

This Investment Statement provides you with information about Southland Building Society's term investment products. Southland Building Society operates under two brands "SBS Bank" and "HBS Bank". Throughout this document Southland Building Society will be referred to as "the Bank". We recommend you retain this Investment Statement along with other banking records for future reference.

Important information

(The information in this section is required under the Securities Act 1978).

Investment decisions are very important. They often have long-term consequences. Read all documents carefully. Ask questions. Seek advice before committing yourself.

This Investment Statement does not constitute an offer of securities in any jurisdiction other than New Zealand. No person may purchase, offer, sell, distribute, or deliver securities or have in its possession, or distribute to any person, any offering material or any documents in connection with the securities in any jurisdiction other than in compliance with all applicable laws and regulations.

The Bank is exempt under the Securities Act 1978 and the Securities Act (Southland Building

Society) Exemption Notice 2008 from the obligation to register a prospectus in respect of its term investment products, or to appoint a trustee or statutory supervisor in respect of the term investments which are offered under this Investment Statement. Accordingly, no trustee or statutory supervisor is appointed to represent investors in respect of such term investments.

What sort of investment is this?

This Investment Statement relates to interest-bearing term investments with the Bank as unsecured deposits, redeemable shares or subordinated redeemable shares. For the purposes of this Investment Statement, term investments of any security type are referred to as "investments" and the term "interest" includes dividends on redeemable shares and subordinated redeemable shares.

Unsecured deposits rank equally amongst themselves and equally with all other unsecured liabilities of the Bank.

Redeemable shares which are offered under this Investment Statement are shares issued by the Bank for a specific fixed term. These redeemable shares are compulsorily repayable by the Bank upon the earlier of the expiry of the fixed term or liquidation, and the redeemable shares carry voting rights which may be exercised at meetings of the Bank's members.

In a liquidation of the Bank any such redeemable shares which remain outstanding will:

- rank for repayment equally amongst themselves and with redeemable shares issued at call and behind the Bank's unsecured deposits and all other unsecured creditors: and
- participate (equally with all other outstanding redeemable shares and subordinated redeemable shares) in any surplus assets of the Bank which remain after principal amounts have been repaid to holders of unsecured deposits, redeemable shares and subordinated redeemable shares, and all of the Bank's other unsecured creditors have been repaid and liquidation expenses met.

Subordinated redeemable shares which are offered under this Investment Statement are shares issued by the Bank for a specific fixed term. These subordinated redeemable shares are compulsorily repayable by the Bank upon the earlier of the expiry of the fixed term or liquidation, and the subordinated redeemable shares carry voting rights which may be exercised at meetings of the Bank's members.

In a liquidation of the Bank, any such subordinated redeemable shares which remain outstanding will:

- rank for repayment equally amongst themselves and behind the Bank's redeemable shares, the Bank's unsecured deposits and all other unsecured creditors; and
- participate (equally with all other outstanding redeemable shares and subordinated redeemable shares) in any surplus assets of the Bank which remain after principal amounts have been repaid to holders of unsecured deposits, redeemable shares and subordinated redeemable shares, and all of the Bank's other unsecured creditors have been repaid and liquidation expenses met.

Who is involved in providing it for me?

The Issuer

Southland Building Society
51 Don Street
Invercargill

Directors

The Directors of the Bank as at the date of this Investment Statement are as follows:

JWA (Acton) Smith
JF (John) Ward
KJ (Kathryn) Ball
JB (Jeff) Walker
GJ (Greg) Mulvey
GJ (Garry) Diack
JJ (Jeff) Grant
RL (Ross) Smith

The Directors of the Bank may change from time to time. Details of the Directors are available on www.sbs.net.nz, or upon request at any branch of the Bank.

Activities

Established in 1869, the Bank is a building society registered under the Building Societies Act 1965. It borrows money from the public and other sources and it lends this money to the public and the business community. The Bank provides finance for housing, consumers, commerce and agriculture. The predominant lending activity is the provision of residential loans.

Registered Bank

As from 7 October 2008, the Bank became a registered bank under the Reserve Bank of New Zealand Act 1989. The Reserve Bank of New Zealand is responsible for the registration and supervision of banks in New Zealand. These powers and responsibilities are set out in Part 5 of the Reserve Bank of New Zealand Act 1989. As a registered bank, the Bank falls under the Reserve Bank of New Zealand's supervision and, amongst other obligations, must prepare various disclosure statements in accordance with section 81 of the Reserve Bank of New Zealand Act 1989.

Credit Ratings

The Bank has the following credit ratings from Fitch Ratings:

- a long-term credit rating in respect of its unsecured deposits of BBB+;
- a long-term credit rating of BBB for its redeemable shares;
- a long term credit rating of BBB- for its subordinated redeemable shares: and
- a long-term issuer default rating of BBB.

A credit rating is not a recommendation to invest in securities issued by the Bank and may be subject to revision, suspension, or withdrawal at any time.

How much do I pay?

Each investment has a minimum and maximum amount that can be invested. These amounts are shown on the current rate card available from any branch or agency of the Bank. Investments for larger amounts than any stated maximums can be accepted by prior agreement.

If you wish to make an investment, the principal amount must be paid or transferred in full to any branch or agency of the Bank. If you are arranging your investment through an intermediary, then you should make arrangements with them for payment to the Bank. The Bank will not accept your application to invest until full payment of the investment amount is received. Payment must accompany duly completed application and account operating authority forms.

What are the charges?

No charges are payable by you to the Bank when you apply for an investment.

However, if you wish to terminate or partially withdraw the investment before its maturity date, the Bank may either decline your request or, at its discretion, charge you for this.

For unsecured deposits and redeemable shares, partial withdrawals within 30 days are not allowed. Should you require your funds during the first 30 days, then the investment will be terminated and there will be no interest credited to you. For any investment terminated in full or part after 30 days, a flat fee of 1.5% per annum of the amount withdrawn is charged on a pro-rata basis for the investment period to date. (A minimum fee of \$25 applies).

No early withdrawals in respect of subordinated redeemable shares are permitted, except in cases of extreme financial hardship, and in such cases a 1% withdrawal fee will be incurred (see under "How do I Cash in my Investment?" below).

What returns will I get?

Interest will be paid to you or compounded on the basis, at the rates, and on the frequency specified in the application form relating to the investment option selected. Interest will be calculated daily and accrue from the date your investment amount is received. For fixed rate investments, the Bank can inform you exactly what your returns will be at the time you make your investment.

The key factors that will determine your return will be the interest rate (depending on the type of investment), the amount of principal you invest, the term of your investment and the amount of any tax that you are required to pay.

Interest will be paid or accrued after deductions of all taxes and other levies that the Bank is legally required to deduct. The Bank is the person legally liable to pay the returns.

What are my risks?

All investments involve some risks. The main risks of you not recovering the full amount of the sum invested or the returns described above are:

- the insolvency or statutory management of the Bank in circumstances where the assets of the Bank are insufficient to meet claims ranking ahead of, or equally with, your claim. The risks that could result in the insolvency or statutory management of the Bank are discussed below;
- the Inland Revenue Department requiring the Bank to deduct a sum from your investment on account of any sum that you may owe as a taxpayer; and

- The Bank exercising any right it may have to combine your accounts, or to set off debts you may owe it against the amount of your investment.

Risks of insolvency or statutory management

A financial institution is exposed to various types of risk, such as those arising from:

- counterparty failure;
- funding and assets concentrations;
- interest rate movements; changes in other market prices; and
- from a potential inability to meet obligations as they fall due (liquidity risk).

The principal risk faced is counterparty failure (credit risk) – the potential losses that can be incurred from extending credit to a customer. The above risks are inherent in financial institutions and the Bank could not function without assuming these risks in varying degrees. The Bank manages carefully all the risk to which it is exposed and considers that these risks would need to be extreme in their impact before they would result in the insolvency or statutory management of the Bank. A more detailed explanation about how the Bank prudently manages its various risk exposures is contained in the Bank's latest general disclosure statement. A copy of this disclosure statement can be obtained free of charge on request from any branch of the Bank, or by visiting www.sbs.net.nz.

In terms of the Bank's principal risk, that of credit risk, the Bank takes collateral security by way of registered mortgage over property when it advances money to customers to the extent deemed necessary by management's credit evaluation of each borrowing customer. All loans are made within established and proven loan-to-security value and repayment-to-income ratios and, where necessary, the risk of loan losses is insured against with a third party mortgage insurer. In addition, the Bank restricts its exposure to any one borrower or group of closely-related borrowers and maintains capital reserves. These reserves provide a financial buffer to absorb any losses that may be incurred from lending money to customers.

Therefore, in the normal course of events, the risk that you, as an investor, may not recover the full amount of the sum invested or the return promised is considered by the Bank to be low. Clearly, however, if the Bank was unable to recover a substantial portion of the secured advances it has made to others due to extreme changes in the economy, other adverse factors that caused an extensive reduction in the value of its securities or impacted widely and severely on the financial condition of its borrowers, and the Bank's capital was insufficient to absorb the resulting losses, then the Bank may become insolvent or be liquidated and you may not recover all of your investment and the returns promised.

If the Bank becomes insolvent or is liquidated, investors have no additional liability to the Bank or to any other person in connection with their investment. If you hold a deposit investment, your security ranks equally with those of other unsecured creditors of the Bank and behind creditors given priority by law. The claims of redeemable share investors rank equally with other redeemable shareholders in the Bank, and behind depositors and other unsecured creditors of the Bank, and those creditors given priority by law. The claims of subordinated redeemable share investors rank equally with other subordinated redeemable shareholders in the Bank, and behind redeemable shareholders, depositors, other unsecured creditors of the Bank, and those creditors given priority by law.

Can the investment be altered?

An investment with the Bank is a binding contract on both parties and cannot be altered as of right before maturity. However, the Bank will consider applications for alterations from investors on a case-by-case basis. Any alterations at the request of the investor are at the sole discretion of the Bank. The main terms of your investment cannot be altered without your agreement.

Investments are also issued in accordance with the Southland Building Society Rules. These Rules may be altered by a 75% majority of Southland Building Society's members voting at a meeting.

How do I cash in my investment?

The Bank will consider requests for early repayment to meet circumstances not foreseen by the investor at the time of application.

The Bank may either decline your request or, at its discretion, charge you for this. The charges are as referred to earlier in this Investment Statement under "What are the Charges?"

You are entitled to sell or transfer your interest in an investment. This may be effected on the usual form for the transfer of securities, in accordance with the Southland Building Society's Rules. The Bank considers that there is no established market for the sale of the investments.

In respect of subordinated redeemable shares which are issued by the Bank for a 5 year term, in circumstances of extreme financial hardship the Bank will use its best endeavours to enable you to terminate your investment prior to the 5 year maturity date, by facilitating a transfer to a willing purchaser. However, this will only be in exceptional circumstances and the Bank does not guarantee either that it will be able to find a purchaser for your investment, or what the transfer price will be. Approved transfers of subordinated redeemable shares will incur a 1% withdrawal fee.

Southland Building Society Head Office: 51 Don St, PO Box 835, Invercargill, New Zealand. Tel: 64 3 211 0700, Fax: 64 3 211 0754

Who do I contact with enquiries about my investment?

Enquiries should be directed to any branch or agency office of the Bank, or:

The Secretary
Southland Building Society
51 Don Street
PO Box 835
Invercargill
Tel: 03 211 0700

Is there anyone to whom I can complain if I have problems with the investment?

If you think we've made a mistake and would like to make a complaint, we'd like to hear from you so we can rectify any issue and continue to provide you with the service you expect from the Bank.

We have a range of options for you to contact us:

Talk to us

If you feel the issue can be resolved by a quick chat, please talk to one of our branch staff or call 0800 502 442 to talk the issue through in confidence with them or ask to speak to a member of the Customer Complaints Team.

If the issue cannot be resolved immediately, they will advise you who they are going to speak to and when they will contact you again. We keep a record of all complaints we receive to ensure your issue is followed through within the agreed timeframes.

Write to us

We encourage you to write to us. Please attach any supporting documentation that is relevant to the issue and give this to any member of our branch staff or return it directly to the Customer Complaints Team by post or fax:

Post: Customer Complaints Team
Southland Building Society
PO Box 835
INVERCARGILL

Fax: 03 211 2324

E-mail us

You can contact the Customer Complaints Team directly at customercomplaints@sbs.net.nz.

All of our customer complaints are treated with urgency and in the utmost confidence. We will acknowledge your complaint within two days of receiving it and will keep in regular contact with you while we resolve the issue.

A Review by the Banking Ombudsman

We will work hard to resolve your issue, however if you are not completely satisfied with the resolution, you are entitled to request a review by the Office of the Banking Ombudsman.

The Banking Ombudsman provides free independent assistance to resolve disagreements between banks and their customers either informally or by making a recommendation which is binding on the bank.

For more information regarding the Banking Ombudsman, contact any branch of the Bank, call 0800 502 442 or visit www.bankomb.org.nz.

Alternatively, you can contact the Banking Ombudsman at:

The Office of the Banking Ombudsman
PO BOX 10-573
The Terrace
Wellington 6143

Freephone: 0800 805 950

Tel: (04) 471 0006

Fax: (04) 471 0548

E-mail: help@bankomb.org.nz

What other information can I obtain about this investment?

Other information, including financial statements, is contained in the Bank's latest general disclosure statement published under section 81 of the Reserve Bank of New Zealand Act 1989. A copy of this disclosure statement can be obtained free of charge on request from any branch of the Bank, by visiting www.sbs.net.nz, or from:

The Secretary
Southland Building Society
51 Don Street
PO Box 835
Invercargill
Tel: 03 211 0700

A copy of the Bank's most recent financial statements that have been registered under the Financial Reporting Act 1993 (together with all documents required to be registered with those financial statements) are filed with the Companies Office of the Ministry of Economic Development in Wellington, and are available for public inspection at www.companies.govt.nz

The Bank is required to send to its members annually a copy of the most recent financial statements together with the directors' report. Members may elect to receive either summary or full financial statements.

You will find more information about Southland Building Society and these securities at www.sbs.net.nz.

THE BANK DOES NOT PROVIDE INVESTMENT ADVICE TAILORED TO AN INVESTOR'S PERSONAL CIRCUMSTANCES. IT IS THE INVESTOR'S RESPONSIBILITY TO UNDERSTAND THE NATURE OF THE SECURITY SUBSCRIBED FOR AND THE RISKS ASSOCIATED WITH THAT SECURITY. EACH SECURITY (INCLUDING THE PRINCIPAL, INTEREST OR OTHER RETURNS OF ANY SECURITY) IS NOT GUARANTEED, SECURED OR UNDERWRITTEN IN ANY WAY BY THE BANK OR ANY ASSOCIATED OR RELATED PARTY.