



Southland Building Society  
trading as SBS Bank

# Indicative Terms Sheet

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For an offer of unsecured, subordinated, debt securities issued as redeemable shares.

5 February 2024

Joint Lead Managers:



FORSYTH BARR



JARDEN



This indicative terms sheet (**Terms Sheet**) is prepared in respect of an offer (**Offer**) by Southland Building Society, trading as SBS Bank (**SBS Bank**) of up to \$60,000,000 unsecured, subordinated debt securities which are issued as redeemable shares (**Bonds**) under its Master Deed dated 30 April 2014 (as amended and restated on 26 September 2017), as modified and supplemented by the Supplemental Deed dated 5 February 2024.

This is a summary only. Full details of the Offer are contained in the limited disclosure document dated 5 February 2024 (**LDD**) and the Master Deed and Supplemental Deed.

The Bonds are debt securities issued by SBS Bank. You give SBS Bank money, and in return we promise to pay you interest and repay the money at the end of the term. If SBS Bank runs into financial trouble, you might lose some or all of the money you invested. This investment has a higher risk profile than a bank deposit. The Bonds are complex financial products that are not suitable for all investors. If you do not fully understand how they work or the risks associated with them, you should not invest in them. You should read the LDD and you can seek advice from a financial advice provider to help you make an investment decision.

Capitalised terms used in this Terms Sheet are defined in the LDD unless the context otherwise requires.

### Key dates for the Offer

<b>LDD Registration</b>	Monday, 5 February 2024.
<b>Opening Date</b>	Monday, 12 February 2024.
<b>Rate Set Date</b>	Thursday, 15 February 2024.
<b>Closing Date/Time</b>	Thursday, 15 February 2024 at 11am (NZ time) or earlier at SBS Bank's discretion.
<b>Issue Date</b>	Thursday, 22 February 2024.
<b>Expected date of initial quotation and trading of the Bonds on NZX Debt Market</b>	Friday, 23 February 2024.

### Key dates for the Bonds

<b>First Interest Payment Date</b>	Wednesday, 22 May 2024.
<b>Interest Payment Dates</b>	22 February, 22 May, 22 August, 22 November in each year during the term of the Bonds.
<b>First Optional Redemption Date</b>	Wednesday, 22 August 2029.
<b>Maturity Date</b>	Tuesday, 22 August 2034.

### Dates may change

The "Key dates for the Offer" (listed above) are indicative only and subject to change. SBS Bank may, in its absolute discretion, vary these dates (including by opening or closing the Offer early and/or extending the Closing Date/Time). If the Closing Date/Time is extended, all subsequent dates may also be extended. Any such changes will not affect the validity of any applications received.

SBS Bank reserves the right to cancel the Offer and the issue of the Bonds.

### Key risks

Investments in debt securities have risks. Key risks are that SBS Bank does not meet its commitments to repay you or pay you interest, and/or that if you want to sell the Bonds, you are unable to find a buyer or the amount received is less than the amount you paid for the Bonds. Section 6 of the LDD (Risks of Investing) discusses the main factors that give rise to this risk.

## Overview of the Bonds

<b>Issuer</b>	Southland Building Society, trading as SBS Bank.
<b>Description</b>	The Bonds are unsecured, subordinated debt securities which are issued as redeemable shares and qualify as Tier 2 Regulatory Capital.
<b>Offer Amount</b>	Up to \$60,000,000.
<b>Term</b>	10.5 years, maturing on 22 August 2034 (subject to SBS Bank's right to redeem the Bonds on any Optional Redemption Date).
<b>Issue Price and Principal Amount</b>	The Bonds will be issued at \$1.00 per Bond, which is also the Principal Amount.
<b>Key Features</b>	<p>The Bonds are debt securities that have the features of Regulatory Capital instruments and building society shares. They are different to most bonds issued by banks or other corporates because:</p> <ul style="list-style-type: none"> <li>• they are able to be repaid early by SBS Bank in some situations, with the approval of the Reserve Bank of New Zealand (the <b>RBNZ</b>); and</li> <li>• they give Holders the right to: <ul style="list-style-type: none"> <li>- vote at meetings of members of SBS Bank; and</li> <li>- participate (equally with all other members of SBS Bank) in surplus assets of SBS Bank on a liquidation; and</li> </ul> </li> <li>• Holders have no right to require SBS Bank to repay the Bonds early including where SBS Bank is unable to make, or default on, scheduled interest payments.</li> </ul> <p>Where your Bonds are held by a custodian (i.e. your name is not entered in the Register), only the custodian will have the right to vote at meetings of SBS Bank's members (subject to the terms of any custodial arrangement with you). If you would like the right to vote your membership interest, you will need to hold the Bonds in your own name.</p> <p>The rights of Holders on default by SBS Bank under the Master Deed, are more limited than is typical of a debt instrument which is not Regulatory Capital.</p>
<b>Ranking of the Bonds on a Liquidation</b>	<p>The Bonds are unsecured, subordinated debt obligations of SBS Bank. This means that if SBS Bank goes into liquidation or is dissolved (other than for the purposes of a solvent reconstruction or amalgamation), you will not be entitled to any payment of the Principal Amount of, or accrued interest on, your Bonds until all of SBS Bank's prior ranking creditors have been paid in full.</p> <p>This means that in a liquidation of SBS Bank, if there are insufficient funds to repay all of the Bonds, you will be repaid by SBS Bank:</p> <ul style="list-style-type: none"> <li>• only <b>after</b> SBS Bank has repaid: <ul style="list-style-type: none"> <li>- creditors preferred by law and secured creditors (for example, Inland Revenue and employees);</li> <li>- all holders of unsecured and unsubordinated debt securities not issued as redeemable shares; and</li> <li>- all holders of unsubordinated redeemable shares (which includes redeemable shares issued in respect of our everyday transactional and savings accounts and call and term deposits); and</li> </ul> </li> <li>• <b>on a proportionate basis</b> (at the same time and to the same extent) together with SBS Bank's debt securities issued as subordinated redeemable shares; and</li> <li>• <b>before</b> equity and holders of other securities and obligations that rank behind the Bonds.</li> </ul> <p>You will also have the right (equally with all of SBS Bank's other members) to participate in SBS Bank's surplus assets (if any) on liquidation.</p> <p>In a liquidation of SBS Bank, it is unlikely that there will be surplus assets available for the liquidator to pay any amount to Holders in respect of the Bonds.</p>
<b>Purpose of the Offer</b>	The money raised under this Offer will be used by SBS Bank to support continued business operation and growth and will be treated by SBS Bank as Tier 2 Regulatory Capital.

<b>Credit Rating</b>	<p><b>Issuer Credit Rating</b> BBB (stable outlook) by Fitch Australia Pty Limited (<b>Fitch</b>).</p> <p><b>Bonds' Credit Rating</b> BB+ by Fitch.</p> <p>A credit rating is not a recommendation to buy, sell or hold securities and may be revised or withdrawn by the rating agency at any time.</p>
<b>Who May Apply Under the Offer</b>	<p>All of the Bonds offered under this Offer have been reserved for subscription by clients of the Joint Lead Managers, Primary Market Participants and other approved financial intermediaries. No person may apply for Bonds (including through a Joint Lead Manager, Primary Market Participant or other approved financial intermediary) unless they have obtained a copy of the LDD.</p> <p>There will be no public pool for the Bonds.</p>
<b>Interest Rate</b>	<p>The interest rate for the first five and a half years from the Issue Date will be fixed, after which it will change to a floating rate that resets quarterly.</p> <p>The interest rate for the first five and a half years until the First Optional Redemption Date (22 August 2029) will be a fixed rate equal to the sum of the Base Rate and the Issue Margin, but in any case will be no less than the minimum interest rate announced via NZX on or about the Opening Date.</p> <p>The interest rate from (and including) the First Optional Redemption Date will be a floating rate and will:</p> <ul style="list-style-type: none"> <li>• be reset quarterly and apply from the first day of each Interest Period; and</li> <li>• be equal to the sum of the 3 Month Bank Bill Rate (applying at the time the Interest rate is set) and the Issue Margin.</li> </ul> <p>If the sum of the 3 Month Bank Bill Rate plus the Issue Margin is less than 0%, the floating rate will be deemed to be 0% per annum.</p> <p>The initial interest rate will be determined by SBS Bank in conjunction with the Joint Lead Managers following the Bookbuild on the Rate Set Date (15 February 2024) and announced via NZX on or about this date.</p> <p>Each time the interest rate is reset after the First Optional Redemption Date, SBS Bank will announce the new interest rate via NZX on or about the date it is reset (it will also be available on the Offer Register and on SBS Bank's website).</p>
<b>3 Month Bank Bill Rate</b>	<p>The 3 Month Bank Bill Rate will, in relation to an Interest Period, be the interest rate that is the 'FRA' rate (expressed as a percentage per annum) for bank bills having a term of 3 months (rounded, if necessary, to the nearest 4 decimal places with 5 being rounded up) as quoted on Reuters screen 'BKBM' (or its successor or replacement page) at or about 10:45 a.m. on any date that the interest rate is reset by SBS Bank.</p> <p>If the 3 Month Bank Bill Rate becomes unavailable, SBS Bank will replace it with an alternative reference rate. In doing so SBS Bank will act in good faith and in a commercially reasonable manner and may consult with such sources of market practice as it considers appropriate. Any such replacement may result in the Bonds performing differently (which may include payment of a lower interest rate) than if the 3 Month Bank Bill Rate had continued to be available and apply to the Bonds.</p>
<b>Issue Margin</b>	<p>The Issue Margin is the percentage rate per annum determined by SBS Bank in consultation with the Joint Lead Managers through the Bookbuild. SBS Bank expects to announce an indicative Issue Margin range (which may be subject to change) via NZX on or about the Opening Date. The actual Issue Margin (which may be above, below or within the announced indicative Issue Margin range) will be announced by SBS Bank via NZX on or about the Rate Set Date.</p> <p>The Issue Margin will not change throughout the term.</p>
<b>Base Rate</b>	<p>The Base Rate will be the mid-market rate for an interest rate swap with a term of 5 and a half years commencing on the Issue Date, as calculated by the Arranger, according to market convention, with reference to Bloomberg Page ICNZ4 (or any successor page) on the Rate Set Date, expressed as a percentage per annum, adjusted for quarterly payments and rounded, if necessary, to the nearest 2 decimal places with 0.005 being rounded up.</p>

<b>Interest Payments</b>	<p>Until the First Optional Redemption Date (22 August 2029), interest will be paid in arrear in equal quarterly instalments on each Interest Payment Date, being 22 February, 22 May, 22 August, 22 November in each year, commencing on the First Interest Payment Date (or if that date is not a Business Day, the next Business Day without adjustment, interest or further payment as a result thereof).</p> <p>The first Interest Payment Date is 22 May 2024.</p> <p>From (and including) the First Optional Redemption Date, interest will be paid in arrear quarterly on each Interest Payment Date on the basis of the actual number of days in the relevant Interest Period and a year of 365 days (366 days in a leap year) (subject to early redemption by SBS Bank).</p> <p>An Interest Period is the period from (and including) an Interest Payment Date (or the Issue Date in the case of the first Interest Period) to (but excluding) the next Interest Payment Date (or the Maturity Date in the case of the final Interest Period).</p> <p>The payment of interest on each Interest Payment Date (other than on the Maturity Date) is conditional on SBS Bank satisfying the Solvency Condition (set out below).</p>
<b>No Early Redemption by Holder</b>	<p>You have no right to require early redemption of the Bonds, including in relation to an Event of Default as described in section 5 of the LDD (Key Features of the Bonds) and the Master Deed. This means that subject to early redemption by SBS Bank, or you selling your Bonds to another Holder, you will have to hold your Bonds until maturity to receive repayment of the Principal Amount.</p>
<b>Early Redemption on Optional Redemption Dates</b>	<p>SBS Bank may repay the Principal Amount of your Bonds (together with accrued interest) on any Optional Redemption Date, provided SBS Bank gives you notice of the early repayment and receives the approval of the RBNZ.</p>
<b>Optional Redemption Dates</b>	<p>The five and a half year anniversary of the Issue Date (being 22 August 2029) and each scheduled Interest Payment Date thereafter.</p>
<b>Early Redemption by SBS Bank for Tax or Regulatory Event</b>	<p>SBS Bank may redeem the Principal Amount of the Bonds early if a Regulatory Event or a Tax Event occurs. In brief:</p> <ul style="list-style-type: none"> <li>• a Regulatory Event would occur if SBS Bank determined that, because of a material change in law, regulation or directive or a change in interpretation or administration of any relevant law, regulation or directive (that was not anticipated by SBS Bank at the time of issuing the Bonds), SBS Bank's treatment of the Bonds as Tier 2 Regulatory Capital of SBS Bank is adversely affected, or will be adversely affected.</li> <li>• a Tax Event would occur if SBS Bank determined that, because of a material change in law or practice affecting taxation (that was not anticipated by SBS Bank at the time of issuing the Bonds), there would be a more than minimal increase in SBS Bank's costs in respect of the Bonds.</li> </ul> <p>In each case, SBS Bank must first satisfy the Solvency Condition, obtain the consent of the RBNZ to repay the Principal Amount early and SBS Bank is required to give you notice of that early repayment.</p>
<b>Minimum Subscription Amount and Minimum Holding Amount</b>	<p>The minimum subscription and holding amounts for the Bonds is \$5,000 and multiples of \$1,000 thereafter.</p>
<b>Business Day</b>	<p>Any day (other than a Saturday or a Sunday) on which registered banks are generally open for business in Auckland and Invercargill except that in the context of the Listing Rules it means a day on which the NZX Debt Market is open for trading.</p>
<b>Business Day Convention</b>	<p>If an Interest Payment Date on or before the First Optional Redemption Date is not a Business Day, SBS Bank will make payment on the next Business Day, and no adjustment will be made to the amount of interest payable as a result of the delay in payment.</p> <p>If an Interest Payment Date after the First Optional Redemption Date is not a Business Day, then the Interest Payment Date will be the next Business Day, unless that day falls in the next calendar month, in which case it will be the preceding Business Day, and, in either case, the amount of interest payable will be adjusted to reflect the actual payment date.</p>

<b>Record Date</b>	The Record Date for any payment due in respect of the Bonds is 5:00pm on the close of business on the tenth day before the due date for that payment or, if that day is not a Business Day, the preceding Business Day.
<b>Entitlement to Payments</b>	Payments on the Bonds will be made to the persons who are the registered Holders of the Bonds as at the Record Date.
<b>Solvency Condition</b>	<p>Where interest payments or early repayment of the Principal Amount are suspended because SBS Bank doesn't have a current Solvency Certificate (or can no longer rely on a Solvency Certificate given) in accordance with the terms of the Master Deed, SBS Bank is not required to make such payment and this will not constitute a default by SBS Bank under the Master Deed.</p> <p>Failure to make any interest payment or repay the Principal Amount when due where SBS Bank is otherwise solvent, is a default under the Master Deed, but does not allow the Holder (or any other person) to call for early repayment of the Bonds. Any interest not paid because SBS Bank is not solvent, remains owing by SBS Bank. That unpaid Interest will also accrue interest at the relevant interest rate. That interest will be payable on the earlier of the first Business Day on which the Solvency Condition is satisfied, and the Maturity Date.</p> <p>The Solvency Condition does not apply to payments that are required to be made on the Maturity Date or if SBS Bank is in liquidation.</p>
<b>Events of Default</b>	<p>The Bonds have very limited events of default, as described in section 5 of the LDD (Key Features of the Bonds). An Event of Default will occur if:</p> <ul style="list-style-type: none"> <li>• SBS Bank does not pay any amount payable under the Master Deed within 10 Business Days of its due date; or</li> <li>• an order is made, or an effective resolution is passed, for the liquidation of SBS Bank.</li> </ul> <p>However, to the extent that a payment on the Bonds is not required to be made because SBS Bank does not satisfy the Solvency Condition, the amount is not due and payable and a payment default cannot occur.</p> <p>If a payment default occurs, you may only bring proceedings:</p> <ul style="list-style-type: none"> <li>• to recover any amount then due and payable but unpaid on your Bonds (subject to satisfaction of the Solvency Condition if the payment of the unpaid amount was subject to the Solvency Condition);</li> <li>• to obtain an order for specific performance of any other obligation in respect of your Bonds; or</li> <li>• for the liquidation of SBS Bank.</li> </ul> <p>Where an Event of Default occurs due to the commencement of the liquidation of SBS Bank, in addition to the rights listed above, the Principal Amount of each Bond and any accrued but unpaid interest on the Bonds will immediately become due and payable, and you may claim in the liquidation for that amount. It is unlikely that you will receive payment of any amount owing on your Bonds in a liquidation.</p>
<b>No Restrictions on Issuing Further Securities or Creating Further Liabilities</b>	There are no restrictions on SBS Bank incurring liabilities which rank equally with, or in priority to, the Bonds in a liquidation of SBS Bank. This includes further debt securities issued under the Master Deed. SBS Bank could therefore, at any time after the Issue Date, issue further securities or create further liabilities that rank equally with or in priority to the Bonds. In addition, SBS Bank may repay any of its debt securities which rank equally with, or behind the Bonds, provided it has satisfied the Solvency Condition.
<b>Rights of Members</b>	The Bonds give Holders the right to vote at meetings of members of SBS Bank and participate (equally with all other members) in surplus assets of SBS Bank on a liquidation.
<b>Transfers Restrictions</b>	<p>You are entitled to sell or transfer your Bonds at any time, subject to the terms of the Master Deed, Supplemental Deed and any applicable laws and regulations. SBS Bank will not register any transfers of Bonds if the transfer would result in you holding Bonds less than the Minimum Holding (but greater than zero).</p> <p>This Offer is subject to certain selling restrictions, and you will be required to indemnify certain people if you breach these restrictions. See section 3 (Terms of the Offer) and section 10 (Other Information Relating to the Offer) of the LDD for more information.</p>

<b>Selling Restrictions</b>	<p>The LDD only constitutes an offer of Bonds to investors in New Zealand and to certain overseas institutional investors in accordance with the selling restrictions set out in the LDD.</p> <p>SBS Bank has not taken and will not take any action that would permit a public or regulated offering of the Bonds, or possession or distribution of any offering material in respect of the Bonds, in any country or jurisdiction where action for that purpose is required (other than New Zealand).</p> <p>The Bonds may only be offered for sale or sold in compliance with all applicable laws and regulations in any jurisdiction in which they are offered, sold or delivered. The LDD and any disclosure statement, information memorandum, prospectus, circular, advertisement or other offering material in respect of the Bonds may only be published, delivered or distributed in compliance with all applicable laws and regulations (including those of the country or jurisdiction in which the material is published, delivered or distributed).</p> <p>Specific selling restrictions will apply to an initial offer of the Bonds in Australia, the European Union (excluding Austria), Hong Kong, Japan, Singapore, the United Kingdom and the United States or to US Persons.</p>
<b>Quotation</b>	<p>Application has been made to NZX for permission to quote the Bonds on the NZX Debt Market and all the requirements of NZX relating to that quotation that can be complied with on or before the date of distribution of this Terms Sheet have been complied with. However, the Bonds have not yet been approved for trading and NZX accepts no responsibility for any statement in this Terms Sheet. NZX is a licensed market operator, and the NZX Debt Market is a licensed market, under the FMCA.</p> <p>Ticker code SBS1T2 has been reserved for the Bonds.</p>
<b>Arranger</b>	Westpac Banking Corporation (ABN 33 007 457 141) (acting through its New Zealand branch) ( <b>Westpac</b> ).
<b>Joint Lead Managers</b>	Bank of New Zealand, Forsyth Barr Limited, Jarden Securities Limited and Westpac.
<b>Bond Registrar, Paying Agent and Calculation Agent</b>	<p>Computershare Investor Services Limited.</p> <p>The Bonds will be accepted for settlement within the NZClear system.</p>
<b>ISIN</b>	NZSBBDT390C6
<b>Brokerage</b>	0.50% brokerage plus 0.50% on firm allocations, paid by SBS Bank.
<b>Approved Issuer Levy</b>	SBS Bank intends to register the Bonds for approved issuer levy ( <b>AIL</b> ) and, where it is eligible to do so in respect of interest paid to a non-resident Holder that is subject to the non-resident withholding tax rules (and unless otherwise elected by the Holder), to pay AIL in lieu of deducting non-resident withholding tax. If the Bonds qualify for the 0% rate of AIL, SBS Bank intends to apply the 0% rate, otherwise it will apply AIL at the applicable rate. The amount of any AIL paid will be deducted from payments to the relevant Holder.
<b>Documents</b>	<p>LDD relating to the Offer of the Bonds dated 5 February 2024.</p> <p>The terms and conditions of the Bonds are set out in the Master Deed and Supplemental Deed. Holders are bound by, and are deemed to have notice of, the Master Deed and Supplemental Deed.</p> <p>If you require further information in relation to these documents, you may obtain a copy free of charge from the Offer Register at <a href="http://www.disclose-register.companiesoffice.govt.nz">www.disclose-register.companiesoffice.govt.nz</a> (offer number OFR13709).</p>
<b>No Guarantee</b>	The Bonds are not guaranteed by any member of the Group or any other person and SBS Bank is solely responsible for repayment of the Principal Amount of the Bonds (including interest thereon).
<b>No Underwriting</b>	The Offer is not underwritten.
<b>Currency</b>	The Bonds will be denominated in New Zealand dollars.
<b>Governing Law</b>	New Zealand.