

The Heartlander

THE NEWSLETTER OF HEARTLAND BUILDING SOCIETY – BUSINESS AND RURAL EDITION

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IN THIS ISSUE

Economic outlook Pg2

Heartland's
'investment grade'
rating affirmed Pg2

Helping New Zealand
prosper Pg3

HEARTLAND IN YOUR COMMUNITY

Introducing
Heartland Waikato Pg3

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.

New Year, New Opportunities.



Heartland's Business and Rural divisions are up and running and open for business. Over the last 12 months we have been focused on providing finance, working capital and seasonal capital to New Zealand's productive sector – the small-to-medium sized businesses and farmers that form the backbone of our nation's economy. We have an extensive network of Heartland Business and Rural Relationship Managers on the ground in locations across New Zealand to work with you to fund your business and its growth.

Our Relationship Managers understand that businesses have individual needs and they vary widely. They know that running your business is not a 9-5 job, and you need a finance partner who can see you on your terms. Your local Relationship Manager is available to discuss your needs, and get to know and understand your business, whenever and wherever it suits you. They would welcome the opportunity to discuss with you what makes

Heartland different – call 0508 HEARTLAND today, and let's chat.

In this edition of *The Heartlander*, you will find an economic outlook from respected economic researcher, Rodney Dickens. We also introduce Heartland's Waikato office, and on page 3 you can read about how Heartland has helped commercial painting business, Fleet Image, with the funding needed to break into an exciting new field.

From all the team at Heartland, we wish you a prosperous and successful 2012.

James Mitchell
Head of Business

Will Purvis
Head of Rural

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ECONOMIC OUTLOOK

New Zealand well-placed amidst global uncertainty

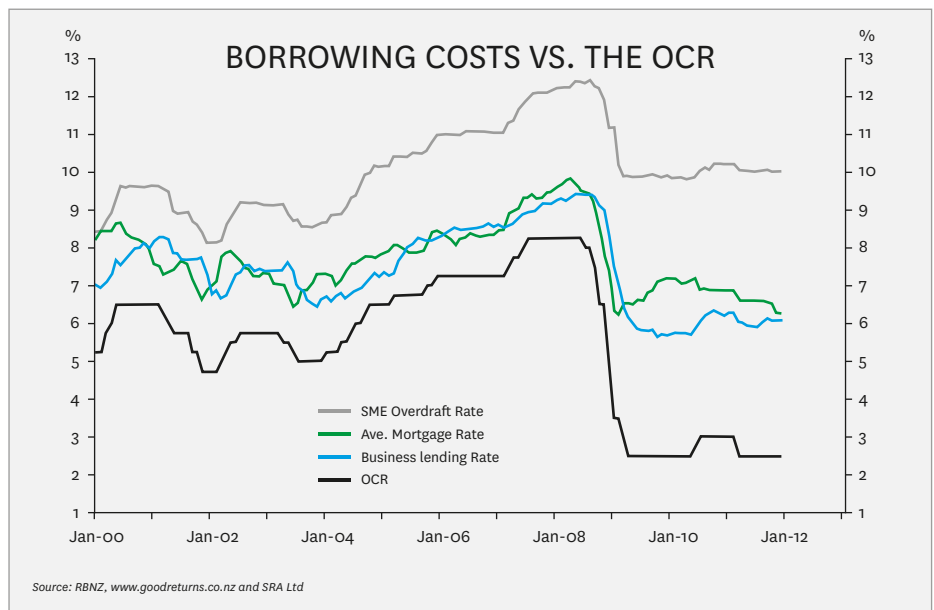
Most economic forecasters have spent the last three years predicting that economic growth would accelerate to around 3% and that interest rates would head significantly higher. Excluding the temporary boost from Rugby World Cup spending, economic growth was again disappointing in 2011 and interest rates did not 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 are not intended to be financial advice.

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



HELPING NEW ZEALAND PROSPER

A BUSINESS FLYING TO NEW HEIGHTS

Roy & Pam Browne started Roy Browne Car Painters in Te Awamutu in 1976. 36 years later, their business has grown wings.

Now known as Fleet Image NZ Ltd, the successful paint and panel business has two branches – one in Te Awamutu and another in Hamilton – and employs over 35 staff. Roy and Pam also have son Kris, and long-standing employee Glenn Tervit, with them at the helm. Until recently, their focus had been on the painting, repairs and refinishing of trucks, trailers, tankers and motor vehicles, as well as some speciality painting of helicopters and cranes.

Looking for a new direction

In 2011, when the team was looking to expand the business into the aviation painting field, they needed a finance partner that could really see their vision. Heartland took the time to understand the 'ins and outs' of their business,

and provided a tailored solution to meet their current and projected needs. Kris Browne says:

"Peter Griffin and the team at Heartland were instrumental in helping our business get the funding we needed to move forward and expand, in what was a very trying recession. Their wealth of knowledge and understanding of the value of our business, and how it works, was first-rate. It meant they were able to help us in areas our normal bank couldn't. We look forward to a long and positive relationship with Heartland."

The solution revolved around:

- the provision of term debt, which enabled key business assets to be moved inside the business structure;
- the expansion of capacity; and
- a significant increase in working capital to support growth.

This was achieved within a simplified structure that retained more cash in the business.

A new venture takes flight

In October 2011, Fleet Image Aviation Ltd (part of Aviation Painting Specialists Ltd (APS)) was formed as a new division of Fleet Image – with a focus on painting both commercial and privately owned aeroplanes. A specialised aviation painting facility has since been constructed at Hamilton Airport to cater for all sized planes. The first job completed by APS was the painting of an Air New Zealand Beech 1900D – the latest aircraft in the airline's 103-strong fleet to get an 'all black' makeover.

Heartland is proud to have helped Fleet Image expand and grow their business, and we look forward to working alongside them to help achieve their goals in the future.



The aircraft being prepared for painting



Work in progress



An impressive end result

INTRODUCING HEARTLAND WAIKATO



David Gray, Peter Griffin and Steve McConnell, based in our Hamilton office, look after Heartland's customers throughout the broader Waikato region – as well covering Huntly, Thames, the Coromandel and Taupo. They would welcome the opportunity to chat about how Heartland can tailor a finance solution to help your business or farm prosper.

MEET THE HEARTLAND WAIKATO TEAM



David Gray

David Gray

Rural Manager – Upper North Island

David has over 20 years' experience in the rural sector, with 15 years in finance – for the most part locally in New Zealand, but also offshore in the UK and South Africa. David has worked on both sides of the fence – starting his career as a farm manager, then moving to a sharemilking role before entering the finance industry. David enjoys all sports, and now that his rugby playing days are over, he usually sticks to diving and fishing.

To chat to David about rural finance, call **07 927 7213** or email david.gray@heartland.co.nz



Peter Griffin

Peter Griffin

Relationship Manager – Business Finance

Peter joined Heartland in March 2011, and brings with him 24 years' experience in the banking sector, with the last 20 years specialising in providing financial solutions to New Zealand businesses. Peter is married and has two teenage daughters. In his spare time Peter plays squash, enjoys a bit of woodworking, and watches as much sport as he can.

To chat to Peter about business finance, call **07 958 7494** or email peter.griffin@heartland.co.nz



Steve McConnell

Steve McConnell

Relationship Manager – Asset Finance

Steve joined Heartland in October 2011, and has 10 years' experience in the business banking sector. Before and during his time at university, Steve worked as a truck, grader and digger driver, and still has quite a reputation in the South Waikato rural community for his driving talents. Steve has been married for 11 years to Catherine (who also works in the finance sector). In his spare time he enjoys international travel, and loves to get away in the great outdoors for a spot of recreational fishing and shooting.

To chat to Steve about asset finance, call **07 958 7490** or email steve.mcconnell@heartland.co.nz

HEARTLAND INVOICE FINANCE

Heartland Invoice Finance allows you to access up to 80% of the value of your invoiced sales within 24 hours of raising the invoice. By injecting cash back into your company, invoice finance can revitalise your cash flow. The facility is similar to factoring and invoice discounting, however it is completely confidential; so your customers never know Heartland is involved. Here's how it works in three easy steps.

1. You invoice your customers as usual.
2. You send us details of your invoices and credit notes electronically, using our specialist software.
3. Once approved*, we deposit the funds you have requested overnight into your bank account and you use the money as normal.

To find out more about how invoice finance can help your business' cash flow, call your local Relationship Manager on **0508 HEARTLAND** (0508 432 785) or visit www.heartland.co.nz/invoicefinance

*Lending criteria, fees and charges apply.

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