

SBS Bank Retail Bond Offer.



Investor Presentation // August 2023.

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All currency amounts in this presentation are in NZ Dollars.

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Important Notice and Disclosure



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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 presentation. NZX is a licensed market operator, and the NZX Debt Market is a licensed market under the FMCA.

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Contents



Offer Highlights	2
SBS Overview	4
Financials	8
Loan Portfolio	16
ESG at SBS	21
Key Information	24
Appendix 1: SBS Board	29
Appendix 2: SBS Group Executive	30

The background is a solid orange color. It features a large, faint, abstract graphic composed of concentric circles on the left and a series of nested chevrons pointing downwards on the right. The text "Offer Highlights." is centered in the middle of the image in a white, sans-serif font.

Offer Highlights.

Offer Highlights

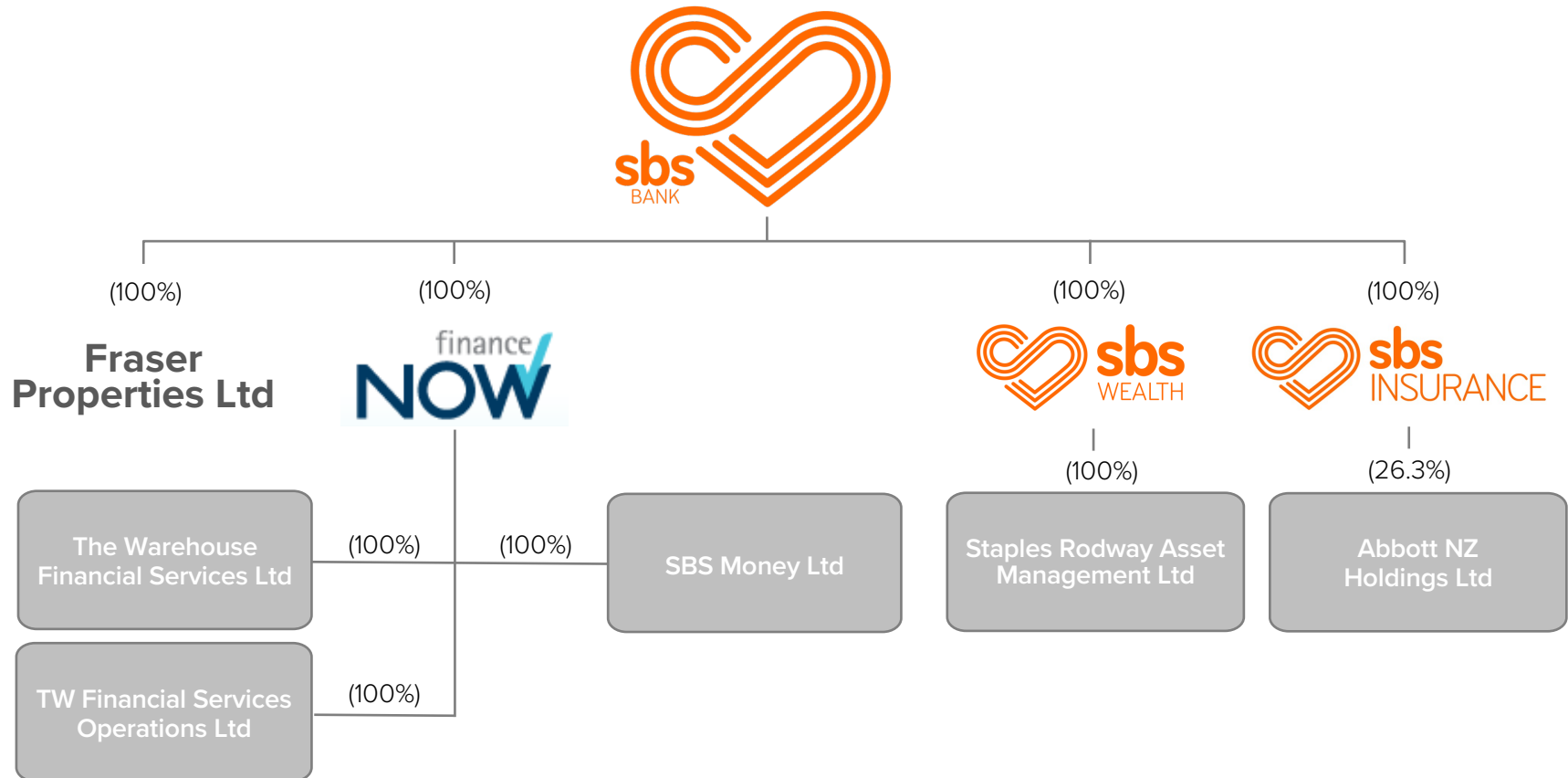


Issuer	Southland Building Society, trading as SBS Bank.
Description	Unsecured, senior, fixed rate bonds (Bonds).
Expected Issue Credit Rating of the Bonds	BBB+ by Fitch Australia Pty Limited (Fitch).
Term & Maturity	5.5 years maturing on 7 March 2029.
Offer Amount	Up to \$125,000,000 (with the ability to accept oversubscriptions of up to an additional \$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.
Quotation	<p>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 the 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 the Terms Sheet.</p> <p>NZX is a licensed market operator, and the NZX Debt Market is a licensed market, under the FMCA.</p> <p>Ticker code SBS020 has been reserved for the Bonds.</p>
Joint Lead Managers	Forsyth Barr and Westpac.

The background features a large, stylized logo in a lighter shade of orange. The logo is composed of several concentric, overlapping curved lines that form a shape reminiscent of a stylized 'S' or a continuous path. The lines are thick and have rounded ends, creating a sense of fluidity and movement. The overall design is minimalist and modern.

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.
- \$6.0 billion total assets as at 31 March 2023.
- Structure diagram excludes various securitisation trusts.
- Other associates - Your Car NZ Limited 9.9% (online vehicle purchase platform), Raizor Global Ltd 16% (social enterprise).

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.
- ▶ FirstHome Combo aimed at leveraging group strengths and providing tangible member benefit.
- ▶ Continuing focus on simplification and retooling 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.



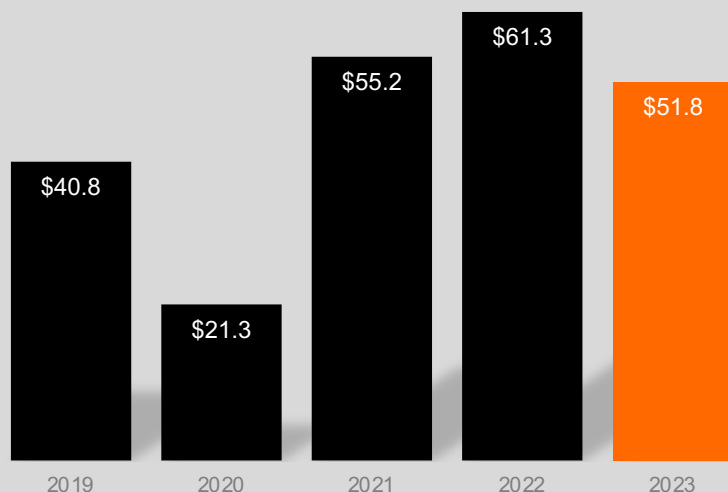
The background is a solid orange color. It features a large, faint, stylized graphic composed of concentric circles on the left and a series of nested chevrons pointing downwards on the right. The word "Financials." is centered in the middle of the image in a white, sans-serif font.

Financials.

Financial Summary



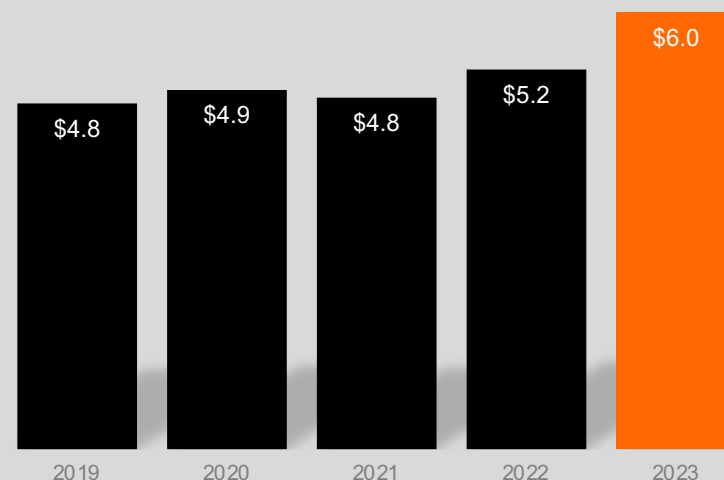
Operating Surplus (Million)



As at 31 March 2023:

- Operating surplus of \$51.8 million.
- SBS Bank regulatory capital increased to \$474.0 million (up from \$465.3 million, 31 March 2022).
- Outlook for FY24 – strong profitability and asset growth.

Total Assets (Billion)



As at 31 March 2023:

- Retail deposits \$4.2 billion.
- Loan advances \$5.0 billion.
- Total assets \$6.0 billion.

2023 Results at a Glance



Income Statement

All in \$'000's

	31/03/2023	31/03/2022	31/03/2021	31/03/2020	31/03/2019
Interest income	287,452	192,337	216,375	254,542	246,803
Interest expense	48,466	21,746	31,073	37,156	26,191
Dividends on redeemable shares	98,326	37,401	66,101	98,249	104,851
	146,792	59,165	97,174	135,405	131,042
Net interest income	140,660	133,172	119,201	119,137	115,761
Net fee and commission income	24,557	24,785	24,511	24,844	24,450
Other income	5,766	5,868	7,546	10,406	12,369
Total operating income	170,983	163,825	151,258	154,387	152,580
Operating expenses	106,557	96,567	91,423	96,092	96,299
Credit impairment losses	12,671	5,977	4,641	36,973	15,443
Operating surplus	51,755	61,281	55,194	21,322	40,838
Net gain/(loss) from financial instruments at fair value through profit or loss	(32)	(207)	729	(269)	193
Share of associates profit net of tax	1,230	819	1,203	1,274	1,202
Surplus before income tax	52,953	61,893	57,126	22,327	42,233
Less income taxation expense	14,711	17,030	15,987	3,576	11,415
Net surplus	38,242	44,863	41,139	18,751	30,818
Attributed to:					
Members' interests	38,242	44,863	41,139	18,626	30,503
Non-controlling interests	-	-	-	125	315
	38,242	44,863	41,139	18,751	30,818

- Annual interest margin 2.60% (down from 2.73% March 2022).
- Decline in operating surplus due to the combined effects of lower interest margin and the non-recurrence of credit provision releases that occurred in the prior year.

2023 Results at a Glance (cont.)



Statement of Financial Position

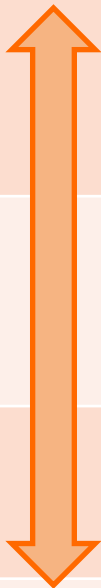
All in \$'000's

	31/03/2023	31/03/2022	31/03/2021	31/03/2020	31/03/2019
Assets					
Liquid assets and securities	758,138	645,944	679,854	675,578	686,451
Advances to customers	5,024,728	4,400,578	4,036,055	4,138,394	3,977,488
Other assets	221,890	173,273	120,437	127,556	90,579
	6,004,756	5,219,795	4,836,346	4,941,528	4,754,518
Liabilities					
Redeemable shares	4,096,601	3,337,489	3,361,335	3,378,387	3,236,987
Deposits from customers	69,007	131,980	191,151	134,655	144,106
Medium term notes	148,924	148,597	-	-	-
Commercial paper	346,284	345,891	344,422	336,592	298,417
Due to other financial institutions	668,065	600,797	341,019	540,517	538,694
Subordinated redeemable shares	64,221	105,330	105,574	103,865	132,003
Other liabilities	105,468	86,759	104,129	116,224	78,978
	5,498,570	4,756,843	4,447,630	4,610,240	4,429,185
Equity					
Attributable to members of the society	506,186	462,952	388,716	331,288	324,360
Attributable to non-controlling interests	-	-	-	-	973
	506,186	462,952	388,716	331,288	325,333

- Lending and funding showing strong growth for the year.
- Growth in wholesale facilities and utilisation of Funding for Lending Programme (FLP).

Group Funding



	Funding Description	Credit Rating	31 March 2023*
Higher Ranking 	Unsecured, senior debt securities which do not include member status of SBS: <ul style="list-style-type: none"> • medium term note programme (SBS010) • commercial paper • deposits from customers which are not issued as redeemable shares (i.e. other deposits) 	BBB+	\$564m**
	Redeemable shares are unsecured securities of SBS Bank and include member status with SBS. These are commonly referred to as retail term deposits and are issued through the Bank's branch network and digital platform.	BBB	\$4,097m
	Subordinated redeemable shares are unsecured, subordinated debt obligations of SBS Bank (Tier 2 Capital), which also include member status.	BB+	\$64m
Lower Ranking	Retained earnings.		\$506m

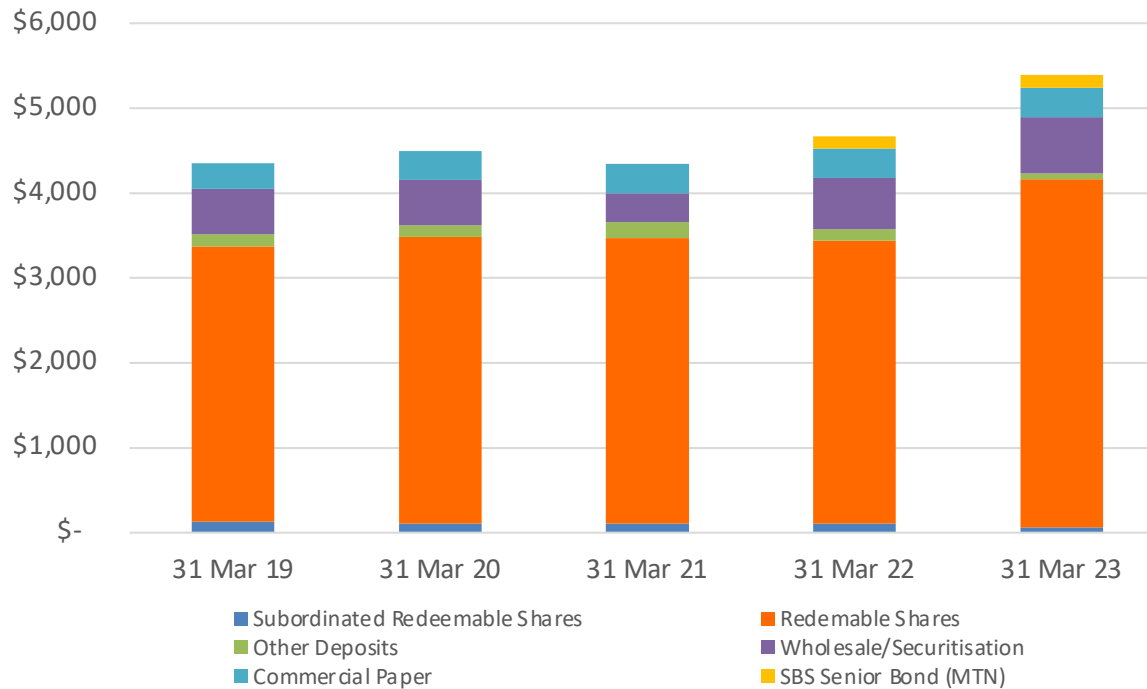
* Excludes \$668m funding due to other financial institutions which is primarily securitised funding which would be ringfenced in the event of liquidation, and also excludes \$105m other liabilities.

**Note this number does not include any Bonds which may be issued under this Offer.

Group Funding (cont.)



SBS Funding Composition (Millions)



Diversified Sources of Funding

Deposits (BBB+)

- Includes Commercial Paper, SBS Senior Bond (MTN) and Other Deposits.

Redeemable Shares (BBB)

- Rank behind Deposits.

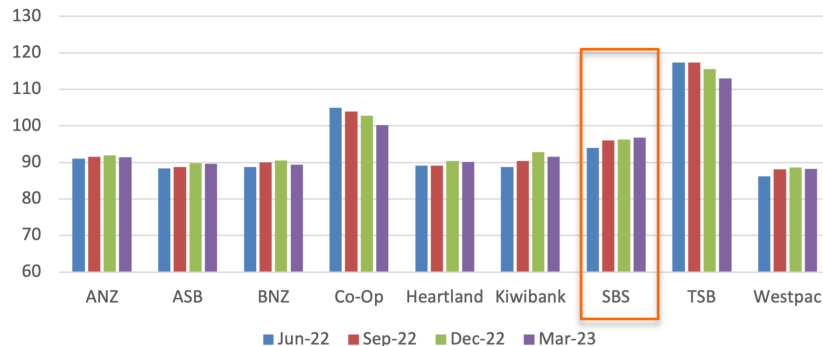
Subordinated Redeemable Shares (BB+)

- Rank behind Redeemable Shares.

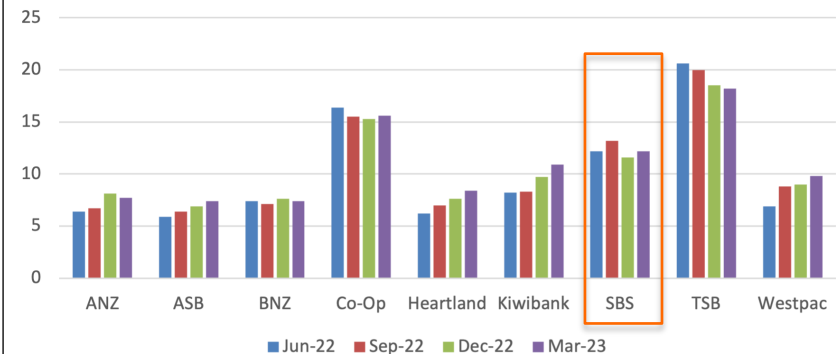
Liquidity and Funding



Core Funding Ratio (Qrtly Ave %)



1 Month Mismatch (Qrtly Ave %)



Stable Funding:

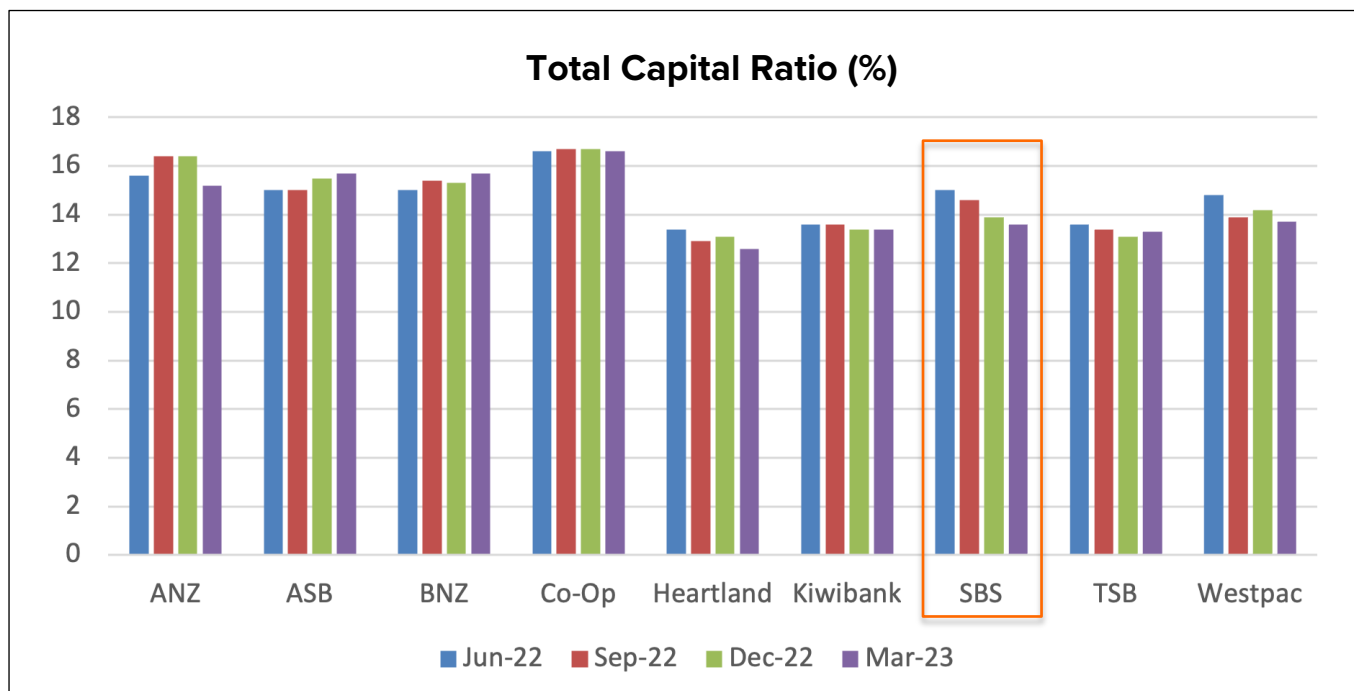
- Core funding ratio > 75%.
- Core funding ratio =
$$\frac{\text{Customer funding (weighted by deposit size) plus market funding > 1 year to maturity}}{\text{Total loans \& advances}}$$

Liquid Assets:

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

RBNZ Liquidity Thematic Review:

- As disclosed in the 31 March 2023 SBS Disclosure Statement, the RBNZ has completed a thematic review of liquidity calculations and banks' compliance with the RBNZ's Liquidity Policy (BS13). The RBNZ has concluded its assessment of SBS compliance with BS13 and determined that at no time have SBS been close to breaching its internal and / or minimum regulatory limits. While a number of areas of non-compliance were identified which were not individually material, the RBNZ has assessed these as material on a collective basis. SBS has a remediation plan in place and it is expected the RBNZ will monitor progress and improvements being implemented to SBS's control framework.



Capital Growth:

- Provided a buffer of 5.6% over minimum capital ratios at March 2023 with Total Capital Ratio at 13.6%.
- Ratios remain comfortably above regulatory minimums.
- New Tier 2 continuous issuance currently in place via SBS Branch network.
- Monitoring market conditions for further Tier 2 issuances.
- Advanced development with RBNZ and market on CET1 mutual capital instrument.

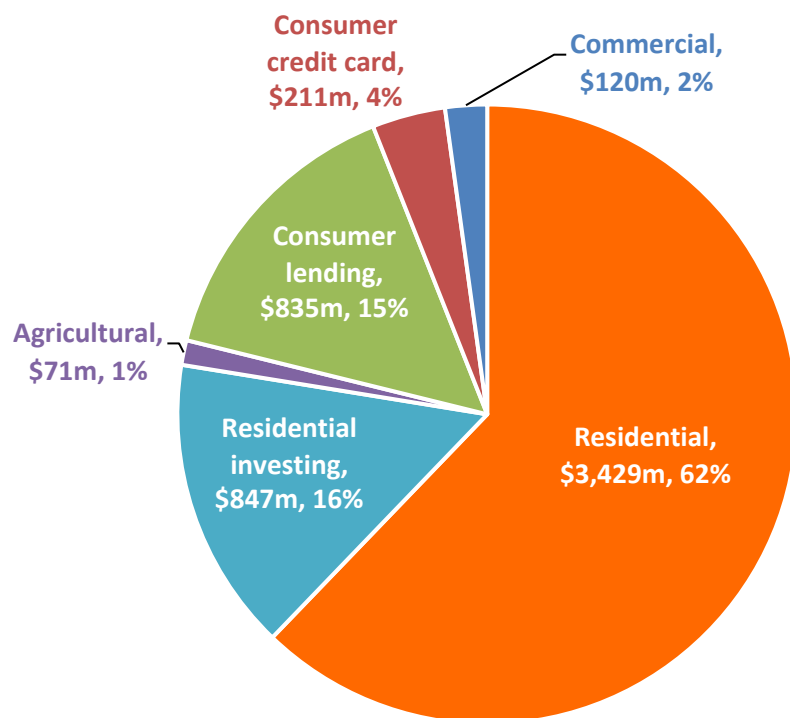
(Chart data source: RBNZ Dashboard).

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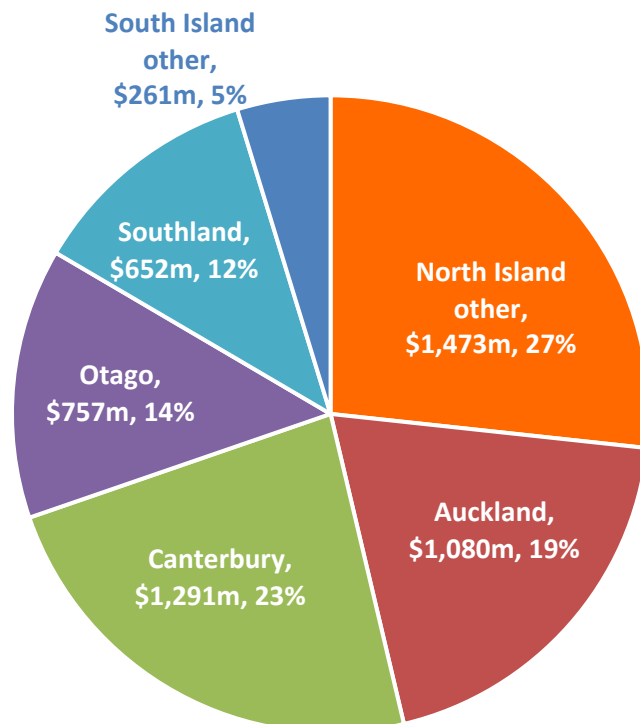
Loan Portfolio.

Lending Concentrations

Loan Commitments by Sector
as at 31 March 2023 (\$m)



Loan Commitments by Geography
as at 31 March 2023 (\$m)



- Lending is concentrated in residential property limiting carbon emission exposure from other sectors.
- 54% of total SBS Group lending is in the South 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.

- ▶ Mortgages sourced through branch network, digital 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 >65%.
- ▶ 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

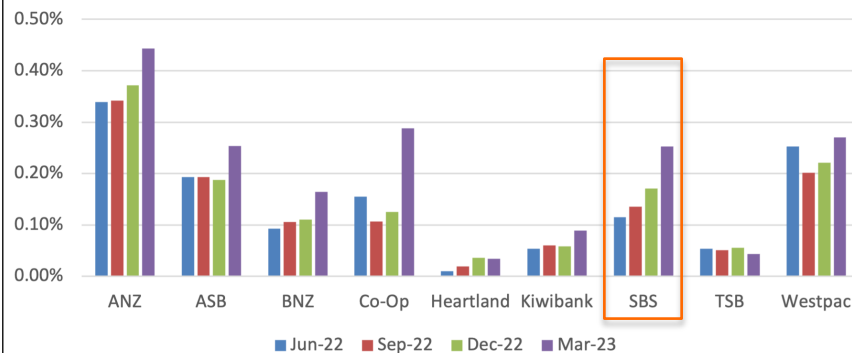


Asset quality – advances to customers

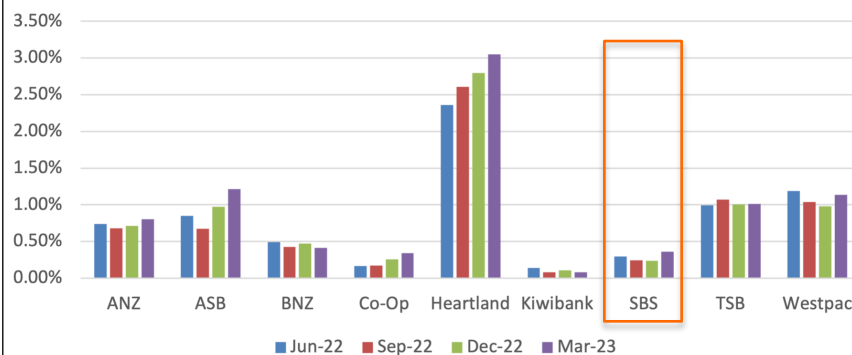
Banking Group

	31/03/2023	31/03/2022
Neither past due or impaired	4,953,365	4,372,811
Individually impaired amount	1,431	1,209
Past due amount	104,431	58,879
Total provision for credit impairment	(34,499)	(32,321)
Total carrying amount	5,024,728	4,400,578
Ageing of past due but not impaired assets		
Past due 0–29 days	72,257	41,789
Past due 30–59 days	11,931	8,217
Past due 60–89 days	5,800	3,912
Past due 90 days +	14,443	4,961
Carrying amount	104,431	58,879

90 days past due to loans % - Residential



90 days past due to loans % - Consumer



- No residual impact from Covid-related assistance. The vast majority of those impacted during Covid peak are now resolved. Minimal impact from recent weather events.
- Level of arrears and impairments have increased to be in line with pre-Covid levels.
- 0-29 days past due - 70% of past dues in this bucket are < 10 days.

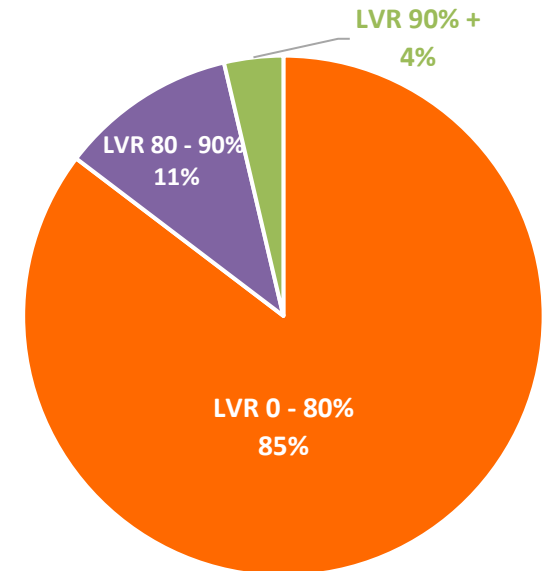
(Chart data source: RBNZ Dashboard).

Residential Mortgages by LVR



Residential Mortgages by Loan to Value Ratio as at 31 March 2023.

\$'000	BANKING GROUP			
	On balance sheet	Off balance sheet	On balance sheet	Off balance sheet
	31/03/2023	31/03/2023	31/03/2022	31/03/2022
LVR range				
0 - 80%	3,454,524	253,566	3,165,419	236,378
80 - 90%	444,830	9,546	364,126	2,350
90% +	148,623	7,879	84,401	1,031
Total residential mortgages	4,047,977	270,991	3,613,946	239,759



- First Home Loans make up 97% of the residential mortgages in the 90%+ loan to valuation grouping as at 31 March 2023 (31 March 2022 96%) and 82% of the 80-90% loan to valuation grouping (31 March 2022 84%).
- The First Home Loan product is insured by Kāinga Ora – Homes and Communities.
- Conservative lending practices maintained.
- Lending commitments managed well within imposed speed limits.

The background is a solid orange color. It features large, faint, concentric circles on the left side and several parallel, downward-pointing chevrons on the right side, all in a slightly lighter shade of orange.

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 154 years ago.
- ▶ As part of our Environmental Strategy, SBS is adapting our operations to minimise waste, emissions, and paper use, and to advocate for sustainability throughout our value chain. SBS is embedding environmental and climate risk management throughout its operations.
- ▶ We partner with sustainable housing providers like Kāinga Ora & the Housing Foundation and offer our FirstHome Combo product to allow more New Zealanders find a place to call home.
- ▶ 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.



- ▶ SBS Wealth is continuously working to reduce carbon emissions both within its business and its investment portfolio. Working with Toitū, SBS Wealth operations are now certified as having been net carbonzero since 1 April 2019.
- ▶ The Lifestages KiwiSaver High Growth Fund is 60% less carbon intensive than the fund's benchmark while the Lifestages KiwiSaver High Growth Fund is 83% less exposed to fossil fuels than its benchmark. SBS Wealth has begun working with the Responsible Investment Association of Australasia, who will certify SBS Wealth's responsible investing practices in the coming months.
- ▶ SBS Wealth screen to ensure that all the following harmful practices are minimised or excluded from our KiwiSaver Funds:



Military Weapons



Nuclear



Tobacco



Civilian Firearms



Alcohol



Gambling & Casinos



Adult Entertainment

- ▶ SBS Wealth also overweights and targets investments in companies that have good Environmental, Social and Governance practices, or are making a positive impact in areas such as climate solutions and underweight those that aren't.

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Key Information.

Key Terms of the Offer



Issuer	Southland Building Society, trading as SBS Bank.
Description	Unsecured, senior, fixed rate bonds.
Issuer Credit Rating	BBB by Fitch Australia Pty Limited.
Expected Issue Credit Rating of the Bonds	BBB+ by Fitch.
Term and Maturity	5.5 years maturing on 7 March 2029.
Offer Amount	Up to \$125,000,000 with the ability to accept oversubscriptions of up to an additional \$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 Bonds will pay a fixed rate of interest until the Maturity Date.</p> <p>The Interest Rate as set on the Rate Set Date (Thursday, 31 August 2023) will be equal to the sum of the Base Rate plus the Issue Margin, subject to the minimum Interest Rate of 6.10 per cent per annum.</p> <p>The Interest Rate will be announced by SBS Bank via NZX on Thursday, 31 August 2023 (the Rate Set Date).</p>

Key Terms of the Offer (cont.)



Issue Margin	The indicative Issue Margin range is 1.40 to 1.55 per cent per annum. The Issue Margin (which may be within, above or below the indicative Issue Margin range) will be determined by SBS Bank in conjunction with the Joint Lead Managers following the bookbuild process and announced via NZX on the Rate Set Date.
Interest Payment Dates	Interest will be paid quarterly in arrear on each Interest Payment Date, being 7 March, 7 June, 7 September, and 7 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 7 December 2023.
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.
Minimum Subscription and Minimum Holding Amounts	The minimum subscription and holding amounts is NZ\$5,000 and multiples of NZ\$1,000 thereafter.
Quotation	Application has been made to NZX for permission to quote the Bonds on the NZX Debt Market. Ticker code SBS020 has been reserved for the Bonds.
Joint Lead Managers	Forsyth Barr and Westpac.

Key Dates



Opening Date	Monday, 28 August 2023.
Closing Date	Thursday, 31 August 2023, 11:00am (NZ time) or earlier at SBS Bank's discretion.
Rate Set Date	Thursday, 31 August 2023.
Issue Date	Thursday, 7 September 2023.
Expected Date of Quotation and Trading of the Bonds on the NZDX Debt Market	Friday, 8 September 2023.
Interest Payment Dates	7 March, 7 June, 7 September and 7 December in each year during the term of the Bonds.
Maturity Date	Wednesday, 7 March 2029.

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 issue
credit rating is BBB+

3

Strong prudential
ratios.

4

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

5

SBS Bonds rank
above 79% of
Group funding.*

6

Arrears rates
consistently better than
industry average.^

*As at 31 March 2023.

^refer RBNZ Financial Strength Dashboard

Appendix 1: SBS 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.

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



Tony Gaskin
Acting 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