

24 August 2010



Dear PGC Shareholder

Update on proposed merger

I would like to take the time to update you on progress we have made since announcing our intention on 1 June 2010 to evaluate a possible merger with Canterbury Building Society (CBS) and Southern Cross Building Society (SCBS).

Progress to date

The merger evaluation process is advancing and significant progress has been made by the three parties towards our stated aim of creating an NZX-listed banking group providing a full range of banking and financial services to customers in Heartland New Zealand.

Extensive due diligence along with a detailed valuation process are now well underway and this will establish the relative values of the existing parties in the new merged entity. Good progress has also been made on the proposed structure and timeline to achieve the merger. Overseeing this is an Establishment Board of which I am Chairman and also includes Gary Leech (Chairman of CBS), Geoff Ricketts (Chairman of SCBS) and Jeff Greenslade who is the Project Director.

New merged structure

It is anticipated that the new merged structure would have an NZX-listed non-operating holding company. Existing CBS and SCBS shareholders would be shareholders, along with PGC, who would be the major shareholder. In turn this holding company would own 100% of an operating group which would be a building society and would be made up of the businesses of CBS, SCBS and MARAC.

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

Approval process

The process and intent around achieving the merger will be captured in a Merger Implementation Agreement, which would need to be signed off by the respective boards. Ultimately the merger would require PGC shareholder approval as well as approvals by way of special resolutions of the shareholders of the two building societies. Depositor and bondholder approvals would also be required. If the merger proposal proceeds it is expected that meetings to vote on the proposal would take place sometime in November. You will receive detailed information on the merger and an Independent Appraisal report well in advance.

Merger supported

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, legislative authorities and politicians. They are all supportive of our objective of creating an NZX-listed banking group targeting 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 the process to date has very much confirmed this.

The benefits of merging with CBS and SCBS

As you know PGC has a long and proud history of providing finance to New Zealanders. Our 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. Its core competency and business is around asset finance and seasonal/working capital provision to the small and medium sized business market.

It has been MARAC's stated ambition to become a registered bank. We see that merging with CBS and SCBS to create an entity with more than \$2.2 billion of assets as a significant step towards that

goal. Consolidation of the three businesses would provide the obvious market advantages and scale to drive further growth and shareholder value.

Both CBS and SCBS are long established building societies that bring added diversity to MARAC. They are similar but have geographical strengths and coverage in different parts of the country and bring transaction banking capability and savings products.

About Canterbury Building Society

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, including savings and investments. CBS also has transaction banking including internet banking capability.

About Southern Cross Building Society

Whereas CBS is focused in the South Island, SCBS has a North Island focus. SCBS' North Island distribution network comprises its seven branches and some 40 independently owned and operated agencies located throughout the North Island – and particularly within 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 would benefit the merged group.

We see significant potential in merging these three entities. PGC would be the majority shareholder in what will be a larger, more diverse and stronger financial services business.

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 be coming back to you with a lot more information and detail.

We will be in touch with you in the near future to update you on progress.

Yours sincerely

Bruce Irvine
Chairman
Pyne Gould Corporation