



# SBS Bank Debt Investor Update.

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September 2024



FORSYTH BARR

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# Important Notice and Disclosure

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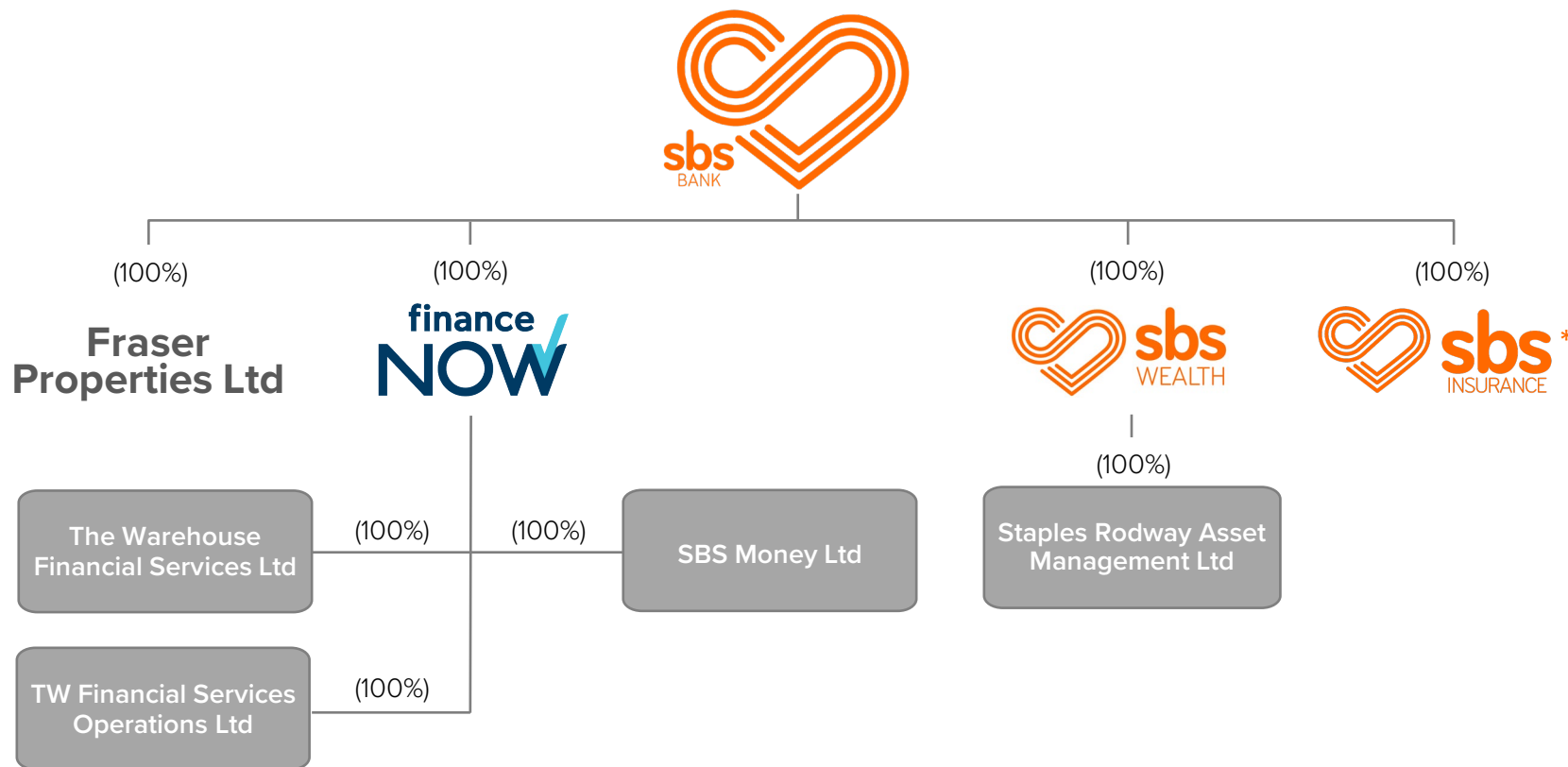
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The background is a solid orange color. It features a large, faint, stylized graphic in the center. This graphic is composed of several concentric, overlapping shapes that resemble a combination of circles and chevrons, creating a sense of depth and movement. The lines are a lighter shade of orange than the background.

# SBS Banking Group 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.
- \$6.5 billion total assets as at 30 June 2024.
- Structure diagram excludes various securitisation trusts and non-material associate entities.

\*SBS Insurance is the trading name of Southsure Assurance Limited.

# 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.
- ▶ SBS Wealth 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 of existing products.
- ▶ Continued digital and data development and functionality for:
  - Lending
  - Term investments
  - Transactional accounts
- ▶ Continued strong consumer lending proposition.
- ▶ Commitment to our people, their engagement, development and well-being.
- ▶ Sustainability is at the heart of SBS Bank.
- ▶ KiwiSaver/investment and insurance products offered through our subsidiaries to provide a full suite of financial services to our members.





# Key Highlights



1

100% profits retained  
in New Zealand.

2

\$325m SBS Bank  
Senior Bonds on  
issue rated BBB+.

3

Strong prudential  
ratios.

4

78% of SBS Group  
Loan Advances are  
Residential Lending.\*

5

Arrears rates  
consistently better than  
industry average.\*\*

\*As at 30 June 2024.

\*\*Refer RBNZ Financial Strength Dashboard.



**Financials.**

# Financial Summary



## Operating Surplus (Million)



## Total Assets (Billion)



- Solid operating surplus in FY24\*, impacted by margin compression, continued investment in technology and an increase in credit impairment expenses.
- Strong growth in home lending, which grew 8% in FY24 (a multiple of 2.5x times the industry growth rate\*\*).

\*FY24 is the Financial Year ending 31 March 2024. SBS Bank's Financial Year (FY) runs from the 1<sup>st</sup> of April to the 31<sup>st</sup> of March (inclusive).

\*\* Based on Housing lending data published by the Reserve Bank of New Zealand in the Registered banks and non-bank lending institutions: Sector lending data.

# Results at a Glance



## Income Statement

All in \$000's

	June-24	FY24	FY23	FY22	FY21
Interest income	121,050	439,975	288,189	192,337	216,375
Interest expense	22,434	86,776	48,466	21,764	31,073
Dividends on redeemable shares	59,370	202,441	98,326	37,401	66,101
	81,804	289,217	146,792	59,165	97,174
<b>Net interest income</b>	<b>39,246</b>	<b>150,758</b>	<b>141,397</b>	<b>133,172</b>	<b>119,201</b>
Net fee and commission income	7,125	26,047	24,557	24,785	24,511
Other income	305	1,199	1,620	5,868	7,546
<b>Total operating income</b>	<b>46,676</b>	<b>178,004</b>	<b>167,574</b>	<b>163,825</b>	<b>151,258</b>
Operating expenses	29,879	115,480	104,626	96,567	91,423
Credit impairment losses	5,665	20,330	12,671	5,977	4,641
<b>Operating surplus</b>	<b>11,132</b>	<b>42,194</b>	<b>50,277</b>	<b>61,281</b>	<b>55,194</b>
Net gain/(loss) from financial instruments at fair value through profit or loss	(1,574)	334	(32)	(207)	729
Net gain/(loss) from associates	-	12,976	-	-	-
Share of associates profit net of tax	-	1,057	1,230	819	1,203
<b>Surplus before income tax</b>	<b>9,558</b>	<b>56,561</b>	<b>51,475</b>	<b>61,893</b>	<b>57,126</b>
Less income taxation expense	3,043	13,739	14,013	17,030	15,987
<b>Net surplus</b>	<b>6,515</b>	<b>42,822</b>	<b>37,462</b>	<b>44,863</b>	<b>41,139</b>

- Solid 1Q24 trading result with Operating Surplus tracking ahead of prior year.

## Results at a Glance (cont.)



### Statement of Financial Position

All in \$'000's

	June-24	Mar-24	Mar-23	Mar-22	Mar-21
<b>Assets</b>					
Liquid assets and securities	809,031	806,701	758,138	645,944	679,854
Advances to customers	5,520,165	5,501,423	5,024,728	4,400,578	4,036,055
Other assets	179,723	182,445	223,564	173,273	120,437
	<b>6,508,919</b>	<b>6,490,569</b>	<b>6,006,430</b>	<b>5,219,795</b>	<b>4,836,346</b>
<b>Liabilities</b>					
Redeemable shares	4,381,740	4,353,334	4,096,601	3,337,489	3,361,335
Deposits from customers	53,542	54,686	69,007	131,980	191,151
Medium term notes	325,652	326,934	148,924	148,597	-
Commercial paper	371,342	360,992	346,284	345,891	344,422
Due to other financial institutions	660,145	663,430	668,065	600,797	341,019
Subordinated redeemable shares	103,704	106,943	64,221	105,330	105,574
Other liabilities	81,819	99,344	107,454	86,759	104,129
	<b>5,977,944</b>	<b>5,965,663</b>	<b>5,500,556</b>	<b>4,756,843</b>	<b>4,447,630</b>
<b>Equity</b>					
Attributable to members of the society	530,975	524,906	505,874	462,952	388,716
Attributable to non-controlling interests	-	-	-	-	-
	<b>530,975</b>	<b>524,906</b>	<b>505,874</b>	<b>462,952</b>	<b>388,716</b>

- Strong, stable balance sheet primarily comprised of residential home lending supported by a stable funding base.



# Funding and Capital.

# Group Funding



	Funding Description	Credit Rating	30 Jun 2024*
Higher Ranking	Unsecured, senior debt securities which do not include member status of SBS Bank: <ul style="list-style-type: none"> <li>• medium term note programme (SBS010, SBS020)</li> <li>• commercial paper</li> <li>• deposits from customers which are not issued as redeemable shares (i.e. other deposits)</li> </ul>	BBB+	\$751m
	Redeemable shares are unsecured securities of SBS Bank and include member status of SBS Bank. These are commonly referred to as retail deposits and are issued through the Bank's branch network and digital platform.	BBB	\$4,382m
	Subordinated redeemable shares are unsecured, subordinated debt obligations of SBS Bank (Tier 2 Capital), which also include member status.	BB+	\$104m
Lower Ranking	Retained earnings.		\$519m

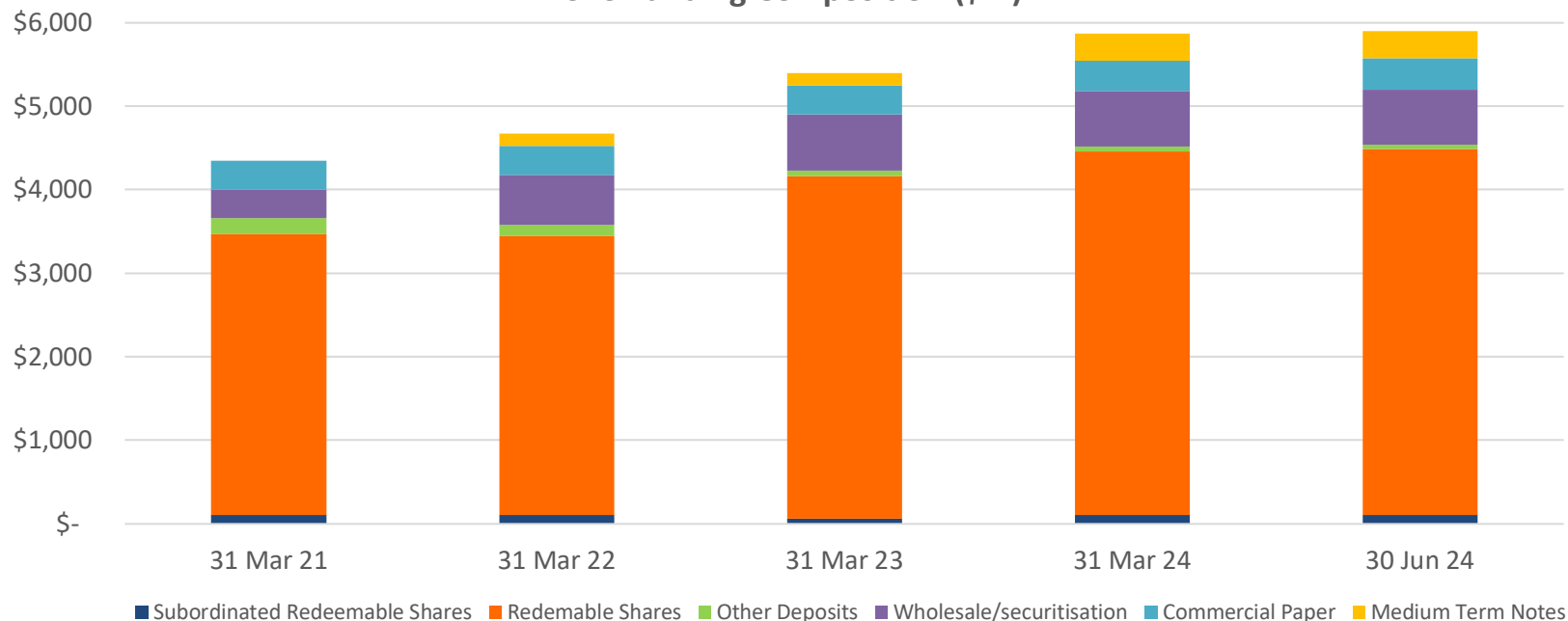
\*Excludes \$660m funding due to other financial institutions which is primarily securitised funding which would be ring fenced in the event of liquidation, and also excludes \$82m other liabilities.



## Group Funding (cont.)



SBS Funding Composition (\$m)



### Diversified Sources of Funding:

#### Senior Debt and Other Deposits (BBB+)

- Commercial Paper, Medium Term Notes (MTN) and Other Deposits (not issued as redeemable shares).

#### Redeemable Shares (BBB)

- SBS's main transaction banking, savings and term investment customer accounts (ranking behind senior debt).

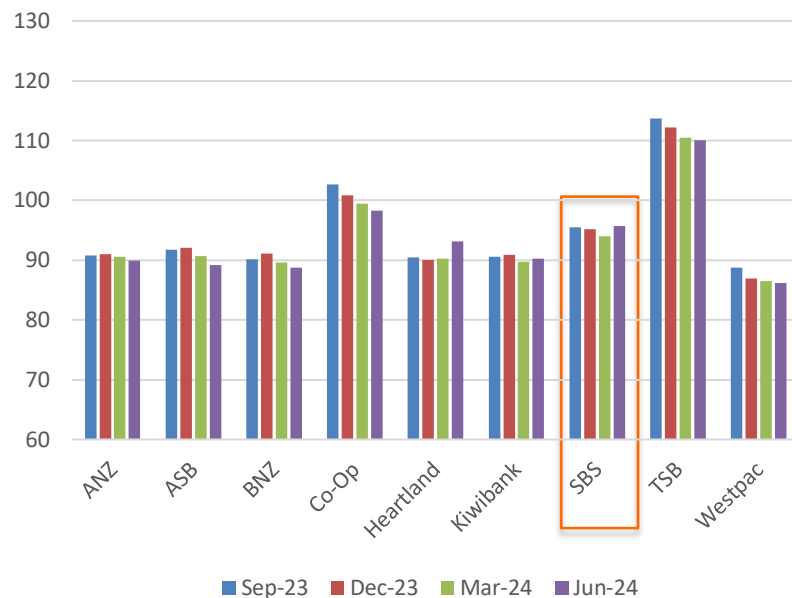
#### Subordinated Redeemable Shares (BB+)

- Hybrid debt instruments ranking behind Redeemable Shares.

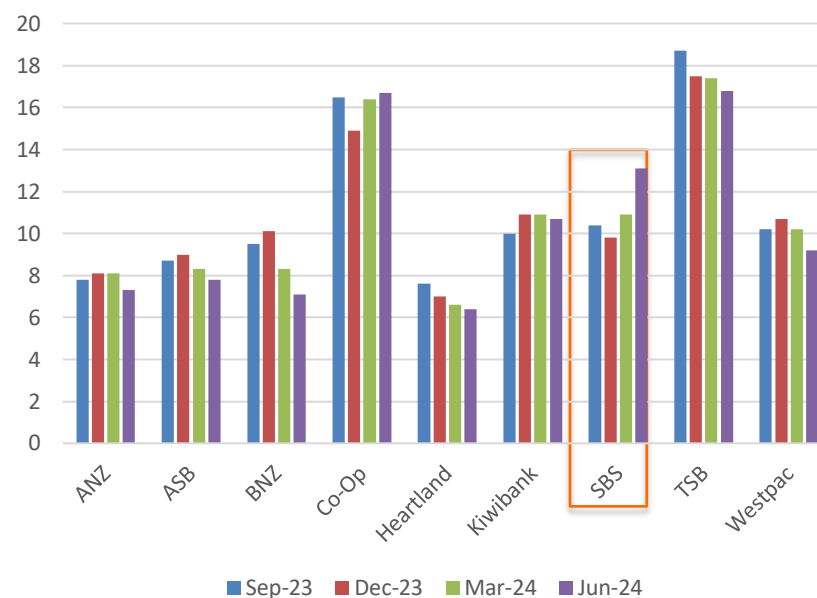
# Liquidity and Funding



## Core Funding Ratio (Qrtly Ave %)



## 1 Month Mismatch (Qrtly Ave %)



### Stable Funding:

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

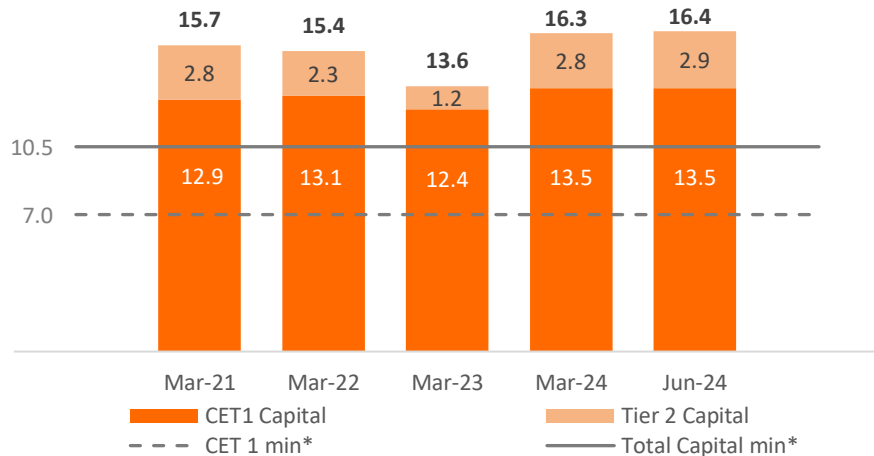
### Liquid Assets:

- 1 month mismatch ratio shows ability to meet commitments and outflows using primary and secondary liquids and inflows over 1 month.

# Capital Adequacy

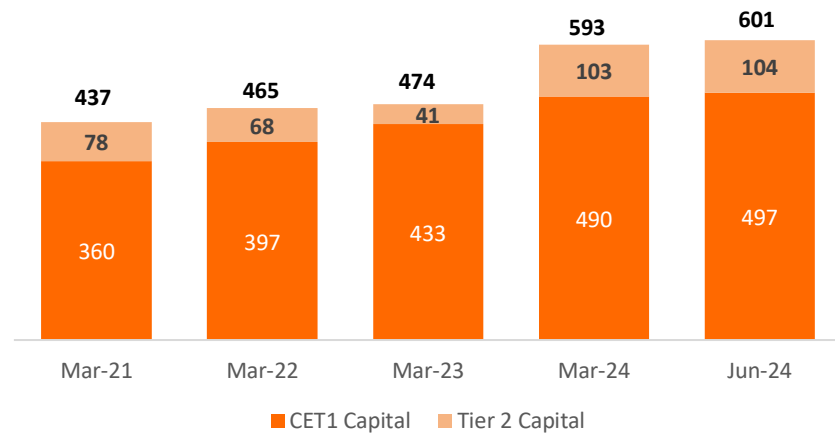


## SBS Bank Capital Ratios (%)



	Regulatory Minimum Jun-24	SBS Bank Jun-24
Common Equity Tier 1 (CET1) capital ratio	4.5%	13.5%
Tier 1 capital ratio	6.0%	13.5%
Total capital ratio	8.0%	16.4%
Prudential capital ratio buffer	2.5%	7.5%

## SBS Bank Capital (\$m)

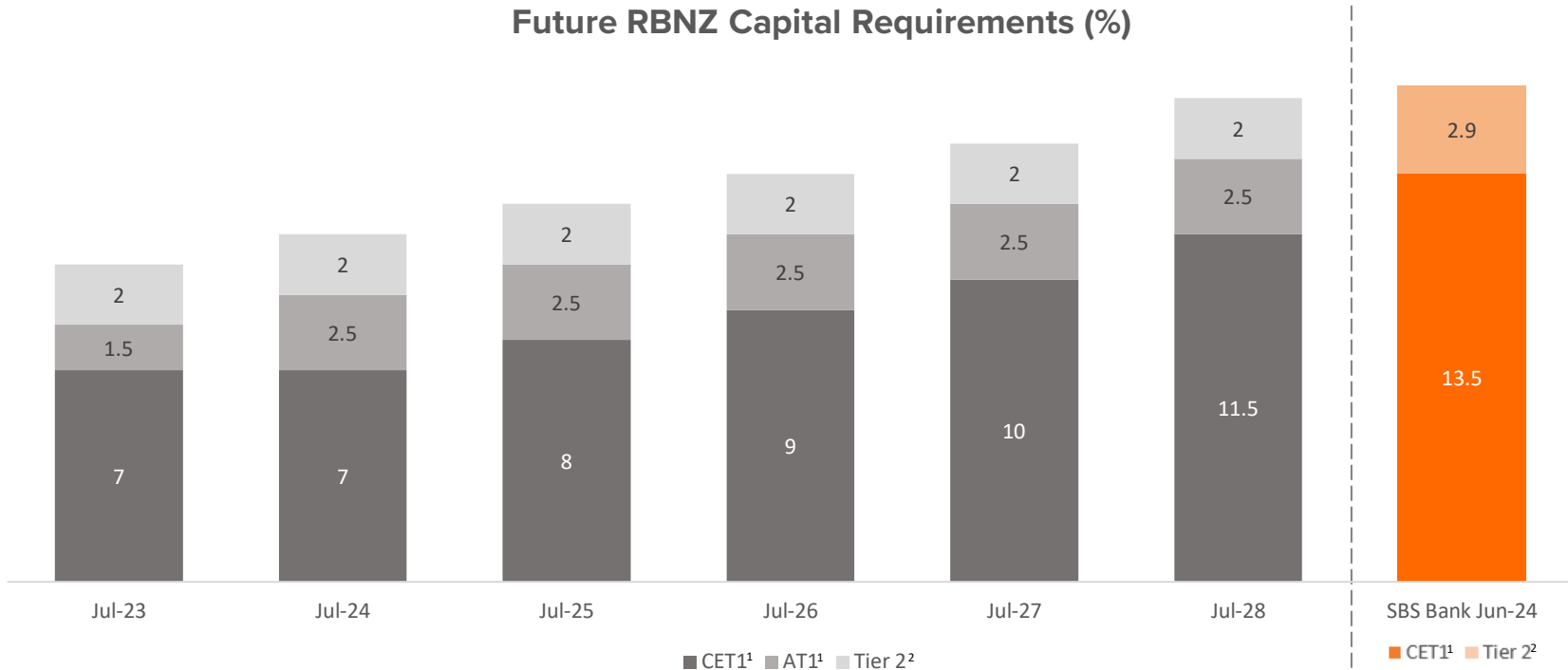


### Capital:

- Provided a buffer of 7.5% over the minimum Tier 1 capital ratio as at June 2024\* with Total Capital Ratio at 16.4%, well above the minimum total capital requirement.
- Tier 2 continuous issuance currently in place via SBS Bank branch network.
- CET1 mutual capital instrument approved by RBNZ, available to SBS Bank as a form of equity issuance.

\*From July 2024 the minimum Tier 1 capital ratio has been increased to 7% and the minimum total capital ratio increased to 9%. The regulatory minimum total capital ratio including the prudential capital buffer moves to 11.5%.

## Future RBNZ Capital Requirements (%)



### Increasing capital requirements:

- The RBNZ carried out a Capital Review in December 2019, which has resulted in a requirement for New Zealand Banks to hold more capital. For all banks deemed non-Domestic-Systemically Important Banks, the minimum capital requirement, including prudential buffer, increases from 10.5% to 16%.
- The increase happens over a transition period, which is outlined in the graph above.

1. Tier 1 capital can comprise both CET1 and AT1 capital. However, AT1 capital can contribute no more than 2.5% to the Tier 1 regulatory capital requirements.

2. Total capital can comprise CET1, AT1 and Tier 2 capital. However, AT1 capital can contribute no more than 2.5% to the total regulatory capital requirements and Tier 2 capital can contribute no more than 2%.

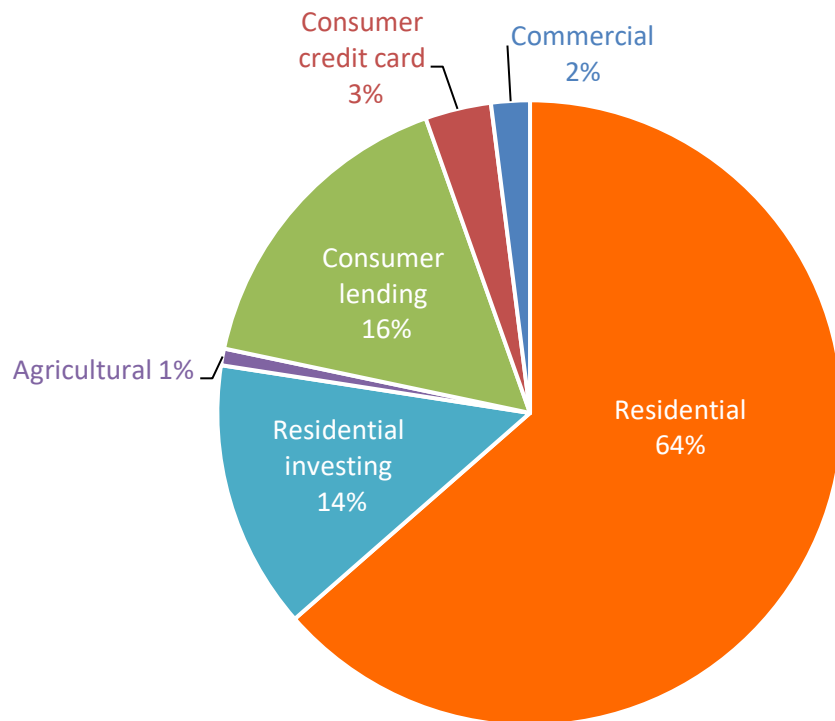


# Loan Portfolio.

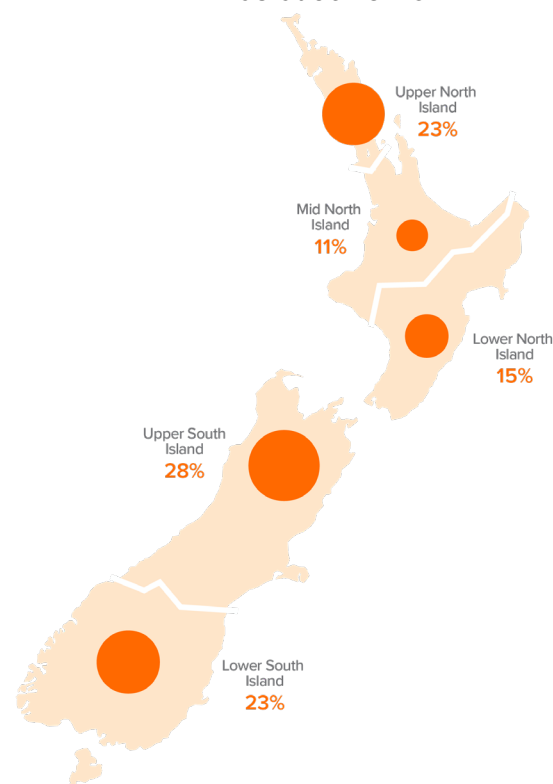
# Lending Concentrations



**Lending Concentration by Sector**  
as at Jun 2024



**Lending Concentration by Geography**  
as at June 2024



- Lending is largely concentrated in residential property.
- 49% of total SBS Group lending is in the North Island.
- In excess of 80% 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.

# Asset Quality

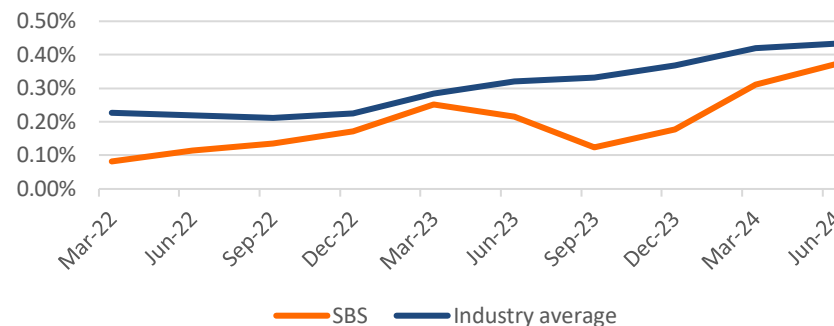


## Asset quality – advances to customers

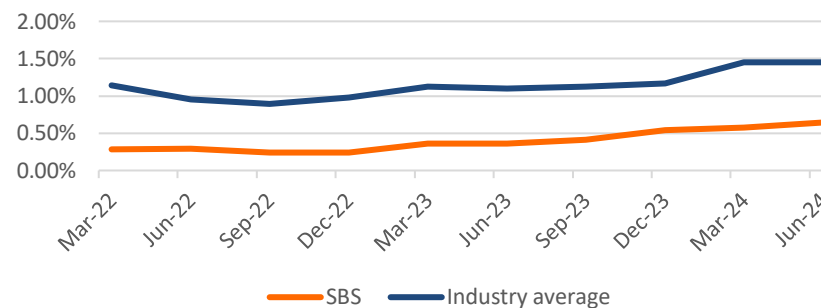
### Banking Group

	30/06/2024	31/03/2024
Neither past due or impaired	5,376,050	5,371,791
Individually impaired amount	44	45
Past due amount	182,628	167,891
Total provision for credit impairment	(38,557)	(38,304)
<b>Total carrying amount</b>	<b>5,520,165</b>	<b>5,501,423</b>
<b>Ageing of past due but not impaired assets</b>		
Past due 0–29 days	133,245	119,653
Past due 30–59 days	17,155	17,394
Past due 60–89 days	8,244	10,506
Past due 90 days +	23,984	20,338
<b>Carrying amount</b>	<b>182,628</b>	<b>167,891</b>

## 90 day past due - Residential



## 90 day past due - Consumer



- The Group's 90-day past dues remain favourable relative to industry levels.
- No residual impact from Covid-related assistance. The majority of the loans impacted during the Covid peak are now resolved.
- Minimal impact from recent weather events.

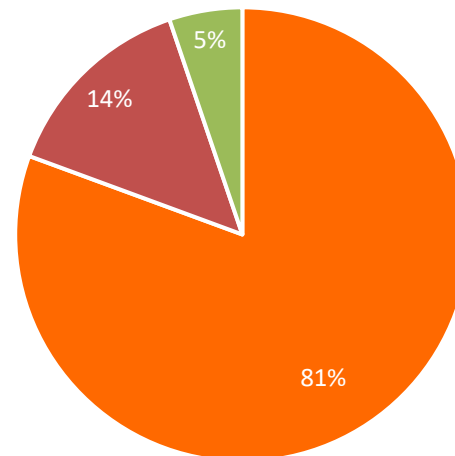


# Residential Mortgages by LVR



## Residential Mortgages by Loan to Value Ratio as at 30 June 2024

■ LVR 0 - 80% ■ LVR 80 - 90% ■ LVR 90% +



### BANKING GROUP

\$000 LVR range	On balance sheet	Off balance sheet	On balance sheet	Off balance sheet
	30/06/2024	30/06/2024	31/03/2024	31/03/2024
0 - 80%	3,534,468	228,442	3,529,772	213,288
80 - 90%	621,655	4,476	615,101	4,972
90% +	228,288	5,503	222,039	4,249
<b>Total residential mortgages</b>	<b>4,384,411</b>	<b>238,421</b>	<b>4,366,912</b>	<b>222,509</b>

- First Home Loans make up 98% of the residential mortgages in the 90%+ loan to valuation grouping as at 30 Jun 2024 (30 June 2023: 96%) and 83% of the 80-90% loan to valuation grouping (30 June 2023: 81%).
- The First Home Loan product is insured by Kāinga Ora – Homes and Communities.
- Conservative lending practices maintained.
- Lending commitments managed well within regulatory speed limits.



**Sustainability.**

Sustainability has always been at the heart of SBS Bank where supporting members into home ownership and beyond is the reason we were founded in New Zealand over 154 years ago.

- ▶ We partner with sustainable housing providers like Kāinga Ora and the Housing Foundation and offer our FirstHome Combo product to allow more New Zealanders to find a place to call home.
- ▶ We have zero lending exposure to the fossil fuel industry and actively avoid investment in firearms, tobacco and nuclear among other harmful industries.
- ▶ We support community organisations such as the Loss and Grief Centre, and Ronald McDonald House.
- ▶ We have committed to net-zero emissions by 2050, supported by an interim target of a 42% reduction in both scope 1 and 2 absolute emissions by 2030, and a 25% reduction of scope 3.
- ▶ We are certified CarbonReduce™ with Toitū and have obtained Reasonable Assurance on two years of emissions reporting.
- ▶ Our Climate-Related Disclosure Statement is available with the General Disclosure Statements on the SBS Bank website.





# Appendices.

## Appendix 1: SBS Bank Board



A J (Joe) O'Connell  
*Chairman*



M J (Mike) Skilling  
*Deputy Chairman*



M P (Mark) O'Connor



K J (Kevin) Murphy



S J (Sarah) Brown



P R N (Phil) Ellison



L M (Linda) Robertson

- The board are the elected representatives of the members of SBS Bank (Southland Building Society).
- All board members reside in NZ and are independent non-executive directors.
- On 19 September 2024, Jason Franklin was appointed to the Board of SBS Bank (effective 1 October 2024).

## Appendix 2: SBS Group Executive



Mark McLean  
*SBS Group CEO*

Finance Now

SBS Wealth

SBS Insurance

SBS Bank



Hadyn Halls  
*Finance Now CEO*



Morne Redgard  
*SBS Wealth CEO*



Bruce Waddel  
*SBS Insurance CEO*



Jeff Mitchell  
*Chief Financial Officer*



Rowena Thompson  
*Group Chief Risk Officer*



Shane Evans  
*Chief Transformation Officer*



Michael Oliver  
*Acting General Manager Retail*



Hamish McKenzie  
*General Manager People & Support*