



SCHEME BOOKLET

FOR A SCHEME OF ARRANGEMENT BETWEEN HEARTLAND BANK LIMITED AND ITS
SHAREHOLDERS IN RELATION TO THE PROPOSED CORPORATE RESTRUCTURE

VOTE IN FAVOUR

The board of Heartland Bank Limited unanimously recommends
that you vote in favour of the Restructure

Voting on the Restructure will take place at the
Annual Meeting to be held at 10am on 19 September 2018
at the Waipuna Hotel & Conference Centre, Auckland

IMPORTANT

This document is important and requires your prompt attention. You should read it carefully.

If you are in doubt as to any aspect of the Restructure, you should consult your financial, taxation or legal adviser.

If you have sold all your shares in Heartland Bank Limited, you should immediately hand this Scheme Booklet and the accompanying Notice of Meeting and proxy form to the purchaser or the agent (eg the broker) through whom the sale was made, to be passed to the purchaser.

An independent adviser's report on the merits of the Restructure for Shareholders is included in Appendix 1 and should be read in conjunction with this Scheme Booklet.

IMPORTANT NOTICES

General

This Scheme Booklet relates to the proposed corporate restructure (“**Restructure**”) of Heartland Bank Limited (“**Heartland Bank**”) and its subsidiaries (together, the “**Group**”).

The Restructure will result in:

- Heartland Bank becoming a wholly-owned subsidiary of a new listed parent company, “Heartland Group Holdings Limited” (“**New Listed Parent**”); and
- shares in Heartland Australia Holdings Pty Limited (“**Heartland Australia**”) and its subsidiaries (“**Australian Group**”) being transferred from Heartland Bank to the New Listed Parent so that Heartland Australia becomes a “sister” company of Heartland Bank.

Following the Restructure, the Group will also include the New Listed Parent.

The Restructure is to be implemented by way of a Court approved scheme of arrangement under Part 15 of the Companies Act and must be approved by Shareholders. In addition to the ordinary business of the annual meeting of Shareholders (“**Annual Meeting**”), Shareholders will be asked to consider and vote on the Restructure. A notice convening the Annual Meeting has been sent to Shareholders with this Scheme Booklet (“**Notice of Meeting**”).

This is an important document and requires your immediate attention. It is recommended you read this document in its entirety before deciding whether to vote for or against the Restructure Resolution. If the Restructure Resolution is approved by the requisite majority of Shareholders then, subject to all remaining key conditions to the implementation of the Restructure (as set out in Section 5 (*Further Details of the Restructure*)) being satisfied, including the Court granting the Final Court Orders, the Restructure will be implemented and will be binding on all Shareholders, including those who did not vote or who voted against the Restructure Resolution.

Purpose of this Scheme Booklet

The purpose of this Scheme Booklet is to provide you with the information that could reasonably be expected to be material to your decision whether to vote for or against the Restructure Resolution including:

- an outline of the background to, and rationale for, the Restructure;
- the advantages, disadvantages and risks, and other factors associated with the Restructure;
- the procedural steps required to effect the Restructure, including why you are being asked to vote;
- an overview of the Group on completion of the Restructure;

- an explanation as to why the Board believes the Restructure is in the best interests of all Shareholders; and
- a recommendation from the Board that you vote in favour of the Restructure Resolution.

This Scheme Booklet has been prepared in reliance upon the Financial Markets Conduct (Heartland Group) Exemption Notice 2018 (“**FMC Act Exemption**”) and is not a product disclosure statement. Heartland Bank remains subject to Part 2 of the Financial Markets Conduct Act 2013 and, as such, this Scheme Booklet must not contain statements that are misleading and/or deceptive and there must be reasonable grounds for each representation made.

As part of the Restructure process, Heartland Bank has engaged Cameron Partners Limited (“**Cameron Partners**”) to provide an independent adviser’s report on the merits of the Restructure for Shareholders (“**Independent Adviser’s Report**”). In its report Cameron Partners concluded that, on balance, it believes that the “potential value creation opportunities resulting from the Restructure outweigh the costs” (see pages 9 and 34 of the Independent Adviser’s Report). A copy of the Independent Adviser’s Report is included in Appendix 1 (*Independent Adviser’s Report Prepared in Relation to the Proposed Restructure of Heartland Bank Limited*).

This Scheme Booklet, when taken together with the Wrap that will be provided to NZX for release to the market upon implementation of the Restructure, also constitutes a “Profile” for the purposes of the NZX Listing Rules and the listing of the New Listed Parent on the NZX Main Board. The Wrap will record the outcome of the Annual Meeting and any other material events that have occurred in respect of Heartland Bank and/or the New Listed Parent since the date of this Scheme Booklet, as confirmed by Heartland Bank and the New Listed Parent.

Responsibility for information

Other than the Independent Adviser’s Report which appears in Appendix 1 (*Independent Adviser’s Report Prepared in Relation to the Proposed Restructure of Heartland Bank Limited*), this Scheme Booklet has been prepared by, and is the responsibility of, Heartland Bank.

No warranty as to performance

Except to the extent set out in this Scheme Booklet or as required by law (and then only to the minimum extent so required), no member of the Group (nor any of their respective associates, advisers, employees or current or proposed directors) warrants the performance of any member of the Group.

Your decision

This Scheme Booklet does not take into account your individual investment objectives, financial situation or needs. You must make your own decisions and take your own advice in this regard.

The information and recommendations contained in this Scheme Booklet do not constitute, and should not be taken as constituting, financial advice.

If you are in any doubt as to what you should do, you should seek advice from your financial, taxation, or legal adviser before making any decision regarding the Restructure.

Laws of New Zealand

This Scheme Booklet has been prepared in accordance with the laws of New Zealand. Accordingly, the information contained in this Scheme Booklet may not be the same as that which would have been disclosed in this Scheme Booklet if it had been prepared in accordance with the laws and regulations of another jurisdiction.

Information for Shareholders in other jurisdictions

This Scheme Booklet and the Restructure do not constitute an offer of New Listed Parent Shares in any jurisdiction in which it would be unlawful. The distribution of this Scheme Booklet outside of New Zealand may be restricted by law and persons who come into possession of it should observe any such restrictions. Any failure to comply with such restrictions may contravene applicable securities laws.

Nominees, custodians and other Shareholders who hold Heartland Bank Shares on behalf of a beneficial owner resident outside Australia, Bermuda, Canada, Macau, Malaysia, Qatar, Singapore, Switzerland, the United Kingdom and the United States (where the beneficial owner is resident in one of the states listed in Section 8, other than California or Connecticut) may not forward this Scheme Booklet (or accompanying documents) to anyone outside these countries without the consent of Heartland Bank.

For more information specific to your jurisdiction, you should refer to Section 8 (*Information for Shareholders Outside New Zealand*).

Shareholder warranties

Each Shareholder is deemed to have warranted to the New Listed Parent that all their Heartland Bank Shares (including any rights and entitlements attaching to those Heartland Bank Shares) which are transferred to the New Listed Parent under the Restructure will, at the time of transfer, vest in the New Listed Parent free from all encumbrances and interests of third parties of any kind.

Forward-looking statements

Certain statements contained in this Scheme Booklet constitute "forward-looking statements". Forward-looking statements can generally be identified by the use of forward-looking words such as 'may', 'could', 'anticipate', 'estimate', 'expect', 'opportunity', 'plan', 'continue', 'objectives', 'outlook', 'guidance', 'intend', 'aim', 'seek', 'believe', 'should', 'will' and similar expressions. Such forward-looking statements are not guarantees of future performance and involve known and unknown risks, uncertainties and other factors, many of which are beyond the control of Heartland Bank, Heartland Australia and the New Listed

Parent, which may cause actual results to differ materially from those expressed in or implied by the statements contained in this Scheme Booklet.

You are cautioned against relying on any such forward-looking statements. None of Heartland Bank, Heartland Australia or the New Listed Parent (or their respective associates, advisers, employees or current or proposed directors) gives any representation, assurance or guarantee that the occurrence of the events expressed or implied in any forward-looking statements in this Scheme Booklet will actually occur. Other than as required by law or by the rules of any applicable stock exchange, none of Heartland Bank, Heartland Australia or the New Listed Parent (or their respective associates, advisers, employees or current or proposed directors) is under any obligation to publicly release the result of any revisions to these forward-looking statements to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events.

Privacy and personal information

Heartland Bank and the New Listed Parent may collect personal information in the process of implementing the Restructure. Heartland Bank will be the controller of this personal information. Such information may include the name, contact details and shareholdings of Shareholders and the name and contact details of persons appointed by those persons to act as a proxy or corporate representative at the Annual Meeting. The primary purpose of the collection of personal information is to assist Heartland Bank and the New Listed Parent to conduct the Annual Meeting and implement the Restructure. This information is collected: (i) with the consent of the individual (such consent can be withdrawn at any time); (ii) because the information is necessary to conduct the Annual Meeting and implement the Restructure; and (iii) because it is necessary for the legitimate interests of Heartland Bank and/or the New Listed Parent, including for the Annual Meeting and the Restructure. Personal information of the type described above may be disclosed to Link Market Services, print and mail service providers, proxy solicitation firms, other members of the Group, service providers and advisers. Where any personal information is transferred overseas for the purposes set out above, Heartland Bank shall ensure that appropriate safeguards are put in place to protect the personal information. Unless requested otherwise, Heartland Bank will retain the personal information for as long as the relevant individual retains an interest in Heartland Bank or the New Listed Parent, and for seven years after the date on which this interest ends. Shareholders have certain individual rights to access, rectify, erase, object or restrict processing of the personal information that has been collected. Shareholders should contact Link Market Services in the first instance if they wish to access their personal information. Any complaints regarding the personal information should be directed to Heartland Bank at shareholders@heartland.co.nz or to the New Zealand Privacy Commissioner. Shareholders who appoint a named person to act as their proxy or corporate representative should make sure that person is actively aware of these matters.

No internet site forms part of this Scheme Booklet

Any references in this Scheme Booklet to any website are for informational purposes only. No information contained on any website forms part of this Scheme Booklet.

Diagrams, charts, maps, graphs and tables

Any diagrams, charts, maps, graphs and tables appearing in this Scheme Booklet are illustrative only and may not be to scale.

Effect of rounding

Any figures, amounts, percentages, prices, estimates, calculations of value and fractions in this Scheme Booklet may be subject to the effect of rounding. Accordingly, actual calculations may differ from amounts set out in this Scheme Booklet.

Notice of the Final Court Hearing

If you wish to oppose the Restructure at the Final Court Hearing, which is expected to be at 9 am on 19 October 2018, you must file a notice of appearance or a notice of opposition together with supporting documents on which you wish to rely at the High Court and at Heartland Bank's registered office by 5pm on 3 October 2018.

Defined terms and interpretation

Capitalised terms set out in this Scheme Booklet have the meanings given to them in the Glossary. Unless the context otherwise requires:

- (a) singular words include the plural and vice versa;
- (b) references to times and dates are to times and dates in New Zealand; and
- (c) references to amounts of currency are to New Zealand dollars, except where the term "A\$" is used where the reference is to Australian dollars.

Date of this Scheme Booklet

This Scheme Booklet is dated 15 August 2018.

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SECTION 1: LETTER FROM THE CHAIR

Dear shareholders,

On behalf of the Board, I am pleased to be writing to you about Heartland Bank's proposed corporate restructure which will provide the Group with a more suitable platform for future growth.

What is the Restructure?

The Restructure will result in Heartland Bank becoming a wholly owned subsidiary of a new company, the New Listed Parent.

Your current shares in Heartland Bank will be exchanged with new shares in the New Listed Parent on a one for one basis, and the Australian Group companies will be transferred from Heartland Bank to the New Listed Parent. Your shares in Heartland Bank will automatically convert into the same number of shares in the New Listed Parent (provided you are an Eligible Shareholder – see Section 4 (*Other Important Questions*) for more details).

The transfer of the Australian Group companies from Heartland Bank to the New Listed Parent will result in the Australian business no longer forming part of Heartland's "banking group", which comprises Heartland Bank and its current subsidiaries. As a result of the Restructure, Heartland will have a banking group that is regulated by the Reserve Bank and a non-banking group, which is not regulated by the Reserve Bank. This is a return to a similar structure that was in place prior to the amalgamation of Heartland Bank and Heartland New Zealand Limited in 2015.

Rationale for the Restructure

The Restructure will remove constraints on the growth of the Group's business currently arising from Reserve Bank regulations, and will provide greater flexibility for the Group to explore and take advantage of future growth opportunities in New Zealand and Australia outside the banking group. In addition, the Restructure will facilitate a Foreign Exempt Listing on the ASX, which will expand the capital sources available to the Group in order to fund growth.

Since the amalgamation in 2015, all of Heartland Bank's business activities have been regulated by the Reserve Bank, including the Australian reverse mortgage business (although it is not funded by New Zealand retail deposits).

The Australian reverse mortgage business has grown at a faster rate than was anticipated at the time of the amalgamation, which has been very pleasing. However, future growth is expected to be constrained as a result of the Reserve Bank's continued regulation of that business. This is because the Reserve Bank limits the extent to which Heartland Bank is able to fund its operations with secured wholesale funding¹ and the size of its operations in Australia².

Whilst Heartland Bank is currently able to operate its Australian business within those limitations, it will need to find alternative ways to fund growth, or ultimately constrain growth, in order to remain compliant in the future.

Heartland Bank has therefore decided to proceed with the Restructure which, if approved by Shareholders and the High Court, will move the current Australian Group companies outside of the banking group and allow the Australian business to continue to grow using its preferred method of funding (secured wholesale funding).

The creation of the non-banking group, which is not regulated by the Reserve Bank, will provide greater flexibility for the Group to explore and take advantage of growth opportunities in New Zealand and Australia outside the banking group. There is, however, no current intention to change the core business of the Group.

ASX listing

Heartland is seeking a Foreign Exempt Listing on the ASX as part of the Restructure. Heartland has been considering an ASX listing for some time, as it believes this will provide access to additional sources of capital for future growth opportunities. The Restructure facilitates an ASX listing by the New Listed Parent, as it will remove a key complication that has previously inhibited Heartland Bank from doing so (relating to the use of the word "bank" in its name). The New Listed Parent will have its primary listing on the NZX Main Board, but will also have a Foreign Exempt Listing on the ASX.

Independent Adviser

Heartland has engaged Cameron Partners to prepare an independent adviser's report on the Restructure, which is included in Appendix 1 of this Scheme Booklet. The purpose of the report is to provide an independent assessment of the merits of the Restructure for Shareholders. I encourage you to read and consider the Independent Adviser's Report.

¹ The Reserve Bank expects Heartland Bank to limit the extent to which its loans (both in New Zealand and Australia) are secured to wholesale funders to not more than 20%.

² It is a condition of Heartland Bank's registration as a registered bank that Heartland Bank must conduct a substantial portion of its business within New Zealand. This requires Heartland Bank's Australian assets to not exceed 33% of its total assets.



Ineligible Shareholders

Some Shareholders with a registered address outside New Zealand or Australia may be ineligible to receive New Listed Parent Shares under the Restructure because of regulatory constraints in their country (this is likely to be less than 1% of Shareholders). Instead, the shares in the New Listed Parent those Shareholders would have been entitled to receive under the Restructure will be sold on their behalf and they will receive the proceeds from that sale, without any deduction of brokerage costs and/or transaction fees. In addition, for a limited time following the Implementation Date of the Restructure, if those Shareholders purchase an equal or lesser number of shares in the New Listed Parent, they will be refunded any brokerage costs and/or transaction fees associated with this purchase. Shareholders with a registered address outside New Zealand or Australia should consult Section 8 (*Information for Shareholders Outside New Zealand*) to determine whether they are entitled to receive New Listed Parent Shares under the Restructure. Section 4 (*Other Important Questions*) contains further information on what will happen if you are not an Eligible Shareholder.

What do you need to do now?

Please read this Scheme Booklet carefully – it contains all of the information you should need regarding the Restructure. The Board encourages you to consider the Restructure and seek financial, tax or other professional advice if required.

The resolution approving the Restructure proposal must be passed by 75% or more of the votes of Shareholders entitled to vote and voting, and by more than 50% of the votes of all Shareholders entitled to vote (ie whether or not they vote on the Restructure).

Voting on the Restructure will occur at this year's Annual Meeting, in addition to the ordinary business of the meeting. A notice convening the Annual Meeting is being sent to Shareholders separately, which contains details of the resolution being put to shareholders and the procedures for voting.

Your vote is important, no matter how many shares you own. I strongly encourage you to vote on the Restructure.

The Board unanimously supports the Restructure and believes it is in the best interests of all Shareholders because:

- it will remove constraints on the growth of the Group's business currently arising from Reserve Bank regulations;
- it will provide greater flexibility for the Group to explore and take advantage of future growth opportunities in New Zealand and Australia outside the banking group regulated by the Reserve Bank;
- it will facilitate a Foreign Exempt Listing on the ASX, which will expand the capital sources available to the Group in order to fund growth; and
- while the Restructure will result in a small degree of increased overhead costs, the potential value creation opportunities outweigh these costs.

The Board unanimously recommends that you vote in favour of the Restructure.³ Each director intends to vote any shares he or she holds or controls in favour of the Restructure.

You can cast your vote by:

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

Please refer to the separate Notice of Meeting for further details. If you are unable to attend the Annual Meeting, please submit a postal vote or appoint a proxy to attend and vote in your place.

For those Shareholders who are attending the Annual Meeting, please bring your proxy form to the meeting. I look forward to seeing you there.

Yours sincerely,



Geoff Ricketts
Chair of the Board

³ As Jeff Greenslade is currently the sole director of the New Listed Parent, he may be "interested" in the Restructure for the purposes of the Companies Act and the NZX Listing Rules. Accordingly, while Jeff fully supports the Restructure, he is unable to vote on matters concerning the Restructure at meetings of the Board.

SECTION 2: KEY DATES

Event	Date
Time by which proxy forms must be received by Link Market Services	10am on 17 September 2018
Date for determining eligibility to vote at the Annual Meeting	5pm on 17 September 2018
Annual Meeting	10am on 19 September 2018

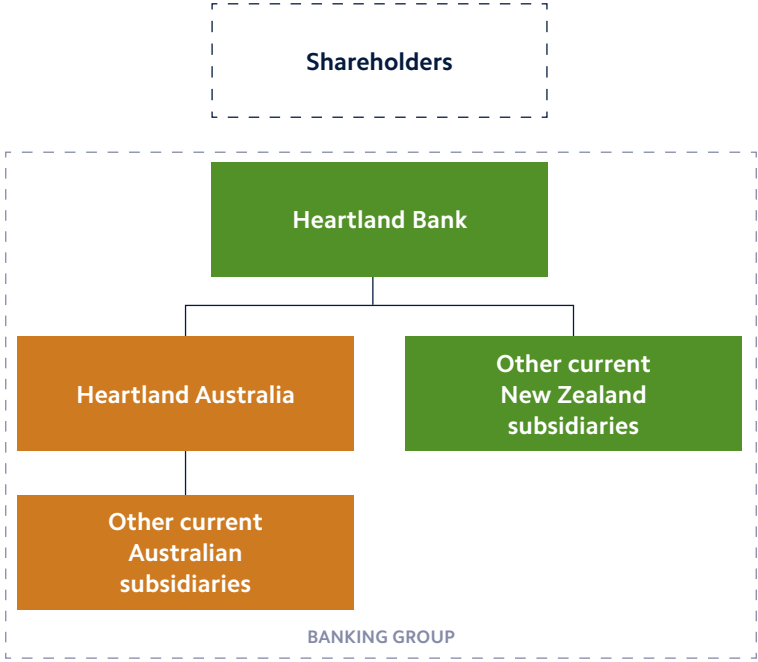
**IF THE RESTRUCTURE IS APPROVED BY SHAREHOLDERS
(The times and dates below may change and, among other things, are subject to Court approval)**

Receipt of the Final Court Orders	19 October 2018
Last day of trading in Heartland Bank Shares on the NZX Main Board (a trading halt will be applied to Heartland Bank Shares from 5pm on 26 October 2018. You will be unable to sell your New Listed Parent Shares until 10am on 1 November 2018)	26 October 2018
Record Date (the number of New Listed Parent Shares that will be issued to Shareholders on the Implementation Date will equal the number of Heartland Bank Shares held by Shareholders at this time and date)	5pm on 30 October 2018
Implementation Date (implementation of the Restructure, including the issue of New Listed Parent Shares to Shareholders)	31 October 2018
New Listed Parent Shares begin trading on the NZX Main Board and on the ASX, and holding statements mailed to New Listed Parent Shareholders	1 November 2018

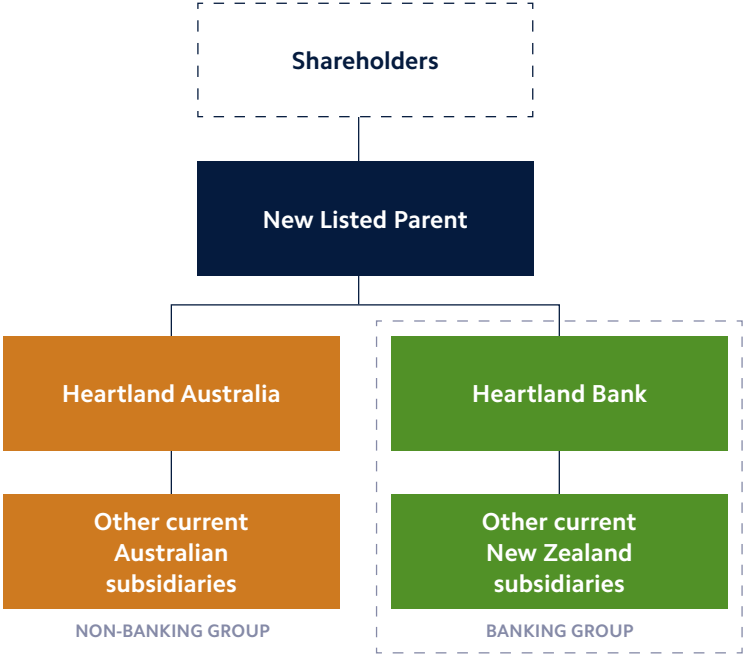
All times and dates referred to in this Scheme Booklet are times and dates in New Zealand, unless otherwise indicated. Heartland Bank reserves the right to amend the times and dates without prior notice.

SECTION 3: OVERVIEW OF THE RESTRUCTURE

CURRENT GROUP STRUCTURE (SIMPLIFIED)



GROUP STRUCTURE ON COMPLETION OF THE RESTRUCTURE (SIMPLIFIED)



RESTRUCTURE STEPS

The Restructure will involve the following steps:

- Shareholders exchange their Heartland Bank Shares on a one for one basis for New Listed Parent Shares. This results in Heartland Bank becoming a wholly owned subsidiary of the New Listed Parent, and Shareholders becoming New Listed Parent Shareholders.
- Heartland Australia is transferred from Heartland Bank to the New Listed Parent. This results in Heartland Australia becoming a wholly owned subsidiary of the New Listed Parent, and no longer being part of the Banking Group.

OVERVIEW OF THE GROUP ON COMPLETION OF THE RESTRUCTURE

The Restructure will create a new listed parent company for the Group, the New Listed Parent, which will hold all of the shares in:

- Heartland Bank, which will remain a registered bank in New Zealand regulated by the Reserve Bank, and will continue to operate the Group's current New Zealand business; and
- Heartland Australia, which will continue to be the head of the Australian Group that operates the Group's current Australian business.

On completion of the Restructure, the Group can be summarised as follows:

Group		
<i>New Listed Parent</i>	<i>Heartland Bank</i>	<i>Australian Group</i>
<ul style="list-style-type: none"> • The new parent company for the Group and holding company for Heartland Bank and the Australian Group • Shares listed on the NZX Main Board and the ASX • Limited number of management employees 	<ul style="list-style-type: none"> • Registered bank in New Zealand regulated by the Reserve Bank • Products include motor vehicle finance, reverse mortgage loans, small business loans, personal loans and livestock finance • Existing customers will not be affected by the Restructure • Heartland Bank's Unsubordinated Notes will remain listed on the NZX Debt Market 	<ul style="list-style-type: none"> • Specialist provider of reverse mortgage loans • Personal lending and small business lending • Existing customers will not be affected by the Restructure

RATIONALE FOR THE RESTRUCTURE

The Australian business has grown at a faster rate than was anticipated at the time of the amalgamation in 2015. Finance receivables in Australia have grown from NZ\$423 million on 31 December 2015 to NZ\$721 million on 30 June 2018, which represents an annual growth rate of 35%. This growth is primarily attributable to the Australian reverse mortgage business, which is funded by secured wholesale funding – the most efficient form of funding currently available to it in Australia.

Future growth is, however, expected to be constrained as a result of the Reserve Bank's continued regulation of the Australian business. This is because the Reserve Bank limits the extent to which Heartland Bank is able to fund its operations with secured wholesale funding⁴ and the size of its operations in Australia⁵. Whilst Heartland Bank is currently able to operate the business within those limitations, it will need to find alternative ways to fund growth, or ultimately constrain growth, in order to remain compliant in the future.

By moving the current Australian Group companies outside of the Banking Group, the Australian business will be able to continue to grow using its preferred method of funding, Australian sourced secured wholesale funding. However, the Restructure does not preclude Heartland Bank from conducting business in Australia, or holding Australian assets (including taking security over Australian assets), in the future.

In addition, the Restructure will also provide greater flexibility for the Group to explore and take advantage of growth opportunities outside of the Banking Group and will facilitate a Foreign Exempt Listing on the ASX.

⁴ The Reserve Bank expects Heartland Bank to limit the extent to which its loans (both in New Zealand and Australia) are secured to wholesale funders to not more than 20%.

⁵ It is a condition of Heartland Bank's registration as a registered bank that Heartland Bank must conduct a substantial portion of its business within New Zealand. This requires Heartland Bank's Australian assets to not exceed 33% of its total assets.

ASX LISTING

The New Listed Parent is seeking a Foreign Exempt Listing on the ASX, and intends for this to occur at the same time as the Restructure takes effect. An ASX listing is expected to give the New Listed Parent access to additional sources of capital, which will provide additional flexibility for future growth opportunities.

The New Listed Parent will have its primary listing on the NZX Main Board, but will also have a Foreign Exempt Listing on the ASX. Under a Foreign Exempt Listing, the New Listed Parent will only need to comply with a limited number of ASX Listing Rules (which are procedural in nature) in addition to the NZX Listing Rules.

The Board has been considering an ASX listing for some time. The Restructure facilitates an ASX listing as it removes a complication that currently inhibits Heartland Bank from listing in Australia, relating to the use of the word “bank” in its name. Under the new structure, the New Listed Parent will be able to apply for the Foreign Exempt Listing under the name “Heartland Group Holdings Limited”, which removes this complication.

ADVANTAGES OF THE RESTRUCTURE

The Restructure will remove constraints on the growth of the Group’s business currently arising from Reserve Bank regulations.

It will provide greater flexibility for the Group to explore and take advantage of future growth opportunities in New Zealand and Australia outside the Banking Group.

It will also facilitate a listing on the ASX, which will expand the capital sources available to the Group to fund growth.

DISADVANTAGES AND RISKS ASSOCIATED WITH THE RESTRUCTURE

Heartland Bank is expected to incur necessary transaction and other related costs in relation to the Restructure of approximately \$1.5 million, much of which has been necessary to incur prior to the time Shareholders vote at the Annual Meeting. Approximately one third of these costs are the initial listing fees payable to ASX.

It is anticipated that there will also be some degree of increased overhead costs associated with the introduction of the New Listed Parent, including additional management personnel, on-going ASX listing fees, and costs in relation to the separate governance and financial reporting arrangements required by the New Listed Parent and Heartland Bank. Some of these costs are also a natural consequence of continued growth and are likely to be incurred irrespective of whether the Restructure goes ahead. The additional costs are not definitively known, but are expected to be around \$600,000 per year. This represents less than 1% of Heartland Bank’s 2018 net profit after tax (NPAT) of \$67.5 million.

Following the Restructure, there is a risk that no growth opportunities arise or that the on-going additional costs of the Group are higher than expected. The Restructure will also limit the Group’s ability to fund the Australian business from New Zealand, due to Reserve Bank requirements on Heartland Bank.

BOARD RECOMMENDATION

The Board unanimously supports the Restructure and believes it is in the best interests of all shareholders because:

- it will remove constraints on the growth of the Group’s business currently arising from Reserve Bank regulations;
- it will provide greater flexibility for the Group to explore and take advantage of future growth opportunities in New Zealand and Australia outside the banking group regulated by the Reserve Bank;
- it will facilitate a Foreign Exempt Listing on the ASX, which will expand the capital sources available to the Group in order to fund growth; and
- while the Restructure will result in a small degree of increased overhead costs, the potential value creation opportunities outweigh these costs.

The Board unanimously recommends that you vote in favour of the Restructure.⁶ Each director intends to vote any shares he or she holds or controls in favour of the Restructure.

⁶ As Jeff Greenslade is currently the sole director of the New Listed Parent, he may be “interested” in the Restructure for the purposes of the Companies Act and the NZX Listing Rules. Accordingly, while Jeff fully supports the Restructure, he is unable to vote on matters concerning the Restructure at meetings of the Board.

SECTION 4: OTHER IMPORTANT QUESTIONS

This Section answers other important questions about the Restructure. It is not intended to address all relevant issues. This Section should be read together with all other parts of this Scheme Booklet.

Question	Answer
Restructure	
How will the Restructure impact Shareholders?	<p>Shareholders will hold shares in the New Listed Parent, which will be called "Heartland Group Holdings Limited", instead of holding shares in Heartland Bank. Shareholders will receive one share in the New Listed Parent for each share they hold in Heartland Bank on the Record Date.</p> <p>Shareholders will continue to have the same interest in the business as they do now – they will indirectly own Heartland Bank and the current Australian Group through their Shareholding in the New Listed Parent.</p> <p>The Restructure will create a non-banking group that is not regulated by the Reserve Bank. However, despite the creation of the non-banking group, there is no current intention to change the core business of the Group. Heartland Bank and the Banking Group will continue to be regulated by the Reserve Bank.</p> <p>For Shareholders that are New Zealand tax residents and hold their shares on capital account, the Restructure should not result in any New Zealand tax being payable by the Shareholder.</p> <p>For Shareholders that are Australian tax residents and hold their shares on capital account, the Restructure should not result in any Australian tax being payable by the Shareholder, due to the availability of rollover relief.</p> <p>All Shareholders are advised to obtain their own professional advice on the tax implications of the Restructure for them based on their own specific circumstances.</p> <p>Further details as to the New Zealand and Australian tax consequences for Shareholders in relation to the Restructure are contained in Section 7 (<i>Taxation Implications for Shareholders</i>).</p>
What happens if the Restructure does not proceed?	<p>If the Restructure does not proceed:</p> <ul style="list-style-type: none">• you will retain your current holding of Heartland Bank Shares which will continue to trade on the NZX Main Board;• the Australian Group will continue to be held by Heartland Bank and be part of the Banking Group;• the Group will continue to be subject to constraints on funding and asset growth, which may impact performance;• for reasons discussed in further detail in Section 5 (<i>Further Details of the Restructure</i>), Heartland Bank will not easily be able to seek a listing on the ASX and will need to explore other options; and• the Board and management may consider other alternatives to the Restructure.

Question	Answer
<p>Who is an Eligible Shareholder?</p>	<p>All Shareholders with a registered address in New Zealand at 5pm on the Record Date will be Eligible Shareholders.</p> <p>In addition, you will be an Eligible Shareholder if you have a registered address in one of the following jurisdictions at 5pm on the Record Date (subject to the qualifications described in Section 8):</p> <ul style="list-style-type: none"> • Australia; • Bermuda; • Canada; • Denmark; • Finland; • France; • French Polynesia; • Germany; • Hong Kong; • Japan; • Luxembourg; • Macau; • Malaysia; • Netherlands; • Norway; • the People's Republic of China; • Portugal; • Qatar; • Spain; • Singapore; • Switzerland; • Thailand; • the United Kingdom; or • the United States. <p>If you have a registered address in one of the above jurisdictions (other than New Zealand) you should read Section 8 (<i>Information for Shareholders Outside New Zealand</i>) for more information specific to your jurisdiction.</p> <p>At Heartland Bank's discretion, it may deem persons with a registered address in other jurisdictions to be Eligible Shareholders.</p>
<p>Can I choose to receive cash instead of New Listed Parent Shares?</p>	<p>No, there is no option to receive cash instead of New Listed Parent Shares.</p> <p>Shareholders who do not wish to receive New Listed Parent Shares may either:</p> <ul style="list-style-type: none"> • sell their Heartland Bank Shares at any time prior to their trading on the NZX Main Board being halted; or • sell their New Listed Parent Shares once they have commenced trading. <p>You may incur brokerage in respect of any such sale.</p>

Question	Answer
<p>What if I am not an Eligible Shareholder?</p>	<p>If you are not an Eligible Shareholder as at 5pm on the Record Date, you will not receive any New Listed Parent Shares, as it may be unlawful to issue Shares to you.</p> <p>Instead of New Listed Parent Shares, you will receive cash. The cash you receive will be the proceeds from the sale of the New Listed Parent Shares you would have been entitled to receive had you been an Eligible Shareholder. Those shares will be held on trust for you by NZGT and sold on-market once New Listed Parent Shares have commenced trading (any brokerage costs and/or transaction fees associated with this sale will be paid by the New Listed Parent).</p> <p>NZGT will appoint a New Zealand broking firm (as chosen by the New Listed Parent) to sell the relevant New Listed Parent Shares on-market and will liaise with Link Market Services to ensure that the proceeds of the sale are returned to the original Shareholder as soon as practicable following the Implementation Date. If, within five Business Days of the Implementation Date, that original Shareholder advises the New Listed Parent that it has purchased an equal or lesser number of New Listed Parent Shares and provides the New Listed Parent with evidence of any brokerage costs and/or transaction fees incurred in relation to that purchase, the New Listed Parent will refund those brokerage costs and transaction fees to that Shareholder.</p> <p>As the New Listed Parent Shares of those Shareholders who are not Eligible Shareholders will be sold on-market (rather than those shares being purchased by the New Listed Parent), the purchase of these shares will not represent a cost to the New Listed Parent (other than any brokerage costs and/or transaction fees incurred in relation to the sale, which will be paid by the New Listed Parent but are not expected to be material).</p>
<p>Will I need to make any payments to participate in the Restructure?</p>	<p>No.</p>
<p>What if I don't support the Restructure?</p>	<p>A Shareholder who does not support the Restructure may:</p> <ul style="list-style-type: none"> • sell their Heartland Bank Shares at any time prior to their trading on the NZX Main Board being halted; • vote against the Restructure at the Annual Meeting (although there are no other dissent or buy-out rights for Shareholders who do not support the Restructure); and • if they wish to do so, appear and be heard at the Application for Final Orders after filing in Court and serving upon Heartland Bank a notice of opposition and supporting documents (see Section 5 (<i>Further Details of the Restructure</i>)).
<p>Will other stakeholders be affected?</p>	<p>In respect of depositors of Heartland Bank, the Restructure will decrease the proportion of Heartland Bank's assets that are secured against residential property, which is a result of the current Australian Group companies moving outside of the Banking Group. However, Heartland Bank does not believe this will affect depositors. It also does not believe that other stakeholders will be affected by the Restructure.</p> <p>The Reserve Bank has also provided its non-objection to the New Listed Parent acquiring all of the shares in Heartland Bank (subject to limited conditions that Heartland Bank believes it will satisfy), and the Board is confident that the Restructure will not have an impact on Heartland Bank's credit rating.</p>

Question	Answer
<p>If the Restructure is a return to a previous structure, why did Heartland Bank amalgamate in 2015?</p>	<p>The purpose of the 2015 amalgamation was to simplify Heartland’s organisational structure. As a result, other businesses (in particular the Australian reverse mortgage business) were brought into the Banking Group.</p> <p>Given the stronger than anticipated growth in the Australian business, and the likelihood of the future growth of that business being constrained by the Reserve Bank’s regulation, the Group considers it is now an appropriate time to move the current Australian Group companies outside of the Banking Group.</p>
<p>What will happen to Heartland Bank’s listed bonds?</p>	<p>Heartland Bank’s Unsubordinated Notes will remain listed on the NZX Debt Market. As such, treatment of the Unsubordinated Notes will be unchanged.</p>
<p>What will the Group look like after the Restructure?</p>	
<p>What will the New Listed Parent do after the Restructure?</p>	<p>The New Listed Parent will, at the time of the Restructure, have no material assets other than its shares in Heartland Bank and the Australian Group companies. Its shares will be listed on the NZX Main Board and the ASX.</p> <p>The New Listed Parent will have a limited number of employees, including a core management group called the “Group Executive”. All other employees will remain employees of Heartland Bank or the Australian Group.</p> <p>Under the Group Services Agreement, management services will be provided across the Group as required, including the provision of management services by the Group Executive to Heartland Bank and the Australian Group. More information regarding the Group Services Agreement is set out in Section 6 (<i>What Will the Group Look Like After the Restructure?</i>).</p>
<p>How will the Restructure affect the Board and governance arrangements?</p>	<p>The current directors of Heartland Bank will sit on one or more of the Group’s boards on completion of the Restructure.</p> <p>The directors of each Group company must act in the best interests of that company. In addition, as a registered bank, Heartland Bank’s constitution must not include a provision that permits a director, when exercising powers or performing duties, to act other than in what he or she believes to be the best interests of Heartland Bank. This means that Heartland Bank’s directors may not act in the best interests of the New Listed Parent if that act is not also in the best interests of Heartland Bank.</p> <p>More details, including profiles of the members of each board, are set out in Section 6 (<i>What Will the Group Look Like After the Restructure?</i>).</p>
<p>Can I transfer my New Listed Parent Shares from the New Zealand register to the Australian register?</p>	<p>On the Implementation Date, all New Listed Parent Shares will be registered on the New Zealand register by default. After the Implementation Date, if any Shareholder wishes to transfer their New Listed Parent Shares from the New Zealand register to the Australian register (and trade their New Listed Parent Shares on the ASX), they should contact Link Market Services.</p>
<p>What will the New Listed Parent’s share price be after the Restructure?</p>	<p>There is no certainty as to the price of New Listed Parent Shares after the Restructure.</p>
<p>What will be the New Listed Parent’s dividend policy?</p>	<p>The New Listed Parent’s dividend policy will, in all material respects, be the same as Heartland Bank’s current dividend policy, which is available at https://shareholders.heartland.co.nz/shareholder-resources/dividends.</p>
<p>Could Heartland Bank conduct business in Australia or hold Australian assets following the Restructure?</p>	<p>Yes. Nothing in the Restructure precludes Heartland Bank from conducting business in Australia, or holding Australian assets (including taking security over Australian assets) in the future.</p>

Question	Answer
Voting on the Restructure	
What are the voting thresholds?	<p>For the Restructure to proceed, the Restructure must be approved by:</p> <ul style="list-style-type: none"> • a majority of 75% of the votes of Shareholders entitled to vote and voting on the Restructure Resolution; and • a majority (being more than 50%) of the votes of those Shareholders entitled to vote on the Restructure Resolution (ie whether or not they vote on the Restructure Resolution). <p>Both of the above voting thresholds must be met for the Restructure Resolution to be approved.</p> <p>If the Restructure would result in a different effect for a group of Shareholders, that group could form a separate interest class for the purposes of voting on the Restructure. As at the date of this Scheme Booklet, all Shareholders form part of a single interest class, because each Shareholder is treated in the same way under the Restructure.</p>
Who is entitled to vote on the Restructure?	Shareholders as at 5pm on 17 September 2018 are entitled to vote on the Restructure at the Annual Meeting.
When and where is the Annual Meeting?	The Annual Meeting will be held at 10am on 19 September 2018 at the Waipuna Hotel & Conference Centre. Refer to the Notice of Meeting for further details.
What if I cannot attend the Annual Meeting in person?	Shareholders who cannot attend the Annual Meeting are strongly encouraged to submit a postal vote or appoint a proxy to attend and vote at the Annual Meeting on their behalf. Refer to the Notice of Meeting for further details.
Further questions	
If you have any further questions, it is recommended that you consult your financial, taxation or legal adviser before voting on the Restructure.	

SECTION 5: FURTHER DETAILS OF THE RESTRUCTURE

HOW THE RESTRUCTURE WILL BE EFFECTED

The process for giving effect to the Restructure is as follows:

- The New Listed Parent has been incorporated as a New Zealand company, with a single redeemable ordinary share being held by NZGT Security Trustee Limited (“**NZGT**”), a subsidiary of The New Zealand Guardian Trust Company Limited.
- In exchange for each Heartland Bank Share held by each Shareholder on the Record Date, the New Listed Parent will issue to each Shareholder the same number of New Listed Parent Shares.
- At the same time as the exchange of shares, NZGT’s redeemable ordinary share in New Listed Parent will be redeemed by the New Listed Parent.
- Following the exchange of shares and the redemption of NZGT’s redeemable ordinary share, Shareholders will own New Listed Parent Shares, and the New Listed Parent will own all Heartland Bank Shares.
- Heartland Australia will be transferred from Heartland Bank to the New Listed Parent. This will result in Heartland Australia becoming a wholly owned subsidiary of the New Listed Parent (as opposed to a wholly owned subsidiary of Heartland Bank).
- New Listed Parent Shares will be listed on the NZX and the ASX, and Heartland Bank Shares will cease to be listed on the NZX (as they will all be owned by the New Listed Parent).

For the Restructure to proceed it must first be approved by the requisite majority of Shareholders at the Annual Meeting. The Court must then grant the Final Court Orders. If the requisite majority of Shareholders vote in favour of the Restructure and the Final Court Orders are granted, the Restructure will be implemented and binding on all Shareholders, including those who did not vote or who voted against the Restructure Resolution.

There is a risk that the Court will refuse to grant the Final Court Orders or that the granting of the Final Court Orders is delayed, despite Shareholder approval. The Restructure cannot be implemented unless the Final Court Orders are granted.

Rights attaching to New Listed Parent Shares

All New Listed Parent Shares issued to Shareholders under the Restructure will be fully paid ordinary shares that rank equally between them. The key features of the ordinary shares in New Listed Parent do not differ from those that generally apply to ordinary shares in a company incorporated in New Zealand and are the same as those of Heartland Bank Shares.

KEY CONDITIONS

The key conditions for the Restructure to be implemented are:

- approval of the Restructure Resolution by Shareholders at the Annual Meeting;
- the provision of a “no objection” statement by the Takeovers Panel;
- the redemption of Heartland Bank’s existing Tier 2 Notes; and
- Court approval of the Restructure through the granting of the Final Court Orders.

All of these conditions must be satisfied for the Restructure to proceed.

There are further key conditions for the Restructure, which have already been satisfied. These are the Reserve Bank having provided its non-objection to the New Listed Parent acquiring all of the shares in Heartland Bank (which has been provided subject to limited conditions that Heartland Bank believes it will satisfy), NZX having granted the NZX Waivers and the FMA having granted the FMC Act Exemption.

Heartland Bank currently has A\$20 million of Tier 2 Notes on issue. The Tier 2 Notes are a form of subordinated debt that receives regulatory capital treatment from the Reserve Bank and are different to Heartland Bank’s Unsubordinated Notes, which will continue to be listed on the NZX. The terms of the Tier 2 Notes include a provision that holders of the notes will receive shares in Heartland Bank upon the occurrence of a non-viability trigger event, but do not contemplate a circumstance where Heartland Bank Shares are not listed on the NZX Main Board. Heartland Bank therefore is seeking to redeem the Tier 2 Notes and is currently liaising with the holders regarding the redemption of the notes. The Reserve Bank has also provided its non-objection to the redemption of the notes.

The redemption of the Tier 2 Notes decreases the Group’s borrowings by A\$20 million. It will also slightly reduce Heartland Bank’s total capital ratio, but this will not have a material impact on Heartland Bank’s capital adequacy position.

NZX AND ASX LISTINGS OF THE NEW LISTED PARENT

If the Restructure proceeds, the New Listed Parent will be listed on both the NZX Main Board and the ASX. New Listed Parent will trade on both the NZX and the ASX under the name “Heartland Group Holdings Limited” and the ticker code “HGH”.

For the purposes of the Foreign Exempt Listing on the ASX, the share register of the New Listed Parent will be separated into two registers – a New Zealand register and an Australian register.

On the Implementation Date, all New Listed Parent Shares will be registered on the New Zealand register by default. After the Implementation Date, if any New Listed Parent Shareholder wishes to transfer their New Listed Parent Shares from the New Zealand register to the Australian register (and trade their New Listed Parent Shares on the ASX), they should contact Link Market Services.

NZX Listing

It is intended that New Listed Parent Shares will be listed and tradeable on the NZX Main Board on the Business Day following the Implementation Date.

Application has been made to NZX for permission to list the New Listed Parent and to quote New Listed Parent Shares on the NZX Main Board. All of NZX’s requirements relating to that application that can be complied with on or before the date of this Scheme Booklet have been duly complied with. However, NZX accepts no responsibility for any statement in this Scheme Booklet.

The NZX Main Board is a licensed market operated by NZX, which is a licensed market operator regulated under the New Zealand Financial Markets Conduct Act 2013.

ASX Listing

It is intended that New Listed Parent Shares will be listed and tradeable on the ASX on the Business Day following the Implementation Date.

Application has been made to ASX for the New Listed Parent to be admitted to the official list of ASX as an ASX Foreign Exempt Listing and for New Listed Parent Shares to be granted official quotation on the financial market operated by ASX. ASX is not a registered market under the New Zealand Financial Markets Conduct Act 2013.

If the New Listed Parent is admitted as an ASX Foreign Exempt Listing, it will need to comply with the NZX Listing Rules (other than as waived by NZX), but will not need to separately comply with the majority of the ASX Listing Rules. The New Listed Parent will need to comply only with the rules specified in ASX Listing Rule 1.15, which are generally procedural in nature. The New Listed Parent will not be subject to substantive ASX Listing Rule requirements such as the rules on continuous disclosure, periodic reporting, shareholder approval of share issuances, escrow, transactions with persons of influence and significant transactions.

ASX takes no responsibility for the contents of this Scheme Booklet or for the merits of the Restructure to which this Scheme Booklet relates. Admission to the official list of ASX and quotation of New Listed Parent Shares on the ASX are not guaranteed and are not to be taken as an indication of the merits, or as an endorsement by ASX, of the Restructure, the New Listed Parent or New Listed Parent Shares.

Failure to achieve admission to list on ASX will not, of itself, prevent the Restructure from proceeding.

Holding Statements

Holding statements for New Listed Parent Shares issued to Shareholders under the Restructure will be sent as soon as practicable after the Implementation Date. Shareholders can confirm their shareholdings by contacting Link Market Services, whose contact details are set out in the Directory.

Selling New Listed Parent Shares on ASX and CHES

The New Listed Parent will apply to participate in CHES in accordance with the ASX Settlement Operating Rules. CHES is an automated transfer and settlement system for transactions in securities quoted on ASX under which transfers are effected in an electronic (ie paperless) form.

INDEPENDENT ADVISER’S OPINION

Heartland Bank has engaged Cameron Partners as the Independent Adviser to prepare a report on the Restructure for Shareholders. The provision of such a report is common for New Zealand schemes of arrangement. The purpose of the report is to provide an independent assessment of the merits of the Restructure for Shareholders.

The Independent Adviser has concluded that, on balance, “the potential value creation opportunities resulting from the Restructure outweigh the costs.”

The Independent Adviser's Report is contained in Appendix 1 (*Independent Adviser's Report Prepared in Relation to the Proposed Restructure of Heartland Bank Limited*). Please refer to pages 9 and 34 of the Independent Adviser's Report for a summary of the Independent Adviser's conclusions.

COURT APPROVED SCHEME OF ARRANGEMENT

The Restructure is to be implemented by way of a Court approved scheme of arrangement under Part 15 of the Companies Act. Under Part 15, the Court is empowered to make orders binding on Heartland Bank, Shareholders, the New Listed Parent, New Listed Parent Shareholders, NZGT and other affected parties. In accordance with the Initial Court Orders made by the Court on 9 August 2018, Heartland Bank is required to convene a meeting of Shareholders to consider the Restructure.

Heartland Bank has already commenced the Court process to obtain Final Court Orders. Provided the Restructure Resolution is passed by the requisite majority at the Annual Meeting and the other conditions required to implement the Restructure as set out in this Scheme Booklet are satisfied, Heartland Bank can seek the Final Court Orders. The Final Court Orders will make the Restructure binding on Heartland Bank, the New Listed Parent, NZGT and Shareholders subject to its terms. A copy of the Initial Court Orders, and Heartland Bank's application for Final Court Orders is available at <https://shareholders.heartland.co.nz/shareholder-resources/reports-results-presentations>. A physical copy can also be viewed at the registered office of Heartland Bank (which is set out in the Directory).

The Initial Court Orders included the following:

- Any Shareholder who wishes to appear and be heard on the application for Final Court Orders must, by 5pm on 3 October 2018, file and serve on Heartland Bank at its registered address for service a notice of appearance or a notice of opposition (both containing an address for service within New Zealand) and, if they oppose the application, any affidavits and a memorandum of submissions on which they intend to rely. Heartland Bank shall, by 5pm on 12 October 2018, serve upon that Shareholder (at the stated address for service) a copy of all documents filed in support of the application for Final Court Orders.
- Any other person who considers they have a proper interest in the Restructure and who wishes to appear and be heard on the application for Final Court Orders must, by 5pm on 3 October 2018, file and serve on Heartland Bank at its registered address for service an application for leave to be heard on the application for Final Court Orders (containing an address for service within New Zealand), a notice of opposition, any affidavits and a memorandum of submissions upon which that person intends to rely. Heartland Bank shall, by 5pm on 12 October 2018, serve upon that person (at the stated address for service) a copy of all documents filed in support of the application for Final Court Orders.

If the Court considers a hearing of the application for Final Court Orders to be necessary, the application for Final Court Orders will be heard by the High Court at Auckland at 9am on 19 October 2018. In accordance with the Initial Court Orders, the only persons entitled to appear and be heard at Heartland Bank's application for Final Court Orders will be:

- Heartland Bank and the New Listed Parent;
- the Takeovers Panel;
- NZGT;
- those Shareholders who file a notice of appearance or a notice of opposition to Heartland Bank's application for Final Court Orders; and
- those persons who claim to have an interest in the Restructure who file an application for leave to be heard and a notice of opposition to Heartland Bank's application for Final Court Orders, and who are subsequently granted leave to appear and be heard at the hearing of Heartland Bank's application for Final Court Orders.

If the hearing of Heartland Bank's application for Final Court Orders approving the Restructure is adjourned, only those persons referred to above need be served with notice of the adjourned date.

TAKEOVERS PANEL NO OBJECTION STATEMENT

Under the Companies Act, when exercising its discretion to approve a scheme of arrangement, the Court may rely on a statement from the Takeovers Panel indicating that the Takeovers Panel has no objection to the High Court making orders to approve the scheme. This is commonly referred to as a "no objection statement".

Heartland Bank has applied for a no objection statement. The Takeovers Panel will not issue a no objection statement until just before documents are filed for the Final Court Hearing in respect of the Restructure. This will be after the Annual Meeting.

In the meantime, the Takeovers Panel has provided Heartland Bank with a preliminary statement, called a "letter of intention", of its views on the Restructure. In its letter of intention, the Takeovers Panel has indicated that it has formed an initial view, based on the information that has been provided to it, that it intends at this stage to issue a no objection

statement in respect of the Restructure prior to the Final Court Hearing. The letter of intention was presented to the High Court before it made the Initial Court Orders.

Role of the Takeovers Panel and High Court

The fact that the Takeovers Panel has provided a letter of intention indicating that it does not intend to object to the scheme, or that the High Court has ordered that a meeting be convened, does not mean that the Takeovers Panel or the Court:

- has formed any view as to the merits of the proposed scheme or as to how Shareholders should vote (on this matter Shareholders must reach their own decision); or
- has prepared, or is responsible for the content of, the scheme documents or any other material.

When considering whether to provide a no objection statement, the Takeovers Panel will consider the Takeovers Code's disclosure requirements, the extent to which any separate interest classes of Shareholders have been adequately identified under the Restructure and the other protections available to Shareholders under the Restructure.

Even where a no objection statement is issued by the Takeovers Panel, the High Court still has ultimate discretion whether or not to approve a scheme.

WAIVERS FROM NZX LISTING RULES

In connection with the Restructure, Heartland Bank and the New Listed Parent have been granted a waiver from NZX Listing Rules 5.1.1 and 5.2.1, so that the New Listed Parent's application to list on the NZX Main Board need not be made through a Primary Market Participant acting as an Organising Participant.

SECTION 6: WHAT WILL THE GROUP LOOK LIKE AFTER THE RESTRUCTURE?

NEW LISTED PARENT

Board

Following implementation of the Restructure, the New Listed Parent Board will comprise Geoff Ricketts (Chair), Greg Tomlinson, Chris Mace, Ellie Comerford and Jeff Greenslade, all of whom are current members of the Board of Heartland Bank. Biographies for these directors are set out below.



Geoff Ricketts

CNZM, LLB (Hons), LLD (honoris causa), CFIInstD – *Chair and Independent Non-Executive Director*
Auckland

TERM OF OFFICE

Appointed to the Board of Heartland Bank on 30 September 2010 (last elected 21 November 2017)

BOARD COMMITTEES

- Chair of the Group Governance, People, Remuneration and Nominations Committee
- Chair of the Group Corporate Finance Committee
- Member of the Group Audit and Risk Committee

Geoff is a company director and investor with wide experience in the New Zealand and Australian business environments. He holds a number of directorships, including Chair of Todd Corporation Limited, Chair of Suncorp Group (NZ) Limited and Chair of Vero Insurance New Zealand Limited. Geoff chairs The University of Auckland Foundation and is a strong supporter of community and philanthropic activities, particularly in relation to the arts and education in New Zealand.

Ellie Comerford

BEC – *Independent Non-Executive Director*
Australia

TERM OF OFFICE

Appointed to the Board of Heartland Bank on 1 January 2017 (last elected 21 November 2017)

BOARD COMMITTEES

- Chair of the Group Audit and Risk Committee
- Member of the Group Corporate Finance Committee

Ellie has worked for more than 30 years in financial services in Australia and overseas across a range of banking and insurance businesses in both an executive and non-executive capacity. Her most recent executive role was as CEO and Managing Director of Genworth Mortgage Insurance Australia Limited successfully listing the company on the ASX in 2014.

Ellie is a non-executive director for financial services businesses in Australia including Cash Converters International Limited and Hollard Insurance Australia. Ellie has significant experience in strategy planning, business development, risk management, corporate finance, and operations management, and brings a track record of enhancing financial performance and leadership culture within organisations.

Ellie has a strong passion for promoting diversity and is a member of Chief Executive Women in Australia, a forum to educate and influence Australian business and government on the importance of gender balance.

Jeff Greenslade

LLB – *Executive Director and Chief Executive Officer*
Auckland

TERM OF OFFICE

Appointed to the Board of Heartland Bank on 30 September 2010 (last elected 31 December 2015)

BOARD COMMITTEES

Member of the Group Corporate Finance Committee

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

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

Sir Christopher Mace

KNZM, CMInstD – *Independent Non-Executive Director*
Ngati Porou, Te Whanau-a-Apanui
Auckland

TERM OF OFFICE

Appointed to the Board of Heartland Bank on 30 September 2010 (last elected 21 November 2017)

BOARD COMMITTEES

Member of the Group Audit and Risk Committee

Sir Chris is an Auckland based company director with experience in the New Zealand and Australian business environments. Sir Chris is a past Chairman of the Crown Research Institutes ESR (forensic and environmental science), NIWA (climate, freshwater and ocean science) and the New Zealand Antarctic research unit, Antarctica New Zealand. He is a Commissioner for the Tertiary Education Commission. Sir Chris continues as a director and/or investor in a number of companies

In 2014 he was awarded the Companion of the New Zealand Order of Merit (CNZM) for services to Antarctica and the community and in 2016 was appointed as a Knight Companion of the New Zealand Order of Merit for services to science and education. Sir Chris was named Maori Business Leader of the Year in 2012 and was inducted into the Business Hall of Fame in 2015.

Greg Tomlinson

AME – *Non-Executive Director*
Blenheim

TERM OF OFFICE

Appointed to the Board of Heartland Bank on 18 March 2013 (last elected 21 November 2017)

BOARD COMMITTEES

Member of the Group Governance, People, Remuneration and Nominations Committee

Member of the Group Corporate Finance Committee

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

Employees

On completion of the Restructure, with the exception of the Group Executive and the Investor Relations Manager, all other Group employees will remain employed by Heartland Bank or the Australian Group companies under their existing employment arrangements.

Group Executive

The Group Executive comprises:

- the Group Chief Executive Officer, Jeff Greenslade;
- the Group Chief Financial Officer, David Mackrell;
- the Head of Corporate Finance, Andrew Dixon;
- the Group General Counsel, Michael Drumm; and
- the Head of Internal Audit, Myles Perry.

These executives will be employees of the New Listed Parent and will oversee the operations of the Group. Unlike other staff members who will either be dedicated to Heartland Bank and its subsidiaries, or Heartland Australia and its subsidiaries, the Group Executive will spend their time across Heartland Bank, Heartland Australia and their respective subsidiaries, and any other subsidiaries of the Group from time to time. The Group Executive will devote a substantial majority of their time to the activities of Heartland Bank. In addition to the Group Executive, the Investor Relations Manager will be an employee of the New Listed Parent.

Corporate Governance

The New Listed Parent will have governance arrangements similar to those existing for Heartland Bank prior to the Restructure, which are consistent with those required and expected of listed companies, including the NZX Listing Rules and the NZX Corporate Governance Code 2017. Information on Heartland Bank's current corporate governance arrangements and key policies can be found at shareholders.heartland.co.nz.

Board Remuneration

The base fees payable to non-executive directors of the Group will not change.

Non-executive executive directors will continue to be paid a base fee of \$100,000 and the board chair and board committee chairs will continue to be paid an additional fee to reflect the extra workloads involved. There will no longer be a deputy chair of the board (given that there will be a chair of the New Listed Parent Board and a chair of the Board of Heartland Bank), which means that no deputy chair fee will be payable.

The base fees will be payable to the non-executive directors of the New Listed Parent and Heartland Bank. Although some directors will be directors of both the New Listed Parent and Heartland Bank, they will not receive more than one base fee to ensure that they are not paid twice.

Similarly, the non-executive directors of Heartland Australia will not receive an additional base fee given that each of them is also a director of the New Listed Parent. The chair of the board of Heartland Australia will continue to receive an additional fee under existing arrangements.

The total fee pool for the non-executive directors of the Group is currently \$1,200,000 per annum, which was approved by Shareholders at the Annual Shareholder Meeting on 22 November 2016.

The Restructure will not require an increase to the current pool of \$1,200,000 per annum. The Restructure will result in an increase of approximately \$55,000 to the total fees payable to non-executive directors of the Group, however, this increase can be satisfied within the current fee pool.

Constitution

The New Listed Parent will have a constitution that is appropriate for a company listed on the NZX Main Board and on the ASX as a Foreign Exempt Listing.

The constitution of the New Listed Parent incorporates by reference the requirements of the NZX Listing Rules and requires the New Listed Parent to comply with the NZX Listing Rules for so long as New Listed Parent Shares are quoted on the NZX Main Board.

The constitution of the New Listed Parent that will apply from the implementation of the Restructure has been prepared reflecting the existing constitution of Heartland Bank. However, the New Listed Parent constitution will include minor updates to reflect some of the anticipated changes to the NZX Listing Rules.

These changes will not impact upon the rights or obligations of New Listed Parent Shareholders when compared with the existing Heartland Bank constitution.

Business and Strategy of the New Listed Parent

The New Listed Parent will be the parent company for the Group and oversee the New Zealand business (carried on by Heartland Bank and its subsidiaries) and the Australian business (carried on by the Australian Group companies).

On completion of the Restructure, it will have no material assets other than its shares in Heartland Bank and Heartland Australia.

The New Listed Parent will have a limited number of employees, including the Group Executive and Investor Relations Manager. All other employees will remain employees of Heartland Bank or the Australian Group companies.

Under the Group Services Agreement described in Section 6, management services will be provided across the Group as required, including the provision of management services by the Group Executive to Heartland Bank.

HEARTLAND BANK

Board

Following implementation of the Restructure, the Board will comprise Bruce Irvine (Chair), John Harvey, Vanessa Stoddart, Graham Kennedy, Geoff Ricketts, Ellie Comerford, and Jeff Greenslade (provided those directors that are retiring by rotation, as set out in the Notice of Meeting, are re-elected at the Annual Meeting). All of these individuals are current members of the Board of Heartland Bank. Biographies for these directors are set out below.



Bruce Irvine

BCom, LLB, FCA, CFInstD, FNZIM – *Chair and Independent Non-Executive Director*
Christchurch

TERM OF OFFICE

Appointed to the Board of Heartland Bank on 31 December 2015 (last elected on 22 November 2016)⁷

BOARD COMMITTEES

Member of the Heartland Bank Audit Committee
Member of the Group Governance, People, Remuneration and Nominations Committee
Member of the Group Corporate Finance Committee

Bruce is a chartered accountant and was admitted into the Christchurch partnership of Deloitte in 1988. He was Managing Partner from 1995 to 2007 before his retirement from Deloitte in May 2008 to pursue his career as an independent director. Bruce is a director of several public and private companies including House of Travel Holdings Limited, Market Gardeners Limited, PGG Wrightson Limited, Rakon Limited, Scenic Hotels Limited and Skope Industries Limited. Bruce is involved in a voluntary capacity as a trustee of the Christchurch Symphony Orchestra.

Ellie Comerford

BEc – *Non-Executive Director*
Australia

TERM OF OFFICE

Appointed to the Board of Heartland Bank on 1 January 2017 (last elected 21 November 2017)

BOARD COMMITTEES

Chair of the Heartland Bank Risk Committee
Chair of the Group Audit and Risk Committee
Member of the Group Corporate Finance Committee

Ellie has worked for more than 30 years in financial services in Australia and overseas across a range of banking and insurance businesses in both an executive and non-executive capacity. Her most recent executive role was as CEO and Managing Director of Genworth Mortgage Insurance Australia Limited successfully listing the company on the ASX in 2014.

Ellie is a non-executive director for financial services businesses in Australia including Cash Converters International Limited and Hollard Insurance Australia. Ellie has significant experience in strategy planning, business development, risk management, corporate finance, and operations management, and brings a track record of enhancing financial performance and leadership culture within organisations.

Ellie has a strong passion for promoting diversity and is a member of Chief Executive Women in Australia, a forum to educate and influence Australian business and government on the importance of gender balance.

Jeff Greenslade

LLB – *Executive Director and Chief Executive Officer*
Auckland

TERM OF OFFICE

Appointed to the Board of Heartland Bank on 30 September 2010 (last elected 31 December 2015)

BOARD COMMITTEES

Member of the Group Corporate Finance Committee

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

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

John Harvey

BCom, CA, CFInstD – *Independent Non-Executive Director*
Auckland

TERM OF OFFICE

Appointed to the Board of Heartland Bank on 31 December 2015 (last elected on 22 November 2016)⁷

BOARD COMMITTEES

Chair of the Heartland Bank Audit Committee

Member of the Heartland Bank Risk Committee

John has considerable financial services experience and 36 years in the professional services industry, including 23 years as a partner of PricewaterhouseCoopers where he also held a number of leadership and governance roles. Since his retirement from PricewaterhouseCoopers in 2009, John has pursued a career as an independent director of a number of companies, including NZX-listed Stride Property Limited, Investore Property Limited and NZX/ASX-listed Kathmandu Holdings Limited. He is also chairman of NZ Opera Limited.

Graham Kennedy

MNZM, J.P., BCom, FCA, ACIS, ACIM, CFInstD – *Independent Non-Executive Director*
Ashburton

TERM OF OFFICE

Appointed to the Board of Heartland Bank on 30 September 2010 (last elected on 31 December 2015)

BOARD COMMITTEES

Member of the Heartland Bank Risk Committee

Graham has over 40 years' experience as a chartered accountant and business advisor. He is now an independent professional director and Chairman of a number of private companies, providing him with governance experience across a diverse range of business sectors including property, tourism, agribusiness, transport, construction and professional services. Graham is also actively involved, at a governance level, in a variety of community based charitable organisations. He has considerable experience in Mergers and Acquisitions, Human Resources, Finance and Banking having been involved in the Building Society sector since 1985.

Graham was awarded a New Zealand Order of Merit for services to Business, in the 2017 Queen's Birthday Honours.

Geoff Ricketts

CNZM, LLB (Hons), LLD (honoris causa), CFInstD – *Non-Executive Director*
Auckland

TERM OF OFFICE

Appointed to the Board of Heartland Bank on 30 September 2010 (last elected 21 November 2017)

BOARD COMMITTEES

Member of the Heartland Bank Audit Committee

Chair of the Group Governance, People, Remuneration and Nominations Committee

Chair of the Group Corporate Finance Committee

Member of the Group Audit and Risk Committee

⁷ John and Bruce were directors of the former Heartland Bank Limited prior to its amalgamation with Heartland New Zealand Limited (now Heartland Bank) on 31 December 2015, and became directors of the amalgamated company on amalgamation. They were directors of the former Heartland Bank Limited since its formation on 31 January 2013, with Bruce being its Chair.

Geoff is a company director and investor with wide experience in the New Zealand and Australian business environments. He holds a number of directorships, including Chair of Todd Corporation Limited, Chair of Suncorp Group (NZ) Limited and Chair of Vero Insurance New Zealand Limited. Geoff chairs The University of Auckland Foundation and is a strong supporter of community and philanthropic activities, particularly in relation to the arts and education in New Zealand.

Vanessa Stoddart

BCom/LLB (Hons), PGDip. Professional Ethics, GAICD, CMIInstD – *Independent Non-Executive Director*
Auckland

TERM OF OFFICE

Appointed to the Board of Heartland Bank on 3 October 2016 (last elected on 22 November 2016)

BOARD COMMITTEES

Member of the Heartland Bank Audit Committee

Member of the Heartland Bank Risk Committee

Member of the Group Governance, People, Remuneration and Nominations Committee

Vanessa is an experienced director and serves on the boards of New Zealand Refining Company Limited, Alliance Group Limited, Tertiary Education Commission and the Financial Markets Authority. Her government appointments include MBIE's Audit and Risk Committee, DOC's Audit and Risk Committee, and Business New Zealand's representative on DESC.

Following an early legal career, Vanessa gained broad commercial and leadership transformation experience with a specific focus on people, culture and health and safety as well as best practice governance and business ethics with some of New Zealand's largest companies, including Air New Zealand and Carter Holt Harvey.

Vanessa's drive for enhanced diversity in New Zealand companies is demonstrated through her commitment to Global Women for which she is currently the Chair.

Board Remuneration

Please refer to the board remuneration arrangements for the New Listed Parent (which include the arrangements for Heartland Bank).

Senior Management

Employees of Heartland Bank, under the supervision of the Group Executive, will provide the core services required by Heartland Bank and its subsidiaries. Heartland Bank will have a dedicated Deputy Chief Executive Officer, Chief Risk Officer, Chief People & Culture Officer, Chief Marketing & Communications Officer, Chief Technology & Enablement Officer, Chief Digital Officer, Head of Finance, Head of Internal Audit and Heads of Customer Segments.

Business and Strategy of Heartland Bank

The business and strategy of Heartland Bank following implementation of the Restructure will be the same as its business and strategy prior to implementation of the Restructure, except that it will relate solely to the New Zealand group companies.

Heartland Bank is focused on identifying technology and partnerships that can help it reach more customers. It focuses on markets where it can provide the best product for its customers, and ensures that its product is the best choice in the market.

Heartland Bank's strategic priorities will continue to be:

- being in the right place at the right time through digital, intermediated and direct channels to ensure it is in easy reach for its customers;
- targeting markets with significant opportunity and focussing on niche products where customers are under-served by the other banks;
- delivering specialised customer experiences for each product type;
- using data insights to predict customer intent, and drive strong lead generation and conversion; and
- leveraging established intermediary relationships and using digital platforms to distribute selected new products.

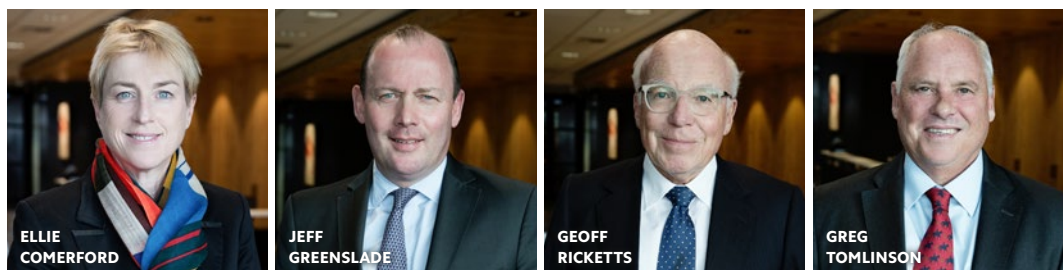
Heartland Bank will also retain a listing on the NZX Debt Market in respect of its Unsubordinated Notes. As such, treatment of the Unsubordinated Notes will be unchanged.

Heartland Bank will adopt a new constitution that will apply from the implementation of the Restructure. Heartland Bank's new constitution will be appropriate for a registered bank. As a registered bank, Heartland Bank's constitution must not include a provision that permits a director, when exercising powers or performing duties, to act other than in what he or she believes to be the best interests of Heartland Bank. This means that Heartland Bank's directors may not act in the best interests of the New Listed Parent if that act is not also in the best interests of Heartland Bank.

Under the Group Services Agreement described in Section 6, Heartland Bank employees will provide a number of core services across the Group and Heartland Bank will licence the use of some of its intellectual property to the other Group companies.

HEARTLAND AUSTRALIA

Following implementation of the Restructure, the board of Heartland Australia will comprise Ellie Comerford (Chair), Geoff Ricketts, Greg Tomlinson and Jeff Greenslade, all of whom are current members of the Board of Heartland Bank and will be members of the New Listed Parent Board. For their biographies, please refer to the New Listed Parent Board.



Board Remuneration

Please refer to the board remuneration arrangements for the New Listed Parent (which include the arrangements for Heartland Australia).

Senior Management

The Restructure will not result in any immediate changes to the senior management of Heartland Australia, led by the Chief Executive Officer of Heartland Seniors Finance Australia. However, the following additional roles may be required to reflect growth in Heartland Australia's operations:

- Head of Finance, Risk and Compliance;
- Head of Business.

In the interim, these functions will continue to be provided by Heartland Bank under the Group Services Agreement.

Business and Strategy of Heartland Australia

The business and strategy of Heartland Australia following implementation of the Restructure will be the same as its business and strategy prior to implementation of the Restructure.

Heartland Australia will continue to be a specialist provider of reverse mortgage loans under the "Heartland Seniors Finance" brand, and will continue to pursue additional lending activities.

It will continue to focus on growth, in particular by leveraging established intermediary relationships and using digital platforms to distribute selected products. Examples of this are its partnerships with Harmoney and Spotcap and its expanding broker distribution network for reverse mortgages.

While existing customers of Heartland Australia will not be affected by the Restructure, the Restructure will enable Heartland Australia to take advantage of further growth opportunities as they arise. For the reverse mortgage business, the Restructure will allow the Group to continue to fund growth with Australian-sourced secured funding, which is the most efficient form of funding currently available to it.

GROUP SERVICING ARRANGEMENTS

To facilitate the operation of the Group following the Restructure, a number of arrangements have been entered into, or will be entered into prior to the Restructure, between Heartland Bank, the New Listed Parent and Heartland Australia.

The principal arrangements are set out in the Group Services Agreement, which is a tripartite services agreement between Heartland Bank, the New Listed Parent and Heartland Australia. The Group Services Agreement governs the provision of certain services by the New Listed Parent to Heartland Bank and Heartland Australia, and by Heartland Bank to the New Listed Parent and Heartland Australia.

In summary, under the Group Services Agreement:

- Heartland Bank employees will provide a number of core services to Heartland Australia and the New Listed Parent, including in the areas of finance, treasury, internal audit, legal, human resources, as well as oversight and support in the areas of credit, risk & compliance, sales channels and customers, IT and marketing;
- the Group Executive of the New Listed Parent will provide oversight and overall management of the operations of Heartland Bank and Heartland Australia (although a substantial majority of their time will be devoted to the activities of Heartland Bank);
- the New Listed Parent will regularly monitor its share register, engage with substantial product holders and engage with the Reserve Bank to ensure that the requirements regarding a person acquiring "significant influence" over a registered bank continue to be met; and
- Heartland Bank will licence the use of some of its intellectual property to the New Listed Parent and Heartland Australia (such as the *Heartland* and *Heartland Seniors Finance* trademarks).

SUMMARY OF BALANCE SHEET MOVEMENTS

The below table provides an indication of the Group's balance sheet had the Restructure been implemented on 30 June 2018. The "Post-Restructure" columns show the indicative individual balance sheets of each of the New Listed Parent, the Banking Group and the Australian Group.

30 June 2018 \$m	Pre-Restructure		Post-Restructure		
	Consolidated Group	Consolidated Group	New Listed Parent	Banking Group	Australian Group
Cash and cash equivalents ^[1]	50	28	5	4	19
Investments ^[2]	341	341	659	341	0
Investment properties	9	9	0	9	0
Finance receivables	3,985	3,985	0	3,264	721
Intercompany ^[3]	0	0	0	76	0
Operating lease vehicles	18	18	0	18	0
Other assets	14	14	0	14	0
Intangible assets	74	74	0	53	21
Deferred tax	5	5	0	6	0
Total Assets	4,496	4,474	664	3,785	761
Borrowings ^[1]	3,796	3,774	0	3,159	615
Intercompany ^[3]	0	0	0	0	76
Current tax liabilities	12	12	0	9	3
Trade and other payables	24	24	0	24	0
Deferred tax	0	0	0	0	1
Total Liabilities	3,832	3,810	0	3,192	695
Total Equity^[4]	664	664	664	593	66
Total Equity and Liabilities	4,496	4,474	664	3,783	761

Please note that certain discrepancies between the line items for the Consolidated Group and the individual Group companies post-Restructure are attributable to rounding.

^[1] Cash and cash equivalents and Borrowings

The Group's cash and cash equivalents will decrease by \$22 million, which will be used to repay Heartland Bank's existing Tier 2 Notes. Heartland Bank is seeking to redeem the Tier 2 Notes and is currently liaising with the holders regarding the redemption of the notes. The redemption of the notes reduces the Group's total assets by \$22 million and decreases its borrowings by \$22 million. It will also slightly reduce Heartland Bank's total capital ratio, but this will not have a material impact on Heartland Bank's capital adequacy position.

^[2] Investments

The New Listed Parent's investments of \$659 million reflect the value of its investments in Heartland Bank (\$591 million) and Heartland Australia (\$68 million) and their respective subsidiaries, which are not reflected on a consolidated group view.

^[3] Intercompany

This new line item recognises the intercompany funding arrangements between Heartland Bank and Heartland Australia, which are not reflected on a consolidated group view.

^[4] Total Equity

The total equity of the Group (pre-Restructure) and total equity of the Group (post-Restructure) is the same. This shows that no excess or additional capital is being created by the Restructure. Rather, the total equity of the Group (pre-Restructure) is being appropriately sized to support the needs of each of Heartland Bank and Heartland Australia following the implementation of the Restructure.

SECTION 7: TAXATION IMPLICATIONS FOR SHAREHOLDERS

This Section comments, in summary, on the general taxation position of Shareholders in relation to the Restructure. It does not constitute taxation advice. All Shareholders are advised to obtain advice from an appropriate professional advisor having regard to their individual circumstances.

This Section does not purport to be a complete analysis, and is intended as a general guide to the New Zealand and Australian tax implications only. No information is specifically provided in relation to Shareholders in other jurisdictions.

NEW ZEALAND

Income tax implications associated with the Restructure

- **No dividend**

The Restructure will not result in a dividend being treated as paid by Heartland Bank to Shareholders for New Zealand income tax purposes.

- **Disposal of Heartland Bank Shares**

Under the Restructure, Shareholders will be disposing of each of their Heartland Bank Shares at the time of transfer in consideration for being issued one New Listed Parent Share (or if the Shareholder is not an Eligible Shareholder, receiving cash equal to the value of one New Listed Parent Share) for each Heartland Bank Share that the Shareholder transfers to the New Listed Parent. If a Shareholder holds Heartland Bank Shares on capital account for New Zealand income tax purposes, that disposal will not give rise to tax implications.

Certain Shareholders may be subject to New Zealand income tax on gains made, or allowed a deduction for loss sustained, on the disposal of Heartland Bank Shares. Generally, a Shareholder will be subject to income tax on a gain (or allowed a deduction for a loss) arising from the disposal of Heartland Bank Shares if the Shareholder is in the business of dealing in shares, disposes of the Heartland Bank Shares as part of a profit-making undertaking or scheme, or acquired the Heartland Bank Shares with the purpose of selling them.

If any gain on disposal of the Heartland Bank Shares is taxable (or loss deductible) to a Shareholder, the taxable gain (or deductible loss) will be the difference between the cost base for the Shareholder in the Heartland Bank Shares and the amount received for their disposal (ie the market value of the New Listed Parent Shares that are distributed to the Shareholder in respect of their Heartland Bank Shares, on the Implementation Date).

Income tax implications associated with holding New Listed Parent Shares after the Restructure

- **Dividends**

As the New Listed Parent is a New Zealand incorporated and tax resident company, the tax rules applying to dividends paid by the New Listed Parent will be the same as the rules applying to dividends paid by Heartland Bank.

The New Listed Parent intends to attach imputation credits to dividends to the extent they are available. It is expected that this will be to a similar extent as Heartland Bank is currently able to.

Goods and services tax (GST) implications

The issue of New Listed Parent Shares to Shareholders in accordance with the Restructure will not result in any GST being payable to the New Zealand Inland Revenue.

AUSTRALIA

Implications associated with the Restructure

- **Income tax**

This section is based on the provisions of the Australian Tax Act, the A New Tax System (Goods and Services Tax) Act 1999 (Cth) and related acts, regulations and Australian Taxation Office (“ATO”) rulings and determinations applicable at the date of this Scheme Booklet.

The following comments consider the Australian income tax implications for New Zealand resident and Australian resident Shareholders who hold their Heartland Bank Shares on capital account at the time of the Restructure.

New Zealand resident Shareholders

A Shareholder who is not a resident of Australia for tax purposes must disregard any capital gain or loss arising from the disposal of their Heartland Bank Shares under the Restructure, provided those Heartland Bank Shares are not “taxable Australian property”.

A Shareholder’s Heartland Bank Shares may be taxable Australian property if those shares have been used at any time in carrying on business through a permanent establishment in Australia. It is strongly recommended that a Shareholder obtain Australian taxation advice specific to their circumstances if this situation may apply to them.

Australian resident shareholders

This section assumes that the Shareholder is an Australian resident for tax purposes (and is not a “temporary resident” as defined in the Australian Tax Act).

- **Application of CGT provisions**

Under Australia’s capital gains tax (“CGT”) provisions, the transfer of Heartland Bank Shares will give rise to a CGT event for Australian tax resident Shareholders. A taxable capital gain or capital loss may be realised as a result of the CGT event.

An Australian tax resident Shareholder should, however, be eligible to choose a ‘rollover’ under Division 615 of the Tax Act. Where this rollover is chosen, any capital gain or capital loss arising to an Australian tax resident Shareholder from the transfer of their Heartland Bank Shares under the Restructure should be disregarded.

If a Shareholder wishes to apply the rollover, the way in which the Shareholder prepares their Australian income tax return for the income year will be sufficient evidence of having made that choice.

If a Shareholder does not choose to apply the rollover, the Shareholder may realise a taxable capital gain or loss in the income year in which the Heartland Bank Shares are transferred under the Restructure.

- **Division 615 rollover relief – CGT implications for New Listed Parent Shares**

If a Shareholder chooses to apply the rollover, the cost base and CGT acquisition time of their New Listed Parent Shares should be as set out below.

The first element of the Shareholder’s cost base (or reduced cost base, if applicable) for each New Listed Parent Share acquired under the Restructure will be equal to the cost base of the corresponding Heartland Bank Share transferred under the Restructure.

New Listed Parent Shares should be taken for CGT purposes (including for the purposes of the CGT discount provisions) to have been acquired at the time the Heartland Bank Shares were originally taken to have been acquired.

- **Stamp Duty**

No Australian duty should be payable by any Shareholders in relation to the exchange of Heartland Bank Shares for New Listed Parent Shares under the Restructure.

- **Goods and services tax (Australian GST)**

No Australian GST should be payable on the exchange of Heartland Bank Shares for New Listed Parent Shares under the Restructure, as the distribution of New Listed Parent Shares will be outside the scope of Australian GST.

Implications associated with holding New Listed Parent Shares after the Restructure

- **Dividends**

Australian tax residents will be taxable in relation to dividends paid by the New Listed Parent.

- **Sale of New Listed Parent Shares**

New Zealand resident shareholders

A shareholder who holds their New Listed Parent Shares on capital account and is not an Australian tax resident must disregard any capital gain or loss arising from the disposal of their New Listed Parent Shares under the Restructure if, at the time of the disposal their New Listed Parent Shares are not “taxable Australian property”.

A shareholder’s New Listed Parent Shares are not expected to be taxable Australian property unless those shares have been used at any time in carrying on business through a permanent establishment in Australia. It is strongly recommended that a Shareholder obtain Australian taxation advice specific to their circumstances if this situation may apply to them.

Australian resident shareholders

Australian tax resident shareholders who hold their New Listed Parent Shares on capital account will recognise capital gains or capital losses upon any future disposal of New Listed Parent Shares which will need to be disclosed in their Australian income tax return.

The taxable capital gain should generally be equal to the difference between the cost base for the New Listed Parent Shareholder and the amount received for their disposal. A capital loss may arise where the amount received for the disposal of the shares is less than the cost base of the shares.

The first element of the New Listed Parent Shareholder's cost base (or reduced cost base, if applicable) for each New Listed Parent Share acquired under the Restructure will be equal to the cost base of the corresponding Heartland Bank Share transferred under the Restructure.

SECTION 8: INFORMATION FOR SHAREHOLDERS OUTSIDE NEW ZEALAND

No action has been taken to register or qualify New Listed Parent Shares or otherwise permit a public offering of such securities in any jurisdiction outside New Zealand.

All Shareholders with a registered address in New Zealand at 5pm on the Record Date will be Eligible Shareholders.

In addition, Shareholders whose addresses are shown in the Heartland Bank share register at 5pm on the Record Date as being in the following jurisdictions will be entitled to have New Listed Parent Shares issued to them pursuant to the Restructure (subject to the qualifications, if any, set out below in respect of that jurisdiction):

- Australia;
- Bermuda;
- Canada;
- Denmark, where (i) the Shareholder is a “qualified investor” (within the meaning of the Prospectus Directive (Directive 2003/71/EC), as amended and implemented in Denmark) or (ii) the number of non-qualified investors is less than 150;
- Finland, where (i) the Shareholder is a “qualified investor” or (ii) the number of non-qualified investors with a registered address in Finland is less than 150;
- France, where (i) the Shareholder is a “qualified investor” (as defined in articles D. 411-1, L. 533-16, L. 533-20, D. 533-11 and D. 533-13 of the French Monetary and Financial Code) or (ii) the number of non-qualified investors with a registered address in France is less than 150;
- French Polynesia, where (i) the Shareholder is a “qualified investor” (as defined in articles D. 411-1, L. 533-16, L. 533-20, D. 533-11 and D. 533-13 of the French Monetary and Financial Code) or (ii) the number of non-qualified investors is less than 150;
- Germany, where (i) the Shareholder is a “qualified investor” (within the meaning of the Prospectus Directive (Directive 2003/71/EC), as amended and implemented in Germany) or (ii) the number of non-qualified investors with a registered address in Germany is less than 150;
- Hong Kong, where (i) the Shareholder is a “professional investor” (as defined in the Securities and Futures Ordinance of Hong Kong) or (ii) the number of non-professional investors with a registered address in Hong Kong does not exceed 50;
- Japan, where the number of Shareholders with a registered address in Japan is less than 50;
- Luxembourg, where (i) the Shareholder is a “qualified investor” (within the meaning of the Prospectus Directive (Directive 2003/71/EC), as amended and implemented in Luxembourg) or (ii) the number of non-qualified investors with a registered address in Luxembourg is less than 150;
- Macau;
- Malaysia;
- Netherlands, where (i) the Shareholder is a “qualified investor” (within the meaning of the Prospectus Directive (Directive 2003/71/EC), as amended and implemented in the Netherlands) or (ii) the number of non-qualified investors with a registered address in the Netherlands is less than 150;
- Norway, where (i) the Shareholder is a “professional client” (as defined in Norwegian Securities Regulation of 29 June 2007 no. 876) or (ii) the number of non-professional clients with a registered address in Norway is less than 150;
- Portugal, where (i) the Shareholder is a “professional investor” (within the meaning of the EU Markets in Financial Instruments Directive (Directive 2014/65/EC, “**MIFID II**”), as amended and implemented in Portugal) or (ii) the number of non-professional investors with a registered address in Portugal is less than 150;
- the People’s Republic of China, where the Shareholder is a qualified domestic institutional investor, sovereign wealth fund or quasi-government investment fund or, at the discretion of Heartland Bank, where the Shareholder becomes aware of the Restructure other than through a solicitation and requests that Heartland Bank permit the Shareholder to participate in the Restructure;
- Qatar;
- Singapore;
- Spain, where (i) the Shareholder is a “qualified investor” (within the meaning of the Prospectus Directive (Directive 2003/71/EC), as amended and implemented in Spain) or (ii) the number of non-qualified investors with a registered address in Spain is less than 150;

- Switzerland;
- Thailand, where the number of Shareholders with a registered address in Thailand is less than 50;
- United Kingdom;
- United States, where the Shareholder's registered address is in one of the following states:
 - Arizona;
 - California, where less than 25% of Shareholders have a registered address in California;
 - Connecticut, where the number of Shareholders with a registered address in Connecticut is less than ten;
 - Illinois;
 - Massachusetts;
 - Michigan;
 - Missouri;
 - New Hampshire;
 - New Jersey, where the number of Shareholders with a registered address in New Jersey is less than ten;
 - North Carolina;
 - Pennsylvania;
 - Texas;
 - Washington; or
 - Wisconsin; and
- any other person or jurisdiction in respect of which Heartland Bank reasonably believes that it is not prohibited and not unduly onerous or impractical to implement the Restructure and to issue New Listed Parent Shares to a Shareholder with a registered address in such jurisdiction.

Nominees, custodians and other Shareholders who hold Heartland Bank Shares on behalf of a beneficial owner resident outside Australia, Bermuda, Canada, Macau, Malaysia, Qatar, Singapore, Switzerland, the United Kingdom and the United States (where the beneficial owner is resident in one of the states listed above, other than California or Connecticut) may not forward this Scheme Booklet (or accompanying documents) to anyone outside these countries without the consent of Heartland Bank.

This Scheme Booklet and the Restructure does not constitute an offer of New Listed Parent Shares in any jurisdiction in which it would be unlawful. In particular, this Scheme Booklet may not be distributed to any person, and New Listed Parent Shares may not be offered or sold, in any country outside New Zealand except to the extent provided below.

Australia

The proposal to acquire your Heartland Bank Shares and the offer of New Listed Parent Shares, in accordance with the Restructure, are made in Australia in reliance on exemptions from prospectus and other applicable securities laws. No offer of New Listed Parent Shares is made in Australia other than in accordance with the Restructure.

This Scheme Booklet has not been filed with or registered by the Australian Securities and Investments Commission, and has not been approved by any Australian court.

Bermuda

New Listed Parent Shares under the Restructure are only being offered to existing Shareholders and no invitation is being made to persons resident in Bermuda for exchange control purposes to subscribe for New Listed Parent Shares.

Canada

New Listed Parent Shares will be issued by the New Listed Parent in reliance upon exemptions from the prospectus and registration requirements of the applicable Canadian securities law in each province and territory of Canada.

No securities commission in Canada has reviewed or in any way passed upon this document or the merits of the Restructure.

Denmark

The information in this document has been prepared on the basis that all offers of New Listed Parent Shares will be made pursuant to an exemption under the Directive 2003/71/EC ("**Prospectus Directive**"), as amended and implemented in Denmark, from the requirement to publish a prospectus for offers of securities.

An offer to the public of New Listed Parent Shares has not been made, and may not be made, in Denmark except pursuant to one of the following exemptions under the Prospectus Directive as implemented in Denmark:

- to any legal entity that is authorized or regulated to operate in the financial markets or whose main business is to invest in financial instruments;
- to any legal entity that satisfies two of the following three criteria: (i) balance sheet total of at least €20,000,000; (ii)

annual net turnover of at least €40,000,000; and (iii) own funds of at least €2,000,000 (as shown on its last annual unconsolidated or consolidated financial statements);

- to any person or entity who has requested to be treated as a professional client in accordance with the EU Markets in Financial Instruments Directive (Directive 2014/65/EC, “**MiFID II**”);
- to any person or entity who is recognised as an eligible counterparty in accordance with Article 30 of the MiFID II;
- to fewer than 150 natural or legal persons (other than qualified investors within the meaning of Article 2(1)(e) of the Prospectus Directive), subject to the prior consent of the New Listed Parent; or
- in any other circumstances falling within Article 3(2) of the Prospectus Directive, provided that no such offer of New Listed Parent Shares shall result in a requirement for the publication by either of the New Listed Parent or Heartland Bank of a prospectus pursuant to Article 3 of the Prospectus Directive.

Finland

This Scheme Booklet and any other materials relating to the Restructure have not been registered as a prospectus in Finland with the Finnish Financial Supervisory Authority. Accordingly, New Listed Parent Shares may not be offered, subscribed, issued, distributed or sold to persons in Finland except pursuant to and in accordance with the exemptions set forth in the Ministry of Finance Decree on EU Prospectuses and in the Ministry of Finance Decree on National Prospectuses, or otherwise pursuant to, and in accordance with the conditions of the applicable provisions of the Securities Market Act (495/1989, as amended).

France

This Scheme Booklet is not being distributed in the context of a public offering of financial securities (*offre au public de titres financiers*) in France within the meaning of Article L.411-1 of the French Monetary and Financial Code (*Code monétaire et financier*) and Articles 211-1 et seq. of the General Regulation of the French Autorité des marchés financiers (“**AMF**”). New Listed Parent Shares have not been offered or sold and will not be offered or sold, directly or indirectly, to the public in France.

This Scheme Booklet and any other offering material relating to the Restructure have not been, and will not be, submitted to the AMF for approval in France and, accordingly, may not be distributed or caused to be distributed, directly or indirectly, to the public in France.

Such offers, sales and distributions have been and shall only be made in France (i) in a transaction that, in accordance with Article L. 411-2-I of the French Monetary and Financial Code and Article 211-2 of the General Regulation of the AMF, does not constitute a public offering of financial securities and/or (ii) to qualified investors (*investisseurs qualifiés*) acting for their own account, as defined in and in accordance with Articles L.411-2-II-2°, D.411-1, L.533-16, L.533-20, D.533-11, D.533-13, D.744-1, D.754-1 and D.764-1 of the French Monetary and Financial Code and any implementing regulation and/or (iii) to a restricted number of non-qualified investors (*cercle restreint d’investisseurs*) acting for their own account, as defined in and in accordance with Articles L.411-2-II-2°, D.411-4, D.744-1, D.754-1 and D.764-1 of the French Monetary and Financial Code and any implementing regulation.

Pursuant to Article 211-3 of the General Regulation of the AMF, investors in France are informed that New Listed Parent Shares cannot be distributed (directly or indirectly) to the public by the investors otherwise than in accordance with Articles L.411-1, L.411-2, L.412-1 and L.621-8 to L.621-8-3 of the French Monetary and Financial Code.

French Polynesia

This Scheme Booklet is not being distributed in the context of a public offering of financial securities (*offre au public de titres financiers*) in French Polynesia within the meaning of Article L.411-1 of the French Monetary and Financial Code (*Code monétaire et financier*) and Articles 211-1 et seq. of the General Regulation of the French Autorité des marchés financiers (“**AMF**”). New Listed Parent Shares have not been offered or sold and will not be offered or sold, directly or indirectly, to the public in French Polynesia.

This Scheme Booklet and any other offering material relating to the Restructure have not been, and will not be, submitted to the AMF for approval in French Polynesia and, accordingly, may not be distributed or caused to be distributed, directly or indirectly, to the public in French Polynesia.

Such offers, sales and distributions have been and shall only be made in French Polynesia (i) in a transaction that, in accordance with Article L. 411-2-I of the French Monetary and Financial Code and Article 211-2 of the General Regulation of the AMF, does not constitute a public offering of financial securities and/or (ii) to qualified investors (*investisseurs qualifiés*) acting for their own account, as defined in and in accordance with Articles L.411-2-II-2°, D.411-1, L.533-16, L.533-20, D.533-11, D.533-13, D.744-1, D.754-1 and D.764-1 of the French Monetary and Financial Code and any implementing regulation and/or (iii) to a restricted number of non-qualified investors (*cercle restreint d’investisseurs*) acting for their own account, as defined in and in accordance with Articles L.411-2-II-2°, D.411-4, D.744-1, D.754-1 and D.764-1 of the French Monetary and Financial Code and any implementing regulation.

Pursuant to Article 211-3 of the General Regulation of the AMF, investors in French Polynesia are informed that New Listed Parent Shares cannot be distributed (directly or indirectly) to the public by the investors otherwise than in accordance with Articles L.411-1, L.411-2, L.412-1 and L.621-8 to L.621-8-3 of the French Monetary and Financial Code.

Germany and Luxembourg

The information in this document has been prepared on the basis that all offers of New Listed Parent Shares will be made pursuant to an exemption under the Directive 2003/71/EC ("**Prospectus Directive**"), as amended and implemented in Member States of the European Economic Area (each, a "**Relevant Member State**"), from the requirement to publish a prospectus for offers of securities.

An offer to the public of New Listed Parent Shares has not been made, and may not be made, in a Relevant Member State except pursuant to one of the following exemptions under the Prospectus Directive as implemented in the Relevant Member State:

- to any legal entity that is authorised or regulated to operate in the financial markets or whose main business is to invest in financial instruments;
- to any legal entity that satisfies two of the following three criteria: (i) balance sheet total of at least €20,000,000; (ii) annual net turnover of at least €40,000,000; and (iii) own funds of at least €2,000,000 (as shown on its last annual unconsolidated or consolidated financial statements);
- to any person or entity who has requested to be treated as a professional client in accordance with the EU Markets in Financial Instruments Directive (Directive 2014/65/EC, "**MiFID II**");
- to any person or entity who is recognised as an eligible counterparty in accordance with Article 30 of the MiFID II;
- to fewer than 150 natural or legal persons (other than qualified investors within the meaning of Article 2(1)(e) of the Prospectus Directive), subject to the prior consent of the New Listed Parent; or
- in any other circumstances falling within Article 3(2) of the Prospectus Directive, provided that no such offer of New Listed Parent Shares shall result in a requirement for the publication by either of the New Listed Parent or Heartland Bank of a prospectus pursuant to Article 3 of the Prospectus Directive.

Hong Kong

WARNING - The contents of this Scheme Booklet have not been reviewed or approved by any regulatory authority in Hong Kong. You are advised to exercise caution in relation to the Restructure. If you are in any doubt about any of the contents of this Scheme Booklet, you should obtain independent professional advice.

This Scheme Booklet does not constitute an offer or invitation to the public in Hong Kong to acquire or subscribe for or dispose of any securities. This Scheme Booklet also does not constitute a prospectus (as defined in section 2(1) of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32 of the Laws of Hong Kong)) or notice, circular, brochure or advertisement offering any securities to the public for subscription or purchase or calculated to invite such offers by the public to subscribe for or purchase any securities, nor is it an advertisement, invitation or document containing an advertisement or invitation falling within the meaning of section 103 of the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong).

Accordingly, unless permitted by the securities laws of Hong Kong, no person may issue or cause to be issued this Scheme Booklet in Hong Kong, other than to persons who are "professional investors" as defined in the Securities and Futures Ordinance and any rules made thereunder or in other circumstances which do not result in the document being a "prospectus" as defined in the Companies (Winding Up and Miscellaneous Provisions) Ordinance or which do not constitute an offer to the public within the meaning of the Companies (Winding Up and Miscellaneous Provisions) Ordinance.

No person may issue or have in its possession for the purposes of issue, this Scheme Booklet or any advertisement, invitation or document relating to these securities, whether in Hong Kong or elsewhere, which is directed at, or the contents of which are likely to be accessed or read by, the public in Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than any such advertisement, invitation or document relating to securities that are or are intended to be disposed of only to persons outside Hong Kong or only to "professional investors" as defined in the Securities and Futures Ordinance and any rules made thereunder.

Copies of this Scheme Booklet may be issued to a limited number of persons in Hong Kong in a manner which does not constitute any issue, circulation or distribution of this Scheme Booklet, or any offer or an invitation in respect of these securities, to the public in Hong Kong. The document is for the exclusive use of Shareholders in connection with the Restructure, and no steps have been taken to register or seek authorisation for the issue of this Scheme Booklet in Hong Kong.

This Scheme Booklet is confidential to the person to whom it is addressed and no person to whom a copy of this Scheme Booklet is issued may issue, circulate, distribute, publish, reproduce or disclose (in whole or in part) this Scheme Booklet to any other person in Hong Kong or use this Scheme Booklet for any purpose in Hong Kong other than in connection with the consideration of the Restructure by the person to whom this Scheme Booklet is addressed.

Japan

New Listed Parent Shares have not been and will not be registered under Article 4, paragraph 1 of the Financial Instruments and Exchange Law of Japan (Law No. 25 of 1948), as amended (the “**FIEL**”) pursuant to an exemption from the registration requirements applicable to a private placement of securities to a small number of investors. This Scheme Booklet is for the exclusive use of existing shareholders of Heartland Bank in connection with the Restructure. This document is confidential to the person to whom it is addressed and must not be distributed, published, reproduced or disclosed (in whole or in part) to any other person in Japan or resident of Japan other than in connection with consideration by Shareholders of the Restructure.

Macau

This Scheme Booklet is not being distributed by a Macau licensed financial institution nor in the context of a public offering of financial securities or exercise of any financial activity on a regular basis in Macau within the meaning of Section 2(1), Financial System Act, approved by Decree-Law No. 32/93/M, dated 5 July 1993.

This Scheme Booklet and any other offering material relating to the Restructure have not been, and will not be, submitted to the Monetary Authority of Macao (“**AMCM**”) for approval in Macau, and the offer of New Listed Parent Shares will not be supervised by the AMCM.

Neither this Scheme Booklet nor any other offering or marketing material relating to New Listed Parent Shares may be publicly distributed or otherwise made publicly available in Macau.

This Scheme Booklet is personal to the recipient only and not for general circulation in Macau.

Malaysia

No approval from, or recognition by, the Securities Commission of Malaysia has been or will be obtained in relation to any offer of New Listed Parent Shares. New Listed Parent Shares may not be issued or transferred in Malaysia except to persons who are shareholders of Heartland Bank in compliance with the Restructure.

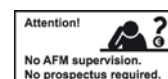
Netherlands

The information in this Scheme Booklet has been prepared on the basis that all offers of New Listed Parent Shares will be made pursuant to an exemption under the Directive 2003/71/EC (“**Prospectus Directive**”), as amended and implemented in the Netherlands, from the requirement to produce a prospectus for offers of securities.

An offer to the public of New Listed Parent Shares has not been made, and may not be made, in the Netherlands except pursuant to one of the following exemptions under the Prospectus Directive as implemented in the Netherlands:

- to any legal entity that is authorised or regulated to operate in the financial markets or whose main business is to invest in financial instruments;
- to any legal entity that satisfies two of the following three criteria: (i) balance sheet total of at least €20,000,000; (ii) annual net turnover of at least €40,000,000; and (iii) own funds of at least €2,000,000 (as shown on its last annual unconsolidated or consolidated financial statements);
- to any person or entity who has requested to be treated as a professional client in accordance with the MiFID II;
- to any person or entity who is recognised as an eligible counterparty in accordance with Article 24 of the MiFID II;
- to fewer than 150 natural or legal persons (other than qualified investors within the meaning of Article 2(1)(e) of the Prospectus Directive); or
- in any other circumstances falling within Article 3(2) of the Prospectus Directive, provided that no such offer of New Listed Parent Shares shall result in a requirement for the publication of a prospectus pursuant to Article 3 of the Prospectus Directive.

The Dutch Authority for the Financial Markets (*Autoriteit Financiële Markten*, the “**AFM**”) has not reviewed nor approved this Scheme Booklet.



Norway

This Scheme Booklet has not been approved by, or registered with, any Norwegian securities regulator under the Norwegian Securities Trading Act of 29 June 2007. Accordingly, this Scheme Booklet shall not be deemed to constitute an offer to the public in Norway within the meaning of the Norwegian Securities Trading Act of 2007.

New Listed Parent Shares may not be offered or sold, directly or indirectly, in Norway except:

- to “professional clients” (as defined in Norwegian Securities Regulation of 29 June 2007 no. 876 and including non-professional clients having met the criteria for being deemed to be professional and for which an investment firm has waived the protection as non-professional in accordance with the procedures in this regulation);

- to fewer than 150 natural or legal persons (other than “professional clients”); or
- in any other circumstances provided that no such offer of New Listed Parent Shares shall result in a requirement for the registration, or the publication of a prospectus pursuant to the Norwegian Securities Trading Act of 29 June 2007.

People’s Republic of China

This Scheme Booklet does not constitute a public offer of New Listed Parent Shares, whether by way of sale or subscription, in the People’s Republic of China (excluding, for purposes of this paragraph, Hong Kong Special Administrative Region, Macau Special Administrative Region and Taiwan). New Listed Parent Shares may not be offered or sold directly or indirectly in the People’s Republic of China to legal or natural persons other than directly to “qualified domestic institutional investors”, sovereign wealth funds and quasi-government investment funds.

Portugal

The information in this document has been prepared on the basis that all offers of New Listed Parent Shares will be made pursuant to an exemption under the Directive 2003/71/EC (“**Prospectus Directive**”), as amended and implemented in Portugal, from the requirement to publish a prospectus for offers of securities.

An offer to the public of New Listed Parent Shares has not been made, and may not be made, in Portugal except pursuant to one of the following exemptions under the Prospectus Directive as implemented in Portugal:

- to any legal entity that is authorised or regulated to operate in the financial markets or whose main business is to invest in financial instruments;
- to any legal entity that satisfies two of the following three criteria: (i) balance sheet total of at least €20,000,000; (ii) annual net turnover of at least €40,000,000; and (iii) own funds of at least €2,000,000 (as shown on its last annual individual financial statements) as foreseen in article 30(1), (k) of the Portuguese Securities Code (*Código dos Valores Mobiliários*) as amended and republished by Law 35/2018 of 20 July which transposed MIFID II into Portugal;
- to any person or entity who has requested to be treated as a professional client in accordance with the EU Markets in Financial Instruments Directive (Directive 2014/65/EC, “**MIFID II**”);
- to any person or entity who is recognised as an eligible counterparty in accordance with Article 30 of the MiFID II unless such entity has requested to be treated as a non-professional client in accordance with the MiFID II Delegated Regulation (EU) 2017/565;
- to fewer than 150 natural or legal persons (other than qualified investors within the meaning of Article 2(1)(e) of the Prospectus Directive), subject to the prior consent of Heartland Bank; or
- in any other circumstances falling within Article 3(2) of the Prospectus Directive, provided that no such offer of New Listed Parent Shares shall result in a requirement for the publication by either of Heartland Bank or the New Listed Parent of a prospectus pursuant to Article 3 of the Prospectus Directive.

Neither the offering nor the Scheme Booklet have been registered with the Portuguese Securities Market Commission (*Comissão do Mercado de Valores Mobiliários*) and no action has been or will be taken that would permit a public offering of any of New Listed Parent Shares in Portugal. Accordingly, no New Listed Parent Shares may be offered, sold or distributed except in circumstances that will result in compliance with any applicable laws and regulations, in particular with articles 109, 110, 110-B and 111 of the Portuguese Securities Code (*Código dos Valores Mobiliários*) as amended and republished by Law 35/2018 of 20 July which transposed MIFID II into Portugal.

Qatar

This document is provided on an exclusive basis to the specifically intended recipient thereof upon that person’s request and initiative, and for the recipient’s personal use only. Any distribution of this document by the recipient to third parties in Qatar or the Qatar financial centre beyond the terms hereof is not authorised and shall be at the liability of such recipient.

Nothing in this document constitutes, is intended to constitute, or shall be treated as constituting, any offer or sale of the securities in the state of Qatar or in the Qatar financial centre.

This document and any underlying instruments have not been approved, registered or licensed by the Qatar central bank, the Qatar financial centre regulatory authority, the Qatar financial markets authority or any other regulator in the state of Qatar. This document and any related documents have not been reviewed or approved by the Qatar financial centre regulatory authority or the Qatar central bank.

Recourse against Heartland Bank or others involved with the Restructure may be limited or difficult and may have to be pursued in a jurisdiction outside Qatar and the Qatar financial centre.

Spain

The information in this document has been prepared on the basis that all offers of New Listed Parent Shares will be made pursuant to an exemption under the Directive 2003/71/EC ("**Prospectus Directive**"), as amended and implemented in Spain, from the requirement to publish a prospectus for offers of securities.

An offer to the public of New Listed Parent Shares has not been made, and may not be made, in Spain except pursuant to one of the following exemptions under the Prospectus Directive as implemented in Spain:

- to any legal entity that is authorised or regulated to operate in the financial markets or whose main business is to invest in financial instruments;
- to any legal entity that satisfies two of the following three criteria: (i) balance sheet total of at least €20,000,000; (ii) annual net turnover of at least €40,000,000; and (iii) own funds of at least €2,000,000 (as shown on its last annual unconsolidated or consolidated financial statements);
- to any person or entity who has requested to be treated as a professional client in accordance with the EU Markets in Financial Instruments Directive (Directive 2014/65/EC, "**MiFID II**");
- to any person or entity who is recognised as an eligible counterparty in accordance with Article 30 of the MiFID II unless such entity has requested to be treated as a non-professional client in accordance with the MiFID II Delegated Regulation (EU) 2017/565;
- to fewer than 150 natural or legal persons (other than qualified investors within the meaning of Article 2(1)(e) of the Prospectus Directive), subject to the prior consent of Heartland Bank; or
- in any other circumstances falling within Article 3(2) of the Prospectus Directive, provided that no such offer of New Listed Parent Shares shall result in a requirement for the publication by either of Heartland Bank or the New Listed Parent of a prospectus pursuant to Article 3 of the Prospectus Directive.

Singapore

This Scheme Booklet and any other document or material in connection with the offer, sale or distribution, or invitation for subscription, purchase or receipt of New Listed Parent Shares have not been and will not be registered as a prospectus with the Monetary Authority of Singapore and this offering is not regulated by any financial supervisory authority pursuant to any legislation in Singapore. Accordingly, statutory liabilities in connection with the contents of prospectuses under the Securities and Futures Act, Cap. 289 (the "**SFA**") will not apply.

This Scheme Booklet and any other document or material in connection with the offer, sale or distribution, or invitation for subscription, purchase or receipt of New Listed Parent Shares may not be offered, sold or distributed, or be made the subject of an invitation for subscription, purchase or receipt, whether directly or indirectly, to persons in Singapore except pursuant to exemptions in Subdivision (4) Division 1, Part XIII of the SFA, including the exemption under section 273(1)(c) of the SFA, or otherwise pursuant to, and in accordance with the conditions of, any other applicable provisions of the SFA.

Any offer is not made to you with a view to New Listed Parent Shares being subsequently offered for sale to any other party. You are advised to acquaint yourself with the SFA provisions relating to on-sale restrictions in Singapore and comply accordingly.

Neither this document nor any copy of it may be taken or transmitted into any country where the distribution or dissemination is prohibited. This document is being furnished to you on a confidential basis and solely for your information and may not be reproduced, disclosed, or distributed to any other person.

The investments contained or referred to in this document may not be suitable for you and it is recommended that you consult an independent investment advisor if you are in doubt about such investments or investment services. Nothing in this document constitutes investment, legal, accounting or tax advice or a representation that any investment or strategy is suitable or appropriate to your individual circumstances or otherwise constitutes a personal recommendation to you.

Neither Heartland Bank nor the New Listed Parent is in the business of dealing in securities or holds itself out, or purports to hold itself out, to be doing so. As such, Heartland Bank and the New Listed Parent are neither licensed nor exempted from dealing in securities or carrying out any other regulated activities under the SFA or any other applicable legislation in Singapore.

Switzerland

New Listed Parent Shares may not be publicly offered in Switzerland and will not be listed on the SIX Swiss Exchange ("**SIX**") or on any other stock exchange or regulated trading facility in Switzerland. This Scheme Booklet has been prepared without regard to the disclosure standards for issuance prospectuses under art. 652a or art. 1156 of the Swiss Code of Obligations or the disclosure standards for listing prospectuses under art. 27 ff. of the SIX Listing Rules or the listing rules of any other stock exchange or regulated trading facility in Switzerland. Neither this Scheme Booklet nor any

other offering or marketing material relating to New Listed Parent Shares may be publicly distributed or otherwise made publicly available in Switzerland.

Neither this Scheme Booklet nor any other offering or marketing material relating to New Listed Parent Shares have been or will be filed with or approved by any Swiss regulatory authority. In particular, this Scheme Booklet will not be filed with, and the offer of New Listed Parent Shares will not be supervised by, the Swiss Financial Market Supervisory Authority.

This Scheme Booklet is personal to the recipient only and not for general circulation in Switzerland.

Thailand

This Scheme Booklet is not intended to be an offer, sale or invitation for subscription or purchase of securities in Thailand. This Scheme Booklet has not been registered as a prospectus with the Office of the Securities and Exchange Commission of Thailand. Accordingly, this Scheme Booklet and any other document relating to the Restructure may not be circulated or distributed, nor may New Listed Parent Shares be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to the public in Thailand.

United Kingdom

Neither this Scheme Booklet nor any other document relating to the Restructure has been delivered for approval to the Financial Conduct Authority in the United Kingdom and no prospectus (within the meaning of section 85 of the Financial Services and Markets Act 2000, as amended ("**FSMA**")) has been published or is intended to be published in respect of New Listed Parent Shares.

Any invitation or inducement to engage in investment activity (within the meaning of section 21 FSMA) received in connection with the issue of New Listed Parent Shares has only been communicated, and will only be communicated, in the United Kingdom in circumstances in which section 21(1) FSMA does not apply to Heartland Bank. In the United Kingdom, this Scheme Booklet is being distributed only to, and is directed at, persons to whom it may lawfully be distributed or directed within the circumstances described in Article 43 of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 and/or any other persons to whom it may lawfully be communicated (all such persons being referred to as "**Relevant Persons**").

The investment to which this Scheme Booklet relates is available only to, and any invitation, offer or agreement to purchase will be engaged in only with, Relevant Persons. Any person who is not a Relevant Person should not act or rely on this Scheme Booklet or any of its contents.

United States

Heartland Bank and the New Listed Parent intend to rely on an exemption from the registration requirements of the United States Securities Act of 1933 provided by Section 3(a)(10) thereof in connection with the consummation of the Restructure and the issuance of New Listed Parent Shares. Approval of the Restructure by the Court will be relied upon by Heartland Bank and the New Listed Parent for purposes of qualifying for the Section 3(a)(10) exemption.

United States shareholders of Heartland Bank should note that the Restructure is made for the securities of a New Zealand company in accordance with the laws of New Zealand and the listing rules of NZX. The Restructure is subject to disclosure requirements of New Zealand that are different from those of the United States.

It may be difficult for you to enforce your rights and any claim you may have arising under United States federal securities laws since Heartland Bank is located in New Zealand and most of its officers and directors are residents of New Zealand. You may not be able to sue Heartland Bank or its officers or directors in New Zealand for violations of the United States securities laws. It may be difficult to compel Heartland Bank and its affiliates to subject themselves to a United States court's judgment.

You should be aware that Heartland Bank may purchase securities otherwise than under the Restructure, such as in open market or privately negotiated purchases.

The Scheme Booklet has not been filed with or reviewed by the United States Securities and Exchange Commission or any state securities authority and none of them has passed upon or endorsed the merits of the Restructure or the accuracy, adequacy or completeness of the Scheme Booklet. Any representation to the contrary is a criminal offence.

New Listed Parent Shares to be issued pursuant to the Restructure have not been, and will not be, registered under the United States Securities Act of 1933 or the securities laws of any United States state or other jurisdiction. The Restructure is not being made in any United States state or other jurisdiction where it is not legally permitted to do so.

GLOSSARY

Annual Meeting means the meeting of Shareholders to be held at 10am on 19 September 2018 at the Waipuna Hotel & Conference Centre, or any adjournment thereof.

ASX means ASX Limited, or the financial market operated by ASX Limited, as the context requires.

Australian Group means Heartland Australia and its subsidiaries.

Australian Tax Act means the Income Tax Assessment Act 1936 (Cth) and the Income Tax Assessment Act 1997 (Cth) (as relevant).

Banking Group means Heartland Bank and its subsidiaries at the relevant time, the business of which is regulated by the Reserve Bank.

Board means the board of directors of Heartland Bank.

Business Day means a day (other than a Saturday or Sunday) on which registered banks are generally open for business in Auckland and/or Wellington.

Cameron Partners means Cameron Partners Limited.

Companies Act means the Companies Act 1993.

Court and **High Court** mean the High Court of New Zealand.

Eligible Shareholder means a Shareholder who will be entitled to have New Listed Parent Shares issued to them pursuant to the Restructure subject to the qualifications, if any, in respect of the jurisdiction in which they have a registered address.

Final Court Hearing means the hearing of the Court in respect of the Restructure in relation to the grant of the Final Court Orders.

Final Court Orders means the final orders of the Court in respect of the Restructure made under Part 15 of the Companies Act.

FMC Act Exemption means the Financial Markets Conduct (Heartland Group) Exemption Notice 2018.

Group means, prior to the Restructure, Heartland Bank and its subsidiaries and, following the Restructure, includes the New Listed Parent.

Group Executive means the core management group employed by the New Listed Parent described in Section 6 (*What Will the Group Look Like After the Restructure?*).

Group Services Agreement means the services agreement between the New Listed Parent, Heartland Bank and Heartland Australia described in Section 6 (*What Will the Group Look Like After the Restructure?*).

GST means goods and services tax or similar tax chargeable under the Goods and Services Tax Act 1985 or the A New Tax System (Goods and Services Tax) Act 1999 (Cth) (as appropriate).

Heartland Australia means Heartland Australia Holdings Pty Limited.

Heartland Bank means Heartland Bank Limited.

Heartland Bank Share means an ordinary share in Heartland Bank.

Implementation Date means the date on which the Restructure will be implemented, which, as at the date of this Scheme Booklet, is expected to be 31 October 2018.

Independent Adviser means Cameron Partners.

Independent Adviser's Report means the report on the merits of the Restructure for Shareholders found in Appendix 1 (*Independent Adviser's Report Prepared in Relation to the Proposed Restructure of Heartland Bank Limited*).

Initial Court Orders means the initial orders of the Court relating to the Restructure as outlined in Section 5 (*Further Details of the Restructure*) of this Scheme Booklet.

Link Market Services means Link Market Services Limited.

New Listed Parent means Heartland Group Holdings Limited.

New Listed Parent Board means the board of directors of the New Listed Parent proposed in this Scheme Booklet.

New Listed Parent Share means an ordinary share in the New Listed Parent.

New Listed Parent Shareholder means a registered holder of New Listed Parent Shares following the implementation of the Restructure.

Notice of Meeting means the notice convening the Annual Meeting which accompanies this Scheme Booklet.

NZGT means NZGT Security Trustee Limited.

NZX means NZX Limited.

NZX Debt Market means the debt market operated by NZX.

NZX Listing Rules means the NZX Main Board/Debt Market Listing Rules.

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

NZX Waivers means the waivers from the NZX Listing Rules granted by NZX as outlined in Section 5 (*Further Details of the Restructure*).

Record Date means the date and time at which the entitlement of Shareholders to participate in the Restructure is determined, which, as at the date of this Scheme Booklet, is expected to be 5pm on 30 October 2018.

Reserve Bank means the Reserve Bank of New Zealand.

Restructure means the proposed corporate restructure of the Group to be implemented through the Court approved scheme of arrangement under Part 15 of the Companies Act as described in this Scheme Booklet, subject to any amendments or variations made in accordance with the Initial Court Orders, the Final Court Orders, and/or required by the Court.

Restructure Resolution means a resolution to approve the Restructure to be considered by Shareholders at the Annual Meeting as set out in the Notice of Meeting.

Scheme Booklet means this document dated 15 August 2018.

Shareholder means a registered holder of Heartland Bank Shares.

Takeovers Code means the New Zealand Takeovers Code approved pursuant to the Takeovers Code Approval Order 2000 (SR 2000/210) (as amended).

Tier 2 Notes means Heartland Bank's Tier 2 convertible subordinated unsecured notes issued in April 2017.

Unsubordinated Notes means Heartland Bank's unsubordinated fixed rate notes issued in September 2017, which are listed on the NZX Debt Market.

Wrap means the supplementary document that will be provided to NZX for release to the market together with this Scheme Booklet upon implementation of the Restructure, recording the outcome of the Annual Meeting and any other material changes that have occurred in respect of the New Listed Parent since the date of this Scheme Booklet, as confirmed by the New Listed Parent.

APPENDIX 1: INDEPENDENT ADVISER’S REPORT PREPARED IN RELATION TO THE PROPOSED RESTRUCTURE OF HEARTLAND BANK LIMITED



Heartland Bank Limited

Independent Adviser’s Report Prepared in Relation to the Proposed Corporate Restructure of Heartland Bank Limited

STRICTLY PRIVATE AND CONFIDENTIAL
27 July 2018

Statement of Independence
Cameron Partners Limited confirms that it:

- Has no conflict of interest that could affect its ability to provide an unbiased report; and
- Has no direct or indirect pecuniary or other interest in the proposed transaction considered in the report, including any success or contingency fee or remuneration, other than to receive the cash fee for providing this report.

Cameron Partners Limited has satisfied the Takeovers Panel, on the basis of the material provided to the Panel, that it is independent under the Takeovers Code and the Panel’s requirements for schemes of arrangements involving Code companies for the purposes of preparing this report.



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Abbreviations

Abbreviation	Description
\$	New Zealand dollars (unless otherwise stated)
Annual Shareholder Meeting	Heartland Bank Annual Shareholder Meeting to be held at 10am on 19 September 2018 at the Waipuna Hotel and Conference Centre, Auckland
APRA	Australian Prudential Regulation Authority
c.	Approximately
ASIC	Australian Securities & Investments Commission
ASX	Australian Securities Exchange
A\$	Australian dollars
Banking Group	Heartland Bank and its subsidiaries (the group of companies subject to RBNZ regulation)
CBA	Commonwealth Bank of Australia
Company	Heartland Bank Limited
Court	High Court of New Zealand
Distribution date	The date on which the New Listed Parent shares will be first listed on the NZX
FMA	Financial Markets Authority of New Zealand
FMCA	Financial Markets Conduct Act 2013
Heartland Bank	Heartland Bank Limited
Heartland Group	Pre-restructure: Heartland Bank and its subsidiaries Post-restructure: New Listed Parent and its subsidiaries
Heartland Group Executive	Core management team of the New Listed Parent (Jeff Greenslade, Group Chief Executive; David Mackrell, Group Chief Financial Officer; Michael Drumm, Group General Counsel; Myles Perry, Head of Internal Audit; Andrew Dixon, Head of Corporate Finance)
Heartland Australia	Heartland Group's Australian businesses
Ineligible Shareholder	A shareholder of Heartland Bank, at 5pm on the Record Date, with a registered address in a jurisdiction where it is unlawful to be issued shares in the New Listed Parent
Management	Heartland Bank Management
New Listed Parent	Heartland Group Holdings Limited, the proposed parent company of Heartland Group post-restructure
NIM	Net Interest Margin (the difference between interest income and interest expense, expressed as a percentage of interest bearing assets)
Notice	Notice of Meeting
NPAT	Net Profit After Tax
NZX	New Zealand Stock Exchange
NZDX	NZX Debt Market
NZGT	NZGT Security Trustee Limited, a subsidiary of the New Zealand Guardian Trust Company Limited
RBNZ	Reserve Bank of New Zealand
Record Date	The date on which the number of Heartland Bank shares held by Shareholders will determine the number of New Listed Parent shares to be issued to Shareholders on the Distribution Date
Restructure	Heartland Bank's proposed corporate restructure
Scheme or Scheme of Arrangement	Scheme of Arrangement under Part 15 the Companies Act 1993
Scheme Booklet	Heartland Bank's Scheme Booklet in relation to the Restructure
Shareholder	Pre-Restructure: A shareholder of Heartland Bank Post-Restructure: A shareholder of New Listed Parent
Share Registrar	Heartland Bank's share registrar
SMEs	Small and Medium Enterprises

1. Introduction

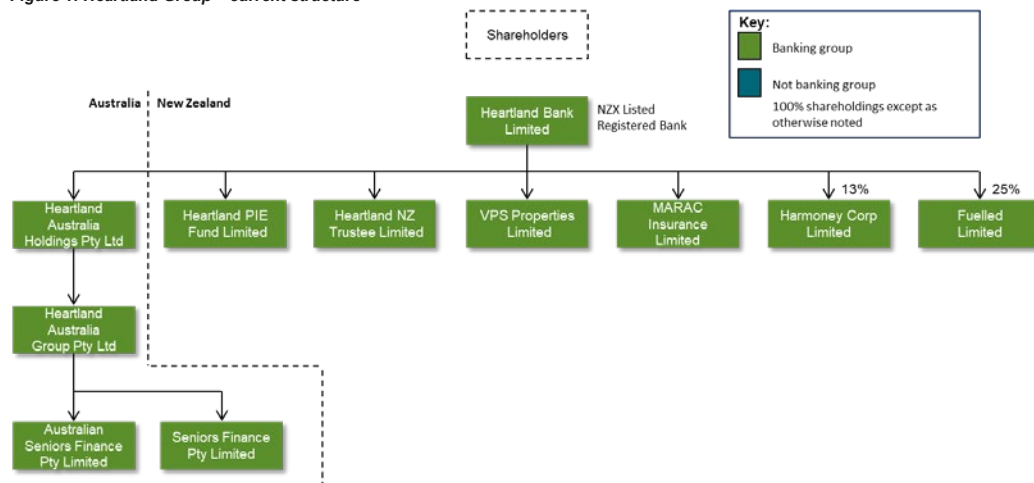
1.1. Background

Heartland Bank Limited (“**Heartland Bank**” or the “**Company**”) is a New Zealand registered bank with operations and subsidiaries in New Zealand and Australia (“**Heartland Group**”). It was listed on the New Zealand Stock Exchange (“**NZX**”) Main Board in February 2011 and obtained its bank registration in December 2012.

1.2. Current structure

An overview of Heartland Group’s current corporate structure is shown in Figure 1 below. Heartland Bank is the parent company and all holdings form part of its ‘banking group’. All of Heartland Group is subject to regulation by the Reserve Bank of New Zealand (“**RBNZ**”).

Figure 1: Heartland Group – current structure



Source: Management

1.3. Proposed Restructure

Heartland Bank has proposed a corporate restructure (“**Restructure**”) of Heartland Group. If approved, the Restructure will proceed as a Scheme of Arrangement (“**Scheme of Arrangement**” or “**Scheme**”) under Part 15 of the Companies Act 1993 and will require High Court (“**Court**”) and Shareholder approval.

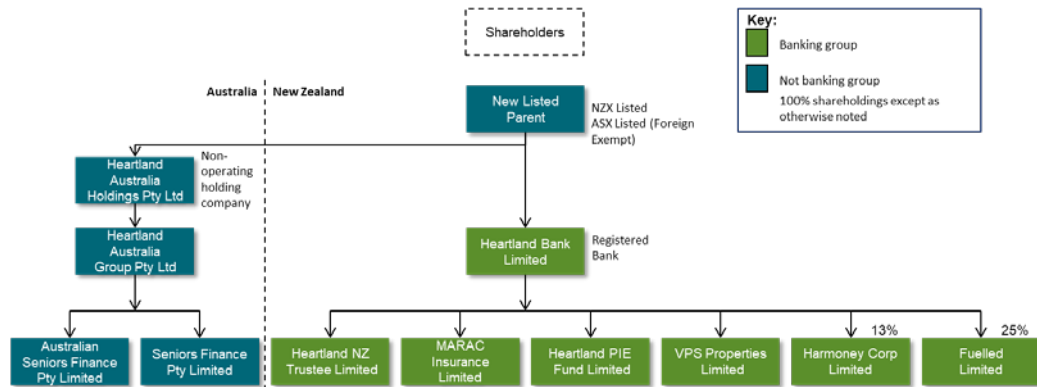
The Scheme of Arrangement will effect a separation (demerger) of Heartland Group’s New Zealand and Australian businesses. Key outcomes include:

- Heartland Bank will become a wholly owned subsidiary of a new listed holding company called Heartland Group Holdings Limited (the “**New Listed Parent**”)
- Heartland Group’s Australian businesses (“**Heartland Australia**”) will be transferred to the New Listed Parent so that they become “sister” companies of Heartland Bank (rather than subsidiaries)
- Heartland Australia (and the New Listed Parent) will no longer form part of Heartland Bank’s banking group (“**Banking Group**”)

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An overview of the proposed post-Restructure corporate structure is shown in Figure 2 below

Figure 2: Heartland Group – post-Restructure



Source: Management

The Restructure effectively substitutes existing Heartland Bank Shareholders’ shares in Heartland Bank with the equivalent number of shares in the New Listed Parent. The Restructure will consequently have no material impact on Shareholders’ (other than any Ineligible Shareholders’) ownership in Heartland Group. That is, except for any Ineligible Shareholders, Shareholders’ economic interest and voting power will not change in any material way. Ineligible Shareholders are discussed in more detail in Section 4.1.

1.4. Rationale for Restructure

Heartland Bank management (“Management”) states that the primary rationale of the Restructure is to remove key constraints on the growth of the Group’s business currently arising from RBNZ regulations and provide it with the ability to establish and own businesses that are not subject to the RBNZ regulation. In addition, it will facilitate a Foreign Exempt Listing on the ASX.

Heartland Australia (while relatively small) is a profitable and strongly growing part of Heartland Bank’s business. However, at present growth rates, without the Restructure, RBNZ regulations may require Heartland Bank to:

- Seek new and potentially sub-optimal sources of funding for Heartland Australia; and / or
- Ultimately restrict growth in Heartland Australia

Management has been contemplating an Australian Securities Exchange (“ASX”) listing for some time as it will facilitate access to additional sources of capital (because for example, various Australian funds and institutional investors have investment mandates that restrict their investment choices to ASX or Australian dollar only securities). Given the increasing scale of the business and potential future capital requirements, Management now considers it appropriate to seek an ASX listing.

The Restructure simplifies a listing on the ASX because Australian Prudential Regulatory Authority (“APRA”) consent is required to use the word “bank” in relation to Heartland Bank’s business, and such consent is usually only granted in conjunction with an application to become an Authorised Deposit-Taking Institution. Heartland Bank has no current intention to apply to become an Authorised Deposit-Taking Institution in Australia.

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Post-restructure, APRA's consent will not be required for the New Listed Parent to list on the ASX (because its name "Heartland Group Holdings Limited" does not have the word "bank"). Therefore, as part of the Restructure the New Listed Parent will file for a Foreign Exempt Listing on the ASX.

1.5. Purpose of this Report

As outlined, the proposed Restructure is to be implemented by way of Scheme of Arrangement under the Companies Act 1993 and requires Court and Shareholder approval.

Heartland Bank has requested that the Takeovers Panel issue a "no-objection statement" in relation to the Scheme of Arrangement to present to the Court to assist with its deliberations. In this regard, the primary role of the Takeovers Panel is to assist the Court by:

- Reviewing Scheme documents to ensure that appropriate information is placed before Shareholders
- Helping to ensure that matters that are relevant to the Court's decision are properly brought to the Court's attention

Although there is no legal requirement under the Companies Act 1993 or the Takeovers Code for an independent adviser's report as a result of the Scheme of Arrangement, the practice of the Takeovers Panel (except in very limited circumstances) is to require the preparation of an independent adviser's report before it will consider issuing a 'no-objection statement'.

Cameron Partners has been engaged by Heartland Bank to prepare an independent adviser's report regarding the merits of the Restructure. Our appointment was approved by the Takeovers Panel on 11 May 2018.

As Heartland Bank is listed on the NZX Main Board, NZX Listing Rule 6.2.3 (as well as general law) specifies that the Notice of Meeting ("**Notice**") must state the nature of the business to be transacted at the meeting in sufficient detail to enable Shareholders to form a reasoned judgement in relation to it.

This Report will accompany the Notice and Scheme Booklet prepared by Management ("**Scheme Booklet**") to be sent to all Heartland Bank Shareholders. It will also be provided to the Court considering the Scheme of Arrangement with respect to the Restructure. This Report should not be used for any other purpose and should be read in conjunction with the Qualifications and Declarations in Appendix 1.

1.6. Cameron Partners approach / Layout of report

The exact meaning of the word "merits" is not prescribed in the Takeovers Code and there is no well accepted, authoritative New Zealand reference that clearly establishes what should be considered when assessing the merits of a transaction. Although the Takeovers Panel has published a guidance note about the role of an Independent Adviser, it has been careful not to limit the scope of the assessment and states that the relevant factors that should be taken into consideration will depend on the features of the proposed transaction, as well as the prevailing circumstances of the parties involved. However, the Takeovers Panel suggests that a merits assessment is broader than a valuation assessment and will include other positive and negative aspects of a transaction.

Cameron Partners approach is to:

- Identify the effects of the Restructure
- Review and analyse the implications (ie the advantages / benefits and the risks / costs / disadvantages) of each effect
- Weigh up the effects and implications and reach a conclusion on balance

The remainder of this report is structured as follows:

- Section 2: Company Overview
- Section 3: Details of the Restructure

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- Section 4: Effects and Implications of the Restructure
- Section 5: Merits of the Proposed Restructure
- Appendices

1.7. Executive summary of the merits of the proposed Restructure

Cameron Partners strongly recommends that Shareholders read this entire report for a full assessment of the merits of the proposed Restructure (and in particular, Section 4 and Section 5). We summarise the material effects and implications of the proposed Restructure in Table 1 below.

Table 1: Material effects and implications of the Restructure

Effect	Implications of Restructure	
	Risks / Disadvantages / Costs	Advantages / Benefits
Regulatory Issues	Removal of RBNZ oversight creates scope for a change in business mix and risk profile	Removal of RBNZ oversight removes constraints to Australian funding and asset growth
Financial Performance		BAU growth constraints removed Potential NPV-positive acquisitive growth accommodated
Costs	Post Annual Shareholder Meeting one-off costs are minimal (c.\$580,000) Ongoing costs relatively immaterial (c.\$590,000 pa equating to c.1% of FY17 NPAT)	
ASX Listing		Improved access to equity Improved share liquidity
Value	Relatively immaterial costs	Potentially increased value from unconstrained Heartland Australia growth and as-yet unidentified opportunities

Source: Cameron Partners

Many of the effects and implications of the proposed Restructure are negligible or neutral and we note that the Restructure results in virtually no change to:

- Shareholders' ownership (ie economic interest or voting 'power') in the Heartland Group (except for any Ineligible Shareholders)
- The Heartland Group's immediate strategy and business plan

Management estimates the impact of the additional on-going costs associated with the Restructure to be c\$590,000 p.a. These are relatively immaterial to the business.

Moving parts of the existing business outside the Banking Group and creating the potential for Heartland Group to grow and acquire businesses outside of RBNZ regulation has both positive and negative consequences, depending on Shareholders investment objectives and risk / return appetite:

- Undertaking the Restructure will remove constraints to Heartland Australia growth
- Without the Restructure, at present growth rates, Heartland Australia will face some asset growth and funding constraints which have the potential to have a negative impact on its financial performance in future
- Nevertheless, the flexibility of the new structure creates additional scope to over time, move the business mix away from that dictated by the RBNZ. This is likely to provide valuable opportunities but may also change the risk profile of Heartland Group. Shareholders may wish to monitor this over time

The advantages and benefits of the Restructure are more difficult to quantify as they require a range of assumptions about the future growth of the business and potential new business opportunities (both BAU and acquisitive). In this regard, we estimate that the potential value impact of unconstrained growth in Australia and potential upside from new growth opportunities could easily outweigh the more certain costs of the Restructure.

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Our conclusions are set out in more detail in Section 5. On balance, we consider the potential value creation opportunities resulting from the Restructure outweigh the costs.

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2. Company overview

2.1. Company summary

Heartland Bank provides various financial services to Small and Medium Enterprises ("SMEs"), farmers, and families in New Zealand and Australia, operating in the household, business, and rural segments.

The Company's product offerings include:

- Transactional and savings accounts
- Residential and reverse mortgage lending products
- Motor vehicle and consumer finance
- Term debt, plant and equipment finance, commercial mortgage lending and working capital solutions
- Insurance products (offered through its fully owned subsidiary MARAC Insurance Limited, a licensed insurer)

2.2. Company history

The Company's history dates to 1875 with the establishment of the Ashburton Permanent Building & Investment Society which subsequently merged with SMC Building Society and Loan & Building Society to become CBS Canterbury. Table 2 presents an overview of recent milestones for Heartland Group.

Table 2: Overview of key milestones

Year	Milestone
2011	Southern Cross, CBS Canterbury and MARAC merge to create a business that becomes Heartland Building Society
2011	Heartland Building Society acquires PGG Wrightson Finance, enhancing the rural strategy and asset base diversity
2012	Heartland Building Society is granted its bank registration by RBNZ, becoming the only New Zealand operated, controlled and managed banking group, with a parent company (Heartland New Zealand Limited) listed on the NZX Main Board
	Heartland Building Society converts to a company and becomes Heartland Bank Limited
2014	Heartland Group acquires the Australian and New Zealand reverse mortgage businesses of Seniors Money International in April 2014
2015	Heartland Bank Limited amalgamates with its parent company, Heartland New Zealand Limited. This transaction positions Heartland Bank Limited as the first New Zealand registered bank listed on the NZX Main Board

Source: www.heartland.co.nz and Management

2.3. New Zealand operations

The New Zealand operations encompass the full product offering. New Zealand operations currently represent the majority of the Company's business comprising c.\$3.7 billion of assets as at 31 March 2018 (representing over 80% of Heartland Bank's total assets) and contributing net operating income of c.\$157 million in FY17 (representing c.92% of Heartland Group total operating income). The New Zealand assets are funded on an unsecured basis (other than a secured Motor Vehicle loan funding facility of up to \$175 million).

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2.4. Heartland Australia

Heartland Australia’s primary product offering is reverse mortgages, which it offers through Heartland Seniors Finance. It also lends through Harmony’s Australian platform and to SMEs via lending to Spotcap Australia and through its own digital platform, Open for Business. Heartland Australia has experienced strong growth since April 2014 and is an increasingly profitable part of Heartland Group’s business. Finance receivables in Australia have grown from \$406 million on 30 June 2014 to \$648 million on 31 March 2018, which represents an annual growth rate of over 13%. The majority of Heartland Australia’s reverse mortgage business is funded via secured wholesale funding from Commonwealth Bank of Australia (“CBA”). The company’s non-reverse mortgage products in Australia are currently funded via funding from Heartland Bank (which was c.\$64 million as at 31 March 2018).

2.5. Share price performance / Liquidity

Heartland Bank shares have traded in a relatively wide range over the past three years (low: \$1.07 in August 2015, high: \$2.14 in December 2017).

Over the same period Heartland Bank Total Shareholder Returns have been c.65%, compared to a total return (including dividends) on the NZX50 of c.52%¹.

Figure 3: Total Shareholder Returns and volumes traded



Source: Capital IQ

As shown in Table 3 below, Heartland Bank is relatively illiquid compared to the NZX50 average.

¹ Source for Heartland Bank Total Shareholder Returns and NZX50 returns: Capital IQ

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Table 3: NZX Liquidity analysis – 10 May 2017 to 9 May 2018

	Heartland	NZX50 Average ¹
Volume of shares traded as % of average shares outstanding	16%	31%
Value of shares traded as % of average market capitalisation	16%	31%

Notes:

¹Excludes NZX50 constituents Westpac Banking Corporation & Australian and New Zealand Banking Group Limited (with ASX primary listings), only considers shares traded on the NZX, calculated as a simple average across remaining 48 constituents

Source: Capital IQ

2.6. Ownership

As at 10 May 2018 Heartland Bank had 560,587,927 of one class of ordinary shares on issue, which included 440,677 shares held as treasury stock. Table 4 below sets out Heartland Bank's top 20 Shareholders.

Table 4: Top 20 Shareholders as at 10 May 2018

Shareholder	# of shares	%
Harrogate Trustee Limited	53,975,036	9.6%
FNZ Custodians Limited	25,851,713	4.6%
Citibank Nominees (NZ) Ltd	25,827,904	4.6%
Accident Compensation Corporation	13,913,772	2.5%
Oceania & Eastern Limited	13,267,285	2.4%
Philip Maurice Carter	12,072,780	2.2%
National Nominees New Zealand Limited	10,390,054	1.9%
HSBC Nominees (New Zealand) Limited	10,074,086	1.8%
Investment Custodial Services Limited	8,721,403	1.6%
Forsyth Barr Custodians Limited	8,700,584	1.6%
Leveraged Equities Finance Limited	7,509,250	1.3%
JP Morgan Chase Bank	6,966,436	1.2%
Heartland Trust	6,475,976	1.2%
HSBC Nominees (New Zealand) Limited	6,008,729	1.1%
BNP Paribas Nominees NZ Limited	4,940,163	0.9%
Jarden Custodians Limited	4,800,000	0.9%
Custodial Services Limited	4,492,964	0.8%
New Zealand Depository Nominee Limited	4,194,658	0.7%
Custodial Services Limited	3,671,722	0.7%
Cogent Nominees Limited	3,605,412	0.6%
Top 20 shareholders	235,459,927	42.0%
Other	325,128,000	58.0%
Total shares on issue	560,587,927	100.0%

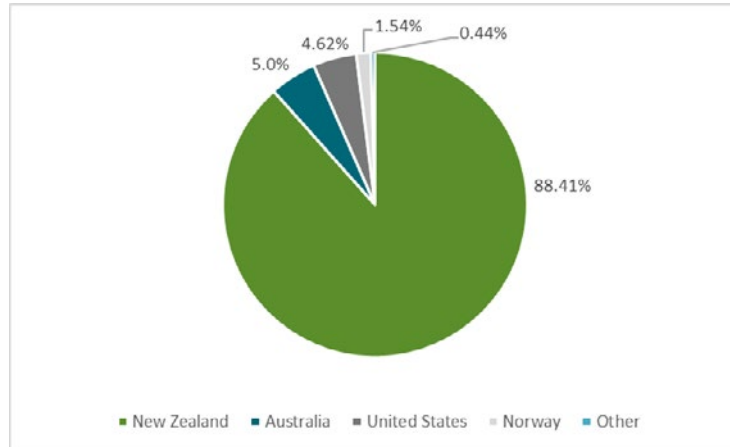
Source: Management

On 10 May 2018, 42% of total shares on issue were held by the top 20 Shareholders (there were 11,958 total Shareholders).

Figure 4 below presents a summary of Shareholders by location as at 31 March 2018, Shareholders are primarily New Zealand based.

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Figure 4: Location of Heartland Shareholders (31 March 2018, weighted by number of shares held)



Notes:

¹ 'Other' includes: Canada, China, Hong Kong, Japan, Luxembourg, Netherlands, Singapore, Switzerland, United Kingdom
 Source: Management

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2.7. Historical financial results

2.7.1. Historical Profit and Loss

Table 5 below presents a summary of Heartland Bank's historical Profit and Loss over the period FY15 to FY17:

- The c.18% increase in Net operating income from FY15 to FY17 was driven by a growing asset base and maintenance of a strong Net Interest Margin ("NIM")². This was partially offset by lower operating lease income on a smaller lease book
- Selling and administration expenses as a percentage of net operating income declined from 47.3% in FY2015 to 41.9% in FY2017 as cost efficiencies were achieved
- These trends drove a c.\$ 20 million increase in 'Profit before income tax' from FY15 to FY17

Table 5: Heartland Bank historical Profit & Loss (year end 30 June)

NZ\$m	FY2015	FY2016	FY2017
Interest income	260.5	265.5	278.3
Interest expense	(126.0)	(118.8)	(115.2)
Net interest income	134.4	146.7	163.1
Operating lease income	10.4	8.9	7.0
Operating lease expenses	(7.1)	(6.2)	(5.2)
Net operating lease income	3.3	2.6	1.8
Lending and credit fee income	3.1	3.3	3.0
Other income	3.9	4.9	3.3
Net operating income	144.7	157.6	171.3
Selling and administration expenses	(68.4)	(69.9)	(71.7)
Profit before impaired asset expense and income tax	76.3	87.7	99.6
Impaired asset expense	(12.1)	(13.5)	(15.0)
Share of joint arrangement profit	0.1	-	-
Profit before income tax	64.3	74.2	84.6
Income tax expense	(16.2)	(20.0)	(23.7)
Net profit after tax	48.2	54.2	60.8
Analysis			
Net interest income - % change		9.1%	11.2%
Net operating income - % change		8.9%	8.7%
Net profit after tax / average equity	10.4%	11.1%	11.6%

Source: Heartland Bank Annual Reports

² Over the period December 2014 to June 2017 Heartland Bank's quarterly NIM averaged c.4.46% (on a pro forma basis, ie incorporating the impact of the 2015 amalgamation in all quarters)

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2.7.2. Historical Assets and Liabilities

Table 6 below presents a summary of Heartland Bank's historical year end (30 June) Balance Sheets over the period FY15 to FY17.

Table 6: Heartland Bank historical Balance Sheet (year end 30 June)

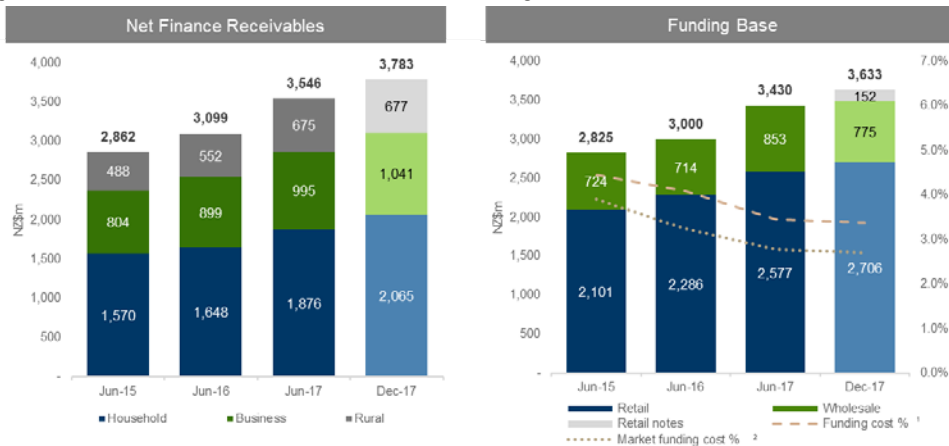
<i>NZ\$m</i>	<i>FY2015</i>	<i>FY2016</i>	<i>FY2017</i>
Assets			
Cash and cash equivalents	37	84	57
Investments	329	236	319
Investment properties	25	8	5
Finance receivables	2,862	3,099	3,546
Operating lease vehicles	30	25	19
Other assets	12	16	10
Investment in joint arrangement	4	-	-
Intangible assets	51	58	71
Deferred tax asset	9	7	8
Total assets	3,359	3,533	4,035
Liabilities			
Borrowings	2,825	3,000	3,430
Current tax liabilities	8	7	10
Trade and other payables	46	28	25
Total liabilities	2,879	3,035	3,465
Equity			
Share capital	414	421	473
Treasury shares	-	(3)	(3)
Retained earnings and other reserves	66	80	99
Total equity	480	498	570
Total equity and liabilities	3,359	3,533	4,035
Total interest earning and discount bearing assets	3,221	3,412	3,910
Total interest and discount bearing liabilities	2,834	2,999	3,426

Source: Heartland Bank Annual Reports

Figure 5 below presents a summary of Heartland Bank's historical net finance receivables and funding base over the period June 2015 to December 2017. Heartland Bank's average funding cost has tracked at a relatively consistent level above the average market funding cost over the period June 2015 to December 2017, reflecting the market position / risk profile of Heartland Bank relative to other New Zealand registered banks.

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Figure 5: Heartland Bank historical net finance receivables and funding base



Notes:

¹ Funding cost %:

- Jun-15: Heartland Bank’s cost of borrowings calculated as its annual interest expense over total borrowings as at 30-Jun-2015
- Jun-16 to Dec-17: Heartland Bank’s cost of borrowings calculated as the annual interest expense over average total borrowings of the immediately preceding four quarters

² Market funding cost % is an estimated market comparison of the cost of borrowings for New Zealand registered banks

Source: Heartland Bank Interim Report 2018 and RBNZ

2.8. FY18F outlook

Heartland Bank is continuing to grow in FY18. The Company estimates that its net profit after tax (“NPAT”) for FY18 will be at the “upper end” of an estimate previously released to the market of \$65.0 million to \$68.0 million. If the Company achieves a FY18 NPAT of (for example) \$67.0 million this will represent a c.10% increase in NPAT from FY17.

2.9. Strategy

The Company is focused on providing “best or only” banking products within its Household, Business and Rural sectors. Examples of its products include reverse mortgages and livestock finance, as well as products where it can offer better features, such as faster online applications for small business working capital loans. Heartland Group is focused on using technology and other partnerships with intermediaries to extend its customer reach.

The Company’s stated strategic priorities for growing earnings and improving return on equity are:

- “Being in the right place at the right time through digital, intermediated and direct channels to ensure we are in easy reach for our customers
- Targeting markets with significant opportunity and focussing on niche products where customers are under-served by the other banks
- Delivering specialised customer experiences for each product type
- Using data insights to predict customer intent, and drive strong lead generation and conversion
- Leveraging established intermediary relationships and using digital platforms to distribute selected new products and grow Heartland’s business in Australia”

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2.10. Market position

Key aspects of Heartland Group's market position:

- Industry leading NIM - Heartland Bank had the strongest NIM of respondents to the FIPS 2017³ survey, which was attributed to Heartland's niche markets focus, particularly in the areas of reverse mortgages, asset financing and working capital
- NZ reverse mortgage leader – Cameron Partners understands that Heartland Group is the largest reverse mortgage provider in New Zealand
- Significant player in Australian reverse mortgage market - The IBISWorld 2017⁴ report estimated that Heartland Australia (via its subsidiary Australian Seniors Finance Pty Limited) was the third largest player in the Australian reverse mortgage market, with an estimated market share of 11.5%

³ FIPS 2017: The New Zealand Financial Institutions Performance Survey Review (2017)

⁴ IBISWorld 2017: IBISWorld Reverse Mortgage Providers Australian Industry Report (2017)

3. The Restructure

3.1. The Proposed Restructure

The Proposed Restructure is a separation (demerger) of Heartland Group's New Zealand and Australian businesses. If approved, it will proceed as a Scheme of Arrangement under Part 15 the Companies Act 1993 and will require Court approval.

Post-restructure:

- Heartland Bank will become a wholly owned subsidiary of the New Listed Parent
- The companies comprising Heartland Australia will become wholly owned subsidiaries of the New Listed Parent so that Heartland Bank and the companies comprising Heartland Australia become "sister" companies rather than subsidiaries
- The New Listed Parent will:
 - Be the parent company for Heartland Group and oversee the New Zealand business (carried on by Heartland Bank and its subsidiaries) and the Australian business (carried on by the companies comprising Heartland Australia)
 - Have no material assets other than its shares in Heartland Bank and Heartland Australia
 - Have a limited number of employees, constituting the Heartland Group Executive and an Investor Relations Manager. All other employees will remain employees of Heartland Bank or Heartland Australia and management services will be provided across Heartland Group as required, including the provision of management services by the Heartland Group Executive (sitting within New Listed Parent) to Heartland Bank
- Both Heartland Australia and New Listed Parent will sit outside the Banking Group

In conjunction with the Restructure (but outside the Scheme of Arrangement), it is proposed that the New Listed Parent will seek a Foreign Exempt listing on the ASX.

3.2. Steps / Transactions

Implementing the Restructure will be effected through a series of steps / transactions as follows:

- Step 1: The New Listed Parent will be incorporated as a New Zealand company (sitting outside the Banking Group)
- Step 2: In exchange for each Heartland Bank share held by each Shareholder, the New Listed Parent will issue each Shareholder the same number of New Listed Parent shares
- Step 3: Heartland Australia will be transferred to the New Listed Parent. Heartland Australia will no longer form part of the Banking Group
- Step 4: The New Listed Parent will own all the shares in Heartland Bank and Heartland Australia

See Appendix 2 for more detail.

3.3. Management's Rationale for the Restructure

Management states that the primary objectives of the Restructure are to:

- Remove constraints to Heartland Australia's business caused by RBNZ regulation
- Provide flexibility to Heartland Group to grow new businesses organically and through acquisitions that may be better suited to an environment outside of the Banking Group and therefore not subject to RBNZ regulation
- Facilitate a Foreign Exempt Listing on the ASX

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The Restructure achieves these objectives by:

- Replacing Heartland Bank with the New Listed Parent as the ultimate parent / holding company which also will not be part of Heartland Bank's Banking Group
- Moving Heartland Australia from Heartland Bank to the New Listed Parent, so that the Australian business is no longer part of Heartland Bank's Banking Group

In addition, according to Management, the Restructure simplifies the ASX listing of the New Listed Parent

3.3.1. Heartland Australia Growth

Heartland Australia is currently a relatively small part of Heartland Bank's business, representing c.17% of Heartland Group's Finance Receivables as at 31 March 2018 and c.6% of net operating income in FY17. As outlined in section 2.4, Heartland Australia has experienced average annual Finance Receivables growth of over 13% during the period from 30 June 2014 to 31 March 2018.

Management wishes to pursue the growth potential in Australia – growing Australian based assets accordingly and optimising the associated funding arrangements.

3.3.2. RBNZ constraints on Heartland Australia growth

Under Heartland Group's current structure Heartland Australia is subject to RBNZ regulation. The RBNZ's 'Portion of Business in New Zealand' requirement and 'Secured Asset Limit', will potentially constrain Heartland Australia's growth.

Management advises that at present growth rates (over 13% pa growth in finance receivables over the 3¾ years to 31 March 2018), without the Restructure, these RBNZ regulations may require Heartland Bank to:

- Seek new and potentially sub-optimal sources of funding; and / or
- Ultimately restrict growth in Heartland Australia

Portion of Business in New Zealand

The RBNZ's Portion of Business in New Zealand limit (one of the RBNZ's standard Conditions of Registration) requires a substantial portion of Heartland Bank's business to be conducted in and from New Zealand. Management's current forecasts indicate that under the current arrangements, the growth in Heartland Australia will exceed the non-New Zealand business threshold permitted by RBNZ for Heartland Bank within the next four years.

The Restructure will remove this regulatory constraint on Heartland Australia's growth.

Secured Asset Limit

The RBNZ also restricts Heartland's secured assets to 20% of total assets.

At March 2018 secured assets represented c.18% of Heartland Group's total assets. Of these secured assets, c.85% related to the Australian reverse mortgage business and c.15% to New Zealand motor vehicle financing. Based on Management's current forecasts, the 20% Secured Asset Limit threshold will be exceeded within the next two years.

Post-restructure the majority of the secured assets (i.e. the Heartland Australia reverse mortgage assets) will no longer be included in the Heartland Bank Secured Asset Limit ratio and this will decrease accordingly to c.3%.

This will remove the constraint to growth in the Australian business and create significant additional new headroom for secured asset funding within the Heartland Bank business.

3.3.3. New Business Lines / Acquisition Flexibility / Efficient Capital

As discussed in Section 3.1, Heartland Bank will be a subsidiary of the New Listed Parent. Along with Heartland Australia, the New Listed Parent will also sit outside of the Banking Group. Consequently, the activities of the New Listed Parent, Heartland Australia and any other subsidiaries of the New Listed Parent other than Heartland Bank will not be subject to RBNZ regulation.

Management advises that in addition to enabling more organic growth in Heartland Australia, the Restructure provides Heartland Group with the ability to establish and own businesses as subsidiaries of the New Listed Parent that will be outside the Banking Group and may be better suited to non-bank regulation.

Removing Heartland Australia from the Banking Group will initially free up, and in the long term facilitate the use of capital currently required to meet RBNZ regulatory requirements. For example, non-bank finance companies may be able to operate with lower levels of equity relative to a registered bank.

3.4. ASX listing

Management believes:

- An ASX listing will facilitate access to a greater pool of equity funding through various Australian funds and institutional investors that have ASX or Australian dollar only mandates
- That given the increasing scale of the business and potential future capital requirements it is now appropriate to seek an ASX listing

As outlined in Section 1.4 the Restructure simplifies a listing on the ASX because APRA consent would be required to use the word "bank" in relation to Heartland Bank's business, and such consent is usually only granted in conjunction with an application to become an Authorised Deposit-Taking Institution. Heartland Bank has no current intention to apply to become an Authorised Deposit-Taking Institution in Australia.

Following the Restructure, it is intended that the New Listed Parent will apply for the Foreign Exempt Listing on the ASX under the name "Heartland Group Holdings Limited", and APRA's consent will not be required in respect to such listing.

3.5. Key conditions and approvals

Certain legal and regulatory conditions must be satisfied before the Scheme of Arrangement is binding.

3.5.1. Shareholders' approval

The Scheme of Arrangement will only proceed if the resolution ("**Restructure Resolution**") is approved at Heartland Bank's Annual Shareholder Meeting ("**Annual Shareholder Meeting**").

The Restructure Resolution to be voted on by Shareholders at the Annual Shareholder Meeting is set out below:

"Restructure Resolution

That the Restructure (details of which are set out in the Scheme Booklet) is approved"

To achieve Shareholder approval, the Restructure Resolution must be passed by:

- a majority of 75% of the votes of Shareholders in each interest class* entitled to vote and voting; and
- a simple majority of the votes of those Shareholders entitled to vote

*Management advises that there is currently only one interest class

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The Restructure Resolution will be put to Shareholders as a single resolution. Voting will be by way of poll and the Share Registrar and Heartland Bank's auditor will confirm whether each of the relevant voting thresholds have been met in respect of the Restructure Resolution.

3.5.2. High Court approval

Once Shareholder approval is obtained, a final Court order will be sought to give effect to the Scheme of Arrangement under Part 15 of the Companies Act. As mentioned in Section 1.5 above, when exercising its discretion to approve the Scheme of Arrangement the Court may rely on a 'no-objection statement' from the Takeovers Panel. However, we note that the Court does not need to approve the proposed Restructure even if the Takeovers Panel issues a 'no-objection statement'.

3.5.3. Further conditions

There are further key conditions for the Restructure, which Management advises have already been satisfied. These include:

- The Reserve Bank having provided its non-objection to the Restructure
- The Financial Markets Authority of New Zealand ("FMA") having granted the Financial Markets Conduct Act 2013 Exemption, required to the disclosure requirements that would otherwise apply to the New Listed Parent under the Financial Markets Conduct Act ("FMCA") (the exchange of shares in Heartland Bank for shares in the New Listed Parent would likely constitute a 'regulated offer' by the New Listed Parent, under the FMCA and among other things potentially require preparation of a Public Disclosure Statement ("PDS") which it is considered would not provide any meaningful additional information beyond what is included in the Scheme Booklet)

3.6. Timeline of key events

A timeline of key events in relation to the Restructure is shown in Table 7 below. Dates may change and are subject to Court approval.

Table 7: Timeline of key events

<i>Date</i>	<i>Event</i>
15 August 2018	Scheme Booklet sent to Shareholders
10am on 19 September 2018	Annual Shareholder Meeting
24 October 2018	Receipt of the final orders of the Court in respect of the Restructure
26 October 2018	Last day of trading in Heartland Bank's shares on the NZX Main Board
31 October 2018	Restructure implemented
1 November 2018	First day of trading in New Listed Parent's shares on the NZX Main Board and on the ASX

4. Effects and Implications of the Restructure

4.1. Ownership

The Restructure effectively substitutes existing Heartland Bank Shareholders' shares in Heartland Bank with the equivalent number of shares in the New Listed Parent:

- There is only one class of ordinary shares pre-Restructure and there will only be one class post-Restructure
- Any Ineligible Shareholders will receive cash instead of being issued shares in the New Listed Parent because it may be unlawful to issue shares to Shareholders with a registered address in certain jurisdictions. The number of Shareholders that will be Ineligible Shareholders will only be known on the Record Date. Management advises that on 27 July 2018 Ineligible Shareholders represented a maximum of c.0.03% of total shares. The shares of Ineligible Shareholders will be sold on market by a broker appointed by NZGT, so there will be no change in the number of shares on issue in Heartland Group. The impact on Heartland Group's Shareholder base is expected to be negligible
- The New Listed Parent will have no other assets other than the existing Heartland Bank assets

The Restructure will consequently have no material impact on Shareholders' (other than any Ineligible Shareholders') ownership in Heartland Group. That is, except for any Ineligible Shareholders, Shareholders' economic interest and voting power will not change in any material way.

4.2. Regulatory Issues

Heartland Bank is currently subject to oversight and regulation from a number of regulators, including:

- The RBNZ
- The NZX (and with the proposed Foreign Exempt Listing, the ASX)
- ASIC ("**Australian Securities & Investments Commission**") (in relation to Heartland Australia)

The Restructure is intended to address some RBNZ constraints to its Heartland Australia business and to create strategic flexibility. In this regard, the Restructure achieves its purpose and the other regulatory effects are negligible.

4.2.1. RBNZ

RBNZ registration compliance

Heartland Bank is currently the ultimate holding company for the Heartland Group. Consequently it, and all its subsidiaries are subject to RBNZ oversight and regulation as a 'bank'.

To maintain registration as a bank with the RBNZ, Heartland Bank is required to provide monthly reporting to show compliance with a number of 'Conditions of Registration' limits. Compliance reporting covers various financial metrics which Heartland Bank currently complies with and will continue to comply with post-Restructure as summarised in Table 8.

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Table 8: Heartland Bank – summary of financial compliance

<i>Heartland Bank - financial compliance limits</i>	<i>Condition of Registration</i>	<i>Reference</i>	<i>Max / Min</i>
Capital Ratio - Total Equity	10.50%	Risk Wgt Assets	Minimum
Capital Ratio - Tier 1 Equity	8.50%	Risk Wgt Assets	Minimum
Capital Ratio - Tier 1 Common Equity	7.00%	Risk Wgt Assets	Minimum
Total Capital	\$30m	Capital	Minimum
Buffer Ratio	2.50%	Capital	Minimum
One-Week Mismatch Ratio	0.00%	Total Funding	Minimum
One-Month Mismatch Ratio	0.00%	Total Funding	Minimum
One-Year Core Funding Ratio	75.00%	Total Funding	Minimum
Aggregate Credit Exposures - Connected Persons	15.00%	Tier 1 Capital	Maximum
Total Assets - Insurance Business	1.00%	Total Assets	Maximum
Assets Beneficially Owned by SPV (covered bond)	10.00%	Total Assets	Maximum
Medium LVR mortgages (property investment, residential mortgage loans) - 6 mth rolling average	5.00%	New loan approvals	Maximum
High LVR mortgages (non-property investment, residential mortgage loans) - 6 mth rolling average	10.00%	New loan approvals	Maximum
Substantial portion of business in New Zealand	Not disclosed	Total Assets	Maximum

Source: Management

There is negligible negative change in Heartland Bank's RBNZ compliance ratios as a result of the Restructure.

Key RBNZ constraints removed

As outlined in Section 3.3 the Restructure's primary objective is to remove some of the RBNZ's regulatory constraints on Heartland Australia's growth. In this regard the Restructure will ensure that Heartland Australia is no longer constrained by the RBNZ's regulatory requirements regarding Heartland Bank's:

- Portion of Business in New Zealand
- Secured Asset Limit (creating significant additional new headroom for secured asset funding within the Heartland Bank business)

Increased flexibility / Efficient capital

Also as outlined, the Restructure creates flexibility for Heartland Group to establish and own businesses as subsidiaries of the New Listed Parent that will not be subject to RBNZ regulation and may be better suited to non-bank regulation. The Restructure will also initially free up regulatory capital required by the RBNZ and enable it to be diverted for other purposes.

There is no immediate change to Heartland Group's strategy and business plan in conjunction with the Restructure. Nevertheless, Shareholders should be aware that the Restructure creates scope over time for the Heartland Group business mix to change from that imposed by RBNZ regulations and a change in risk profile.

Connected person exposure

As a result of the Restructure, the current funding to Heartland Australia becomes a 'connected person exposure' of Heartland Bank and subject to a limit of not more than 15% of Heartland Bank's Tier 1 Capital (and any loan from Heartland Bank to Heartland Australia cannot be on more favourable terms than corresponding exposures to non-connected persons). Heartland Bank currently provides funding to Heartland Australia of c.\$64 million (as at 31 March 2018), representing c.12% of Heartland Bank's Tier 1 Capital.

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The 'connected person exposure' limits the ability of Heartland Bank to provide finance to Heartland Australia. Management advises that it is intended that Heartland Australia will repay the Heartland Bank funding and fully fund itself with Australian based wholesale funding.

4.2.2. NZX / ASX

The Restructure involves Heartland Bank ceasing to list its equity on the NZX and effectively being replaced with the New Listed Parent listing its equity on the NZX.

The New Listed Parent will maintain a primary listing on the NZX Main Board. It also intends to have a secondary listing on the ASX through an ASX Foreign Exempt Listing. Under a Foreign Exempt Listing the New Listed Entity will only need to comply with a limited set of ASX Listing Rules (which are procedural in nature), provided it continues to comply with NZX Listing Rules. Effectively there will be no material substantive change to listing compliance requirements for the New Listed Parent relative to Heartland Bank's current listing compliance requirements.

Heartland Bank will continue to list its \$150 million unsubordinated fixed rate notes on the NZX Debt Market ("NZDX"). Heartland Bank will continue to comply with the NZDX listing requirements.

4.2.3. ASIC

Heartland Australia is currently subject to oversight and regulation from ASIC as a 'credit licensee'. Heartland Australia currently complies with all ASIC requirements.

There will be no additional regulation for Heartland Australia from ASIC as a result of the Restructure.

4.3. Financial Performance

All things equal, the Restructure should have no immediate direct, material impact on Heartland Group's financial performance (there will be some relatively minor ongoing costs associated with the Restructure outlined in Section 4.4).

The proposed Restructure itself does not change Heartland Group's immediate strategy and business plan.

However, Management notes (and Cameron Partners agrees) that a continuation of current relative growth rates for different parts of the business may in the medium term, without the Restructure see Heartland Group reach the limits of the:

- Portion of Business in New Zealand constraint and consequently need to restrict growth out of New Zealand
- 20% Secured Asset Limit and be required to either:
 - Restrict growth in those products that are funded through secured asset financing
 - Make greater use of existing funding sources and / or use new alternative arrangements to fund any additional growth in those products:
 - From New Zealand sources this could include greater use of retail deposits and other unsecured wholesale funding sources (see Section 4.5 Capital Structure / Funding Arrangements). Use of such sources may increase basis risk and in relation to Australian assets foreign currency risks
 - From new Australian sources this would most likely be achieved through accessing Australian retail deposits or other unsecured wholesale funding. Accessing Australian retail deposits would require registration as a bank in Australia, which as discussed in Section 3.4 is not considered appropriate by Heartland Group at this stage

Consequently, without the Restructure, Heartland Group may face some asset growth and funding constraints which have the potential to have a negative impact on its financial performance in future.

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Post-restructure Heartland Group will not be constrained by the Portion of Business in New Zealand and Secured Assets Limit imposed by the RBNZ and will have greater flexibility in regard to:

- Funding options
- Growth

Because both Heartland Bank will be listed on the NZDX and the New Listed Parent on the NZX there will be an increase in governance and financial reporting requirements. Nevertheless, there will be considerable 'cross-over' in governance and financial reporting requirements and the overall increase in burden is not considered to be significant.

4.4. Costs of the Restructure

There are several costs in relation to the Restructure. These costs can be divided into three groups:

- One-off costs incurred prior to Shareholder voting at the Annual Shareholder Meeting
- One-off costs to be incurred post Shareholder voting at the Annual Shareholder Meeting
- On-going costs

4.4.1. One-off costs incurred prior to Shareholder voting at the Annual Shareholder Meeting

The one-off costs incurred prior to Shareholder voting at the Annual Shareholder Meeting are sunk and therefore they are not relevant to Shareholders' decisions whether to support the Restructure Resolution. Management estimates that c.\$940,000 will be incurred prior to the Annual Shareholder Meeting. The major cost item incurred prior to the Annual Shareholder Meeting is legal fees.

4.4.2. One-off costs to be incurred post Shareholder voting at the Annual Shareholder Meeting

Management estimates that there will be c.\$580,000 of one-off costs incurred post the Annual Shareholder Meeting relating to NZX and ASX listing fees.

4.4.3. On-going costs

Management estimates that the Restructure will result in c.\$590,000 in additional on-going costs comprised as follows:

- ASX listing costs of c.\$87,000 per annum
- Additional management, governance, reporting and compliance costs of c.\$500,000 per annum

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4.5. Capital Structure / Funding Arrangements

Heartland Bank's current capital structure / assets and the anticipated capital structure / assets of the New Listed Parent, Heartland Bank and Heartland Australia are as follows:

Table 9: Heartland Group – balance sheets pre and post-Restructure as at 31 March 2018

NZ\$m	Pre-Restructure		Post-Restructure		Difference	
	a				b	b - a
	Heartland Group	Heartland Bank	Heartland Australia	New Listed Parent (unconsolidated) (Ref. 4.5.1)	Heartland Group	
Assets						
Cash and cash equivalents (Ref. 4.5.3)	80	39	11	5	55	(25)
Investments	316	316	-	632	316	-
Investment properties	2	2	-	-	2	-
Finance receivables - external	3,882	3,234	648	-	3,882	-
Finance receivables - intercompany (Ref. 4.5.2)	-	64	-	-	-	-
Operating lease vehicles	18	18	-	-	18	-
Other assets	13	12	-	-	13	-
Intangible assets	72	47	25	-	72	-
Deferred tax asset	6	6	-	-	6	-
Total assets	4,388	3,738	684	637	4,363	(25)
Liabilities (Ref. 4.5.4)						
Borrowings - external (Ref. 4.5.3)	3,698	3,124	550	-	3,673	(25)
Borrowings - intercompany (Ref. 4.5.2)	-	-	64	-	-	-
Current tax liabilities	6	2	4	-	6	-
Dividend payable	-	-	-	-	-	-
Trade and other payables	47	47	1	-	47	-
Total liabilities	3,752	3,173	618	-	3,727	(25)
Total equity	637	565	66	637	637	-
Total equity and liabilities	4,388	3,738	684	637	4,363	(25)
Total interest earning and discount bearing assets	4,264	3,576	659	5	4,239	(25)
Total interest and discount bearing liabilities	3,691	3,117	550	-	3,666	(25)

Source: Management

Overall these changes have negligible impact on Heartland Group's immediate capital structure.

4.5.1. New Listed Parent

The New Listed Parent is the top-level parent company for Heartland Group. At the time of the Restructure it will have no material assets other than its shares in Heartland Bank and Heartland Australia. The allocation of equity capital between Heartland Bank and Heartland Australia is to optimise the competing requirements for equity to meet regulatory

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requirements in the case of Heartland Bank and to fund growth and achieve the best funding terms across both Heartland Bank and Heartland Australia.

Future equity capital requirements of Heartland Bank and Heartland Australia can be met by the New Listed Parent raising its own new equity and using this capital to subscribe for shares in its subsidiaries.

4.5.2. Intercompany funding

As shown on Table 9 above and mentioned in Section 2.4, Heartland Bank provides funding of (c.\$64 million) to Heartland Australia as part of its financing arrangements, Heartland Australia uses this funding to finance its non-reverse mortgage products. The intercompany funding will remain in place immediately after the Restructure, therefore Heartland Australia will be a 'connected person' to the post-Restructure Banking Group. However, Management advises that its intention is to replace this with Australian based funding in the short term.

4.5.3. Tier 2 Convertible Notes

As shown in Table 9 above, Heartland Bank currently has Tier 2 Convertible Notes (a form of subordinated debt which receives treatment as quasi-equity from the RBNZ for capital adequacy purposes) of A\$20 million. These Tier 2 Convertible Notes do not contemplate a situation where Heartland Bank does not have its ordinary shares listed on the NZX consequently the Restructure cannot proceed with the Tier 2 Convertible Notes in the current form. If the Restructure proceeds the Tier 2 Convertible notes will be redeemed (as presented in Table 9) or restructured, in which case there would be no material difference in the capital structure components of Heartland Group at an aggregate level Pre-Restructure and Post-restructure.

4.5.4. Funding Arrangements

Heartland Group currently funds itself from a range of New Zealand retail and wholesale and Australian wholesale sources.

The significant majority of funding is to Heartland Bank and is unsecured and without financial covenants (as creditors no doubt take comfort from the RBNZ regulation and oversight of Heartland Bank which includes compliance requirements in relation to various financial metrics).

The Restructure results in effectively no change for the majority of Heartland Group's funding:

- The funding providers have limited rights in relation to the Restructure
- As outlined in Section 4.6 we do not anticipate any material change in credit rating for Heartland Bank

4.6. Credit Rating

Heartland Bank is currently rated by credit rating agency Fitch Ratings. As at October 2017, Fitch Ratings assessment of Heartland Bank was:

- Foreign currency Long term Issuer Default Rating - 'BBB (Stable)'
- Foreign currency Short term Issuer Default Rating – 'F2'
- Viability Rating – 'bbb'

A 'BBB / F2' credit rating is an 'investment grade' rating. Fitch definitions are as follows:

- **BBB:** Good Credit Quality. 'BBB' ratings indicate that expectations of default risk are currently low. The capacity for payment of financial commitments is considered adequate, but adverse business or economic conditions are more likely to impair this capacity
- **F2:** Good Short term Credit Quality. Good intrinsic capacity for timely payment of financial commitments.

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- **bbb:** Good Fundamental Credit Quality. Good prospects for ongoing viability. The bank's fundamentals are adequate, such that there is a low risk that it would have to rely on extraordinary support to avoid default. However, adverse business or economic conditions are more likely to impair this capacity.

In an absolute sense the Restructure has little impact on the credit quality of the Heartland Group. The Restructure involves no stated change in Heartland Group's immediate strategy and business plan and there is negligible change in Heartland Group's capital structure.

Nevertheless, the Restructure does alter the:

- Capital structure of Heartland Bank and Heartland Australia
- The regulatory oversight of the Australian part of Heartland Group's business and assets
- The nature of potential support from Heartland Bank to Heartland Australia

We do not expect that there will be a change in the credit rating of Heartland Bank due to the Restructure. The underlying New Zealand business remains the same and the key operating and capital ratios only change slightly.

Likewise, the credit rating of the New Listed Parent is driven by the consolidated risk profile of the Heartland Group. Since Heartland Bank would represent the significant majority (c.83%) of Heartland Group's post-Restructure Finance Receivables and (c.92%) of its operating profits (based on FY17 net operating income) it is reasonable to assume that the New Holding Company will receive the same rating as Heartland Bank.

Over time if this business mix changes (all other things equal) there is scope for the risk profile and therefore credit rating to change.

On a standalone basis Heartland Australia could be expected to be in a weaker position relative to Heartland Bank. Nevertheless, rating methodologies typically look at the level of institutional support such a subsidiary could reasonably expect from its parent company (i.e. the New Listed Parent). There are strong synergies, common directors, management and systems integration. However, Heartland Australia is a relatively small part of the Heartland Group and not fundamental to the core banking business, consequently it is reasonable to assume that:

- Heartland Australia will receive a lower credit rating than Heartland Bank and the New Listed Parent
- All else equal, at its current size relative to Heartland Group, Heartland Australia should not negatively impact Heartland Bank's and / or the New Listed Parent's credit rating

Management advises that the price and terms of Heartland Australia's wholesale funding facility will not negatively change due to the Restructure.

4.7. ASX Listing / Liquidity

The New Listed Parent's proposed secondary listing on the ASX is not strictly part of the Restructure. However, the Restructure facilitates this listing because it removes the need to obtain APRA consent which Heartland Bank does not wish to do at this stage (see Section 3.4).

As outlined in Section 4.2 there will be no material change to listing compliance requirements for the New Listed Parent.

There are currently 37 companies listed on the NZX and ASX with their primary listing on the NZX.

The reasons stated by these companies for also being listed on the ASX include:

- Access to equity capital - the Australian superannuation industry is significantly more developed than New Zealand's. Compulsory superannuation was instigated in Australia in 1992 and the superannuation funds under management in Australia totalled c.A\$2.6 trillion in December 2017. Kiwisaver funds under management totalled c.\$48.5 billion in March 2018. Various Australian funds and institutional investors have investment mandates that restrict their investment choices to ASX or Australian dollar only securities.

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- Share liquidity – analysis indicates increased share liquidity for NZX listed companies that move to a secondary ASX listing

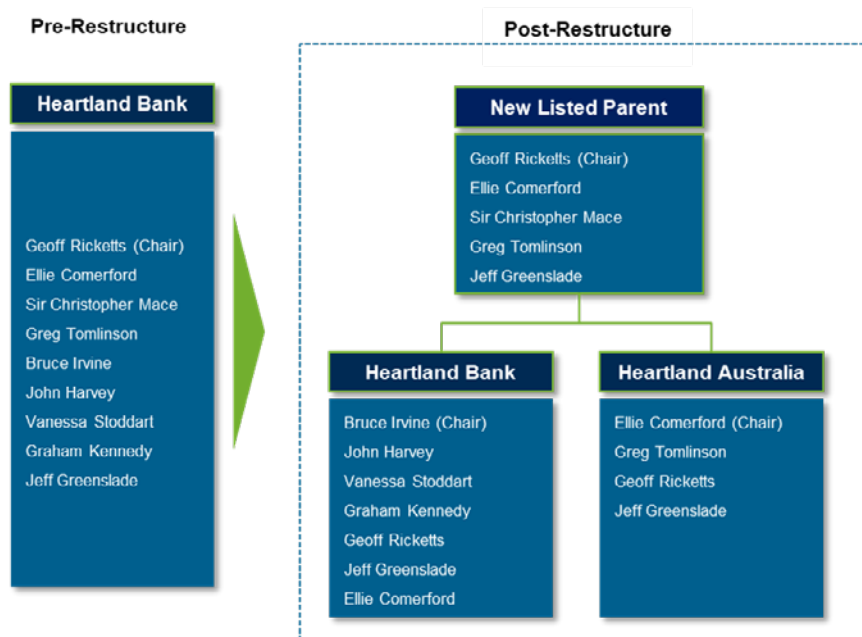
An overview of Heartland Bank’s recent share price movements and liquidity analysis is shown in Section 2.5.

4.8. Governance

As part of the Restructure the governance arrangements will be streamlined:

- We draw attention to the fact that post-Restructure the New Listed Parent that Shareholders will have shares in will have five of the existing nine directors (the minimum number of directors required under the NZX Listing rules is three and the average number of directors of the top 50 NZX listed companies is seven)
- The governance arrangements for the New Listed Parent will be consistent with those expected of listed companies
- Overall the expertise of the existing directors of Heartland Bank will continue to be available to Heartland Group after the Restructure
- The nine current directors of Heartland Bank will continue as directors of one or more of the New Listed Parent, Heartland Bank and Heartland Australia in Figure 6 below:

Figure 6: Directors Pre-Restructure and Post-Restructure



As a registered bank, Heartland Bank’s constitution must not have a provision that permits a director, when exercising powers or performing duties, to act other than in what he or she believes to be the best interests of Heartland Bank. This means that Heartland Bank’s directors may not act in the best interests of the New Listed Parent if it is not also in the best interests of Heartland Bank.

The intention is to minimise any increase in directors’ workload created by the Restructure. For example, board meetings will be held consecutively.

4.9. Management and Staff

The Restructure will result in:

- Management and staff being redeployed from Heartland Bank to the New Listed Parent. The New Listed Parent will have a limited number of employees comprising Group Executive (Jeff Greenslade, Group Chief Executive; David Mackrell, Group Chief Financial Officer; Michael Drumm, Group General Counsel; Myles Perry, Head of Internal Audit; Andrew Dixon, Head of Corporate Finance) and an Investor Relations Manager
- The New Listed Parent's Group Executive providing services to Heartland Bank and Heartland Australia under management / services agreements
- Heartland Bank providing services (including Treasury, Finance, Legal, Human Resources, Risk and Compliance, Information Technology and Internal Audit) to Heartland Australia and New Listed Parent on an arms-length basis
- Some additional staff resource reflecting the additional management, governance, reporting and compliance requirements of the Restructure (c.\$500,000 pa as outlined in Section 4.4)

4.10. Customers

Heartland Bank and Heartland Australia customers should experience no change as a result of the Restructure.

4.11. Dividends

Management advises that the New Listed Parent will determine dividends based on its net profit after tax, subject to maintaining prudent levels of capital for the needs of the Group.

4.12. Tax

Cameron Partners does not provide tax advice. We refer Shareholders to 'Section 7: Taxation Implications for Shareholders' in the Scheme Booklet. All Shareholders are advised to obtain their own professional advice on the tax implications for the proposed Restructure.

4.13. Value

An estimate of Heartland Group's value is based on an assessment of its:

- Future cash flows
- Discount rate (to discount the future cashflows back to a present value)

4.13.1. Future cash flows

Heartland's future cash flows will be impacted by its operating financial performance and capital costs.

As outlined, we envisage minimal immediate change in Heartland Group's financial performance as a result of the Restructure. The Restructure does not immediately change Heartland Group's strategy or business plan.

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Additional ongoing costs are expected to be offset (to a greater or lesser extent) by:

- Removing regulatory constraints on Heartland Australia asset growth and other non-Banking Group growth
- Facilitating improved access to:
 - Funding which will remove constraints to growth – particularly in the Australian reverse mortgage market
 - Capital for BAU growth and acquisitions – particularly sizeable acquisitions

4.13.2. Discount rate

In relation to banks / finance companies the discount rate is typically defined as the cost of equity capital and applied to the cash flows after payments to debt providers.

In this regard we do not envisage any material negative change in Heartland Group's cost of equity capital. The assets (and fundamental business and financial risk) of Heartland Group do not change as a result of the Restructure. All things equal, there may be some scope for a marginal improvement in the cost of equity given the access to the deeper Australian capital markets facilitated by the ASX listing.

4.13.3. Value implications

We see the Restructure as marginally positive for value (relative to the counterfactual of no Restructure):

- Future revenues should ultimately be impacted positively as:
 - Potential growth constraints within Heartland Group's existing businesses are removed (and offset marginally increased costs from the Restructure)
 - Potential NPV-positive acquisitions can be funded and accommodated within the new structure
- Equity capital may be deployed more efficiently (ie reducing the need to raise new equity for growth requirements)
- The discount rate should not be negatively impacted (and may at the margin improve given access to the deeper Australian capital markets facilitated by the ASX listing)

5. Merits of the Proposed Restructure

5.1. Shareholder decision framework

Except for any Ineligible Shareholders, the effective ownership interest held by each Heartland Bank Shareholder in the New Listed Parent will be equal to their ownership interest in Heartland Bank immediately prior to the Restructure. That is, the Restructure does not result in a diminution of ownership (ie economic interest or voting ‘power’) for existing Heartland Bank Shareholders.

The Restructure itself, does not fundamentally change the Heartland Group business. Immediately post-Restructure the:

- Strategy and business plan is the same
- Operational assets of Heartland Group will be the same (other than some small capital structure related adjustments triggered by the Restructure)
- Directors, management and staff will be the same (plus a small number of new employees reflecting the additional governance and reporting requirements of the new structure)

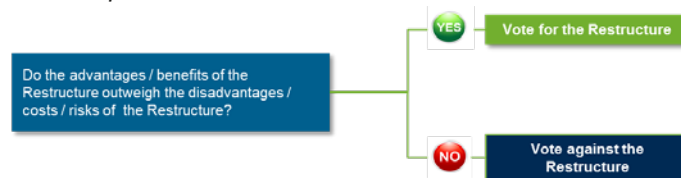
Essentially, the Restructure results in no change to:

- Shareholders’ ownership in the Heartland Group (other than any Ineligible Shareholders)
- The Heartland Group’s immediate strategy and business plan

Nevertheless, there are advantages / benefits and risks / disadvantages / costs associated with the Restructure and Heartland Shareholders must assess and make judgements regarding the quantum and probability of these when deciding whether to vote for or against the Restructure.

The decision process for Shareholders can be summarised in Figure 7 below:

Figure 7: Shareholders decision process



5.2. Cameron Partners’ view

We summarise the effects and implications of the Restructure in the following table. Many of the effects and implications are negligible or neutral. We highlight those effects and implications that we consider are potentially material for Shareholders in Table 10 and comment on these in more detail below Table 10.

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Table 10: Implications of the Restructure

Effect	Implications of Restructure		
	Risks / Disadvantages / Costs	Advantages / Benefits	Neutral
Ownership			No material change
Regulatory Issues	Removal of RBNZ oversight creates scope for a change in business mix and risk profile	Removal of RBNZ oversight removes constraints to Australian funding and asset growth	NZX – no material change ASIC – no material change
Financial Performance		BAU growth constraints removed Potential NPV-positive acquisitive growth accommodated	
Costs	Post Annual Shareholder Meeting one-off costs are minimal (c.\$580,000) Ongoing costs relatively immaterial (c.\$590,000 pa equating to c.1% of FY17 NPAT)		The majority of one-off costs are 'sunk' prior to the Special Meeting
Capital Structure			No material change
Credit Rating			No material change
ASX Listing		Improved access to equity Improved share liquidity	ASX compliance requirements
Governance, management, staff			No material change in workload (additional costs covered in Section 4.4)
Customers			No change
Dividends			No change
Tax			Tax - Shareholder specific
Value	Relatively immaterial costs	Increased value from unconstrained Heartland Australia growth and as yet unidentified opportunities	

5.2.1. Advantages / benefits

The advantages / benefits of the Restructure are not easily quantified as they relate to avoided risks and improved flexibility and relate to:

- **Removing RBNZ constraints** – Enables Heartland Group to pursue potentially value-positive business opportunities (organic or acquisitive) as it:
 - Avoids constraints on asset growth and funding which could potentially limit growth in Heartland Australia
 - Removes regulatory barriers to BAU and acquisitive growth that may be better suited to a non-RBNZ regulatory environment
- **Improving access to equity capital** – Facilitated by the ASX listing, particularly relatively large amounts required, for example for a sizeable acquisition

5.2.2. Risks / disadvantages / costs

The material risks, disadvantages and costs implications of the Restructure relate to:

- **Costs** - The one-off and ongoing costs post the Shareholders Meeting are easily quantified (c.\$580,000 and c.\$590,000 respectively) and can be considered relatively immaterial
- **Tax** – There are some potential tax consequences for certain Shareholders, which must be considered on a case-by-case basis
- **Removing some RBNZ oversight** – There is no change in the immediate strategy or business plan in conjunction with the Restructure proposal. Nevertheless, the flexibility of the new structure creates additional scope to, over time, move the business mix away from that imposed by the RBNZ. This may provide valuable opportunities but may also change the risk profile of Heartland Group

5.2.3. Summary

The impact of the additional on-going costs and one-off costs (estimated by Management) associated with the Restructure are relatively immaterial to the business.

Moving parts of the existing business outside the Banking Group and creating the potential for Heartland Group to grow and acquire businesses outside of RBNZ regulation has both positive and negative consequences, depending on Shareholders investment objectives and risk / return appetite:

- Undertaking the Restructure will remove constraints to Heartland Australia growth
- Without the Restructure, at present growth rates, Heartland Australia will face some asset growth and funding constraints which have the potential to have a negative impact on its financial performance in future
- Nevertheless, the flexibility of the new structure creates additional scope to, over time, move the business mix away from that dictated by the RBNZ. This is likely to provide valuable opportunities but may also change the risk profile of Heartland Group. Shareholders may wish to monitor this over time

The advantages and benefits are more difficult to quantify as they require a range of assumptions about the future growth of the business and potential new business opportunities (both BAU and acquisitive). In this regard, we estimate that the potential value impact of unconstrained growth in Australia and potential upside from new growth opportunities could easily outweigh the more certain costs of the Restructure.

One way to represent the Restructure is that it places Heartland Group in a better position to pursue valuable BAU and acquisitive growth opportunities, albeit that this creates scope to change the business mix and risk profile of the business over time.

On balance, we consider the potential value creation opportunities resulting from the Restructure outweigh the costs.

Appendix 1 – Qualifications and Declarations

Cameron Partners has been engaged by Heartland Bank Limited ("Heartland Bank") to prepare an independent adviser's report in relation to the proposed corporate restructure of Heartland Bank under a court approved scheme of arrangement ("Project").

1. Qualifications

Cameron Partners Limited (Cameron Partners) is a leading New Zealand investment banking firm that has been providing M&A and corporate finance advisory services in the New Zealand market for over 20 years. We have extensive experience and have built a reputation for successfully completing a diverse range of transactions.

The persons responsible for preparing this report on behalf of Cameron Partners are Hugo Ellis (BCom (Hons) in Economics and Graduate Diploma in Finance from the University of Otago), Paul Dougherty (BCom and Post-Grad Diploma in Finance from the University of Otago and an MSc (Finance) with Distinction from the University of London), Daniel Good (BCom (Economics and Finance) and an MCom (Finance) from the University of Auckland) and Jian-Wei Hew (LLB and BCom (Honours) in Accounting and Finance from the University of Auckland). All four have significant experience in providing relevant corporate finance advisory services.

2. Disclaimers

This report ("Report") (which expression includes the whole and any part of it) has been prepared by Cameron Partners as at 27 July 2018. It is not intended that this Report should be used or relied upon for any purpose other than as an expression of Cameron Partners' opinion as to the merits of the Project. Cameron Partners expressly disclaims any liability to any Heartland Bank shareholder (or any other party) that relies or purports to rely on the Report for any purpose to the extent permitted by law. This Report may not include all the information that may be required, or which is necessary, for a full evaluation of the Project or for decision-making. This Report must not be used other than for the purpose for which it was supplied.

Any recipient of this Report should exercise their own judgement in considering and using this Report and any other material provided by Cameron Partners.

In preparing this Report, Cameron Partners has relied on information supplied by Heartland Bank and / or third parties and / or taken from public sources. Cameron Partners has not independently verified that information but, rather, has assumed that information to be true, complete, accurate and up-to-date. No responsibility is accepted by Cameron Partners for any errors or omissions arising (including as a result of negligence) in the preparation of this Report to the extent permitted by law.

The Report may be based on or be by reference to:

- market conditions and economic rates and indicators, including assumptions regarding future market conditions and economic rates and indicators;
- business forecasts, elements of which may have been provided by Heartland Bank.

Business and economic conditions and what may be a reasonable assumption or forecast can and do often change without notice or warning. Cameron Partners has made, or adopted, assumptions and forecasts which it considers reasonable, but those assumptions or forecasts may not be correct and, anyway, may be affected by changes in economic and other circumstances. Cameron Partners in no way guarantees or otherwise warrants the achievability of any assumptions or that business forecasts will be achieved. The actual future results may be significantly more or less favourable.

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Cameron Partners will not update or correct this Report even if Cameron Partners becomes aware that it is out-of-date, affected by changes in circumstance, or contains errors.

3. Independence

Cameron Partners does not have any shareholding in or other relationships or conflict of interest with Heartland Bank that could affect its ability to provide an unbiased opinion in relation to the Project. Cameron Partners had no part in the formulation of the Project. Its only role has been the preparation of this Report. Cameron Partners will receive a fee for the preparation of this Report. This fee is not contingent on the outcome of the Project. Cameron Partners will receive no other benefit for the preparation of this Report. Cameron Partners considers itself to be independent for the purposes of the Takeovers Code.

4. Consent

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

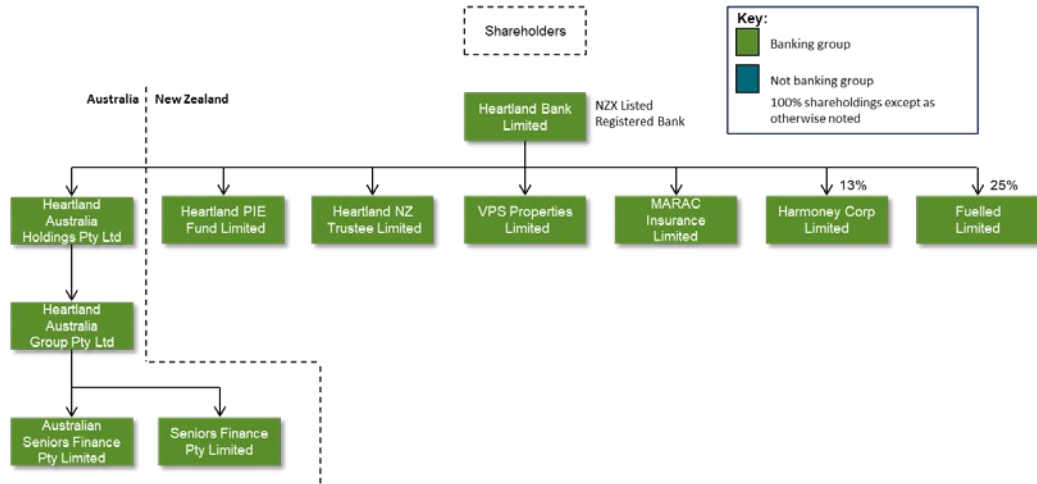
Appendix 2 – Steps / Transactions of the Restructure

This appendix summarises:

- Current corporate structure
- Proposed steps / transactions of the Scheme of Arrangement
- Resulting post-Restructure corporate structure

Current structure

Figure 8: Current corporate structure



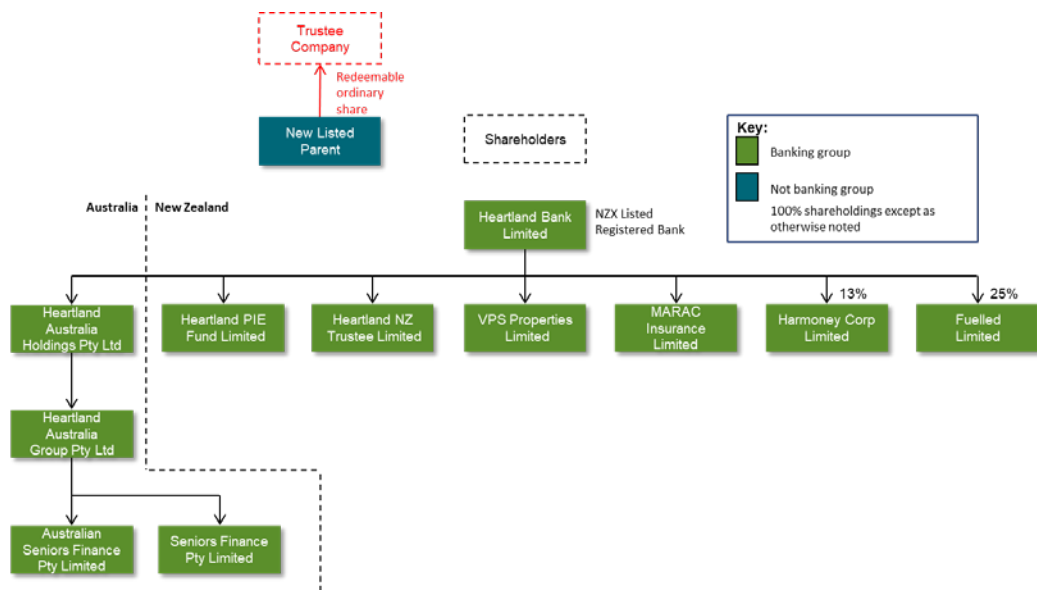
Source: Management

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Incorporation of New Listed Parent

The first step of the scheme of arrangement involves the incorporation of New Listed Parent as a New Zealand company (sitting outside the Banking Group), with a single redeemable ordinary share being held by NZGT.

Figure 9: Incorporation of New Listed Parent



Source: Management

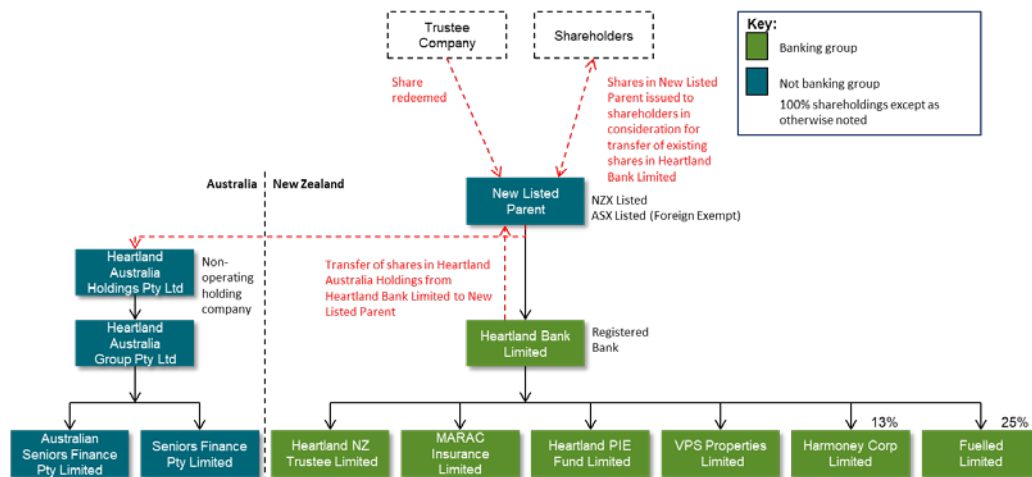
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Share transfers

After the incorporation of the New Listed Parent the following additional transactions are required:

- In exchange for each Heartland Bank Share held by each Shareholder, the New Listed Parent will issue each Shareholder the same number of New Listed Parent Shares.
- Following the exchange of shares, Shareholders will become Shareholders in the New Listed Parent and the New Listed Parent will own all the shares in Heartland Bank and Heartland Australia.
- NZGT’s redeemable ordinary share in New Listed Parent will be redeemed by New Listed Parent at the same time as the exchange of shares
- Heartland Australia will be transferred to the New Listed Parent so that Heartland Australia companies become “sister” companies of Heartland Bank (rather than subsidiaries). Heartland Australia will no longer form part of the Banking Group.

Figure 10: Share transfers



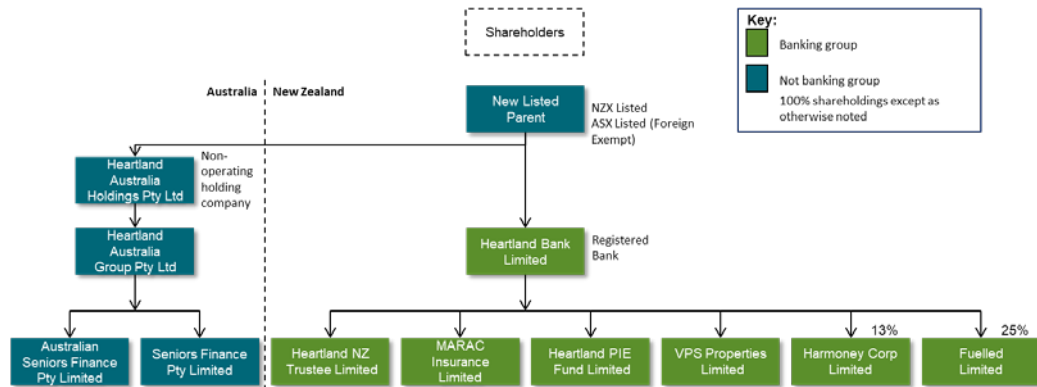
Source: Management

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Post-Restructure

The Scheme of Arrangement will create a structural separation of Heartland Group’s New Zealand and Australian businesses.

Figure 11: Post-Restructure corporate structure



Source: Management

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Sources

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