

SBS Capital Bonds Terms Sheet

This is a summary only. Full details of the offer are contained in the Limited Disclosure Document dated 29 September 2017 (the "LDD") and the Master Deed and Supplemental Deed. Capitalised Terms used in this Terms Sheet are defined in the LDD.

If SBS Bank experiences financial difficulty, the SBS Capital Bonds can be written off completely. This means that you could lose all of your investment. We recommend that you consult a financial adviser before you decide whether or not to invest.

Issuer	Southland Building Society trading as SBS Bank (the " Bank ").
Description	The SBS Capital Bonds are unsecured, subordinated, loss-absorbing debt securities which are issued as redeemable shares. The SBS Capital Bonds qualify as Tier 2 Regulatory Capital.
Term and Maturity Date	10 years, maturing on the tenth anniversary of the Issue Date (subject to the Bank's right to redeem any SBS Capital Bonds on any SBS Optional Redemption Date).
Issue Price and Principal Amount	SBS Capital Bonds will be issued at \$1.00 per share, which is also the Principal Amount.
Issue Date	SBS Capital Bonds will be issued as soon as practicable upon the Bank accepting your application for SBS Capital Bonds (generally within 24 hours).
Key features	<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"> • They are able to be repaid early by us in some situations, with the approval of the Reserve Bank of New Zealand (the "RBNZ"); • They are loss-absorbing which means that they may be written off; and • They give Holders the right to: <ul style="list-style-type: none"> ◦ vote at meetings of members of the Bank; and ◦ participate (equally with all other members of the Bank) in surplus assets of the Bank on a liquidation (subject to any write-offs under the loss absorption features).
Purpose of the offer	The money raised under this offer will be used by the Bank to support continued growth and the money raised under this offer will be treated by us as Tier 2 regulatory capital as required by the RBNZ.
Interest rate	<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 the 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 www.business.govt.nz/disclose.</p> <p>After the first five years, the interest rate applicable to each Interest Period (3 months) will:</p> <ul style="list-style-type: none"> • Be set and advised to you by us (by notice in writing (including electronically) and available on internet banking and on our website); • Apply from the first day of each Interest Period; and • Be based on the BKBM Rate (applying at the time the interest rate is set) and a margin which will be set by the Bank and notified to you prior to your Issue Date.
Interest Payments	<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 "Interest Payment Date").</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>Any interest not paid because we are not solvent, remains owing by us. That unpaid interest will also accrue interest. That interest will be payable on the first Business Day on which the Bank is solvent.</p>
Business day convention	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.
Entitlement to payments	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.
Solvency	The 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 the Bank from relying on a Solvency Certificate. No Event of Default occurs under the Master Deed where the Bank fails to make any interest payment on a scheduled Interest Payment Date due to insolvency.
Ranking of the SBS Capital Bonds on a liquidation	The SBS Capital Bonds are unsecured, subordinated debt obligations of the Bank. This means that if the 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

	<p>on, your SBS Capital Bonds until all of the 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 the Bank's everyday redeemable shares (issued in respect of everyday transactional and savings accounts and call and term deposits). Claims of holders of subordinated redeemable shares will thereafter rank equally amongst themselves.</p> <p>You will also have the right (equally with all of the Bank's other members) to participate in the Bank's surplus assets (if any) on liquidation. However, this right to participate in surplus assets on liquidation will not apply to the extent that any Principal Amount or Interest on the SBS Capital Bonds has been written off under the loss-absorbency provisions (noting that it is likely, in the event of a liquidation of the Bank, that the SBS Capital Bonds will have been written-off).</p>
Loss absorbency (write-off)	<p>The SBS Capital Bonds are loss-absorbing. If the Bank encounters financial difficulty, all or some of the Principal Amount (and Interest thereon) of the SBS Capital Bonds may be written-off (meaning the Principal Amount (and interest thereon) which is written-off will not be repaid to you and that no further Interest will be paid on the amount written-off). This may happen only if there is a Write-down Event. If the SBS Capital Bonds are written off, you will lose a corresponding amount of your investment.</p> <p>A Write-down Event occurs when:</p> <ul style="list-style-type: none"> • The Bank is placed in Statutory Management and the Statutory Manager decides; or • The RBNZ has given the Bank a direction, <p>that the Bank must write down the principal and/or interest owing in relation to some or all of its capital instruments. This could occur, for example, if the Bank experiences financial difficulty.</p>
No early repayment	<p>You have no right to require early repayment of the SBS Capital Bonds, except in relation to an Event of Default as described in the Master Deed. This means that subject to early repayment by us, or you selling your SBS Capital Bonds to another holder, you will have to hold your SBS Capital Bonds until maturity.</p>
Early redemption on SBS Optional Redemption Dates	<p>The 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 the Bank gives you notice of the early repayment and receives the approval of the RBNZ.</p>
SBS Optional Redemption Dates	<p>The fifth anniversary of the Issue Date and each scheduled Interest Payment Date thereafter,</p>
Early Redemption by the Bank for tax or regulatory event	<p>The 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"> • A Regulatory Event would occur if the 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 the Bank at the time of issuing the SBS Capital Bonds), the Bank's treatment of the SBS Capital Bonds as Tier 2 Capital of the Bank is adversely affected, or will be adversely affected. • A Tax Event would occur if the Bank determined that, because of a material change in law or practice affecting taxation (that was not anticipated by the Bank at the time of issuing the SBS Capital Bonds), there would be a more than minimal increase in the Bank's costs in respect of the SBS Capital Bonds. <p>In each case, the Bank must first obtain the consent of the RBNZ to repay the Principal Amount early and the Bank is required to give you notice of that early repayment.</p>
Minimum application amount	<p>The minimum application amount for SBS Capital Bonds is \$10,000.</p>
How to apply	<p>Application instructions are set out in section 9 of the LDD "<i>How to Apply</i>".</p>
Transfers and selling restrictions	<p>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. The Bank will not register any transfers of SBS Capital Bonds if the transfer would result in you holding SBS Capital Bonds with a Principal Amount of less than \$10,000 (but greater than zero).</p> <p>The 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>
Brokerage	<p>You are not required to pay brokerage or any charges to the Bank in connection with your application 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.</p>
Master Deed and Supplemental Deed	<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 www.business.govt.nz/disclose.</p>
No Guarantee	<p>The SBS Capital Bonds are not guaranteed by any member of the SBS Banking Group or any other person and the Bank is solely responsible for repayment of the Principal Amount of the SBS Capital Bonds (including interest thereon).</p>
Opening Date	<p>The offer opens on 2 October 2017. This is a continuous offer and accordingly, there is no closing date.</p>
Governing Law	<p>New Zealand</p>