

Outlook

APRIL – JUNE 2011

THE NEWSLETTER OF MARAC | INVESTMENT EDITION

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Term Deposit Special Offers

MARAC NON-GUARANTEED
TERM DEPOSIT

12 MONTHS

6.00 %
p.a.
with interest quarterly.

MARAC GUARANTEED
TERM DEPOSIT

12 MONTHS

5.25 %
p.a.
with interest quarterly.

Minimum Investment \$1,000. MARAC Term Deposits are issued by Combined Building Society, which was formed as a result of the merger between MARAC, CBS Canterbury and Southern Cross Building Society. Combined Building Society has a guarantee under a Crown retail deposit guarantee scheme, being a guarantee that **expires on 31 December 2011**. MARAC Guaranteed Term Deposits are covered by the Crown guarantee, **until the guarantee expires on 31 December 2011**, subject to the terms and conditions of the guarantee. **Once the Crown guarantee expires, no deposits will have the benefit of the guarantee.**
MARAC Non-Guaranteed Deposits offered by Combined Building Society are not covered by the guarantee given under the Crown retail deposit guarantee scheme. Further information about the Crown Guarantee is available on Treasury's website at www.treasury.govt.nz. Combined Building Society has a BBB- (Outlook Stable) credit rating from Standard & Poor's. See our Investment Statement or website www.marac.co.nz, for more details about our credit rating. For a copy of Combined Building Society's current Investment Statement call us on 0800 26 27 22 or go to www.marac.co.nz

The earthquake that hit Christchurch on 22 February 2011 has changed New Zealand and New Zealanders forever. To all of those affected by the earthquake, we extend our deepest sympathies. Many of you will be aware that one of MARAC's premises in Christchurch was destroyed and, tragically, four of our colleagues lost their lives. You can read about the impact of the quake and the PGC Earthquake Fund (a charitable trust), which has been set up to support the families impacted, on page 2.

We have been truly humbled by how our team of dedicated staff around the country have rallied to the cause of their Christchurch colleagues, whilst at the same time ensuring business operations continue as normal. It is a credit to everyone. MARAC staff have been temporarily relocated to the CBS Canterbury Riccarton branch, and will move to new premises in the next few weeks.

Following the Christchurch earthquake and, more recently, the devastating earthquake and subsequent tsunami in Japan, it is important to stay informed on the current global economic environment. In our regular Economic Outlook feature, we asked respected economic commentator Roger Kerr for his views, which you can read on page 6.

On page 3 there are articles on MARAC Finance Limited's financial performance for the six months to 31 December 2010, the period prior to the successful merger with CBS Canterbury and Southern Cross Building Society, and an update on the merger. Our investors' and shareholders' decision to support the merger was vindicated when, immediately upon its completion, Standard & Poor's issued the merged entity, Combined Building Society, with an 'investment grade' credit rating of **BBB- (Outlook Stable)**.

If you have any comments on *Outlook* or if there is anything you would like to see more of, please feel free to call our Investment Team on 0800 26 27 22 or email invest@marac.co.nz. We are here to help.

On a final note, to our customers, colleagues and the wider Canterbury community – stay strong, support each other and together we will rebuild our beautiful city.

Andrew Ford
Retail Investment Manager



The Canterbury earthquake

The major earthquake that struck Christchurch in February was an event of enormous significance and great sadness. To everyone who has been affected by the devastating Christchurch earthquake, we extend our heartfelt sympathy.

Tragically, four of our MARAC colleagues lost their lives in the collapse of the Pyne Gould Corporation building where our Christchurch office was located, and some have also suffered injury. Our ongoing focus at this time is to support our staff and their families as they struggle to come to grips with recent events. We would like to thank those investors who have offered us their support, thoughts and prayers since the tragic event.

Our business is largely unaffected

Combined Building Society's business remains fully operational following the earthquake. The Combined Building Society branch at CBS Canterbury Riccarton was unaffected and has reopened, with MARAC staff temporarily relocating there. Central management have continued business out of Auckland, as usual.

Approximately 13% of Combined Building Society's lending is in Christchurch. The bulk of this is residential and commercial property

loans, which are fully insured. At this time the board has not identified any material financial impact from the earthquake, however our analysis is ongoing and we will continue to update you.

We have spoken to Standard & Poor's since the earthquake, who have confirmed Combined Building Society's 'investment grade' rating and Stable outlook and that no immediate rating action is planned.

PGC, MARAC and CBS Canterbury have a long and proud history in the Canterbury region and we will play our part in helping rebuild the city.

We're here to help

If you are a MARAC investor in the affected area, we understand you are going through an extremely stressful time and we will endeavour to assist you wherever possible – please call our Investment Team on **0800 26 27 22**.

Jeff Greenslade

Chief Executive Officer

The PGC Earthquake Fund



At 12:51pm on Tuesday, 22 February, the Pyne Gould Corporation building collapsed as a result of the powerful earthquake which devastated much of Christchurch.

Many people were trapped and have been rescued from the wreckage.

Tragically, there were fatalities, including four MARAC staff and ten from Pyne Gould Corporation's subsidiary, Perpetual. A small number of other staff also working in this building were seriously injured. For everyone affected, including their families, friends and children, there will be many challenges to face going forward, including the loss of loved ones, adapting to physical limitations or disabilities from injuries, financial challenges, rebuilding of their homes, and working to overcome the severe mental stress of their ordeal.

The PGC Earthquake Fund is a charitable trust that has been established as a way to further help and support the long-term needs of those individuals, children and families affected by the collapse of the Pyne Gould Corporation building during the devastating Canterbury Earthquake on 22 February. Donations will be used for:

- Counselling, rehabilitation and other support services;
- Assistance with childcare and children's education; and
- Ongoing financial support and services.

Contributions can also be made directly to nominated individuals or their families through the Trust.

The board and management have pledged donations as have many staff who expressed a strong desire to further help their Christchurch colleagues.

While the resilience of our people has been remarkable, they require assistance – we hope this Trust will go some way to providing them with the help they require.

If you would like to donate to the PGC Earthquake Fund, your support would be most appreciated.

Ways to donate

Credit card or direct debit online

To make a credit card (unfortunately Amex is unavailable) or direct debit contribution, please go to www.pgc.co.nz. You can also make a credit card contribution by calling 0800 PGC FUND.

Text donations

From your Vodafone, TelstraClear, Telecom or 2degrees handset, you can make an automatic donation of \$3 simply by texting 'PGC' to 306.

Internet banking

To make an instant online contribution, please use the following account details:

Account name: PGC Earthquake Fund

Account number: 02 0800 0849782 000

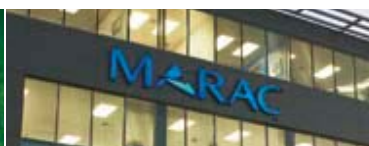
Please ensure that you include your name in the "Payee" field and call us if you would like a tax receipt for your contribution.

In-branch

Visit your local CBS Canterbury, Southern Cross or BNZ branch to make a donation over-the-counter.

If you have any queries about the PGC Earthquake Fund please call us on 0800 PGC FUND (0800 742 386)

Any contribution amount is appreciated. As contributions over \$5 are tax deductible, we are happy to provide you with a tax receipt. We thank you warmly for your contribution.



MARAC Finance Limited produces a solid result

I would like to share MARAC Finance Limited's recently announced financial results for the six months ended 31 December 2010.

MARAC Finance Limited delivered a sound performance that was in line with the same period a year ago, reporting a net profit after tax of \$5.1 million. This result also included one-off merger costs of \$2.2 million and an increase in costs associated with extended participation in the Crown Guarantee Scheme of \$1.0 million.

At the operating level, MARAC Finance Limited's core business of consumer and commercial lending performed well. Whilst the consumer division tracked ahead of the prior period on the back of increased market share in motor vehicles, the commercial division remained steady in what was a subdued market.

Net operating income for the period was \$31.4 million which was in line with the corresponding period in 2009. Pleasingly, a \$2.2 million improvement in the consumer book over the corresponding



period in 2009 was recorded, which offset the impact of a drop in income from high-yielding property lending as the company managed down exposure to this more risky sector.

The six months to 31 December 2010 were very much a transitional period for MARAC Finance Limited, and we are pleased we were able to maintain operational performance while at the same time successfully executing a merger, which I believe will benefit all stakeholders in the business.

This is the last time MARAC Finance Limited's results will be reported separately – in future, they will be reported as part of Combined Building Society, your provider of Heartland financial services.

Sean Kam
Chief Financial Officer

MARAC Finance Limited became a subsidiary of Combined Building Society on 7 January 2011 and now guarantees all securities issued by Combined Building Society and the returns payable thereon. The guarantee is unlimited and unsecured.

Update on merger

Combined Building Society

MARAC

SOUTHERN CROSS

CBS Canterbury

On 7 January, MARAC merged with CBS Canterbury and Southern Cross Building Society (Southern Cross) to form Combined Building Society. We are now a step closer to becoming a New Zealand controlled banking¹ and financial services group which will better service the needs of Heartland New Zealand – small to medium-sized businesses, the rural sector, New Zealand families and individuals, and you.

Our parent company begins trading on the NZX

Combined Building Society's parent company, Building Society Holdings Limited (BSHL), began trading on the NZX on Tuesday, 1 February. Having a listed parent company provides Combined Building Society with considerable strength and access to capital to fund growth, and enables existing and new shareholders to be part of the growth of our Heartland business.

An investment grade credit rating

The merger of MARAC, CBS Canterbury and Southern Cross received an independent endorsement when Standard & Poor's issued Combined Building Society with an 'investment grade' credit rating of **BBB- (Outlook Stable)**.

What is the next step?

We expect to be able to apply for banking registration in the second half of 2011. Our immediate priority is to establish a new name and brand identity for Combined Building Society, which will seek to capture the proud heritage and character of the three merged parties. We will keep you up to date on development progress – in the meantime, we will continue to use the MARAC brand.

Further information

We will keep you informed of our progress. If you have any questions, please call us on **0800 26 27 22** – we are here to help.

Jeff Greenslade
Chief Executive Officer

¹ None of Combined Building Society (which includes MARAC, CBS Canterbury and Southern Cross), BSHL or Pyne Gould Corporation Limited are a registered bank. Combined Building Society's obtaining bank registration is subject to the satisfaction of Reserve Bank of New Zealand requirements.

Proudly providing Heartland financial solutions

MARAC

SPECIAL INVESTMENT OFFER

Application Form for Term Deposits

MARAC
OPERATING AS A DIVISION OF
COMBINED BUILDING SOCIETY

Rates are subject to change.

<p>MARAC NON-GUARANTEED TERM DEPOSIT MARAC Non-Guaranteed Term Deposits offered by Combined Building Society are not covered by the guarantee given under the Crown retail deposit guarantee scheme.</p>	<p>I would like to invest \$ <input type="text"/> Minimum investment \$1,000</p>	<p>for 12 MONTHS AT</p>	<p>6.00% p.a. INTEREST QUARTERLY</p>
<p>MARAC GUARANTEED TERM DEPOSIT MARAC Guaranteed Term Deposits are covered by the Crown guarantee, until the guarantee expires on 31 December 2011, subject to the terms of the guarantee. Once the guarantee expires, deposits are no longer covered.</p>	<p>I would like to invest \$ <input type="text"/> Minimum investment \$1,000</p>	<p>for 12 MONTHS AT</p>	<p>5.25% p.a. INTEREST QUARTERLY</p>

MARAC Deposits are issued by Combined Building Society, which was formed as a result of the merger between MARAC, CBS Canterbury and Southern Cross Building Society. **Combined Building Society has a guarantee under a Crown retail deposit guarantee scheme, being a guarantee that expires on 31 December 2011.** Further information about the Crown guarantee is available on Treasury's website at www.treasury.govt.nz

I/we have received the current Investment Statement. Please invest my/our funds as set out below, subject to the terms and conditions of the Investment Statement, the Trust Deed and the current Prospectus.

Investor details

Existing Investor – My Investor Number is

New Investor (please tick one)

Investor Mr/Mrs/Miss/Ms/Dr/Trustee (please circle)	First names in full
Surname	Date of Birth / /
Joint Investor Mr/Mrs/Miss/Ms/Dr/Trustee (please circle)	First names in full
Surname	Date of Birth / /
Company / Club / Society / Trust (if applicable) (please circle)	
Residential Address	
City or Town	Postcode
Mailing Address (if different from above)	
City or Town	Postcode
Email Address	Phone No. (hm) ()
Phone No. (mobile) ()	Phone No. (wk) ()

Tax details

IRD no. investor

IRD no. Joint investor

IRD no. Company/Trust

Please note: If we do not have your IRD number on file, we are required to deduct resident withholding tax (RWT) at 33%.

NZ residents, please indicate your choice of RWT rate below. If exempt, please provide copy of exemption certificate.

10.5% 17.5% 30.0%
 33.0% or Exempt

Non-residents please indicate
 NRWT AIL

Interest Payment Options (Please tick one box to show how you would like your interest paid).

Quarterly compounding (on the last days of March, June, September and December). Quarterly direct credit (on the last days of March, June, September and December) to bank account below. Defer until maturity.

Bank	Branch	Account Name
<input type="text"/>	<input type="text"/>	<input type="text"/>
Bank	Branch	Account
<input type="text"/>	<input type="text"/>	<input type="text"/>
		Suffix
<input type="text"/>	<input type="text"/>	<input type="text"/>

Paying Your Investment Amount Please select one of the following options for transferring your investment amount to MARAC.

Cheque (enclosed) Direct Credit – Bank account for MARAC Deposits: ANZ 01-0194-0127500-02

Identification Requirements

The Financial Transactions Reporting Act 1996 requires the identity of all new investors to be verified. The following identification is required and Combined Building Society reserves the right to seek additional information.

Individual/Joint investors

- Bank account identification such as a pre-printed deposit slip, cheque or bank statement in the name of the investor(s); AND
- Personal identification such as a copy of the investor(s) passport or driver licence.

Company/Incorporated Society/Partnership/Trust

- Bank account identification such as a pre-printed deposit slip, cheque or bank statement in the name of the organisation; AND
- Personal identification such as a copy of passport or driver licence for all directors/executives/partners/individual trustees (as applicable); AND
- A copy of the certificate of incorporation, partnership agreement or trust deed (as applicable).

Any Other Organisation

- Bank account identification such as a pre-printed deposit slip, cheque or bank statement in the name of the organisation; AND
- Personal identification such as a copy of passport or driver licence for all signatories; AND
- A copy of the minutes authorising the signatories and providing sample signatures.

Signatures

Date / / Date / /

- Notes**
- Joint applications must be signed by all applicants.
 - If the application is signed by an attorney, please attach a copy of the power of attorney. By signing, the attorney declares that they have not been notified of the death of the donor or of the revocation of the power of attorney.

Adviser/Broker details

Do you have an Adviser/Broker? Yes No

If Yes: My Adviser/Broker for this investment is

Office use

Ref No.
Date / /

How to invest

Complete the application form overleaf. You can get another copy by calling us on freephone **0800 26 27 22**.

Paying your investment amount

Direct Debit

- If you want to pay your investment amount by direct debit, please call us for a direct debit form and we will post you one.

Cheque

- If you want to pay by cheque, please make it payable to MARAC and cross it "not transferable".

Direct Credit

- You can pay your investment directly into our bank account 01-0194-0127500-02. Please use your surname as a reference and fax your completed application form to us on 09 927 9321 or email it to invest@marac.co.nz before posting the original.

Post to

Send the application form with your completed direct debit form or cheque to:

MARAC Deposits
Freepost 4040
PO Box 9919
Newmarket
Auckland 1149

Or you can give the application form and payment to your financial adviser for forwarding on to us.

Accepting your investment

After we've received your application, we'll send you a MARAC Deposit Certificate or letter of acknowledgement in your name(s), recording details of your MARAC Deposit.

(FOLD HERE)

(PLEASE SEAL ON ALL OPEN SIDES AND RETURN FREEPOST)

PLEASE TAPE HERE BUT DO NOT SEAL PAST THE LINE.

PLEASE TAPE HERE BUT DO NOT SEAL PAST THE LINE.

(FOLD HERE)

MARAC Deposits
PO Box 9919
Newmarket
Auckland 1149



FreePost Authority Number 4040



Economic Outlook

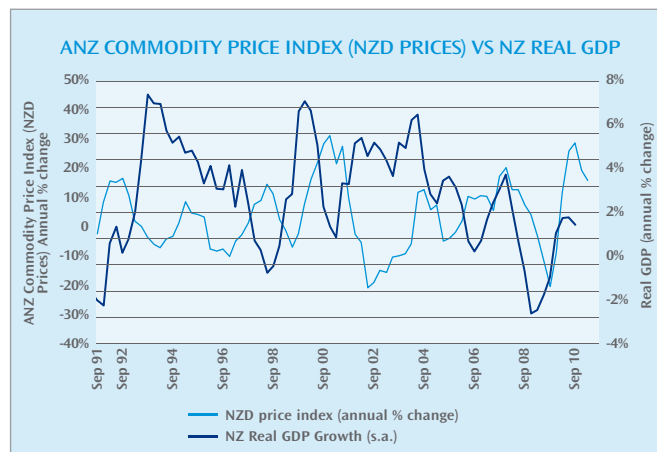
If you were wondering why the Reserve Bank of New Zealand appeared to be a decidedly tentative and reluctant economic forecaster when they released their Monetary Policy Statement on 10 March, it must be realised that the crystal ball for the future is very hazy for all economic/business forecasters at this time.

Consider the extreme uncertainties emanating from the following recent events:

- Oil and food prices sky rocketing around the globe due to geo-political developments in the Middle-East and supply/demand miss-matches in food commodities.
- The “game-changing” natural disaster of the Christchurch earthquake, slashing local GDP growth and interest rate levels for 2011.
- Will the tightening of monetary policy by China this year cause a reversal of spiralling metal and mining commodity prices, and thus put a dent in the current Australian resources boom?
- Is there more bad news to come out of Europe as the southern PIGS (Portugal, Italy, Greece and Spain) economies struggle to meet their debt bail-out conditions imposed by their European partners?
- How will our important tourism industry be affected by the Christchurch and Japan earthquakes?

One would have to expect local New Zealand business and consumer confidence surveys to be somewhat volatile over coming months as decision makers factor in the rapidly changing international and domestic economic environment. The earthquake disaster has suddenly changed the 2011 New Zealand economic outlook from one of confidence and optimism of strong export growth feeding into improving domestic spending/investment into a scenario of low growth and understandable hesitancy about new investment. On the flip-side, the prospects of spectacular economic growth (+4.00% to +5.00%) in 2012 are very real if our export commodity prices hold at their record high levels and the Christchurch rebuild is added in. A survey of economic forecasters today would see GDP growth for 2011 predicted to be anywhere between 0% and +2.00%. A range you could drive a London bus through. What we do know is that it has been a great growing season for our agricultural export production in recent months, with only lamb export numbers down due to earlier Southland storms and lower sheep numbers generally.

Following the daily media in New Zealand would provide a misleading impression of what drives our economy. The media (as well as the Reserve Bank!) tend to place too much emphasis, in my opinion, on the retail and housing markets as the determinants of economic direction and performance. It is however the big export industries that fundamentally drive our economy. Observing history is one way of analysing what might occur in the future. The relationship



between export commodity prices and real GDP growth has generally been close. In New Zealand the economy has always expanded at a higher rate when export prices are up (and vice versa). The current high export prices suggest GDP growth of +4.00% in our economy right now (refer chart). Clearly, we will not see such growth in 2011 due to the earthquake and remnants of the hangover from the 2004 to 2007 debt/spending binge still impeding consumer demand. However, do not rule out such strong growth in 2012 with the whole economy benefiting from that.

Stand yourself at December 2011 and the business/economic outlook for 2012 looks set to be one of strong expansion, rising inflation, rising interest rates and thus a rising NZ dollar currency value. Fixed interest investors who have been investing their funds in short maturities to benefit from higher short-term and long-term market interest rates later this year have just experienced a sharp lesson in “event risk” with the Christchurch earthquake and the OCR cut keeping interest rates now much lower for much longer.

Roger J Kerr

Director, Asia-Pacific Risk Management Ltd

DIRECTORY

INVESTMENT ENQUIRIES

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Email invest@marac.co.nz

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Email info@marac.co.nz

Website www.marac.co.nz

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Newmarket, Auckland 1023

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Newmarket, Auckland 1149

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PO Box 455, Waikato Mail Centre,
Hamilton 3240

Bay of Plenty

PO Box 11182, Palm Beach,
Tauranga 3151

Palmerston North

PO Box 613,
Palmerston North 4440

Hawke's Bay

PO Box 7088, Taradale,
Napier 4141

Wellington

PO Box 9941, Wellington 6141

Nelson

PO Box 3330, Richmond 7050

Otago/Southland

PO Box 217, Dunedin 9054

Every effort has been made to ensure the accuracy of this newsletter. It is provided on the basis that the items are necessarily generalised and are not a substitute for commercial judgement or professional advice.

Readers are urged:

1. to seek specific advice on any particular matter from a qualified professional person; and
2. not to rely solely on this text.

For an Investment Statement call 0800 26 27 22.

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