

24 August 2010

Dear Shareholder

I would like to update you on progress we have made since announcing our intention on 1 June to evaluate a merger of Southern Cross Building Society (SCBS) with MARAC Finance Limited and Canterbury Building Society (CBS).

Whilst the merger evaluation is still work in progress, significant progress has already been made by the three parties towards our stated aim of providing a full range of banking and financial services to customers in "Heartland" New Zealand.

Extensive due diligence has been largely completed and a detailed valuation process is underway which will establish the relative value and resultant shareholding proportions in a new merged entity. Also, good progress has also been made on the proposed structure and timeline to complete the merger. Overseeing the merger process is an Establishment Board of which I am a member and that also includes the Chairs of our proposed merger parties, Bruce Irvine and Gary Leech, and Jeff Greenslade, Managing Director of MARAC.

It is anticipated that the new merged structure would have an NZX listed non-operating holding company in which you will become a shareholder. In turn this listed company would own 100% of an operating group which would be headed by a building society, and would include the businesses of CBS, SCBS and MARAC.

It should be noted that this proposed structure would not require any change to the Building Societies Act.

The process and intent around achieving the merger is intended to be captured in a binding Merger Implementation Agreement, which importantly would need to be signed off by the respective boards. Ultimately a merger would require a special resolution of the shareholders of each building society as well as depositor approval, PGC shareholder approval and MARAC bondholder approval. If the merger proposal proceeds it is expected that meetings to vote on the proposal would take place sometime in November. You would receive detailed information on the merger and an Independent Appraisal report well in advance.

Since announcing our intention to evaluate a merger, it has been pleasing to have received a broad level of support and feedback. This has not just been from our respective customers, members, shareholders and investors but also from regulators, rating agency, legislative authorities and politicians. They are all supportive of our objective of creating a New Zealand-owned listed banking group serving the needs of New Zealand families, small to medium sized businesses and farmers.

In undertaking this merger process all three entities believed there to be a high degree of business compatibility with complementary offerings. Certainly what we have seen so far through this process supports that.

Merging with MARAC and CBS would create an entity with more than \$2.2 billion of assets. Consolidation of the three businesses would provide the obvious market advantages and scale to drive growth and shareholder value.

PGC has a proud history of providing finance to New Zealanders. Its wholly owned subsidiary, MARAC, has grown to be one of New Zealand's largest and most successful finance companies, offering finance, insurance and investment solutions. MARAC's core competency and business involves asset finance and seasonal/working capital provision to the business markets. It has a track record that has earned it the trust of thousands of New Zealand investors and borrowers.

Both SCBS and CBS are long established building societies that bring added diversity to MARAC. There is the potential for a cross-selling of products and services between the respective parties. For example: many of our mortgage-lending customers also have insurances and chattel loans that we currently do not offer. Likewise many of MARAC's customers will have mortgages that MARAC does not currently finance.

CBS is based in the South Island with a strong customer base. In recent years CBS has achieved considerable growth and market share as a result of a merger with two other well-established Canterbury building societies and has emerged as a key regional business. The strength of CBS' business is providing loans secured by first ranking mortgages over residential, commercial, and farming property. Funding the lending activities of CBS has traditionally been through innovative and competitive retail deposit products. It also has a large base of savings and investment account customers.

SCBS will complement CBS' given its North Island distribution network comprising its 7 branches and some 40 independently owned and operated agencies located throughout the North Island – and particularly the "golden triangle" of Waikato, Bay of Plenty and Auckland. SCBS' product range closely resembles that of CBS. Furthermore SCBS' already strong capital and liquidity positions will benefit the merged group.

We see great potential in merging these three entities. You would become a shareholder in a robust company that would be a considerably larger than SCBS that should create the opportunity for the group's major operating entity to become a registered bank. As I indicated, a lot of work has been done towards making this a reality. But we are still not there. The trigger point will be once the three parties agree merger terms and the Merger Implementation Agreement is signed. At that point we will provide further information concerning the merger.

Meanwhile, if you have any questions in advance of our Annual General Meeting to be held in Auckland on 22 September 2010, please either email the Society at shares@buildingsociety.co.nz or call our Chief Executive (Bob Smith) on (09) 300 5890.

Kind regards



Geoff Ricketts

Chairman