



*Media Release*

16 September 2010

## **Boards recommend merger**

The boards of Pyne Gould Corporation (PGC), MARAC, CBS Canterbury (CBS) and Southern Cross Building Society (SCBS) have determined that their plan to form a New Zealand listed banking and financial services group is compelling and have formally committed to proceed with the merger.

A binding Merger Implementation Agreement was signed today dealing with the structure of the merged entity, and the various conditions that need to be satisfied. Subject to all relevant regulatory and stakeholder approvals and satisfaction of other conditions, the target date for the merger taking effect is 1 January 2011. The merged group will seek an NZX listing for the newly created financial services group with a target listing date for early February.

The chairman of the Establishment Board overseeing the merger process, Bruce Irvine said: "This is a significant step forward. After extensive due diligence, evaluation and independent analysis we are firmly of the view that the merger is compelling and will be beneficial to all parties. As such, all four boards will be unanimous in recommending the merger proposal to their respective stakeholders."

"We want to be a business that services the needs of New Zealanders," he said. This will be achieved by:

- establishing a nationwide presence with a particular focus on leveraging existing 'legacy' markets in Canterbury, Auckland, Waikato and Bay of Plenty
- focusing on lending activity in niche sectors including small-to-medium businesses, rural businesses and New Zealand individuals and families
- adopting a 'customer first' delivery approach to deliver tailored products and services to customers
- establishing a broader shareholder base and capital structure to facilitate growth

"It is our aspiration to become a bank," he said. "We have been told by shareholders, businesses and community leaders that they want this merger to happen as soon as possible."

Mr Irvine confirmed that the merged entity would have its head office in Christchurch. "We have a strong and long standing presence in the Canterbury region and this will remain important. In the short term, we intend to play our part in helping the region recover from the recent earthquake. As a unified entity we believe we will be well positioned to do this."

### **Merger Compelling**

In deciding to proceed with the merger the boards of the four entities concluded that:

- The merger is compelling because it provides:
  - increased scale, a platform for accelerated growth via a nationwide distribution network and increased market presence and credibility
  - a diversified asset portfolio and depositor base
  - a better case for obtaining an investment grade credit rating and banking licence

- access to alternative sources of funding and greater liquidity
- the ability over time to realign the combined asset portfolios to drive consistent profitability and superior shareholder returns
- the prospect of being able to pay regular dividends
- an NZX listing, subject to a formal application process, that would be likely to lead to greater investor interest, greater liquidity and inclusion in the NZX50
- The outlook for a merged CBS, SCBS and MARAC would be substantially better than that for any of the parties on a standalone basis, particularly given the changing economic, regulatory and competitive landscape

The merged entity will be well capitalised from the beginning. CBS, SCBS and MARAC have deliberately built up approximately \$300m of cash and liquid assets to ensure significant liquidity is available to the merged entity. In addition, to supplement funding available from CBS, SCBS and MARAC's loyal depositor and debenture investor bases, the merged entity is currently negotiating with banks with a view to obtaining undrawn standby banking facilities and securitisation facilities and will contemplate an NZDX retail bond issuance in time.

### **Working with Christchurch customers after the earthquake**

The Christchurch offices of CBS and MARAC are fully operational and have been able to continue meeting the needs of customers post-earthquake. The region will be a significant component of the merged business, with about 28 percent of the loan book and 39 percent of the deposit base at the time of the merger.

The Establishment Board, on behalf of all the parties to the merger, expresses its sympathies to those affected by the earthquake. "We look forward to the rebuilding of the affected parts of the city and region, and we welcome the announcements made by the government earlier this week in regard to the establishment of a dedicated ministry overseeing regional recovery."

### **Implementation**

The implementation of the merger will involve a number of processes under the Building Societies Act and the Companies Act. An application will be made shortly to the High Court for initial orders in respect of a Scheme of Arrangement. That will be followed in November by meetings of members, shareholders and investors in the four entities to pass the necessary resolutions to enable the Scheme of Arrangement and other implementation processes to be put into effect.

If the voting stakeholders in the four entities agree to implement the merger the new entity will comprise a non-operating company, Building Society Holdings Limited ("Merged Group"), which will seek listing on NZX. The operating businesses of CBS, SCBS, MARAC and MARAC Insurance will be held in operating subsidiaries of Merged Group (see Appendix 1 for structural diagram).

The merger share proportions will be PGC 71%, CBS 14.5% and SCBS 14.5%. PGC will remain a discrete entity with a single holding in the merged entity whereas the individual shareholders of CBS and SCBS will own shares in their own right.

The board of the Merged Group will comprise up to nine directors; five (one of whom will be chairman) nominated by PGC; up to two nominated by SCBS; and up to two nominated by CBS. A minimum of three directors are required to be Independent Directors.

The integration of the businesses will be phased in over time so as to ensure there will be no disruption to the merging entities' front line operations. Upon the merger taking effect it is intended that existing brands will continue to be used. The integration process will be overseen by the new board and a project team.

The agreement represents the first stage of the Merged Group's operating business seeking a banking licence.

**Additional comments from the respective chairs: Bruce Irvine, PGC, Gary Leech, CBS and Geoff Ricketts, SCBS**

"We firmly believe the merger is a compelling value enhancing proposition for members and shareholders that would not otherwise be available to each of us on a standalone basis."

"We believe changes in the financial sector have created a strong appetite for a New Zealand listed banking group from our respective members, shareholders and customers. We also think there is a niche that we can fill in our target market which is currently under serviced – that being the banking market for SMEs, rural businesses and NZ individuals and families."

"The merger brings scale to our operations, with combined assets of approximately \$2.3b. This provides a platform for accelerated growth via a nationwide distribution network, increased market presence and credibility. Increased scale is also likely to provide access to more diverse sources of debt funding and greater equity funding capacity (via an NZX listing) (see Appendix 2 for more detail on the asset portfolio)."

"Moreover, we believe the benefits of scale, the ability to drive asset growth and potential funding cost improvements will enhance profitability and lead to superior shareholder returns."

"The landscape for finance companies and savings institutions is changing in the wake of the global financial crisis and as new regulations are implemented. The merged entity will not only comply with all applicable regulations but will be well placed to take advantage of expansion opportunities. We strongly believe that this is the best way forward for our respective businesses. Each of us intends doing all we can to obtain the required consents to make this happen and to implement the merger."

It is intended that full details of the merger proposal will be sent to all relevant stakeholders in early November. A summary of the conditions contained in the Merger Implementation Agreement, and other related information, have been filed with the NZX.

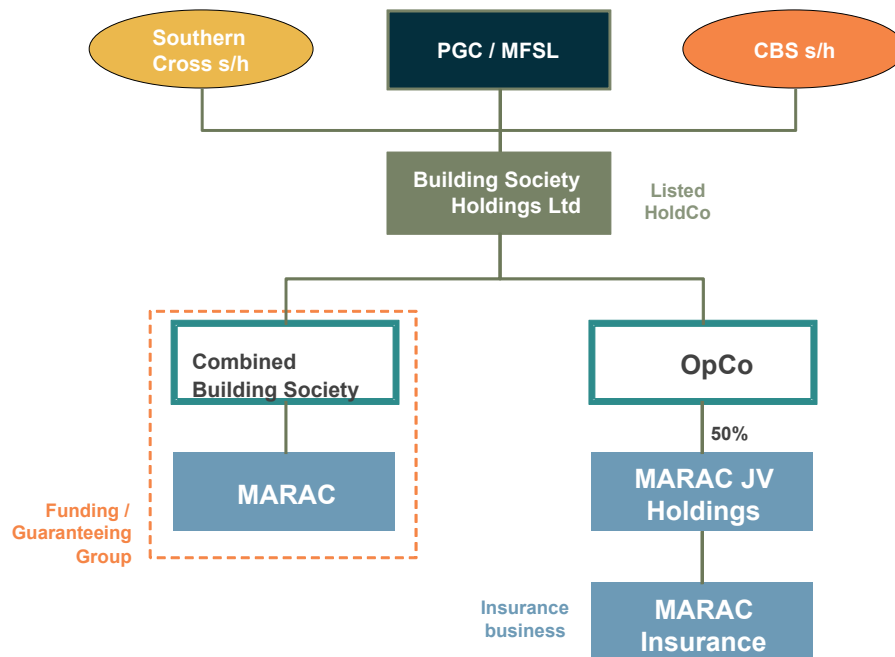
The key advisers to the four entities are First NZ Capital, PricewaterhouseCoopers, Deloitte and Chapman Tripp.

**NB:**

- 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.*
- 2. It is intended that application will be made to NZX Limited for permission to list the shares to be issued under the Merger on the NZSX, although the shares have not been approved for trading on a securities market operated by a registered exchange (and no application for such listing has been made) as at the date of this announcement. NZX Limited accepts no responsibility for any statement in this announcement. NZX Limited is a registered exchange regulated under the Securities Markets Act 1988.*
- 3. Building Society Holdings Limited and Combined Building Society are working titles pending a formal branding process*

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## Appendix 1 – Merger Structure



### Description

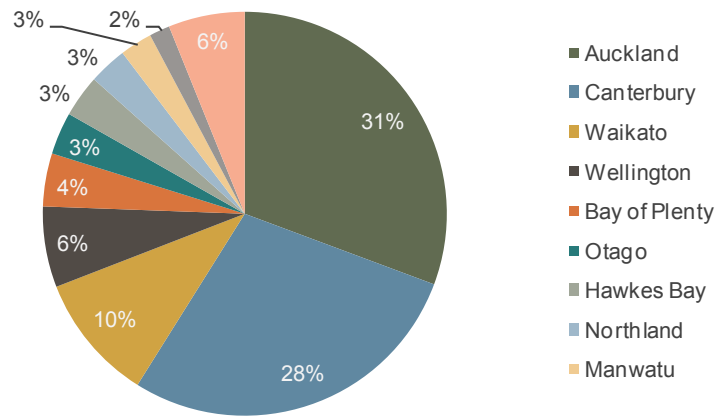
As a result of the Merger:

- Building Society Holdings Limited will be an NZSX listed holding company
- All deposit taking and funding will be contained within:
  - Combined Building Society, a wholly-owned building society of *Building Society Holdings Limited*
  - MARAC, a wholly-owned subsidiary of Combined Building Society
- Other assets (for example the insurance business) will be held in a separate subsidiary of *Building Society Holdings Limited*, OpCo
- Combined Building Society will seek registered bank status under the Reserve Bank of New Zealand Act 1989

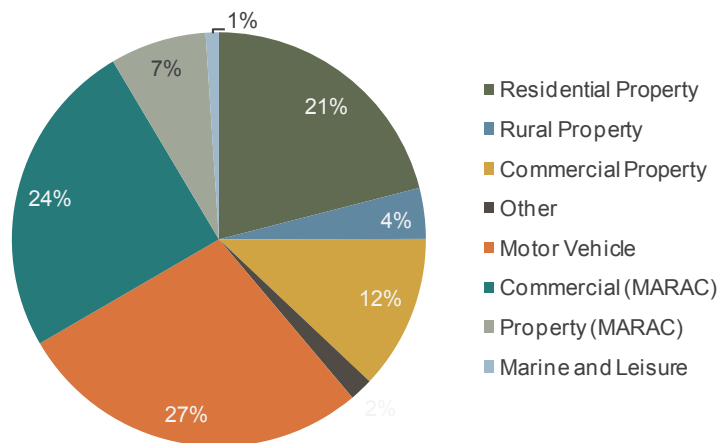
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**Appendix 2 – Indicative Asset Portfolio at Merger**

**Pro Forma Loan Assets by Geography at 30 June 2010**



**Pro Forma Loan Assets by Type at 30 June 2010**



### Appendix 3 – Indicative High Level Timetable

