



31 May 2010

### **Proposed merger to create a new bank**

For some time the Board of the Society has believed that a key strategy for the Society should be to merge with like-minded businesses with the objective of ultimately becoming part of a New Zealand-owned, new bank.

I am therefore pleased to advise you that today the Society signed a memorandum of understanding with Canterbury Building Society and Pyne Gould Corporation (the parent company of MARAC) involving a proposed merger of their respective banking<sup>1</sup> related activities. These businesses are very compatible with each having a long established and proud heritage of providing banking type services to New Zealanders. The objective of the merged group will be to become a new "Heartland" bank, which will be listed on the New Zealand Stock Exchange.

It is still very early in the merger evaluation process, with due diligence to be completed and various approvals to be obtained from shareholders, depositors and relevant regulatory bodies. The merged group will initially have total assets of approximately \$2.2 billion and have a nationwide presence - placing the merged group in a strong position to apply for a bank licence in a relatively short timeframe. Subject to obtaining all the required approvals, it is expected the merger would be completed in December 2010.

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<sup>1</sup> None of CBS, SCBS, PGC and MARAC is a registered bank, and any merged entity will not be a registered bank until it is registered as such under the Reserve Bank of New Zealand Act 1989.

**Please note the following:**

- There will be no effect on the current agency arrangements with the Society. It will be “business as usual”.
- A copy of the letter to depositors concerning the proposed merger was mailed out today to the Society’s depositors and a copy is attached.
- The Society has been granted an extension under the New Zealand deposit guarantee scheme which covers the Society’s eligible deposits until 31 December 2011.
- The Society will provide you with regular updates regarding the proposed transaction. Details of the merger process will also be posted on the Society’s website at [www.buildingsociety.co.nz](http://www.buildingsociety.co.nz).
- The Society will prepare a “Q&A” sheet to provide you with answers to the type of questions the Society anticipates will be asked by its customers.

Your Branch Manager will contact you to discuss the implications of the proposed merger and answer any questions you may have.

This is an exciting opportunity for our Society and all its stakeholders.

Yours sincerely

A handwritten signature in black ink that reads "Bob Smith". The signature is written in a cursive, flowing style.

**Bob Smith**  
**Director and Chief Executive Officer**

*Attached copy of letter to Society’s depositors*