

SBS Bank Senior Bond Offer.



 FORSYTH BARR

Investor Presentation // 28 February 2022.

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This presentation has been prepared by Southland Building Society (trading as **SBS Bank**) in connection with an offer (the **Offer**) of unsecured, unsubordinated, fixed rate, medium term debt securities (**SBS Bonds**). The Offer is made under clause 21(b) of Schedule 1 of the Financial Markets Conduct Act 2013 (**FMCA**).

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The information in this presentation is of a general nature and does not contain all the information which a prospective investor may require in evaluating a possible investment in SBS Bonds. Any decision to invest in SBS Bonds should be made on the basis of the Limited Disclosure Document for the SBS Bonds (the **LDD**), available at [Disclose Register \(companiesoffice.govt.nz\)](https://discloseregister.companiesoffice.govt.nz) under offer number OFR13263, together with other information for the Offer available or referred to on Disclose.

All currency amounts in this presentation are in NZ Dollars.

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Important Notice and Disclosure



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This presentation may not be released or distributed in the United States and does not constitute an offer for sale in the United States or any other jurisdiction. The SBS Bonds have not been, and will not be, registered under the US Securities Act of 1933 (as amended) or any applicable US state securities laws, and may not be offered or sold in the United States except in transactions exempt from, or not subject to, registration under the US Securities Act of 1933 or any applicable US state securities laws.

Quotation

Application has been made to NZX for permission to quote the SBS Bonds on the NZX Debt Market. However, the SBS Bonds have not yet been approved for trading and NZX accepts no responsibility for any statement in this presentation. NZX is a licensed market operator, and the NZX Debt Market is a licensed market under the FMCA.

For purposes of this important notice and disclosure, “presentation” shall mean the slides, any oral presentation of the slides by SBS Bank, any question and answer session that follows the oral presentation, hard copies of this document and any materials distributed at, or in connection with, the presentation.

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Offer Highlights.

Offer Highlights

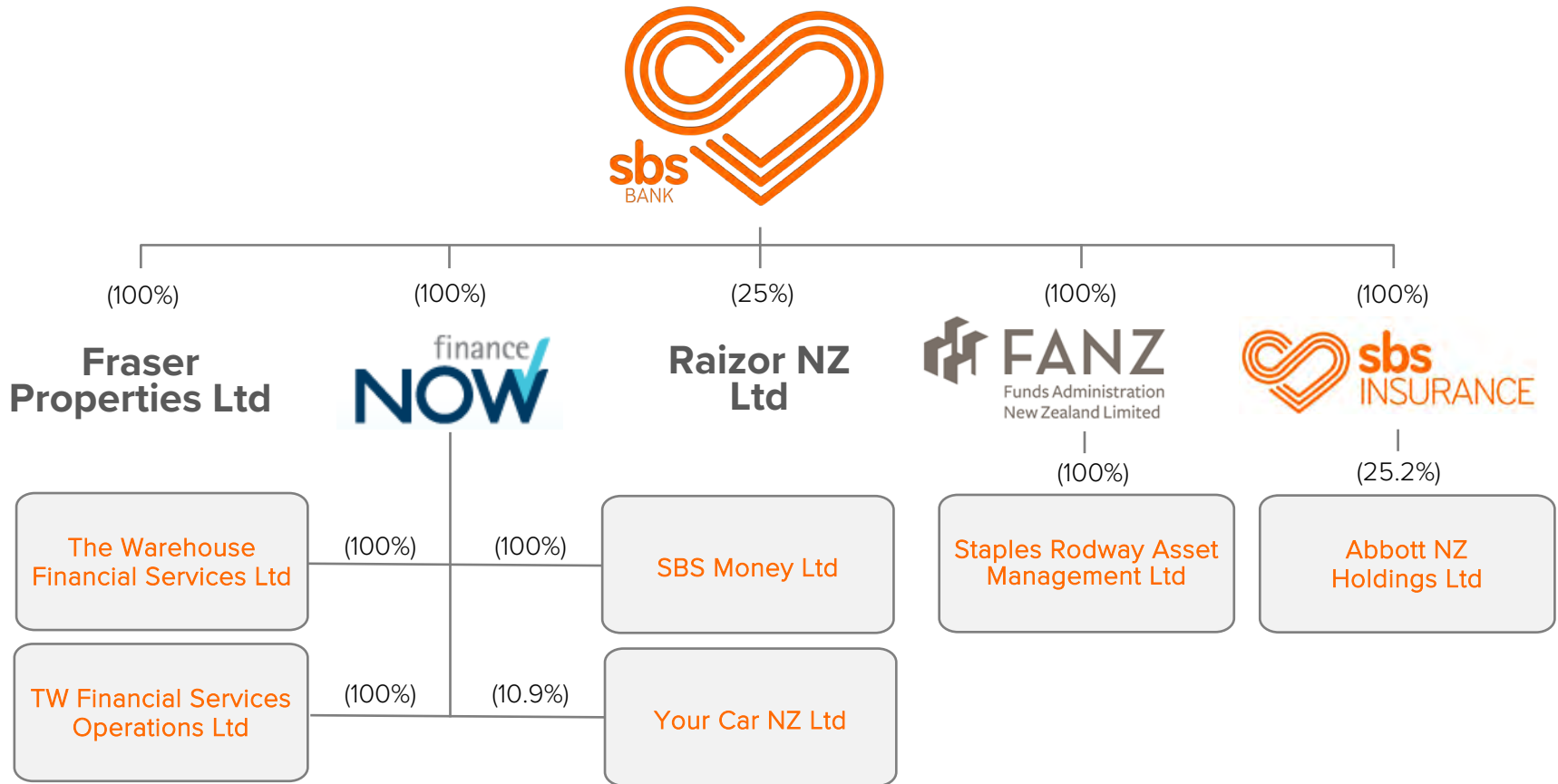


Issuer	Southland Building Society, trading as SBS Bank.
Description	Unsecured, senior, fixed rate, medium term debt securities.
Expected Issue Credit Rating of the Bonds	BBB+ from Fitch Australia Pty Limited.
Term & Maturity	5 years and will mature on 18 March 2027.
Offer Amount	Up to NZ\$100,000,000 (with the ability to accept up to an additional NZ\$50,000,000 of oversubscriptions at SBS Bank's discretion).
Purpose	The purpose of this offer is to raise funds which will be used by SBS Bank for general corporate purposes, including making loans available to SBS Bank customers.
Quotation	<p>Application has been made to NZX Limited (NZX) for permission to quote the SBS 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 the Limited Disclosure Document (LDD), have been complied with. However, the SBS Bonds have not yet been approved for trading and NZX accepts no responsibility for any statement in the LDD.</p> <p>NZX is a licensed market operator, and the NZX Debt Market is a licensed market, under the FMCA.</p> <p>Ticker code SBS010 has been reserved for the SBS Bonds.</p>
Joint Lead Managers	Forsyth Barr and Westpac.

The background features a large, stylized SBS logo in a lighter shade of orange. The logo consists of a circular 'S' on the left and a vertical 'B' on the right, both formed by multiple concentric, rounded lines. The text 'SBS Overview.' is centered in white, bold font over the logo.

SBS Overview.

SBS Group Structure

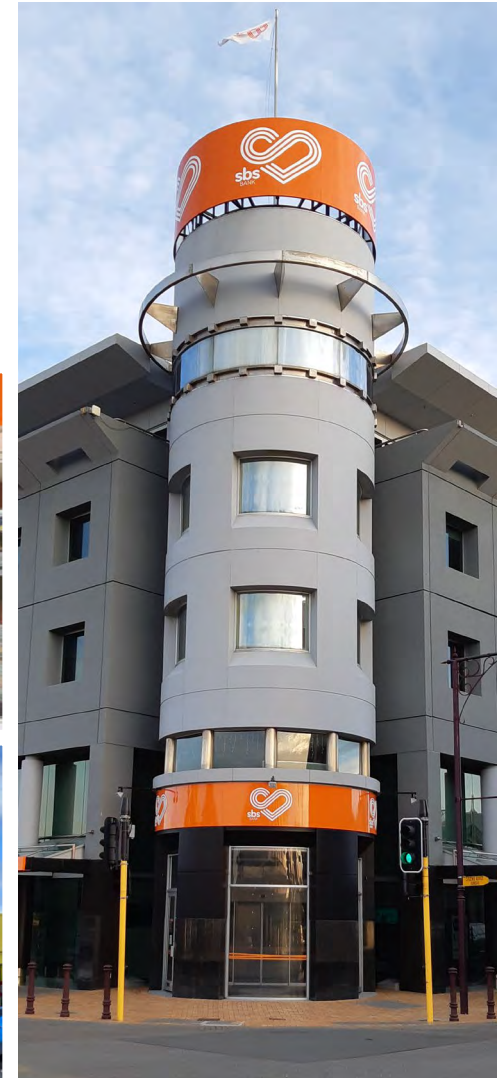


- SBS Group provides a broad range of products and services including retail banking, funds management, financial advisory services, insurance, and consumer lending.
- \$5.0 billion total assets as at 31 December 2021.
- Structure diagram excludes various securitisation trusts.

Network



- ▶ 14 bank branches across the country.
- ▶ 1 virtual bank branch (based in Invercargill) for out of branch areas.
- ▶ Finance Now Limited (FNL) offices in Invercargill and Auckland.
- ▶ SBS Insurance head office in Invercargill.
- ▶ FANZ offices in Wellington and Christchurch.



Our Strategic Proposition



- ▶ Commitment to mutuality.
- ▶ Focus on residential lending at bank level.
- ▶ First Home Combo aimed at leveraging group strengths and providing tangible member benefit.
- ▶ Continuing focus on simplification and retooling of existing products.
- ▶ Continued digital development and functionality for:
 - Transactional accounts
 - Term Investments
 - Lending
- ▶ Full service banking.
- ▶ Continued strong consumer lending proposition.
- ▶ Commitment to our people, their engagement, development and well-being.
- ▶ Sustainability is at the heart of SBS.

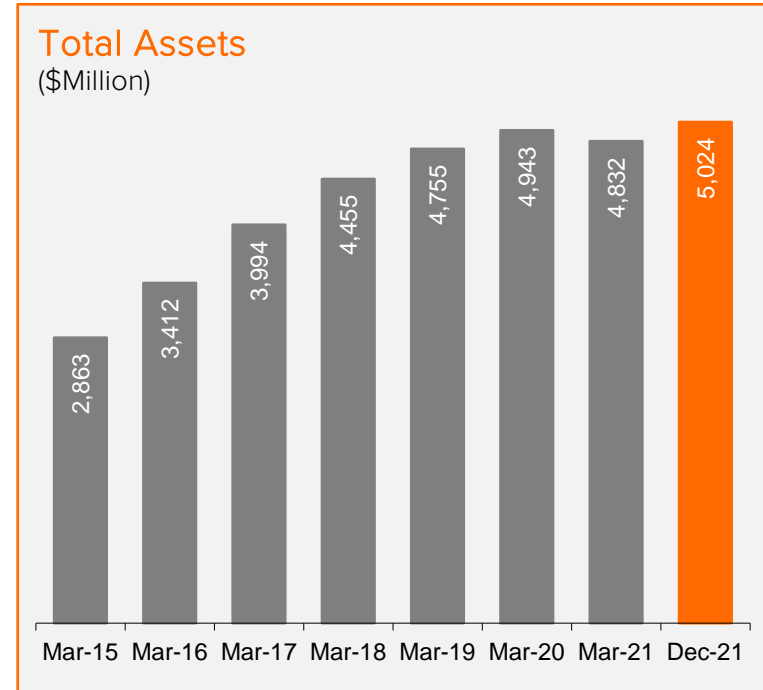
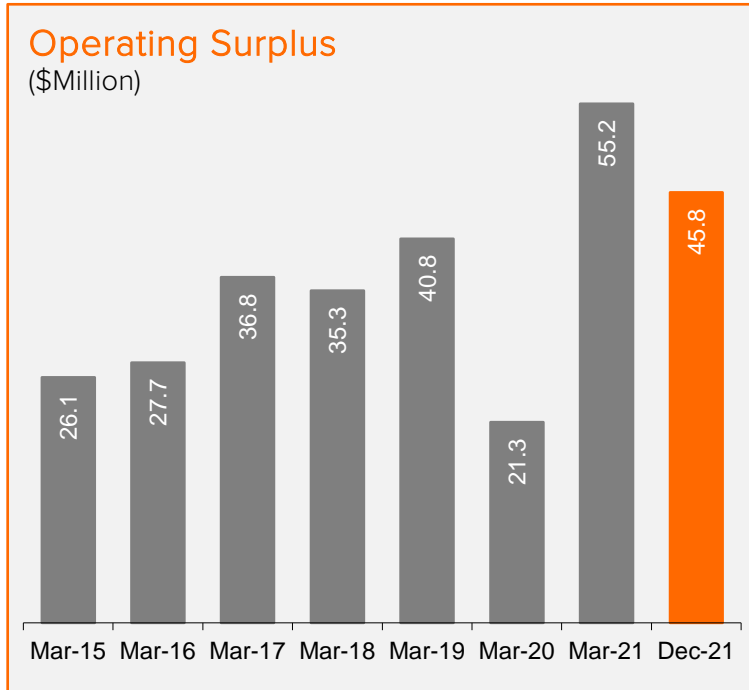


FIRST HOME COMBO

THE BEST THING SINCE SLICED BREAD.
For first home buyers only :)



Financials.



- Operating surplus of \$45.8 million for the 9 months to 31 December 2021.
- SBS Bank regulatory capital increased to \$468.7 million as at 31 December 2021 (up from \$437.2 million, 31 March 21).
- Outlook for FY22 – strong profitability and asset growth.

- As at 31 December 2021:
- Retail deposits \$3.6 billion.
 - Loan advances \$4.3 billion.
 - Total assets \$5.0 billion.

2022 Results at a Glance



Income Statement

All in \$'000's

	9 Months ended 31 Dec 2021 (unaudited)	Year ended 31 Mar 2021 (audited)	Year ended 31 Mar 2020 (audited)	Year ended 31 Mar 2019 (audited)
Interest income	143,174	216,375	254,542	246,803
Interest expense	15,353	31,073	37,156	26,191
Dividends on redeemable shares	26,878	66,101	98,249	104,851
	42,231	97,174	135,405	131,042
Net interest income	100,943	119,201	119,137	115,761
Net fee and commission income	19,555	24,511	24,844	24,450
Other income	4,081	7,546	10,406	12,369
Total operating income	124,579	151,258	154,387	152,580
Operating expenses	73,100	91,423	96,092	96,299
Credit impairment losses	5,706	4,641	36,973	15,443
Operating surplus	45,773	55,194	21,322	40,838
Net gain/(loss) from financial instruments at fair value through profit or loss	170	729	(269)	193
Share of associates profit net of tax	657	1,203	1,274	1,202
Surplus before income tax	46,600	57,126	22,327	42,233
Less income taxation expense	12,986	15,987	3,576	11,415
Net surplus	33,614	41,139	18,751	30,818

- Annual interest margin 2.79% (up from 2.50% March 21).
- Other income down – due to Covid impacts across SBS Group.

2022 Results at a Glance



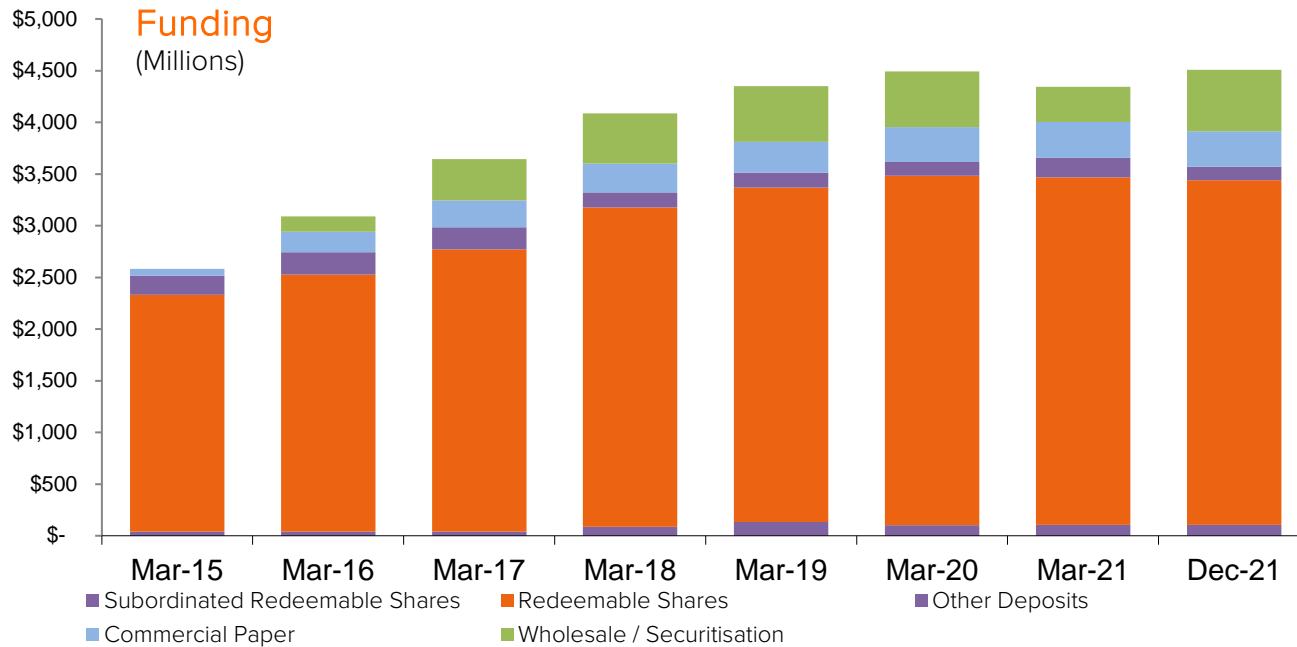
Statement of Financial Position

All in \$000's

	As at 31 Dec 2021 (unaudited)	As at 31 Mar 2021 (audited)	As at 31 Mar 2020 (audited)	As at 31 Mar 2019 (audited)
Assets				
Liquid assets and securities	598,793	679,854	675,578	686,451
Advances to customers	4,282,633	4,032,076	4,138,394	3,977,488
Other assets	142,353	120,437	127,556	90,579
	5,023,779	4,832,367	4,941,528	4,754,518
Liabilities				
Redeemable shares	3,336,408	3,361,335	3,378,387	3,236,987
Deposits from customers	127,963	191,151	134,655	144,106
Commercial paper	345,742	344,422	336,592	298,417
Due to other financial institutions	592,488	341,019	540,517	538,694
Subordinated redeemable shares	104,898	105,574	103,865	132,003
Other liabilities	78,891	100,150	116,224	78,978
	4,586,390	4,443,651	4,610,240	4,429,185
Equity				
Attributable to members of the society	437,389	388,716	331,288	324,360
Attributable to non-controlling interests	-	-	-	973
	437,389	388,716	331,288	325,333

- Lending and funding showing strong recovery following impacts of Covid.
- Increased reliance on wholesale facilities and utilisation of Funding for Lending Programme (FLP).

Group Funding



Diversified Sources of Funding

As at 31 December 2021, the SBS Bonds would rank above 76% of other funding sources (Redeemable Shares and Subordinated Redeemable Shares).

Deposits (BBB+)

- Rank equally with those of other unsecured creditors of SBS Bank and behind creditors given priority by law.
- Includes commercial paper.

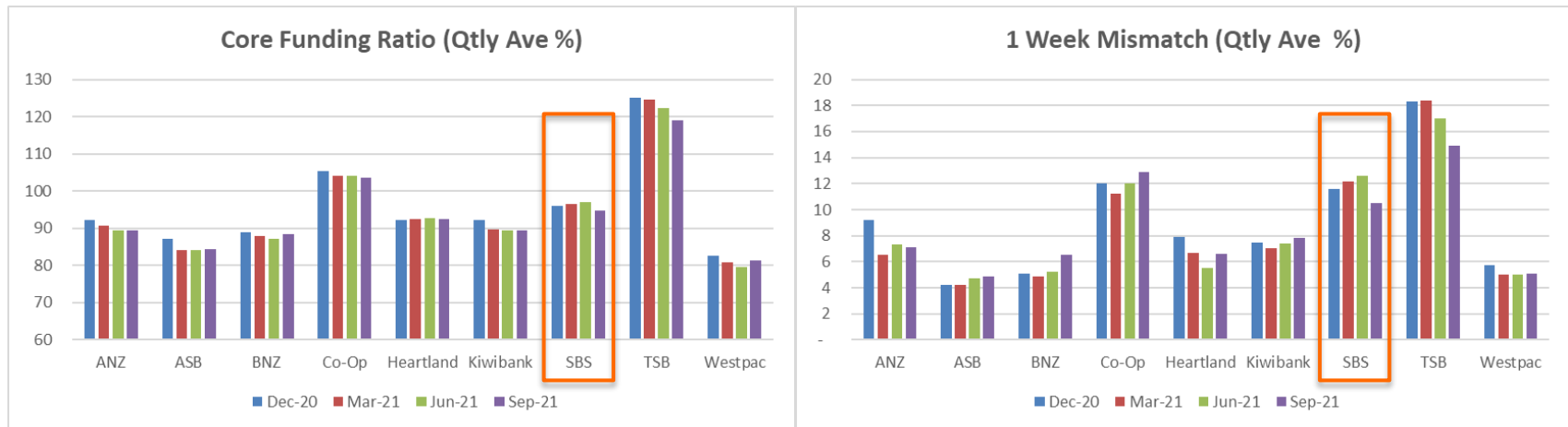
Redeemable Shares (BBB)

- Rank behind Deposits.

Subordinated Redeemable Shares (BB+)

- Rank behind Redeemable Shares.

Liquidity and Funding



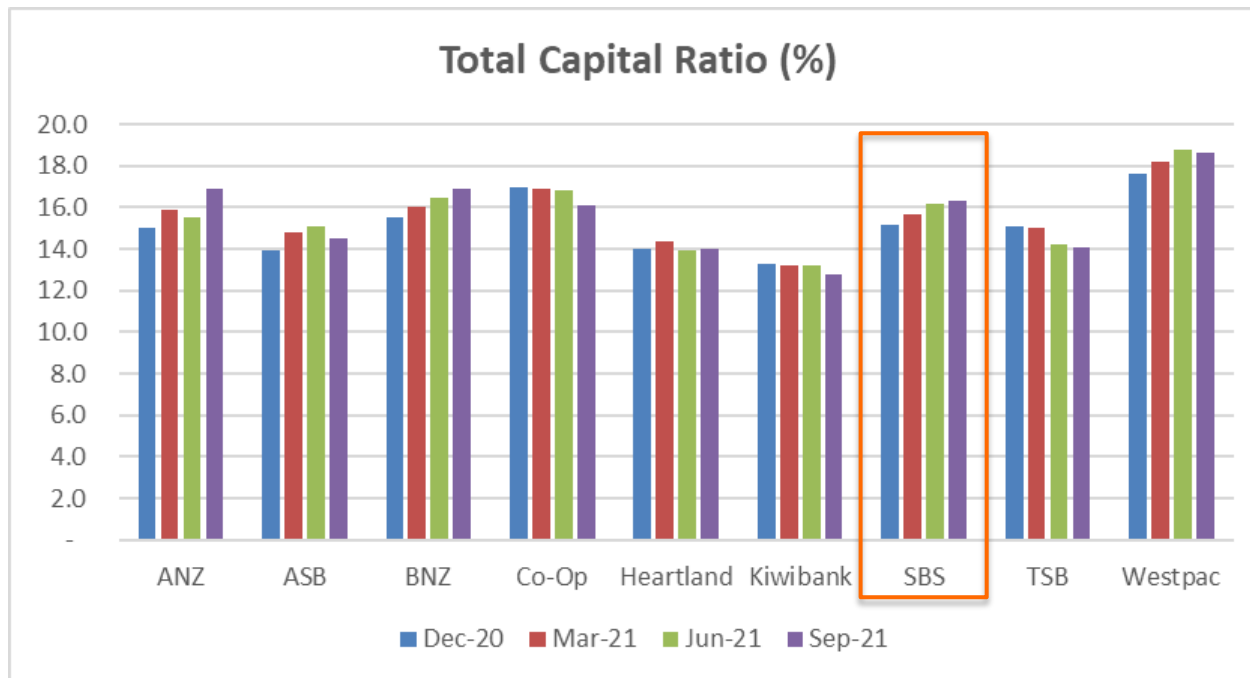
Stable Funding:

- Core funding ratio > 75%.
- Core funding ratio = $\frac{\text{Customer funding (weighted by deposit size) plus market funding > 1 year to maturity}}{\text{Total loans \& advances}}$

Liquid Assets:

- 1 week mismatch ratio shows ability to meet commitments and outflows using primary liquids and inflows over 1 week.
- 1 month mismatch ratio similar to 1 week but over one month and also includes secondary liquids.
- Secondary liquids include bank paper up to specified limits.

(Chart data source: RBNZ Dashboard).



Capital Growth:

- September 2021 Total Capital Ratio was 16.3% compared to a regulatory minimum of 10.5% including the 2.5% buffer ratio.
- Ratios remain strong relative to peers.
- New Tier 2 issuance likely end of 2022 / early 2023 to replace existing Tier 2.
- Engaging with RBNZ on CET1 mutual capital instrument.

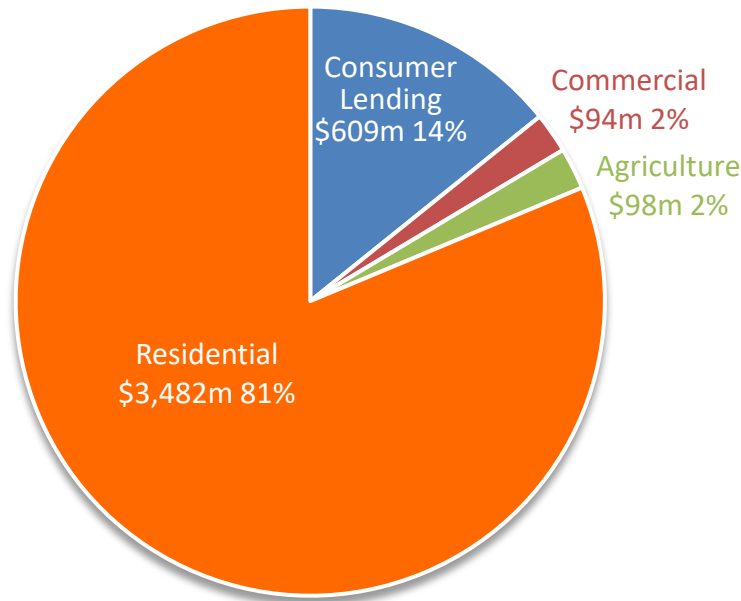
(Chart data source: RBNZ Dashboard).

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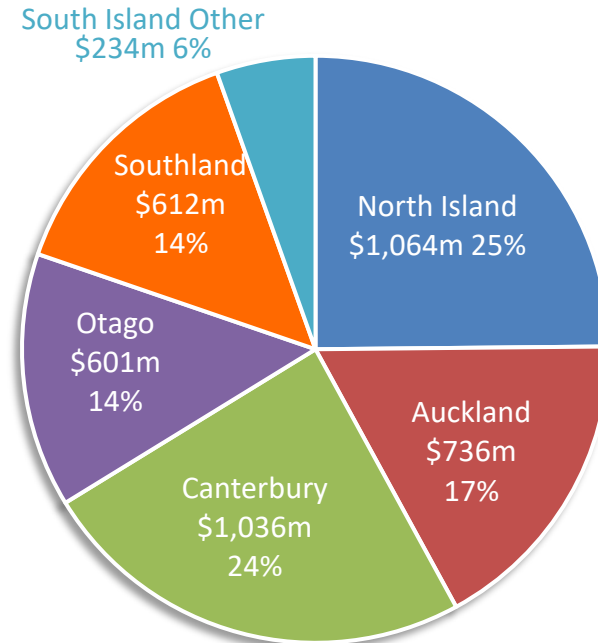
Loan Portfolio.

Lending Concentrations

Concentrations of SBS Group Loan Advances by sector as at 31 December 2021.



Concentrations of SBS Group Loan Advances by geographical location as at 31 December 2021.



- Lending concentrated in residential property.
- 58% of total SBS Group lending is in the South Island.
- In excess of 90% of loan advances are secured by first mortgage over real property as a minimum.
- Board review proposals > \$5 million.
- No individual lending advances in excess of 10% of SBS Group equity.

- ▶ Mortgages sourced through branch network and approved brokers.
- ▶ Full documentation must be supplied for loan applications and supported by:
 - registered first and only mortgages
 - satisfactory credit reports
 - verified evidence of income
 - disclosed expenses (verified and tested against benchmark).
- ▶ Fully compliant with the new affordability assessment required by the updated Credit Contracts and Consumer Finance Act (2003).
- ▶ Conservative net servicing ratio is applied.
- ▶ Conservative LVR – subject to RBNZ High-LVR restrictions including no appetite for non-exempt residential investment lending with LVR >60%.
- ▶ Security valuations independently established via purchase price, third-party automated valuation model, rating valuation or registered valuation (mandatory for residential lending with LVR >80% and high-value security properties).
- ▶ Mandatory requirement for house insurance covering minimum sum insured or replacement value.

Asset Quality



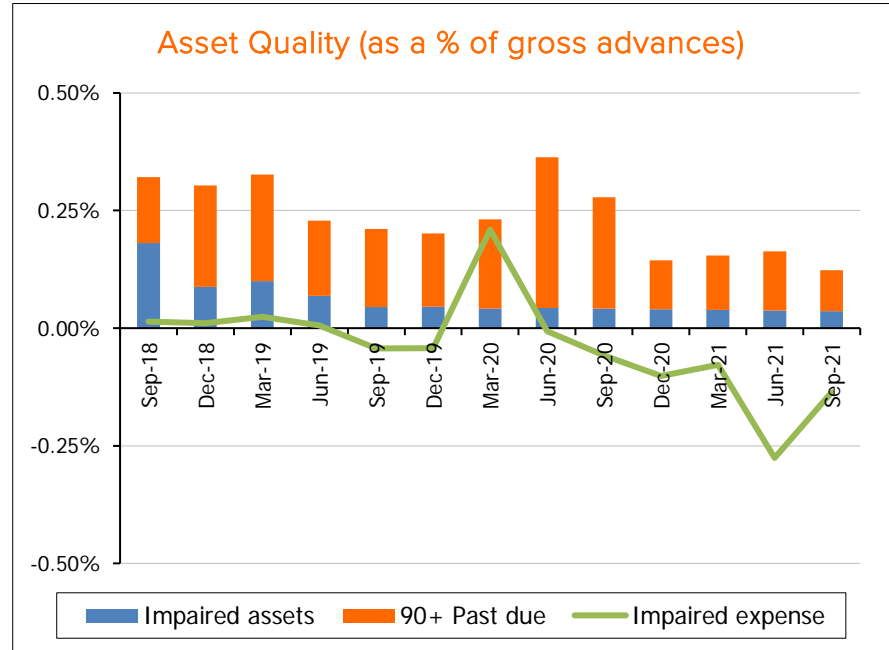
Asset quality – advances to customers

31/12/2021

Neither past due or impaired	4,249,629
Individually impaired	1,243
Past due	70,256
Provision for credit impairment	(38,496)
Carrying amount	4,282,632

Ageing of past due but not impaired assets

Past due 0–9 days	33,737
Past due 10–29 days	21,988
Past due 30–59 days	6,769
Past due 60–89 days	3,122
Past due 90 days +	4,640
Carrying amount	70,256



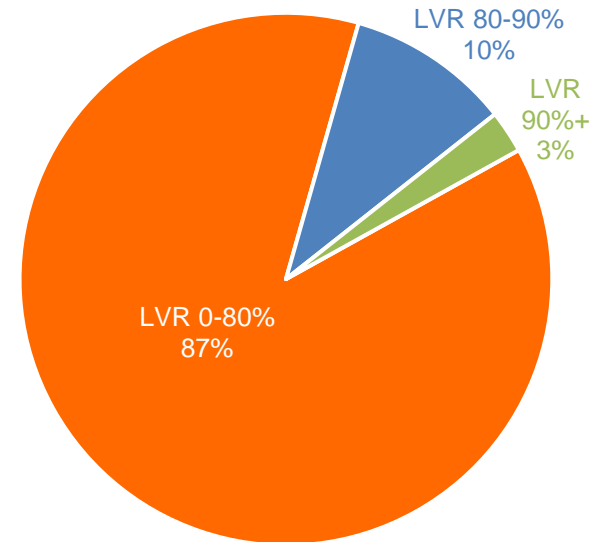
- No residual impact from Covid-related assistance. The vast majority of those impacted during Covid peak are now resolved. 2021 lockdowns had minimal increase in Covid-related assistance in comparison to 2020 lockdowns.
- Level of arrears and impairments were much lower than forecast a year ago.
- 0-29 days past due - 61% of past dues in this bucket are < 10 days.

Residential Mortgages by LVR



Residential Mortgages by LVR as at 31 December 2021.

	BANKING GROUP			
	On balance sheet	Off balance sheet	On balance sheet	Off balance sheet
\$'000				
LVR range	31/12/2021	31/12/2021	31/03/2021	31/03/2021
0 - 80%	3,054,951	238,036	2,670,691	198,194
80 - 90%	369,666	5,443	476,925	4,785
90% +	94,913	2,136	116,928	2,674
Total residential mortgages	3,519,530	245,615	3,264,544	205,653



- First Home Loans make up 95% of the residential mortgages in the 90%+ loan to valuation grouping as at 31 December 2021 (31 March 2021 98%) and 87% of the 80-90% loan to valuation grouping (31 March 2021 85%).
- The First Home Loan product is insured by Kāinga Ora.
- Conservative lending practices maintained.
- Lending commitments managed well within imposed speed limits.

The background features a large, stylized logo for SBS. The logo is composed of thick, light-orange lines. On the left, there are three concentric, semi-circular lines. On the right, there are three concentric, semi-circular lines that mirror the left side. In the center, these lines connect to form a continuous, interlocking shape. At the bottom, there are three downward-pointing chevrons, also formed by thick, light-orange lines.

ESG at SBS.

- ▶ Sustainability has always been at the heart of SBS as an organisation and supporting Members into home ownership and beyond was the reason that we were founded right here in New Zealand over 152 years ago.
- ▶ We partner with sustainable housing providers like Kāinga Ora & the Housing Foundation and offer our First Home Combo product to allow many people to achieve their goals of home ownership.
- ▶ As a part of our Liquidity Management Policy SBS adopts a socially responsible investment policy to avoid direct investment in the arms manufacturing, tobacco and fossil fuel industries among others.



- ▶ FANZ is working to reduce carbon emissions both within its business and its investment portfolio. Working with Toitū, FANZ operations are aiming to be net carbonzero by 1 April 2022.
- ▶ The Lifestages KiwiSaver High Growth Fund is 62% less carbon intensive than the fund's benchmark while the Lifestages KiwiSaver High Growth Fund is 89% less exposed to fossil fuels than its benchmark.
- ▶ FANZ has begun working with the Responsible Investment Association of Australasia, who will certify FANZ's responsible investing practices in the coming months.
- ▶ FANZ is in the process of becoming B Corp certified – a general endorsement and certification of FANZ's ethical business practices.
- ▶ FANZ now screen to ensure that all the following harmful practices are minimised or excluded from our KiwiSaver Funds. We also overweight investments in companies that have good E, S or G practices and underweight those that don't.



Military Weapons



Nuclear



Tobacco



Civilian Firearms



Alcohol



Gambling & Casinos



Adult Entertainment

The background is a solid orange color with a large, faint, abstract graphic. The graphic consists of several concentric, overlapping shapes that resemble stylized circles and lines, creating a sense of depth and movement. The shapes are lighter in color than the background, blending into it.

Key Information.

Key Terms of the Offer



Issuer	Southland Building Society, trading as SBS Bank.
Description	Unsecured, senior, fixed rate, medium term debt securities.
Issuer Credit Rating	BBB (Positive Outlook) from Fitch Australia Pty Limited.
Expected Issue Credit Rating of the Bonds	BBB+ from Fitch Australia Pty Limited.
Term and Maturity	5 years and will mature on 18 March 2027.
Offer Amount	Up to NZ\$100,000,000 with the ability to accept oversubscriptions of up to an additional NZ\$50,000,000 at SBS Bank's discretion.
Purpose	The purpose of this offer is to raise funds which will be used by SBS Bank for general corporate purposes, including making loans available to SBS Bank customers.
Interest Rate	<p>The SBS Bonds will pay a fixed rate of interest until the Maturity Date.</p> <p>The Interest Rate will be equal to the sum of the Base Rate plus the Issue Margin. The indicative Issue Margin will be determined by SBS Bank in conjunction with the Joint Lead Managers and announced via www.sbsbank.co.nz/sbs-senior-bond on the Opening Date 8 March 2022.</p> <p>The Issue Margin will be determined by SBS Bank in conjunction with the Joint Lead Managers following a bookbuild and announced via www.sbsbank.co.nz/sbs-senior-bond on the Rate Set Date, (a bookbuild is a process whereby a margin is determined by reference to bids from market participants for an allocation of SBS Bonds at different margins).</p> <p>The Interest Rate will be announced by SBS Bank via www.sbsbank.co.nz/sbs-senior-bond on 11 March 2022 (the Rate Set Date).</p>

Key Terms of the Offer (cont.)



Interest Payments	<p>Interest will be paid quarterly in arrear on each Interest Payment Date, being 18 March, 18 June, 18 September, and 18 December in each year, (or if that date is not a Business Day, the next Business Day without adjustment, interest or further payment as a result thereof), until (and including) the Maturity Date.</p> <p>The first Interest Payment Date is 18 June 2022 with payment on 20 June 2022, being the first Business Day following the First Interest Payment Date.</p>
Ranking	<p>The SBS Bonds rank equally among themselves, equally with all other present and future unsecured and unsubordinated obligations of SBS Bank and behind secured creditors and liabilities mandatorily preferred by law. The SBS Bonds rank ahead of the Bank's redeemable shareholders, subordinated creditors and equity.</p>
Minimum Subscription	<p>The minimum subscription and holding amounts for SBS Bonds is NZ\$5,000 and multiples of NZ\$1,000 thereafter.</p>
Quotation	<p>Application has been made to NZX for permission to quote the SBS Bonds on the NZX Debt Market. Ticker code SBS010 has been reserved for the SBS Bonds.</p>
Joint Lead Managers	<p>Forsyth Barr and Westpac.</p>

Key Dates



LDD Lodgement Date	28 February 2022
Opening Date and Indicative Issue Margin	8 March 2022
Closing Date	11 March 2022, 11:00am (NZ time)
Rate Set Date	11 March 2022
Issue Date	18 March 2022
Expected Quotation on the NZDX	21 March 2022
Interest Payment Dates	18 March, 18 June, 18 September and 18 December in each year during the term of the SBS Bonds
Maturity Date	18 March 2027

Note: All dates are indicative only and are subject to change.

Key Credit Highlights



1

100% profits retained in New Zealand.

2

SBS Senior Bond expected credit rating is BBB+.

3

Strong prudential ratios – amongst the highest in the industry.

4

81% of SBS Group Loan Advances are Residential Lending.*

5

SBS Bonds rank above 76% of all other liabilities.*

6

One of lowest non-performing loan rates in industry.^

*As at 31 December 2021.

^refer RBNZ Financial Strength Dashboard

Appendix 1 : SBS Board



A J (Joe) O'Connell
Chairman



K J (Kathryn) Ball
Deputy Chair



G J (Greg) Mulvey



M J (Mike) Skilling



S J (Sarah) Brown



K J (Kevin) Murphy



M P (Mark) O'Connor

- The board are the elected representatives of the Members of SBS Bank.
- All board members reside in NZ and are independent non-executive directors.

Appendix 2 : SBS Group Executive



Mark McLean
SBS Group CEO

Finance Now

FANZ

SBS Insurance

SBS Bank



Phil Ellison
Finance Now CEO



Graham Duston
FANZ CEO



Graeme Edwards
SBS Insurance CEO



Tim Loan
Chief Financial Officer



Rowena Thompson
Group Chief Risk Officer



Richard Hutton
Chief Digital & IT Officer



Shane Evans
Chief Customer Officer
(starting May 2022)



Hamish McKenzie
General Manager People & Support



SOUTHLAND BUILDING SOCIETY
TRADING AS SBS BANK

Limited Disclosure Document.

For an offer of 5 year unsecured,
senior, fixed rate bonds issued as
SBS Senior Bonds.

28 FEBRUARY 2022



Arranger & Joint
Lead Manager.



FORSYTH BARR

Joint Lead Manager.

This document gives you important information about this investment to help you decide whether you want to invest. There is other useful information about this offer on www.business.govt.nz/disclose, offer number OFR13263. Southland Building Society has prepared this document in accordance with the Financial Markets Conduct Act 2013. You can also seek advice from a financial advice provider to help you make an investment decision.

SECTION 1 :

Key Information Summary.

What is this?

This is an offer (the **Offer**) of unsecured, senior, fixed rate, medium term debt securities (the **Bonds**). The Bonds are debt securities issued by Southland Building Society, trading as SBS Bank (**SBS Bank**). You give us 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.

About Southland Building Society

Established in 1869 (under the Building Societies Act 1965), Southland Building Society, trading as SBS Bank, has been successfully operating for 152 years. We became a registered bank on 7 October 2008 under the Reserve Bank of New Zealand Act 1989 (the **Reserve Bank Act**). As a registered bank, our conditions of registration require compliance with all New Zealand regulatory capital, liquidity and risk management requirements.

As a mutual building society, we are owned by our customers by virtue of their membership interests.

We offer loans, savings and deposit products. We also offer funds management products and financial advisory services, and insurance through our subsidiaries Funds Administration New Zealand Limited and Southsure Assurance Limited (respectively) and consumer, personal, credit cards and motor finance lending through our subsidiary Finance Now Limited and its subsidiaries.

Information about us and our financial statements are published in disclosure statements required under the Reserve Bank Act and on the RBNZ dashboard at <https://bankdashboard.rbnz.govt.nz/orgs/SBS-Bk>

Our disclosure statements are available at: www.sbsbank.co.nz/about-us/sbs-bank/financial-information-and-disclosure-statements

Purpose of this Offer

The purpose of this Offer is to raise funds which will be used by SBS Bank for general corporate purposes. See Section 4 of this Limited Disclosure Document (LDD) (Purpose of the Offer) for more information.

Key Terms of the Offer

Issuer	Southland Building Society, trading as SBS Bank.
Description	The Bonds are unsecured, senior, fixed rate, medium term debt securities.
Term and Maturity Date	The Bonds have a term of 5 years and will mature on 18 March 2027 (the Maturity Date).
Offer Amount	Up to \$100,000,000 (with the ability to accept oversubscriptions of up to an additional \$50,000,000 at SBS Bank's discretion).
Interest Rate	<p>The Bonds will pay a fixed rate of interest until the Maturity Date.</p> <p>The Interest Rate will be equal to the sum of the Base Rate plus the Issue Margin on the Rate Set Date (Friday, 11 March 2022). The indicative Issue Margin will be determined by SBS Bank in conjunction with the Joint Lead Managers and announced via www.sbsbank.co.nz/sbs-senior-bond on the Opening Date (Tuesday, 8 March 2022).</p> <p>The Issue Margin will be determined by SBS Bank in conjunction with the Joint Lead Managers following the Bookbuild and announced via www.sbsbank.co.nz/sbs-senior-bond on the Rate Set Date (a bookbuild is a process whereby a margin is determined by reference to bids from market participants for an allocation of Bonds at different margins).</p> <p>The Interest Rate will be announced by SBS Bank via www.sbsbank.co.nz/sbs-senior-bond on Friday, 11 March 2022 (the Rate Set Date).</p>
Interest Payments Dates	<p>Interest will be paid quarterly in arrear on each Interest Payment Date, being 18 March, 18 June, 18 September and 18 December in each year (or if that date is not a Business Day, the next Business Day without adjustment, interest or further payment as a result thereof) until (and including) the Maturity Date.</p> <p>The first Interest Payment Date is 18 June 2022 with payment on 20 June 2022, being the first Business Day following the First Interest Payment Date.</p>

Further Payments, Fees or Charges	Taxes may be deducted from interest payments on the Bonds. See Section 7 of this LDD (Tax) for more information. SBS Bank will pay brokerage to market participants in respect of the Offer. You are not required to pay brokerage or any other fees or charges to SBS Bank to subscribe for the Bonds. However, you may have to pay brokerage to the firm from whom you receive an allocation of Bonds. Please contact your broker for further information on any brokerage fees.
Selling Restrictions	This Offer is subject to certain selling restrictions and you will be required to indemnify certain people if you breach these. See Section 3 (Terms of the Offer) and Section 8 (Selling Restrictions) of this LDD for more information.
Opening Date	Tuesday, 8 March 2022.
Closing Date	Friday, 11 March 2022 at 11:00am (NZ time) or earlier at SBS Bank's discretion.
Issue Date	Friday, 18 March 2022.
Minimum Subscription and Minimum Holding Amounts	The minimum subscription and minimum holding amounts for the Bonds is \$5,000 and multiples of \$1,000 thereafter.
Quotation	Application has been made to NZX for permission to quote the Bonds on the NZX Debt Market. However, the Bonds have not yet been approved for trading and NZX accepts no responsibility for any statement in this LDD. Ticker code SBS010 has been reserved for the Bonds.
Expected Date of Initial Quotation and Trading of the Bonds on the NZX Debt Market	It is expected that quotation of the Bonds on the NZX Debt Market will occur on Monday, 21 March 2022.

No guarantee

SBS Bank is responsible for paying interest on the Bonds and for the repayment of the Bonds.

The Bonds are not guaranteed by any member of the Group or any other person.

How you can get your money out early

You have no ability to require us to redeem/repay the Principal Amount of your Bonds early (or any accrued interest).

We may however be required to repay or redeem the Bonds early if there is an Event of Default (see Section 5 of this LDD (Key Features of the Bonds) for more information).

SBS Bank intends to quote the Bonds on the NZX Debt Market. This means you may be able to sell them on the NZX Debt Market before the end of their term if there are interested buyers. If you sell your Bonds, the price you get will vary depending on factors such as the financial condition of SBS Bank and movements in the markets interest rates. You may receive less than the full amount that you paid for them.

How the Bonds rank for repayment

In a liquidation of SBS Bank, the Bonds rank equally among themselves, equally with all other present and future unsecured and unsubordinated obligations of SBS Bank, and behind secured creditors and liabilities mandatorily preferred by law. The Bonds rank ahead of SBS's redeemable shareholders, subordinated creditors and equity.

This means that on a liquidation of SBS Bank, if there are insufficient funds to repay all of the Bonds, you will be repaid by us:

- only **after** SBS Bank has repaid secured creditors and creditors preferred by law (for example, Inland Revenue and employees);
- **on a proportionate basis** (at the same time and to the same extent) together with all other holders of present and future unsecured and unsubordinated debt;
- **before** SBS Bank's redeemable shareholders, subordinated creditors and equity.

More information regarding how the Bonds will rank on a liquidation of SBS Bank can be found in Section 5 of this LDD (Key Features of the Bonds).

No security

Our obligation to repay the Principal Amount of, or pay interest on, the Bonds is not secured against any asset of SBS Bank or any other asset.

Key risks affecting this investment

Investments in debt securities have risks. A key risk is that we do not meet our commitments to repay you or pay you interest (credit risk). Section 6 of this document (Risks of Investing) discusses the main factors that give rise to the risk. You should consider if the credit risk of these debt securities is suitable for you.

The interest rate for these Bonds should also reflect the degree of credit risk. In general, higher returns are demanded by investors from businesses with higher risk of defaulting on their commitments. You need to decide whether the offer is fair. We consider that the most significant risk factors are:

- Risks associated with our lending activities including default by our borrowers. The economic performance of the New Zealand residential market will affect how this risk impacts on SBS Bank. SBS Bank's predominant activity is the provision of residential first mortgage finance, which is undertaken throughout New Zealand. Where serious and adverse changes occur in the residential market, widespread default becomes more

likely. If widespread default occurs, this could impact on SBS Bank's ability to meet its financial commitments.

- Risks associated with SBS Bank's funding. Our sources of funding include funding from retail deposits and financial institutions. Serious and adverse economic conditions could impact on SBS Bank's sources of funding, including our ability to access funding and/or interest rates at which we can borrow and/or lend money. SBS Bank's relative size and its mutual status impact how this risk affects us.

This summary does not cover all of the risks of investing in Bonds. You should also read Section 6 of this LDD (Risks of Investing) and Section 5 (Key Features of the Bonds).

What is the Bonds' credit rating?

A credit rating is an independent opinion of the capability and willingness of an entity to repay its debts (in other words, its creditworthiness). It is not a guarantee that the financial product being offered is a safe investment.

A credit rating should be considered alongside all other relevant information when making an investment decision.

SBS Bank is rated BBB with a positive outlook by Fitch Australia Pty Limited (Fitch). The Bonds are expected to have a Fitch credit rating of BBB+.

Fitch gives ratings from AAA through to C. The following describes the credit rating grades available:

	Credit rating ¹	Description of the rating	Probability of default ²
	AAA	Highest credit quality: Exceptionally strong capacity for payment of financial commitments.	1 in 600
	AA	Very high credit quality: Very strong capacity for payment of financial commitments.	1 in 300
	A	High credit quality: Strong capacity for payment of financial commitments but may be more vulnerable to adverse business or economic conditions than is the case for higher ratings.	1 in 150
The expected credit rating of the Bonds is BBB+	BBB+	Good credit quality: Adequate capacity for payment of financial commitments but adverse business or economic conditions are more likely to impair this capacity.	1 in 30
SBS Bank's credit rating is BBB with a positive outlook	BBB		
	BB	Speculative: Elevated vulnerability to default risk, particularly in the event of adverse changes in business or economic conditions over time; however, business or financial flexibility exists which supports the servicing of financial commitments.	1 in 10
	B	Highly speculative: Material default risk is present, but a limited margin of safety remains. Financial commitments are currently being met; however, capacity for continued payment is vulnerable to deterioration in the business and economic environment.	1 in 5
	CCC	Substantial credit risk: Default is a real possibility.	1 in 2
	CC	Very high levels of credit risk: Default of some kind appears probable.	1 in 2
	C	Near default: A default or default-like process has begun, or the issuer is in standstill.	-

¹The modifiers + or – may be added to the above ratings to indicate relative status within the major rating categories.

²The approximate median likelihood that an investor will not receive payment on a five-year investment on time and in full (source: Reserve Bank of New Zealand publication "Know your Credit Ratings" dated March 2010).

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SECTION 2 :

Key Dates and Offer Process.

Opening Date	Tuesday, 8 March 2022.
Closing Date	Friday, 11 March 2022 at 11:00am (NZ time) or earlier at SBS Bank's discretion.
Rate Set Date	Friday, 11 March 2022.
Issue Date	Friday, 18 March 2022.
Expected date of initial quotation and trading of the Bonds on NZX Debt Market	Monday, 21 March 2022.
First Interest Payment Date	18 June 2022 with payment on 20 June 2022, being the first Business Day following the First Interest Payment Date.
Interest Payment Dates	18 March, 18 June, 18 September and 18 December in each year during the term of the Bonds.
Maturity Date	18 March 2027.

Dates are indicative only

The Opening and Closing Dates are indicative only and are subject to change. SBS Bank has the right, in its absolute discretion to open or close this Offer early, to accept late applications and to extend the Closing Date, without notice.

If the Closing Date is extended, the Rate Set Date, the Issue Date, the expected date of initial quotation and trading of the Bonds on the NZX Debt Market, the Interest Payment Dates and the Maturity Date may be extended accordingly. Any such changes will not affect the validity of any applications received.

All of the Bonds offered under this Offer (including any oversubscriptions) have been reserved for subscription by clients of the Joint Lead Managers, institutional investors, NZX Firms and other approved financial intermediaries invited to participate in the Bookbuild. There is no public pool for the Bonds.

SBS Bank reserves the right to cancel this Offer at any time, in which case, all application monies will be refunded (without interest) as soon as practicable.

SECTION 3 :

Terms of the Offer.

Issuer	Southland Building Society, trading as SBS Bank.
Description	The Bonds are unsecured, senior, fixed rate, medium term debt securities.
Term and Maturity Date	The Bonds have a term of 5 years and will mature on 18 March 2027 (the Maturity Date).
Key Dates	The key dates applicable to this Offer can be found in Section 2 of this LDD (Key Dates and Offer Process).
Who may apply under the Offer	<p>All of the Bonds offered under this Offer (including any oversubscriptions) have been reserved for subscription by clients of the Joint Lead Managers, institutional investors, NZX Firms and other approved financial intermediaries invited to participate in the Bookbuild. Subject to exemptions set out in the FMCA, no person may apply for Bonds (including through a Joint Lead Manager, NZX Firm or other approved financial intermediary) unless they have obtained a copy of this LDD.</p> <p>There will be no public pool for the Bonds.</p> <p>SBS Bank reserves the right to refuse all or any part of any application for Bonds under this Offer without giving a reason.</p>
Ranking	<p>In a liquidation of SBS Bank, the Bonds rank equally among themselves, equally with all other present and future unsecured and unsubordinated obligations of SBS Bank and behind secured creditors and liabilities mandatorily preferred by law. The Bonds rank ahead of SBS Bank's redeemable shareholders, subordinated creditors and equity.</p> <p>Further information about the ranking of the Bonds is set out in Section 5 of this LDD (Key Features of the Bonds).</p>
Offer Amount	Up to \$100,000,000 (with the ability to accept oversubscriptions of up to an additional \$50,000,000 at SBS Bank's discretion).
Interest Rate	<p>The Bonds will pay a fixed rate of interest until the Maturity Date.</p> <p>The Interest Rate will be equal to the sum of the Base Rate plus the Issue Margin on the Rate Set Date (Friday, 11 March 2022). The indicative Issue Margin will be determined by SBS Bank in conjunction with the Joint Lead Managers and announced via www.sbsbank.co.nz/sbs-senior-bond on the Opening Date (Tuesday, 8 March 2022).</p> <p>The Issue Margin will be determined by SBS Bank in conjunction with the Joint Lead Managers following the Bookbuild and announced via www.sbsbank.co.nz/sbs-senior-bond on the Rate Set Date (a bookbuild is a process whereby a margin is determined by reference to bids from NZX Firms for an allocation of Bonds at different margins).</p> <p>The Interest Rate will be announced by SBS Bank via www.sbsbank.co.nz/sbs-senior-bond on the Rate Set Date.</p>
Base Rate	The Base Rate will be the semi-annual mid market swap rate for an interest rate swap of a term and start date matching the period from the Issue Date to the Maturity Date as determined by the Arranger in accordance with market convention with reference to Bloomberg Page ICNZ4 (or any successor page) on the Rate Set Date and expressed on a quarterly basis (rounded to 2 decimal places, if necessary, with 0.005 being rounded up).
Issue Margin	The Issue Margin will be a percentage rate per annum set on the Rate Set Date following the Bookbuild process conducted by the Arranger and announced via www.sbsbank.co.nz/sbs-senior-bond
Indicative Issue Margin	Will be announced on the Opening Date.
Opening Date	Tuesday, 8 March 2022.
Closing Date	Friday, 11 March 2022 at 11:00am (NZ time) or earlier at SBS Bank's discretion.
Issue Date	Friday, 18 March 2022.

Interest Payments Dates	The Interest Payment Dates will be 18 March, 18 June, 18 September and 18 December in each year, (or if that date is not a Business Day, the next Business Day without adjustment, interest or further payment as a result thereof) until (and including) the Maturity Date. The first Interest Payment Date is 18 June 2022 with payment on 20 June 2022, being the first Business Day following the First Interest Payment Date.
Interest Payments and Entitlement	Interest on the Bonds shall be paid in arrear and shall be paid in equal quarterly amounts on each Interest Payment Date. Any interest on the Bonds payable on a date which is not an Interest Payment Date will be calculated on the basis of the number of days elapsed and a 365-day year and shall accrue in respect of the period from, and including, the previous Interest Payment Date until, but excluding, the date for payment of that interest. Payments on the Bonds will be made to the persons who are the registered Holders of the Bonds as at the Record Date immediately preceding that Interest Payment Date.
Record Date	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.
Issue Price and Principal Amount	The Bonds will be issued at \$1.00 per Bond, which is also the Principal Amount.
Issuer Credit Rating	BBB (positive outlook) by Fitch. 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.
Expected Issue Credit Rating of the Bonds	BBB+ by Fitch.
Minimum Subscription and Minimum Holding Amounts	The minimum subscription and holding amounts for the Bonds is \$5,000 and multiples of \$1,000 thereafter.
Currency	The Bonds will be denominated in New Zealand dollars.
Quotation	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 LDD, have been complied with. However, the Bonds have not yet been approved for trading and NZX accepts no responsibility for any statement in this LDD. NZX is a licensed market operator and the NZX Debt Market is a licensed market under the FMCA. Ticker code SBS010 has been reserved for the Bonds.
Expected Date of Initial Quotation and Trading of the Bonds on the NZX Debt Market	It is expected that quotation of the Bonds on the NZX Debt Market will occur on Monday, 21 March 2022.
How to Apply	Application instructions are set out in Section 10 of this LDD (How to Apply).
No Early Redemption	You have no right to require early redemption of the Bonds, except in relation to an Event of Default as described in the Master Deed. This means that subject to early redemption by us following an Event of Default, or you selling your Bonds to another Holder, you will have to hold your Bonds until maturity to receive repayment of the Principal Amount. SBS Bank may however be required to redeem the Bonds early if there is an Event of Default (see Section 5 of this LDD (Key Features of the Bonds) for more information).
Event of Default	If an Event of Default occurs (as defined in the Master Deed), you may give notice in writing to SBS Bank requiring early redemption of the Bonds.

Selling Restrictions	This Offer and subsequent transfers of Bonds are subject to the selling restrictions contained in Section 10 of this LDD (Selling Restrictions). By subscribing for the Bonds, you agree to indemnify SBS Bank, the Joint Lead Managers and their respective directors, officers, employees and agents in respect of any loss, cost, liability or expense sustained or incurred as a result of you breaching the selling restrictions contained in Section 8 of this LDD (Selling Restrictions).
Important Information for Australian Investors	We are not a bank nor an authorised deposit-taking institution which is authorised under the Banking Act 1959 (Cth) of Australia (the Australian Banking Act) nor are we authorised to carry on banking business under the Australian Banking Act. The Bonds are not obligations of any government and, in particular, are not guaranteed by the Commonwealth of Australia. We are not supervised by the Australian Prudential Regulation Authority. Bonds that are offered for issue or sale or transferred in, or into, Australia are offered only in circumstances that would not require disclosure to investors under Part 6D.2 or Part 7.9 of the Corporations Act 2001 of Australia (the Corporations Act) and issued and transferred in compliance with the terms of the exemption from compliance with section 66 of the Australian Banking Act that is available to us. Such Bonds are issued or transferred in, or into, Australia in parcels of not less than A\$500,000 in aggregate principal amount. An investment in any Bonds issued by SBS Bank will not be covered by the depositor protection provisions in section 13A of the Australian Banking Act and will not entitle holders to claim under the financial claims scheme for accountholders with insolvent ADIs under Division 2AA of the Australian Banking Act.
Singapore Securities and Futures Act Product Classification	Solely for the purposes of its obligations pursuant to sections 309B(1)(a) and 309B(1)(c) of the SFA, SBS Bank has determined, and hereby notifies all relevant persons (as defined in Section 309A of the SFA) that the Bonds are “prescribed capital markets products” (as defined in the Securities and Futures (Capital Markets Products) Regulations 2018).
Further Payments, Fees or Charges	Taxes may be deducted from interest payments on the Bonds. See Section 7 of this LDD (Tax) for more information. SBS Bank will pay brokerage to market participants in respect of the Offer. You are not required to pay brokerage or any other fees or charges to SBS Bank to subscribe for the Bonds. However, you may have to pay brokerage to the firm from whom you receive an allocation of Bonds. Please contact your broker for further information on any brokerage fees.
Scaling	SBS Bank may scale applications at its discretion but will not scale any application to below \$5,000 or to an amount that is not a multiple of \$1,000.
Transfer Restrictions	SBS Bank may decline to accept or register a transfer of the Bonds if the transfer would result in the transferor or the transferee holding or continuing to hold Bonds with a Principal Amount of less than \$5,000 (if not zero) or if the transfer is not a multiple of \$1,000.
Master Deed and Supplemental Deed	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. If you require further information in relation to these documents, you may obtain a copy free of charge from Disclose at www.business.govt.nz/disclose
Business Day Convention	Where any payment on the Bonds is due on a date which is not a Business Day, that payment will be made on the next Business Day but no adjustment will be made to the amount of interest payable as a result of the delay in payment.
Governing Law	New Zealand.

SECTION 4 :

Purpose of the Offer.

The purpose of this Offer is to raise funds which will be used by SBS Bank for general corporate purposes.

The use of the money raised will not change depending on how much is raised under this Offer.

Where any subscription is not accepted, the relevant subscription monies will be refunded (without interest).

This Offer is not underwritten.

SECTION 5 :

Key Features of the Bonds.

A number of key features of the Bonds are described in Section 3 of this LDD (Terms of the Offer). The other key features of the Bonds are described below.

The information in this section is a summary of certain terms of the Master Deed and Supplemental Deed. Copies of the Master Deed and Supplemental Deed are included on Disclose at www.business.govt.nz/disclose (OFR13263). Capitalised terms used but not defined in this Section 5 of the LDD have the meanings given to them in the Master Deed.

Status of the Bonds

The Bonds will be direct, unsecured and unsubordinated obligations of SBS Bank, issued and owing under the Master Deed and the Supplemental Deed. Legal title to each Bond is determined by reference to the name of the Holder listed in the Bond Register (subject to correction for fraud or error). SBS Bank is entitled to deal exclusively with the Holder named in the Bond Register for all purposes, including when making any payments.

Ranking

Ranking on a liquidation of SBS Bank

As a building society, SBS issues the following classes of securities:

- debt securities not issued as redeemable shares;
- debt securities issued as redeemable shares; and
- debt securities issued as subordinated redeemable shares.

The Bonds will be debt securities not issued as redeemable shares. Debt securities not issued as redeemable shares rank ahead of all redeemable shares.

In a liquidation of SBS Bank, the Bonds rank equally among themselves, equally with all other present and future debt securities of SBS Bank which are not issued as redeemable shares, and behind secured creditors and liabilities mandatorily preferred by law. The Bonds rank ahead of SBS Bank's debt securities issued as redeemable shares, subordinated creditors and equity.


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 us:

- **only after** SBS Bank has repaid secured creditors and creditors preferred by law (for example, Inland Revenue and employees);
- **on a proportionate basis** (at the same time and to the same extent) together with all other holders of present and future unsecured and unsubordinated debt securities not issued as redeemable shares; and
- **before** SBS Bank's debt securities issued as redeemable shares, subordinated creditors and equity.

The below diagram shows the ranking of the Bonds on a liquidation of SBS Bank.

The indicative amounts stated in the table:

- assume \$150,000,000 of Bonds are issued;
- are based on the financial position of SBS Banking Group as at its most recent balance date (31 March 2021), but adjusted as if \$150,000,000 of Bonds had been issued at that date (which means the amount of liabilities ranking equally with the Bonds stated in the table exceeds by \$150,000,000 the corresponding amount derived from SBS Banking Group's most recent financial statements).

	Ranking on liquidation of SBS Bank	Examples	Indicative Amount (including accrued interest)
Higher ranking	Liabilities that rank in priority to the Bonds	Secured creditors and creditors preferred by law (such as employees of SBS Bank and Inland Revenue for unpaid tax).	\$11m
	Liabilities that rank equally with the Bonds (including the Bonds)	The Bonds, together with the following debt securities where they are not issued as redeemable shares: <ul style="list-style-type: none"> • Transactional and savings accounts, and call and term investments; • Other unsecured and unsubordinated deposits; and • Amounts due to other financial institutions and general creditors. 	\$774m ³
	Liabilities that rank behind the Bonds	Debt securities where they are issued as redeemable shares, being transactional and savings accounts, and call and term investments.	\$3,361m
		Debt securities where they are issued as subordinated redeemable shares, being SBS Capital Bonds.	\$106m
Lower ranking	Equity	Relevant Tier 1 Capital Instruments (as defined in the Master Deed).	NIL
		Reserves and retained earnings. All members of SBS Bank participate equally in the surplus assets of SBS Bank (if any) remaining after all payments are made above.	\$389m

³Includes \$624m of debt securities on issue.

The amounts shown are presented in millions of New Zealand dollars and may be subject to rounding adjustments.

In the event of a liquidation of SBS Bank, the actual amounts of liabilities and equity of SBS Bank may differ from the indicative figures provided above.

If we are placed in liquidation, you are entitled to prove in that liquidation for the outstanding Principal Amount and interest owed to you.

As a registered bank, SBS Bank is required to calculate certain prudential ratios, including its core funding ratio (CFR), in accordance with relevant RBNZ Banking Standards. The CFR measures a bank's long-term funding. SBS Bank identified in October 2021 that, while it had at all times comfortably exceeded the regulatory minimum, it had not calculated its CFR strictly in accordance with the methodology prescribed by Banking Standard 13 "Liquidity Policy" for the period from January to August 2021. This was a breach of SBS Bank's conditions of registration and resulted in SBS Bank overstating its CFR for that period. SBS has re-submitted all relevant returns to the RBNZ and the misstatement has been corrected on the RBNZ Financial Strength Dashboard.

Issue of further liabilities ranking equally with or in priority to the Bonds

There is an existing restriction in place (specifically redeemable shares are not permitted to fall below 65% of total assets) which has the effect of limiting the amount of liabilities that can be issued which rank equally with, or in priority to, the Bonds. These liabilities could include, for example, further bonds issued under the Master Deed or secured borrowings. SBS Bank may also incur additional liabilities preferred by law. The creation of such further liabilities may reduce the amount recoverable by you in the case of liquidation of SBS Bank. There are no restrictions on us incurring liabilities which rank behind the Bonds.

Events of Default

If an Event of Default occurs (as defined in the Master Deed), you may give notice in writing to SBS Bank requiring early redemption of the Bonds. If such notice is received, SBS Bank must immediately pay to you the Principal Amount of your Bonds together with accrued interest (subject to any deductions on account of tax). The Events of Default as set out in the Master Deed are:

- where SBS Bank does not pay any amount due in respect of the Bonds within 10 Business Days of its due date; or
- an order is made, or an effective resolution is passed, for the liquidation of SBS Bank (other than for the purposes of a solvent reconstruction or amalgamation).

No Security

Our obligation to repay the Principal Amount of, or pay interest on, the Bonds, is not secured. This means that you have no recourse to any of our assets if we do not repay the Principal Amount of, or pay interest on, the Bonds.

No Guarantee

The Bonds are not guaranteed by any member of the Group or any other person and we are solely responsible for repayment of the Bonds.

Variations to the Master Deed

We may, in limited circumstances, vary the Master Deed without your consent if the variation is of a minor or technical nature only, will not be of any prejudice to Holders, does not apply to any Bonds then outstanding or is made to comply with any requirement or directive of RBNZ or any applicable law, including the Listing Rules or for the purposes of obtaining or maintaining a quotation on the NZX Debt Market.

SECTION 6 :

Risks of Investing.

Introduction

Any investment in Bonds will involve risks. This section describes:

- general risks associated with an investment in the Bonds; and
- specific key risks relating to our creditworthiness.

The disclosure of risks relating to our creditworthiness has been based on an assessment of both the realistic probability of a risk occurring and the impact of the risk (to us and/or investors) if it did occur. There is no guarantee or assurance that the importance of different risks will not change or that other risks will not emerge over time.

You should note that the risk factors set out below may not be exhaustive, and you should consider these risk factors in conjunction with other information disclosed in this LDD and our latest disclosure statement and annual report, before deciding to invest in the Bonds.

Where practicable, we seek to mitigate these risks to minimise our exposure. However, there can be no assurance that any risk mitigation strategies implemented by us will fully protect us from these risks.

The disclosure of risks in this section does not take into account your personal circumstances, including your financial position or investment requirements. As such, it is important that before making any decision to invest in the Bonds, you give consideration to the suitability of this investment in light of your individual risk profile for investments, investment objectives and personal circumstances (including financial and taxation).

General Risks

Insolvency of SBS Bank

An investment in the Bonds is subject to the general risk that we become insolvent, we are placed in receivership, liquidation or statutory management or we are otherwise unable to pay the Principal Amount of, and/or interest on, your Bonds. In that event, you may not recover all, or any of, your principal investment or receive the expected returns.

There is an existing restriction in place (specifically redeemable shares are not permitted to fall below 65% of total assets) which has the effect of limiting the amount of liabilities that can be issued which rank equally with, or in priority to, the Bonds. These liabilities could include, for example, further bonds issued under the Master Deed or secured borrowings. SBS Bank may also incur additional liabilities preferred by law. In addition, we may repay any of our debt securities which rank equally with, or behind the Bonds, provided we are solvent. There are no restrictions on us incurring liabilities which rank behind the Bonds.

Any further issue or repayment of debt securities by us could adversely affect your ability to be repaid and/or the value of the Bonds.

To mitigate this risk, the board of SBS Bank sets appropriate policies to ensure that it has access to funding to enable us to meet our debts as they fall due.

As a registered bank, SBS Bank must also comply with certain liquidity and other financial restrictions (for example, capital ratios measured against risk-weighted assets). The RBNZ also requires most New Zealand incorporated registered banks, including us, to maintain a conservation buffer above the minimum ratios.

Risk if selling the Bonds

You are also subject to the general risk that if you wish to sell your Bonds before maturity:

- you may be unable to find a buyer at all, or at an acceptable price, due to lack of demand or because the Bonds cease to be traded on the NZX Debt Market; and/or
- the price at which you are able to sell your Bonds may be less than what you originally paid for them. This could occur due to interest rate movements, the financial position of SBS Bank at the time, changes to the Bonds' and/or SBS Bank's credit rating or other reasons.

The likelihood of this risk occurring and its impact on the Bonds is more uncertain when markets are affected by domestic and international events or disruptions, like COVID-19. The likelihood of these kinds of disruptions occurring over the term of the Bonds, and their impact (both positive and negative) on the price of the Bonds, is not known. As such, this risk is particularly relevant over a longer period of time, such as the 5 year term of the Bonds.

If the price of the Bonds is adversely affected for any reason including those described above, the Bonds may trade below their Principal Amount (being \$1.00 per Bond). If you sell your Bonds at a time when their price is adversely affected, you may lose some of the money you invested.

Specific Risks relating to SBS Bank's creditworthiness

Like all other businesses and financial institutions, we are subject to risks in relation to our creditworthiness. These risks can arise due to a number of factors including changes in the domestic and international economy, general business conditions and increased competition.

Credit Risk relating to lending activities

Credit Risk is the risk that borrowers or other counterparties to certain contractual arrangements with us, do not meet their payment obligations to us.

The economic performance of the New Zealand residential housing market will affect how this risk impacts on SBS Bank. SBS Bank's predominant activity is the provision of residential first mortgage finance, which is undertaken throughout New Zealand.

A large scale downturn in the New Zealand residential housing market or serious and adverse changes in the economy affecting New Zealand households, could result in widespread default by borrowers. If widespread default occurs, this could impact on SBS Bank's ability to meet its financial commitments.

Our relative size in the retail banking market and relative concentration to residential first mortgage lending, means we are more sensitive to market changes which adversely affect the housing market, or any geographic regions in which our borrowers are located.

SBS Bank seeks to manage and mitigate credit risk through appropriate strategies including managing concentrations, maintaining appropriate credit approval criteria and general credit risk provisioning.

In extreme circumstances, SBS Bank's failure to adequately manage and mitigate credit risk over a sustained period of time could result in SBS Bank suffering financial losses. This could affect our profitability and/or capital position. It could also affect our credit rating and/or the credit rating of the Bonds. These circumstances could affect SBS Bank's ability to make payments on the Bonds and/or could affect the price at which the Bonds can be sold.

More information about our credit risk and provisioning of impaired loans is contained in our disclosure statements which are available, free of charge, at:

www.sbsbank.co.nz/about-us/sbs-bank/financial-information-and-disclosure-statements.

Liquidity and Funding Risk

Liquidity risk is the risk that we are unable to pay our debts as they fall due, or we are unable to access funding (on acceptable terms) to support our on-going operations. Our most significant liabilities are our Redeemable Share call accounts and term investments deposits (which both rank behind the Bonds for repayment on a liquidation). Like any bank, if there was a sudden and unexpected number of withdrawals from call accounts and repayment of term investments, we could experience liquidity difficulties.

SBS Bank's sources of funding include funding from retail deposits and financial institutions. Funding risk may arise if we are unable to attract investment in our deposit products or if there is uncertainty or unfavourable conditions in the financial markets meaning that we are unable to offer desirable terms (including interest rates) or we are unable to access sufficient funding at all or on acceptable terms. This could occur as a result of a number of factors including:

- a material downturn in the New Zealand economy;
- reduced investor confidence (in the New Zealand financial services market generally, or in SBS Bank in particular);
- the credit rating of SBS Bank or the Bonds adversely altering (or being withdrawn or suspended); and
- increased domestic competition for retail deposits.

SBS Bank's credit rating and relative size mean that it may not have available to it the same range of global capital market funding options as larger banks.

Liquidity difficulties which are experienced by us over an extended period, could result in us being unable to pay our debts when due.

SBS Bank has systems and frameworks in place for managing liquidity and funding risks and ensuring compliance with minimum funding and liquidity ratios imposed by the RBNZ. This includes a contingency funding plan to prepare SBS Bank to manage stress.

Financial Markets and Interest Rate Risk

Financial markets and interest rate risk relates to the risk that we face due to changes in wholesale interest rates and the availability or cost of credit in the financial markets. SBS Bank relies on funding within the wholesale markets and could suffer losses if the availability or cost of this funding increases significantly. In addition, we could suffer losses if there are material changes in wholesale interest rates that affect the margin between the interest rate we pay on money we borrow and the interest rate we charge on money we lend.

These circumstances could affect SBS Bank's ability to make payments on the Bonds and/or could affect the price at which the Bonds can be sold.

Capital Risk

Capital risk is the risk that we do not have sufficient capital to meet our prudential regulatory requirements. Maintenance of regulatory capital is a condition of our bank registration and a failure to comply could ultimately result in the loss of bank registration, although this is very unlikely to occur. This risk is particularly relevant to us because, as a bank which is also a building society, it is currently more difficult for us to raise regulatory capital (because we are unable to issue ordinary shares which could constitute Tier 1 capital or issue Tier 2 capital which is convertible into ordinary shares). Loss of our bank registration would materially and adversely impact SBS Bank and the Bonds.

Regulatory Change Risk

Regulatory change risk is the risk that changes in laws, regulations, rules, codes of practice, accounting standards or policies (Laws) or the way they are applied, could adversely affect us. This could occur if changes resulted in increased costs or decreased earnings for SBS Bank, changes to prudential regulatory requirements including liquidity and capital adequacy, changes relevant to our predominant activities, increased competition or changes to the structure or operation of our business.

Financial institutions like SBS Bank are subject to significant ongoing regulatory change which requires significant resources to manage appropriately. SBS Bank's regulated activities, including being a registered bank (which principally involves taking deposits and being a consumer lender under the Credit Contracts and Consumer Finance Act 2003) and being a financial advice provider under the FMCA, mean SBS Bank is subject to financial regulation which is increasingly complex and is changing rapidly.

Those operating in New Zealand's financial markets like SBS Bank, are also increasingly subject to conduct risk. Conduct in the financial markets is a current focus of the New Zealand Government and regulators, with more conduct-specific regulation due to be implemented in the next few years.

Non-compliance with any relevant Laws and/or conduct standards expected by regulators or the New Zealand consumer, could result in regulatory fines, compensation and/or sanctions and could damage our reputation. This can occur in certain circumstances even if the breach is minor, inadvertent or infrequent.

Our relative size in the retail banking market means we may feel the effects of some regulatory changes more acutely than larger financial institutions and appropriately resourcing to manage risk and compliance is more challenging. Material failure to appropriately manage risks associated with regulatory change, could ultimately impact on our financial performance.

SBS Bank is committed to standards of good conduct and regulatory compliance, as expressed in its Good Conduct and Ethical Behaviour Charter, the principles of which are imbedded in all SBS Bank policy, procedures and frameworks.

Operational Risk including cyber security risks

Operational risk is the risk of loss to us arising from a failure of our internal or external processes, people or systems. These losses may result from (for example) failure to comply with relevant Laws, from fraud or forgery, from a breakdown in the availability or integrity of services, systems and information, from a breach of security (including cyber-security), loss of key staff or damage to our reputation. In addition to losses, operational failures could result in SBS Bank's operating or information systems failing or becoming disabled, or large fines being imposed on us (if the failure relates to breaches of relevant Laws).

These circumstances could affect SBS Bank's ability to make payments on the Bonds and/or could affect the price at which the Bonds can be sold.

SBS Bank has in place systems and processes for managing operational risks, including business continuity plans and cyber-security risk protocols.

Impact of Risks

We expect that some of these risks will arise to some degree, in the ordinary course of business. However, it is not possible to forecast accurately the probability, degree or magnitude of impact of any of the particular business, financial and other risks described above.

We manage and mitigate these risks within our Group risk appetite and Group risk management framework and, appropriately managed, these risks are not expected to have a materially adverse impact on us. However, if unusual or unplanned circumstances arise, such as widespread defaults by borrowers, unexpectedly large numbers of withdrawals from deposits or a breakdown in the financial markets, any or all of the risks discussed above could become difficult to manage and could adversely impact on us. In extreme circumstances, failure to manage these risks in a material way and/or over a sustained period could mean that we are not able to meet our commitments on the Bonds. In addition, material or sustained failure to manage risks could result in a deterioration in the financial performance or creditworthiness of SBS Bank, could adversely affect our credit rating or the credit rating of the Bonds, or could impact the market value of the Bonds.

More detailed information around these risks and our general risk governance are contained in our disclosure statements which are available, free of charge, at:

www.sbsbank.co.nz/about-us/sbs-bank/financial-information-and-disclosure-statements

SECTION 7 :

Tax.

Withholding tax will be deducted from interest that is payable on the Bonds. There may also be other tax consequences from acquiring or disposing of the Bonds. If you have queries relating to the tax consequences of an investment in Bonds, you should obtain professional advice on those consequences.

Withholding tax

The return on the Bonds will be affected by taxes.

Under the Master Deed, you indemnify us in respect of any tax which we become liable to pay on your behalf. We may deduct any indemnity payment from future amounts payable to you.

The information below does not constitute taxation advice to you nor is it a complete statement of the laws applicable. The information is believed by us to be correct as at the date of this LDD. Taxation laws are subject to change, and such changes may materially affect your tax position with respect to an investment in the Bonds. You should seek qualified, independent financial and taxation advice relevant to your own particular circumstances before investing.

New Zealand taxation implications for New Zealand tax resident holders

Under New Zealand tax law, we must deduct resident withholding tax (**RWT**) from all interest paid or credited to New Zealand investors and non-resident investors who hold Bonds through a fixed establishment in New Zealand. If you don't provide us with your IRD number we will deduct RWT at the non-declaration rate. If you provide your IRD number but do not elect a tax rate, we will deduct tax at the applicable default rate.

If you hold a current exemption and you are registered on Inland Revenue RWT exemption register, we will not deduct RWT.

Inland Revenue can ask us to use a different tax rate than what you have advised.

New Zealand taxation implications for non-New Zealand tax resident holders

If at any time Bonds are held by a Holder who is not a New Zealand tax resident and not engaged in business through a fixed establishment (as defined in the Tax Act) in New Zealand (**Non-Resident Holder**), we are required to deduct non-resident withholding tax (**NRWT**) at the applicable NRWT rate. However, SBS Bank intends to register the Bonds for approved issuer levy (**AIL**) and, where eligible to do so, to pay AIL in lieu of withholding NRWT. Any AIL paid by SBS Bank other than at a rate of 0% will be deducted from the interest paid to the Holder. In the event of any change of law to the AIL regime, SBS Bank reserves the right not to pay the AIL described above.

In respect of a Non-Resident Holder who holds Bonds jointly with a resident Holder, RWT will instead be deducted at the applicable RWT rate.

We are entitled to rely upon information given by you as to your tax residency and activities in New Zealand when making any withholding for RWT, NRWT or AIL. All non-resident investors must provide us with their current overseas residential address.

The above is a generalised statement of taxation laws in force in New Zealand as at the date of this LDD. Changes to these or other laws may affect the tax consequences of an investment in the Bonds.

SECTION 8 :

Selling Restrictions.

The Bonds may only be offered for sale or sold in New Zealand in conformity with all applicable laws and regulations in New Zealand. No Bonds may be offered for sale or sold in any other country or jurisdiction except in conformity with all applicable laws and regulations of that country or jurisdiction and the selling restrictions contained in this LDD. This LDD may not be published, delivered or distributed in or from any country or jurisdiction except under circumstances which will result in compliance with all applicable laws and regulations in that country or jurisdiction and the selling restrictions contained in this LDD.

Without limiting the generality of the above, the following selling restrictions apply in respect of each relevant jurisdiction:

Member States of the European Economic Area

In relation to each Member State of the European Economic Area, no Bonds have been offered and no Bonds will be offered that are the subject of the offering contemplated by this LDD in relation thereto to the public in that Member State except that an offer of Bonds to the public in the Member State may be made:

- a. to any legal entity which is a qualified investor as defined in the EU Prospectus Regulation;
- b. to fewer than 150 natural or legal persons (other than qualified investors as defined in the EU Prospectus Regulation) subject to obtaining the prior consent of the relevant Joint Lead Manager (as applicable) nominated by SBS Bank for any such offer; or
- c. in any other circumstances falling within Article 1(4) of the EU Prospectus Regulation,

provided that no such offer of the Bonds shall require SBS Bank or any Joint Lead Manager to publish a prospectus pursuant to Article 3 of the EU Prospectus Regulation or supplement a prospectus pursuant to Article 23 of the EU Prospectus Regulation.

For the purposes of this provision, the expression an **offer of Bonds to the public** in any Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Bonds to be offered so as to enable an investor to decide to purchase or subscribe for the Bonds and the expression **EU Prospectus Regulation** means Regulation (EU) 2017/1129 (as amended or superseded).

United Kingdom

No Bonds have been offered and no Bonds will be offered that are the subject of the offering contemplated by this LDD in relation thereto to the public in the United Kingdom except that an offer of Bonds to the public in the United Kingdom may be made:

- a. to any legal entity which is a qualified investor as defined in Article 2 of the UK Prospectus Regulation;
- b. to fewer than 150 natural or legal persons (other than qualified investors as defined in Article 2 of the UK Prospectus Regulation) in the United Kingdom subject to obtaining the prior consent of the relevant Joint Lead Manager (as applicable) nominated by SBS Bank for any such offer; or
- c. in any other circumstances falling within section 86 of the Financial Services and Markets Act 2000 (FSMA),

provided that no such offer of the Bonds shall require SBS Bank or any Joint Lead Manager to publish a prospectus pursuant to section 85 of the FSMA or supplement a prospectus pursuant to Article 23 of the UK Prospectus Regulation.

For the purposes of this provision, the expression an **offer of Bonds to the public** means the communication in any form and by any means of sufficient information on the terms of the offer and the Bonds to be offered so as to enable an investor to decide to purchase or subscribe for the Bonds and the expression **UK Prospectus Regulation** means Regulation (EU) 2017/1129 as it forms part of domestic law by virtue of the European Union (Withdrawal) Act 2018.

Other regulatory restrictions

No communication, invitation or inducement to engage in investment activity (within the meaning of section 21 of the FSMA) has been or may be made or caused to be made or will be made in connection with the issue or sale of the Bonds in circumstances in which section 21(1) of the FSMA applies to SBS Bank.

All applicable provisions of the FSMA with respect to anything done in relation to the Bonds in, from or otherwise involving the United Kingdom must be complied with.

Singapore

This LDD has not been and will not be registered as a prospectus with the Monetary Authority of Singapore. Accordingly, this LDD and any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the Bonds has not been, and will not be, circulated or distributed, nor have the Bonds been, nor will they be, offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to any person in Singapore other than (i) to an institutional investor (as defined in Section 4A of the SFA pursuant to Section 274 of the SFA, (ii) to a relevant person (as defined in Section 275(2) of the SFA) pursuant to Section 275(1) of the SFA, or any person pursuant to Section 275(1A) of the SFA, and in accordance with the conditions specified in Section 275 of the SFA, or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where the Bonds are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

- a. a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or
- b. a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor,

securities or securities-based derivatives contracts (each term as defined in Section 2(1) of the SFA) of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the Bonds pursuant to an offer made under Section 275 of the SFA except:

1. to an institutional investor or to a relevant person, or to any person arising from an offer referred to in Section 275(1A) or Section 276(4)(i)(B) of the SFA
2. where no consideration is or will be given for the transfer;
3. where the transfer is by operation of law;
4. as specified in Section 276(7) of the SFA; or
5. as specified in Regulation 37A of the Securities and Futures (Offers of Investments) (Securities and Securities-based Derivatives Contracts) Regulations 2018.

Australia

No prospectus or other disclosure document (as defined in the Corporations Act), offering material or advertisement in relation to the Bonds (including this LDD) has been, or will be, lodged with, or registered by, the Australian Securities and Investments Commission (**ASIC**), ASX Limited (**ASX**) (or any successor thereto) or any other regulatory authority in Australia. No person may:

- a. make or invite (directly or indirectly) an offer of the Bonds for issue, sale or purchase in, to or from Australia (including an offer or invitation which is received by a person in Australia); and
- b. distribute or publish, any LDD, information memorandum, prospectus or other disclosure document (as defined in the Corporations Act) or any other offering material or advertisement relating to the Bonds in Australia,

unless:

- i. the minimum aggregate consideration payable by each offeree or invitee is at least A\$500,000 (or its equivalent in an alternative currency and, in either case, disregarding moneys lent by the offeror or its associates) or the offer or invitation otherwise does not require disclosure to investors in accordance with Part 6D.2 or Part 7.9 of the Corporations Act;
- ii. the offer or invitation is not made to a person who is a "retail client" within the meaning of section 761G of the Corporations Act;
- iii. such action complies with all applicable laws, regulations and directives; and
- iv. such action does not require any document to be lodged with, or registered by, ASIC, ASX (or any successor thereto) or any other regulatory authority in Australia.

By applying for the Bonds, each person to whom the Bonds are issued (an investor):

- a. will be deemed by SBS Bank and the Joint Lead Managers to have acknowledged that if any investor on-sells the Bonds within 12 months from their issue, the investor will be required to lodge a prospectus or other disclosure document (as defined in the Corporations Act) with ASIC unless either:
 - i. that sale is to an investor within one of the categories set out in sections 708(8) or 708(11) of the Corporations Act to whom it is lawful to offer the Bonds in Australia without a prospectus or other disclosure document lodged with ASIC; or
 - ii. the sale offer is received outside Australia; and
- b. will be deemed by SBS Bank and each of the Joint Lead Managers to have undertaken not to sell those Bonds in any circumstances other than those described in paragraphs (a)(i) and (a)(ii) above for 12 months after the date of issue of such Bonds.

Each person to whom the Bonds are issued will be deemed to have represented and agreed, that it will comply with Banking exemption No. 1 of 2018 dated 21 March 2018 promulgated by the Australian Prudential Regulation Authority which requires all offers and transfers to be in parcels of not less than A\$500,000 in aggregate principal amount. Banking exemption No. 1 does not apply to transfers which occur outside Australia.

This LDD is not, and under no circumstances is to be construed as, an advertisement or public offering of the Bonds in Australia.

Hong Kong

No Bonds have been offered or sold or will be or may be offered or sold in Hong Kong, by means of any document other than (a) to “professional investors” as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong (the SFO) and any rules made under the SFO; or (b) in other circumstances which do not result in the document being a “Prospectus” as defined in the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32) of Hong Kong (the C(WUMPO) or which do not constitute an offer to the public within the meaning of the C(WUMPO). No advertisement, invitation or document relating to the Bonds may be issued or in the possession of any person or will be issued or be in the possession of any person in each case for the purpose of issue, whether in Hong Kong or elsewhere, which is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to Bonds which are or are intended to be disposed of only to persons outside Hong Kong or only to “professional investors” as defined in the SFO and any rules made under the SFO.

Japan

The Bonds have not been and will not be registered under Article 4, paragraph 1 of the Financial Instruments and Exchange Law of Japan (Law No. 25 of 1948), as amended (the FIEL) pursuant to an exemption from the registration requirements applicable to a private placement of securities to Qualified Institutional Investors (as defined in and in accordance with Article 2, paragraph 3 of the FIEL and the regulations promulgated thereunder). Accordingly, the Bonds may not be offered or sold, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan other than Qualified Institutional Investors. Any Qualified Institutional Investor who acquires Bonds may not resell them to any person in Japan that is not a Qualified Institutional Investor, and acquisition by any such person of Bonds is conditional upon the execution of an agreement to that effect.

United States of America

The Bonds have not been, and will not be, registered under the Securities Act of 1933, as amended (the **Securities Act**) and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons (as defined in Regulation S under the Securities Act (**Regulation S**)) except in accordance with Regulation S or pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act.

No person or any person acting on its or their behalf has engaged or will engage in any directed selling efforts in relation to the Bonds, and each person has complied and will comply with the offering restrictions requirements of Regulation S.

The Bonds will not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons (i) as part of their distribution at any time, or (ii) otherwise until 40 days after the completion of the distribution of all Bonds of the Tranche of which such Bonds are part, as determined and certified by any Joint Lead Manager, except in accordance with Rule 903 of Regulation S. Any Bonds sold to any distributor, dealer or person receiving a selling concession, fee or other remuneration during the distribution compliance period require a confirmation or notice to the purchaser at or prior to the confirmation of the sale to substantially the following effect:

‘The Bonds covered hereby have not been registered under the US Securities Act of 1933, as amended (the ‘Securities Act’) or with any securities regulatory authority of any state or other jurisdiction of the United States and may not be offered or sold within the United States, or to or for the account or benefit of, U.S. persons (as defined in Regulation S under the Securities Act) (i) as part of their distribution at any time or (ii) otherwise until 40 days after the later of the commencement of the offering of the Bonds and the closing date except in either case pursuant to a valid exemption from registration in accordance with Regulation S under the Securities Act. Terms used above have the meaning given to them by Regulation S.’

Until 40 days after the completion of the distribution of all Bonds of the Tranche of which those Bonds are a part, an offer or sale of the Bonds within the United States by any Joint Lead Manager, or any dealer or other distributor (whether or not participating in the offering) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with Regulation S.

Indemnity

By its subscription for the Bonds, each Holder agrees to indemnify SBS Bank, the Joint Lead Managers and each of their respective directors, officers and employees for any loss, cost, liability or expense sustained or incurred by SBS Bank or the Joint Lead Managers, as the case may be, as a result of the breach by that Holder of the selling restrictions set out above.

SECTION 9 :

How to Complain.

Any problems or concerns about the Bonds can be directed to our Customer Complaints Team, who can be contacted using the following details:

Southland Building Society

Address:

51 Don Street,
Invercargill 9810

or

PO Box 835
Invercargill 9840

Telephone: 0800 727 2265

Attention: Customer Complaints Team

Email: customercomplaints@sbsbank.co.nz

If you are not satisfied with the response you receive, you may then direct your complaint to the Banking Ombudsman Scheme at the following address:

Freepost 218002
PO Box 25327
Featherston Street
Wellington 6146

Telephone: 0800 80 59 50

Email: help@bankomb.org.nz

The Banking Ombudsman Scheme will not charge a fee to any complainant to investigate or resolve a complaint.

Please note that if your complaint is sent directly to the Banking Ombudsman without having already followed the above process with us and our Customer Complaints Team, your complaint will be referred back to us to be attended to in the first instance.

SECTION 10 :

Where you can find more information.

Further information about us and the Bonds is available on Disclose at:

www.business.govt.nz/disclose

Offer number OFR13263, including our latest disclosure statement and annual report (which include financial statements), the Master Deed and the Supplemental Deed.

A copy of this information can also be obtained on request from the Registrar of Financial Service Providers.

You will need to search for this Offer on Disclose by searching for the name of the Offer “*SBS Senior Bond*” or by searching for the issuer “*Southland Building Society*”.

Our latest disclosure statement and annual report and other information about us can also be obtained free of charge from our website – www.sbsbank.co.nz

You may request a copy of the Master Deed, Supplemental Deed, our latest disclosure statement and annual report and further copies of this LDD free of charge, during normal business hours at any SBS Bank branch or our head office at:

51 Don Street
Invercargill 9810

These documents can also be obtained free of charge from our website: www.sbsbank.co.nz

Our latest annual report is also filed on a public register at the Companies Office of the Ministry of Business, Innovation and Employment and is available for public inspection during normal business hours or may be inspected on the Ministry of Business, Innovation and Employment’s website – www.business.govt.nz/companies free of charge by searching in the “*Other Registers*”.

SECTION 11 :

How to Apply.

How to Apply

All of the Bonds offered under this Offer (including any oversubscriptions) have been reserved for subscription by clients of the Joint Lead Managers, institutional investors, NZX Firms and other approved financial intermediaries invited to participate in the Bookbuild.

There is no public pool for the Bonds.

This means that you can only apply for Bonds through an NZX Firm or other approved financial intermediary who has obtained an allocation of Bonds. You can find an NZX Firm by visiting www.nzx.com/services/market-participants/find-a-participant.

The NZX Firm or approved financial intermediary will:

- provide you with a copy of this LDD (if you have not already received a copy);
- explain what you need to do to apply for the Bonds; and
- explain what payments need to be made by you, and by when.

SBS Bank reserves the right to refuse all or any part of any application for the Bonds under this Offer without giving a reason.

What you need to do to sell your Bonds on the NZX Debt Market

If you wish to sell your Bonds on the NZX Debt Market, after confirming your allocation, you must contact an NZX Firm or your financial advice provider. They will be able to advise you as to what arrangements will need to be put in place for you to trade the Bonds, including obtaining a Common Shareholder Number (CSN), an Authorisation Code (FIN) and opening an account with an NZX Firm as well as the costs and timeframes for putting such arrangements in place.

SECTION 12 :

Contact Information.

Issuer

Southland Building Society (SBS Bank)

Address:

51 Don Street
Invercargill 9810

or

PO Box 835
Invercargill 9840

Phone: 0800 727 2265

Email: p-info@sbsbank.co.nz

Website: www.sbsbank.co.nz

Arranger and Joint Lead Manager

Westpac Banking Corporation (ABN 33 007 457 141)
(acting through its New Zealand branch)

Address:

Westpac on Takutai Square
Level 8, 16 Takutai Square
Auckland 1010

Phone: 0800 772 142

Joint Lead Manager

Forsyth Barr Limited

Address:

Level 23, Shortland & Fort
88 Shortland Street
Auckland 1010

Phone: 0800 367 227

Bond Registrar

Computershare Investor Services Limited

Address:

Level 2, 159 Hurstmere Road
Takapuna
Auckland 0622

or

Private Bag 92119
Auckland 1142

Phone: +64 (9) 488 8700

Glossary.

Term	Meaning
\$	The lawful currency of New Zealand.
AIL	Approved Issuer Levy and has the meaning given to it in the Tax Act.
Arranger	Westpac Banking Corporation (ABN 33 007 457 141) (acting through its New Zealand branch).
Base Rate	The semi-annual mid market swap rate for an interest rate swap of a term and start date matching the period from the Issue Date to the Maturity Date as determined by the Arranger in accordance with market convention with reference to Bloomberg page ICNZ4 (or any successor page) on the Rate Set Date, expressed on a quarterly basis (rounded to 2 decimal places, if necessary with 0.005 being rounded up).
Bookbuild	The process expected to take place on the Rate Set Date when certain parties lodge bids for Bonds and on the basis of those bids, SBS Bank and the Joint Lead Managers determine the Issue Margin.
Bond Register	The register of Bonds maintained by the Bond Registrar.
Bond Registrar	Computershare Investor Services Limited.
Bonds	Bonds constituted by the Master Deed and the Supplemental Deed and offered for subscription pursuant to this LDD.
Business Day	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.
Disclose	The online offer register maintained by the Companies Office and the Registrar of Financial Service Providers known as “Disclose” and accessible online at www.business.govt.nz/disclose offer number OFR13263.
Closing Date	Friday, 11 March 2022 at 11:00am (NZ time) or earlier at SBS discretion.
Event of Default	An Event of Default as described in the Master Deed.
Fitch	Fitch Australia Pty Limited.
FMCA	Financial Markets Conduct Act 2013.
Group	SBS Bank and its subsidiaries, as specified in SBS Bank’s latest published financial statements.
Holder	The registered owner of Bonds.
Inland Revenue	The New Zealand Department of Inland Revenue.
Interest Payment Date	Each quarterly interest payment date, being 18 March, 18 June, 18 September and 18 December in each year until (and including) the Maturity Date.
Interest Period	The quarterly 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.
Interest Rate	The rate of interest per annum payable on the Principal Amount of the Bonds as announced by SBS Bank via www.sbsbank.co.nz/sbs-senior-bond on the Rate Set Date (as set out in Section 3 of this LDD (Key Terms of the Offer)).
Issue Date	Friday, 18 March 2022.

Issue Margin	The margin determined by SBS Bank in conjunction with the Joint Lead Managers following the Bookbuild, as announced via www.sbsbank.co.nz/sbs-senior-bond on the Rate Set Date.
Joint Lead Managers	Forsyth Barr Limited and Westpac Banking Corporation (ABN 33 007 457 141) (acting through its New Zealand branch).
LDD	This Limited Disclosure Document.
Listing Rules	The listing rules that apply to the NZX Debt Market as amended from time to time.
Master Deed	The deed poll dated 30 April 2014 executed by SBS Bank constituting, among other things, the Bonds as amended and restated by a Deed of Amendment and Restatement dated 26 September 2017.
Maturity Date	18 March 2027.
Non-Resident Holder	Has the meaning given to it in Section 7 of this LDD (Tax).
NRWT	Non-resident withholding tax and has the meaning given to it in the Tax Act.
NZX	NZX Limited.
NZX Debt Market	The debt security market operated by NZX.
NZX Firm	Any company, firm, organisation or corporation designated or approved as a Primary Market Participant from time to time by NZX.
NZX Participant Rules	The rules that apply to Participants.
Opening Date	Tuesday, 8 March 2022.
Participant	A business accredited by NZX to participate in the markets provided by NZX.
Primary Market Participant	Has the meaning given to that term in the NZX Participant Rules from time to time.
Principal Amount	\$1.00 per Bond.
Rate Set Date	Friday, 11 March 2022.
RBNZ	The Reserve Bank of New Zealand as established under the Reserve Bank Act.
Reserve Bank Act	The Reserve Bank of New Zealand Act 1989.
RWT	Resident withholding tax and has the meaning given to it in the Tax Act.
SBS Bank	Southland Building Society trading as SBS Bank.
Supplemental Deed	The Supplemental Deed dated 28 February 2022 executed by SBS Bank, setting out the principal terms and conditions of the Bonds.
Tax Act	The Income Tax Act 2007.



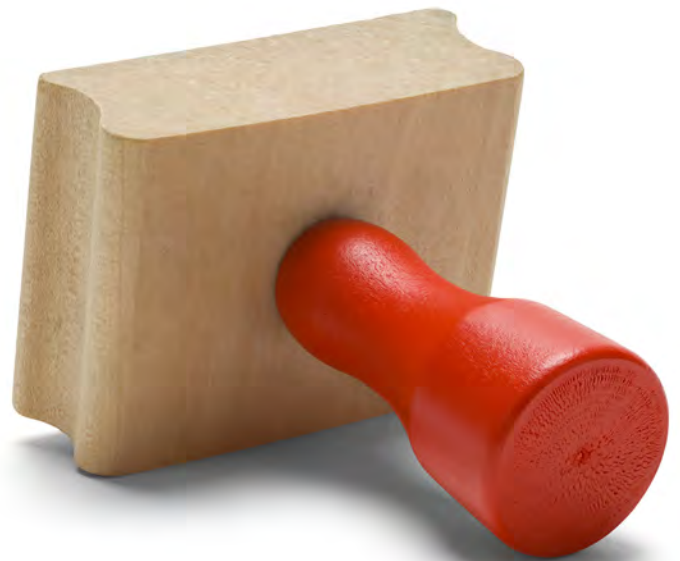
SOUTHLAND BUILDING SOCIETY
TRADING AS SBS BANK

Indicative Terms Sheet.

For an offer of 5 year unsecured, senior,
fixed rate bonds issued as SBS Senior Bonds.

28 FEBRUARY 2022

TERMS



Arranger & Joint
Lead Manager.



FORSYTH BARR

Joint Lead Manager.

Indicative Terms Sheet dated 28 February 2022.

Unsecured, senior, fixed rate, medium term debt securities due 18 March 2027.

This indicative terms sheet (**Terms Sheet**) is not a complete description of the Bonds to be issued. There is no assurance the Bonds will be issued. Investors should read and consider the Limited Disclosure Document (**LDD**), Master Deed and Supplemental Deed referred to below before making any investment decision.

Capitalised terms used but not defined in this Terms Sheet have the meanings given to them in the LDD.

Issuer	Southland Building Society, trading as SBS Bank (SBS Bank).
Description	5 year unsecured, senior, fixed rate, bonds (Bonds).
Ranking	The Bonds rank equally among themselves, equally with all other present and future unsecured and unsubordinated obligations of SBS Bank, and behind secured creditors and liabilities mandatorily preferred by law. The Bonds rank ahead of SBS Bank's redeemable shareholders, subordinated creditors and equity.
Issuer Credit Rating	BBB (positive outlook) by Fitch Australia Pty Limited (Fitch). 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.
Expected Issue Credit Rating of the Bonds	BBB+ by Fitch.
Purpose	The purpose of this Offer is to raise funds which will be used by SBS Bank for general corporate purposes, including making loans available to SBS Bank customers.
Currency	The Bonds will be denominated in New Zealand dollars.
Offer Amount	Up to \$100,000,000 (with the ability to accept oversubscriptions of up to an additional \$50,000,000 at SBS Bank's discretion).
Term	5 years.
Opening Date	Tuesday, 8 March 2022.
Closing Date	Friday, 11 March 2022 at 11:00am (NZ time) or earlier at SBS Bank's discretion.
Rate Set Date	Friday, 11 March 2022.
Issue Date	Friday, 18 March 2022.
Maturity Date	Thursday, 18 March 2027.
Interest Rate	<p>The Bonds will pay a fixed rate of interest until the Maturity Date.</p> <p>The Interest Rate will be equal to the sum of the Base Rate plus the Issue Margin on the Rate Set Date (Friday, 11 March 2022). The Indicative Issue Margin will be determined by SBS Bank in conjunction with the Joint Lead Managers and announced via www.sbsbank.co.nz/sbs-senior-bond on the Opening Date (Tuesday, 8 March 2022).</p> <p>The Issue Margin will be determined by SBS Bank in conjunction with the Joint Lead Managers following the Bookbuild and announced via www.sbsbank.co.nz/sbs-senior-bond on the Rate Set Date (a bookbuild is a process whereby a margin is determined by reference to bids from NZX Firms for an allocation of Bonds at different margins).</p> <p>The Interest Rate will be announced by SBS Bank via www.sbsbank.co.nz/sbs-senior-bond on Friday, 11 March 2022 (the Rate Set Date).</p>

Base Rate	The Base Rate will be the semi-annual mid market swap rate for an interest rate swap of a term and start date matching the period from the Issue Date to the Maturity Date as determined by the Arranger in accordance with market convention with reference to Bloomberg Page ICNZ4 (or any successor page) on the Rate Set Date, and expressed on a quarterly basis (rounded to 2 decimal places, if necessary, with 0.005 being rounded up).
Interest Payment Dates	Interest will be paid quarterly in arrear on each Interest Payment Date, being 18 March, 18 June, 18 September and 18 December in each year (or if that date is not a Business Day, the next Business Day without adjustment, interest or further payment as a result thereof) until (and including) the Maturity Date. The first Interest Payment Date is 18 June 2022 with payment on 20 June 2022, being the first Business Day following the First Interest Payment Date.
Issue Price and Principal Amount	Par (\$1.00) per Bond.
Business Days	Auckland, Invercargill.
Business Day Convention	Following Unadjusted.
Transfer Restrictions	SBS Bank may decline to accept or register a transfer of the Bonds if the transfer would result in the transferor or the transferee holding or continuing to hold Bonds with a Principal Amount of less than \$5,000 (if not zero) or if the transfer is not a multiple of \$1,000.
Record Date	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.
Minimum Subscription and Minimum Holding Amounts	The minimum denominations of \$5,000 and multiples of \$1,000 thereafter.
Who May Apply under the Offer	All of the Bonds offered under this Offer (including any oversubscriptions) have been reserved for subscription by clients of the Joint Lead Managers, institutional investors, NZX Firms and other approved financial intermediaries invited to participate in the Bookbuild. No person may apply for Bonds (including through a Joint Lead Manager, NZX Firm or other approved financial intermediary) unless they have obtained a copy of the LDD. There will be no public pool for the Bonds.
Bond Registrar, Paying Agent and Calculation Agent	Computershare Investor Services Limited. The Bonds will be accepted for settlement within the NZClear system.
ISIN	NZSBBDT297C3.
Brokerage	SBS Bank will pay brokerage to market participants in respect of the Offer.
Quotation	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. Ticker code SBS010 has been reserved for the Bonds.

Expected Date of Quotation and Trading of the Bonds on the NZX Debt Market	It is expected that quotation of the Bonds on the NZX Debt Market will occur on Monday, 21 March 2022.
Arranger	Westpac Banking Corporation (ABN 33 007 457 141) (acting through its New Zealand branch) (Westpac).
Joint Lead Managers	Forsyth Barr Limited and Westpac.
Offer Documentation	Limited Disclosure Document dated 28 February 2022. Master Deed dated 30 April 2014 (as amended and restated on 26 September 2017). Supplemental Deed dated 28 February 2022.
Governing Law	New Zealand.
Selling Restrictions	The Offer and subsequent transfers of Bonds are subject to the selling restrictions contained in the schedule to this Terms Sheet.
Important Information for Australian Investors	We are not a bank nor an authorised deposit-taking institution which is authorised under the Banking Act 1959 (Cth) of Australia (the Australian Banking Act) nor are we authorised to carry on banking business under the Australian Banking Act. The Bonds are not obligations of any government and, in particular, are not guaranteed by the Commonwealth of Australia. We are not supervised by the Australian Prudential Regulation Authority. Bonds that are offered for issue or sale or transferred in, or into, Australia are offered only in circumstances that would not require disclosure to investors under Part 6D.2 or Part 7.9 of the Corporations Act 2001 of Australia (the Corporations Act) and issued and transferred in compliance with the terms of the exemption from compliance with section 66 of the Australian Banking Act that is available to us. Such Bonds are issued or transferred in, or into, Australia in parcels of not less than A\$500,000 in aggregate principal amount. An investment in any Bonds issued by SBS Bank will not be covered by the depositor protection provisions in section 13A of the Australian Banking Act and will not entitle holders to claim under the financial claims scheme for account-holders with insolvent ADIs under Division 2AA of the Australian Banking Act.
Singapore Securities and Futures Act Product Classification	Solely for the purposes of its obligations pursuant to sections 309B(1)(a) and 309B(1)(c) of the SFA, SBS Bank has determined, and hereby notifies all relevant persons (as defined in Section 309A of the SFA) that the Bonds are “prescribed capital markets products” (as defined in the Securities and Futures (Capital Markets Products) Regulations 2018).

Important Information

This Terms Sheet forms part of the Offer Documentation and should be read in conjunction with, distributed and received in compliance with the statements made in the Offer Documentation. This Terms Sheet must not be published, delivered, distributed or received except in compliance with all applicable laws and regulations.

The dates set out in this Terms Sheet are indicative only. The Opening and Closing Dates are indicative only and are subject to change. SBS Bank has the right, in its absolute discretion to open or close this Offer early, to accept late applications and to extend the Closing Date, without notice.

If the Closing Date is extended, the Rate Set Date, the Issue Date, the expected date of initial quotation and trading of the Bonds on the NZX Debt Market, the Interest Payment Dates and the Maturity Date may be extended accordingly. Any such changes will not affect the validity of any applications received.

SBS Bank reserves the right to cancel this Offer at any time, in which case, all application monies will be refunded (without interest) as soon as practicable.

Issuer

SBS Bank

51 Don Street
Invercargill 9810

Securities Registrar

Computershare Investor Services Limited

Level 2, 159 Hurstmere Road
Takapuna
Auckland 0622

Arranger and Joint Lead Manager

Westpac Banking Corporation (ABN 33 007 457 141) (acting through its New Zealand branch)

Level 8, 16 Takutai Square
Auckland 1010

Joint Lead Manager

Forsyth Barr Limited

Level 23, Shortland & Fort
88 Shortland Street
Auckland 1010

Schedule

The Bonds may only be offered for sale or sold in New Zealand in conformity with all applicable laws and regulations in New Zealand. No Bonds may be offered for sale or sold in any other country or jurisdiction except in conformity with all applicable laws and regulations of that country or jurisdiction and the selling restrictions contained in this LDD. This LDD may not be published, delivered or distributed in or from any country or jurisdiction except under circumstances which will result in compliance with all applicable laws and regulations in that country or jurisdiction and the selling restrictions contained in this LDD.

Without limiting the generality of the above, the following selling restrictions apply in respect of each relevant jurisdiction:

Member States of the European Economic Area

In relation to each Member State of the European Economic Area, no Bonds have been offered and no Bonds will be offered that are the subject of the offering contemplated by this LDD in relation thereto to the public in that Member State except that an offer of Bonds to the public in the Member State may be made

- a. to any legal entity which is a qualified investor as defined in the EU Prospectus Regulation;
- b. to fewer than 150 natural or legal persons (other than qualified investors as defined in the EU Prospectus Regulation) subject to obtaining the prior consent of the relevant Joint Lead Manager (as applicable) nominated by SBS Bank for any such offer; or
- c. in any other circumstances falling within Article 1(4) of the EU Prospectus Regulation,

provided that no such offer of the Bonds shall require SBS Bank or any Joint Lead Manager to publish a prospectus pursuant to Article 3 of the EU Prospectus Regulation or supplement a prospectus pursuant to Article 23 of the EU Prospectus Regulation.

For the purposes of this provision, the expression an **offer of Bonds to the public** in any Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Bonds to be offered so as to enable an investor to decide to purchase or subscribe for the Bonds and the expression **EU Prospectus Regulation** means Regulation (EU) 2017/1129 (as amended or superseded).

United Kingdom

No Bonds have been offered and no Bonds will be offered that are the subject of the offering contemplated by this LDD in relation thereto to the public in the United Kingdom except that an offer of Bonds to the public in the United Kingdom may be made:

- a. to any legal entity which is a qualified investor as defined in Article 2 of the UK Prospectus Regulation;
- b. to fewer than 150 natural or legal persons (other than qualified investors as defined in Article 2 of the UK Prospectus Regulation) in the United Kingdom subject to obtaining the prior consent of the relevant Joint Lead Manager (as applicable) nominated by SBS Bank for any such offer; or
- c. in any other circumstances falling within section 86 of the Financial Services and Markets Act 2000 (FSMA),

provided that no such offer of the Bonds shall require SBS Bank or any Joint Lead Manager to publish a prospectus pursuant to section 85 of the FSMA or supplement a prospectus pursuant to Article 23 of the UK Prospectus Regulation.

For the purposes of this provision, the expression an **offer of Bonds to the public** means the communication in any form and by any means of sufficient information on the terms of the offer and the Bonds to be offered so as to enable an investor to decide to purchase or subscribe for the Bonds and the expression **UK Prospectus Regulation** means Regulation (EU) 2017/1129 as it forms part of domestic law by virtue of the European Union (Withdrawal) Act 2018.

Other regulatory restrictions

No communication, invitation or inducement to engage in investment activity (within the meaning of section 21 of the FSMA) has been or may be made or caused to be made or will be made in connection with the issue or sale of the Bonds in circumstances in which section 21(1) of the FSMA applies to SBS Bank.

All applicable provisions of the FSMA with respect to anything done in relation to the Bonds in, from or otherwise involving the United Kingdom must be complied with.

Singapore

This LDD has not been and will not be registered as a prospectus with the Monetary Authority of Singapore. Accordingly, this LDD and any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the Bonds has not been, and will not be, circulated or distributed, nor have the Bonds been, nor will they be, offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to any person in Singapore other than (i) to an institutional investor (as defined in Section 4A of the SFA pursuant to Section 274 of the SFA, (ii) to a relevant person (as defined in Section 275(2) of the SFA) pursuant to Section 275(1) of the SFA, or any person pursuant to Section 275(1A) of the SFA, and in accordance with the conditions specified in Section 275 of the SFA, or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where the Bonds are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

- a. a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or
- b. a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor,

securities or securities-based derivatives contracts (each term as defined in Section 2(1) of the SFA) of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the Bonds pursuant to an offer made under Section 275 of the SFA except:

1. to an institutional investor or to a relevant person, or to any person arising from an offer referred to in Section 275(1A) or Section 276(4)(i)(B) of the SFA;
2. where no consideration is or will be given for the transfer;
3. where the transfer is by operation of law;
4. as specified in Section 276(7) of the SFA; or
5. as specified in Regulation 37A of the Securities and Futures (Offers of Investments) (Securities and Securities-based Derivatives Contracts) Regulations 2018.

Australia

No prospectus or other disclosure document (as defined in the Corporations Act), offering material or advertisement in relation to the Bonds (including this LDD) has been, or will be, lodged with, or registered by, the Australian Securities and Investments Commission (**ASIC**), ASX Limited (**ASX**) (or any successor thereto) or any other regulatory authority in Australia. No person may:

- a. make or invite (directly or indirectly) an offer of the Bonds for issue, sale or purchase in, to or from Australia (including an offer or invitation which is received by a person in Australia); and
- b. distribute or publish, any LDD, information memorandum, prospectus or other disclosure document (as defined in the Corporations Act) or any other offering material or advertisement relating to the Bonds in Australia,

unless:

- i. the minimum aggregate consideration payable by each offeree or invitee is at least A\$500,000 (or its equivalent in an alternative currency and, in either case, disregarding moneys lent by the offeror or its associates) or the offer or invitation otherwise does not require disclosure to investors in accordance with Part 6D.2 or Part 7.9 of the Corporations Act;
- ii. the offer or invitation is not made to a person who is a "retail client" within the meaning of section 761G of the Corporations Act;
- iii. such action complies with all applicable laws, regulations and directives; and
- iv. such action does not require any document to be lodged with, or registered by, ASIC, ASX (or any successor thereto) or any other regulatory authority in Australia.

By applying for the Bonds, each person to whom the Bonds are issued (an investor):

- a. will be deemed by SBS Bank and the Joint Lead Managers to have acknowledged that if any investor on-sells the Bonds within 12 months from their issue, the investor will be required to lodge a prospectus or other disclosure document (as defined in the Corporations Act) with ASIC unless either:
 - i. that sale is to an investor within one of the categories set out in sections 708(8) or 708(11) of the Corporations Act to whom it is lawful to offer the Bonds in Australia without a prospectus or other disclosure document lodged with ASIC; or
 - ii. the sale offer is received outside Australia; and
- b. will be deemed by SBS Bank and each of the Joint Lead Managers to have undertaken not to sell those Bonds in any circumstances other than those described in paragraphs (a)(i) and (a)(ii) above for 12 months after the date of issue of such Bonds.

Each person to whom the Bonds are issued will be deemed to have represented and agreed, that it will comply with Banking exemption No. 1 of 2018 dated 21 March 2018 promulgated by the Australian Prudential Regulation Authority which requires all offers and transfers to be in parcels of not less than A\$500,000 in aggregate principal amount. Banking exemption No. 1 does not apply to transfers which occur outside Australia.

This LDD is not, and under no circumstances is to be construed as, an advertisement or public offering of the Bonds in Australia

Hong Kong

No Bonds have been offered or sold or will be or may be offered or sold in Hong Kong, by means of any document other than (a) to “professional investors” as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong (the SFO) and any rules made under the SFO; or (b) in other circumstances which do not result in the document being a “Prospectus” as defined in the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32) of Hong Kong (the **C(WUMPO)**) or which do not constitute an offer to the public within the meaning of the C(WUMPO). No advertisement, invitation or document relating to the Bonds may be issued or in the possession of any person or will be issued or be in the possession of any person in each case for the purpose of issue, whether in Hong Kong or elsewhere, which is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to Bonds which are or are intended to be disposed of only to persons outside Hong Kong or only to “professional investors” as defined in the SFO and any rules made under the SFO.

Japan

The Bonds have not been and will not be registered under Article 4, paragraph 1 of the Financial Instruments and Exchange Law of Japan (Law No. 25 of 1948), as amended (the **FIEL**) pursuant to an exemption from the registration requirements applicable to a private placement of securities to Qualified Institutional Investors (as defined in and in accordance with Article 2, paragraph 3 of the FIEL and the regulations promulgated thereunder). Accordingly, the Bonds may not be offered or sold, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan other than Qualified Institutional Investors. Any Qualified Institutional Investor who acquires Bonds may not resell them to any person in Japan that is not a Qualified Institutional Investor, and acquisition by any such person of Bonds is conditional upon the execution of an agreement to that effect.

United States of America

The Bonds have not been, and will not be, registered under the Securities Act of 1933, as amended (the **Securities Act**) and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons (as defined in Regulation S under the Securities Act (**Regulation S**)) except in accordance with Regulation S or pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act.

No person or any person acting on its or their behalf has engaged or will engage in any directed selling efforts in relation to the Bonds, and each person has complied and will comply with the offering restrictions requirements of Regulation S.

The Bonds will not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons (i) as part of their distribution at any time, or (ii) otherwise until 40 days after the completion of the distribution of all Bonds of the Tranche of which such Bonds are part, as determined and certified by any Joint Lead Manager, except in accordance with Rule 903 of Regulation S. Any Bonds sold to any distributor, dealer or person receiving a selling concession, fee or other remuneration during the distribution compliance period require a confirmation or notice to the purchaser at or prior to the confirmation of the sale to substantially the following effect:

‘The Bonds covered hereby have not been registered under the US Securities Act of 1933, as amended (the ‘Securities Act’) or with any securities regulatory authority of any state or other jurisdiction of the United States and may not be offered or sold within the United States, or to or for the account or benefit of, U.S. persons (as defined in Regulation S under the Securities Act) (i) as part of their distribution at any time or (ii) otherwise until 40 days after the later of the commencement of the offering of the Bonds and the closing date except in either case pursuant to a valid exemption from registration in accordance with Regulation S under the Securities Act. Terms used above have the meaning given to them by Regulation S.’

Until 40 days after the completion of the distribution of all Bonds of the Tranche of which those Bonds are a part, an offer or sale of the Bonds within the United States by any Joint Lead Manager, or any dealer or other distributor (whether or not participating in the offering) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with Regulation S.

Indemnity

By its subscription for the Bonds, each Holder agrees to indemnify SBS Bank, the Joint Lead Managers and each of their respective directors, officers and employees for any loss, cost, liability or expense sustained or incurred by SBS Bank or the Joint Lead Managers, as the case may be, as a result of the breach by that Holder of the selling restrictions set out above.