

The Heartlander

THE NEWSLETTER OF HEARTLAND BUILDING SOCIETY - INVESTMENT EDITION

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100% FOR NEW ZEALAND

We like home-grown - and that goes for financial services too.

We are 100% New Zealand operated and managed, with a parent company listed on the NZSX, and use our strong presence in communities across the country to meet the needs of small-to-medium sized businesses, farmers and families.



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. Standard & Poor's credit ratings are statements of opinion, not statements of fact or recommendations to buy, hold or sell any securities. Ratings may be changed, withdrawn or suspended by Standard & Poor's at any time. Heartland Building Society is a subsidiary of Heartland New Zealand Limited (HNZ). HNZ's shares are tradable on the NZSX, which is operated by NZX Limited. NZX accepts no responsibility for any statement in this newsletter. The NZSX is a registered market regulated under the Securities Markets Act. HNZ does not guarantee the obligations of Heartland Building Society in relation to deposits. 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.

We invest in

New Zealand



Mitre Peak, Milford Sound

WELCOME TO HEARTLAND

I am pleased to introduce you to *The Heartlander* - our newsletter for Heartland Building Society depositors. Over the years, we have learnt that what works for us New Zealanders is honesty and straight talking. Respect and trust need to be earned, with good communication being key. The purpose of this newsletter is to ensure you are well informed.

The Heartlander will provide you, our investors, with news and results, economic commentary, investment sector information and general interest pieces.

In this edition of *The Heartlander*, we introduce you to our new Heartland brand and outline our business model and the strength of our business. You will also

find an article on one of Heartland's three key areas of lending - Business Finance, along with a piece on our proposed acquisition of PGG Wrightson Finance. Stephen Toplis, Bank of New Zealand's Head of Research, also provides an interesting commentary on New Zealand's economy.

One of Heartland's core values is personal service. If you have any questions or feedback about *The Heartlander*, your deposit, or any other matter, please feel free to call the CBS Canterbury, MARAC or Southern Cross teams on the contact details on page 6, or visit your local branch.

Andrew Ford
National Retail Funding Manager

A NEW NAME FOR AN OLD FRIEND



Heartland Building Society (Heartland) is the new name for an old friend. Heartland was born of the merger between CBS Canterbury, MARAC and Southern Cross Building Society in early 2011. As the Heartland name suggests, we have our feet firmly on the ground and traditional values at our core. We exist to help Kiwis like you get ahead.

Part of New Zealand since 1875

Heartland's roots stretch back to 1875 with the inception of Ashburton Permanent Building & Investment Society, which subsequently merged with SMC Building Society and Loan & Building Society – together they became CBS Canterbury.

- **CBS Canterbury** has provided the people of Ashburton, Christchurch and wider Canterbury region with home, rural and business loans, term investments, and savings and day-to-day accounts since 1875.
- **Southern Cross** likewise has a long history. Opening in Auckland in 1923, it offers a similar range of financial services throughout the North Island.
- **MARAC** has supported the growth of small-to-medium New Zealand businesses with a range of finance, investment and insurance solutions for more than 60 years.

These three entities are now one, Heartland, combining our experience, knowledge and shared vision to partner with enterprising New Zealanders to succeed. Over our 135 years in business we have learnt that what works for us Kiwis is not fancy product names and financial complexity. It is honesty, straight talking, respect and earned trust.

Proud to be Kiwi

Heartland is proud to be New Zealand operated and managed, and all of our lending is in relation to New Zealand based assets. Your deposit is used to help fund small to medium-sized local businesses, farmers and families, who form the backbone of our economy. That means you are investing in New Zealand's long-term prosperity and helping provide jobs for thousands of Kiwis.

Our parent company, Heartland New Zealand Limited, is listed on the NZSX¹. Having a listed parent provides access to capital for growth.

Credit rating

Heartland Building Society has a Standard & Poor's credit rating of **BBB- (Outlook Stable)**². This credit rating is higher than the rating previously held by any of the merging entities – together we are stronger.

Service the Heartland way

We value our heritage, and we work hard to earn and retain our customers' respect and loyalty every day. We do this by showing you we have genuine knowledge and understand your needs and ambitions. As a Heartland customer you will receive expert advice tailored to your needs, and experience service with a personal touch.

We have an investment to suit you

Everyone has different investment goals, and that is why Heartland offers many different investment options. They range from call accounts, which provide competitive rates of return and the flexibility of on-call access to funds – to term deposits, which offer a fixed rate of return for a fixed term with tailored interest payments.

If you would like further information or a copy of our Investment Statement, please visit your local branch or call 0800 85 20 20 – we are here to help.

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

² See Heartland Building Society's Investment Statement or our website www.heartland.co.nz for more details about our credit rating.

HEARTLAND IS A QUALIFYING FINANCIAL ENTITY

We are pleased to advise that Heartland Building Society (Heartland) has been authorised as a Qualifying Financial Entity (QFE) under the Financial Advisers Act 2008 (FAA). The purpose of this Act is to promote the sound and efficient delivery of financial adviser services. It covers financial advice given on investments, day to day deposits, consumer lending and insurance.

What does being a QFE mean?

Being a QFE means Heartland is committed to taking frontline compliance responsibility for those members of our team who provide financial advice. We are also required to comply with the various requirements imposed on all QFE's.

There will be no change in the way you currently deal with us, but as some of our team will now be deemed 'QFE advisers', we are required to have one disclosure statement

for the Heartland group (rather than one for each person). The new disclosure statement is available on our website www.heartland.co.nz, or you are welcome to contact us and request that a copy to be sent to you.

If you have any questions regarding Heartland's QFE status, please call us on 0800 85 20 20.

Martin Dilly
Head of Compliance

HEARTLAND TO ACQUIRE PGG WRIGHTSON FINANCE

On 14 June 2011, Heartland New Zealand Limited (HNZ)¹ announced the intended acquisition of PGG Wrightson Finance Limited (PGG Wrightson Finance). The purchase, along with the formation of a strategic alliance with PGG Wrightson Limited (PGG Wrightson),² provides Heartland Building Society (Heartland) with a significant foothold in rural New Zealand and a platform for growth.

Heartland's lending is diversified across the small to medium-sized business, rural and household sectors, and geographically across New Zealand to reduce risk. The acquisition of PGG Wrightson Finance will improve the spread of Heartland's assets, with approximately a quarter of assets in the rural sector post-purchase.

PGG Wrightson Finance has a strong balance sheet with a well secured finance book – made up of farm mortgages along with seasonal and working capital facilities. PGG Wrightson Finance has a loyal investor base and we look forward to welcoming them as part of Heartland.³

It is intended that Heartland will acquire \$400m to \$430m of selected loans. Excluded from the transaction will be loans totalling approximately \$95 million which will be retained by PGG Wrightson. In addition, PGG Wrightson has provided a three year guarantee over a specified pool of the loans acquired with a book value of \$30m.

The proposal adds considerable scale to Heartland's business, and the alliance with PGG Wrightson will provide ongoing opportunities.

In order to maintain acceptable levels of capital following the acquisition, HNZ will raise at least \$55m of equity.

The purchase is conditional on necessary approvals and consents and is expected to settle on or about 31 August 2011. We will keep you informed of progress.

Jeff Greenslade
Chief Executive Officer

¹ Heartland Building Society is a subsidiary of Heartland New Zealand Limited (HNZ). HNZ does not guarantee the obligations of Heartland Building Society in relation to deposits.

² PGG Wrightson does not guarantee the obligations of Heartland in relation to Heartland deposits.

³ PGG Wrightson Finance investors will shortly receive an Information Memorandum (which includes an Investment Statement) and voting papers relating to the proposed transaction. If you are a PGG Wrightson Finance investor and have any questions or need another copy of the Information Memorandum call us on 0800 85 20 20

YOUR INVESTMENT – HELPING NEW ZEALAND PROSPER

INTRODUCING HEARTLAND'S BUSINESS DIVISION

As a Heartland Building Society (Heartland) investor, we believe it is important for you to know how your deposit is used and how it drives prosperity in your community - by helping us to fund small to medium-sized local businesses, farmers and families, which form the backbone of the New Zealand economy and in turn provide jobs for thousands of kiwis.

How your deposit helps Heartland Business customers

Finance is an extremely important part of business and can be essential for a business's long term growth and success. That is why at Heartland, we take the time to really get to know our customers and their future business goals. We then partner with them to make those goals happen.

As no two businesses are the same, Heartland tailors a specialised financial solution for each business - rather than providing an 'off-the-shelf' answer. It is this flexible approach, along with our specialised knowledge and strong local presence, which allows us to meet the needs of a very important sector to the New Zealand economy - that is supporting small to medium-sized businesses (SMEs) and farmers, who together make up the vast majority of the productive sector. In 2010, SMEs (19 or fewer employees) accounted for 30.6% of all employees and 41.9% of the economy's total output¹.

Heartland Business Finance

Our wide range of Business Finance products allow our business customers to purchase new plant or equipment, expand, buy out or merge

with another business and free up cash flow and working capital. While we are always flexible in our offering, our main focus is that we minimise risk - which we do in the following ways:

- We understand the business, the business cashflow and the assets in the business that generate the cash flow which services the debt. Our finance is then structured to be secured against these business assets.
- Our loans are diversified across a range of industries including transport, construction, contracting, forestry, manufacturing and agriculture - which reduces exposure to any one sector.
- Our loans are also diversified across the country from Northland to Southland - and everywhere in-between.
- By targeting the SME business market, we also manage our single exposure risk to any one business at a low level.
- We always maintain a rigorous credit approvals process.



A Heartland business success story

Label and Litho Limited has been manufacturing self-adhesive labels since 1960. Some years ago, co-owner and Heartland customer Camilla Welch was looking to expand, and needed to refinance to carry out her ambitious plans. "The big banks were not willing to see what we saw," Camilla says, "but MARAC believed in us. In the past five years we have built our business to become a leader in our industry and that is due in part to MARAC's support." MARAC is now part of Heartland. Furthermore, in December 2010, Camilla was announced the winner of The Supreme Business Award at the 2010 HER Regional Wellington Businesswoman of the Year Awards.

We couldn't have helped Camilla, or the many New Zealand businesses just like hers, to succeed without the support of investors like you.

Service is key

In all we do at Heartland - whether it be investments, finance, insurance or leasing - service is central to the way we do business. We value our heritage, and we work hard to earn and retain our customers' respect and loyalty every day.

You will find out how your investment helps fund another area of Heartland's business in the next issue of *The Heartlander*.

James Mitchell
Head of Business

¹ Source - Ministry of Economic Development, 2010
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ECONOMIC OUTLOOK

Despite the ravages of the February Christchurch earthquake, and the ongoing disruption from aftershocks, we remain optimistic that the New Zealand economy is on the right track to report a solid growth performance for both calendar 2012 and 2013.

While Christchurch is front of mind for most of us, it is important to remember that the key drivers of the economy, both positive and negative, are largely unchanged as a consequence of the earthquakes that have afflicted the city.

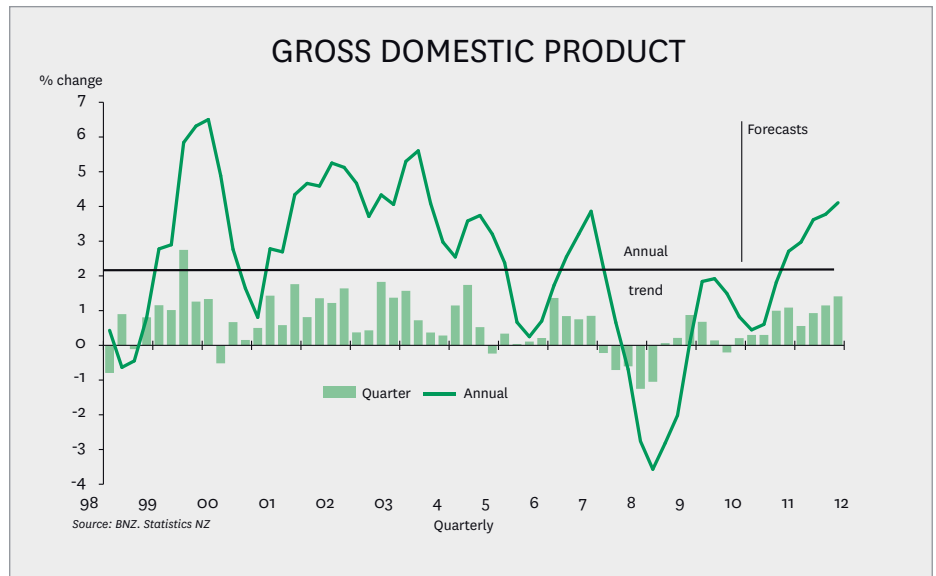
On the negative side, the country will have to contend with ongoing deleveraging by the household sector and significant restructuring of the government sector. Both of these actions will conspire to keep a cap on household expenditure expansion despite solid employment growth and very low current interest rates.

While there are many who decry these developments, they are indeed positive for the longer-term strength of the New Zealand economy.

Moreover, while these processes will reduce growth short term, the very strong positive features of the economy should not be underestimated. First and foremost, very strong income growth for the rural sector will provide significant support to the economy as whole over the medium term.

Commodity prices for most of our primary exports continue to rise to record levels. The extent of this increase is such that even the rampant New Zealand dollar is unable to prevent strong income growth for many rural folk. In the case of the dairy industry, which is New Zealand's biggest export sector, price increases are also being bolstered by production volume increases as weather conditions foster good grass growth.

Of course, one of the keys to the strength in pricing and demand for our produce is the fact that trading partner activity remains relatively robust – particularly in the ever-important



Asian region. There are certainly risks around the global prognosis, largely stemming from fears of a deepening financial crisis in Europe, but at this stage this is not sufficient to derail the global demand that is supporting New Zealand commodities.

In addition to external demand the economy will also benefit from past tax cuts for both households and businesses, the Rugby World Cup, and a very strong construction cycle – particularly for residential building.

While residential building is currently depressed it is almost inevitable that it will contribute substantially to GDP growth over the medium term. Importantly, we had that view prior to the Christchurch earthquakes as current levels of new house building are seemingly insufficient to meet the demand generated by population growth. Add on the impacts of the Christchurch earthquakes and issues around leaky building remediation work and it is easy to conclude that growth in this sector could well be explosive.

We forecast New Zealand GDP to expand just

1.4% across calendar year 2011 but for the expansion to pick up to 3.6% in 2012 and 4.1% the year after. In our opinion, this is sufficient to absorb much of the spare capacity currently available in the economy. In particular, we believe the unemployment rate will drop quickly to under 5.0% over the next eighteen months. Accordingly, pressure on prices is definitely on the way up.

Because of this, it is highly likely that the cash rate will be forced higher from the end of this year and will progressively rise to a peak of around 5.0% (from its current 2.5%) over the next two years. Notably, the Reserve Bank of New Zealand, in its recently released Monetary Policy Statement, shares a similar view. This being so, folk would be well advised to assess their sensitivity to interest rate movements and act according to their individual risk tolerances.

Stephen Toplis

Head of Research - Bank of New Zealand

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Every effort has been made to ensure the accuracy of this newsletter. It is provided on the basis that the items are necessarily generalised and are not a substitute for commercial judgement or professional advice. Readers are urged: 1. to seek specific advice on any particular matter from a qualified professional person; and 2. not to rely solely on this text. For an Investment Statement call 0800 26 27 22.

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Heartland Building Society is a result of the merger between CBS Canterbury, MARAC and Southern Cross Building Society