HY' mean TSB's interim reporting periods ended 30 September. References to 31 December 2025 mean TSB's data drawn from the Reserve Bank of New Zealand (**RBNZ**).

When referring to HGH or the Merged Bank, references to financial years or 'FY' mean financial years ended 30 June. References to interim period, half year or 'HY' mean HGH's interim reporting periods ended 31 December.

Tables may not add due to rounding.

2. Merits of the Proposed Transaction

We have considered the merits of the Proposed Transaction in the manner typically undertaken by an independent adviser preparing a report under the Takeovers Code.

The Takeovers Code requires an independent adviser to form an opinion on the merits of a proposed transaction and, in doing so, to consider matters broader than valuation alone.

The term 'merits' has no definition in either the Takeovers Code or in any statute dealing with securities or commercial law in New Zealand. Although the Takeovers Code does not prescribe a meaning of the term 'merits', the Takeovers Panel has interpreted the word to include both positives and negatives in respect of a transaction. Although we are not preparing this Report under the provisions of the Takeovers Code, we have adopted this approach in preparing this Report.

2.1 The consideration payable to Toi

We have carried out analysis to assess whether the proposed consideration to Toi for TSB, at $620 million, is reasonable. As part of the consideration, Toi will receive a pre-completion cash dividend of $50 million, with the remaining $570 million payable by HGH.

To assess whether this consideration is reasonable, we calculate the valuation multiples and other financial metrics implied by the proposed price. We benchmark these metrics against equivalent metrics for other comparable institutions.

The proposed consideration to Toi of $620 million implies a P/BV in the region of 0.76x. This is based on TSB's book value of equity as reported to the RBNZ as at 31 December 2025.

The implied P/BV multiple is comparable to the multiples observed for listed companies we consider most comparable to TSB with reference to or taking into account the ROE generated.

We consider a P/BV multiple of less than 1.0x is appropriate in the circumstances and is not unusual for sub-scale banks. This reflects the overhead burden in the business model rather than the quality of the underlying assets. In this scenario, the discount to book value reflects the lack of economies of scale rather than an impairment of the assets.

Our analysis is provided in more detail in Section 6 of this Report.

2.2 The rationale and strategic benefits of the Proposed Transaction

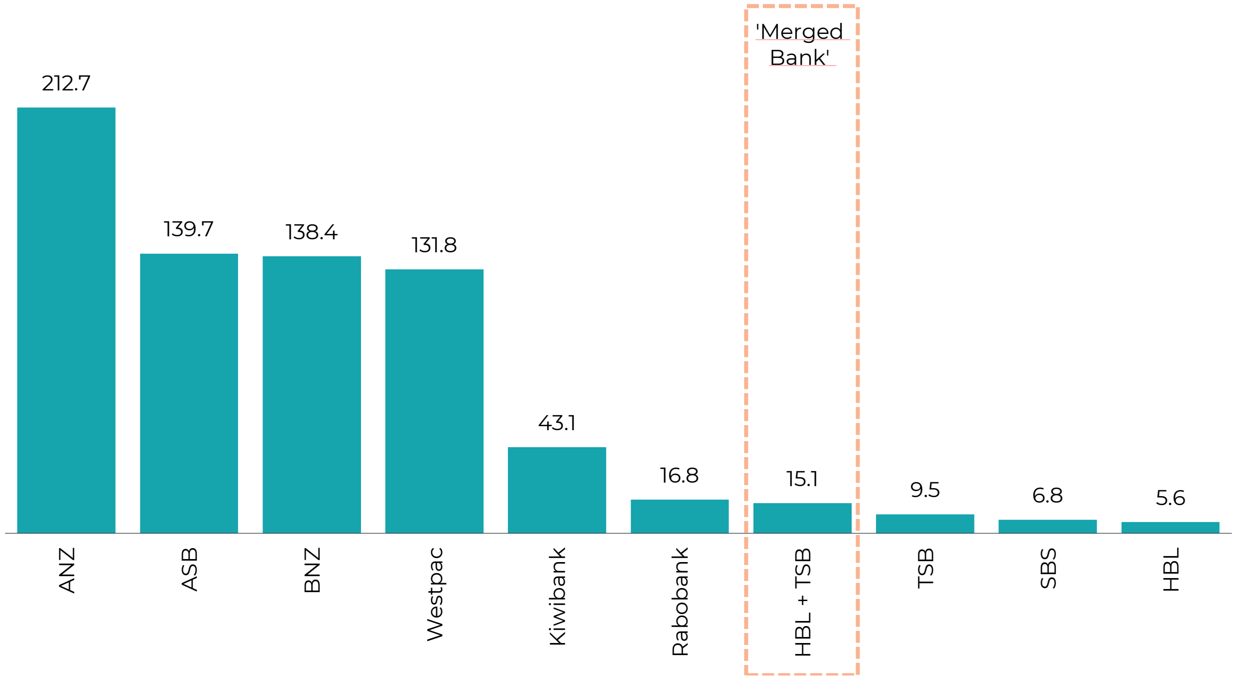
The Proposed Transaction is expected to deliver significant synergistic value. In this instance, synergistic value is broader than cost savings or growth opportunities from the enhanced ability to serve customers throughout their financial lifecycle across respective customer bases. It extends to extracting value from the benefits of economies of scale and diversification in a banking environment.

Scale benefits

Due to the inherent operating cost structure of banks, scale is critical to delivering operating leverage benefits. This is evident in larger banks typically reporting substantially lower Cost-To-Income (**CTI**) ratios.

The Proposed Transaction will create a merged bank of substantially greater scale. The total assets in New Zealand would almost triple, increasing from $5.6 billion for HBL on a stand-alone basis to $15.1 billion for the Merged Bank. The Merged Bank would be the seventh largest bank, by assets, in New Zealand. While the Merged Bank would be substantially larger than HBL, it would remain small relative to the major Australian owned banks.

Figure 1: Total assets as at 31 December 2025 ($ billions)

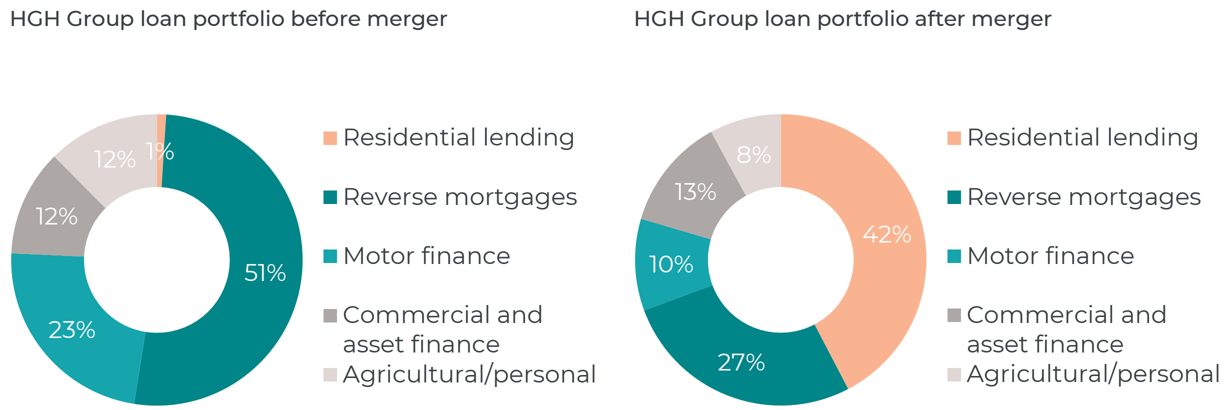


Source: Reserve Bank of New Zealand

Portfolio diversification

The Proposed Transaction will create a bank with a substantially more diversified loan book and an enhanced product offering for existing and prospective customers.

Figure 2: Portfolio diversification (shown for the HGH Group)



HGH has historically not succeeded in organically growing its residential mortgage loan portfolio in a meaningful way. Following the Proposed Transaction, HGH will have a more diverse loan portfolio with substantial exposure to residential mortgages.

HBL is currently the largest market participant in reverse mortgages in New Zealand, with a market share in excess of 90%. Following the merger, HGH's exposure to reverse mortgages is expected to decrease from about half the portfolio to around a quarter, reducing concentration risk associated with this product specifically, particularly in light of potential increased competition in New Zealand in the future (the Australian market is substantially more competitive which has resulted in lower margins compared to New Zealand).

Overall, HGH's loan portfolio will be more diversified and stable, while continuing to present attractive growth opportunities, supported by relatively low market shares in residential mortgages, motor finance and commercial lending.

The Merged Bank's (and HGH's) product offering will be more extensive, and this is expected to present opportunities to serve customers throughout their financial lifecycle. TSB customers can be offered motor vehicle loans, asset finance loans and reverse mortgages. Similarly, HBL customers can be offered residential mortgages and transaction accounts.

A larger, more diversified bank will be less susceptible to systemic risks and should provide greater financial stability.

The Proposed Transaction is expected to improve HBL's cost of funding.

HBL currently has a Fitch credit rating of BBB with a stable outlook, while TSB has a Fitch credit rating of BBB+ with a stable outlook. The merger of HBL and TSB will result in a significantly larger asset base, with scale improvement opportunities and a more diversified loan book. The strengthened asset quality and risk profile of the Merged Bank may result in an uplift in the assessed long-term credit rating, which could provide further opportunities to lower the cost of funding.

The funding mix of HBL will also be widened to include more non-interest-bearing deposits via transaction accounts.

Cost saving and revenue synergies

The Proposed Transaction is expected to deliver cost saving synergies. Ongoing cost synergies of approximately $34 million per annum have been assessed by an internal working group (supported by external advisers) to be progressively realised over a 3-year period post-completion. The largest component of the expected cost savings is through leadership and back-office staff cost savings.

Conservatively, cost savings from future technology synergies have not been factored into the analysis, as no final decision has been made on technology strategy as at the date of preparing this Report.

The transaction will also result in one-off transaction costs of $15 million. Estimated non-recurring integration costs of $34 million are expected to be incurred over a 3-year period post completion.

Revenue synergies are also expected to be material but have not been factored into this synergy analysis given inherent uncertainty and greater execution risk.

Access to regulatory capital at a discount

The discount to book value for the acquisition of TSB is due to a lack of economies of scale, rather than a discount due to hidden credit losses or asset impairments. As such, HGH will acquire regulatory capital at a discount – it would be acquiring capital more cheaply than it could generate capital organically or externally via an equity capital raise.

In a constrained regulatory environment, growing lending typically requires incremental capital. Acquiring capital at below book value lowers the cost of growth. It also provides a buffer to downside risk, as purchasing assets at a discount can provide a margin of safety.

Improved financial metrics

HGH shareholders will remain invested in a listed company, but one which will benefit from improved economies of scale and diversification benefits which will decrease risk and improve returns to shareholders.

Heartland would acquire TSB at a discount to its book value; however, the underlying assets are not impaired beyond the existing credit impairment provisions. Merging TSB with HBL to realise operating and funding efficiencies and removing duplicate overheads means that the acquired assets can quickly become value accretive.

The expected financial metrics, based on the pro-forma financial statements prepared for the Merged Bank, are included in Section 7 of this Report.

2.3 The potential impact of the Proposed Transaction on HGH's share price

Likely to have positive impact on HGH's share price

All else being equal, we consider the benefits of the Proposed Transaction are likely to be supportive of a higher share price. The financial metrics that underpin a bank valuation are expected to improve and we consider a higher P/BV multiple will likely result.

The new shares in HGH will be issued at $1.25 per share, which is a 14.6% premium to the 10-day volume weighted average share price on the NZX (being $1.09) immediately prior to the announcement of the Proposed Transaction. This is not expected to be value dilutive to existing shareholders.

May increase share liquidity

The Proposed Transaction is unlikely to reduce share liquidity and may increase share liquidity due to being a larger company with 21% more shares on issue. There is no lock up agreement for the HGH shares that will be issued to Toi, however Toi has indicated it plans to be a long-term supportive holder of HGH shares.

Toi would have influence but could not block resolutions on its own

The Proposed Transaction would result in Toi owning a large interest in HGH. In addition, HGH shareholders will be asked to approve the appointment of one Toi representative to the Heartland Board.

However, Toi would not be able to block ordinary or special resolutions. It is a proportional interest that another party could acquire on-market or off-market, without making a formal Takeover Offer or seeking HGH shareholder consent (given it does not pass the 20% threshold).

The next largest shareholder, after the Proposed Transaction, will be Tomlinson Group HGH Limited with a 7.3% shareholding.

2.4 The likely consequences of the Proposed Transaction being rejected

The alternative to the Proposed Transaction is that the status quo persists and HGH continues in its current form.

While HGH shareholders will remain invested in a listed bank, HGH will remain significantly concentrated to the reverse mortgage market segment. Competition within this segment is expected to increase as the product suite and market participants mature in the New Zealand and Australian markets, likely resulting in declines to net interest margins.

In the Australian market, new fintech and non-deposit-taking competitors have captured significant market share in the reverse mortgage segment. As a result, Heartland Bank Australia Limited's (**HBAL**) share of new originations has declined from around 90% five years ago to around 40% currently. The increased competition has been driven by the attractive Net Interest Margin (**NIM**) associated with reverse mortgages, relative to actual impairment levels.

Heartland Bank has a greater than 90% market share in the New Zealand reverse mortgage market. High NIM combined with low impairments will attract new entrants, and potentially the large banks to re-enter this market if it is viewed as a growth market with attractive returns and limited reputational risk.

2.5 Risks and other considerations

The Proposed Transaction increases HGH's exposure to residential lending which is a highly competitive market with lower net interest margins than HGH's existing product lines. Residential lending would be the largest component (close to 45%) of the loan portfolio in the merged HGH group (including the Australian operations).

TSB is highly reliant on third party mortgage originators (compared to other banks) to generate business. Accordingly, TSB has less direct control over its mortgage product distribution.

The Proposed Transaction would result in a high deposit exposure to the Taranaki region (around 26%). Many of these depositors have been long standing customers of TSB.

The merger has integration risks, such as:

- timing and amount of integration costs
- timing and amount of expected cost synergies
- challenges with moving to consistent technology platforms, and
- cultural integration and retention of key staff and customer relationships.

While the Merged Bank will be a larger entity, with the potential for improved shareholder returns, it will still remain a relatively small bank in comparison to Kiwibank and the four large Australian-owned banks.

2.6 Conditions of the Proposed Transaction

The Proposed Transaction is subject to conditions that are outside the control of HGH shareholders (such as RBNZ approval, any necessary Australian regulatory approvals, confirmatory due diligence and HGH and Toi entering into a separate warranty and indemnity deed (together with an associated warranty insurance policy)). There is no certainty that the Proposed Transaction will proceed, even if supported by HGH shareholders, until such time as those conditions have been satisfied.

HGH's one substantial shareholder, Tomlinson Group HGH Limited, currently owns approximately 8.8% of the HGH shares on issue and has committed to vote in favour of the Proposed Transaction.

If the Proposed Transaction is rejected by HGH shareholders, or the other conditions are not satisfied, the parties to the Proposed Transaction could elect to renegotiate the transaction terms. In that circumstance a new set of resolutions could be put to HGH shareholders.

A consequence of the issuance of a significant number of new shares in HGH is that the proportional ownership of existing HGH shareholders in the merged group will reduce by around 17.5%. For example, a shareholder owning say 5.0% of the issued shares will own approximately 4.1% of the issued shares in the larger Merged Group. While this dilution to a shareholder's proportional ownership interest is not expected to be value dilutive to the shareholder, it will reduce a shareholder's ability to affect shareholder resolutions. The relevance of this dilution may be minimal to many shareholders, in circumstances where HGH shares are widely held and the new shares will be held by a party without overall control of the company.

3. New Zealand banking industry

New Zealand's retail banking sector is highly concentrated and largely driven by mortgage lending, with total registered bank assets of around $770 billion as at January 2026. Banks supply roughly 94% of all credit to households and businesses, making the performance of the banking sector closely linked to overall economic conditions.

Despite economic pressures in recent years, the sector has remained resilient. The 2024 KPMG Financial Institutions Performance Survey (**FIPS**) reports modest growth in banks' loan portfolios and net interest income, with stable net interest margins at about 2.34%. However, banks are experiencing higher operating expenses, driven by increased personnel costs, ongoing investment in technology, and broader inflationary pressures.

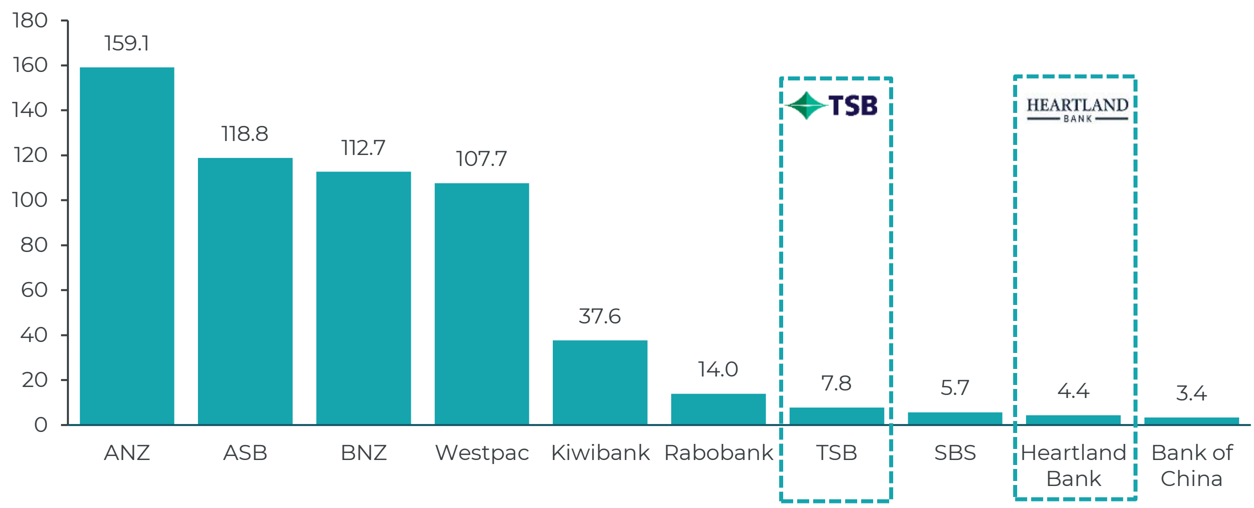
3.1 Market structure and market participants

New Zealand has 27 registered banks. However, the four large Australian-owned banks dominate the sector, accounting for roughly 84% of all bank lending and holding a similar proportion of total banking assets. New Zealand-owned banks make up about 10% of lending, with the remainder provided by other registered banks, including branches of overseas institutions.

The Commerce Commission's August 2024 market study found that the four major banks (ASB, ANZ, BNZ, and Westpac) face limited competitive pressure from smaller banks. This is primarily due to the smaller banks' lack of scale, higher funding costs, and lower brand recognition.

Figure 3 shows the principal market participants. The significant disparity in scale between the major Australian owned banks and the domestically owned institutions is a defining feature of the sector's competitive dynamics.

Figure 3: Market participants and loan book size[1] at December 2025 ($ billion)



Source: Reserve Bank of New Zealand, 'Financial Strength Dashboard'

The four Australian-owned banks are so dominant that the combined profit of New Zealand's next four largest banks amounts to less than 30% of the profits earned by the smallest of the major four.

These Australian-owned banks compete across all major product categories (with the exception of reverse mortgages and motor and asset finance), operate nationally, and serve all customer segments. Their scale underpins a strong competitive advantage, supported by nationwide branch networks, substantial investment in technology, strong brand recognition, access to lower-cost wholesale and offshore funding, and the implicit backing of their highly rated Australian parent banks.

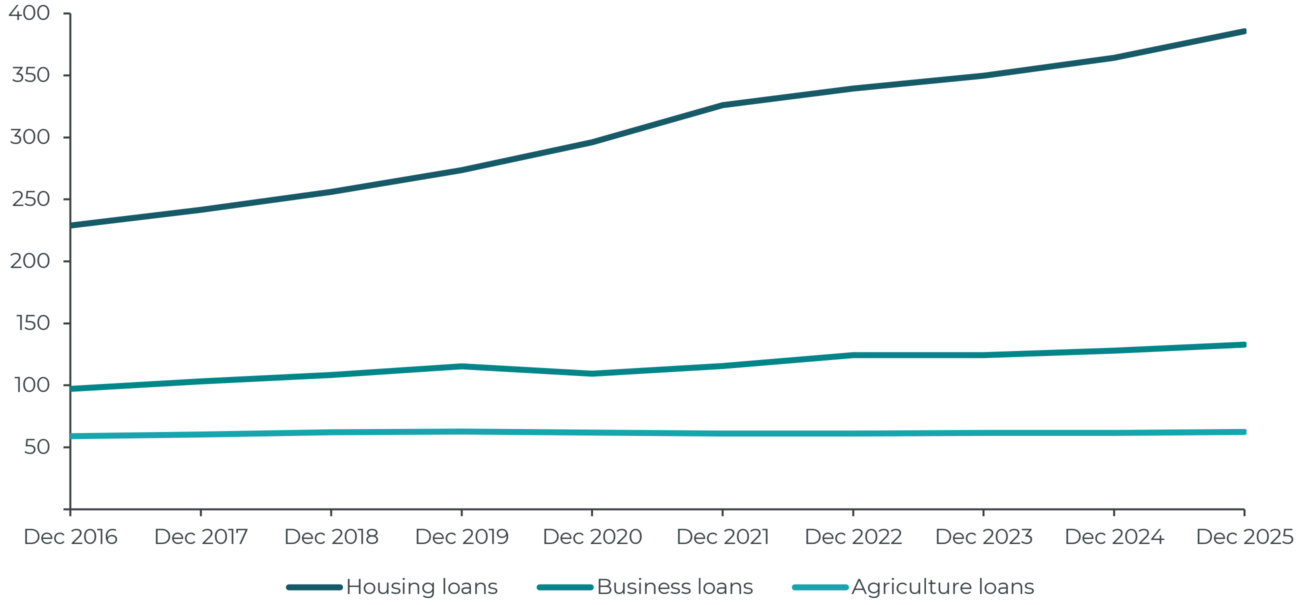
[1] Net loans and advances as per the RBNZ bank dashboard

Among the domestic institutions, Kiwibank is the only New Zealand-owned bank with a national footprint and a product suite that is broadly comparable to the major Australian-owned banks. However, it remains significantly smaller in terms of total assets and does not provide institutional banking services. TSB and Southland Building Society maintain strong regional bases in Taranaki and Southland respectively, though both have expanded their reach in recent years through broker partnerships and digital channels.

3.2 Products and lending composition

Residential mortgage lending is central to the New Zealand banking industry and is a key driver of bank performance.

Figure 4: Historical gross outstanding New Zealand loan balance by purpose ($ billion)



Source: Reserve Bank of New Zealand published data, 'Banks: Assets – Loans by purpose (S31)'

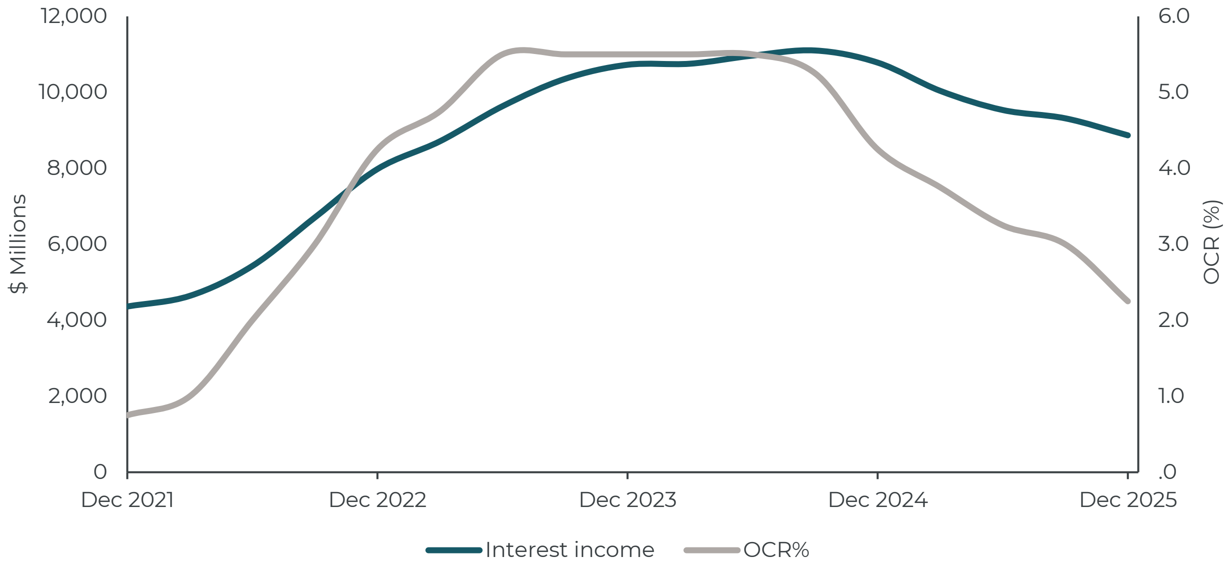
A defining feature of the New Zealand banking sector is its heavy concentration in residential mortgage lending, which has increased over the past decade. As a result, banks' earnings and asset quality are closely linked to the residential property market, including house-price movements, interest-rate settings, and the financial wellbeing of households. This significant exposure to housing also means that macro-prudential tools – such as loan-to-value ratio (**LVR**) requirements and the debt-to-income (**DTI**) restrictions introduced in 2024 – directly influence lending volumes and, in turn, revenue growth.

The major banks operate across all lending segments and provide a full range of banking services, including personal banking, business and institutional banking, wealth management, and insurance distribution. In contrast, smaller banks tend to focus on retail banking – primarily deposits and mortgages – and in some cases specialise in particular niches. For example, Rabobank focuses on rural and agricultural lending; Heartland specialises in reverse mortgages, motor-vehicle finance, asset finance and rural and livestock lending; and SBS and TSB maintain strong regional banking models.

Most bank funding comes from short-term deposits, with around 83% of total bank funding maturing within one year. Although bank assets are generally longer-term, New Zealand bank lending is mostly at variable or short-term fixed interest rates (about 10% is on floating rates and roughly two-thirds is fixed but due to reprice within a year). This structure reduces banks' exposure to interest rate risk but makes borrowers more sensitive to movements in the Official Cash Rate (**OCR**), meaning changes in monetary policy flow through to household cash-flows relatively quickly.

Until late 2022, growth in outstanding loans was largely driven by rising property prices. Although demand for new mortgages has since slowed as interest rates have increased, the higher rates have enabled banks to earn greater overall mortgage revenue, even with lower lending volumes.

Figure 5: OCR and banks interest income



Source: Reserve Bank of New Zealand

3.3 Competitive dynamics

The Commerce Commission's study found that New Zealand's banking sector has limited competition, largely because there is no 'maverick' provider willing or able to disrupt the market. It concluded that the four largest banks operate as a "stable oligopoly," with little incentive to compete aggressively on price. Market shares have remained steady over time: ANZ has consistently held around 30%, while ASB, BNZ, and Westpac each hold between 18% and 20%. No smaller bank has grown its market share beyond approximately 5%.

Competition has historically centred on mortgage rates, where banks periodically offer short-term special rates to attract new borrowers. However, these offers are quickly matched by other banks, meaning no single bank can gain a lasting advantage through pricing alone. The major banks' CTI ratios, which have typically remained between 35% and 45%, indicate strong scale efficiencies that are difficult for smaller banks to replicate.

The introduction of open banking represents a potentially material structural change. Open banking is a regulated system that will give customers control over their banking data and payment capabilities. It will allow accredited third-party providers to access customer banking data (with customer consent) through standardised APIs, potentially enabling new competitive dynamics through:

- Improved product comparison
- Reduced barriers for customers to switch banks
- Deliver lower-cost financial services
- Improved innovation and develop novel financial services products

The Commerce Commission has identified open banking as a potential "game changer" for competition in the banking sector. However, the pace and scale of its impact remain uncertain. Open banking will be introduced in stages, beginning on 1 December 2025, when the four major banks were required to have specific open-banking systems in place. Kiwibank will follow during 2026, while all other banks and deposit takers may choose to opt in voluntarily.

3.4 Digital innovation and disruption

New Zealand has one of the highest levels of digital banking engagement globally, with more than 60% of customers regularly using online or mobile banking. Customer behaviour continues to shift towards digital channels, with only about 3% of customers visiting a branch at least once a week. The major banks have invested heavily in digital platforms, mobile banking applications, and process automation. While these investments have contributed to rising operating costs in recent years, they are expected to deliver longer-term efficiencies by reducing reliance on physical branches and manual processes.

New Zealand's fintech sector remains relatively early-stage compared with larger markets. The most significant disruption to date has occurred in the payments sector, through providers such as Wise, Stripe, and buy-now-pay-later platforms. Fintechs have not yet materially challenged the major banks' core businesses of deposit-taking or mortgage lending. A fully implemented open-banking framework may provide a stronger foundation for fintech-driven competition in the future.

The major banks have responded to digital competition by strengthening their own technology capabilities and, in some cases, partnering with or acquiring fintech firms (for example, BNZ's acquisition of BlinkPay and ASB's partnership with Qippay). According to KPMG's latest FIPS survey, technology costs are a major contributor to rising operating expenses across the sector, reflecting both the need to maintain competitive digital offerings and the increasing costs associated with cybersecurity, fraud prevention, and compliance with evolving regulatory requirements.

3.5 Reserve Bank regulation and capital requirements

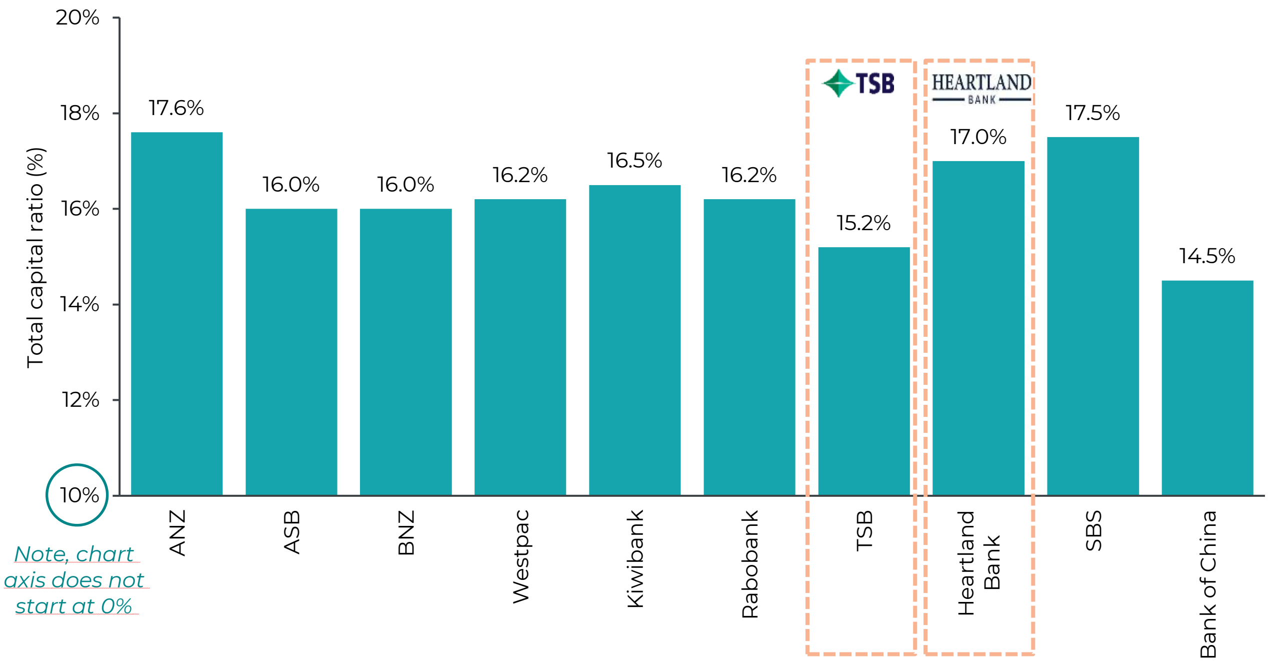
All banks must be registered with the RBNZ to operate in New Zealand. The RBNZ is the prudential regulator for the sector.

The regulatory frameworks have undergone significant changes in recent years, with key developments including:

- **Capital adequacy:** The Reserve Bank of New Zealand completed its capital review in December 2019, requiring banks to significantly increase their capital ratios over a seven-year transition period ending in 2028. For systemically important banks, the total capital requirement increased to 18% of risk-weighted assets, up from the previous level of around 10.5%. This change required the largest banks to retain a greater share of their earnings and has affected their return on equity. In December 2025, the RBNZ completed a further review of key capital settings and determined that total capital requirements should be reduced relative to the levels originally planned for 2028 under the 2019 framework. The key decisions are:
  - Systemically important banks (being ANZ, ASB, BNZ and Westpac New Zealand) will now be subject to a total capital requirement of 15%, made up of 12% Common Equity Tier 1 (**CET1**) capital and 3% Tier 2 capital. In addition, these banks must maintain a further 6% of Loss Absorbing Capacity (**LAC**). The LAC requirement can be met through pre-positioned debt instruments, which may be written down or converted into equity if a deposit taker experiences financial distress.
  - For the non-systemically important banks (such as Heartland and TSB) the total capital requirement reduces to 14%, made up of 11% CET1 and 3% Tier2 capital. This is a decrease from 16% under the 2019 review.
  - Removal of Additional Tier 1 (**AT1**) capital instruments, while allowing a higher mix of Tier 2 capital (to 3% from 2%).
  - More granular and reduced standardised risk weights (including rural loans and residential mortgages which are sectors that Heartland and TSB focus on).
- The target date for implementation of risk weight reductions and the first annual step changes in capital ratios is 1 October 2026.

- The RBNZ expects these changes to significantly reduce the amount of CET1 capital required across the banking sector. Because CET1 is the highest-quality — and most expensive — form of bank capital, the reduction is expected to lower banks' overall cost of capital and improve return on equity relative to the previous capital settings.

Figure 6: Total capital ratios by bank as at December 2025



Source: Reserve Bank of New Zealand published data, 'Bank Financial Strength Dashboard'

- **Deposit Takers Act 2023**: This Act introduced a Depositor Compensation Scheme (**DCS**), providing protection for deposits up to $100,000 per depositor, per institution. The DCS came into effect on 1 July 2025 and is funded by levies on deposit takers.

- **Liquidity policy**: The RBNZ's Liquidity Policy sets out the requirements banks must meet to reduce liquidity risk in the event of a sudden loss of confidence in an individual bank or in the wider banking sector. A key component of the policy is the use of mismatch ratios. These ratios recognise that banks typically have a timing mismatch between their assets and liabilities — with assets often having longer durations than the liabilities used to fund them. The mismatch ratios are designed to ensure that each bank maintains sufficient liquid assets to meet its cash outflows during a stress event, when cash inflows may fall sharply while outflows increase.

- **Macroprudential tools**: The RBNZ uses LVR restrictions and DTI restrictions to help manage financial stability risks.

  - LVR restrictions reduce the impact of borrower defaults by limiting the volume of high-LVR lending, which lowers potential losses if the housing market declines. DTI restrictions reduce the likelihood of default by ensuring borrowers do not take on debt levels that are too high relative to their income. Together, these tools act as guardrails to prevent the build-up of high-risk lending in the financial system.

  - LVR restrictions were eased from 1 December 2025. For owner-occupiers, the share of new lending permitted with an LVR above 80% increased to 25% (from 20%). For investors, the share of new lending permitted with an LVR above 70% increased to 10% (from 5%).

  - Under the DTI framework, banks may allocate up to 20% of new owner-occupier lending to borrowers with a DTI ratio greater than 6, and up to 20% of new investor lending to borrowers with a DTI ratio greater than 7. These DTI restrictions took effect on 1 July 2024 and may constrain lending growth during periods of rapid house-price inflation.

- **Conduct regulation**: The Financial Markets (Conduct of Financial Institutions) Amendment Act 2022 (**CoFI**) introduces conduct obligations for banks and other financial institutions, including fair treatment duties. Banks have invested significantly in compliance systems, training and processes to meet these requirements.
- **The Credit Contracts and Consumer Finance Act 2003 (CCCFA):** The CCCFA protects borrowers by requiring lenders to act responsibly, ensuring loans are affordable and terms are transparent. Key requirements include conducting proper affordability assessments, clear disclosure of fees, and fair treatment, with oversight transitioning from the Commerce Commission to the Financial Markets Authority (**FMA**).

3.6 Macro-economic considerations

The macro-economic environment is a key determinant of banking sector performance as it influences credit demand, asset quality, net interest margins and operating conditions.

Economic cycle and GDP growth

GDP growth is a key driver of credit demand. Periods of weak economic growth are typically associated with slower loan book expansion and higher impairment charges. Towards the end of 2025 New Zealand was emerging from a prolonged economic downturn, early signs of recovery were reflected in real GDP growth recorded in the September and December 2025 quarters.

Prior to the conflict in the Middle East, the rebound was expected to be led by the external sector - particularly agriculture and tourism - and supported by lower interest rates, which would help lift household and business spending. However, the Middle East conflict has caused increasing global commodity prices (4.1% in March), with global dairy prices rising 22% in the year to April 2026. Asian economies are the key export markets for New Zealand dairy and agricultural products and are among the most impacted by rising fuel costs. This is expected to impact demand. Aside from the conflict, global trade remains uncertain, including the impact of United States tariff policies, which continues to weigh on the outlook. The Treasury has revised down its trading-partner growth assumptions, and a more severe global slowdown would directly affect the New Zealand economy and, in turn, reduce demand for credit.

The economy is fragile and any economic growth is highly vulnerable given the recent and ongoing Middle East conflict. The consequent rising fuel costs and imported cost pressures are expected to put pressure on the near-term growth expectations. According to the April 2026 Parliamentary Monthly Economic Review, forecasts for the June quarter have turned more ‘downbeat’ in response to the conflict, but there is not a unanimous view across the major banks; two are predicting positive quarterly growth while the others are anticipating a contraction.

House price inflation

Residential mortgage lending makes up around two-thirds of total bank lending in New Zealand, meaning house-price movements are a major influence on banking-sector performance. Changes in house prices affect the sector through their impact on mortgage demand, collateral values, household confidence and wealth, and banks’ willingness to extend credit.

While lower interest rates, a falling OCR (although it was held stable in the most recent round), and improving sentiment may be supportive of growth, several factors are expected to constrain the rate of appreciation:

- The conflict in the Middle East. The growth outlook and market sentiment, at least in the near term, are overshadowed by the conflict in the Middle East, with commentators reporting that downside risks are re-emerging with an expectation for growth to remain flat over 2026.
- Elevated long-term mortgage rates, which have risen since late 2025 as wholesale rates increased
- New housing supply, particularly medium-density developments
- Weak population growth

- The effect of DTI restrictions as house prices rise faster than incomes

The RBNZ's February 2026 Monetary Policy Statement noted that house prices have continued to decline despite lower mortgage rates, which may reflect weak population growth and persistently high long-term interest rates.

The Official Cash Rate and the interest rate yield curve

The OCR is the primary monetary policy lever and it has a direct impact on bank net interest margins, credit demand and asset quality.

The OCR has been reduced nine times since August 2024, effectively halving it. However, despite the significant reduction in the OCR, the flow-through to fixed mortgage rates has been uneven. As at February 2026, the average mortgage rate had declined to around 5.3%, down from peaks above 7%.

Since late 2025, longer-term wholesale interest rates have risen due to higher global rates and growing expectations of future OCR increases. Banks have passed these higher wholesale funding costs through to fixed-term mortgage rates, particularly for terms longer than one year.[2] This has created a rate environment where short-term rates are low (reflecting the accommodative OCR) but longer-term rates are firming.

The shape of the yield curve has important implications for banks' NIMs. Banks generally benefit from a positively sloped curve, where long-term interest rates are higher than short-term rates, as a steeper curve typically supports wider margins. However, margins can come under pressure when wholesale funding costs increase and banks have limited scope to pass those higher costs on to borrowers.

Household indebtedness and unemployment

New Zealand households remain highly leveraged, with debt at around 168% of disposable income and close to 91% of GDP in 2025. Housing debt totals approximately $388.5 billion, or 64% of all private sector borrowing. The household debt-to-income ratio has eased slightly from its 2021 peak of 170%, but this decline largely reflects tighter lending conditions, slower credit growth and higher interest rates rather than a material reduction in debt levels.

Debt-servicing pressures were significant at the height of the interest rate cycle, when mortgage rates of 7% to 8% consumed a large portion of household income. With rates now closer to 5%, servicing pressures have eased and default risk has moderated. However, given still-elevated debt levels, high house prices relative to incomes, and the DTI framework, households have limited capacity to take on additional debt.

Rising unemployment increases the likelihood of borrower default, particularly for households with high leverage. The most recent data show an unemployment rate of 5.4%, the highest since 2015. Towards the end of 2025 the Treasury's expectation was for unemployment to peak at 5.5% in the March 2026 quarter before declining to 4.3% by the end of the forecast period[3] as the economy recovers. Unemployment typically lags movements in broader economic conditions. More recently, in response to the Middle East conflict, three of the four banks are forecasting an increase in the unemployment rate over 2026, with the remaining bank forecasting the rate to remain unchanged.

The RBNZ has revised its inflation forecasts for the March and June 2026 quarters. It expects 3% inflation for the March quarter, rising to 4.2% in the June quarter. This will put pressure on household budgets.

3.7 Critical success factors

In the New Zealand banking sector, several factors are fundamental to maintaining a durable competitive advantage and driving long-term value creation:

- **Scale and operating leverage**: The banking sector is characterised by high fixed costs, including technology, compliance, branch networks, and personnel, alongside relatively low marginal costs of

[2] RBNZ 2026 Monetary Policy Statement

[3] Half Year Economic and Fiscal Update 2025, 16 December 2025

incremental lending. Banks that achieve greater scale are better positioned to absorb fixed costs, resulting in superior cost-to-income ratios and ROEs.

- **Funding cost advantage**: Access to low-cost funding is a major competitive differentiator. This can stem from a strong retail deposit base, access to offshore wholesale markets, or the implicit credit support of highly rated parent banks. Higher credit ratings also enable banks to borrow at lower cost, improving profitability.
- **Brand and customer inertia**: Retail banking exhibits high customer stickiness. The rate at which individuals switch between banks remains low due to strong brand trust, perceived financial stability, and the convenience of established customer relationships. These factors provide larger, well-known banks with a natural retention advantage.
- **Geographic reach and distribution**: While digital banking has reduced reliance on physical branches, a national presence still matters – particularly for business and rural customers. Banks with limited geographic footprints face constraints on customer acquisition and overall market reach.
- **Technology and digital capability**: Effective investment in technology has become a critical source of competitive advantage. This includes customer-facing digital platforms, back-office automation, cybersecurity, data analytics, and regulatory technology. Banks with greater financial capacity to invest in technology are better positioned to compete.
- **Asset quality management**: Given the sector's heavy exposure to residential mortgages, strong credit-risk management across the economic cycle is essential. Banks that can maintain asset quality during periods of falling house prices or rising unemployment are more likely to deliver sustainable long-term returns.

3.8 Opportunities and risks

Drivers of growth and contraction since 2020

The period from 2020 to 2024 reflects a full credit cycle, although it was heavily shaped by the COVID-19 pandemic and the monetary policy response that followed.

2020–2021: Pandemic-era stimulus: During 2020 and 2021, the RBNZ reduced the OCR to a record low of 0.25% and introduced additional stimulus through the Funding for Lending Programme and the Large-Scale Asset Purchase programme. Combined with significant fiscal support, these measures drove rapid credit expansion, particularly in residential mortgages, and resulted in strong house-price growth. Bank profitability was supported by high lending volumes and low impairment charges, although this was partly offset by compressed net interest margins.

2022–2023: Monetary tightening: In response to rising inflation, the RBNZ increased the OCR from 0.25% to a peak of 5.50% across 2022 and 2023. Net interest margins widened as banks were able to reprice lending rates more quickly than deposit rates. However, credit growth slowed, operating costs increased, and impairment charges began to rise. Over this period, house prices fell by approximately 20% from their November 2021 peak.

Late 2024: Policy easing and early stabilisation: The RBNZ began cutting the OCR in late 2024. Sector NPAT remained broadly flat, loan growth returned to modest expansion, and net interest margins stabilised. However, operating costs continued to rise.

Industry outlook and recent developments

This Report was initially drafted prior to the escalation of the conflict in the Middle East. The subsequent intensification of the conflict introduced a material economic shock and significantly increased uncertainty, prompting many economic commentators and the RBNZ to revise their outlooks for the New Zealand economy.

Domestic and global economic conditions have been materially affected by the conflict. The scale and duration of the economic impact remain highly uncertain, and even if hostilities were resolved in the near term, inflationary pressures and constraints on economic growth are expected to persist for some time.

The RBNZ has effectively paused what proved to be a short-lived easing cycle, with policy communication shifting toward conditional tightening, reflecting concern about near-term inflation pressures. The current projections suggest limited scope for further easing and a likelihood of rate hikes to ensure inflation returns to target levels.

The conflict has materially worsened New Zealand's near-term inflation outlook. Market commentators broadly agree that inflation risks remain skewed to the upside, with inflation expected to remain above 3% and some bank economists forecasting headline inflation exceeding 4%. The economy has also been hit at a particularly vulnerable point in the cycle. While real GDP growth was recorded in the December quarter, it was weaker than anticipated due to subdued household consumption and business investment, indicating that the recovery was already fragile prior to the oil price shock. Bank economists have since made downward revisions to their near-term growth forecasts, reflecting a delay in recovery once the conflict abates.

Wholesale interest rates have moved higher, with some retail mortgage rates adjusted in response. These movements reflect market expectations that interest rates may need to rise to counter conflict-driven inflation pressures. However, recent mortgage rate changes across banks have been mixed rather than uniformly upward, and economists remain divided on the outlook for OCR and the path of interest rates.

Many forecasters now consider the OCR easing cycle to be over. Some economists anticipate OCR increases, potentially beginning as early as the next policy announcement, though the timing and extent of any tightening remain highly uncertain and dependent on the development of inflation and the conflict.

While the RBNZ held the OCR unchanged at its 27 May 2026 meeting, it has reiterated that on balance the OCR will most likely need to increase sooner and by more than envisaged at the start of the year. The rate of increase will depend on the relative influence of persistent wage- and price-setting behaviour versus weaker economic activity on medium-term inflation pressures. The Governor has previously noted that short-lived disruptions could be looked through, but that persistent increases in energy costs influencing inflation expectations could warrant a higher interest-rate response. Outcomes are therefore highly contingent on the duration and economic transmission of the conflict.

Persistently high oil prices act as an effective tax on household consumption and business margins. Sectors expected to lead the recovery, including exporters and tourism, are likely to come under renewed pressure.

Both Fitch and Moody's credit rating agencies have downgraded their outlook for the New Zealand economy, with Moody's citing global economic and political uncertainty presented downward risk to growth. It changed its outlook from stable to negative. This follows Fitch's downgrade from stable to negative in March.

Against this backdrop, the outlook for New Zealand banks is increasingly challenging. Weaker GDP growth and rising unemployment risk softening credit demand and increasing asset-quality pressures, particularly as borrowers refix at higher interest rates while household budgets are strained by inflation. Rising funding costs also place pressure on bank margins, depending on the speed and extent of loan repricing. These dynamics are likely to be more pronounced for sub-scale banks, given their more limited diversification, narrower margins, and reduced flexibility to absorb shocks or cut costs.

4. Heartland company overview

4.1 Background and history

Heartland is a New Zealand incorporated company that is dual-listed on the New Zealand Stock Exchange with a foreign exempt listing on the Australian Securities Exchange.

Heartland operates as a Trans-Tasman banking group headquartered in Auckland with registered offices in Auckland and Sydney. The group structure comprises two regulated banking subsidiaries, HBL and HBAL.

HBL operates Heartland's New Zealand banking business and is also the parent of HBAL, which operates Heartland's banking business in Australia.

A timeline of key events is shown below.

Figure 7: Timeline of key events

1875	Ashburton Permanent Building & Investment Society founded, the earliest predecessor entity of Heartland.
2011	Formation of Heartland Building Society through the merger of Canterbury Building Society, Southern Cross Building Society and the MARAC Finance arm of Pyne Gould Corporation. The company lists on the NZX Main Board. Acquisition of PGG Wrightson Finance Limited for approximately $100 million.
2012	Granted registered bank status by the RBNZ.
2013	Heartland Building Society converts to a company and becomes Heartland Bank Limited.
2014	Acquisition of Sentinel, establishing a leading position in the New Zealand reverse mortgage market. Entry into the Australian reverse mortgage market through the acquisition of Australian Seniors Finance.
2018	Corporate restructure creating Heartland Group Holdings Limited as the dual-listed parent company.
2022	Acquisition of StockCo Australia, a specialist livestock finance provider.
2024	Acquisition of Challenger Bank (Australia), an authorised deposit-taking institution (ADI), subsequently renamed Heartland Bank Australia Limited. Dual ASX/NZX listing maintained.
2025	Year of strategic reset, integration and derisking. Started the sale of Non-Strategic Assets.

Source: Heartland Group FY25 annual report, NZX announcements, company presentations.

Heartland does not operate a traditional branch network; instead, it originates lending through direct (including digital) channels, intermediary partnerships (including livestock agents and motor vehicle dealers) and direct relationships. Its lending activities span all regions of New Zealand and across Australia, with strong rural lending exposure in New Zealand and livestock finance in regional Australia.

4.2 Loan portfolio

Heartland's loan book is differentiated from traditional banks through its specialist focus.

The key portfolio segments are as follows:

Reverse mortgages

- Reverse mortgages are the flagship product for Heartland across both its New Zealand and Australian banks.
- Heartland is a market leader in this product category, with an estimated greater than 90% market share in New Zealand, and around 40% in Australia.

Rural and Livestock Finance

- Rural and livestock finance is available in New Zealand and livestock finance is available in Australia. Heartland offers various products within this category, including financing for 100% of stock purchases and term loans for buying or refinancing farms.
- Rural and livestock financing has been available in New Zealand for nearly 20 years, whereas Heartland established its presence as a livestock financier in Australia with its acquisition of StockCo Australia in 2022.

Motor Finance

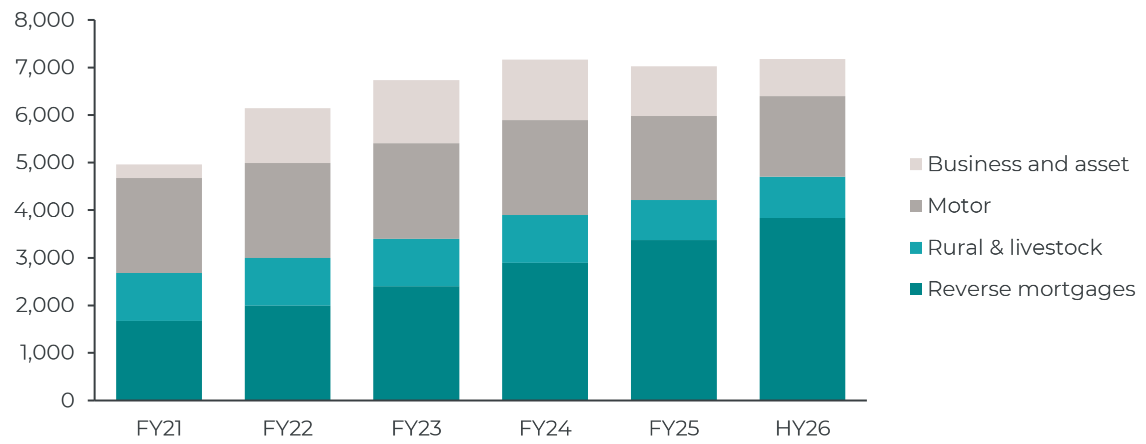
- Heartland's motor finance is solely in New Zealand.
- The loans are primarily originated through dealer intermediaries.
- The size of the portfolio has declined in recent years, due to subdued economic conditions and a strategic shift by Heartland toward higher-quality lending.

Business and Asset Finance

- Heartland's business and asset finance is solely in New Zealand. Its Asset Finance business focuses on secured lending to SMEs, participating in productive sectors of the economy.
- Heartland is actively winding down unsecured business lending.

Heartland's historical loan book composition is illustrated in Figure 8.

Figure 8: Loan book composition (core products only, $ millions)



Source: Heartland annual reports, interim reports, investor presentations. Note, this graph only shows Heartland core products.

4.3 Non-Strategic Asset programme

Heartland announced its Non-Strategic Asset (**NSA**) programme in late 2024. It defined NSAs as those earning little to no income, returning less than Heartland's cost of capital, or inconsistent with current lending strategies.[4]

The NSA programme was positioned as part of a broader capital efficiency reset, whereby under-performing or non-core assets should be realised and the capital redeployed into high-return specialist lending (reverse mortgages and livestock funding).

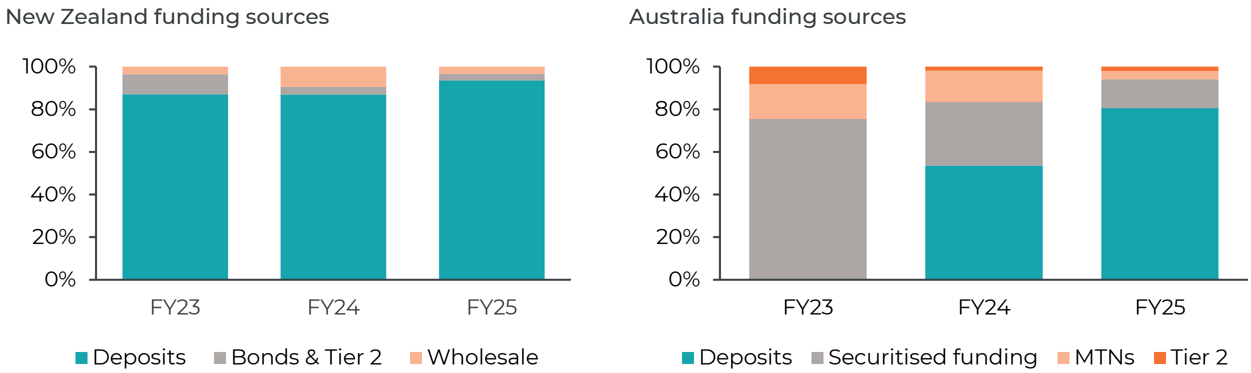
The NSA portfolio is largely New Zealand assets and consists of Rural relationship borrowers, Business Relationship borrowers, Online Home Loans (closed to new applications) and old residential mortgages, physical properties, investment properties and equity investments (which included its stake in Harmoney which has been disposed of).

The NSA programme accelerated through FY25 and 1H26 with the total NSA balance decreasing from $468 million in December 2024 to $175 million as at December 2025. NSAs account for a disproportionate share of the non-performing loans (**NPL**); their exit should improve asset quality. The programme is expected to be largely completed by June 2026.

4.4 Funding

HBL and HBAL fund their lending primarily through retail term deposits. The Australian businesses within HBAL were previously funded from wholesale sources but transitioned to deposit funding on becoming an ADI in 2024.

Figure 9: Funding

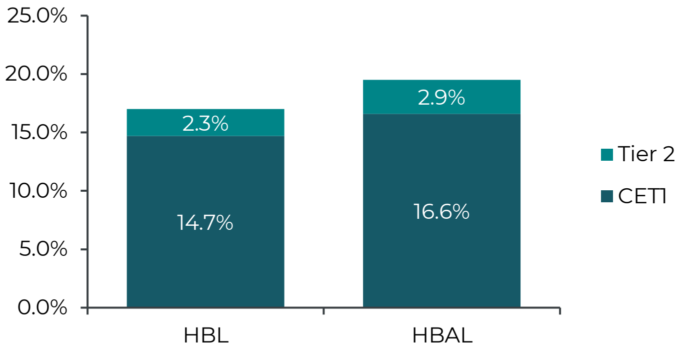


Source: investor presentations

[4] HGH annual report, page 9

4.5 Capital

Figure 10: Capital ratio



Note: HBL refers to the New Zealand Banking Group which consists of the New Zealand Bank and its NZ subsidiaries, excluding Marac Insurance Limited.

Source: Investor presentation for 1H2026 Interim results.

RBNZ's revised capital settings mean a reduction of Tier 1 and total capital requirements relative to previous requirements, and the removal of Additional Tier 1 capital instruments and reduced risk weights. At 31 December 2025, Heartland Bank held approximately $125 million of regulatory capital in excess of the expected regulatory requirements. Applying the expected risk weight changes to the December balance sheet increases the excess to approximately $190 million.[5]

Effective 1 March 2026, the RBNZ has reduced Heartland Bank's transitional capital overlay by 1.5%, from 2.0% to 0.5%. The remaining capital overlay is expected to remain in place until the RBNZ implements a formal Group Supervision Policy for deposit takers under the Deposit Takers Act 2023 (which is expected to come into force on 1 December 2028).

Heartland notes that through the NSA realisation and the RBNZ revised capital settings, it is well positioned for growth and holds excess capital across the group.

4.6 Technology

HBL is implementing a multi-year technology transformation with Pega to fully integrate with its modern core banking system and replace legacy processes with a single, automated digital platform. It plans to replace multiple legacy systems and manual processes with a single integrated, modern platform to improve operational efficiencies through automation and AI-driven processes. It anticipates that the transformation will strengthen the bank's control environment, resilience and competitiveness while improving user experience. The cost to implement is expected to be no more than $11 million over the three-year implementation period.

HBAL has partnered with Constantinople to consolidate three product origination and servicing platforms into a single solution. It will introduce a new core banking platform to support all products and simplify the bank's technology infrastructure, enabling increased automation and AI capability. The total cost to implement the platform is estimated to be no more than A$5 million over a three-year period.

[5] 1H26 investor presentation

4.7 Financial overview

The tables below summarise Heartland's financial performance and position over the last four years and the half year to December 2025.

Table 2: Consolidated financial performance ($ millions)

	FY22	FY23	FY24	FY25	HY26
Interest income	342.1	527.7	661.0	705.9	331.1
Interest expense	(92.0)	(245.7)	(383.4)	(398.6)	(165.2)
Net interest income	**250.1**	**282.0**	**277.6**	**307.3**	**165.9**
Other operating income	30.5	7.8	13.0	14.0	6.4
Net operating income	**280.6**	**289.8**	**290.7**	**321.3**	**172.3**
Operating expenses	(116.8)	(128.1)	(139.4)	(192.5)	(94.4)
Profit before credit impairment and tax	**163.9**	**161.7**	**151.3**	**128.7**	**77.9**
Fair value gain / (loss)	(13.0)	(4.5)	(0.3)	0.1	3.1
Net credit impairment losses	(13.8)	(23.2)	(46.4)	(71.6)	(12.8)
Profit before tax	**137.0**	**134.0**	**104.5**	**57.2**	**68.1**
Tax expense	(41.9)	(38.1)	(30.0)	(18.4)	(19.3)
Net profit after tax (NPAT)	**95.1**	**95.9**	**74.5**	**38.8**	**48.8**
Underlying NPAT[6]	**96.2**	**110.2**	**102.7**	**46.9**	**46.1**

Source: Annual and interim reports

Table 3: Consolidated balance sheet ($ millions)

	Jun-22	Jun-23	Jun-24	Jun-25	Dec-25
Cash and cash equivalents	310.8	311.5	629.6	356.2	395.4
Collateral paid to other financial institutions	0.0	0.0	0.0	14.2	12.9
Derivative financial instruments (asset)	45.2	44.0	12.3	4.8	5.5
Investment securities	289.3	330.2	1,092.1	791.8	778.2
Reverse mortgages	1,996.9	2,403.8	2,897.8	3,370.9	3,841.7
Loans and advances to customers	4,146.8	4,334.2	4,266.9	3,711.5	3,398.5
Intangible assets	218.9	235.7	279.9	265.2	273.1
Other assets	82.5	85.2	113.1	132.9	103.4
Total assets	**7,090.3**	**7,744.7**	**9,291.9**	**8,647.5**	**8,808.6**
Other borrowings	(2,578.2)	(2,496.4)	(2,040.8)	(825.5)	(554.6)
Deposits	(3,592.5)	(4,131.0)	(5,949.1)	(6,530.0)	(6,895.2)
Derivative financial instruments (liability)	(6.3)	(7.6)	(9.0)	(20.7)	(19.9)
Other liabilities	(104.5)	(78.7)	(55.1)	(52.3)	(50.4)
Total liabilities	**(6,281.6)**	**(6,713.7)**	**(8,054.0)**	**(7,428.4)**	**(7,520.1)**
Net assets	**808.7**	**1,031.0**	**1,237.9**	**1,219.1**	**1,288.6**

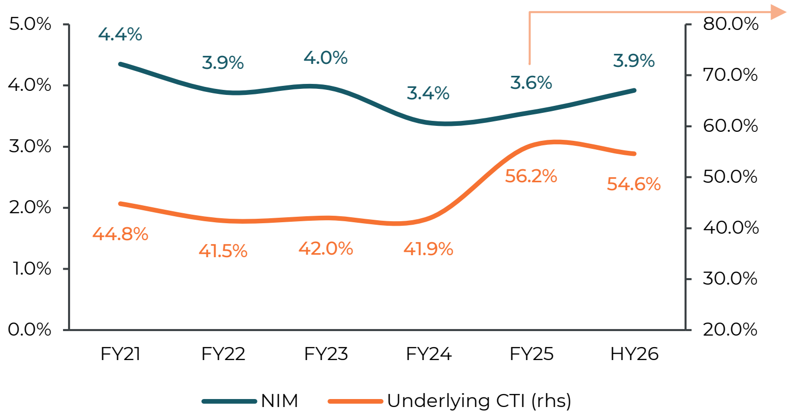
Source: Annual and interim reports

[6] Underlying NPAT excludes one-off or non-recurring items, the de-designation of derivatives, fair value changes on equity instruments held

Key matters to consider when reviewing Heartland's financial information:

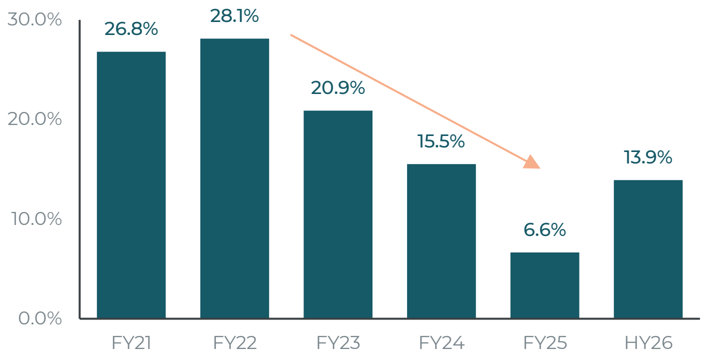
- Over the last five years Heartland has operated through a rapidly changing interest rate environment, expanded its operations in Australia, and more recently refined its strategic focus with an emphasis on improving return on equity.
- FY22 was the peak of the post-pandemic lending cycle. This resulted in strong profitability, which also reflected the benefits of operating leverage, reflected in the low CTI.
- In May 2022 Heartland completed its strategic acquisition of StockCo Australia, establishing it as a leading specialist livestock financier and strengthening its trans-Tasman presence.
- During FY23 and FY24, interest rates increased sharply, leading to NIM compression as deposit costs repriced faster than lending rates.
- Performance in FY24 reflected the impact of the tighter monetary conditions, subdued consumer spending and a softer housing market. Despite this, Heartland grew its loan book, almost entirely due to very strong growth in reverse mortgages (+20%). The contraction in other loans and advances in FY24 occurred across products which subsequently became NSAs, as well as a large contraction in the dollar value of Australian livestock book as the market was impacted by adverse weather and market conditions. Market competition for deposits resulted in a higher cost of funds, reducing the NIM. During this period, HGH incurred one-off costs related to completing the Challenger Bank acquisition in April 2024.
- HGH announced its intention to acquire an Australian ADI, Challenger Bank (may be referred to as the ADI), which it acquired in April 2024. The acquisition was a transformational step which enabled deposit-funded growth in Australia, which ultimately decreases the cost of funding.
- During FY25 Heartland refined its strategic focus to concentrate on core products capable of delivering threshold return on equity, a key performance metric. Proceeds from NSA realisations (for example, online loans) were redeployed into higher-return portfolios, contributing to improving reported NIM. The reverse mortgages book continued to grow; however other loans and receivables contracted materially. This was partly due to the exit from NSAs, but also due to contracting motor and business finance books due to subdued economic conditions and a focus on higher quality lending.
- The impairment expense increased materially in FY25 due to the ongoing challenging economic conditions and action taken to de-risk and reposition some of HBL's lending portfolios. Despite growth in the reverse-mortgage portfolio and the recovery in NIM, profitability fell to its lowest level in five years, reflecting elevated impairments, the cost associated with running Heartland's Australian businesses as a result of the Challenger acquisition, and continued investment in core-banking system upgrades and digital transformation.
- In the first half of FY26, profitability improved across all key metrics compared to FY25. Non-performing loans declined as the NSA programme progressed and Underlying ROE increased to above 7%.

Figure 11: Key performance metrics



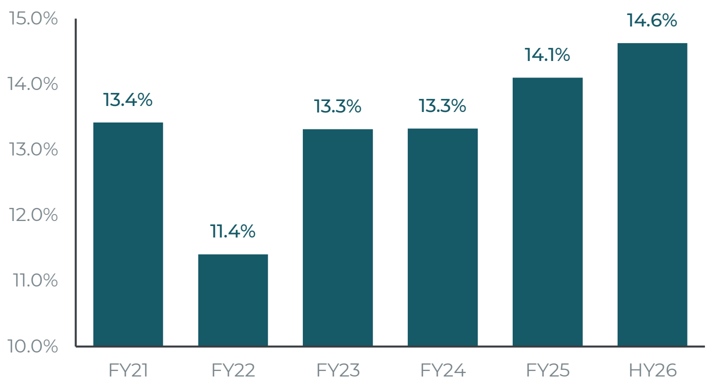
Reported NIM and underlying CTI

- FY25 NIM recovering largely due to improved cost of funds and improved fixed rate portfolio returns.
- FY25 CTI increase due to full cost base of the ADI absorbed by HGH, and HGH's core banking system upgrade. Improving trend in HY26 as growth supports scale operating efficiencies.
- Outlook: full year FY26 NIM of 3.9% and underlying CTI expected to be less than 56%.



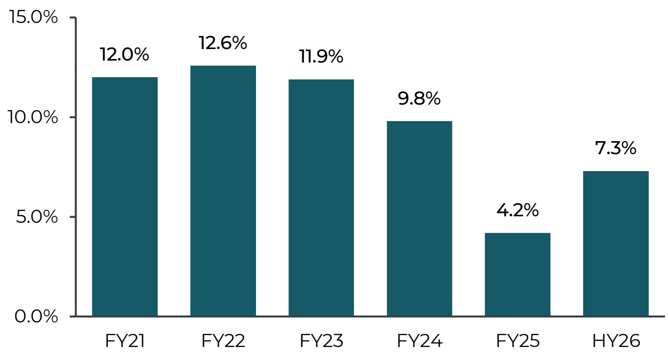
Underlying NPAT

- Declining trend in profitability between FY22 and FY24 due to economic conditions compressing NIMs and increasing CTIs.
- FY25 particularly impacted by elevated impairment expense due to challenging economic conditions and HGH's derisk and repositioning of some of HBL's lending portfolios.
- Outlook: Heartland has reaffirmed its FY26 guidance to deliver NPAT of $85 million



Equity / total assets

- A leverage ratio – the higher the ratio, the greater the proportion of assets are funded by equity.
- All else being equal, the higher the proportion of equity, the lower the ROE, acknowledging banks are required to hold a minimum amount of capital. However, excess capital positions the business to take advantage of growth opportunities.
- Outlook: the new RBNZ settings mean more capital can be deployed.



Underlying ROE

- Outlook: Heartland reaffirmed its FY26 guidance to deliver an underlying ROE of at least 7.0%.

4.8 Risks and opportunities

The primary growth path is reverse mortgages in both New Zealand and Australia, leveraging ageing demographics and significant addressable markets. As Heartland builds on the positive reset, change and integration achieved in FY25, it is confident in its ability to deliver an Underlying ROE of at least 7% and an improved underlying NPAT of at least $85 million in FY26. To support this outcome, its priorities for FY26 include maintaining a clear strategic focus, driving growth in core lending portfolios, further expanding its presence in the reverse mortgage market, maintaining disciplined cost control, leveraging technology to enhance efficiency and scalability, and continuing to ensure capital is deployed efficiently.

Key risks include continued concentration risk in the reverse mortgage product (particularly in NZ where Heartland holds over 90% market share) and credit risk in the motor finance and business portfolios during periods of economic weakness.

5. TSB company overview

5.1 Background and history

TSB was established in 1850. It is headquartered in New Plymouth and its principal business activity is retail banking. It is currently wholly owned by Toi via its subsidiary Toi Foundation Holdings Limited.

Figure 12: Timeline of key events

1850	New Plymouth Savings Bank was established in 1850 to provide the people of New Plymouth with a self-reliant bank, unsupported by government expenditure or British aid.
1860	Opened first physical branch in Fitzroy, New Plymouth.
1964	Name changed to Taranaki Savings Bank.
1975	First bank to offer free, interest-bearing cheque accounts.
1981	First bank to develop ATMs to allow customers to access money 24/7.
1986	Chose to remain independent and 100% NZ owned when other trustee banks merged.
1988	TSB Community Trust established as the bank's shareholder to ensure profits would benefit communities.
1989	Taranaki Savings Bank was renamed TSB Bank.
2001	National physical expansion begins with home loan centre opened in Christchurch.
2017	Rebranded to simply TSB to reflect modern, nationwide presence while staying true to its heritage.

Source: TSB website

TSB operates twelve branches, seven of which are in Taranaki. It also provides services at five nationwide banking hubs run through the New Zealand Banking Association, with different banks operating each hub.

The bank is shifting from a traditional, branch-led distribution model to a digital-first approach. This includes greater use of third-party mortgage originators, while maintaining a physical presence in key locations, and expanding its business banking team to grow its business banking portfolio. As part of this transition, TSB has been reducing its physical footprint – from 21 branches in 2022 to 12 today. The proportion of business originated by third party mortgage advisers has also increased, from around 43% in FY22 to around 60% in FY25.

In FY25, TSB outsourced its ATM network and expanded the number of deposit-enabled ATMs. The ATM network is crucial for TSB's business customers who still need to deposit cash daily.

In addition to lending, transactional and savings accounts, TSB also offers KiwiSaver, insurance and managed funds through partners. TSB's product range is deliberately narrower than that of a major bank, however it covers the core retail and business banking needs.

TSB continues to grow beyond Taranaki with more than half of its retail customer base now outside the region. Third party origination and the shift to digital channels has reduced barriers to national growth. The retail customer base skews towards an older demographic of loyal depositors who have banked with TSB for years.

5.2 Loan portfolio

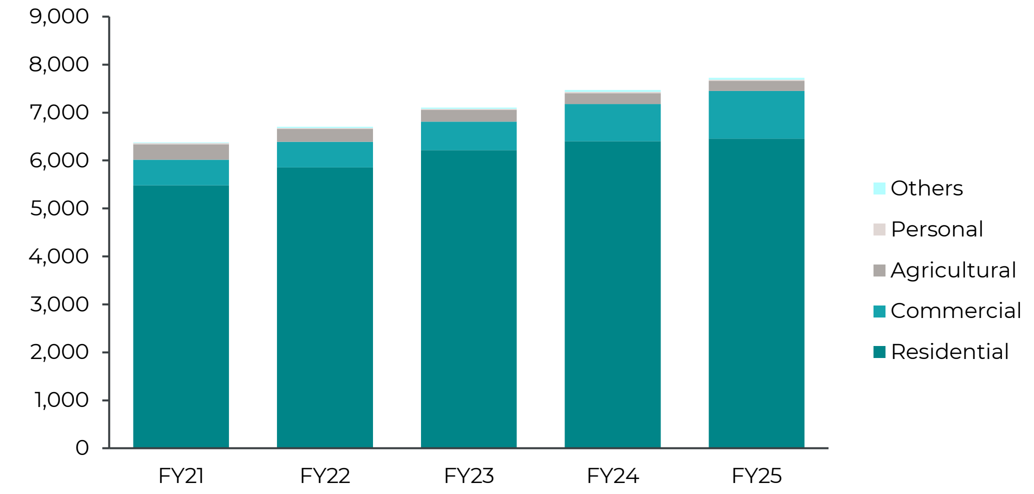
As at 31 December 2025, TSB's total assets were $9.5 billion, comprising mainly loans and advances to customers of $7.8 billion, investment securities of $1.3 billion and cash and cash equivalents of $0.4 billion. Its lending is predominantly weighted toward residential mortgages.

Key product areas include:

Residential mortgages	• Residential mortgages for owner-occupied housing (approximately 75% of the residential loan book) and investment in residential property (approximately 25% of residential loan book) are the core lending product for TSB. • Residential mortgages make up 84% of the total loan portfolio.
Commercial property and business lending	• Includes business loans and commercial property loans (secured by residential or commercial property or other securities such as a GSA) which grew 29% in FY25, reflecting a strategic priority to diversify the loan book. • Commercial property and business lending make up 13% of the total loan portfolio.
Agricultural lending	• Includes agricultural loans secured by agricultural properties. TSB continues to support existing customers with new lending but no longer lends to new customers. • Agricultural lending makes up 2% of the total loan portfolio.
Personal lending and other	• Includes personal loans, overdrafts and credit card balances. • Personal lending and other make up 1% of the total loan portfolio.

TSB's historical loan book composition is shown below.

Figure 13: Loan book composition ($ millions)



Source: TSB annual reports

TSB has grown its loan book every year since FY21. Residential mortgage lending increased at a compound annual growth rate (**CAGR**) of around 4%, to FY25.

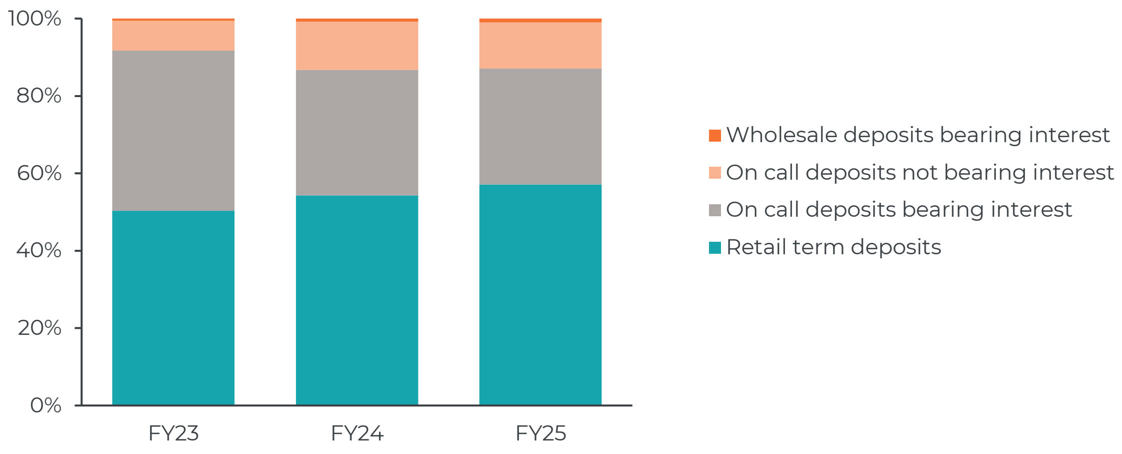
To diversify its portfolio and improve NIM, the bank has also expanded its commercial lending, which grew at CAGR of about 17% per year from FY21 to FY25, including strong year-on-year growth of close to 30% in FY24 and FY25. As a result, commercial lending has grown from 8% of the total loan book in FY21 to 13% in FY25. As part of the strategic lending focus, agricultural lending has been substantially reduced as TSB simplifies its business and targets higher NIM products.

Overall, the loan book is high quality given its exposure to residential mortgages, and commercial lending secured by commercial property. Consequently, provisions for doubtful debts have been low (0.33% of overall loan book for FY24 and FY25) and stable, with actual impairments lower than the provisioned amount.

5.3 Funding

TSB is primarily funded through retail term deposits and on-call deposits.

Figure 14: Funding sources



Source: TSB 2025 Annual Report

Approximately 12% of TSB's funding at the end of FY25 was via transactional accounts that do not bear interest.

5.4 Capital

TSB is well capitalised with a CET1 capital ratio of 15.2% as at December 2025 which is well above the RBNZ's recently amended minimum capital adequacy CET1 capital ratio of 11% and total capital ratio of 14% (11% of CET1 capital and 3% of Tier 2 capital). The RBNZ also refined and reduced loan risk weights which is expected to reduce the capital required to support the loan book. TSB is currently only funded with CET1 capital. This is the most expensive form of capital – TSB could substitute a portion of its CET1 capital for Tier 2 capital to improve its cost of funding and improve its ROE.

5.5 Technology

TSB is progressing its digital transformation, with a focus on making it easier for customers to join, bank and manage their finances through simpler, more intuitive digital experiences. Priorities over time include reducing friction in onboarding, expanding self-service capabilities, enabling new digital products and continuing to streamline processes across the bank.

In recent years, a significant share of technology and change capacity has been directed toward regulatory and compliance priorities. As this work is completed, TSB is increasingly able to redirect investment and delivery capacity toward customer and business-focused digital initiatives.

TSB's core banking environment has supported the bank reliably over many years and continues to provide a stable foundation for operations. At the same time, like many long-established banking platforms, it has less flexibility than newer cloud-native core banking solutions.

To support greater agility, TSB has progressively modernised its technology environment and simplified the role of the core so it can work more effectively with contemporary digital and integration layers. This approach provides a practical pathway to improve speed to market and customer experience while maintaining operational resilience.

TSB is continuing to modernise its core technology environment now, with a focus on improving agility, simplifying integration and better supporting digital delivery across the bank. Alongside this work, TSB is also considering modernisation options to ensure its technology environment continues to support customer expectations, business priorities and ongoing innovation.

5.6 Financial overview

The tables below summarise TSB's financial performance and position over the last four years and the nine months to December 2025.

Table 4: Financial performance ($ millions)

	FY22	FY23	FY24	FY25	9 months to Dec-25
Interest income	229.7	321.1	465.3	540.4	366.4
Interest expense	(67.9)	(133.5)	(279.5)	(348.2)	(206.7)
Net interest income	**161.8**	**187.6**	**185.8**	**192.2**	**159.7**
Other operating income	19.8	25.3	15.4	16.7	11.1
Net operating income	**181.6**	**212.9**	**201.2**	**209.0**	**170.8**
Operating expenses	(136.2)	(189.3)	(152.3)	(149.7)	(117.1)
Profit before credit impairment and tax	**45.4**	**23.6**	**48.8**	**59.3**	**53.7**
Credit impairment losses / reversal of impairment loss	8.1	5.3	2.0	(1.7)	(3.2)
Profit before tax	**53.5**	**28.9**	**50.9**	**57.6**	**50.6**
Tax expense	(15.4)	(8.9)	(16.8)	(16.4)	(14.2)
Net profit after tax	**38.1**	**19.9**	**34.0**	**41.2**	**36.5**

Source: TSB annual reports and the Reserve Bank of New Zealand

Table 5: Balance sheet ($ millions)

	Mar-22	Mar-23	Mar-24	Mar-25	Dec-25
Cash and cash equivalents	714.2	560.4	509.8	563.3	401.6
Derivative financial instruments (asset)	65.5	86.1	42.8	16.7	16.8
Investment securities	1,459.3	1,366.2	1,424.1	1,299.7	1,280.1
Loans and advances to customers	6,667.2	7,078.1	7,448.8	7,698.0	7,788.1
Collateral paid to other financial institutions	0.0	0.0	0.0	9.6	
Property, plant and equipment	32.4	32.1	27.2	26.9	
Other assets[7]	21.8	26.9	25.0	21.0	51.4
Total assets	**8,960.5**	**9,150.0**	**9,477.5**	**9,635.2**	**9,537.9**
Deposits	8,180.2	8,314.2	8,550.7	8,735.5	8,625.7
Derivative financial instruments (liability)	6.0	11.5	16.8	23.0	23.6
Collateral received from other financial institutions	0.0	0.0	0.0	2.2	
Due to other financial institutions	0.0	0.0	27.5	0.0	
Current tax liability	1.5	1.0	2.2	2.9	
Other liabilities[8]	49.5	92.7	135.4	83.9	74.0
Total liabilities	**8,237.2**	**8,419.4**	**8,732.5**	**8,847.5**	**8,723.3**
Net Assets	**723.3**	**730.6**	**745.0**	**787.8**	**814.6**

Source: TSB annual reports and the Reserve Bank of New Zealand

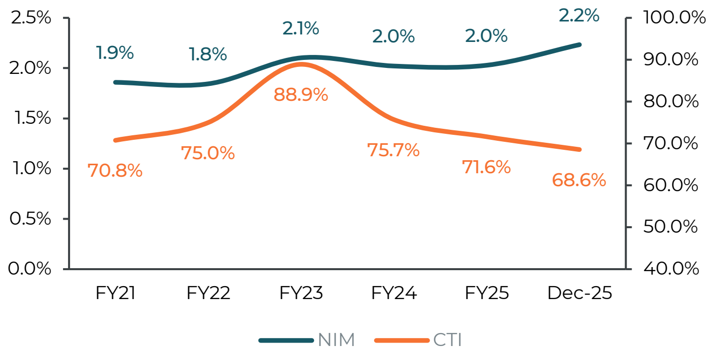
[7] Dec 2025: Other assets include collateral paid to other financial institutions and property, plant and equipment. These items are not disclosed separately for December 2025 reporting.

[8] Dec 2025 Other liabilities include collateral received from other financial institutions, due to other financial institutions and the current tax liability.

Key matters to consider when reviewing TSB's financial information:

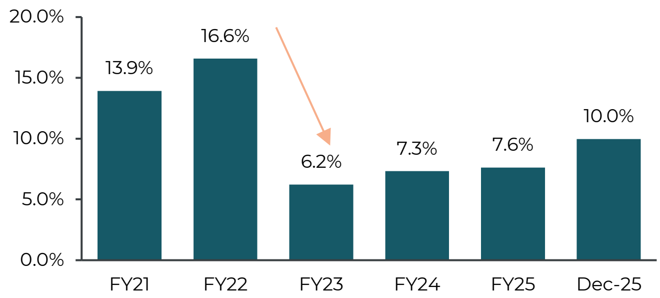
- Similar to HGH, TSB's financial performance over the period to March 2025 has been influenced by the challenging interest rate cycle and the structural constraints facing smaller New Zealand banks. At the same time it was a period of significant internal investment.
- TSB's NIM is influenced by its focus on low credit-risk business (residential mortgage loans) and by the high level of liquid assets held. NIM has been stable and improved from 1.8% in FY22 to 2.0% in FY25. The improvement in NIM over the period was driven by:
  - Rising interest rates (a benefit to all banks)
  - A shift in product mix towards higher margin products (such as commercial property lending)
  - Better margin management
  - Normalisation of liquidity buffers relative to peers, supported by the margin improvement.
- However, profitability was constrained by high operating expenditure as the bank started a multi-year programme to strengthen its technology infrastructure, regulatory compliance capability and its internal systems. Management described this investment as essential for future growth.
- In FY23 net interest income and operating income experienced reasonable growth, however a significant increase in operating costs resulted in the lowest profit after tax outcome for TSB over the five-year period to FY25. Operating costs in FY23 were driven higher by CCCFA and AML compliance issues and resulting remediation costs and regulatory provisions.
- The economic contraction over FY24 resulted in lending growth moderating as housing activity slowed and business confidence weakened. Despite the economic contraction, the net operating income continued to grow during FY24 as a result of the lending diversification strategy to grow commercial lending off a low base.
- In July 2024 Fitch downgraded TSB's credit rating from A- to BBB+, which reflects the agency's view that TSB's risk profile was no longer significantly stronger than those of domestic regional bank peers. Fitch reaffirmed TSB's credit rating as BBB+ in July 2025.
- FY25 represented the strongest financial result in five years, despite the weak domestic economy. TSB continued to broaden its lending portfolio, with commercial lending growing 29% as the bank continued to diversify beyond its traditional residential mortgage lending.
- TSB's results reflect the relatively higher CTI ratio driven by the high fixed cost burden of technology, compliance and regulation, a narrow NIM reflecting its reliance on mortgage lending, together with a limited ability to generate economies of scale due to its size. The bank's strategic response has been to invest in digital capability, simplify operations (such as optimising the branch network and reducing agricultural lending) and diversify into commercial lending.

Figure 15: Key performance metrics[9]



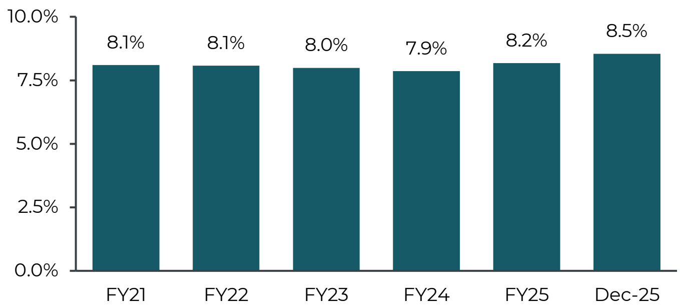
Reported NIM and CTI

- NIM has improved due to higher interest rates and diversification into higher margin lending (commercial), improved margin management and normalisation of liquidity buffer (relative to peers).
- FY23 CTI increase was due to compliance remediation costs and regulatory provisions.
- Outlook: NIM is expected to continue to improve with continued diversification and improved deposit mix. CTI is expected to improve from ongoing cost management and investment in simplification and automation.



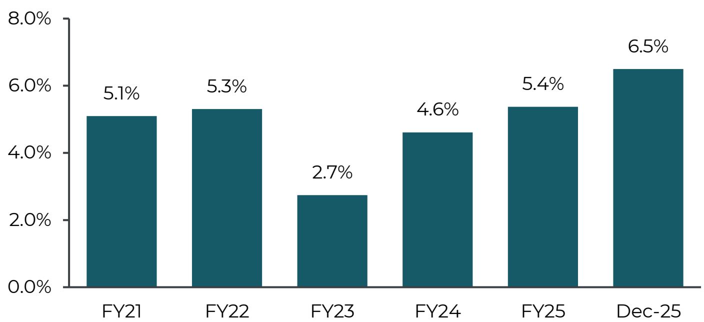
NPAT %

- Significant decrease in profitability in FY23 due to compliance remediation costs and regulatory provisions.
- Outlook: NPAT is expected to continue to improve as NIM improves and legacy compliance spend normalises.



Equity / total assets

- Commercial lending is more capital intensive and focus on growing this area slows growth in the leverage ratio.
- Outlook: the new RBNZ settings mean more capital can be deployed in loan growth or capital can be released.



ROE

- ROE has improved as NIM lifted and CTI has improved from a combination of a reduction in legacy compliance costs and cost management.
- Outlook: ROE expected to improve off the back of NIM and CTI expectations. In addition, new RBNZ rules mean capital position could be optimised.

[9] Dec-25 metrics references the 9 months to December.

6. The proposed consideration

Approach

The proposed consideration to Toi for the acquisition of TSB is $620 million.

To assess whether this consideration is reasonable, we calculate the valuation multiples and other financial metrics implied by the proposed price. We benchmark these metrics against equivalent metrics for other equivalent institutions.

We focus on the implied 'Price to Book Value' (**P/BV**) multiple for the following reasons:

- P/BV is commonly used to value banks and financial services providers.
- P/BV is particularly relevant for businesses where earnings are derived and linked to assets.

Analysis date

Our analysis is based on the balance sheet of TSB as at 31 December 2025, as reported to the RBNZ.

Our analysis was finalised on 22 June 2026. We considered and factored in events that occurred up to this date. However, our analysis does not take into account unforeseen events that occur after 22 June 2026. Therefore, when deciding on whether to accept or reject the Proposed Transaction, shareholders may want to also consider events that occur after 22 June 2026, such as movements in the prices of other listed companies, changes to interest rates, and changes to foreign exchange rates.

6.1 Summary

Table 6: Implied valuation multiple

	$ million
Proposed consideration to Toi	620.0
Book value of equity (31 December 2025)	814.6
Implied P / BV	**0.76x**

The proposed consideration implies a P/BV of 0.76x.

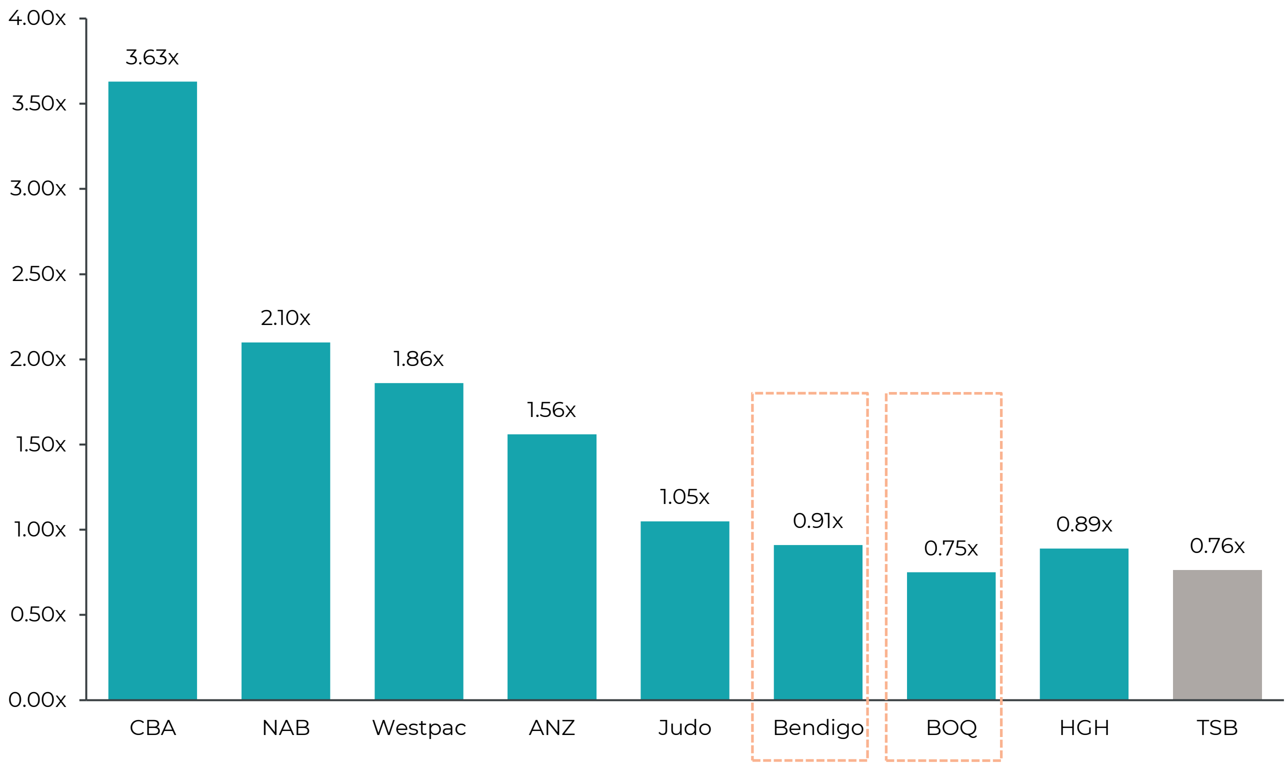
We consider the discount relative to book value reflects the relatively low return on equity generated by TSB, due to TSB lacking scale. Banks have inherently high fixed operating costs, including regulatory compliance, technology platforms, and risk management. These costs need to be spread over a sufficiently large balance sheet to be efficient. A small bank (such as TSB) may hold high quality, performing loans that are valued appropriately on its balance sheet, yet struggle to generate sufficient returns because the cost base consumes a disproportionate share of income. As a result, it is not uncommon for a small bank to trade at a multiple below 1.0x, reflecting sub-scale, rather than poor asset quality.

We have considered the trading P/BV multiples observed for listed comparator companies and comparable transactions. We have also considered what a reasonable multiple would be considering TSB's return on equity relative to its peers. On this basis we consider 0.76x is within a reasonable range.

6.2 Price to book value analysis

We have benchmarked TSB against a selection of listed New Zealand and Australian banks.

Figure 16: P / BV multiples of comparable listed companies



	CBA	NAB	Westpac	ANZ	Judo	Bendigo	BOQ	HGH	TSB
Geographic	NZ & Aus	NZ & Aus	NZ & Aus	NZ & Aus	Aus	Aus	Aus	NZ & Aus	NZ
Total assets ($bn)	1,461	1,265	1,284	1,480	16	111	112	8.8	9.5
Total loan book ($bn)	1,094	893	977	951	14	93	86	7.2	7.8
Net interest margin (%)	2.5%	2.3%	2.3%	2.2%	3.5%	2.0%	1.9%	3.9%	2.2%
CTI (%)	45.0%	49.5%	53.1%	57.7%	52.4%	62.1%	64.7%	55.9%	67.1%
Underlying NPAT margin (%)	14.7%	11.3%	11.9%	8.7%	8.0%	9.8%	7.6%	12.5%	10.3%
Return on equity (%) est (1).	13.9%	11.4%	10.0%	10.3%	7.5%	7.4%	6.4%	~6.7%	~6.5%

Source: Capital IQ, companies' annual and interim reports and the RBNZ.

Note (1): Apart from HGH and TSB, ROE is based on FY26 estimates or guidance. HGH and TSB are based on LTM to December 2025

There are differences between TSB and the comparable companies which would result in differences in P/BV. The key drivers of different P/BV multiple are the cost of equity, return on equity and growth prospects of an entity. Other factors include size, efficiency, asset composition, geographic diversification, and the associated risks.

We consider the P/BV of the larger banks is not directly comparable to TSB – given their multiples are related to factors such as higher returns on equity, and greater geographic diversification.

Judo and HGH offer different propositions, Judo is primarily a business bank and HGH focuses on reverse mortgages. Both of these propositions deliver superior NIMs. However, limited scale keeps return on equity below the four large banks.

Although no listed comparators are directly comparable to TSB, we consider Bendigo and Adelaide Bank (**Bendigo**) and Bank of Queensland (**BOQ**) are most comparable in terms of product offering, albeit both provide a wider range of services, are more geographically diverse, and have exposure to a larger market.

Bendigo and Adelaide Bank

Similar to TSB, Bendigo is a retail-focused, community-oriented bank. Bendigo is, however, substantially larger than TSB with assets in excess of $100 billion.

Like TSB it is heavily weighted towards residential lending, but it has greater diversification through its business and agribusiness segments. It operates a network of community and corporate branches and half of its portfolio is located in Victoria and New South Wales.

Its geographic footprint is expanding with its recent announcement to acquire RACQ Bank's retail lending and deposit business in December 2025. It is not an acquisition of a business, rather an acquisition of a loan book and deposits which it will integrate into its existing business. Bendigo has noted that the acquisition will drive improved shareholder returns through cost efficiencies and geographic diversification. Directionally we would expect this to have a positive effect on the P/BV multiple. This reiterates the relevance and importance of scale to a bank's returns and ultimately valuation.

Bendigo is roughly ten times the size of TSB and has superior profitability. It also has immediate growth and earnings accretion prospects if it successfully acquires and integrates the RACQ loan book and deposits.

On balance, we would expect TSB to transact at a discount to Bendigo.

The Bank of Queensland

BOQ is also substantially larger than TSB.

BOQ's loan book is heavily weighted to residential mortgages, with its business lending targeting small and medium enterprises. Approximately half of its customers are located in Queensland and around 30% in New South Wales and Western Australia.

It has recently undergone a major structural change, converting its franchised owner managed branches to corporate ownership. Historically, it has not delivered returns on equity comparable to its peers. It has a strong regional identity / presence and could be a challenger in the regions but it has struggled with its profitability and returns, particularly with the recent period of restructuring. Its recent ROE is marginally higher than TSB.

On balance, we would expect TSB to transact at a small discount to BOQ.

Judo Bank

Although not too dissimilar in size, Judo is structurally quite different to TSB, it is a SME specialist bank. It does not have a retail mortgage offering and no traditional branch network. Rather it operates through relationship bankers across Australia. It has a materially higher NIM compared to TSB which reflects its focus on the higher margin SME market. Judo is in a rapid growth phase and is targeting 50% earnings growth in FY26 and its loan book has more than doubled over the last three years. This is a different proposition to TSB which is a more mature, slower growth, residential mortgage community bank. Given the product niche is so different, we do not consider Judo to be a good direct comparator.

On balance, we would expect TSB to trade at a substantial discount to Judo.

Heartland

Heartland (the Group) is comparable in terms of size; however, its loan book composition is fundamentally different as has been described earlier in this Report and it has a Trans-Tasman presence. As with Judo, Heartland and TSB occupy very different product niches, with Heartland being a specialist lender.

Comparable transactions

We have also considered comparable transactions. It should be noted however, that there have been very few sales of banks, as going concerns, in New Zealand over the past decade. In 2023 Pepper Money acquired HSBC's New Zealand residential mortgages loan book (not the business); however, the price paid for the book has not been disclosed.

We have searched for sales of regional banks in Australia over the last five years.

MyState acquired Auswide Bank Limited (as a merger) in 2024, at a P/BV multiple of 0.83x. This transaction is comparable to the Proposed Transaction in that it created a larger, more diversified regional banking group. At the date of the transaction, Auswide Bank reported an ROE of approximately 4%; however, this was lower than its historical returns of between 7.8% and 9.8%. On balance we would expect TSB to trade at a similar level to Auswide.

Bendigo Bank recently announced its intention to acquire RACQ Bank's retail loan and deposit book; it is reported that the transaction will be completed at book value (i.e. 1.0x). We consider that it is reasonable for a loan book to transact at close to 1.0x as it does not have the structural overhead burden attached that a business would. The loan book and deposits can be integrated into Bendigo's existing business, adding incremental scale advantages.

Other recent transactions in financial institutions included the acquisition of Mortgage Choice and Mortgage Lenders; however, we do not consider these to be directly comparable as these entities are more akin to mortgage broking.

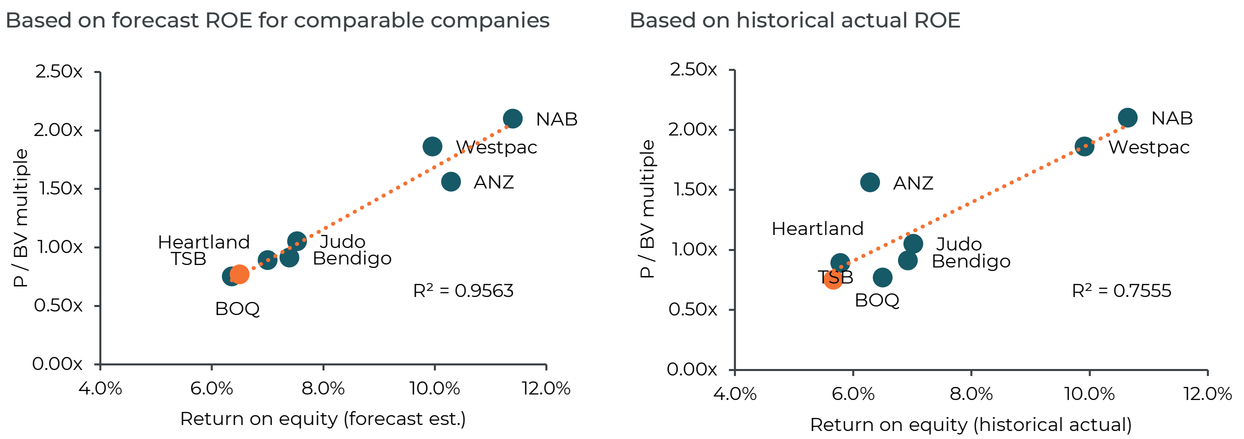
Relationship between P/BV and return on equity

We consider the relationship between P/BV and return on equity is of key importance when considering the proposed consideration. In general terms, companies which consistently report high ROEs demonstrate the ability to generate returns in excess of costs. All else being equal, investors are willing to pay a higher book value multiple for these companies. Conversely, companies with low or volatile ROEs tend to trade at lower P/BV multiples.

The following graph represents the correlation between the P/BV multiple and ROE based on the multiples observed for the sample of listed comparable companies. The ROE is calculated based on the most recent full year financial results.

Considering TSB's historical ROE, the multiple implied by the proposed consideration is reasonable relative to the listed comparable companies considering the relationship shown on the following graph.

Figure 17: P/BV and return on equity



The preceding figures show a regression analysis between the ROE and P/BV for the comparable companies. In a regression analysis the R^2 (coefficient of determination) measures the variation of one variable (P/BV) explained by the variation in another variable (ROE). It provides a measure of the explanatory power of the relationship between the variables. The R^2 is bounded by 1 and 0. An R^2 closer to 1.0 indicates a strong relationship between the variables, whereas a R^2 closer to zero implies a weak explanatory relationship between the variables. In this case a R^2 suggests that a very high proportion of the P/BV can be explained by the ROE, and for this reason we consider it is useful and informative analysis for the current purposes.

Considering the preceding analysis, we consider a reasonable P/BV multiple for TSB to transact at would be in the region of:

- 0.70x, being a small discount to BOQ; and
- 0.80x, being broadly equivalent to the Auswide transaction.

7. Pro-forma financial statements following the Proposed Transaction

The following table shows the indicative pro-forma financial statements for HGH following the Proposed Transaction. This is included to show the expected impact of the Proposed Transaction on key financial metrics. The purpose is to illustrate the change from HGH 'as-is' to HGH with the Merged Bank.

The financial information is based on the reported historical results for HGH and TSB, being 12 months ending December 2025.

The pro-forma accounts include merger adjustments. These are intended to reflect the run-rate, rather than one-off adjustments. For example, the adjustments include a full year of realised cost saving synergies (as that is what is expected to persist), but it does not include the one-off integration costs nor the transaction costs. This is done to make the comparison to HGH 'as-is', on a like-for-like basis. The one-off integration and transaction costs are included on the balance sheet as a liability – this is done to show these costs will need to be incurred to deliver the expected benefits.

The adjustments include the following:

- Tier 2 interest expense
- Vendor financing interest expense
- Cost synergies ($34 million)
- Tax effect related to the above.

TSB is a less profitable bank. It has lower NIM and higher CTI. Consequently, the Merged Bank (and HGH following the Proposed Transaction) will have a lower NPAT margin. However, given the structure of the Proposed Transaction, it will be EPS and DPS (assuming a consistent payout ratio) accretive to the existing HGH shareholders.

Although new equity will be issued, the price at which it is issued is not dilutive. HGH will issue shares to Toi at a price which is at a premium to the current market price of HGH.

HGH will acquire TSB at a discount to its book value, without an impairment to the assets and the Merged Bank will have substantially improved balance sheet leverage which delivers improved returns on equity.

We consider these are all fundamentally supportive of increasing shareholder returns and value.

Table 7: Pro-forma statements ($ millions)

	HGH as-is	TSB	Adjustments	HGH (with Merged Bank)
Summarised pro-forma income statement				
Interest income	674.2	499.2		1,173.4
Interest expense	(350.1)	(291.8)		(641.9)
Net interest income	324.1	207.4		531.5
Other operating income	14.1	14.4		28.5
Net operating income	338.2	221.8		560.0
Operating expenses	(188.9)	(148.9)	12.8	(325.0)
Profit before credit impairment and tax	149.4	72.9	12.8	235.0
Credit impairment losses / reversal of impairment loss and other	(29.4)	(1.2)		(30.6)
Profit before tax	120.0	71.7	12.8	204.4
Tax expense	(35.9)	(20.4)	(3.6)	(59.9)
Net profit after tax	84.0	51.3	9.2	144.5
Summarised pro-forma balance sheet				
Cash and cash equivalents	395.4	401.6	(50.0)[10]	747.0
Loan book	7,240.2	7,788.1		15,028.3
Investment securities	782.1	1,280.1		2,062.2
Other assets	390.9	68.1		459.0
Total assets	8,808.6	9,537.9	(50.0)	18,296.5
Deposits	(6,895.2)	(8,625.7)		(15,520.9)
Vendor financing			(264.0)[11]	(264.0)
Tier 2 capital			(56.0)[12]	(56.0)
One-off integration costs			(24.5)[13]	(24.5)
Other liabilities	(624.9)	(97.6)		(722.5)
Total liabilities	(7,520.1)	(8,723.3)	(344.5)	(16,587.9)
Total equity	1,288.6	814.6	(394.5)	1,708.6
Financial metrics				
Number of shares on issue	945.2			1,145.2
Earnings per share (cps)	*8.9*			*12.6*
NPAT Margin	*12.5%*	*10.3%*		*12.3%*
Return on equity (based on avg equity)	*6.7%*	*6.5%*		*8.6%*

[10] Transaction funding: Dividend paid by TSB to Toi immediately prior to completion of the Proposed Transaction

[11] Transaction funding: Vendor financing

[12] Transaction funding: Tier 2 capital

[13] One-off integration costs, net of tax.

Appendix 1: Sources of information

Documents relied upon

Key information sources we have used and relied on, without independent verification, in preparing this Report include the following:

- The Reserve Bank of New Zealand
- KPMG Financial Institutions Performance Survey 2024
- The Commerce Commission report on personal banking services, August 2024
- Retail banking in New Zealand: Customer satisfaction, use and perception compared with the rest of the world, November 2022 Boston Consulting Group
- New Zealand Treasury
- International Monetary Fund
- HGH annual reports, interim reports and investor presentations
- TSB annual reports
- CapitalIQ
- NZX announcements
- Listed company annual reports and financial statements

We have also had discussions with HGH's management team in relation to the nature of its operations and the known risks and opportunities for HGH in the foreseeable future.

Reliance upon information

In forming our opinion, we have relied upon and assumed, without independent verification, the accuracy and completeness of all information that was available from public sources and all information that was furnished to us by HGH and its advisers. We have no reason to believe any material facts have been withheld.

We have evaluated that information through analysis, enquiry and examination for the purposes of forming our opinion, but we have not verified the accuracy or completeness of any such information. We have not carried out any form of due diligence or audit on the accounting or other records of HGH. We do not warrant that our enquiries would reveal any matter that an audit, due diligence review or extensive examination might disclose.

Appendix 2: Qualifications and declarations

Qualifications

Calibre Partners is an independent New Zealand Chartered Accounting practice. The firm has established its reputation nationally through the provision of professional financial consultancy services with a corporate advisory and insolvency emphasis, and because we have no audit or tax divisions, we avoid potential conflicts of interest that may otherwise arise. This allows Calibre Partners to regularly act as an independent adviser and prepare independent reports.

The persons responsible for preparing and issuing this Report are Shaun Hayward, Grant Graham and Gillian Andrews. All have significant experience in providing corporate finance advice on mergers, acquisitions and divestments, advising on the value of shares and undertaking financial investigations.

Disclaimers

This Report should not be used or relied upon for any purpose other than as an expression of Calibre Partners' opinion as to merits of the proposed transaction. Calibre Partners expressly disclaims any liability to any Heartland shareholder that relies, or purports to rely, on this Report for any other purpose and to any other party who relies, or purports to rely, on the Report for any purpose.

This Report has been prepared by Calibre Partners with care and diligence, and the statements and opinions given by Calibre Partners in this Report are given in good faith and in the belief, on reasonable grounds, that such statements and opinions are correct and not misleading. However, no responsibility is accepted by Calibre Partners or any of its officers or employees for errors or omissions however arising (including as a result of negligence) in the preparation of the Report, provided that this shall not absolve Calibre Partners from liability arising from an opinion expressed recklessly or in bad faith.

Indemnity

Heartland has agreed that, to the extent permitted by law, it will indemnify Calibre Partners and its partners, employees and officers in respect of any liability suffered or incurred as a result of, or in connection with, the preparation of the Report. This indemnity does not apply in respect of any negligence, misconduct or breach of law. Heartland has also agreed to indemnify Calibre Partners and its partners, employees and officers for time incurred and any costs in relation to any inquiry or proceeding initiated by any person, except where Calibre Partners or its partners, employees and officers are guilty of negligence, misconduct or breach of law, in which case Calibre Partners shall reimburse such costs.

Independence

Calibre Partners and the persons responsible for the preparation of this Report do not have at the date of this Report, and have not had, any shareholding in, or other relationship, or conflict of interest with Heartland that could affect their ability to provide an unbiased opinion in relation to this transaction. Calibre Partners will receive a fee for the preparation of this Report. This fee is not contingent on the success or implementation of the proposed transaction or any transaction complementary to it. Calibre Partners and the persons responsible for the preparation of this Report have no direct or indirect pecuniary interest or other interest in this transaction. We note for completeness that a draft of this Report was provided to Heartland and its advisers, solely for the purpose of verifying the factual matters contained in this Report. While minor changes were made to the drafting, no material alteration to any part of the substance of this Report, including the methodology or conclusions, were made as a result of issuing the draft.

Consent

Calibre Partners consents to the issuing of the Report, in the form and context in which it is included, in the information to be sent to Heartland's shareholders. Neither the whole nor any part of the Report, nor any reference thereto, may be included in any other document without the prior written consent of Calibre Partners as to the form and context in which it appears.

Appendix 3: Glossary of key terms

Term	Definition
ADI	Authorised Deposit Taking Institution
CAGR	Compound Annual Growth Rate
CCCFA	The Credit Contracts and Consumer Finance Act 2003
CET1	Common Equity Tier 1
CoFI	Conduct of Financial Institutions Amendment Act 2022
CTI	Cost to income ratio
DCS	Depositor Compensation Scheme
DTI	Debt to Income ratio
HBAL	Heartland Bank Australia Limited
HBL	Heartland Bank Limited
HGH or Heartland	Heartland Group Holdings Limited
HYEFU	Half Year Economic and Fiscal Update
IMF	International Monetary Fund
LVR	Loan to Value Ratio
Merged Bank	Amalgamation of HBL and TSB
NIM	Net Interest Margin
NPAT	Net Profit After Tax
NPL	Non-Performing Loan
NSA	Non-Strategic Asset programme
OCR	Official Cash Rate
P/BV	Price to book value multiple
RBNZ	Reserve Bank of New Zealand
Report	This independent expert's report
ROE	Return on Equity
Toi	The Toi Foundation
TSB	TSB Bank Limited