Media Release

Merger gets positive endorsement from S&P

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The placing of MARAC Finance Ltd on WatchPositive announced by Standard & Poor's today is a significant endorsement of the plan to merge MARAC, CBS Canterbury (CBS) and Southern Cross Building Society (SCBS), the chairman of the Establishment Board for the merger, Bruce Irvine, said.

The WatchPositive for MARAC was announced after the signing yesterday of the binding Merger Implementation Agreement (MIA) which sets out the structure and process to merge the three entities.

Mr Irvine, who is also chairman of PGC and MARAC, said: "Standard & Poor's swift action is an endorsement of the work already accomplished by the three parties and Pyne Gould Corporation (PGC) to create a financial services group with the ability to formally apply for a banking licence.

"Separately the boards of PGC, MARAC, CBS and SCBS have found the case for merger compelling and have agreed to it. The immediate action by the ratings agency following the signing of the MIA is an independent critical review that should be welcomed by our stakeholders and encourage their endorsement of the proposal."

Mr Irvine also noted the comment by Standard & Poor's that CBS and SCBS would benefit from the merger but their respective ratings would remain unchanged as, of the three rated entities, it was only MARAC that would survive as a legal entity through the merger process.

"The ratings action now confirms our view that the merged entity will meet the criteria for the investment grade credit rating regarded as a necessary step for an application to the Reserve Bank of New Zealand for a banking licence," Mr Irvine said.

Standard & Poor's has placed MARAC on WatchPositive (its rating is 'BB+/B'). In its statement Standard & Poor's said: "If the merger is successfully executed and underlying assumptions are met, the rating benefit is likely to be one notch with a stable outlook."

Standard & Poor's also said:" In our view, a higher rating on MARAC would be based on MARAC forming a core part of the proposed merged group. The proposed group's credit profile would reflect its enlarged and improved business and financial profile. Specifically, we believe that the group would benefit from increased scale, diversification, and geographic reach across New Zealand, being comprised of the combined operations of MARAC, CBS, and SCBS. Other potential benefits include: a stronger funding profile stemming from the merged group's anticipated better access to retail and wholesale funding; a larger capital base with greater financial flexibility on the back of a plan to list on the New Zealand stock exchange; and improved earnings diversity."