

Southland Building Society Investment Statement for Term Investments Prepared on 17 March 2009



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

This Investment Statement provides you with information about Southland Building Society's term investment products. 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.

SBS 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.

Choosing an investment

When deciding whether to invest, consider carefully the answers to the following questions that can be found in this Investment Statement

What sort of investment is this?

Who is involved in providing it for me?

How much do I pay?

What are the charges?

What returns will I get?

What are my risks?

Can the investment be altered?

How do I cash in my investment?

Who do I contact with enquiries about my investment?

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

What other information can I obtain about this investment?

Engaging an investment adviser

An investment adviser must give you a written statement that contains information about the adviser and his or her ability to give advice. You are strongly encouraged to read that document and consider the information in it when deciding whether or not to engage an adviser.

Tell the adviser what the purpose of your investment is. This is important because different investments are suitable for different purposes, and carry different levels of risk.

The written statement should contain important information about the adviser, including:

- Relevant experience and qualifications, and whether dispute resolution facilities are available to you;
- What types of investments the adviser gives advice about;

- Whether the advice is limited to investments offered by 1 or more particular financial institutions;
- Information that may be relevant to the adviser's character, including certain criminal convictions, bankruptcy, any adverse findings by a court against the adviser in a professional capacity, and whether the adviser has been expelled from, or prohibited from joining, a professional body;
- Any relationships likely to give rise to a conflict of interest.

The adviser must also tell you about fees and remuneration before giving you advice about an investment. The information about fees and remuneration must include:

- The nature and level of the fees you will be charged for receiving the advice;
- Whether the adviser will or may receive a commission or other benefit from advising you.

An investment adviser commits an offence if he or she does not provide you with the information required.

What sort of investment is this?

This Investment Statement relates to interest-bearing term investments with the Southland Building Society, 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 Southland Building Society as "SBS". The term "interest", as used in this Investment Statement, includes dividends on redeemable shares and subordinated redeemable shares.

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

Redeemable shares which are offered under this Investment Statement are shares issued by SBS for a specific fixed term. These redeemable shares are compulsorily repayable by SBS upon the expiry of the fixed term. In addition, these redeemable shares have the following features:

- They rank equally amongst themselves and with redeemable shares issued at call and behind the SBS unsecured deposits and all of SBS's other unsecured creditors on a liquidation of SBS;
- They carry voting rights which may be exercised at meetings of the SBS members; and
- They entitle the holder to participate in any surplus assets of SBS upon its liquidation.

Subordinated redeemable shares which are offered under this Investment Statement are shares issued by SBS for a specific fixed term. These subordinated redeemable shares are compulsorily repayable by SBS upon the expiry of the fixed term. In addition, these subordinated redeemable shares have the following features:

- They rank equally amongst themselves and behind SBS redeemable shares, SBS unsecured deposits and all of SBS's other unsecured creditors on a liquidation of SBS;
- They carry voting rights which may be exercised at meetings of the SBS members; and

- They entitle the holder to participate in any surplus assets of SBS, behind SBS redeemable shares, SBS unsecured deposits and all of SBS's other unsecured creditors upon its liquidation.

SBS has a guarantee under the New Zealand Deposit Guarantee Scheme in respect of the unsecured deposits and redeemable shares. Further information about the deposit guarantee scheme, and the most recent audited statement of financial position of the Crown, is available, free of charge and at all reasonable times, on the Internet site maintained by, or on behalf of, the Treasury. SBS subordinated redeemable shares are not guaranteed under the New Zealand Deposit Guarantee Scheme

Who is involved in providing it for me?

The Issuer Southland Building Society,
51 Don Street,
Invercargill.

Activities

Established in 1869, SBS is a registered building society 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. SBS 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, SBS 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, SBS 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

SBS 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 SBS 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 SBS. 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 SBS. If you are arranging your investment through an intermediary, then you should make arrangements with them for payment to SBS. SBS 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 SBS when you apply for an investment.

However, if you wish to terminate or partially withdraw the investment before its maturity date, SBS 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, SBS 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 any tax deductions.

Interest will be paid or accrued after deductions for Government resident withholding tax at the appropriate rate, unless an IRD exemption certificate is provided.

What are my risks?

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 SBS could not function without assuming these risks in varying degrees. SBS manages carefully all the risk to which it is exposed. A more detailed explanation about how SBS prudently manages its various risk exposures is contained in the notes to the Society's financial statements.

In terms of SBS's principal risk, that of credit risk, SBS 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, SBS 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 SBS to be low. Clearly, however, if SBS 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 SBS's capital was insufficient to absorb the resulting losses, then SBS may become insolvent or be wound up and you may not recover all of your investment and the returns promised.

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

As at 31 March 2008, SBS and its subsidiaries had consolidated equity of approximately \$155 million. None of SBS's assets are charged as security for the investments and are, therefore, all available to meet the claims of investors and other creditors, as outlined above.

Can the investment be altered?

An investment with SBS is a binding contract on both parties and cannot be altered as of right before maturity. However, SBS 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 SBS. The main terms of your investment cannot be altered without your agreement.

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

How do I cash in my investment?

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

SBS 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 affected on the usual form for the transfer of securities, in accordance with the SBS's Rules.

SBS considers that there is no established market for the sale of the investments.

In respect of subordinated redeemable shares which are issued by SBS for a 5 year term, in circumstances of extreme financial hardship SBS 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 SBS 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.

Who do I contact with enquiries about my investment?

Enquiries should be directed to any branch or agency office of SBS, 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 SBS 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 our contact centre on 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 to any member of our branch staff or return it directly to the Customer Complaints Team by post or fax:

Post:

Customer Complaints Team
SBS Bank
PO Box 835
INVERCARGILL
Fax: 03 2112324

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.

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A Review from 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 from 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 SBS Bank, call our Contact Centre on 0800 502 442 or visit www.bankombudsman.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@bankombudsman.org.nz

What other information can I obtain about this investment?

Other information, including financial statements, is contained in the SBS 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 SBS, 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 SBS'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.

You will find more information about SBS and these securities on the SBS website at www.sbs.net.nz.

PROCEDURES FOR DEALING WITH INVESTMENT MONEY AND PROPERTY

This information is provided to you pursuant to section 3(2) of the Investment Advisers (Disclosure) Act 1996.

Procedures for dealing with investment money or investment property

If you wish to pay investment money to SBS, you can do this in several ways, such as by:

- providing cash;
- providing a cheque payable to SBS and crossed "non-transferable"; or
- making an automatic payment or payment through another electronic delivery mechanism operated by SBS.

Any investment money lodged with SBS for the purchase of securities offered by SBS will be deposited in accordance with your instructions, to your nominated account or investment. Such money will be held by SBS according to usual banking terms and conditions applying to that account or the particular terms and conditions relating to the investment and will not be held by SBS on trust unless explicitly accepted by SBS on those terms.

Record keeping

SBS will keep adequate records of the deposit investment moneys and all withdrawals and dealings with such money or property, using the

account/investment number allocated to your investment. You may have access to those records upon request.

Auditing

SBS's systems and operations are internally audited on a regular basis. The financial statements of SBS and its subsidiaries are audited annually by KPMG. However, this does not involve an external audit of the receipt, holding and disbursement of the money.

Use of money

Money held by SBS for a specific purpose communicated to SBS (eg the purchase of an interest in a security) may not be used by SBS for its own purposes and will be applied for your stated purpose. No member of SBS's staff may use any money deposited with SBS for their own purposes or for the benefit of any other person. In the absence of such instructions, money deposited with SBS may be used by SBS for its own purposes, provided it repays the money to you on maturity, together with interest, where payable.

SBS 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 SBS OR ANY ASSOCIATED OR RELATED PARTY.