



LETTER TO SHAREHOLDERS

31 May 2010

Dear Shareholder

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 banking¹ 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.

¹ 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.

What would the proposed merger mean for you as a shareholder of the Society?

- On completion of the merger your shares will be exchanged for shares in a listed entity – thereby offering shareholders the ability to trade their shares.
- The final structuring arrangements are still being considered but it is highly likely that the listed entity will also be a building society. It is intended that the value of your shares in the Society will be determined by an independent valuer.
- A key objective of the merger is to increase shareholder value. The directors of the Society believe the merger will result in a significantly greater opportunity to increase shareholder value when compared to the Society continuing on a stand-alone basis.
- It is anticipated that the merged entity will pay dividends to the shareholders in accordance with a dividend policy to be determined by the new board of the merged entity.

The Society will provide shareholders with regular updates regarding this proposed merger. Details of the merger process will also be posted on the Society's website at www.buildingsociety.co.nz.

The directors of the Society have elected to suspend the share exchange facility operated by Forsyth Barr until further notice as the directors believe that this trading facility does not represent a real market for the Society's shares. Accordingly, it is considered that the suspension of the trading facility is in the best interests of the Society's shareholders.

We undertake to keep you fully informed as we move through this process. However, if you would like to discuss the proposed merger, please contact the Society by emailing shares@buildingsociety.co.nz or by calling 0800 656600.

We welcome your support during this process.

Yours sincerely



Geoffrey T. Ricketts
Chairman