Pyne Gould Corporation

NZX and Media Release – 28 February 2011

In releasing PGC's half year result, the board and management of the Company wish to extend their sympathies and condolences to everyone who has been affected by the devastating Christchurch earthquake.

It is with great concern and sorrow that fourteen PGC group staff (ten from Perpetual and four from MARAC) remain unaccounted for and are believed to still be in the Cambridge Terrace building. A number of others have been severely injured. Our immediate focus and priority is to support our staff and their families as everyone struggles to come to grips with the events of the past week. We are also in the process of contacting our customers in the region to see how we can help and assist them through this horrific event.

Under these circumstances, the half year result to 31 December 2010 is therefore made in compliance with our regulatory obligations as a listed company – further updates on the outlook for PGC going forward will be made at an appropriate time.

Christchurch based operations update

- The Perpetual Group, comprised the bulk of the PGC personnel in the Christchurch office at the time of the earthquake, has around 100 staff in total throughout New Zealand. Senior management are and will remain in close contact with any staff and their families that have been affected, to offer help and provide support. Perpetual has full back-up systems in place for its record systems, including its transactions system, which is backed up daily onto remote tapes and housed in a secure location. Those systems are now either in the process of being restored, or are already up and running in their main office in Auckland, and in other branches in Wellington, Dunedin and throughout New Zealand. While its prime focus is on looking after its Christchurch people, Perpetual is able to operate its normal business.

- The Combined Building Society branch at CBS Canterbury Riccarton was unaffected and has reopened. CBS Canterbury Sydenham has some damage and is closed due to being within the cordon. The MARAC business that was based in the Cambridge Terrace building has been relocated, there were 15 staff whose principle roles were client management and credit processing, Auckland based staff are covering these activities in the interim. Central management in Auckland continues with business as usual.

PGC's Interim Result to 31 December 2010

Overview

- **PGC delivers strategic 'Heartland' merger**
- **Investment grade credit rating for the merged Heartland entity, Combined Building Society**
- **A solution found for PGG Wrightson (PGW) holding**
- **Sound underlying performance from MARAC[1]**
- **Perpetual confirms focus on wealth and capital management business**
- **A special dividend of 1.5c per share paid**

Pyne Gould Corporation Limited (PGC) today announced its interim result for the six months to 31 December 2010 – a period of significant achievement in delivering on strategic goals and restructuring of the Company to prepare it for the next stage of its evolution into two listed companies: one focussed on banking[2] services (Building Society Holdings Limited or "BSHL") and the other on wealth and capital management ("PGC").

In this six month period PGC reported net operating income of $43.2 million, down from $49.5 million in the corresponding six month period in 2009. The underlying operating income was broadly in line with 2009 when accounting for one-off income of $5.1 million from the sale in 2009 of property and a fee from Agria (Singapore) Pte (Agria) for the termination of the shareholders agreement with Rural Portfolio Investments.

The operating income was underpinned by a solid performance from MARAC, reporting a net operating income of $31.3 million which was in line with the corresponding period a year ago of $32.2 million. Encouragingly, MARAC's operating income was achieved from higher quality earnings from its core consumer and commercial lending activities as it exited the higher-yielding yet riskier commercial property lending market.

A series of one-off costs relating to restructuring and repositioning of PGC saw it report a net loss after tax of $37.2 million for the period under review. This compares to a net profit after tax of $10.1 million for the corresponding period a year ago.

The principal contributor to the loss was the previously foreshadowed $30.3 million non-cash write down of PGC's 18.3% holding in PGW, after PGC agreed to accept Agria's partial takeover offer in respect of all of its holding in PGW (that offer being at 60c per share). PGC had previously equity accounted its investment at 82c per share as it has been (until recently) a long term strategic investment for PGC.

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[1] Post balance date MARAC is now a wholly owned subsidiary of Combined Building Society.

[2] None of PGC, BSHL, Combined Building Society or MARAC are a registered bank.

The other contributing factors to the bottom line loss included:

- An increase in costs of $9.2 million ($33.5 million vs $24.3 million in December 2009). This was mainly due to an additional $5.1 million of legal and professional fees for the merger and restructuring across the group, increased property management costs of $1.0 million for the Property Management group and increased staff costs of $0.7 million.
- Increased total impairments of $4.4 million ($17.0 million vs $12.6 million in December 2009). Included within the $17.0 million were property impairments totalling $12.7 million (up from $6.9 million in December 2009) reflecting continuing pressure in the sector. MARAC total impairments were $6.1 million and RECL impairments were $10.9 million.
- A $1.8 million fall ($1.1 million loss vs $0.7 million profit in December 2009) in PGC's share of equity accounted earnings from PGW.

Commenting jointly on the result PGC Chairman Bruce Irvine and Chief Executive Jeff Greenslade said: "The six month period under review marks a significant transition for the group. It was a period when the management and board continued to restructure and reposition the Company. A key highlight was the successful and complex merger between MARAC, CBS Canterbury and Southern Cross Building Society to form Combined Building Society – a transaction which on completion in early January 2011 saw Standard & Poor's assign an investment grade credit rating to that merged entity. Given the importance of MARAC to our business, the successful delivery of this merger was a key strategic outcome. Combined Building Society, which now includes MARAC, is well positioned to drive its growth through servicing the banking needs of Heartland New Zealanders. "

"A critical part of this merger process was the deliberate decision to transfer a material portion of the residual real estate exposure on the MARAC books to PGC through a special purpose property vehicle (Real Estate Credit Limited or "RECL") to materially improve the asset mix and quality of the assets that now form part of BSHL. PGC has the appropriate skills and resources to patiently realise value from these impaired assets, leaving BSHL to focus on positive growth opportunities in its long term core markets."

"Other significant milestones were negotiating a positive outcome for our PGW holding, and the payment of a special 1.5c per share dividend in December 2010."

"Whilst the transition has been painful, particularly from an accounting point of view, PGC is now well positioned to return substantial value to shareholders and grow the remaining business."

PGC Business Going Forward

Following the in-specie distribution of BSHL shares and the disposal or distribution of its PGW holding, PGC's future focus will be to maximise shareholder value through wealth management services offered by the Perpetual Group and Torchlight Investment Group. This will be underpinned by strong capital management across the group. PGC's operations will consist of:

- Perpetual (encompassing Perpetual Portfolio Management, Perpetual Asset Management and Perpetual Trust), which offers an integrated wealth management service to mainstream investors across the New Zealand market.
- Torchlight, which focuses on providing proprietary funds management to high net worth investors and institutions across Australasia.
- Property Group (which includes Real Estate Credit Limited) owns (and is managing and realising) the ex-MARAC property portfolio transferred to it in 2009; and under the RECL Management Agreement is responsible for managing the remaining MARAC property loan portfolio.

Following the in-specie distribution MARAC will no longer be part of the PGC group.

Operational Results

MARAC

MARAC delivered a 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'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 2009. Pleasingly, a $2.2 million improvement in the consumer book over the previous corresponding period was recorded, which offset the impact of a drop in income from the high yielding property lending as the company managed down its exposure to this more risky sector.

Total impairments were $6.1 million after receiving a $7.6 million benefit from the RECL Management Agreement.

The period under review was a significant transitional one for MARAC, maintaining operational performance whilst at the same time successfully executing a merger which PGC believes will benefit all stakeholders in the business.

This is the last time MARAC's results will be reported separately as part of the PGC group. In the future MARAC's results will be reported as part of Combined Building Society.

Perpetual, Torchlight, Property Group

For the period under review, the result for the combined businesses is an after tax loss of $7.7 million (compared to an after tax profit of $2.4 million for the corresponding period a year ago). The $10.1 million turnaround is principally a result of the impact of the RECL Management Agreement (discussed below) and one-off costs associated with restructuring. The majority of the turnaround includes (pre tax):

- Recognition of $1.0 million property asset impairment expenditure by RECL on the ex-MARAC property portfolio previously transferred to it.
- $7.6 million impairment for RECL under the RECL Management Agreement with MARAC.
- Recognition of approximately $1.0 million property asset management and operating expenditure by RECL.
- One-off restructuring costs of approximately $2.5 million as part of a large investment in people and systems to build the platform for future growth by Perpetual and Torchlight.

Perpetual has a substantial client base and it has made a significant investment in people and systems. In the six month period ended 31 December 2010 Perpetual also acquired $105 million of funds under advice. Nine new funds have been established and Perpetual now has $587 million in funds under advice and management. The Trust, Estate and Corporate divisions recorded an after tax loss of $0.4 million for the period.

Torchlight Investment Group, comprising the Torchlight Fund and Equity Partners Infrastructure Company ("EPIC"), contributed $2.9 million of annuity and transaction fee income during the period.

Property Group – Capital Management

The Property Group will manage out and realise legacy impaired assets from the ex-MARAC property loan book. Consistent with a focus on strong capital management, these surplus assets will be realised over time to maximise cash proceeds, and it is intended that the resulting proceeds will be invested into the business or returned to PGC shareholders tax efficiently.

Property Group – Impairments

It is prudent in the current environment to continue to impair all interest income which accrues on the ex-MARAC impaired property portfolio transferred to it. Accordingly, approximately $2.3 million pre tax of interest impairments have been recorded. In addition, underlying principal and property revaluation impairments of $1.0 million pre tax have been made.

Property Group – Management Agreement with MARAC

As noted in the BSHL merger offer documents, on 5 January 2011 RECL, which is within the Property Group, entered into an arrangement with MARAC (the RECL Management Agreement) to manage the remaining non-core property loans of MARAC (that were not previously transferred to RECL) for a period of up to 5 years, and subject to the limited recourse arrangements assume risk of loss on those loans for that period. Refer to the attached presentation for further details.

PGG Wrightson

PGC expected the contribution to its earnings from its investment in PGW to be flat at the half year, however, given PGW's earnings downgrade on 17 December 2010, PGC's share of PGW's loss was $1.1 million.

Other Matters

PGC's subsidiary Combined Building Society (which is part of BSHL group) has approximately $290 million of lending in Christchurch which is approximately 13% of total assets. At this time the company does not believe there will be a material financial impact from the events of the past week but will be conducting detailed analysis over the coming weeks. Both PGC and BSHL's total focus is on their staff and their families. PGC and BSHL's operating businesses have a long proud history in the Christchurch region and the Company intends fully playing its part to help rebuild the city.

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

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