

## SBS Capital Bonds No. 2 (SBS Capital Bonds) Terms Sheet

This is a summary only. Full details of the offer are contained in the Limited Disclosure Document dated 24 January 2023 (the **LDD**) and the Master Deed and Supplemental Deed. Capitalised Terms used in this Terms Sheet are defined in the LDD.

SBS Capital Bonds are debt securities issued by Southland Building Society (**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.

Certain SBS Bank personnel are able to provide advice on the SBS Capital Bonds – please enquire further if you are interested in talking to one of our nominated representatives. You can also consult a financial adviser before you decide whether or not to invest.

<b>Issuer</b>	Southland Building Society trading as SBS Bank.
<b>Description</b>	The SBS Capital Bonds are unsecured, subordinated debt securities which are issued as redeemable shares. The SBS Capital Bonds qualify as Tier 2 Regulatory Capital.
<b>Term and Maturity Date</b>	10 years, maturing on the tenth anniversary of the Issue Date (subject to SBS Bank's right to redeem any SBS Capital Bonds on any SBS Optional Redemption Date).
<b>Issue Price and Principal Amount</b>	SBS Capital Bonds will be issued at \$1.00 per share, which is also the Principal Amount.
<b>Issue Date</b>	SBS Capital Bonds will be issued as soon as practicable upon SBS Bank accepting your application for SBS Capital Bonds (generally within 24 hours).
<b>Key features</b>	<p>SBS Capital 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 us 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 SBS Capital Bonds early including where we are unable to make, or default on, scheduled interest payments.</li> </ul> <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>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 us as Tier 2 regulatory capital as required by the RBNZ.
<b>Interest rate</b>	<p>The interest rate for the first five years from the Issue Date will be fixed. The interest rate for your SBS Capital Bonds will be the fixed interest rate announced by SBS Bank prior to, and applying on, your Issue Date. The current fixed interest rate for the SBS Capital Bonds can be found on the Offer Register at <a href="http://www.business.govt.nz/disclose">www.business.govt.nz/disclose</a>.</p> <p>After the first five years, the interest rate applicable to each Interest Period (3 months) will float and will:</p> <ul style="list-style-type: none"> <li>• be set and advised to you by us (by notice in writing (including electronically) and available on internet banking and on our website);</li> <li>• apply from the first day of each Interest Period; and</li> <li>• be based on the BKBM Rate (applying at the time the interest rate is set) and a margin which will be set by SBS Bank and notified to you prior to your Issue Date.</li> </ul> <p>If the sum of the BKBM Rate plus the margin is less than 0%, the floating rate will be deemed to be 0% per annum.</p>
<b>Interest Payments</b>	<p>Interest will be paid on each quarterly date (calculated from the Issue Date) which is the first day after each Interest Period (each an <b>Interest Payment Date</b>).</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>Interest payable on each Interest Payment Date will be calculated 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 solvency requirements.</p>

	<p>Where Interest payments or early repayment of the Principal Amount are suspended because we don't have a current Solvency Certificate, SBS is not required to make such payment and this will not constitute a default by us under the Master Deed.</p> <p>Failure to make any Interest payment or repay the Principal Amount when due, in the absence of an inability by SBS Bank to provide a Solvency Certificate, is a default under the Master Deed, but does not allow the Holder to call for early repayment of the SBS Capital Bonds.</p> <p>Any interest not paid because we are not solvent, remains owing by us. That unpaid interest will also accrue interest at the relevant rate. That interest will be payable on the first Business Day on which SBS Bank is solvent.</p>
<b>Business day convention</b>	Where any payment on a SBS Capital Bond is due on a date which is not a Business Day, that payment will be made on the next Business Day.
<b>Entitlement to payments</b>	Payments on the SBS Capital Bonds will be made to the persons who are the registered Holders of the SBS Capital Bonds as at the due date for payment.
<b>Solvency</b>	SBS Bank is only able to make interest payments, and repay any Principal Amount early, if there is a current Solvency Certificate in place on the due date for those payments and no adverse circumstances have occurred which prevent SBS Bank from relying on a Solvency Certificate. No Event of Default occurs under the Master Deed where SBS Bank fails to make any interest payment on a scheduled Interest Payment Date due to insolvency.
<b>Ranking of the SBS Capital Bonds on a liquidation</b>	<p>The SBS Capital 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 SBS Capital Bonds until all of SBS Bank's prior ranking creditors have been paid in full. This means that repayment of your Principal Amount and payment of interest thereon will rank after the claims of preferred creditors, depositors and holders of SBS Bank's everyday redeemable shares (issued in respect of everyday transactional and savings accounts and call and term deposits). Claims of holders of SBS Capital Bonds and other holders of subordinated redeemable shares will thereafter rank equally amongst themselves.</p> <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>
<b>No early redemption by Holder</b>	You have no right to require early redemption of the SBS Capital Bonds, including in relation to an Event of Default as described in the Master Deed. This means that subject to early redemption by us, or you selling your SBS Capital Bonds to another holder, you will have to hold your SBS Capital Bonds until maturity to receive repayment of the Principal Amount.
<b>Early redemption on SBS Optional Redemption Dates</b>	SBS Bank may repay the Principal Amount of your SBS Capital Bonds (together with accrued Interest) on any SBS Optional Redemption Date (which is the fifth anniversary of the Issue Date (being the first SBS Optional Redemption Date) and each quarterly Interest Payment Date thereafter), provided SBS Bank gives you notice of the early repayment and receives the approval of the RBNZ.
<b>SBS Optional Redemption Dates</b>	The fifth anniversary of the Issue Date and each scheduled Interest Payment Date thereafter,
<b>Early Redemption by SBS Bank for tax or regulatory event</b>	<p>SBS Bank may redeem the Principal Amount of the SBS Capital 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 SBS Capital Bonds), SBS Bank's treatment of the SBS Capital Bonds as Tier 2 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 SBS Capital Bonds), there would be a more than minimal increase in SBS Bank's costs in respect of the SBS Capital Bonds.</li> </ul> <p>In each case, SBS Bank must first 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 application and Minimum Holding amount</b>	The minimum application and holding amounts for SBS Capital Bonds is a Principal Amount of \$10,000.
<b>How to apply</b>	Application instructions are set out in section 9 of the LDD " <i>How to Apply</i> ".
<b>Credit Rating</b>	<ul style="list-style-type: none"> <li>Issuer Credit Rating BBB (positive outlook) by Fitch.</li> <li>SBS Capital Bonds Credit Rating Expected to be [BB+] by Fitch.</li> </ul> <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>Rights of members</b>	The SBS Capital 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 and selling restrictions</b>	You are entitled to sell or transfer your SBS Capital 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

	<p>any transfers of SBS Capital Bonds if the transfer would result in you holding SBS Capital Bonds less than the Minimum Holding (but greater than zero).</p> <p>SBS Bank does not intend to quote these SBS Capital Bonds on a market licensed in New Zealand and there is currently no other established market for trading them.</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 9 "<i>How to Apply</i>" of the LDD for more information.</p>
<b>Further Payments, Fees or Charges</b>	<p>Taxes may be deducted from Interest payments on the SBS Capital Bonds. See section 6 of the LDD "<i>Tax</i>" for more information.</p> <p>You are not required to pay brokerage or any other fees or charges to SBS Bank to apply for SBS Capital Bonds. However, you may have to pay a brokerage fee or commission and other applicable fees to any person who recommends the investment to you or who arranges the application for you. Please contact your broker for further information on any such fees.</p>
<b>Master Deed and Supplemental Deed</b>	<p>The terms and conditions of the SBS Capital 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. If you require further information in relation to these documents, you may obtain a copy free of charge from the Disclose register at <a href="http://www.business.govt.nz/disclose">www.business.govt.nz/disclose</a>.</p>
<b>No Guarantee</b>	<p>The SBS Capital Bonds are not guaranteed by any member of the SBS Banking Group or any other person and SBS Bank is solely responsible for repayment of the Principal Amount of the SBS Capital Bonds (including interest thereon).</p>
<b>Opening Date</b>	<p>The offer opens on 7 February 2023. This is a continuous offer and accordingly, there is no closing date.</p>
<b>Governing Law</b>	<p>New Zealand</p>