

Notice of Annual General Meeting

Notice is hereby given that the 2010 Annual General Meeting of Members of the Southern Cross Building Society ("**Society**") (being the 87th Annual General Meeting) will be held in the Victoria Room, Crown Plaza Hotel, 120 Albert Street Auckland, on Wednesday 22 September 2010 commencing at 11.00am.

Agenda

The business of the meeting is set out below. Explanatory Notes accompany this notice of meeting.

A. Ordinary Resolutions

To consider and, if thought fit, to pass the following ordinary resolutions:

Annual Report

1. That the Annual Report for the 12 months ended 30 June 2010 (including the financial statements of the Society, the Directors' report, and the Auditors' report), as tabled at the meeting by the Chairman, be received and adopted.

Auditors

2. That Deloitte be reappointed as Auditors of the Society, and that the Directors be authorised to fix the Auditors' remuneration for the financial year commencing 1 July 2010.

Re-election of Directors

3. That Mr. Tony Beasley, who retires by rotation and is eligible for re-election, be re-elected as a Director of the Society.
4. That Mr. Chris Mace, who retires by rotation and is eligible for re-election, be re-elected as a Director of the Society.
5. That Dr. Don Turkington, who was appointed in December 2009 to fill a casual vacancy following the resignation of Mr. Gavin Walker and who is required to retire at the meeting, being eligible for re-election, be re-elected as a Director of the Society.

Directors' Remuneration

6. That the Society be authorised to pay annual Directors' fees of \$110,000 (in aggregate) on an annual basis (and which is unchanged from the financial years ended 30 June 2008 to 2010 inclusive) and that such amount be allocated between the non-executive Directors as the Board considers appropriate.

B. Special Resolution

To consider and, if thought fit, pass the following as a single special resolution to amend the Society's Rules and to approve the matters stated in the resolution:

That:

- (a) clause 1.9 of the Third Schedule to the Society's Rules be deleted and replaced with the clause set out in the Schedule that follows the Explanatory Notes to this notice of meeting ("**New Clause 1.9**");
- (b) the Board's proposal in respect of the Options, as set out in Part B of the Explanatory Notes, is approved and ratified for all purposes, and the Board is authorised to vary, suspend or terminate that proposal if it considers such action to be fair and reasonable in the circumstances;
- (c) in respect of the matters set out in Part B of the Explanatory Notes, the Board is authorised, including for the purposes of sub-clause (d) of New Clause 1.9, to take any step or action in respect of the Options that the Board considers to be fair and reasonable in the circumstances; and
- (d) the Board is authorised to take all steps and actions, execute all documents and agreements, and to do all other acts, matters and things necessary, or considered by the Board to be desirable, to give effect to (b) and (c) of this resolution.

C. General Business

There are no other formal items of business for the meeting. However, the Chairman and Chief Executive Officer will provide Members with an update on the Society's activities, a further update on the progress of the proposed merger announced on 1 June 2010, and give Members an opportunity to ask questions regarding the Society and raise other items of general business.

By Order of the Board of Directors

M W Finlay, Secretary

3 September 2010

Meeting Notes

All Members are entitled to attend the meeting. There are no Members who are prohibited from voting on any of the resolutions (other than Members aged under 18).

Proxies

A Member who is entitled to attend and vote at the meeting is entitled to appoint a proxy to attend and vote instead of him/her. A proxy need not be a Member of the Society. Proxies should be received at the Society's Registered Office not less than 48 hours prior to the time of commencement of the meeting.

A Member who wishes to appoint a proxy should complete the enclosed Proxy Form in accordance with the instructions on that form and as follows:

- All joint holders must sign the Proxy Form.
- A body corporate which is a Member may appoint a person as its representative to attend the meeting, and vote on its behalf, in the same manner as that in which it could appoint a proxy. The Proxy Form must be signed by a duly authorised officer or attorney of the body corporate and should be signed under seal (if applicable). The person that signs the Proxy Form must be acting under the body corporate's express or implied authority.
- If the Proxy Form is signed by an attorney, a copy of the power of attorney (unless previously produced to the Society) and a completed certificate of non-revocation, must accompany the Proxy Form.

If you wish, you may appoint the "Chairman of the Meeting" as your proxy.

Voting

Ordinary Resolutions

All ordinary resolutions will be voted by show of hands (unless a poll is demanded in accordance with the Rules) and each resolution must be passed by a simple majority of the votes of Members who are entitled to vote, and vote on the resolution.

If a poll is validly demanded on one or more of the resolutions, Members who hold Ordinary Shares will have one vote per share.

Special Resolution

The Building Societies Act 1965 and the Society's Rules require a special resolution to be passed by way of a poll, and the Chairman is deemed to have required a poll. For the special resolution to be passed, it must be passed by three quarters of the number of Members entitled to vote and voting on the special resolution.

Each Member will have one vote only on the special resolution (regardless of the total number of Ordinary Shares or Options held by that Member).

The Members that are entitled to vote on the special resolution are those Members whose names appeared in the Register of Members as at 30 June 2010 and on the date of the meeting.

Options

The Options issued by the Society confer voting rights in certain circumstances only, as follows:

- An Option entitles the holder to one vote on an ordinary resolution conducted by show of hands.
- An Option does not confer on the holder a right to vote on an ordinary resolution by poll.
- Option holders are Members of the Society. Members have one vote on a special resolution, on the basis set out above under the heading "Special Resolution".

Explanatory Notes

Directors' Recommendation

The Directors of the Society recommend that Members vote in favour of each resolution.

Part A: Ordinary Resolutions

Annual Report and related matters (resolution 1)

As required by the Building Societies Act 1965 and the Society's Rules, the Annual Report will be laid before the Annual General Meeting.

Auditors (resolution 2)

Deloitte is automatically reappointed as Auditors of the Society under section 98 of the Building Societies Act 1965. This resolution seeks Member confirmation of this automatic reappointment and empowers the Directors to set the remuneration of the Auditors.

Re-election of Directors (resolutions 3 to 5)

Mr. Tony Beasley and Mr. Chris Mace will retire by rotation at the meeting in accordance with clauses 27.7(a) of the Society's Rules and, being eligible, offer themselves for re-election.

Explanatory Notes (continued)

Dr. Don Turkington was appointed as a Director by the Board in December 2009 to fill a casual vacancy left by the retirement of Mr. Gavin Walker. As required by clause 25 of the Society's Rules, Dr. Turkington retires at the meeting and, being eligible, offers himself for re-election.

Each re-election will be voted on separately.

Directors' Remuneration (resolution 6)

Clause 29.1 of the Society's Rules provides that Members must approve, by ordinary resolution, the remuneration payable to Directors.

This resolution seeks Member approval to the payment of fees of \$110,000 (in aggregate) to non-executive Directors on an annual basis. This level of fees is unchanged from the years ended 30 June 2008 to 2010 inclusive.

Part B: Special Resolution

Introduction

In 2007, the Society, as part of the Member approved capital restructure, issued Options to its Members. That issue was a "bonus issue" meaning that Members did not have to pay for the Options. Since 2007, the Society has issued further Options in relatively small numbers.

As referred to in the Society's 2010 Annual Report, the Society announced on 1 June 2010 that it was evaluating a proposed merger (the "Merger") with Canterbury Building Society and certain finance activities of Pyne Gould Corporation Limited.

The Society is the only party in the Merger that has share options as part of its capital structure. As at 30 June 2010 the Society had 17,566,666 Options on issue. The Options are exercisable at any time on or before 30 June 2012. To date, none of the Options have been exercised.

In the event the Merger proceeds, the Society will be required to deal with the Options such that, as is the case with the other parties to the Merger, the Society only has Ordinary Shares on issue. In the event the Merger proceeds, it is expected that the Society's Ordinary Shares will be effectively exchanged or "swapped" for new shares issued by the merged entity - which will be a company listed on the main board of the New Zealand Stock Exchange.

What are the Options worth?

The Options have the terms of issue set out in the Third Schedule to the Society's Rules. In summary, under the current terms of issue, each Option entitles the holder to one Ordinary Share in the Society in return for the payment of \$1.00 to the Society. As noted above, the Options are exercisable at any time on or before 30 June 2012.

The value of the Options is dependent, among other things, on the value of the Society's Ordinary Shares. As at 30 June 2010 (the Society's latest reporting date), the Society's Net Tangible Asset ("NTA") value per Ordinary Share was \$0.95 (95 cents). The price of the Society's Ordinary Shares, as traded infrequently under the informal share trading facility operated by Forsyth Barr, has for some time been significantly below the Society's reported NTA. While the share trading facility is not reflective of a real market for the Society's Shares and Options given its informal nature and lack of liquidity, the shares of similar sized listed financial institutions typically trade at a discount to NTA.

If Members were to use NTA, or a discount to NTA, as a guide to the value of the Society's Ordinary Shares, then they would conclude that the Options are currently "out of the money". That is, the exercise price for the Options of \$1.00 would be greater than the Members' current assessment of the value of the Ordinary Shares. Therefore the current value of an Option is based on the likelihood that the assessed value of an Ordinary Share will be greater than \$1.00 on 30 June 2012.

In assessing the value of the Options, management and Directors have taken the following factors into account:

- Conventional theoretical option valuation models are difficult to apply in the absence of a liquid market for the Ordinary Shares.
- Were the Ordinary Shares to be listed on a registered stock exchange or liquid trading facility, the management would expect the Ordinary Shares to trade at a discount to NTA, consistent with the trading price of comparable entities and reflecting factors such a discount for lack of control implicit in the trading of minority shareholding parcels.
- The Society is poised to enter into the Merger which, if successfully completed, may have a significant impact on the future value of the Society as part of the merged entity.
- In the event the Merger does not proceed, it is expected that the Society's future value as a stand-alone entity could be lower than as part of the merged entity.
- The Options have approximately 21 months to expiry (30 June 2012). If the Merger proceeds, this will cover a period of significant change for the Society and there are a number of key milestones to be achieved such as the merged entity gaining a banking licence. The timing of achieving these milestones relative to the expiry date of the Options would have a significant impact on their value were they to remain outstanding.

Taking into account these factors, the management and Directors of the Society consider that the fair value of the Options is likely to lie in the range of zero to \$0.10 (10 cents) per Option. The Directors consider a value of \$0.05 (5 cents), being the mid-point of the range, to be an appropriate fair value for the Options.

The Directors have asked Deloitte (the Society's auditors) to review this valuation. Deloitte notes that if the Ordinary Shares were listed, and based on reasonable assumptions about the possible trading price and volatility of the Ordinary Shares, then applying conventional option valuation methods indicates that the proposed Option value of \$0.05 (5 cents) is reasonable.

What is the Board's proposal in relation to the Options?

In anticipation of the Merger, and in the event the Merger proceeds, the Directors of the Society wish to be authorised to deal with the Society's Options in a manner that is both fair and equitable to the holders of the Options.

Explanatory Notes (continued)

At present, the terms of issue of the Options, as set out in the Third Schedule to the Society's Rules, provide only a limited ability for the Board to adjust or deal with the Options if a "reconstruction event" (such as the Merger) occurs. Accordingly, the Board now seeks Member approval, by special resolution, to amend the Rules to clarify the Board's ability to deal with the Options on a fair and reasonable basis. This is intended to be achieved by replacing clause 1.9 of the Third Schedule with the new clause set out in the Schedule to this notice of meeting (being "New Clause 1.9" as referred to in the text of the special resolution).

The special resolution also seeks Member approval to the Board's proposal for dealing with the Options if the Merger proceeds. That proposal is as follows:

- The Board will require that all Options be automatically exercised on a date prior to the Merger occurring (the "**Exercise Date**"). The Board will give the holders of Options prior notice of the Exercise Date in accordance with New Clause 1.9.
- No exercise price will be payable by the holders of Options on the Exercise Date. Rather, the Board will adjust the number of Ordinary Shares to be issued on the Exercise Date on the automatic exercise of each Option. This is intended to ensure that, on automatic exercise, the number of Ordinary Shares to be issued to the holder reflects the assessed value of each Option.
- In particular, given the assessed fair value of \$0.05 (5 cents) per Option, the Board intends to adjust the number of Ordinary Shares subject to each Option so that, on the Exercise Date, each holder of an Option is issued with 0.05263 fully paid Ordinary Shares per Option held. The number of Ordinary Shares to be issued will be rounded up to the nearest whole number. Put another way, on automatic exercise, the holders of Options will, for each Option held, be provided with \$0.05 (5 cents) in value per Option, in the form of new Ordinary Shares at a nominal value of \$0.95 (95 cents) per Ordinary Share.
- As a consequence, it is anticipated that, on the Exercise Date, all 17,566,666 Options will be automatically exercised and that a total of 924,561 Ordinary Shares will be issued to the former holders of those Options. The new Ordinary Shares will be fully paid, rank equally with, and have the same terms and conditions as all other Ordinary Shares in the Society. Following the automatic exercise, the Society will have a total of 52,424,561 Ordinary Shares on issue. The Options will cease to exist.

In the event the Merger does not proceed, the proposed automatic exercise outlined above will not occur.

Will the automatic exercise be dilutionary?

It is important to note that the original Options issued in 2007 were issued in the ratio of one Option for every three Ordinary Shares held.

While a number of Options have been issued since that date and some Options have been sold, the significant majority of the Options continue to be held in the original 1:3 proportion. By way of illustration, only 1.255 million Options (or approximately 7% of the total Options issued) are held in a disproportionate ratio to the original 1:3 allocation. Accordingly, the Board considers the dilutionary impact attributable to the Society's Options not to be of material significance.

Schedule: New Clause 1.9 (to Third Schedule: Terms of Options)

1.9 Reconstruction events: In the event of any issue of Equity Securities, Corporate Action other or reconstruction (including, without limitation, a consolidation, subdivision, or buyback) of the share capital of the Society or the issue of a new class of securities, or any other adjustment to the share capital of the Society, prior to exercise of particular Options, the Board (acting reasonably) may undertake one or more of the following actions in a manner which fairly and equitably reflects the implications of such Corporate Action, reconstruction, issue or adjustment (to the intent that the holder shall not be unfairly disadvantaged or advantaged thereby or in comparison with other Ordinary Shareholders):

(a) the Board may adjust:

- (i) the number of Ordinary Shares subject to each Option (which may be a fraction of an Ordinary Share); and/or
- (ii) the exercise price of each Option; and/or
- (iii) the exercise period set out in clause 1.5 of this Schedule on 10 Working Days notice to the holders of Options,

provided that, if the Board makes an adjustment under this sub-clause (a) as a result of a Member approved reconstruction of capital, the adjustments will be subject to the provisions with respect to the rounding of entitlements as sanctioned by that Member approval;

(b) the Board may determine that, on a date set by the Board (the "**Automatic Exercise Date**"), all Options will be automatically exercised without the need for any action by any holder (an "**Automatic Exercise**"), on the following basis:

- (i) no exercise price will be payable by any holder of an Option;
- (ii) the Board may adjust the number of Ordinary Shares subject to each Option (which may be a fraction of an Ordinary Share) to reflect the fair value of the Option;
- (iii) the Board must give each holder of an Option at least 10 Working Days notice of the Automatic Exercise Date which notice must specify the number of Ordinary Shares to be issued to the holder of the Option on that date;

(c) the Board may terminate Options, or require holders to sell Options to the Society, in consideration of a payment by the Society to the holders of Options which the Board considers to be fair and reasonable in the circumstances;

(d) with the prior authority of the Members by Special Resolution, the Board may take any step or action that it considers fair and reasonable in the circumstances,

and, in all other respects, the terms of the exercise of an Option shall remain unchanged.