



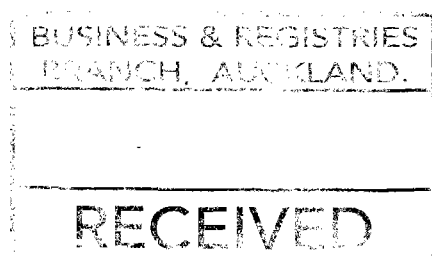
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# CBS Canterbury

## Prospectus No. 36

For the issue of debt securities  
up to a maximum of \$1,000,000,000.

Dated 12 October 2010



# PROSPECTUS NUMBER 36

Dated 12 October 2010  
for the issue of debt securities as defined in the Securities Act 1978  
up to a maximum of \$1,000,000,000

A copy of this Prospectus duly signed with copies attached of the documents which are required by Section 41 of the Securities Act 1978 and Regulation 18 of the Securities Regulations 2009, was delivered to the District Registrar of Companies for registration under Section 42 of the Securities Act 1978 on 12 October 2010.

The Canterbury Building Society (trading as CBS Canterbury) is registered under the Building Societies Act 1965 and was incorporated on 6 October 1882 under the Building Societies Act 1880 (under incorporation number 1781000).

Copies of CBS Canterbury's publicly filed documents, including the audited financial statements for the year ended 31 March 2010, may be viewed on the Companies Office website [www.companies.govt.nz](http://www.companies.govt.nz) under "Search Other Registers". The file reference number is "1781000". Copies of the documents may also be obtained (on payment of a fee) by telephoning the Companies Office Contact Centre on 0508 266 726.

The Rules of CBS Canterbury and any material contracts disclosed in this Prospectus may be inspected at the office of CBS Canterbury.

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## **DIRECTORY – NAMES, ADDRESSES AND OTHER INFORMATION**

### **BOARD DIRECTORS**

The directors of CBS Canterbury are:

**Gary Leech**, B.Com (Accounting and Economics), FCA (Chairman)  
16 Lane Street, Ashburton

**Graham Kennedy**, J.P., B Com (Otago), CA, ACIS, ACIM, AF Inst.D (Deputy Chairman)  
4 Penbury Close, Lake Hood, RD4, Ashburton

**Richard Ashford**  
"Thurlow", Racecourse Road, No. 6 R.D., Ashburton

**Roger Bonifant**, MAgSc, MSc, CNZM  
Wakanui, 7 RD, Ashburton

**Rodger Bradford**, FNZIB, MAIB  
35 Catherwood Avenue, Ashburton

**George Brown**, CA, ACIS, ACIM  
Mitcham Road, 2 RD, Ashburton

### **CEO & SECRETARY**

Bryan Geoffrey Inch, B Agr.Sc  
132 Richmond Hill Road, Christchurch

### **SOLICITORS**

Buddle Findlay  
Clarendon Tower  
78 Worcester Street  
P O Box 322  
Christchurch

Russell, Moon & Fail  
Tancred Street West  
P O Box 22  
Ashburton

### **BANKERS**

Westpac Banking Corporation NZ Limited  
Level 15, PricewaterhouseCoopers Tower  
188 Quay Street  
P O Box 934  
Auckland

ANZ National Bank Limited  
Level 27, ANZ Centre  
23-29 Albert Street  
P O Box 91-691  
Auckland

### **AUDITOR**

Deloitte  
32 Oxford Terrace  
PO Box 248

### **TRUSTEE**

Trustees Executors Limited  
Level 5, 10 Customhouse Quay  
P O Box 3222  
Wellington

### **SHARE REGISTRY**

Link Market Services Limited  
P O Box 384  
Ashburton

## MAIN TERMS OF OFFER

### Issuer

The Issuer of the securities offered in this Prospectus is the Canterbury Building Society (CBS Canterbury) whose registered office is at 224 East Street, Ashburton. CBS Canterbury is a building society registered under the Building Societies Act 1965.

This Prospectus is for the issue of debt securities as defined in the Securities Act 1978 up to a maximum of \$1,000,000,000.

### Brief History

On 21 January 1875 the first Board of Directors of the Ashburton Permanent Building and Investment Society were elected. In that first year of operation just \$466 was advanced on mortgage. In 2002 the legal name of the Society was changed to the Ashburton Building Society (trading as ABS Canterbury).

In mid 2004, ABS Canterbury, to gain improved liquidity of its shares, listed both ordinary and preference shares on the NZAX. In 2006 ABS Canterbury changed its name to Canterbury Building Society (trading as CBS Canterbury) and on 1 April 2006 merged with SMC Building Society.

On 1 February 2008, CBS Canterbury merged with Loan and Building Society. The merged society trades as CBS Canterbury.

CBS Canterbury has improved its accommodation and services over the years, now operating from four sites (Ashburton, Riccarton, Sydenham and Rangiora).

On 19 November 2009, CBS Canterbury was allocated a BB+ (Stable Outlook) counterparty credit rating from internationally recognised ratings agency Standard & Poor's. For further details on credit ratings see pages 19 to 20.

On 16 September 2010, CBS Canterbury, Pyne Gould Corporation Limited, MARAC Financial Services Limited, MARAC Finance Limited and Southern Cross Building Society signed a Merger Implementation Agreement providing for the implementation of the merger proposal. Details of the proposed merger are described on pages 16 to 17.

## OFFER OF INVESTMENTS

This Prospectus is dated 12 October 2010 and the securities described below are offered under this Prospectus in terms of the Securities Act 1978. Interest rates as per a published card (obtainable from CBS Canterbury) can vary due to market conditions. CBS Canterbury endeavours to invest all its funds in Canterbury and preference will be given to persons requiring loans which meet CBS Canterbury's lending criteria.

CBS Canterbury has a guarantee under the Crown Retail Deposit Guarantee Scheme, being a guarantee that expires on 31 December 2011 ("Crown Guarantee"). CBS Canterbury is able to offer both Guaranteed and Non-Guaranteed Deposits under the Crown Guarantee.

## GUARANTEED AND NON-GUARANTEED DEPOSITS

CBS Canterbury may offer investors the choice of investing in Deposits with or without the benefit of the Crown Guarantee, as set out below:

"**Guaranteed Deposits**" can be either On Call Deposits or Term Deposits offered by CBS Canterbury which are covered by the Crown Guarantee, subject to the terms and conditions of the Crown Guarantee. Potential investors in Guaranteed Deposits should satisfy themselves that the Crown Guarantee applies to them.

If an investor subscribes for Guaranteed Deposits, then CBS Canterbury's obligations under or in respect of that investment will be covered by the Crown Guarantee. If CBS Canterbury defaults on its obligations, an investor may be able to make a claim under the Crown Guarantee, subject to its terms.

**"Non-Guaranteed Deposits"** can be either On Call Deposits or Term Deposits offered by CBS Canterbury which are not covered by the guarantee given under the Crown Retail Deposit Guarantee. Non-Guaranteed Deposits are an "excluded security" for the purposes of the Crown Deed of Guarantee (Building Society/Credit union). If an investor subscribes for a Non-Guaranteed Deposit then none of CBS Canterbury's obligations under or in respect of that investment will be covered by the Crown Guarantee.

You should note that CBS Canterbury Guaranteed Deposits will usually attract a lower rate of interest than Non-Guaranteed Deposits.

Further information about the Crown Guarantee scheme and CBS Canterbury's participation in it is provided on pages 6 to 7.

## SECURITIES OFFERED

All securities (Deposits) offered are unsecured debt securities under the terms of the Securities Act 1978. This Prospectus is for the issue of Debt Securities up to a maximum of \$1,000,000,000. Each \$1 paid by an applicant for Debt Securities is constituted as a Deposit with CBS Canterbury of the same amount.

Deposits may be either on call or for a term not exceeding five years. The terms available will be communicated by CBS Canterbury from time to time.

Neither the repayment of the Deposits nor the payment of interest thereon is guaranteed by any of CBS Canterbury's directors, employees, agents or advisers.

### On Call Deposits

- |  |   |
|--|---|
| (1) Everyday Accounts                        | A range of on call transactional accounts with optional cheque, debit card, telephone and internet banking facilities, including Everyday Ultimate, Kids Cash and Everyday@Max. |
| (2) Optimum Club                             | On call transactional account with cheque facilities for non-profit making organisations, service clubs and sports clubs.   |
| (3) Specific Savings                         | A range of accounts to save towards a nominated purpose including Christmas Club Accounts, Living Style, Special Purpose, Education Fund and Home Savings Accounts.             |
| (4) Group Savings                            | Savings accounts for groups of 25 or more holders operating as a group with a common employer.  |
| (5) Professional Client Agency Call Accounts | Facilities for professionals to provide on call client agency accounts earning premium interest rates.  |

### Term Deposits

- |   |   |
|---|---|
| (6) Fixed Rate Term Deposits  | Lump sums deposited for fixed terms at a fixed interest rate with a maximum term of 36 months.  |
| (7) Top Rate Term Deposit   | Lump sums deposited for a fixed term with a floating interest rate as determined by the Society. Minimum term of 12 months and a maximum term of 36 months. |
| (8) Monthly Income Term Deposit   | Investment terms of either 12, 24 or 36 months with a fixed rate of Interest paid to an Everyday account monthly.   |
| (9) Professional Client Agency Term Deposits and Top Rate Term Deposits | Facilities for professionals to provide client agency Term Deposits and Top Rate Term Deposits earning premium interest rates.                              |

(10) Income Plus

Lump sums deposited for 5 years at a fixed interest rate.

CBS Canterbury reserves the right to decline without reason given, any investment application, either in whole or in part. Interest on the rejected funds will be paid for the period the funds were held by CBS Canterbury, at the interest rate applicable to the investment application at the time the funds were received.

## INTEREST

**Interest Rates:** Subject to CBS Canterbury's right to vary interest rates for call accounts, the interest rate on each deposit will be communicated by CBS Canterbury and agreed to prior to the making of the investment. Withholding tax will be deducted from all interest payments in accordance with the Income Tax Act 2007.

**Calculation:** Interest on all Accounts will be calculated on a daily basis from the date of receipt of the investor's money provided that day is a Banking Day and the investment is received by CBS Canterbury to enable processing prior to close of business on that day.

**Variation of Interest Rates:** Interest rates for Term Deposits are fixed for the specified term from the date of allotment to the date of their repayment, other than Top Rate Term Deposits and Professional Top Rate Term Deposits which attract a reviewable rate. CBS Canterbury reserves the right to vary interest rates for on-call Accounts after the date of allotment. New rates will be advertised by CBS Canterbury from time to time.

**Payment:** Interest payments will vary according to account type and customer requirements and will be agreed between CBS Canterbury and the investor prior to the making of the investment.

## REPAYMENT

Account types (1), (2), (3), (4) and (5) will be repaid on demand on the day requested provided that day is a Banking Day and the demand is received to enable processing prior to 3.00 p.m. on that day. Withdrawals from Living Style Accounts are subject to specific notice of withdrawal criteria or, in the absence of required notice, the interest rate payable by CBS Canterbury will be reduced by up to 3% (calculated across the term of the investment), unless that amounts to a reduction in interest payable of less than \$30, in which case a fee of \$30 will be payable by the investor.

Account types (6), (7), (8), (9) and (10) may be withdrawn on maturity.

Account holders may request early repayment of the investment where an investor whose deposit is in their sole name dies, or there are exceptional or unforeseen circumstances whereby an investors' continued investment may give rise to some form of material financial hardship. In either case, CBS Canterbury has the sole discretion as to whether to allow early repayment.

In the case of withdrawal before maturity, CBS Canterbury reserves the right to charge an early withdrawal fee by reducing the applicable interest rate by up to 3% (calculated across the term of the investment).

Accounts may be reinvested on maturity upon request to CBS Canterbury. If no such request is made, following notification of maturity, Term Deposits will be reinvested for the same term at the then current interest rate.

## GOVERNMENT DEPOSIT GUARANTEE SCHEME

On 12 November 2008, CBS Canterbury received confirmation from New Zealand Treasury of its acceptance as an Approved Institution and, accordingly, CBS Canterbury has a guarantee under the New Zealand Deposit Guarantee Scheme. The Guarantee is for a period of 2 years from the announcement of the scheme on 12 October 2008. Treasury announced on 18 November 2009 that it would make the scheme more flexible by withdrawing existing deeds and replacing them with revised deeds of guarantee for the current scheme. The updated version of the revised Crown Deed of Guarantee (Building Society/Credit Union) was released by the Crown on 24 November 2009. The CBS Canterbury revised Crown Deed of Guarantee (Building Society/Credit Union) is dated 8 December 2009 and replaced the existing Crown Deed of Guarantee referred to above from 1 January 2010 and has effect to 12.01am on 12 October 2010. This deed clarifies the operation of the Crown Guarantee, imposes additional obligations on CBS Canterbury and permits the offer of both guaranteed and non-guaranteed deposit products.

On 25 August 2009, the Government announced that the New Zealand Crown Retail Deposit Guarantee Scheme would be extended to 31 December 2011. CBS Canterbury entered into a Crown Deed of Guarantee (Building Society/Credit Union) dated 28 May 2010. This Deed commences at 12.01am on 12 October 2010 and expires on 11.59pm on 31 December 2011.

Under the Crown Guarantee, the Crown guarantees to each eligible investor that if CBS Canterbury fails to repay the amount invested plus any accrued interest when it is due and payable, then the Crown will pay that amount to the investor. In general terms, eligible investors in Deposits (other than Non-Guaranteed Deposits or any other "excluded securities") will have the benefit of the Crown Guarantee given under the:

- New Zealand Deposit Guarantee Scheme, up to \$1 million up until 12 October 2010, and
- Crown Retail Deposit Guarantee Scheme Act 2009, up to \$250,000 from 12 October 2010 to 31 December 2011.

The Crown Guarantee also covers Deposits (other than Non-Guaranteed or any other "excluded securities") which are due and payable to investors other than the above-dated if a "default event" occurs during the relevant period.

A "default event" under the Crown Guarantee is where CBS Canterbury: becomes insolvent or fails to pay its debts when due; is subject to insolvency proceedings; a voluntary administrator, a liquidator or receiver is appointed; a secured party takes possession of its assets; enters into an arrangement or compromise with its creditors; enters in a moratorium; or a statutory manager is appointed. As at 12 October 2010, the Board considers it unlikely that a default event will occur.

The Crown will only make payment to an investor under the Crown Guarantee if the investor makes a claim and the Crown is satisfied as to its liability to the investor as to the amount payable to them.

The "extended" Crown Guarantee (which applies from 12 October 2010 to 31 December 2011) differs from the "existing" Crown Guarantee (which applies to 12 October 2010). In particular, the "extended" Crown Guarantee:

- Does not cover any interest that accrues after a "default event";
- Requires an investor must make any claim for payment with the Crown within 180 days of the date of their investment becoming due and payable (and CBS Canterbury has not paid); and
- Only covers investments which are due and payable to investors during the period from 12 October 2010 to 31 December 2011. It does not cover investments which are due and payable after the expiry of that period.

Further information about the Crown Retail Deposit Guarantee Scheme, a copy of the Crown Deed of Guarantee between CBS Canterbury and the Crown, and the most recent audited statement of financial position of the Crown, are available free of charge and at all reasonable times, on the internet site maintained by, or on behalf of The Treasury, at [www.treasury.govt.nz](http://www.treasury.govt.nz).

Full terms and conditions of each guarantee are set out in the relevant Crown Deed of Guarantee.

Potential investors in Guaranteed Deposits should satisfy themselves that the Crown Guarantee applies to them. If you are in any doubt as to the application of the Crown Guarantee, you should seek independent professional advice.

## **DESCRIPTION OF THE ACTIVITIES OF CBS CANTERBURY**

CBS Canterbury has, during the five years prior to the date of registration of this Prospectus, been engaged in providing and developing the following activities, primarily within the Canterbury region:

- (a) Raising deposits from the public;
- (b) Lending to the public on the security of mortgages of freehold or leasehold land, or by way of advance on chattel security;
- (c) Advancing facilities to its investors for the profitable investment of savings; and

- (d) Enabling persons possessed of land to erect buildings thereon and to make advances upon security of freehold or leasehold properties.

CBS Canterbury owns unencumbered its principal assets (as set out in the Society's latest audited Statement of Financial Position).

On 1 February 2008 CBS Canterbury merged with Loan and Building Society, pursuant to resolutions passed by the members of both societies. CBS Canterbury continues as the surviving legal entity, remaining listed on the NZAX. Loan and Building Society exists as a non-trading wholly owned subsidiary of CBS Canterbury.

## **SUMMARY FINANCIAL STATEMENTS**

The historical summary consolidated historical financial statements for CBS Canterbury and its subsidiary for the five previous years is set out below.

The historical summary consolidated financial statements below are derived from the audited consolidated financial statements of CBS Canterbury for the financial years 2006, 2007, 2008, 2009 and 2010.

The audit reports for these years were not qualified in any way, and required no explanatory notes.

The summary of consolidated financial statements should be read together with the notes that follow it. The consolidated financial statements have existed from 2008 as a result of the business combination during the 2008 financial year. For the 2006 and 2007 financial years the parent and group financial statements are the same due to no group existing at these reporting dates

Previous NZ GAAP has been disclosed for the years 31 March 2006 and 2007. Both NZ IFRS and previous NZ GAAP summary financial statements have been disclosed for the year of transition 31 March 2007 and NZ IFRS has been applied for the years ended 31 March 2008, 2009 and 2010.

**Canterbury Building Society and Subsidiary**  
**Summary of Financial Statements**  
**For the years ended**

	(NZ IFRS)				(Previous NZ GAAP)	
	12 months 31 Mar 2010 (Audited) \$	12 months 31 Mar 2009 (Audited) \$	12 months 31 Mar 2008 (Audited) \$	12 months 31 Mar 2007 (Audited) \$	12 months 31 Mar 2007 (Audited) \$	12 months 31 Mar 2006 (Audited) \$
<b>INCOME STATEMENT</b>						
<b>REVENUES</b>						
Interest Income	30,406,355	50,993,207	35,650,469	28,656,873	28,674,873	22,094,541
Other Income	2,362,104	695,860	827,002	982,085	1,065,156	681,998
<b>LESS FINANCE CHARGES</b>						
Interest On Deposits	22,371,790	39,793,767	27,335,440	21,743,889	21,743,889	16,520,684
Preference Share Dividends	-	-	120,000	240,000	-	-
<b>GROSS CONTRIBUTION FROM ACTIVITIES</b>	<b>10,396,669</b>	<b>11,895,300</b>	<b>9,022,031</b>	<b>7,655,069</b>	<b>7,996,140</b>	<b>6,255,855</b>
<b>DEDUCT OVERHEAD EXPENSES</b>						
Amortisation of Intangibles	391,963	194,192	89,738	110,564	49,271	-
Auditor - Audit Fees	173,979	223,024	145,467	88,213	88,213	85,868
Bank Fees Paid	790,626	891,167	475,220	455,644	455,644	288,864
Depreciation	307,629	302,199	259,604	313,330	423,894	309,439
Directors Fees	259,687	259,687	166,667	150,000	150,000	110,000
Loss on Disposal of Assets	15,597	21,553	24,511	-	-	-
Marketing Expenses	360,615	552,622	448,181	412,107	412,107	406,598
Property Expenses	191,182	271,272	179,145	170,911	170,911	108,841
Rent & Lease Payments	180,331	171,201	119,210	25,709	25,709	7,149
Provision For Doubtful Debts	-	-	-	-	-	100,000
Salaries	4,141,438	3,801,264	2,531,001	2,139,486	2,132,980	1,420,240
Impairment Losses on Advances	588,616	3,363,415	15,100	-	657	4,816
Gain on settlement of Advances Acquired	-	(953,360)	-	-	-	-
Other Operating Expenses	1,796,930	2,048,119	1,365,403	1,331,610	1,330,953	851,145
<b>TOTAL OVERHEAD EXPENSES</b>	<b>9,198,593</b>	<b>11,146,355</b>	<b>5,819,247</b>	<b>5,197,574</b>	<b>5,240,339</b>	<b>3,692,960</b>
<b>NET OPERATING PROFIT BEFORE SPECIAL FINANCE CHARGE &amp; GOODWILL IMPAIRMENT</b>	<b>1,198,076</b>	<b>748,945</b>	<b>3,202,784</b>	<b>2,457,495</b>	<b>2,755,801</b>	<b>2,562,895</b>
Less Impairment of Goodwill	-	4,148,483	-	-	-	-
Less Special Finance Charge	-	-	1,110,000	-	-	-
<b>NET PROFIT BEFORE TAXATION</b>	<b>1,198,076</b>	<b>(3,399,538)</b>	<b>2,092,784</b>	<b>2,457,495</b>	<b>2,755,801</b>	<b>2,562,895</b>
Taxation	(711,469)	81,712	1,209,201	845,210	903,544	869,917
<b>NET PROFIT (LOSS)</b>	<b>1,909,545</b>	<b>(3,481,250)</b>	<b>883,583</b>	<b>1,612,285</b>	<b>1,852,257</b>	<b>1,692,978</b>
<b>STATEMENT OF COMPREHENSIVE INCOME</b>						
Profit (Loss) for the year	1,909,545	(3,481,250)	883,583	1,612,285	1,852,257	1,692,978
Available for Sale Financial Assets	588,621	(498,477)	(300,814)	18,000	-	-
Gains arising on Revaluation of Properties	143,718	(137,902)	120,061	764,859	764,859	290,433
Realised Capital Gains Reserve	-	-	241,295	-	-	-
Income Tax relating to components of other comprehensive income	(219,701)	160,913	37,967	(142,746)	-	-
<b>Total Comprehensive Income (Loss) for the year</b>	<b>2,422,183</b>	<b>(3,956,716)</b>	<b>982,092</b>	<b>2,252,398</b>	<b>2,617,116</b>	<b>1,983,411</b>

**Canterbury Building Society and Subsidiary**  
**Summary of Financial Statements**  
as at

	(NZ IFRS)			(Previous NZ GAAP)		
	31 Mar 2010 (Audited)	31 Mar 2009 (Audited)	31 Mar 2008 (Audited)	31 Mar 2007 (Audited)	31 Mar 2007 (Audited)	31 Mar 2006 (Audited)
	\$	\$	\$	\$	\$	\$
<b>STATEMENT OF FINANCIAL POSITION</b>						
<b>EQUITY</b>						
Share Capital	44,288,129	43,752,145	42,576,993	14,400,714	17,400,714	13,150,000
Available for Sale Reserve	(135,409)	(547,444)	(198,510)	12,060	-	-
Property Revaluation Reserve	1,528,571	1,427,968	1,554,500	1,486,716	1,770,843	1,005,984
Realised Capital Gains Reserve	287,115	287,115	287,115	45,820	45,820	45,820
Retained Earnings	5,583,493	3,673,948	9,270,180	8,974,424	8,544,022	7,913,711
	<u>51,551,899</u>	<u>48,593,732</u>	<u>53,490,278</u>	<u>24,919,734</u>	<u>27,761,399</u>	<u>22,115,515</u>
<b>REPRESENTED BY:</b>						
<b>ASSETS</b>						
Cash and Cash Equivalents	44,308,968	93,615,259	75,333,716	65,906,584	65,958,320	59,663,145
Trade and Other Receivables	120,230	89,790	98,375	129,237	129,237	138,097
Property Held for resale	-	-	-	2,847,344	2,847,344	-
Taxation Refund Due	1,247,553	560,492	566,632	136,016	136,016	121,001
Short Term Deposits	27,000,000	5,300,000	10,300,000	-	-	-
Investments	7,917,868	17,131,356	8,166,000	4,875,740	4,824,004	4,806,004
Advances	445,262,091	417,423,939	449,071,488	270,615,545	270,405,216	227,072,091
Property, Plant & Equipment	5,049,530	5,070,130	4,711,894	4,233,907	4,326,305	3,752,332
Deferred Tax	13,603	208,895	-	-	-	-
Derivative Financial Assets	27,908	127,572	-	-	-	-
Intangibles	9,897,295	10,122,445	13,478,613	529,753	443,444	246,086
Total Assets	<u>540,845,046</u>	<u>549,649,878</u>	<u>561,726,718</u>	<u>349,274,126</u>	<u>349,069,886</u>	<u>295,798,756</u>
<b>LIABILITIES</b>						
Trade and Other Payables	384,438	549,539	775,452	621,687	621,687	306,470
Employee Entitlements	347,697	317,861	243,021	129,879	108,291	50,154
Withholding Tax	670,966	736,872	963,967	626,969	626,969	507,250
Derivative Financial Liabilities	1,628,387	6,300,648	698	-	-	-
Preference Shares	-	-	-	3,000,000	-	-
Deferred Tax	-	-	97,605	24,317	-	-
Deposits	486,261,659	493,151,226	506,155,697	319,951,540	319,951,540	272,819,367
Total Liabilities	<u>489,293,147</u>	<u>501,056,146</u>	<u>508,236,440</u>	<u>324,354,392</u>	<u>321,308,487</u>	<u>273,683,241</u>
<b>NET ASSETS</b>	<u>51,551,899</u>	<u>48,593,732</u>	<u>53,490,278</u>	<u>24,919,734</u>	<u>27,761,399</u>	<u>22,115,515</u>

**Canterbury Building Society and Subsidiary**  
**Summary of Financial Statements**  
**For the years ended**

	(NZ IFRS)				(Previous NZ GAAP)	
	12 months 31 Mar 2010 (Audited) \$	12 months 31 Mar 2009 (Audited) \$	12 months 31 Mar 2008 (Audited) \$	12 months 31 Mar 2007 (Audited) \$	12 months 31 Mar 2007 (Audited) \$	12 months 31 Mar 2006 (Audited) \$
<b>STATEMENT OF CHANGES IN EQUITY</b>						
Opening Balance	48,593,732	53,490,278	24,919,734	19,398,568	22,115,515	21,197,104
Profit (Loss) for Period	1,909,545	(3,481,250)	883,583	1,612,285	1,852,257	1,692,978
<b>Other Comprehensive Income for period</b>						
Available for Sale Financial Assets	588,621	(498,477)	(300,814)	18,000	-	-
Gains arising on Revaluation of Properties	143,718	(137,902)	120,061	764,859	764,859	290,433
Realised Capital Gains Reserve	-	-	241,295	-	-	-
Income Tax relating to components of other comprehensive income	(219,701)	160,913	37,967	(142,746)	-	-
<b>Total Comprehensive Income for period</b>	<b>2,422,183</b>	<b>(3,956,716)</b>	<b>982,092</b>	<b>2,252,398</b>	<b>2,617,116</b>	<b>1,983,411</b>
Issue of Shares	535,984	1,175,152	28,176,279	4,250,714	4,250,714	-
Payment of Dividends	-	(2,114,982)	(587,827)	(981,946)	(1,221,946)	(1,065,000)
Closing Balance	<b>51,551,899</b>	<b>48,593,732</b>	<b>53,490,278</b>	<b>24,919,734</b>	<b>27,761,399</b>	<b>22,115,515</b>
<b>CASH FLOW STATEMENT</b>						
Net Cash Flows (Used in)/ from Operating Activities before changes in Operating Assets	(2,078,099)	5,102,929	4,738,593	2,662,633	2,652,849	2,103,878
Net Increase/Decrease in Loans and Receivables	(31,906,673)	33,276,175	(11,674,440)	(4,264,786)	-	-
Deposits Received less Withdrawals	(3,769,199)	(13,681,674)	-	-	-	-
Net Cash Flows (used in) / from Operation Activities	(37,753,971)	24,697,430	(6,935,847)	(1,602,153)	2,652,849	2,103,878
Net Cash Flow (used in) / from Investing Activities	(12,088,304)	(5,476,057)	4,639,420	(328,056)	(9,882,772)	(49,062,145)
Net Cash Flow (used in) / from Financing Activities	535,984	(939,830)	11,723,559	8,225,384	7,985,385	45,982,140
Net (Decrease) / Increase in Cash Held	(49,306,291)	18,281,543	9,427,132	6,295,175	755,462	(976,127)
Add Opening Cash Brought Forward	93,615,259	75,333,716	65,906,584	59,611,409	69,901	1,046,028
Closing Cash Carried Forward	<b>44,308,968</b>	<b>93,615,259</b>	<b>75,333,716</b>	<b>65,906,584</b>	<b>825,363</b>	<b>69,901</b>
<b>DATE OF AUTHORISATION OF FINANCIAL STATEMENTS</b>						
Authorised for issue by the Board	11 June 2010	12 June 2009	27 June 2008	14 June 2007	14 June 2007	19 June 2006

**NOTES TO THE SUMMARY FINANCIAL STATEMENTS**

The summary financial statements are those of CBS Canterbury and its Subsidiary ("the Group") which is a profit orientated entity. They have been prepared in accordance with NZ GAAP and have been extracted from full unqualified audited financial statements that:

- the financial years ended 31 March 2010, 2009, 2008 and 2007 have been prepared in accordance with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS). The full financial statements for each of these years included an explicit and unreserved statement of compliance with IFRS.
- the financial years ended 31 March 2007 and 2006 have been prepared in accordance with New Zealand Financial Reporting Standards (NZ FRS) applicable prior to the implementation of NZ IFRS.

The summary financial statements were authorised for issue by the Directors on 12 October 2010.

The Summary Financial Statements for the Group comply with the Financial Reporting Standard 43 "Summary Financial Statements" subject to the Securities Regulations 2009.

The summary financial statements cannot be expected to provide a complete understanding as provided by the full financial statements from which they are extracted.

The full financial statements for each year presented were the subject of an unqualified audit opinion. These financial statements are available for inspection at the Ministry of Economic Development via the Companies Office website [www.companies.govt.nz](http://www.companies.govt.nz).

The accounting policies that have been applied in preparing the financial statements for the year ended 31 March 2010 are consistent with the accounting policies applied in the previous year.

The presentation currency is New Zealand dollars (\$).

On 1 April 2006 the assets, liabilities and engagements of SMC Building Society were transferred to CBS Canterbury at fair value. Assets of \$43,194,090 and liabilities of \$37,707,709 were transferred for a consideration of \$5,979,096, resulting in goodwill of \$492,715.

On 16 August 2007 a non-renounceable issue to both ordinary and preference shareholders was made in the ratio of 1 for 10 at an issue price of \$4.50 per new ordinary share. The offer resulted in the Society allotting 801,578 new ordinary shares fully paid.

Also on 16 August 2007 the Society redeemed the 3,000,000 preference shares that were on issue. Shareholders received a redemption amount of \$1.00 per share, accrued dividend of 4 cents per share and a redemption dividend of 37 cents per share. In accordance with NZ IFRS accounting requirements, these dividends are accounted for as a finance charge through the Income Statement.

On 30 November 2007 an interim dividend of 8 cents per share (fully imputed) was paid on the Ordinary Shares on issue.

On 1 February 2008 the assets, liabilities and engagements of Loan & Building Society were transferred to CBS Canterbury at fair value as a business combination. Assets of \$183,758,307 and liabilities of \$171,998,291 were transferred for a consideration of \$24,640,179, resulting in Goodwill of \$13,235,489.

On 25 July 2008 an interim dividend of 8 cents per share (fully imputed) was paid on the Ordinary Shares on issue.

On 19 December 2008 a bonus issue of shares, in lieu of an interim dividend, equivalent to 10 cents per share (fully imputed) was paid on the Ordinary Shares on issue.

## **ACQUISITION OF BUSINESS OR SUBSIDIARY**

On 1 February 2008, CBS Canterbury merged with Loan and Building Society and therefore acquired the business and assets of Loan and Building Society.

Further details of the merger can be found in the Information Memorandum (Proposal to merge Canterbury Building Society and Loan and Building Society) dated 14 December 2007, and the Notice of Special Meeting and Independent Appraisers Report that forms part of the Information Memorandum. The Information Memorandum and the full Appraisal Reports prepared by PricewaterhouseCoopers and Grant Samuel may be obtained, free of charge, from the registered office of CBS Canterbury during normal office hours. These documents are also available on line from CBS Canterbury's website ([www.cbscanterbury.co.nz](http://www.cbscanterbury.co.nz)) and the Companies Office website, [www.companies.govt.nz](http://www.companies.govt.nz).

## **MATERIAL CONTRACTS**

CBS Canterbury has entered into the following material contracts:

- (a) The extended Crown Deed of Guarantee (as further set out in pages 6 to 7 of this Prospectus);
- (b) The Merger Implementation Agreement dated 16 September 2010 (as further described on pages 16 to 17 of this Prospectus);
- (c) Contracts relating to the Residential Mortgage Backed Securitisation Programme being:
  - (i) the Master Trust Deed dated 22 July 2010 between CBS Canterbury and the Trustee;

- (ii) the Supplemental Deed dated 22 July 2010 between CBS Canterbury, the Trustee and AMAL New Zealand Limited;
  - (iii) the Master Loan Purchase Deed dated 22 July 2010 between CBS Canterbury and the Trustee;
  - (iv) the Master Servicing Deed dated 22 July 2010 between CBS Canterbury, the Trustee and AMAL New Zealand Limited;
  - (v) the Master Security Trust Deed dated 22 July 2010 between CBS Canterbury, the Trustee and TEL Security Trustee (CBS) Limited;
  - (vi) the General Security Deed dated 22 July 2010 between CBS Canterbury, the Trustee and TEL Security Trustee (CBS) Limited,
- (further details of these contracts including a description of their combined effect is set out on pages 17 to 19 of this Prospectus)

Apart from the contracts disclosed, there have been no other material contracts entered into by CBS Canterbury during the two years preceding the date of this Prospectus other than as entered into in the ordinary course of business.

## **PENDING PROCEEDINGS**

There are no legal proceedings or arbitrations pending at the date of this Prospectus that may have a material adverse effect on CBS Canterbury.

## **ISSUE EXPENSES**

The estimated amount of issue expenses is \$15,000 and is payable by CBS Canterbury. No commission or brokerage is payable for the securities issued under this Prospectus.

## **RANKING OF SECURITIES**

Deposits rank ahead of Ordinary Shares in the event of CBS Canterbury's dissolution or liquidation. Liability of Depositors is limited to the amount invested. As at 12 October 2010, CBS Canterbury had granted no other securities that would rank ahead of or equal to the Debt Securities (Deposits) being offered under this Prospectus (except for the existing Deposits detailed below, which rank equally with new Debt Securities being offered).

The amount of Deposits as at 31 March 2010 was \$486,261,659 as measured under NZ IFRS (at 31 March 2009 was \$493,151,226).

## **PROVISIONS OF THE TRUST DEED**

1. The Deposits, (account types (1) to (10) inclusive detailed on pages 5 to 6) known as the "Securities", offered in this Prospectus are issued under a Trust Deed dated 20 December 1990 made between CBS Canterbury and Trustees Executors Limited as trustee for the Security holders, which came into effect on 1 January 1991, as amended by Deeds of Modification dated 8 March 1994, 29 October 1996, 20 December 2001 and 11 October 2007 (the "Trust Deed"). Except to the extent that this Prospectus sets out the terms and conditions relating to the Securities, those contained in the Trust Deed will apply. The Trust Deed also allows for the issue of Redeemable Shares, however at the date of this Prospectus there are no Redeemable Shares on issue.
2. The Securities constituted under the Trust Deed include all existing Deposits on issue to the public. The holder of any Deposits made before 1 January 1991 has the benefit of the Trust Deed unless and until the holder notifies the Trustee or CBS Canterbury that he or she does not wish to be a beneficiary or be bound by terms of the Trust Deed.
3. All Deposits rank equally on liquidation with all other Deposits and unsecured liabilities, notwithstanding that such Securities may have been issued at different times and carry interest at different rates and are repayable at different times. The Rules of CBS Canterbury applicable to Deposits continue to apply.
4. Capitalised expressions used in this section, which are defined in the Trust Deed and not otherwise defined in this Prospectus, have the same meaning assigned to them in the Trust Deed.

## Trustee

5. Under the Trust Deed Trustees Executors Limited (the "Trustee") is appointed as trustee for Depositors. The Trustee does not guarantee repayment of the Securities or the payment of any interest thereon.

## Limitations

6. The Trust Deed does not prohibit the creation of new mortgages or charges ranking in point of security ahead of the Securities, but imposes a maximum amount that may be so secured (the "Total Secured Liabilities") over the assets of CBS Canterbury (see 7(b) below).

## Financial Restrictions

7. Under the Trust Deed, the Guaranteeing Group covenants with the Trustee that it will not:
  - (a) Permit Total Liabilities to exceed 95% of Total Tangible assets;
  - (b) Permit Total Secured Liabilities to exceed 1% of Total Tangible Assets; (Additional secured liabilities to Prime Debtors (e.g. Banks) are permitted (for a limited time) in certain prescribed circumstances which may increase Total Secured Liabilities up to a maximum of 7% of Total Tangible Assets at any particular time).
  - (c) Permit Liquid Assets to be less than 15% of Total Tangible Assets less Reserves;
  - (d) Permit the total amount payable in cash over any half-year as interest and dividends to exceed income actually received in cash over the same period from investments of the Guaranteeing Group;
  - (e) Fail to ensure that the assets of the Guaranteeing Group are sufficient or likely to be sufficient to enable its liabilities to be discharged as they become due;
  - (f) Permit exposure to a single issuer of Marketable Debt Securities or, in relation to such an issuer that is a member of a group of companies, exposure to the Single Group of which the issuer is a member (other than to a Bank) to exceed 15% of Total Liquid Assets;
  - (g) Permit the aggregate of Total Secured Indebtedness and Total Unsecured Indebtedness owing to the Guaranteeing Group and the Total Listed Securities and the Total Unlisted Securities of CBS Canterbury to exceed 15% of Total Tangible Assets;
  - (h) Permit the aggregate of Total Unsecured Indebtedness, Total Listed Securities and Total Unlisted Securities to exceed 5% of Total Tangible Assets;
  - (i) Secure by way of charge over any assets of the Guaranteeing Group the payment of Principal or interest or other moneys payable under any Debt Securities or issue any Debt Securities payable to "bearer";
  - (j) Sell or transfer the whole or any substantial part of the business, undertakings or assets of the Guaranteeing Group except to any member of the Guaranteeing Group;
  - (k) Enter into or permit the subsistence of any guarantee, indemnity or security for the obligations of any external person for any unlimited amount of liability.

## Transactions with Associated Persons

8. An Associated Person is (broadly) any person (including a body corporate) or relative of any person who controls or manages CBS Canterbury, or who is controlled by CBS Canterbury or whoever controls or manages CBS Canterbury, and includes any non-guaranteeing body corporate which is related to or associated (in terms of accounting standards) with CBS Canterbury.
9. Apart from equity investments in existence at the original date of the Trust Deed or which may be approved by the Trustee, the Guaranteeing Group covenants not to lend to, invest in or guarantee the obligations of Associated

Persons unless security is taken by way of mortgage or as Guaranteed Investment Principal on (except in the case of staff loans) normal commercial terms.

10. The Guaranteeing Group also covenants with the Trustee that it will not enter into transactions with Associated Persons other than for full market value, on an arms-length basis and in the ordinary course of business.
11. CBS Canterbury has been granted a waiver from NZAX Listing Rule 9.2.1. The waiver allows Deposits to be made by professional firms associated with certain Directors of CBS Canterbury, where those Deposits are made on the same terms and conditions as Deposits are offered to the public.

#### **Reports to the Trustee**

12. To enable the Trustee to monitor the financial position of the Guaranteeing Group, the Guaranteeing Group covenants to report regularly to the Trustee on the Guaranteeing Group's financial affairs.
13. Audited financial statements must be presented by the Society to the Trustee yearly and unaudited financial statements half-yearly. The directors of CBS Canterbury must report to the Trustee every three months on various matters specified in detail in the Trust Deed, and monthly management financial statements are to be supplied to the Trustee.
14. The Trustee may also request (in special circumstances) that the Guaranteeing Group provide further financial statements and relevant information.

#### **Duties of the Trustee**

15. The following is a summary of the duties of the Trustee as stated by the Trust Deed:
  - (a) To oversee compliance with the covenants and obligations of the Guaranteeing Group under the Trust Deed;
  - (b) To receive and consider the financial statements and reports of the Directors and Auditors;
  - (c) To ascertain whether or not the Guaranteeing Group has breached the covenants in the Trust Deed or the terms of issue of any Securities.
  - (d) Upon the occurrence of certain events of default under the Trust Deed, the Trustee may, or upon the written request of holders of at least 20% of the principal amount of Deposits, or upon the Extraordinary Resolution of Depositors, or Special Resolution of shareholding shall, declare the Deposit Moneys to be immediately due and payable.

*In addition, the Trustee has statutory duties pursuant to the Securities Act 1978 and the Securities Regulations 2009 to exercise reasonable diligence to:*

- (a) Ascertain whether or not there has been any breach of the terms of the Trust Deed or of the terms of the offer of the Deposits and to do all it is empowered to do to cause any such breach to be remedied (except where satisfied that the breach will not materially prejudice the interests of the Holders), and
- (b) Ascertain whether or not the assets of the Guaranteeing Group that are or may be available, whether by way of security or otherwise, are sufficient or likely to be sufficient to discharge the amounts on the Deposits as they become due.

#### **Extraordinary Resolutions**

16. The Trust Deed contains provisions for meetings of Depositors. An Extraordinary Resolution (i.e. a resolution passed by three-quarters of the votes cast at a meeting where there was a quorum of the holders of not less than a majority of the relevant Securities) of the Depositors (or a Class thereof) generally binds all the members of that Class (whether they vote or not). However, an Extraordinary Resolution which exclusively affects the rights and interests of a Class of security holders shall be of no force or effect unless passed by an Extraordinary Resolution

of that Class of security holders or unless it has been assented to in writing by not less than three-quarters in Principal amount of that Class of security holders.

### **Modifications to Trust Deed**

17. The Trustee may concur with CBS Canterbury in making modifications to the Trust Deed in certain specified cases including where the modification is approved by an Extraordinary Resolution passed by the Depositors, and (without such a resolution) where the Trustee is of the opinion that such alteration is not or is not likely to become prejudicial to the general interests of the Security holders (or any Class thereof).

### **Release of Trust Deed**

18. The Trust Deed will be discharged if the merger proposal referred to on pages 16 to 17 proceeds, if CBS Canterbury becomes a registered bank or transfers its engagements to a bank or to another building society or entity which has a trust deed in place which complies with the Securities Act and under which the Security holders will be beneficiaries or upon the Trustee being satisfied that all moneys owing under the Trust Deed have been repaid or provision has been made for such repayment.

### **FINANCIAL STATEMENTS**

The audited financial statements for CBS Canterbury for the year ended 31 March 2010 have been filed in accordance with the Financial Reporting Act 1993 on 12 July 2010 and are available for inspection at CBS Canterbury's office at Society House, 224 East Street, Ashburton during normal business hours, or on CBS Canterbury's website at [www.cbscanterbury.co.nz](http://www.cbscanterbury.co.nz) or on the companies office website at [www.companies.govt.nz](http://www.companies.govt.nz). A copy of the latest audited financial statements should accompany this Prospectus.

### **PLACES OF INSPECTION OF DOCUMENTS**

All documents referred to in this Prospectus including CBS Canterbury's audited financial statements for the year ended 31 March 2010, CBS Canterbury's Rules, and the material contracts disclosed on pages 12 to 13 of this Prospectus, may be inspected at CBS Canterbury's office at Society House, 224 East Street, Ashburton during normal business hours. The audited financial statements and material contracts may also be inspected on the Companies Office website [www.companies.govt.nz](http://www.companies.govt.nz) under "Search Other Registers", or by telephoning the Companies Office Contact Centre on 0508 266 726. Payment of a fee may apply.

### **OTHER MATERIAL MATTERS**

On 14 April 2009 Loan Properties Limited was voluntarily liquidated and removed from the Companies Register. Loan Properties Limited was a Guaranteeing Subsidiary of CBS Canterbury until its liquidation in April 2009. CBS Canterbury currently has no Guaranteeing Subsidiaries.

### **Crown Retail Deposit Guarantee**

CBS Canterbury has a guarantee under the New Zealand Deposit Guarantee scheme. Further details about the scheme and the Crown Deed of Guarantee (both current and revised) are set out on pages 4 to 8. The revised Crown Deed of Guarantee was entered into by CBS Canterbury on 8 December 2009. The extended Crown Deed of Guarantee was entered into by CBS Canterbury on 28 May 2010.

### **Merger**

On 16 September 2010, CBS Canterbury signed a Merger Implementation Agreement ("MIA") with Southern Cross Building Society ("SCBS"), Pyne Gould Corporation Limited, MARAC Finance Limited and MARAC Financial Services Limited (together called "MARAC") under which the parties conditionally agreed to merge the businesses of SCBS, CBS Canterbury and MARAC. It is intended that the merged business will seek a NZX listing and, ultimately, apply to become a registered bank.

Subject to all relevant regulatory and stakeholder approvals and satisfaction of all other conditions, the target date for the merger is 1 January 2011.

The implementation of the merger will include a number of processes, including obtaining an independent report on the merits of the merger proposal, regulatory approvals, Crown approvals, security holder and stockholder and depositors approvals, bank approvals, obtaining a wholesale funding facility, trustee approvals and obtaining orders from the High Court in respect of a Scheme of Arrangement. The proposed NZX listing of the merged business will be subject to the merged business satisfying NZX Limited's listing requirements and for the merged business to obtain registered bank status which will require satisfaction of The Reserve Bank's registration requirements."

#### *Structural outline*

The MIA provides for the merger to be effected by way of a High Court approved Scheme of Arrangement involving, in broad terms, the following structural steps:

- a new company, Building Society Holdings Limited ("**BSHL**") will be established to be the holding company for the merged group, Building Society Holdings Limited ("**BSHL**"). BSHL will seek a NZX listing. The majority shareholder in BSHL will be Pyne Gould Corporation Limited, with a holding of approximately 71%. The target listing date for BSHL is early February 2011;
- CBS Canterbury and SCBS will merge and the combined building society ("**OpSoc**") will be a wholly-owned subsidiary of BSHL;
- MARAC Finance Limited will be a subsidiary of OpSoc;
- OpSoc will assume the obligations of CBS Canterbury, SCBS and MARAC under debt securities previously issued by them;

#### *Key points for Depositors*

Depositors should, in particular, be aware of the following matters in respect of the merger:

- aspects of the merger proposal will require to be approved by way of an extraordinary resolution of CBS Canterbury's Depositors. If passed, such extraordinary resolution will bind all of CBS Canterbury's Depositors;
- a notice of meeting and explanatory materials will be sent to CBS Canterbury Depositors in due course in connection with the extraordinary resolution referred to above;
- if the merger proceeds CBS Canterbury's Deposits will be transferred to OpSoc and will cease to be issued by CBS Canterbury. On transfer to OpSoc, Deposits will continue to have the same terms as to interest rate and maturity but will be subject to the provisions of the Debt Securities Trust Deed to be adopted by OpSoc, and not CBS Canterbury's Trust Deed. A copy of OpSoc's Debt Securities Trust Deed will be made available to CBS Canterbury Depositors prior to the extraordinary resolution of CBS Canterbury Depositors referred to above. The trustee under the OpSoc Debt Securities Trust Deed may be a different person to the current Trustee of CBS Canterbury's Deposits;
- OpSoc intends to seek a continuation or replacement of the Crown Guarantee in respect of the Guaranteed Term Deposits and Guaranteed At Call Deposits that it assumes from CBS Canterbury (and also the debt securities assumed from the other merger participants which are subject to a guarantee by the Crown). There is, however, no assurance that a guarantee will be granted by the Crown to OpSoc or, if granted, that any guarantee will be on the same terms as the Crown Guarantee that applies to Guaranteed Term Deposits and Guaranteed At Call Deposits issued by CBS Canterbury;
- it is intended that the debt securities assumed by OpSoc from CBS Canterbury, SCBS and MARAC Finance Limited will rank equally among themselves, as unsecured, unsubordinated obligations;
- it is intended that MARAC Finance Limited (once it has become a subsidiary of OpSoc) will unconditionally guarantee the OpSoc debt securities;
- OpSoc, to which CBS Canterbury Depositors' investments will be transferred, will be substantially larger than CBS Canterbury prior to the merger.

#### **Residential Mortgage-Backed Securitisation Programme**

On 16 July 2010, CBS Canterbury announced the establishment of a Residential Mortgage-Backed Securitisation Programme. The securitisation programme will provide CBS with a more diversified funding base for the purpose of further lending, which will assist CBS Canterbury to grow its business. In addition, the securitisation programme will provide CBS with a more competitive cost of funds.

The programme is to be established in two stages: first, CBS Canterbury will establish a Warehouse Trust and sell residential loans to it at face value. CBS Canterbury will use the sale proceeds to fund its lending activities. The Warehouse Trust will be funded to purchase the loans from CBS Canterbury through a Warehouse Loan Facility provided by Westpac. In due course, the second stage of the programme will involve the establishment of further trusts, which will purchase the residential loans from the Warehouse Trust, funded by the issue of debt notes to selected institutions.

It is anticipated that under the programme, up to \$100,000,000 in principal amount of residential mortgages will be sold by CBS Canterbury to the Warehouse Trust.

The programme to be undertaken by CBS Canterbury for the securitisation of its residential mortgages can be summarised as follows:

- (a) The CBS Warehouse A Trust and other trusts established under the programme will be special purpose trusts ("Trusts") established by Trustees Executors Limited ("the Trustee"). CBS Canterbury will not have any entitlement to the capital or income of the Trusts but a charitable trust established by CBS Canterbury will be the residual capital and income beneficiary of the Trusts (although in practice the programme will operate in such a way that only nominal sums will accrue to the charitable trust as the residual beneficiary). The Trusts will be administered by the Trustee;
- (b) The CBS Warehouse A Trust (the first Trust to be created) will acquire residential loans from CBS Canterbury. In the long term, further Trusts will be created to purchase such loans from the CBS Warehouse A Trust and to issue debt notes to selected institutions;
- (c) The CBS Warehouse A Trust will be funded to purchase the residential mortgages from CBS Canterbury by a Warehouse Loan Facility provided by Westpac. The subsequent Trusts will be funded by the issue of debt notes to selected institutions;
- (d) It is anticipated that the debt notes will be:
  - (i) issued in several classes. The different classes of debt notes will rank in descending priority for principal and interest, with the lower ranked classes of debt notes receiving a higher interest rate to compensate for the risk associated with the lower ranking;
  - (ii) (for the higher classes of debt notes) assigned a rating by a rating agency;
  - (iii) mature on a fixed date yet to be specified; and
  - (iv) carry a floating interest rate;
- (e) The Warehouse Loan Facility and the debt note issue proceeds will also be used to fund the establishment and ongoing expenses of the programme;
- (f) CBS Canterbury will use the net proceeds of the sale by it of the residential loans to make further loans in the ordinary course of its lending business;
- (g) CBS Canterbury will manage the Trusts for the Trustee and will also continue to administer the residential loans after their sale to the Trusts. CBS Canterbury will receive a management and a servicing fee for providing these services;
- (h) The Trusts will make payments of interest and repayments of principal in respect of the Warehouse Loan Facility and the debt notes from interest and principal payments made to the Trusts by borrowers under the residential loans. CBS will have no legal liability to repay either the Warehouse Loan Facility or the debt notes. However:
  - (i) under the terms of the Warehouse Loan Facility, CBS Canterbury has provided certain legally binding undertakings to Westpac, in particular to proceed to the second stage of the programme (see above) when residential loans having an aggregate value of at least \$75,000,000 have been collected into the CBS Warehouse A Trust; and
  - (ii) under the terms of the Warehouse Loan Facility and the documents establishing the CBS Warehouse A Trust, CBS is obliged to provide credit enhancement of the CBS Warehouse A Trust by providing a subordinated loan to the Trust equal to at least 5% of the value of the loans held by the Trust.

The effect of the proposed transactions can be summarised as follows:

- (a) CBS Canterbury and the Trustee are unrelated parties in terms of the NZAX Listing Rules and the sale of the residential mortgages by CBS Canterbury to the CBS Warehouse A Trust will be on fully arms-length, commercial, terms;

- (b) The structure of and documentation for the establishment of the CBS Warehouse A Trust and the sale of residential loans to the CBS Warehouse A Trust is in general terms of a common form used by financial institutions;
- (c) The residential mortgages which are to be sold by CBS Canterbury to the CBS Warehouse A Trust will cease to be assets of CBS Canterbury and will become assets of the CBS Warehouse A Trust and will therefore become security to Westpac as the Warehouse Loan Facility provider;
- (d) CBS Canterbury will receive face value for the residential mortgages from the CBS Warehouse A Trust and so will be replacing one class of assets (the residential mortgages) with another class of assets (the sale proceeds of the residential mortgages);
- (e) Accordingly, the sale by CBS Canterbury of the residential mortgages will not reduce the net assets of CBS Canterbury.
- (f) The securitisation programme will produce a more competitive cost of funds for CBS Canterbury, since the rate of interest payable by the Trusts to the Warehouse Facility provider or to the holders of the debt notes is expected to be lower than CBS Canterbury's current cost of funds (currently sourced by CBS Canterbury by the issue of deposits);
- (g) When debt notes are to be issued by any of the Trusts in the future and an investment grade credit rating is sought for any classes of debt notes, the relevant rating agency may require further credit enhancement of the debt notes to be provided by CBS Canterbury, for example, by way of subordinated loans or subscription for lower classes of debt notes. These requirements will be as determined by negotiation between CBS Canterbury and the relevant rating agency at that time.

### Credit Rating

Standard & Poor's assigned a "BB+" (with stable outlook) long term credit rating to CBS Canterbury on 19 November 2009.

Standard & Poor's is an international credit rating agency. Credit ratings are statements of opinion and not statements of fact or recommendations to purchase, sell or hold any securities. Credit ratings are subject to change at any time. A revision, suspension, or withdrawal of a rating for the securities will not constitute an event of default in respect of the securities, although any revision, withdrawal or suspension of a rating could affect CBS Canterbury's participation in the Crown Retail Deposit Guarantee Scheme.

As described on Standard & Poor's website ([www.standardandpoors.com](http://www.standardandpoors.com)):

*"Since there are future events and developments that cannot be foreseen, the assignment of credit ratings is not an exact science. For this reason, Standard & Poor's ratings opinions are not intended as guarantees of credit quality or as exact measures of the probability that a particular issuer or particular debt issue will default."*

*"A Standard & Poor's issuer credit rating is a forward-looking opinion about an obligor's overall financial capacity (its creditworthiness) to pay its financial obligations. This opinion focuses on the obligor's capacity and willingness to meet its financial commitments as they come due. It does not apply to any specific financial obligation, as it does not take into account the nature of and provisions of the obligation, its standing in bankruptcy or liquidation, statutory preferences, or the legality and enforcement of the obligation."*

*"A Standard & Poor's rating outlook assesses the potential direction of a long-term credit rating over the intermediate term (typically six months to two years). In determining a rating outlook, consideration is given to any changes in the economic and/or fundamental business conditions."*

The designation of a "stable outlook" assigned by Standard & Poor's to the Society means that a rating is not likely to change.

Also, the credit rating that has been assigned to CBS Canterbury is a local currency issuer rating as opposed to a foreign currency issuer rating. This means the country (or sovereign) risk that is taken into account by Standard & Poor's is that of New Zealand only and the currency of repayment is the New Zealand dollar.

Standard & Poor's adopts the following scale and meaning to its credit rating opinions:

Scale	Meaning
AAA	Extremely strong capacity to meet financial commitments. Highest rating.
AA	Very strong capacity to meet financial commitments.
A	Strong capacity to meet financial commitments, but somewhat susceptible to adverse economic conditions and changes in circumstances.
BBB	Adequate capacity to meet financial commitments, but more subject to adverse economic conditions.
BBB-	Considered lowest investment grade rating by market participants.
<b>BB+</b>	<b>Considered highest speculative grade by market participants.</b>
BB	Less vulnerable in the near-term but faces major ongoing uncertainties to adverse business, financial and economic conditions.
B	More vulnerable to adverse business, financial and economic conditions but currently has the capacity to meet financial commitments.
CCC	Currently vulnerable and dependant on favourable business, financial and economic conditions to meet financial commitments.
CC	Currently highly vulnerable.
C	Currently highly vulnerable obligations and other defined circumstances.
D	Payment default on financial commitments.

Note: Ratings from "AA" to "CCC" may be modified by the addition of a plus (+) or minus (-) sign to show relative standing within the major rating categories. For further detail regarding Standard and Poor's credit rating definitions, please refer to [www.standardandpoors.com](http://www.standardandpoors.com).

### Non Bank Deposit Taker (NBDT) Regulations

Part 5D of the Reserve Bank of New Zealand Act 1989 (the "Reserve Bank Act") regulates NBDTs such as CBS Canterbury. The Reserve Bank has regulation making powers under the Reserve Bank Act to specify and require the following:

- 1 the type of credit rating that must be held in order to meet the definition of a NBDT;
- 2 an approved risk management programme;
- 3 maintain a minimum percentage of capital;
- 4 meet related party restrictions;
- 5 meet liquidity requirements; and
- 6 meet prescribed governance requirements and board composition.

Both (1) and (2) above are currently in force and have been met by CBS Canterbury. (3), (4) and (5) will come into force on 1 December 2010 pursuant to the Deposit Takers (Credit Ratings, Capital Ratios, and Related Party Exposures) Regulations 2010. CBS Canterbury expects to comply with these Regulations as and when they become effective. There are no other material matters which are not set out elsewhere in this Prospectus.

## RISKS

### Principal Risks

It is possible that on termination of the investment at any time, the investor may receive in total less than the amount of the original investment.

The principal risks of the investment not being recovered by the investor and/or of the investor not receiving the returns summarised above, may crystallise where adverse changes in the economy result in CBS Canterbury being unable to recover a significant part of the loans it has made to others, or may crystallise if CBS Canterbury becomes insolvent.

#### *Insolvency Risk*

If CBS Canterbury is put into liquidation or wound up by the Court for any reason, the investments will rank as follows:

- (a) Claims by investors will rank after any preferential claims. Preferential claims include claims of those creditors set out in the Seventh Schedule of the Companies Act 1993 (which principally relate to liquidation costs and fees and certain amounts payable to employees, including salaries and wages), preferred claims of the Commissioner for Inland Revenue under legislation, and any other claims that may be preferred by statute or law.
- (b) Investments will rank:
  - (i) equally amongst themselves; and
  - (ii) equally with previous investments; and
  - (iii) in priority to ordinary shares in CBS Canterbury.

However, if CBS Canterbury is liquidated or wound up by resolution of its members, then the above provisions about preferential claims under the Companies Act 1993 will not apply. You will not be liable to pay any further money in respect of your investment, as a result of CBS Canterbury becoming insolvent or otherwise.

### Specific Risks

#### *Credit Risk*

The most significant credit risk is that CBS Canterbury is not able to recover loans in full from borrowers. CBS Canterbury manages its exposure to credit risk by adhering to strict credit approval policies. All loan applications are subject to careful assessment by CBS Canterbury. All loans are approved in accordance with CBS Canterbury's credit approval policy and loans are managed and reviewed on an ongoing basis by CBS Canterbury. If a loan develops, or appears likely to develop, adverse features, the loan file is transferred to the Credit Manager for ongoing management and recovery (if necessary). Where a borrower is unable to pay the debt owed for whatever reason, the Credit Manager will use all appropriate actions to avoid or mitigate loss to CBS Canterbury.

CBS Canterbury requires security for the majority of loans in the form of first mortgages over real property. In addition, where the borrower is a company or a trust, CBS Canterbury generally requires personal guarantees. The total loans and advances made by CBS Canterbury and the securities held from time to time, are set out in the audited financial statements contained in the current registered prospectus. CBS Canterbury helps to mitigate credit risk by maintaining mortgage indemnity insurance for low equity loans.

#### *Exposure to the Property Sector*

CBS Canterbury is a specialist property finance lender, with over 95% of its lending being secured against residential, commercial or rural property. Accordingly, CBS Canterbury is exposed to the property market. Any deterioration of the New Zealand property market could adversely affect the value of properties over which CBS Canterbury has a mortgage and may also impact the ability of CBS Canterbury's borrowers to repay their loans. These impacts could lead to a reduction in earnings or the value of CBS Canterbury's assets.

CBS Canterbury manages its exposure to the property sector, and the risk of any adverse impact arising from a downturn in the property market, through:

- (a) Ongoing management of loans; and

- (b) Ensuring that adequate loan-to-value ratios are maintained and appropriate exit strategies are identified.

#### *Economic Downturn Risk*

Any downturn or decline in the New Zealand economy could adversely affect CBS Canterbury's future business.

#### *Interest Margin Risk*

Interest margin risk is the risk that interest rates will change, thereby increasing or decreasing the cost of borrowing or lending. CBS Canterbury is exposed to this risk, as its profitability depends on maintaining an appropriate margin between the cost of funds it raises from the public and the interest and fees it receives from borrowers. To mitigate interest margin risk, interest margins are constantly managed and monitored by CBS Canterbury.

In addition, if interest rate changes increase the cost of borrowing, CBS Canterbury has the ability under the standard loan documents to amend any floating interest rate payable by borrowers during the life of loans in order to maintain interest margins at desired levels. In respect of fixed interest rates, CBS Canterbury is able to hedge its exposure by entering into appropriate interest rate swaps.

#### *Liquidity Risk*

Liquidity risk is the risk that CBS Canterbury may (though solvent) encounter difficulties in raising funds at short notice to meet its financial commitments as they fall due. Liquidity risk mitigation involves the management of cash, deposits and credit lines to ensure that CBS Canterbury has sufficient funds to meet its obligations, including the payment of interest on and, when due, repayment of an investor's original investment.

#### *Business Risks*

- (a) *Operational risks* - Operational risk can arise from inadequate or failed internal processes, people and/or systems and could expose CBS Canterbury to potential or reputational damage. The identification, measurement, monitoring and mitigation of operational risks are the responsibility of CBS Canterbury's senior management. Operational risk is mitigated by:
- (i) maintaining an effective computer system supported by external back-up procedures;
  - (ii) regular discussion of risk management practices by CBS Canterbury management; and
  - (iii) maintaining specialised corporate functions such as legal, finance and internal audit.
- (b) *Key personnel* – the loss of key personnel could make it difficult for CBS Canterbury to execute its business strategies and may adversely impact on CBS Canterbury's business until sufficient replacement personnel are employed. Key personnel risk is mitigated by training and rewarding of staff to retain them and investment in developing employer branding to attract high quality new staff.
- (c) *Information technology* – CBS Canterbury is reliant on its information technology and other systems in order to operate its business. Although CBS Canterbury manages this risk through business continuity and disaster recovery planning, any failure or inadequacies of these systems could adversely affect CBS Canterbury's business.
- (d) *Competition* – the financial services sector is highly competitive. In the event that CBS Canterbury is unable to provide competitive products or services or does not respond appropriately to a changing competitive environment, this may have a material adverse impact on CBS Canterbury's financial performance. CBS Canterbury continually reviews and anticipates competition pressures by reviewing and building on its competitive advantages where possible, evaluating its product range and pursuing new profitable business opportunities when available.
- (e) *External risks* – CBS Canterbury is subject to various risks beyond its control that may have an adverse impact on its business including:
- (i) market risks;
  - (ii) regulatory risks; and
  - (iii) environmental risks.

The above risk management strategies can substantially reduce, but do not completely eliminate, the risks described.

#### **NZAX**


CBS Canterbury Ordinary Shares are listed on the NZAX.

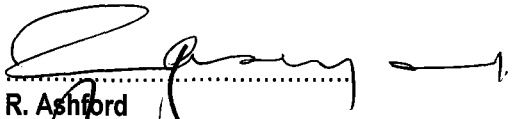
## DIRECTORS' STATEMENT

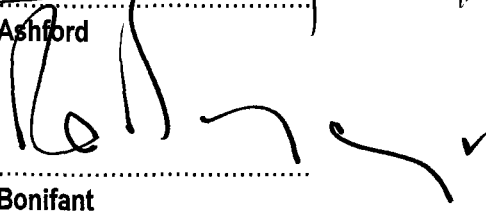
After due enquiry by the Directors it is their opinion in relation to the period between the date of the latest Balance Sheet set out in this Prospectus and the date of registration of this Prospectus that no circumstances have arisen that materially adversely affect the trading or profitability of CBS Canterbury or the value of its assets or its ability to pay its liabilities due within the next 12 months.

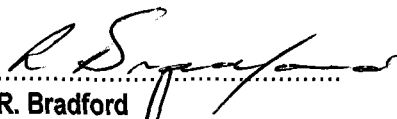
This Prospectus is signed by the Directors of Canterbury Building Society as follows:

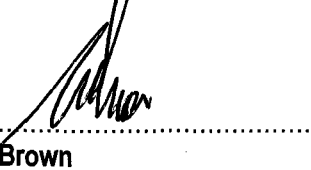
  
.....  
G. Leech (Chairman)

  
.....  
G. Kennedy (Deputy Chairman)

  
.....  
R. Ashford

  
.....  
R. Bonifant

  
.....  
R. Bradford

  
.....  
G. Brown

## IMPORTANT DEFINITIONS

Defined terms used in this Prospectus have the definitions given to them below. It should be noted that the term "Statement of Financial Position" which was used under Previous GAAP (as defined below) is the same as the term "Balance Sheet" under NZ IFRS (also as defined below).

"**Account**" means any of account types (1) to (10) (inclusive) (as the context requires) with CBS Canterbury or any other kind of account offered by CBS Canterbury from time to time.

"**Approved Institution**" means an institution approved under the Retail Deposit Guarantee Scheme announced by the Minister of Finance on 12 October 2008.

"**Banking Day**" means any day other than a Saturday or Sunday, on which CBS Canterbury is open for business.

"**Crown Guarantee**" means the Retail Deposit Guarantee Scheme as further described in this Prospectus.

"**Debt Security**" has the meaning given to that term in the Rules.

"**Depositor**" means a person who deposits funds in an Account.

"**Guaranteeing Group**" means CBS Canterbury and (if there are any) the Guaranteeing Subsidiaries or when the context so admits or requires any one or more of them.

"**Guaranteed Deposit**" means a deposit which is covered by the Crown Guarantee.

"**Non Guaranteed Deposit**" means a deposit which is not covered by the Crown Guarantee.

"**NZAX**" means the New Zealand Stock Exchange Alternative Market. This market is aimed at small and medium-sized companies to list securities and raise capital for growth.

"**NZ IFRS**" means the New Zealand Equivalents to International Financial Reporting Standards.

"**Previous GAAP**" means the basis of accounting that CBS Canterbury used to prepare its historical financial statements prior to adopting NZ IFRS.

"**Rules**" means the rules of CBS Canterbury (as amended from time to time).

"**Special Resolution**" has the meaning given to that term in the Rules.

"**Total Tangible Assets**" means the aggregate on a consolidated basis of the values of the tangible assets of the Guaranteeing Group as would be disclosed in a Guaranteeing Group Statement of Financial Position if one was prepared as at the reference date. Tangible assets means all property and assets other than those in which, the opinion of the Auditors should, according to generally accepted accounting principles and practice in New Zealand be regarded as intangible assets.

"**Trust Deed**" means the Trust Deed dated 20 December 1990 made between CBS Canterbury and Trustees Executors Limited as trustee for the Security holders, which came into effect on 1 January 1991, as amended by Deeds of Modification dated 8 March 1994, 29 October 1996, 20 December 2001 and 11 October 2007.

"**Trustee**" means Trustees Executors Limited.

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12 October 2010

The Directors  
Canterbury Building Society  
P O Box 8623  
CHRISTCHURCH

Dear Directors

## **AUDITORS' REPORT FOR INCLUSION IN PROSPECTUS**

As auditors of Canterbury Building Society (the 'Borrowing Entity') and its subsidiary (the 'Borrowing Group') we have prepared this report pursuant to clause 22 of Schedule 2 of the Securities Regulations 2009 ('Schedule 2') for inclusion in a prospectus to be dated 12 October 2010 for the issue of debt securities up to a maximum of \$1,000,000,000.

This report is made solely to the directors, in accordance with clause 22 of Schedule 2. Our audit has been undertaken so that we might state to the directors those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law and subject to Section 61 of the Securities Act 1978, we do not accept or assume responsibility to anyone other than the directors as a body, for our audit work, for this report, or for the opinions we have formed.

### **Board of Directors' Responsibilities**

The board of directors (the 'directors') are responsible for the preparation and presentation of:

- (a) the financial statements referred to in accordance with clause 17 of Schedule 2, that comply with and have been registered under the Financial Reporting Act 1993 and which comply with generally accepted accounting practice in New Zealand; and give a true and fair view of the financial position of the Borrowing Group as at 31 March 2010 and its financial performance and cash flows for the financial year ended on that date; and
- (b) the summary of financial statements of the Borrowing Group for the financial years ended 31 March 2010, 2009, 2008, 2007 and 2006, as required by clause 8 of Schedule 2; and
- (c) the details and amounts in respect of the ranking of securities of the Borrowing Group as at 31 March 2010 as required by clause 13 of Schedule 2.

### **Auditors' Responsibilities**

It is our responsibility to:

- a) report in accordance with clauses 22(3) and 22(4) of Schedule 2, on the auditors' report on the financial statements of the Borrowing Group as at 31 March 2010 and for the year ended on that date; and
- b) report in accordance with clause 22(1)(h) of Schedule 2:
  - i) on the amounts included in the summary of financial statements for the financial years ended 31 March 2010, 2009, 2008, 2007 and 2006 presented by the directors; and
  - ii) on the amounts included in the ranking of securities of the Borrowing Group as at 31 March 2010 presented by the directors.

This report has been prepared for inclusion in the prospectus for the purpose of meeting the requirements of clause 22 of Schedule 2. We disclaim any assumptions of responsibility for reliance on this report or the amounts included in the financial statements, the summary financial statements, or the amounts included in the ranking of securities, for any other purpose other than that for which they were prepared. In addition, we take no responsibility for, nor do we report on, any part of the prospectus not specifically mentioned in this report.

Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee, and its network of member firms, each of which is a legally separate and independent entity. Please see [www.deloitte.com/nz/about](http://www.deloitte.com/nz/about) for a detailed description of the legal structure of Deloitte Touche Tohmatsu Limited and its Member Firms.

## **Basis of Opinion on the Summary of Financial Statements**

We have undertaken procedures to provide reasonable assurance that the amounts set out in the summary of financial statements on pages 8 to 12 of this prospectus, pursuant to clause 8 of Schedule 2, have been correctly taken from the audited financial statements of the Borrowing Group for the financial years ended 31 March 2010, 2009, 2008, 2007 and 2006. For a better understanding of the financial position and results of the Borrowing Group's operations for the financial period the summary of financial information should be read in conjunction with the related annual financial statements.

## **Basis of Opinion on the Ranking of Securities**

We have undertaken procedures to provide reasonable assurance that the amounts set out in the ranking of securities on page 13, pursuant to clause 13 of Schedule 2, have been correctly taken from the audited financial statements of the Borrowing Group as at 31 March 2010.

In addition to the audit, we have carried out other assignments in the areas of taxation advice. In addition to these assignments, principals and employees of our firm may deal with CBS Canterbury on arm's length terms within the ordinary course of trading activities. Other than the audit and these assignments and arm's length transactions, we have no relationship with or interests in the CBS Canterbury, or its subsidiary.

## **Unqualified Opinion on the Financial Statements**

We report in accordance with clause 22(4) of Schedule 2, that in relation to the financial statements of the Borrowing Group as at 31 March 2010 and for the year ended on that date referred to on page 16, our audit report (dated 11 June 2010) was unqualified and did not refer to a fundamental uncertainty in any respect.

Our audit of the Borrowing Group was completed on 11 June 2010 and our unqualified opinion was expressed as at that date. We have not performed any procedures in relation to the 31 March 2010 annual financial statements subsequent to 11 June 2010.

## **Unqualified Opinion on the Summary of Financial Statements**

In our opinion the amounts set out in the summary of financial statements, on pages 8 to 12 of this prospectus, as required by clause 8 of Schedule 2, have been correctly taken from the audited financial statements of the Borrowing Group for the financial years ended 31 March 2010, 2009, 2008, 2007 and 2006 from which they were extracted.

## **Unqualified Opinion on the Ranking of Securities**

In our opinion the amounts set out in the ranking of securities, on page 13 of this prospectus, as required by clause 13 of Schedule 2, have been correctly taken from the audited financial statements of the Borrowing Group for the year ended 31 March 2010.

In terms of Regulation 18(1)(c)(ii) of the Securities Regulations 2009 we hereby give our consent to the inclusion in the above mentioned prospectus of this report in the form in which it is included. We also confirm that we have not, before delivery of this prospectus for registration, withdrawn our consent to the issue thereof.

Yours faithfully



**Deloitte**  
**Chartered Accountants**  
**Christchurch, New Zealand**

This audit report relates to the prospectus of Canterbury Building Society dated 12 October 2010 included on Canterbury Building Society's website. Canterbury Building Society's Board of Directors is responsible for the maintenance and integrity of Canterbury Building Society's website. We have not been engaged to report on the integrity of Canterbury Building Society's website. We accept no responsibility for any changes that may have occurred to the prospectus since it was initially presented on the website. The audit report refers only to the prospectus named above. It does not provide an opinion on any other information which may have been hyperlinked to/from the prospectus. If readers of this report are concerned with the inherent risks arising from electronic data communication they should refer to the published hard copy of the prospectus and related audit report dated 12 October 2010 to confirm the information included in the prospectus presented on this website. Legislation in New Zealand governing the preparation and dissemination of prospectuses may differ from legislation in other jurisdictions.



12 October 2010

The Directors  
Canterbury Building Society  
PO Box 8623  
**CHRISTCHURCH**

Dear Sirs

**Re: Prospectus No. 36**

Clause 14(3) of Schedule 2 to the Securities Regulations 2009 requires us to confirm that the offer of securities ("the Deposits") set out in this Prospectus complies with any relevant provisions of the Trust Deed dated 20 December 1990 (including amendments thereto). These provisions are those which:

- (i) Entitle Canterbury Building Society to constitute and issue under or with the benefit of the Trust Deed (as the case may be) the Securities offered in the Prospectus;
- (ii) Impose restrictions on the right of Canterbury Building Society to offer the Deposits;

and are described in the summary of the Trust Deed in the Prospectus.

The Auditors have reported on the financial information set out in the Prospectus and our statement does not refer to that information or to any other material in the Prospectus which does not relate to the Trust Deed.

We confirm that the offer of the Deposits set out in the Prospectus complies with any relevant provisions of the Trust Deed. We have given the above confirmation on the basis:

- (a) set out above; and
- (b) that, subject to the duties imposed on the Trustee by Schedule 15 of the Securities Regulations 2009, the Trustee relies on the information supplied to it by Canterbury Building Society pursuant to the Trust Deed and does not carry out an independent check of that information.

Trustees Executors Limited does not guarantee the repayment of the Deposits or the payment of interest thereon.

Signed for and on behalf of  
**Trustees Executors Limited**

**Richard McLoughlin**  
Business Manager  
Corporate Trust

# Merger Implementation Agreement

Canterbury Building Society

Southern Cross Building Society

Pyne Gould Corporation Limited

MARAC Financial Services Limited

MARAC Finance Limited

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## **MERGER IMPLEMENTATION AGREEMENT**

*Date:* 15 September 2010

### **PARTIES**

**Canterbury Building Society (CBS)**

**Southern Cross Building Society (SCBS)**

**Pyne Gould Corporation Limited (PGC)**

**MARAC Financial Services Limited (MFS)**

**MARAC Finance Limited (MARAC)**

### **BACKGROUND**

- A The Parties have agreed to merge CBS, SCBS, MARAC and the MARAC Insurance Interest subject to the terms and conditions of this Agreement.
- B From the Merger Date shareholders in CBS and shareholders in SCBS as at the relevant Record Date and MFS will become shareholders in MergeCo.
- C From the Merger Date MergeCo will be a non-operating holding company which will own indirectly all of the shares in a building society which, in turn, will own all of the shares in MARAC. Between them, that building society and MARAC will carry on a banking and financial services business.
- D From the Merger Date MergeCo, through a wholly owned subsidiary, also will have an indirect interest in a general insurance business.
- E It is proposed that the shares and options issued by MergeCo be quoted on the NZSX.
- F This Agreement records or refers to the terms of the Merger Proposal and the steps proposed to be taken by the Parties to satisfy the Specific Conditions and to implement the Merger Proposal.

**THE PARTIES AGREE** as follows:

#### **1 INTERPRETATION**

##### **1.1 Definitions**

In this Agreement, unless the context otherwise requires:

*this Agreement* means this Agreement as it may be varied by written agreement among the Parties;



*Applicable Regulation* means any applicable law, regulation, rule (including any listing rule of NZX), directive, notice or requirement of any Regulatory Agency having jurisdiction over any Party (but, if not having the force of law, only if compliance is in accordance with the general practice of persons to whom it is intended to apply) and for the time being in force or applying, and taking into account all waivers, exemptions or variations from time to time applicable (in particular situations or generally) to a Party;

*Arrangement Plan* means an Arrangement Plan recording the terms of the Scheme of Arrangement which plan shall be in such form as may be agreed among the Parties;

*Bank* means a registered bank under the Reserve Bank of New Zealand Act 1989;

*Bank Approvals* mean an approval or other consent referred to in *Part 4* of the *Third Schedule*;

*Banking Group* means, with effect from the Merger Date, OpSoc and MARAC and any wholly owned subsidiary of either of them;

*Board* means, in relation to a company or building society, its Board of Directors;

*Building Societies Act* means the Building Societies Act 1965;

*Companies Act* means the Companies Act 1993;

*Condition* means a *Specific Condition* or a *General Condition*;

*Confidentiality Agreement* means the Confidentiality Agreement entered into in March 2010 among CBS, SCBS and PGC;

*Constitutive Document* means:

(a) in respect of a company, its Constitution; or

(b) in respect of a building society, its Rules,

in each case for the time being in force and effect;

*Court* means the High Court of New Zealand or such other New Zealand Court that may make an order in respect of the Scheme or in respect of the Merger Proposal or any transaction necessary to implement the Merger Proposal;

*Court Documents* means an application for Court approval of the Scheme of Arrangement under Part 15 of the Companies Act and all supporting affidavits and all other supporting Court documents;

*Crown Retail Guarantee* means a guarantee given by Her Majesty the Queen in right of New Zealand pursuant to the Crown Retail Deposit Guarantee Scheme Act 2009;



*Establishment Board* means the Establishment Board established by CBS, SCBS and MARAC prior to the Execution Date to oversee the evaluation and implementation of the Merger;

*Execution Date* means the date of this Agreement;

*Final Court Orders* means the final orders of the Court in respect of the Scheme of Arrangement;

*First Court Date* means the date on which an application is made to the Court for Interim Court Orders;

*General Condition* means a condition set out in *Part 2* of the *Third Schedule*;

*Group* means, in respect of a Party, that Party and its subsidiaries, and *Group Member* shall be construed accordingly;

*Independent Report* means a report to relevant Security Holders from an independent expert on the merits of the Merger Proposal, which report is prepared and made available in accordance with Applicable Regulation or (if that report is not required by any Applicable Regulation) in accordance with an agreement among the Parties;

*Insolvency Event* means, in respect of a Merger Party or its Group:

- (a) a receiver or receiver and manager or voluntary administrator or an equivalent official is appointed in respect of any of the business or assets of that Merger Party or any other Group Member; or
- (b) a resolution is passed or proposed in a notice of meeting for the appointment of a liquidator in respect of that Merger Party or any other Group Member; or
- (c) a Court application or order is made for the appointment of a liquidator in respect of that Merger Party or any other Group Member and that application is not withdrawn, or that order is not successfully appealed, within 10 working days after it is made;
- (d) that Merger Party or any other Group Member is declared to be at risk for the purposes of the Corporations (Investment and Management) Act 1989; or
- (e) that Merger Party or any other Group Member enters into a compromise or arrangement with its creditors generally or a group of its creditors; or
- (f) that Merger Party or any other Group Member:
  - (i) is, or is deemed to be under applicable legislation, unable to pay its debts as they fall due; or



- (ii) stops or suspends payment of all or a class of its debt other than:
  - (A) as a result of a failure to pay a debt or claim which is the subject of a bona fide dispute; or
  - (B) for the purposes of the implementation of the Merger Proposal;
- (g) that Merger Party ceases to carry on business other than for the purposes of the implementation of the Merger Proposal; or
- (h) that Merger Party is removed from the register of building societies or the register of companies (as applicable) other than for the purposes of the implementation of the Merger Proposal;

*Interim Court Order* means an interim order of the Court in relation to the Scheme;

*Interim Period* means the period commencing on the Execution Date and ending at the close of the day before the Merger Date;

*Listing Rules* means the listing rules of the NZX in relation to the NZSX (or any market in substitution for that market) in force from time to time;

*Long Stop Date* means 31 March 2011 or such later date as may be agreed in writing among the Parties;

*MARAC Insurance Interest* means MARAC's insurance interest represented by the 1,105,799 shares held by MFS in MARAC JV Holdings Limited (Company Number 2437250) (which, in turn, owns all of the shares in MARAC Insurance Limited (Company Number 1707747)) as part of a joint venture with The New Zealand Automobile Association Limited for the provision of general insurance products;

*Material Adverse Event* means an event or circumstance which individually, or collectively with any other event or circumstance, results in a decrease of ten per cent (10%) or more in the consolidated net tangible assets of that Merger Party as at 31 August 2010 as stated in the unaudited statement of financial position to be prepared as at that date for the relevant Merger Party for the purposes of this Agreement.

*Meeting Documents* means:

- (a) a Notice of Meeting (including forms of proposed shareholder resolution, where applicable);
- (b) an Information Memorandum (including, as applicable, any particular information relating to particular steps to implement the Merger Proposal such as the Scheme of Arrangement and a Scheme for Conversion);
- (c) an Independent Report (where applicable);



(d) such other documents (if any) for the information of relevant Security Holders as may be required by law or by prudent custom and practice to be provided to relevant Security Holders with the relevant Notice of Meeting,

in each case meeting all relevant requirements of each Applicable Regulation;

*Memorandum of Understanding* means the Memorandum of Understanding dated 1 June 2010 among CBS, SCBS and PGC;

*MergeCo* means NewCo following the implementation of the Scheme of Arrangement (including the amalgamation of CBS, SCBS and NewCo into NewCo as the amalgamated company);

*MergeCo Share* means an ordinary share in MergeCo having the rights and powers referred to in *clause Error! Reference source not found.*;

*Merged Group* means the group comprising MergeCo, OpSoc and MARAC and any subsidiary of any one or more of them following the Merger Date;

*Merger* means the merger of CBS, SCBS, MARAC and the MARAC Insurance Interest pursuant to the Merger Proposal;

*Merger Approvals* means those approvals and other consents referred to in the *Second Schedule*;

*Merger Date* means 1 January 2011 or such other date which is stated in, or otherwise identified by reference to, the Final Court Order as the date on which the Scheme of Arrangement is to take effect;

*Merger Party* means CBS, SCBS or MARAC;

*Merger Proposal* means the proposal for the merger of CBS, SCBS, MARAC and the MARAC Insurance Interest a summary of which is set out in the *First Schedule*, as that proposal may be amended by written agreement among the Parties;

*Merger Share Proportions* means the proportions of the ordinary shares in MergeCo to be held among the shareholders in CBS and SCBS and by MFS on the Merger Date as set out in *clause 2.1(a)* but subject to *clause 2.7*;

*Merger Timetable* means the indicative timetable set out in *clause 2.4*, as the same may be varied from time to time by agreement among the Parties;

*NewCo* means the company to be formed by MFS as contemplated by *paragraph 1* of the *First Schedule*;

*NZ GAAP* means the generally accepted accounting practice of New Zealand;

*NZAX* means the alternative market operated by NZX;

*NZDX* means the debt security market operated by NZX;



*NZSX* means the main board equity security market operated by NZX;

*NZX* means NZX Limited;

*Offer Documents* means such documents as are required by Applicable Regulation to be provided to a class of Security Holders of a Merger Party in connection with the offer by MergeCo or OpSoc of equity securities or debt securities to that class of Security Holder for the purposes of implementation of the Merger Proposal including, without limitation, a Prospectus and Investment Statement;

*OpSoc* means the building society to be established as contemplated by *paragraph 2* of the *First Schedule*;

*Parties* means CBS, SCBS, PGC, MARAC and MFS (and includes any third party that may become a party to this Agreement by way of a Deed of Accession) and *Party* means any one of them individually;

*Project Director* means the person from time to time appointed to that role by the Establishment Board;

*Project Manager* means the person from time to time appointed to that role by the Project Director;

*Record Date* means, in respect of a class of securities, the date stated as the record date in the indicative timetable in *clause 2.4* or such other date as may be agreed in writing among the Parties as the record date in respect of that class of securities for the purposes of the implementation of the Merger Proposal;

*Registered Holder* means, in respect of a class of securities, a person who is registered on the relevant securities register as the holder of securities falling within that class of securities as at the relevant Record Date or other relevant date;

*Regulatory Approvals* means those approvals, waivers, rulings, exemptions and other consents referred to in *Part 1* of the *Second Schedule*;

*Regulatory Authority* means any Minister of the Crown, governmental agency or department (including The Treasury and the Reserve Bank of New Zealand), the Securities Commission, the Takeovers Panel, NZX and any other body or person responsible for the administration of any Applicable Regulation;

*Relevant Resolutions* means in respect of a Party those resolutions of:

- (a) the Board of Directors of that Party; or
- (b) the shareholder/s of that Party; or
- (c) any other class of Security Holders of that Party,

as are required to be passed in order to satisfy the Specific Conditions;



*Scheme for Conversion* means, in respect of CBS or SCBS, a scheme under the Building Societies Act for the conversion of that entity from a building society to a company as contemplated by *paragraph 8 of the First Schedule*;

*Scheme of Arrangement* means the Scheme of Arrangement under Part 15 of the Companies Act 1993 contemplated by *paragraph 3 of the First Schedule*, and includes that Scheme as it may be amended or varied by written agreement among the Parties or by Court order;

*Second Court Date* means the date on which an application is made to the Court for Final Court Orders;

*Second Court Order Date* means the date on which the Court makes the Final Court Orders;

*Security Holder* means:

- (a) in respect of CBS, any shareholder or depositor;
- (b) in respect of SCBS, any shareholder or depositor;
- (c) in respect of MARAC, any depositor, bond holder, stock holder or holder of units in the PIE unit trust managed by MARAC; and
- (d) in respect of PGC, any shareholder;

*Security Holder Approvals* means those approvals and resolutions referred to in *Part 2 of the Second Schedule*;

*Securities Act* means the Securities Act 1978;

*Securities Markets Act* means the Securities Markets Act 1988;

*Specific Condition* means a condition set out in *Part 1 of the Third Schedule*;

*Superior Proposal* means, in respect of a Merger Party, a proposal:

- (a) by a credible third party to acquire all of the shares in that Merger Party or all of the assets and liabilities of that Merger Party; and
- (b) in respect of which the Merger Party receiving the proposal has received a written opinion from its financial advisers that having taken all relevant circumstances into account (including all of the terms of this Agreement) such proposal will, or is more likely than not to, provide to that Merger Party and its shareholders benefits which, taken as a whole, are superior to the benefits which are expected to be provided to that Merger Party and its shareholders by the Merger; and



- (c) in respect of which the Board of that Merger Party has received written evidence that satisfies that Board beyond reasonable doubt that such proposal will be, or is more likely than not to be, completed; and

*Trustee Approvals* means those approvals and consents referred to in *Part 3* of the *Second Schedule*.

## 1.2 Construction

In this Agreement, unless the context otherwise requires:

*agreement or contract* includes an agreement, contract, deed, undertaking (in each case whether oral or written) or other document recording obligations (whether mutual or otherwise) and includes that agreement as modified, supplemented, novated or substituted from time to time;

*assets* includes the whole or any part of the relevant person's business, undertaking, property, revenues or choses in action, present or future;

*building society* means a building society formed and existing under the Building Societies Act;

*company* means a company existing under the Companies Act;

*consent* includes an approval, authorisation, resolution, exemption, filing, licence, order, waiver, ruling, permit, recording or registration, and reference to obtaining consents are to be construed accordingly;

*debt security* has the meaning given to it in the Securities Act;

*disposal* of an asset includes a sale, gift, transfer or any other kind of disposal of, or the grant of an option over, a right or interest, whether legal or equitable, in that asset or an agreement for any of those acts, and references to *dispose* are to be construed accordingly;

*encumbrance* means a debenture, mortgage, charge (whether fixed or floating), pledge, lien, hypothecation, title retention, equity, deferred purchase and any other security interest or third party right whether legal or equitable and references to *encumber* are to be construed accordingly;

*equity security* has the meaning given to it in the Securities Act;

*holding company* has the meaning given to it in section 5 of the Companies Act;

*law* includes any legislation, order, ordinance, regulation, statute, treaty or other legislative measure;

*month* means calendar month;

*person* includes an individual, body corporate, an association of persons (whether corporate or not), a trust and a state and agency of a state (in each case, whether



or not having separate legal personality and whether incorporated or existing in New Zealand or elsewhere);

*related company* shall have the meaning given to it in section 2(3) of the Companies Act;

*security* has the meaning given to it in the Securities Act;

*subsidiary* has the meaning given to it in section 5 of the Companies Act but as if each reference therein to a company was a reference to any body corporate (including a building society); and

*working day* has the meaning given to it in the Companies Act.

### 1.3 **General Interpretation**

In this Agreement:

- (a) unless otherwise stated, a reference to a Section or a clause or a Schedule is to a Section or clause in, or a Schedule to, this Agreement, and a reference in a Schedule to a paragraph is a reference to a paragraph in that Schedule;
- (b) words in the singular include the plural and vice versa;
- (c) unless otherwise stated, a reference to a law, statute or regulation shall mean a law, statute or regulation of New Zealand and shall include any amendment thereto and any statute or regulation in substitution therefore and any regulation or statutory instrument issued under it;
- (d) Section and clause headings are inserted for convenience only and shall be ignored in interpreting this Agreement;
- (e) expressions referring to writing shall be construed as including references to words printed, type-written, telexed, lithographed, transmitted by facsimile or otherwise traced, copied or reproduced;
- (f) unless otherwise stated, references to "dollars" and to "\$" are references to the lawful currency of New Zealand;
- (g) where consistent with the context, references to, and expressions used in connection with, financial calculations, valuations, accounting or financial statements or reporting functions or in their description bear the respective meanings ascribed to like expressions or expressions to similar intent in accordance with NZ GAAP;
- (h) references to time are references to New Zealand time;
- (i) mentioning anything after *include*, *includes* or *including* does not limit what else might be included;



- (j) a reference to a body, other than a party to this Agreement (including a Regulatory Authority), whether statutory or not:
  - (i) which ceases to exist; or
  - (ii) whose powers or functions are transferred to another body,is a reference to a body which replaces or which substantially succeeds to its powers or functions; and
- (k) no reference to the Merger will mean or be taken to imply that a Party has agreed to dispose of or to acquire any interest in, or control (whether legally enforceable or not) over, the assets or undertakings of another Party or has agreed to dispose of or to acquire any shares or any interests in, or control (whether legally enforceable or not) over, any shares unless and until the individual transactions contemplated by the Merger Proposal occur.

**1.4 Working Day**

Where the day on or by which any thing is to be done is not a working day, that thing must be done on or by the next succeeding working day.

**1.5 Reasonable Endeavours**

Where this Agreement requires a Party to use its *reasonable endeavours* in relation to an obligation, that Party shall take all such action or do all such things as are or may be necessary or desirable so as to comply with or satisfy that obligation unless the action or thing required to be taken or done is such that, had that Party had actual knowledge at the Execution Date of the nature, extent and cost of the action or thing required to be taken or done to satisfy that obligation, it would not have entered into this Agreement except on materially different terms or at all, or the Parties agree that it is not reasonable to be required to take such action or do such thing.



## 2 MERGER PROPOSAL

### 2.1 Structure of Merged Group

The Parties agree to implement the Merger Proposal (subject to each Condition being satisfied and without limiting *clause 2.6*) to achieve a Merged Group which as at the Merger Date has all (but not less than all) of the following structural components:

- (a) a non-operating holding company (referred to as MergeCo in this Agreement) which will have ordinary shares which, as at the Merger Date, will be held in the following proportions by the Registered Holders of CBS ordinary shares and SCBS ordinary shares as at the relevant Record Date and by MFS (subject to *clause 2.7*):
  - (i) CBS shareholders collectively 14.5%;
  - (ii) SCBS shareholders collectively 14.5%;
  - (iii) MFS 71.0%;
- (b) a building society (referred to as OpSoc in this Agreement) which is wholly indirectly owned by MergeCo and which, as at the Merger Date, will:
  - (i) own and operate those businesses owned and operated by CBS and SCBS immediately before the Merger Date;
  - (ii) have vested in it all of the engagements of CBS and SCBS (other than any shares in CBS held by SCBS) immediately before the Merger Date;
  - (iii) own all of the shares in MARAC; and
  - (iv) be the issuer of deposits and other debt securities as contemplated by *clause 3.4*;
- (c) a wholly owned subsidiary company of MergeCo which will own the shares in MARAC JV Holdings Limited now held by MFS.

### 2.2 NZSX Quotation of MergeCo Shares

The Parties will arrange for all of the MergeCo Shares to be quoted on the NZSX with effect from, or as soon as is practicable (having regard to the requirements of Applicable Regulation) after, the Merger Date.



### 2.3 Operations of Merged Group

The Parties intend that after the Merger:

- (a) the Merged Group operate as a financial services business with its head office in Christchurch which has:
  - (i) the Banking Group offering financial products and services throughout New Zealand to customers in the SME, rural and consumer sectors with a strong position in the South Island;
  - (ii) the Banking Group with a broad depositor base; and
  - (iii) an insurance interest through the MARAC Insurance Interest;
- (b) OpSoc (possibly first to be converted from a building society to a company) as the immediate parent entity of the Banking Group seek registered bank status under the Reserve Bank of New Zealand Act 1989 when its Board considers it to be practicable and appropriate to do so; and
- (c) if approved by the MergeCo Board, MergeCo acquire the wealth management business of PGC's relevant wholly owned subsidiaries for such price and on such terms and conditions as the MergeCo Board may agree with PGC.

### 2.4 Merger Timetable

Set out below is an indicative timetable for the Merger to which the Parties will endeavour to adhere but they acknowledge that such timetable may need to be varied:

No	Action	Indicative Completion Date
1	Sign and announce Merger Implementation Agreement	Mid September 2010
2	Obtain preliminary Regulatory Approvals from Regulatory Authorities	Late September 2010
3	Prepare Meeting Documents and Offer Documents and have them approved by NZX/Companies Office/Trustees	Early October 2010
4	File Court application (and supporting documents) in respect of Scheme of Arrangement	Early October 2010
5	Obtain Interim Orders from Court in respect of Scheme of Arrangement	Late October 2010



No	Action	Indicative Completion Date
6	Despatch Meeting Documents and Offer Documents to Security Holders	November 2010
7	Hold Security Holder Meetings	November 2010
8	Obtain Final Court Orders in respect of Scheme of Arrangement	December 2010
9	Record Date	31 December 2010
10	Merger Date	1 January 2011
11	Commencement of Trading in MergeCo Ordinary Shares and Options	Early February 2011

The Parties acknowledge that the indicative timetable above is based on their best estimate of the timing of key events, and that certain events may be delayed for reasons outside their control. In the case of any delay the Parties promptly will endeavour in good faith to agree a variation of the timetable (to the extent possible, with the same or similar relative timing between events), while having regard to (among other things) the desire of each Party to achieve the Merger as soon as practicable.

#### 2.5 Commitment to Implement

Subject to *clause 2.6*, each Party agrees to implement the Merger in accordance with, and subject to the terms and Conditions stated in, this Agreement and, without limiting the foregoing, each Party will:

- (a) (subject always to the satisfaction of relevant specific Conditions) take, and will procure its subsidiaries to take, those steps which the Merger Proposal and/or the Arrangement Plan and/or this Agreement contemplate/s will be taken by that Party and/or its subsidiaries; and
- (b) commit sufficient resources to enable it to perform its obligations under this Agreement.

#### 2.6 SCBS Shareholding in CBS

Nothing expressed or implied in this Agreement (nor any other written or unwritten agreement, arrangement or understanding involving SCBS and any other Party, whether legally enforceable or not) shall:

- (a) restrict SCBS in any way whatsoever in its dealings with its shares in CBS, it being agreed by the other Parties that SCBS remains at liberty to do whatever it sees fit with those shares including, without limiting the foregoing, disposing of all or some of them and also remains at liberty to exercise the voting rights attaching to those shares in any way it sees fit; or



- (b) confer on any other Party the right to control or influence the exercise by SCBS of its power to sell or otherwise dispose of any of its shares in CBS or the exercise by SCBS of the voting rights conferred by any of those shares.

## 2.7 Merger Treatment of Cross Shareholding

If, but only if, as at the Second Court Date, SCBS has not disposed of all of its shares in CBS and accordingly still is the Registered Holder of any shares in CBS then (without limiting *clause 2.6*):

- (a) those shares shall not be included in SCBS's engagements transferred to OpSoc as contemplated by *paragraph 6.4 of the First Schedule*;
- (b) under, or as a result of, the Scheme of Arrangement, the MergeCo Shares to be issued to SCBS (as a Registered Holder of CBS ordinary shares) will be cancelled for no consideration; and
- (c) as a result of such cancellation, the proportions of the MergeCo Shares to be held by the Registered Holders of CBS ordinary shares (other than SCBS) collectively, the Registered Holders of SCBS ordinary shares collectively and MFS as at the Merger Date (as contemplated by *clause 2.1*) shall be to the effect set out in the indicative schedule prepared by First NZ Capital Limited on or before the Execution Date.

## 2.8 Establishment Board

The Establishment Board shall continue in place until the day before the Merger Date for the purposes of overseeing the implementation of the Merger Proposal.

## 2.9 MergeCo Board

It is intended that the initial Board of MergeCo shall:

- (a) comprise up to nine members of whom:
  - (i) up to two will be nominated by CBS;
  - (ii) up to two will be nominated by SCBS; and
  - (iii) up to five (one of whom will be Chairman) will be nominated by PGC; and
- (b) have as independent members (from among those nominated pursuant to *clause 2.9(a)*) at least the minimum number necessary to meet NZX requirements.

## 2.10 MergeCo Constitution

The MergeCo Constitution from the Merger Date shall be:

- (a) in such form as the Parties agree having regard to the requirements of Applicable Regulation; and



- (b) made available for review by the shareholders of PGC, CBS and SCBS (either on-line or in hard copy format) before they vote on a resolution to provide the relevant Security Holder Approvals.

**2.11 Fair Value**

The Parties acknowledge and agree that:

- (a) the Merger Share Proportions have been derived following extensive negotiations between the Parties to arrive at an arm's length valuation of each Merger Party for the purposes of the Merger;
- (b) consistent with good valuation practice the valuation of each Merger Party has taken into account a wide range of factors (both positive and negative) relating to that Merger Party;
- (c) the Parties are satisfied that the valuation of each Merger Party arrived at by the negotiations referred to above is a fair value of that Merger Party as at the Merger Date including (subject to appropriate audit confirmation) for accounting purposes; and
- (d) following the negotiations and valuation process referred to above, the Parties have agreed that the valuations attributed to CBS, SCBS and the combination of MARAC and the MARAC Insurance Interest result in the following attributed proportions of MergeCo:

(i)	CBS	14.5%
(ii)	SCBS	14.5%
(iii)	MARAC/MARAC Insurance Interest	71.0%



## 4 CONDITIONS

### 4.1 Conditions

The Parties' obligations under this Agreement to complete the Merger are subject to:

- (a) *Specific Conditions*: each Specific Condition being satisfied (or, to the extent possible in compliance with law, waived in writing by all Parties) by the end of the Long Stop Date (except in the case of the condition in *paragraph 1.8* of the *Third Schedule* which must be satisfied by the end of the day before the Merger Date); and
- (b) *General Conditions*: each General Condition being satisfied (or waived in writing by all Parties) as at the end of the day before the Final Court Order Date.

### 4.2 Satisfaction of Specific Conditions

Without derogating from *clause 2.6*, each of the Parties will co-operate with each other Party and (without limiting any other provision in this Agreement) will use its reasonable endeavours to achieve satisfaction of each Specific Condition in a timely fashion with a view to the Final Court Orders being made by 31 January 2011 or such later date (being not later than the Long Stop Date) as may be agreed in writing among the Parties.

### 4.3 Satisfaction of General Conditions

No Party will take any action, or refrain from taking any action, where such action, or such refraining from action, could reasonably be known by that Party to result in any one or more of the General Conditions not being satisfied as at the close of the day before the Merger Date. An action taken by a Merger Party that has been approved by the other Merger Parties before the Execution Date shall not constitute a breach of this clause and shall not constitute the non-satisfaction of a General Condition.

### 4.4 Specific Actions to Satisfy Conditions

Each Party agrees that its obligation in *clause 4.2* to use reasonable endeavours to achieve satisfaction of each Specific Condition in a timely fashion includes:

- (a) working closely with the Project Director and Project Manager (and the relevant project working groups established by them) so that matters are dealt with in an appropriately co-ordinated and co-operative manner under the general oversight of the Establishment Board;
- (b) generally co-operating with each other Party or a Regulatory Authority or other third party in good faith with a view to satisfying each Specific Condition in a timely fashion including providing all information reasonably required by another Party or a project working group in relation to the first-mentioned Party or its Group (as appropriate) in order to satisfy the relevant Specific Condition and providing all information reasonably required by any Regulatory Agency or other third party for that purpose;



- (c) regularly updating each other Party (through the Project Director or the Project Manager) on the progress of obtaining relevant approvals and other consents and promptly informing each other Party of the satisfaction of any Specific Condition as appropriate and as permitted by Applicable Regulation;
- (d) consulting with each other Party (through the Project Director or the Project Manager), to the extent reasonably practicable in advance, in relation to all communications (whether written or oral, and whether direct or via agents, consultants and advisers) with any Regulatory Authority, rating agency or any other third party who is required to be consulted, in relation to the satisfaction of a Specific Condition or otherwise in relation to the implementation of the Merger Proposal (*Communications*) including providing copies to the Project Director or Project Manager of any written Communications sent to or received from a Regulatory Authority, rating agency or other third party promptly upon dispatch or receipt (as the case may be); and
- (e) where requested by the Project Director or Project Manager, promptly making all notifications to, and registrations with, the Registrar of Building Societies and/or the Registrar of Companies as may be necessary or desirable for the implementation of the Merger Proposal.

**4.5 Waiver of Condition**

The requirement to satisfy a Condition may only be waived by agreement in writing among all Parties.

**4.6 Notice of Satisfaction of Specific Condition**

Each Party must promptly give notice to each other Party upon satisfaction of each Specific Condition applicable to the first-mentioned Party.

**4.7 Effect of Non-Satisfaction of Specific Condition**

It is agreed that:

- (a) *clauses 6.1 to 6.5* shall apply if a Specific Condition referred to in one of those clauses is not satisfied in the circumstances referred to in one of those clauses (and is not waived in accordance with *clause 4.5*); and
- (b) if a Specific Condition not referred to in one of *clauses 6.1 to 6.5* is not satisfied (and is not waived in accordance with *clause 4.5*) by the Long Stop Date then *clause 6.7* shall govern the situation.

**4.8 Effect of Non-Satisfaction of General Condition**

If a General Condition is not satisfied (and is not waived in accordance with *clause 4.5*) as at a time before the end of the day before the Second Court Order Date, then in any such case:

- (a) the Parties will consult with each other without delay and in good faith with a view to agreeing a course of action (which may include or comprise an amendment to the Merger Proposal or to the Scheme of Arrangement or a variation of the Merger Timetable) which each of the Parties (each acting reasonably) believes will achieve the satisfaction of the relevant Condition (or



the waiver of the relevant Condition) while, at the same time, preserving to each Party and its shareholders the broad benefits of the Merger that that Party expected to achieve by entering into this Agreement; and

- (b) if following that consultation the Parties have not agreed in writing (which shall operate as a variation of this Agreement) on a course of action to respond to the non-satisfaction of that Condition, then *clause 6.6* shall govern the situation.

#### 4.9 **Long Stop Date**

If the Final Court Order is not made by the end of the Long Stop Date then:

- (a) the Parties will consult with each other without delay and in good faith and review whether it remains in the interests of each Party and its shareholders that the Merger Proposal proceeds with or without variation; and
- (b) if following that consultation the Parties have not agreed in writing (which shall operate as a variation of this Agreement) on a course of action then *clause 6.7* shall apply.

#### 4.10 **Defence of Legal Proceedings**

It is agreed that:

- (a) each Party shall vigorously defend, or cause to be vigorously defended, subject to the fiduciary duties of its Directors, any claim, law suit or other legal proceeding brought to challenge the Scheme of Arrangement or the completion of the Merger or any of the transactions contemplated by the Merger Proposal; and
- (b) no Party shall settle or compromise any such claim without the prior written consent of each other Party, such consent not to be unreasonably withheld.



## 5 SECURITY HOLDER AND SCHEME DOCUMENTATION

### 5.1 Preparation and Approval of Documents

It is agreed that:

- (a) the Parties will co-operate with each other and (under the general oversight of the Establishment Board and the general management of the Project Director and Project Manager) to promote the Merger actively and to establish relevant Security Holder meeting dates and to jointly prepare the Meeting Documents, the Offer Documents and the Court Documents (all in compliance with Applicable Regulation) it being recognised that there is a very high degree of commonality among the documents required for relevant Security Holders of each Party;
- (b) the Parties will arrange for the Establishment Board to establish a document working group which will operate under the general oversight of the Establishment Board and the general management of the Project Manager reporting to the Project Director and which will have responsibility for (among other things) such due diligence as may be considered necessary or desirable for the purposes of the Meeting Documents and/or the Offer Documents and/or the Court Documents;
- (c) each Party will make available to the document working group (and, as applicable, to the independent party/ies preparing any Independent Report/s):
  - (i) all information which may reasonably be required for the purposes of the preparation of any of the Meeting Documents and/or any of the Offer Documents and/or the Court Documents; and
  - (ii) access to such of its employees as may be reasonably required for the purposes of the preparation of, or for the verification of information contained in, any of the Meeting Documents and/or any of the Offer Documents and/or the Court Documents; and
- (d) the Parties (through the Project Director, Project Manager and relevant working groups and advisers) will co-operate with each other to apply for all Regulatory Approvals that may be necessary or desirable in respect of all or some of the Meeting Documents and/or the Offer Documents.

### 5.2 Scheme of Arrangement Application and Orders

It is agreed that:

- (a) as soon as reasonably practicable after the Execution Date (but having regard to the necessity or desirability of first completing other relevant tasks) the relevant Parties and (where applicable) their related companies shall apply to the High Court under section 236 of the Companies Act for the Interim Court Orders;



- (b) as soon as reasonably practicable after all Security Holder Approvals have been obtained and all Specific Conditions (apart from the Specific Conditions in *paragraphs 1.7 and 1.8 of the Fourth Schedule* have been satisfied, or such other date as the Parties may agree, each Party shall take, and shall procure that its relevant related parties shall take, all necessary steps to apply to the Court for the Final Court Orders;
- (c) no Party shall withhold or delay its consent to an amendment by the Court to the Scheme of Arrangement or the Arrangement Plan provided the amendment does not cause material damage to the commercial interests of that Party or a material diminution in the benefits expected to accrue to a Party or its shareholders from implementation of the Merger;
- (d) if the Court refuses to make the Interim Court Orders or the Final Court Orders, the Parties shall appeal the Court's decision to the extent possible, except where:
  - (i) a Party has exercised its right to terminate under *clause 6.5*; or
  - (ii) the Parties agree otherwise; or
  - (iii) a leading lawyer practising in the relevant area of law has advised the Parties that, in his or her view, an appeal would have no reasonable prospect of success; or
  - (iv) the Board of a Party considers, acting reasonably and after having consulted in good faith with the other Parties, that to appeal would place that Party's directors in breach of their fiduciary duties; and
- (e) following receipt of the Final Court Orders, MFS shall procure that a copy of the Final Court Orders is delivered to each other Party and, no later than the Merger Date, shall deliver a copy to the Registrar of Companies for registration.

### 5.3 Dispatch of Meeting Documents and Offer Documents

As soon as reasonably practicable after the Interim Court Orders have been obtained and in any event not later than 10 working days after the Interim Court Orders have been obtained, or such later date as the Parties may agree, each relevant Party shall give notice of meetings of its relevant Security Holders and shall dispatch with each relevant such notice all relevant Meeting Documents and all relevant Offer Documents.

### 5.4 Due Diligence for Document Preparation

The Parties will arrange for the Establishment Board to arrange for the document working group referred to in *clause 5.1(b)* to establish a due diligence process in respect of the preparation of the Meeting Documents, the Offer Documents and the Court Documents that enables the Board of each Party to be satisfied that defences are available to the Parties (and NewCo and OpSoc) and their respective directors to the extent available under the Applicable Regulations.



#### 5.5 **Provision of Information**

Each Party shall:

- (a) provide to the relevant project working groups in a timely and expeditious manner all such information about that Party and its subsidiaries (including NewCo and OpSoc) and their respective directors, officers and security holders which is required to be included in the Meeting Documents and/or the Offer Documents and/or the Court Documents in order to comply with any Applicable Regulation; and
- (b) ensure that such information is provided in good faith and on the understanding that another Party or its subsidiaries (as the case may be) and its respective directors will rely on that information for the purposes of the Meeting Documents and/or the Offer Documents and/or the Court Documents.

#### 5.6 **Accuracy of Information**

Each Party shall ensure that all information provided by it that is included in the Meeting Documents and/or the Offer Documents and/or the Court Documents does not contain any material statement which is misleading or contain any material omissions having regard to applicable disclosure requirements imposed by any Applicable Regulation or contain any "false representation" or constitute "misleading and deceptive conduct" as those terms are construed under the Fair Trading Act 1986.

#### 5.7 **Information Update**

If, after the date of the Meeting Documents and/or the Offer Documents and/or the Court Documents, a Party becomes aware of a material inaccuracy in or a material omission from the Meeting Documents and/or the Offer Documents and/or the Court Documents or of a new circumstance after the date of the Meeting Documents and/or the Offer Documents and/or the Court Documents that would have been required to have been disclosed by that Party pursuant to *clause 5.4* had it arisen before the date of the Meeting Documents and/or the Offer Documents and/or the Court Documents, that Party will, as soon as possible, notify the other Parties or the Project Director or the Project Manager of that information and the Parties will, as soon as possible, endeavour to agree on what action to take.

#### 5.8 **Dispute About Content of Document**

If there is a dispute between any two or more of the Parties as to the content of any part of the Meeting Documents or the Offer Documents or the Court Documents, the Parties in dispute must refer the matter to the Establishment Board for resolution. The Establishment Board must use its reasonable endeavours to resolve the dispute within two working days and if it is not resolved within that time by the Establishment Board, it shall be resolved under *Section 10*.

#### 5.9 **Board Recommendations to Security Holders**

It is agreed that:

- (a) each Party is satisfied that it is the intention of each of its Directors to recommend that its relevant Security Holders vote in favour of, and that each



member of its Board himself or herself intends to exercise his or her votes in favour of, each Relevant Resolution of that Party;

- (b) notwithstanding any other provision of this Agreement, it is acknowledged that a Director of a Party may change his or her recommendation to Security Holders up to and including the date of the relevant Security Holders' meeting convened for the purpose of seeking a Security Holder Approval if, after having considered a Superior Proposal and the implications of it for that Party and its shareholders and having first consulted in good faith with each other Party, the Director (acting reasonably) considers that in all the circumstances at the time (including the terms of *clause 8.3*) he or she must favour the pursuit of the Superior Proposal by that Merger Party and that accordingly compliance with his or her fiduciary duties mean that he or she can no longer properly recommend relevant Security Holders vote in favour of the Relevant Resolution/s;
- (c) the Board of the relevant Party must immediately inform each other Party in writing of the decision of a Director to change his or her recommendation and the reasons for that change;
- (d) a change in a recommendation under this clause does not relieve a Party of its obligation to comply with *clauses 5.1* and *5.2*; and
- (e) for the avoidance of doubt, nothing expressed or implied in this *clause 5.9* derogates from *clause 2.6*.

#### 5.10 Security Holder Meetings

It is agreed that:

- (a) subject to obtaining all relevant prior Regulatory Approvals, each Party must ensure that the Relevant Resolutions for Security Holder Approvals necessary to satisfy the Specific Conditions applicable to it are put to the relevant meeting or meetings (unless one or more of the resolutions necessary to satisfy the Specific Conditions has already been defeated at the meeting of another Party); and
- (b) if the Parties agree before the time at which such a meeting is due to take place (whether pursuant to the original notice calling the meeting or following any adjournment) that it is appropriate to adjourn that meeting, the Parties will use their reasonable endeavours to adjourn that meeting and procure that the meeting is reconvened so as to take place, as far as is practicable, on a day agreed among them.



## 6 WITHDRAWAL AND TERMINATION

### 6.1 Withdrawal Where Security Holder Approval Not Obtained

If a Security Holder Approval is not obtained at the meeting of relevant Security Holders convened for the purpose of seeking that approval or at the meeting held as a result of the adjournment of the first-mentioned meeting then:

- (a) the Parties (through the Establishment Board) immediately will consult each other with a view to reaching a view on whether that Security Holder Approval would be likely to be obtained if the Merger Proposal was to be modified and, if so, the likely timing and implications for any such modifications; and
- (b) after such consultation and in any event no later than 5 working days after the Relevant Resolution/s has or have been defeated:
  - (i) the Party in respect of which the relevant Security Holder Approval has not been obtained (*Affected Party*) may elect that it (and, if applicable, its related companies which are also Parties) withdraw from the Merger Proposal and may give written notice to that effect to the other Parties; or
  - (ii) those other Parties (that is, those Parties other than the *Affected Party*) may give written notice to the *Affected Party* requiring that the *Affected Party* (and, if applicable, its related companies which are also Parties) withdraw from the Merger Proposal and such withdrawal will automatically take effect.

### 6.2 Modification of Merger Proposal Following Withdrawal

It is acknowledged and agreed that:

- (a) if a withdrawal notice is given pursuant to *clause 6.1(b)(i)* or *(ii)* then those Parties other than the *Affected Party* (and, if applicable, its related companies which are also Parties) shall confer expeditiously (through their respective representatives on the Establishment Board) with a view to agreeing on a modified Merger Proposal (using the same valuations and due diligence findings as were used in respect of the original Merger Proposal) and a modified Merger Timetable and (if required) consequential amendments to this Agreement and the Merger Approval processes contemplated by this Agreement (all such matters comprising the *Modified Merger Proposal*);
- (b) if a Modified Merger Proposal is agreed between the relevant Parties then they will promptly make the relevant amendments to this Agreement; and
- (c) each Merger Party confirms that should a Security Holder Approval of one other Merger Party not be obtained nevertheless it will proceed expeditiously to evaluate a merger with the third Merger Party under a Modified Merger Proposal (which would need to be re-presented to meetings of relevant Security Holders) as contemplated by *clause 6.2(a)*.



**6.3 Termination Where No Withdrawal or No Modification**

If *clause 6.1* applies and:

- (a) a withdrawal notice is not given pursuant to *clause 6.1(b)(i)* or *(ii)* within 5 working days after the Relevant Resolution/s is or are defeated; or
- (b) a withdrawal notice is given under *clause 6.1(b)(i)* or *(ii)* but, within 15 working days after the giving of that notice, the non-Affected Parties have not agreed to the Modified Merger Proposal in writing,

then in the case of (a) any Party, and in the case of (b) any non-Affected Party, may give the other Parties not less than 5 working days' written notice terminating this Agreement.

**6.4 Termination Where Other Non-Court Approvals Not Obtained**

If a Regulatory Approval or a Trustee Approval or a Bank Approval has either not been obtained within 6 weeks (or such longer period as the Parties may agree) after written application for the relevant approval is made or has been provided subject to terms or conditions or the provision of undertakings unsatisfactory to any Party, and the Parties (acting in accordance with *clause 4.7* and in good faith) have been unable to satisfy any objections raised or remove any unsatisfactory conditions or undertakings imposed by the relevant Regulatory Authority, Trustee or Bank (as the case may be), and the Party seeking termination concludes (acting reasonably and having first consulted in good faith with the other Parties) that:

- (a) the relevant Regulatory Approval or Trustee Approval or Bank Approval (as the case may be) is unlikely to be obtained or will only be provided upon terms or subject to conditions or the provision of undertakings which are likely to cause a material diminution in the benefits expected to accrue to that Party or its shareholders from implementation of the Merger; or
- (b) the likely delay in obtaining such Regulatory Approval or Trustee Approval or Bank Approval (as the case may be) can be reasonably expected to cause material damage to the commercial interests of that Party or a material diminution in the benefits expected to accrue to that Party or its shareholders implementation of the Merger,

then that Party may give the other Parties not less than 10 working days' written notice terminating this Agreement.



## 6.5 Termination Following Court Action

If:

- (a) the Court fails to make any necessary Interim Court Order or the Final Court Orders in respect of the Scheme of Arrangement or makes any such Order subject to terms or conditions or the provision of undertakings unsatisfactory to any Party, and the Party seeking termination concludes (acting reasonably and having consulted in good faith with the other Parties) that:
  - (i) the relevant Order is unlikely to be made or will only be made upon terms or subject to conditions or the provision of undertakings which are likely to cause material damage to the commercial interests of that Party or a material diminution in the benefits expected to accrue to that Party or its shareholders from the implementation of the Merger; or
  - (ii) the likely delay in the relevant Order being made can be reasonably expected to cause material damage to the interests of that Party or a material diminution in the benefits expected to accrue to one or more of the Parties or its shareholders from implementation of the Merger; or
- (b) a Court Order is made preventing the implementation of the Merger Proposal or any transaction necessary for the implementation of the Merger Proposal or preventing the taking of any other action necessary for the implementation of the Merger Proposal or a Court Order is made in respect of the implementation of the Merger Proposal or of any transaction or other action necessary for the implementation of the Merger Proposal requiring such implementation, transaction or other action to be undertaken on terms or conditions or subject to undertakings unsatisfactory to any Party, and the Party seeking termination concludes (acting reasonably and having consulted in good faith with the other Parties) that:
  - (i) the relevant Order is unlikely to be appealed successfully (whether in whole or in part or at all) or without the imposition by the appellate Court of terms or conditions or the imposition of undertakings which are likely to cause material damage to the interests of that Party or a material diminution in the benefits expected to accrue to that Party or its shareholders from the implementation of the Merger; or
  - (ii) the likely delay in successfully appealing that Court Order can be reasonably expected to cause material damage to the interests of that Party or the material diminution in the benefits expected to accrue to that Party or its shareholders from implementation of the Merger,

then any Party may give the other Parties not less than 10 working days' written notice terminating this Agreement.



**6.6 Termination Where General Condition Not Satisfied**

If at a time before the Second Court Order Date:

- (a) a Merger Party (*first Party*) (acting reasonably after having first consulted with the other Parties as contemplated by *clause 4.8*) determines that:
  - (i) a General Condition is not satisfied by, or in respect of, another Merger Party (*second Party*); and
  - (ii) if that General Condition is not satisfied as at midnight on the day immediately before the Merger Date then it is likely to cause a material diminution in the benefits expected to accrue to the first Party or its shareholders from the Merger; and
- (b) the non-satisfaction of that General Condition is not waived by all of the Parties (other than the second Party and members of its Group) in accordance with *clause 4.5*; and
- (c) the first Party is not in breach of its obligations under *clause 4.3* or any other provision of this Agreement,

then the first Party may terminate this Agreement by not less than 10 working days' written notice to the other Parties which notice must be given prior to the Second Court Order Date.

**6.7 Termination Where Long Stop Date Reached**

If:

- (a) as at midnight on the Long Stop Date, the Final Court Order has not been made; and
- (b) following the consultation contemplated by *clause 4.9* the Parties have not reached the written agreement contemplated by *clause 4.9(b)*,

then any Party may give the other Parties not less than 10 working days' written notice terminating this Agreement.

**6.8 Termination For Breach of Agreement**

A Party (the *first Party*) may terminate this Agreement at any time prior to the Second Court Order Date by not less than 10 working days' written notice to the other Parties if:

- (a) another Party (*second Party*) is in breach of *clause 4.3* or *clause 7.1*; and
- (b) that breach is not waived by all of the Parties (other than the second Party and members of its Group); and
- (c) the first Party concludes (acting reasonably and having first consulted in good faith with each other Party) that such a breach can be reasonably expected to



cause a material diminution in the benefits expected to accrue to the first Party or its shareholders from implementation of the Merger.

**6.9 Effect of Withdrawal**

If a Party withdraws, or is required to withdraw, from this Agreement pursuant to *clause 6.1* then the obligations of that Party (and, if applicable, of each of its related companies which are also Parties) under this Agreement shall be at an end other than the following:

- (a) that Party shall remain liable in accordance with *clause 11.8* for its share of the relevant costs and expenses incurred or accrued up to the date on which the withdrawal is effective; and
- (b) subject to *clause 6.11(b)* nothing affects any accrued rights of a Party for any breach of, or a failure by the other Party to comply with, this Agreement in respect of the period prior to the date on which the withdrawal is effective.

**6.10 Termination Not To Affect Certain Obligations**

If this Agreement is terminated pursuant to any of *clauses 6.3 to 6.8* then the obligations of those Parties who remained parties to this Agreement immediately before its termination shall be at an end but each such Party shall remain liable in accordance with *clause 11.8* for its share of the relevant costs and expenses incurred or accrued up to the date on which the withdrawal is effective.

**6.11 General Effect of Termination**

It is agreed that:

- (a) subject to *clause 6.11(b)* nothing affects any accrued rights of a Party for any breach of, or a failure by the other Party to comply with, this Agreement in respect of the period prior to termination; and
- (b) if this Agreement terminates no Party shall be entitled to any remedy under this Agreement except in the case of fraud, wilful default or wilful concealment or recklessness.



## 7 BUSINESS CONDUCT ETC

### 7.1 Pre-Merger Conduct of Business

Except as contemplated in this Agreement, during the Interim Period, each Merger Party must conduct its business in generally the same manner as it has been conducted since 1 July 2010.

### 7.2 Maintenance of Quotation

During the Interim Period:

- (a) CBS shall take such action as shall be appropriate to maintain the quotation of its ordinary shares on the NZAX; and
- (b) MARAC shall take such action as shall be appropriate to maintain the quotation of its relevant secured bonds on the NZDX.

### 7.3 Business names, personnel etc

It is intended that from the Merger Date:

- (a) MARAC will be the sole beneficial owner of the trademark *MARAC* and each application for registration of that mark (registration of that trademark having been applied for under application 827352 in class 36);
- (b) PGC will sub license to each of MARAC and MARAC Insurance Limited the Specified Intellectual Property (as defined in a License Agreement dated 23 March 2010 between NZAA Limited and PGC (*Licence Agreement*) for the Term (as defined in the License Agreement). That sub license will be at a nominal consideration for any period of the Term through to 1 April 2015, and for any balance of the Term at a rate equal to the Annual License Fee (as defined in the License Agreement) or such lesser amount as PGC and MergeCo then may agree, each acting in good faith and in a commercially reasonable manner;
- (c) PGC will ensure that each of MARAC and MARAC Insurance Limited has all the rights of an Agreed Sub Licensee (as defined in a Support Services Agreement dated 23 March 2010 between The New Zealand Automobile Association and PGC, those rights including the right to the Support Services as defined in that Support Services Agreement) for the period of the sub license referred to above, provided that each reimburses to PGC its fair portion of any Monthly Support Fee (as defined in that Support Services Agreement) charged to PGC; and
- (d) MergeCo will make available to PGC for a period of up to 2 years such of those senior personnel who are employed by MergeCo, OpSoc or MARAC after the Merger Date (but who, before the Merger Date, are engaged on a part time basis in the business of PGC) whose services PGC reasonably may require which services shall be provided on arms-length terms and, unless otherwise agreed between PGC and MergeCo, on a basis (as to role, hours, place of work and the like) which is not inconsistent with the basis on which they provide services to PGC before the Merger Date. Any such arrangement will



recognise that each relevant person has duties to MergeCo, OpSoc or MARAC (as the case may be) as his or her employer, and that his or her work for PGC must not compromise any such duty.

#### 7.4 **Transfer of Engagements is Transfer of Going Concern**

Each of CBS and SCBS (in its capacity as a transferor) agrees with PGC (as trustee on behalf of OpSoc as transferee, in contemplation of the future formation of OpSoc) that:

- (a) the transfer of the respective engagement of CBS and SCBS to OpSoc pursuant to section 33 of the Building Societies Act for the purposes of the implementation of the Merger Proposal (as contemplated by *paragraph 6.4 of the First Schedule*) is the supply of a taxable activity that is going concern at the time of supply; and
- (b) for the purposes of the Goods and Services Tax Act (*GST Act*) the supply constituted by such transfer of such engagements from such transferor to such transferee is a supply of a taxable activity that is capable of being carried on as a going concern by OpSoc as the transferee,

and that consequently each such supply is to be zero rated for GST purposes pursuant to section 11(1)(m) of the GST Act. Those Parties will arrange for OpSoc to register for GST and to sign such documentation as may be necessary or desirable to give effect to this clause.

#### 7.5 **Loan Sale Warranties**

Each of PGC and MFS undertakes to MARAC, CBS and SCBS that:

- (a) no warranty claims have been made, and none is presently contemplated, against MARAC under the section 12 of the Sale and Purchase Agreement dated 18 September 2009 between MARAC and MFS; and
- (b) on or immediately after the merger date PGC will arrange for the purchaser of the relevant loans to release and discharge MARAC from all present, past and future liability under that section 12.

#### 7.6 **MARAC Management Agreement**

It is agreed that:

- (a) before the Merger Date PGC will arrange for MARAC and PGC's wholly owned subsidiary, Real Estate Credit Limited, to enter into a Management Agreement relating to the management by Real Estate Credit Limited of certain non-core real estate assets of MARAC;
- (b) the Management Agreement referred to in *clause 7.6(a)* must:
  - (i) be substantially on the terms set out in a Terms Sheet provided by PGC to, and approved by, CBS and SCBS on or before the Execution Date;  
or



- (ii) (to the extent that it is not substantially on the terms set out in such Terms Sheet) meet MARAC's auditors' requirements for a credit offset; and
  
- (c) if by the Merger Date the Management Agreement referred to in *clause 7.6(a)* has not been entered into (and copies delivered to CBS and SCBS) then the Parties promptly shall confer in good faith with a view to agreeing on an arrangement between them which, in the circumstances of the Merger, is an equitable one as between them.



## 8 EXCLUSIVITY

### 8.1 Exclusive Dealings

Subject to *clause 2.6* and *clause 8.2*, each Party undertakes that until the earlier of the Merger Date or termination of this Agreement in accordance with *Section 6*:

- (a) it will not, and will procure that no member of its Group will:
  - (i) make any initial or further approach to;
  - (ii) entertain any approach from;
  - (iii) enter into or continue any negotiations with; or
  - (iv) provide any information to,any other person (other than another Party to this Agreement) with a view to a transaction taking place which would prevent, materially delay or materially impair its ability to implement the Merger Proposal; and
- (b) it will notify each other Party immediately in writing of any approach that is made to it or to any member of its Group with a view to its entering into or continuing negotiations of the type described in *clause 8.1(a)*, and will keep each other party informed of all relevant matters in relation to any such approach.

### 8.2 Exceptions

Without prejudice to *Section 6*:

- (a) *clause 8.1(a)* (other than *clause 8.1(a)(i)*) will not apply to any action or omission which is required by Applicable Regulation; and
- (b) *clause 8.1(a)* (other than *clause 8.1(a)(i)*) will not apply to a Merger Party if, without breach by that Merger Party of the requirements of that *clause 8.1(a)*:
  - (i) a Superior Proposal has been presented by a third party to, and is verified by, that Merger Party and that Party has first consulted with each other Party; and
  - (ii) that Merger Party complies with *clause 8.3*.

### 8.3 Pursuit of Superior Proposal

Until all Security Holder Approvals have been obtained a Merger Party may pursue a Superior Proposal so long as it is not in breach of its obligations in *clauses 8.1* and *8.2* but if a Merger Party so pursues a Superior Proposal then:

- (a) that Merger Party must nevertheless proceed to convene and hold the meetings of its relevant Security Holders required by this Agreement;



- (b) that Merger Party must use its reasonable endeavours to have each other Merger Party participate in the transaction which constitutes the Superior Proposal; and
- (c) if such pursuit of a Superior Proposal by that Merger Party:
  - (i) does not result in both of the other Merger Parties participating in the transaction which constitutes the Superior Proposal; and
  - (ii) results in that Merger Party becoming a party to a transaction which results in, or contributes to, a Condition relating to that Merger Party not being fulfilled,

then that Merger Party shall pay to the other Merger Parties an aggregate sum of \$10 million to recompense those other Merger Parties for their direct and indirect costs of, and incidental to and arising from, the development and pursuit of the Merger Proposal which amount shall be shared between those other Merger Parties in the same ratio as their respective Merger Share Proportions bear to each other.



## 9 REPRESENTATIONS AND WARRANTIES ETC

### 9.1 Representations and Warranties

Each Party represents and warrants to each other Party that, as at the Execution Date, each of the following representations and warranties is true in respect of that Party (subject to each Specific Condition applicable to that Party):

- (a) *Power and Authority*: That Party has full power, authority and legal right to enter into this Agreement and to observe and perform its obligations hereunder and has taken all necessary corporate and other action to authorise its execution, delivery and performance of this Agreement;
- (b) *Binding Obligations*: This Agreement constitutes the legal, valid and binding obligations of that Party enforceable against it in accordance with its terms, except as such enforceability may be limited by equitable principles or by bankruptcy, moratorium, insolvency, reorganisation, liquidation or other laws relating to or affecting creditors' rights; and
- (c) *No Breach or Violation*: Neither the execution and delivery of this Agreement by that Party nor the performance by it or its respective obligations under this Agreement does and will exceed any power granted to it by, or constitute, or result in, a breach or violation of any provisions of:
  - (i) any consent or any law or any rule or directive of any court or governmental or regulatory agency or authority to which that Party is subject or by which it is bound; or
  - (ii) its Constitutive Document.

### 9.2 No Other Representation or Reliance

Each Party acknowledges that it has not entered into this Agreement in reliance on any representation or warranty made by or on behalf of the other Party except the warranties and representations set out in *clause 9.1*.

### 9.3 No Claims against Management

It is agreed that:

- (a) no Party may bring, and must ensure that no member of its Group brings, any claim against any director, officer or employee of another Party or of a member of its Group in relation to any representation or warranty in *clause 9.1* being incorrect when made or in respect of any other matter required to be done under this Agreement;
- (b) *clause 9.3* applies to claims regardless of:
  - (i) when or where the relevant claim arises;
  - (ii) whether the claim arises under common law, equity, statute or otherwise; and



- (i) whether or not the claim involves a liability or obligation owed severally or jointly with anyone else;
- (c) the Parties' rights and obligations under this *clause 9.3* survive termination of this Agreement;
- (d) the Parties' promises made in this *clause 9.3* are given for the benefit of each director, officer and employee of each Party in terms of the Contracts (Privity) Act 1982. However, this Agreement may be amended by written agreement among the Parties.



## 10 DISPUTE RESOLUTION

### 10.1 No Proceedings Unless Prior Process

It is agreed that:

- (a) any dispute or difference between any two or more of the Parties which arises out of or in connection with this Agreement (*Dispute*) must be dealt with in accordance with this *Section 10*; and
- (b) it is a condition precedent to any Party commencing any action or proceeding in any court, tribunal or otherwise that that Party first gives a Dispute Notice and complies with the provisions of this *Section 10*.

### 10.2 Dispute Notice

When a Party considers that a Dispute has arisen, it may give a dispute notice to each other Party (*Dispute Notice*). The Dispute Notice must be in writing and must set out reasonable particulars of the matter in Dispute.

### 10.3 Primary Level Discussions

It is agreed that:

- (a) on receipt of a Dispute Notice, the Chairman of each of CBS, SCBS and PGC must promptly commence discussions to attempt in good faith to resolve the Dispute (*Primary Level Discussions*);
- (b) those Chairmen must meet as often as necessary to:
  - (i) gather, and (subject to privilege) furnish to the other, all information with respect to the Dispute which is appropriate in connection with its resolution; and
  - (ii) discuss the Dispute and negotiate in good faith in an effort to resolve the Dispute without the necessity of resorting to any formal proceeding.

### 10.4 Secondary Level Discussions

If the Dispute has not been resolved within 10 working days of the date of the Dispute Notice (or as is otherwise agreed in the Primary Level Discussions) the Parties must attempt to resolve the Dispute by holding good faith discussions between their respective Boards, or duly formed committees of those Boards, together with their advisers (*Secondary Level Discussions*) for a further period of 10 working days. If the Dispute has not been resolved within such 10 working day period, the Parties may take such further action as they consider appropriate in accordance with the terms of this Agreement.

### 10.5 Continue to Perform Regardless of Dispute

It is agreed that:

- (a) except where the Dispute renders it impossible to do so, the Parties will continue performing their respective obligations under this Agreement while



the Dispute is being resolved, unless and until such obligations are terminated or expire in accordance with the provisions of this Agreement; and

- (b) each Party must use its reasonable endeavours to ensure that where a Dispute is reasonably foreseeable, it is dealt with at a sufficiently early stage to ensure that there is a minimum effect on the ability of the Parties to perform their obligations under this Agreement.

**10.6 Court Relief**

Nothing in this *Section 10* shall prejudice the right of a Party to institute proceedings to seek injunctive or urgent declaratory relief.

**10.7 Evidence Not Permissible**

The Primary Level Discussions and Secondary Level Discussions will be attempts to negotiate settlement of any Dispute. Evidence of anything said, documents presented to, admissions made or matters raised in the course of such discussion will be confidential to the parties and will not be admissible in any subsequent proceedings.

**10.8 Privilege**

Nothing in *clause 10.7* will prejudice the right of a Party to claim privilege over evidence of anything said, documents presented to, admissions made or matters raised in the course of the Primary Level Discussions and Secondary Level Discussions.

**10.9 Good Faith**

The Parties obligations expressed to this *Section 10* to be performed in good faith extend only to their agreement to negotiate as part of the Primary Level Discussions and Secondary Level Discussions and are not intended to render the provisions of this *Section 10* void or unenforceable for uncertainty.

**10.10 Remedies**

Each Party acknowledges that damages alone would be an inadequate remedy for the breach of its obligations under this Agreement and that the appropriate remedies for such a breach or threatened breach shall include, at the election of another Party, orders for specific performance and injunctive relief in addition to all other remedies available at law or in equity.



## 11 GENERAL

### 11.1 Notices

Any notice which a Party is required or intends to give to another Party concerning any matter or thing related to this Agreement shall be in writing. Notices to a Party shall be delivered to the designated address of the Party to which the notice is to be given or shall be sent by facsimile message to the relevant Party at that address. Any such notice shall be deemed to have been given:

- (a) on the day of delivery, where the notice is delivered during business hours on a working day;
- (b) on the following working day, where the notice is delivered after the end of business hours or on a day that is not a working day;
- (c) on the day of despatch, where a facsimile message is despatched on a working day and during business hours in the city to where the message is sent; and
- (d) on the day after despatch, where a facsimile message is despatched after the end of business hours in the city to where the message is sent or on a day that is not a working day.

### 11.2 Designated Addresses

For the purposes of this Agreement the designated addresses of the Parties shall be those specifically designated in this clause, or such other address as shall be specifically designated by notice given to the other Party in substitution therefore. The addresses designated pursuant to this clause are:

**Canterbury Building Society**

75 Riccarton Road  
Christchurch  
Facsimile number: +64 3 341 1408  
Attention: Chief Executive Officer

**Southern Cross Building Society**

56-57 High Street  
Auckland  
Facsimile number: +64 9 336 7662  
Attention: Chief Executive and General Manager – Finance & Strategy

**Pyne Gould Corporation Limited**

MARAC House  
35 Teed Street  
Newmarket  
Auckland  
Facsimile number: +64 9 520 3709  
Attention: General Counsel



**MARAC Financial Services Limited**

MARAC House  
35 Teed Street  
Newmarket  
Auckland  
Facsimile number: +64 9 520 3709  
Attention: General Counsel

**MARAC Finance Limited**

MARAC House  
35 Teed Street  
Newmarket  
Auckland  
Facsimile number: +64 9 520 3709  
Attention: General Counsel

**11.3 PGC Group Notices and Approvals**

A notice given by or to, or an approval or other consent or agreement given by, PGC for the purposes of this Agreement shall be deemed also to be given by or to MFS and MARAC.

**11.4 PGC/MFS Sign Shareholder Resolutions**

Each of PGC and MFS (in its capacity as a shareholder in its relevant subsidiary) hereby agrees to sign in a timely fashion each shareholder resolution or entitled persons' agreement of its relevant subsidiary as may be necessary or desirable for the implementation of the Merger Proposal.

**11.5 Memorandum of Understanding Terminated**

The Memorandum of Understanding is hereby terminated with effect from the Execution Date.

**11.6 Announcements and Disclosures**

No Party will make any internal or external announcement or disclosure about the Merger unless:

- (a) that announcement or disclosure first is approved by the Establishment Board; or
- (b) that announcement or disclosure is within guidelines previously approved and published by the Establishment Board; or
- (c) that announcement or disclosure is permitted by a communications plan previously approved by the Establishment Board; or
- (d) a disclosure is made on a confidential and "need to know" basis to a Regulatory Authority, a Bank or a Trustee for the purposes of obtaining the satisfaction of a Specific Condition; or



- (e) a disclosure is made on a confidential and "need to know" basis to a rating agency for the purposes of achieving the rating contemplated by *clause 2.3(b)*; or
- (f) it is permitted to do so by the Confidentiality Agreement; or
- (g) an informal disclosure (but not a formal announcement) is made by a Party of information that is already in the public domain other than by reason of a breach by that Party or its controlled entity or related company of this *clause 11.6* or *clause 3.4(d)* of the Memorandum of Understanding or any provision of the Confidentiality Agreement.

#### 11.7 Confidentiality

The Confidentiality Agreement shall remain in full force and effect in accordance with its terms.

#### 11.8 Costs and Expenses

It is agreed that:

- (a) each Merger Party will meet:
  - (i) its own costs and expenses (and the cost of any financial, valuation, accounting, tax, legal or other consultants which it engages to advise it) and those of its representative/s on the Steering Committee and the Working Group referred to in the Memorandum of Understanding and the Establishment Board relating to the evaluation and, implementation of the Merger Proposal; and
  - (ii) the costs and expenses of and incidental to satisfying any Specific Condition that relates solely to that Merger Party or a member of its Group;
- (b) the following costs and expenses will be met by MergeCo if the Merger Proposal is implemented or, if the Merger Proposal is not implemented, by the Merger Parties in equal proportions:
  - (i) the fees and expenses of all financial, valuation, accounting, taxation, legal and other consultants engaged (and approved by the Establishment Board) by the Steering Committee or the Working Group referred to in the Memorandum of Understanding or the Establishment Board to advise that Steering Committee or Working Group or the Establishment Board and/or MergeCo;
  - (ii) the costs of any Regulatory Approvals;
  - (iii) the costs and expenses of progressing and (if applicable) implementing the Merger Proposal;
  - (iv) the costs and expenses of undertaking the due diligence review of each Merger Party business (but excluding the costs and expenses incurred



by that Party in providing information for due diligence purposes or responding to due diligence questions); and

- (v) such other costs and expenses as the members of the Establishment Board unanimously agree;
- (c) the Parties, between them, shall ensure that the fees, costs and expenses referred to in *clause 11.8(b)* are met when due. Where an individual Party meets any such fee, cost or expense then it shall keep an appropriate record; and
- (d) if the Merger Proposal is discontinued or implemented then the Parties will make appropriate adjustments between them (and, to the extent applicable, between them and MergeCo) in respect of such fees, costs and expenses so as to reflect *clause 11.8(b)*.

**11.9 No Waiver**

No failure, delay or indulgence by a Party in exercising any power or right under this Agreement shall operate as a waiver of that power or right. A single or partial exercise of any such power or right shall not preclude further exercises of that power or right or the exercise of any other power or right under this Agreement.

**11.10 Amendments**

Any amendment to this Agreement must be in writing and must be signed on behalf of each Party.

**11.11 Execution**

It is agreed that:

- (a) this Agreement may be executed in two or more counterparts which together shall constitute one and the same instrument;
- (b) the email or facsimile transmission by a Party of copy of this Agreement signed by that Party shall be treated as if that Party had signed and delivered an original of this Agreement; and
- (c) this Agreement shall not take effect until it has been executed and delivered by all of the Parties.



- 6.3 SubCo will on-sell and transfer the shares in MARAC to OpSoc in consideration for the issue to SubCo of such number of fully paid ordinary shares in OpSoc as may be agreed among the Parties;
  - 6.4 each of CBS and SCBS will transfer their respective engagements (other than the shares in CBS held by SCBS) to OpSoc pursuant to section 33 of the Building Societies Act in consideration for the issue by OpSoc of such number of fully paid shares in OpSoc as may be agreed among the Parties; and
  - 6.5 CBS and SCBS will transfer their shares in OpSoc to SubCo in consideration for the issue to CBS and SCBS of such number of fully paid ordinary shares in SubCo as may be agreed among the Parties.
- 7 *Debt Securities:* With effect from the date on which CBS and SCBS transfer their respective engagements to OpSoc:
- 7.1 all debt securities issued by CBS and SCBS shall be transferred to OpSoc as part of the transfer of engagements as contemplated by *paragraph 6.4* of this *First Schedule*; and
  - 7.2 OpSoc will assume MARAC's obligations in respect of MARAC's debt securities, in each case with the commercial terms of the debt securities remaining the same but the general terms being varied to be on the terms of a new OpSoc trust deed so that (among other things) all such securities will become unsecured obligations of OpSoc and will be guaranteed by MARAC.
- 8 *Corporatisation of Building Societies:* Following the transfer of their respective engagements as contemplated by *paragraph 6.4* of this *First Schedule*:
- 8.1 each of CBS and SCBS will implement (under Part 7A of the Building Societies Act) a scheme for its conversion (on terms to be agreed among the Parties) into a company having limited liability under the Companies Act; and
  - 8.2 as a consequence, CBS's shares will cease to be quoted on the NZAX if quotation has not previously ceased.
- 9 *Scheme Becomes Effective:* If approved by the Court, the Scheme of Arrangement will effect the following:
- 9.1 NewCo will acquire all of the shares in CBS (and then the shares in SCBS by then each a company) in consideration for the issue by NewCo to the shareholders of CBS and SCBS respectively of that number of MergeCo Shares as is calculated in accordance with *clauses 2.1* and *3.2* (and, if applicable, *clause 2.7*);
  - 9.2 CBS and SCBS (by then each a company) and NewCo will amalgamate, with NewCo being the amalgamated company,
- in each case with effect from the Merger Date.



- 10 *NZX Listing*: With effect from, or as soon as practicable (having regard to the requirements of Applicable Regulation) after, the Merger Date all of the MergeCo Shares and MergeCo Warrants will be quoted on the NZSX.



## SECOND SCHEDULE: MERGER APPROVALS

(Clause 1.1)

### 1 Regulatory Approvals

1.1 *NZX*: All rulings, approvals or waivers or other consents which the Parties consider to be necessary or desirable under the NZSX Listing Rules or the NZAX Listing Rules or (if applicable) the NZDX Listing Rules for or in respect of any matter relating to:

- (a) the content of any Offer Document or Meeting Document; or
- (b) the timing, convening or conduct of any Security Holder Meeting; or
- (c) the quotation of MergeCo's ordinary shares on the NZSX; or
- (d) any other matter in connection with the approval or implementation of the Merger Proposal,

in each case on terms and conditions acceptable to each Party, acting reasonably.

1.2 *Securities Commission*: All exemptions, notices, waivers or other consents which the Parties consider to be necessary or desirable under the Securities Act or the Securities Markets Act for or in respect of any matter relating to:

- (a) the content of any Offer Document or Meeting Document; or
- (b) the timing, convening or conduct or any Security Holder Meeting; or
- (c) any other matter in connection with the approval or implementation of the Merger Proposal,

in each case on terms and conditions acceptable to each Party, acting reasonably.

1.3 *Crown*: The agreement of The Treasury (acting on behalf of Her Majesty the Queen in right of New Zealand) to:

- (a) SCBS and CBS (being related parties of each other under the relevant Crown Retail Guarantees) entering into any transaction with each other necessary to implement the Merger Proposal; and
- (b) agreeing to establish appropriate arrangements with effect from the Merger Date so that:
  - (i) any debt securities of a Merger Party which exist immediately before the Merger Date and which are then subject to a Crown Retail Guarantee continue to have the benefit of a Crown Retail Guarantee from the Merger Date; and
  - (ii) OpSoc may (should it so elect) issue new retail debt securities from the Merger Date having the benefit of a Crown Retail Guarantee,



in each case on terms and conditions acceptable to each Party, acting reasonably.

## 2 Security Holder Approvals

2.1 *CBS Members*: The following resolutions (each of which will be conditional on the Final Court Orders being obtained) of the members of CBS:

- (a) a special resolution to approve the Merger Proposal, including without limitation:
  - (i) the transfer of engagements to OpSoc pursuant to section 33 of the Building Societies Act;
  - (ii) the Scheme for Conversion under which CBS will convert into a company pursuant to section 113A of the Building Societies Act; and
  - (iii) the Scheme of Arrangement; and
- (b) such other resolutions (if any) of the CBS members or shareholders as the Parties may consider to be necessary or desirable for the purposes of, or otherwise in connection with, the Merger Proposal.

2.2 *SCBS Members*: The following resolutions (each of which will be conditional on the Final Court Orders being obtained) of the members of SCBS:

- (a) a special resolution to approve the Merger Proposal, including without limitation:
  - (i) the transfer of engagements to OpSoc pursuant to section 33 of the Building Societies Act;
  - (ii) the Scheme for Conversion under which SCBS will convert into a company pursuant to section 113A of the Building Societies Act; and
  - (iii) the Scheme of Arrangement; and
- (b) such other resolutions (if any) of the SCBS members or shareholders as the Parties may consider to be necessary or desirable for the purposes of, or otherwise in connection with, the Merger Proposal.

2.3 *PGC Shareholders*: The following resolutions (each of which will be conditional on the Final Court Orders being obtained) of the shareholders of PGC:

- (a) an ordinary resolution to approve the Merger Proposal, including without limitation the sale of the shares in MARAC to NewCo and assumption of engagements by OpSoc; and



- (d) such other resolutions (if any) of the MARAC stockholders as the Parties may consider to be necessary or desirable for the purposes of, or otherwise in connection with, the Merger Proposal.

2.7 *PIE Unitholders*: The following resolutions (each of which will be conditional on the Final Court Orders being obtained) of the holders of the units in the MARAC PIE Fund:

- (a) resolution of unitholders to permit an investment of unit funds in OpSoc debt securities;
- (b) (if required) resolution of unit holders to approve the change of manager from MARAC to OpSoc; and
- (c) such other resolutions (if any) of those unitholders as the Parties may consider necessary or desirable for the purposes of, or otherwise in connection with or arising from, the Merger Proposal.

2.8 *MFS/MARAC/NewCo/OpSoc Shareholders and Entitled Persons*: The shareholders or all entitled persons (as applicable) of MFS, MARAC, NewCo and OpSoc passing all resolutions or making all agreements (as applicable) that are necessary to approve each relevant step in the implementation of the Merger Proposal to which that entity is a party.

### 3 **Trustee Approvals**

3.1 *CBS*: The following approvals and other consents of the Trustee for CBS's depositors and under its securitisation programme:

- (a) approval of the form of Offer Documents and Meeting Documents proposed to be sent to debt security holders;
- (b) approval to the variation of terms of debt securities to be governed by OpSoc's new trust deed;
- (c) release of CBS from obligations under existing trust deed; and
- (d) such other approvals and other consents (if any) of that Trustee as the Parties may consider to be necessary or desirable for the purposes of, or otherwise in connection with, the Merger Proposal.

3.2 *SCBS*: The following approvals and other consents of the Trustee for SCBS's depositors:

- (a) approval of the form of Offer Documents and Meeting Documents proposed to be sent to debt security holders;
- (b) approval to the variation of terms of debt securities to be governed by OpSoc's new trust deed; and



- (c) release of SCBS from obligations under existing trust deed;
- (d) such other approvals and other consents (if any) of the Trustee as the Parties may consider to be necessary or desirable for the purposes of, or otherwise in connection with, the Merger Proposal.

3.3 **MARAC:** The following approvals and other consents of the Trustee for MARAC's stock holders and under its securitisation programme:

- (a) approval of the form of offer documents and meeting notices being sent to debt security holders;
- (b) approval to the variation of terms of debt securities to be governed by OpSoc's new trust deed;
- (c) approval to the variation of trust deed to permit assumption of MARAC's obligations by OpSoc;
- (d) release of MARAC from obligations under existing trust deed; and
- (e) such other approvals and other consents (if any) of that Trustee as the Parties may consider to be necessary or desirable for the purposes of, or otherwise in connection with, the Merger Proposal.

3.4 **Securitisation Programmes:** Such approvals and other consents as the Parties may consider to be necessary or desirable from the Trustee under CBS securitisation programme and the Trustee under MARAC's securitisation programme for the purposes of, or otherwise in connection with or arising from, the Merger Proposal.

**4 Bank Approvals**

4.1 **CBS:** The following approvals and other consents of the Banks which currently provide facilities and derivatives to CBS and its securitisation programme:

- (a) approval to the novation of ISDA documentation;
- (b) consent from warehouse facility provider to the securitisation programme; and
- (c) such other approvals and consents (if any) of those Banks as the Parties may consider to be necessary or desirable for the purposes of, or otherwise in connection with or arising from, the Merger Proposal.

4.2 **SCBS:** The following approvals and other consents of the Banks which currently provide facilities and derivatives to SCBS:

- (a) approval to the novation of ISDA documentation; and



- (b) such other approvals and other consents (if any) of those Banks as the Parties may consider to be necessary or desirable for the purposes of, or otherwise in connection with or arising from, the Merger Proposal.
- 4.3 *MARAC*: The following approvals and other consents of the Banks which currently provide facilities and derivatives to MARAC and its securitisation programme
  - (a) approval of novation of ISDA documentation;
  - (b) consent from liquidity facility provider to the securitisation programme; and
  - (c) such other approvals and other consents (if any) of those banks as the Parties may consider to be necessary or desirable for the purposes of, or otherwise in connection with, or arising from the Merger Proposal.
- 4.4 *Banking Group*: MARAC arranging a new wholesale finding facility for the Banking Group (with effect from the Merger Date) in such amount and on such terms as may be agreed among the Parties.



### **THIRD SCHEDULE: MERGER CONDITIONS**

(Clause 4.1)

#### **1 Specific Conditions**

- 1.1 *Independent Report:* An independent expert issuing a report to the Security Holders (or to one or more classes of Security Holder) on the merits of the Merger Proposal containing a conclusion that the Parties all consider to be appropriately supportive of the Merger Proposal.
- 1.2 *Regulatory Approvals:* Each Regulatory Approval being obtained.
- 1.3 *Security Holder Approvals:* Each Security Holder Approval being given by the relevant Security Holders of each relevant Party.
- 1.4 *Bank Approvals:* Each Bank Approval being obtained by each relevant Party on terms acceptable to all Parties (each acting reasonably).
- 1.5 *Trustee Approvals:* Each Trustee Approval being obtained by the relevant Party on terms acceptable to all Parties (each acting reasonably).
- 1.6 *Interim Court Orders:* Interim Court Orders being granted in respect of the Scheme of Arrangement on terms acceptable to all Parties (each acting reasonably).
- 1.7 *Final Court Orders:* Final Court Orders being granted in respect of the Scheme of Arrangement on terms acceptable to all Parties (each acting reasonably).
- 1.8 *No Preventative Court Order:* There is no Court order restraining any one or more of the Parties or any other person from implementing the Merger Proposal or from taking any action necessary or desirable for that implementation.

#### **2 General Conditions**

- 2.1 *No Material Adverse Event:* No Material Adverse Event occurring in respect of a Merger Party.
- 2.2 *No Insolvency Event:* No Insolvency Event occurring in respect of a Merger Party.
- 2.3 *No Shareholder Share Splitting:* No Merger Party registering the transfer of any shares in that Merger Party where any Director or senior officer of that Merger Party knows, or ought reasonably to know, that such transfer is part of a scheme, arrangement or understanding involving the transferor and/or the transferee of that share (whether with or without any other person) for the splitting of a shareholding in that Merger Party with a view to the holder of that share voting against any Relevant Resolution and/or participating in any Court proceedings adverse to the implementation of the Merger Proposal.
- 2.4 *No Dividends Etc:* No dividends, bonuses or other distributions being declared, paid or made, upon or in respect of any of the shares of a Merger Party.



- 2.5 **No Capital Change:** None of the shares in the capital of a Merger Party being subdivided or consolidated, nor (other than the issue of ordinary shares by SCBS for the purposes of replacing its options referred to in *clause 3.3*, and then only in such number as may be approved by the other Parties) any further shares, options or other equity securities of a Merger Party being issued or made the subject of any option or agreement to issue or buy back;
- 2.6 **No New Class of Debt Security:** No Merger Party creating any class of debt security that does not exist as at the Execution Date.
- 2.7 **Contracts Etc:** No Merger Party entering into any contract, commitment, or arrangement other than:
- (a) in the ordinary course of business; or
  - (b) otherwise agreed by the other Merger Parties.
- 2.8 **No Contractual Variation or waiver:** No Merger Party or a member of its Group:
- (a) renewing or varying any material contract or other commitment (including any undertaking to a Regulatory Authority and also including any guarantee) which exists as at the Execution Date or waiving its rights under any such material contract; or
  - (b) exercising a contractual right or other option to renew or extend an existing material contract (including under any material lease),
- that is not either in the ordinary course of business or otherwise agreed by the other Merger Parties.
- 2.9 **No Encumbrances etc:** No Merger Party or a member of its Group creating, or agreeing to create, any mortgage, charge, lien or other encumbrance over the whole, or a substantial part, of its business or property unless as a replacement or variation to existing secured funding facilities.
- 2.10 **No Accounting Change:** No Merger Party changing any significant accounting practice or policy applied by them to report their financial position or performance, other than to comply with NZ GAAP.
- 2.11 **No Employment Change:** No Merger Party changing, or agreeing to change (including accelerating any benefit payable), in any material respect, the remuneration or any other material terms of employment of any director, executive or other employee except for ordinary wage or salary increases in accordance with its established review policy.
- 2.12 **No Amalgamation:** No Merger Party resolving to propose or proposing or effecting an amalgamation other than for the purposes of the implementation of the Merger Proposal.

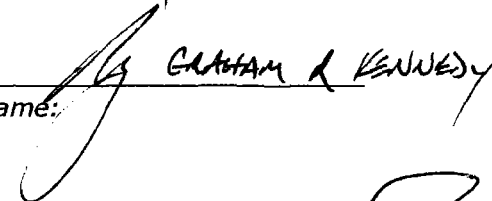


- 2.13 ***No Withdrawal of Crown Retail Guarantee:*** No Merger Party having its Crown Retail Guarantee withdrawn or being threatened with the withdrawal of its Crown Retail Guarantee.
- 2.14 ***No Material Breach of Law:*** No Merger Party being in material breach of any law binding on or applicable to that Merger Party.
- 2.15 ***No Material Court Proceedings:*** No unresolved material court proceedings having been or being commenced against a Merger Party.
- 2.16 ***Change to Constitutive Documents:*** No alteration to the Constitutive Document of a Merger Party being made, except as is required by law or for the implementation of the Merger Proposal or, in the case of SCBS, for the purposes of implementing clause 3.3.


THIS AGREEMENT has been executed on the date first written above.

EXECUTED by CANTERBURY )  
BUILDING SOCIETY by being signed )  
by two of its Directors: )

  
Name: GARY R. LEECH

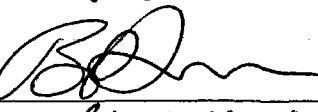
  
Name: GRAHAM K. KENNEDY

EXECUTED by SOUTHERN CROSS )  
BUILDING SOCIETY by being signed )  
by one of its Directors: )


  
Name: ROBERT L. SMITH

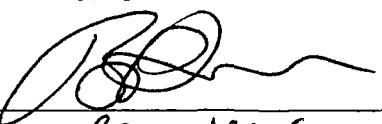
EXECUTED by PYNE GOULD )  
CORPORATION LIMITED by being )  
signed by two of its Directors: )

  
Name: JK GREENSLADE

  
Name: BRUCE IRVINE

EXECUTED by MARAC FINANCIAL )  
SERVICES LIMITED by being signed )  
by two of its Directors: )

  
Name: JK GREENSLADE

  
Name: BRUCE IRVINE

**EXECUTED** by **MARAC FINANCE** )  
**LIMITED** by being signed by two of )  
its Directors: )



Name: J. K. GREENSLADE



Name: BRUCE IRVINE

## CERTIFICATE OF REGISTRATION OF PROSPECTUS

(Under Section 42(5) of the Securities Act 1978)

### CANTERBURY BUILDING SOCIETY

**1781000**

This is to certify that a Prospectus, for CANTERBURY BUILDING SOCIETY, dated the 12th day of October 2010 was registered on the 12th day of October 2010.

*Neville Harris*

Neville Harris  
Registrar of Building Societies  
Dated this 18th day of October 2010

