

The Heartlander

THE NEWSLETTER OF HEARTLAND BUILDING SOCIETY – INVESTMENT EDITION

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100% FOR NEW ZEALAND

Our vision is to drive prosperity in Heartland communities across New Zealand for businesses, farmers and families. We are proudly New Zealand operated and managed, with our parent company listed on the NZSX.¹



IMPORTANT INFORMATION

All deposits are issued by Heartland Building Society. Minimum term deposit investment \$1,000. Heartland Building Society has a BBB- (Outlook Stable) credit rating from Standard & Poor's. For further details about our deposits or credit rating, see Heartland Building Society's Investment Statement, available at www.heartland.co.nz or by calling 0800 85 20 20.

1. Heartland Building Society (Heartland) is a subsidiary of Heartland New Zealand Limited (HNZ). HNZ shares are tradeable on the NZSX. However, NZX Limited accepts no responsibility for any statement in this newsletter. The NZSX is a registered market operated by NZX Limited, which is a registered exchange, regulated under the Securities Markets Act 1988. HNZ does not guarantee the obligations of Heartland Building Society in relation to deposits.

Invest in Heartland to invest in New Zealand.

Hopefully you are enjoying a great kiwi summer as you read this, filled with BBQs, beaches, sunshine and, most importantly, family and friends. This is a time of the year when I feel lucky to be a New Zealander and live in our wonderful country.

Heartland has achieved a great deal in 2011 and it was very pleasing to have our 'investment grade' credit rating affirmed in early December with an improved outlook. On page 4 you can read more about this breaking news and page 3 has an article outlining Heartland's achievements in 2011 and the outlook for 2012.

Whilst global uncertainty remains, there are plenty of reasons to be optimistic about New Zealand's prospects in 2012. The New Zealand dollar is down from its peak and commodity prices remain at historically high levels. Furthermore, an ideal combination of sunshine and rain around the majority of the country is creating excellent growing conditions – and that will put a smile on

the face of many a New Zealand farmer. Respected economic researcher, Rodney Dickens, has written an interesting article on the economic outlook which you can read on page 2.

Heartland is a business built around people, and we work hard to provide our depositors with exceptional service with a personal touch. On page 4 we have profiled one of the real personalities in the Heartland team, Kevin Soster from our Ashburton branch.

From myself and the team at Heartland, have a safe and happy New Year and all the best for 2012. Thank you for supporting Heartland and keeping it local. If you have any questions or feedback on *The Heartlander*, please feel free to contact me on 0800 85 20 20.

Andrew Ford
National Retail Funding Manager

ECONOMIC OUTLOOK

New Zealand well placed amongst global uncertainty

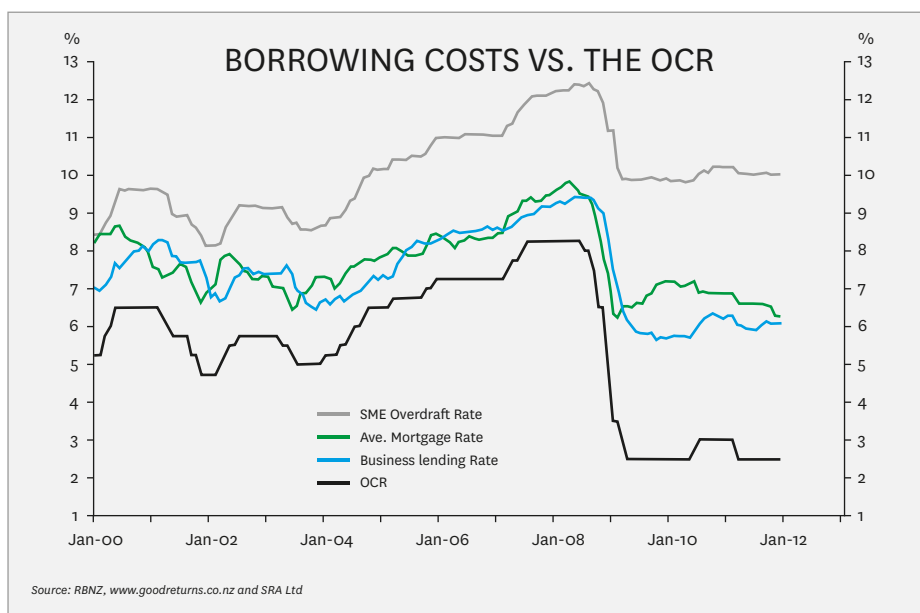
Most economic forecasters have spent the last three years predicting that economic growth would accelerate to around 3% and that interest rates would head significantly higher. Excluding the temporary boost from Rugby World Cup spending, economic growth was again disappointing in 2011 and interest rates didn't increase.

There are several reasons why economic growth disappointed in 2011 compared to what most forecasters predicted at the start of the year. Lower than expected residential building activity, the Canterbury earthquakes and slower world growth all had a detrimental impact on New Zealand's growth in 2011. Global developments could pose some threats in 2012. But provided there are no more major earthquakes, rebuilding in Canterbury will provide a strong boost to economic activity. And when combined with the stimulus from the moderate fall in mortgage interest rates in 2011 it means predictions of 3% or so economic growth should finally come true.

To achieve sustainable, long term, real growth, New Zealand requires investment in productive sectors, including the rural sector and small to medium-sized businesses. But over the next two years rebuilding in Canterbury will have an abnormally large impact in boosting economic growth, just as it will have a significant negative impact when the rebuilding eventually tails off. The rebuilding will boost income and employment in the wide range of industries that supply goods and services to the building and infrastructure industry. To put it in context, the \$30b or so to be spent on rebuilding over the next 5-10 years is equal to 15% of national annual economic activity.

Eurozone has only limited impact on New Zealand exporters

New Zealand exports to a wide range of countries, so the unfolding downturn in the Eurozone countries is not of huge concern in itself. However, the Reserve



Bank was acting prudently in the December Monetary Policy Statement by warning that global developments could have a significant negative impact on New Zealand exporters in 2012. If things get significantly worse globally it could largely offset the stimulus to economic growth from the upturn in building.

It will be some years before government debt and fiscal deficits in the crisis countries are back to sustainable levels, so the crisis will remain a potential threat for some time. The good news is that governments and central banks have the incentives required to both deal with the core problems and to adopt measures that will spread the pain over a number of years rather than it resulting in a major global recession. The other silver lining is that, unlike other central banks, the Reserve Bank can, if necessary, cut the Official Cash Rate (OCR) (i.e. to some extent New Zealand will be insulated if global developments turn nastier).

Predicting what will happen on the crisis front and whether there will be more large quakes is near impossible. This means the timing of stronger economic growth is uncertain, but I am confident that it is a case of when, not if, a strong upturn, especially in residential building, underwrites 3% or so economic growth.

Interest rates – lower for longer

The economic forecasters have been jumping the gun in predicting OCR hikes over the last couple of years. This is partly because they have been too optimistic about economic growth and partly because they have been slow to take into account the major structural impact of the financial crisis. The above chart shows that since the financial crisis started in earnest in late 2008 the gap between the interest rates faced by borrowers and the OCR has increased dramatically. The financial crisis is not going away any time soon, which means that the OCR could remain well below the historical average level for some time to come. This will assist New Zealand's recovery and ensure that we remain in a relatively strong position.

Rodney Dickens

Chief Research Officer – Strategic Risk Analysis Limited

About Rodney: Before founding Strategic Risk Analysis Limited in 2006, Rodney had five years at ASB, including as Group Strategist and Head of Research. He has been a member of the Reserve Bank's Monetary Policy Committee and researched international interest rate behaviour at the Bank of England in London. He has been Chief Economist at a New Zealand commercial bank and New Zealand Head of Research at two international investment banks.

The views expressed in this article are those of Rodney Dickens, are general in nature, and not intended to be financial advice.

HEARTLAND BUILDS ON ITS STRENGTHS

As a new year begins, I believe we can look back over 2011 and feel proud of the progress we have made since first announcing the merger between CBS Canterbury, MARAC and Southern Cross Building Society in 2010. Below are some of the milestones Heartland Building Society (Heartland) achieved during 2011.

7 January 2011	Successfully completed the merger of CBS Canterbury, MARAC and Southern Cross
1 February 2011	Listing of parent company, Heartland New Zealand Limited (HNZ) on the NZSX ¹
20 June 2011	Inclusion of HNZ in the NZX50 ¹
30 June 2011	Inaugural profit in line with forecast
31 August 2011	PGG Wrightson Finance acquisition
7 December 2011	'Investment grade' credit rating of BBB- reaffirmed and rating outlook improved to 'stable'

These milestones reflect the strength of our trusted legacy brands, which now include PGG Wrightson Finance. Heartland's combined

strengths form a solid base that our depositors can rely on, and include the following:

- **NZSX-listed parent company¹** – Heartland's parent company, HNZ, is listed on the NZSX and has over 8,000 shareholders.
- **Strong governance** – The Directors and the executive management team of Heartland are experienced in the financial services and banking industries.
- **'Investment grade' credit rating** – Heartland has a credit rating of BBB- (Outlook Stable) from Standard & Poor's².
- **Substantial balance sheet, sound cash flow** – Heartland's focus is on lending against assets that generate cash flow, assets that have essential uses and assets that have sound realisable values.
- **100% for New Zealand** – Heartland is New Zealand operated and managed. All of Heartland's lending is on New Zealand based assets.
- **Lending diversity** – Heartland's lending is diversified across the small-to-medium sized business, rural and household sectors, and geographically across New Zealand to reduce risk.
- **Funding diversity** – Heartland is funded through retail deposits, committed bank facilities, a securitisation programme and

an NZDX-listed bond. This diversified funding base reduces Heartland's reliance on any single funding source.

Looking forward

Our vision is to become the only fully New Zealand operated and managed banking group³ listed on the NZSX. I believe we have the strategy, resources, people and capabilities to achieve this goal and to establish the Heartland brand on the New Zealand landscape as a provider of choice with the right offer for the time.

Thank you for investing in Heartland

Looking after our depositors' hard-earned money is something Heartland takes very seriously. We look forward to helping you achieve your investment goals now and in the future – and in turn, drive prosperity in our local communities and throughout New Zealand. Thank you for your continued support.

Jeff Greenslade

Chief Executive Officer

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2. See Heartland's Investment Statement or our website www.heartland.co.nz for more details about our credit rating or deposits.
3. Neither Heartland New Zealand Limited nor Heartland Building Society is a registered bank.



HEARTLAND 2012 DIARY

Heartland has produced a diary which is a perfect size for your handbag or pocket, or to keep beside the phone.

If you would like to be sent a Heartland 2012 diary, please visit your nearest branch or call the Heartland investment team on **0800 85 20 20**.



BREAKING NEWS

HEARTLAND'S 'INVESTMENT GRADE' RATING AFFIRMED AND OUTLOOK IMPROVED

We are pleased to report that on 6 December 2011, international credit ratings agency, Standard & Poor's, reviewed Heartland Building Society (Heartland), and:

- affirmed Heartland's 'investment grade' credit rating of BBB-; and
- improved the ratings outlook to 'stable'.

Having the rating affirmed and the outlook improved to 'stable' is particularly pleasing given many banks around the world are being downgraded. The 'investment grade' rating underpins the strength and strategy of Heartland.

For further details about our credit rating, see Heartland's Investment Statement at www.heartland.co.nz or call 0800 85 20 20.

Jeff Greenslade
Chief Executive Officer



MEET THE HEARTLAND TEAM

INTRODUCING KEVIN SOSTER

As a former broadcaster, Kevin Soster held a rolling dialogue with Ashburton listeners on and off for more than 20 years. He always had a second career bubbling away – primary school-teacher, real estate agent and auctioneer – until six years ago when he retired from the airwaves to join the Loan and Building Society (LBS). LBS joined forces with CBS Canterbury, which has now become part of Heartland Building Society.

Kevin is one of Heartland's funding managers in Ashburton. Kevin enjoys Ashburton's friendliness, the Mid-Canterbury climate, the town's robust operatic society, and the scenery. "It's a huge big sky with mountains in the backdrop. If I want some solace, I can go up to the mountains, to the lakes, Lake Clearwater

and Lake Camp. Mount Hutt is our mountain. It's very imposing – we look at it every day."

Kevin says Heartland's focus on investing in Kiwi businesses, and supporting the rural sector and families is a perfect fit for Ashburton.

"Heartland is using your money here, for the betterment of the region, the province and our country. The rural sector in Mid-Canterbury is big business. This is the heartland, this is heartland New Zealand."

If you are in the mid-Canterbury region and would like to contact Kevin for an Investment Statement, please call him on 03 307 9358, email on kevin.soster@heartland.co.nz or visit our Ashburton branch at 224 East Street.



Kevin Soster – Ashburton

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