

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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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

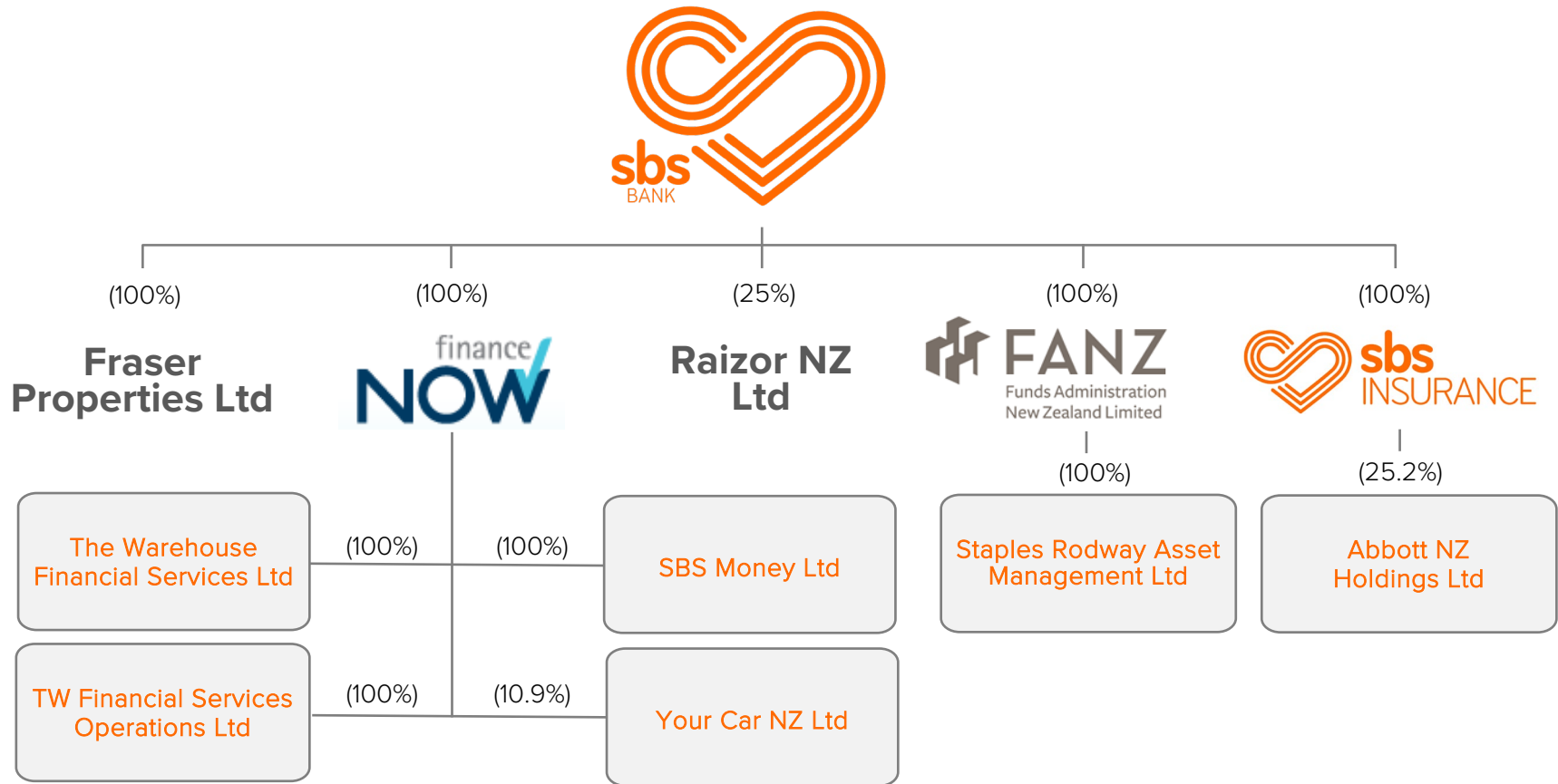


Issuer	Southland Building Society, trading as SBS Bank.
Description	Unsecured, senior, fixed rate, medium term debt securities.
Expected Issue Credit Rating of the Bonds	BBB+ from Fitch Australia Pty Limited.
Term & Maturity	5 years and will mature on 18 March 2027.
Offer Amount	Up to NZ\$100,000,000 (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.

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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 :)

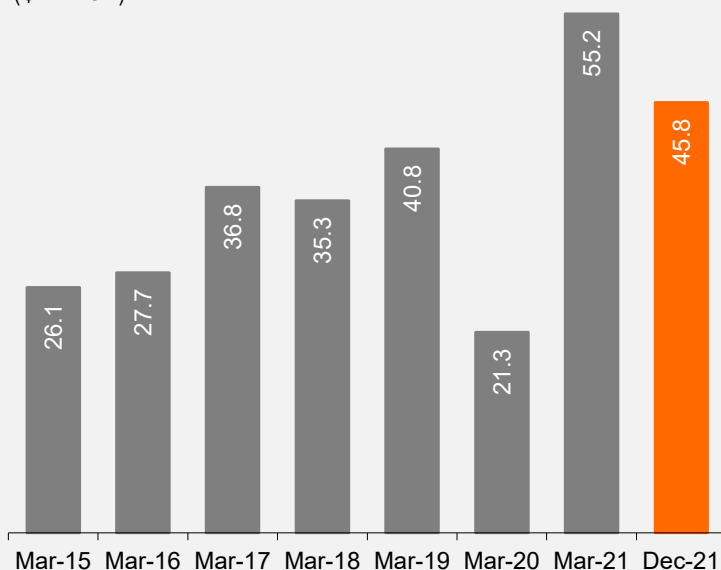


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Financials.

Operating Surplus

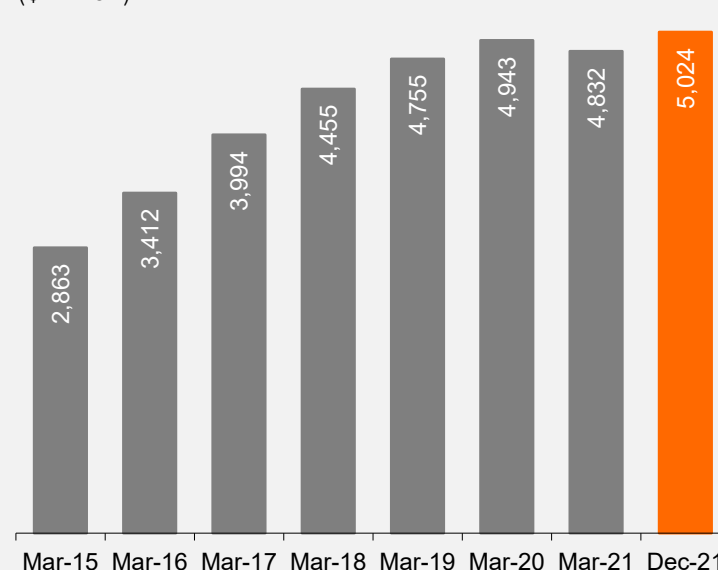
(\$Million)



- 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.

Total Assets

(\$Million)



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



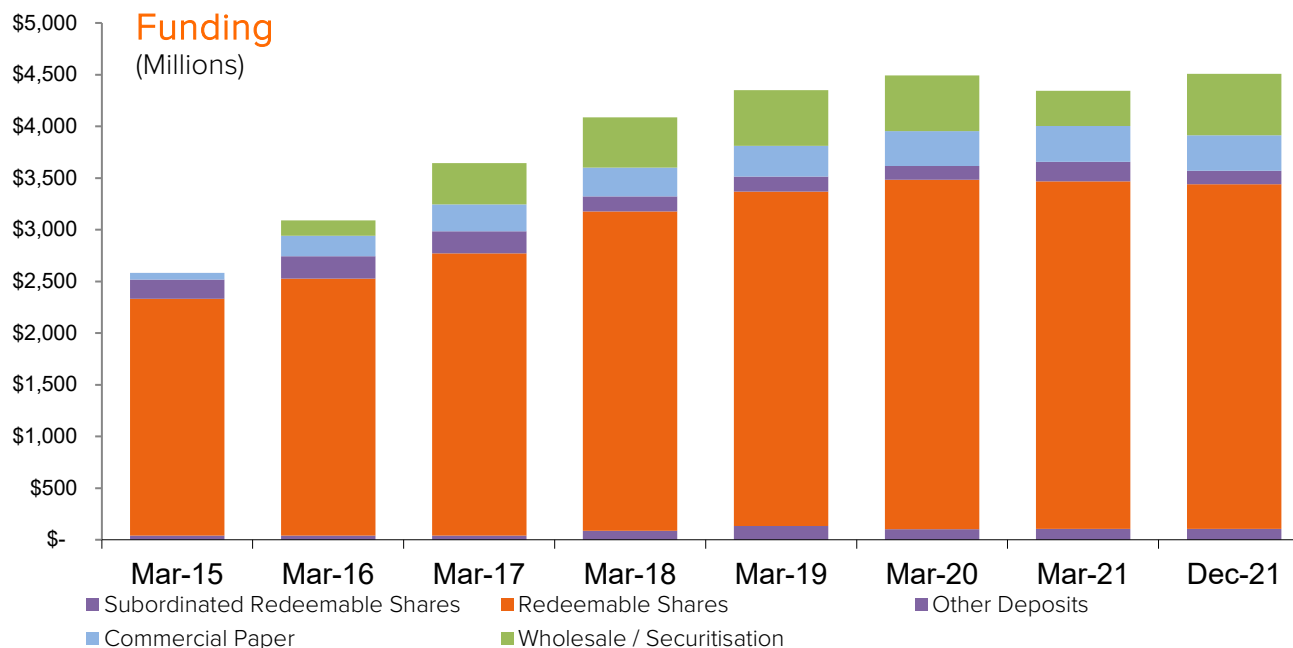
Statement of Financial Position

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



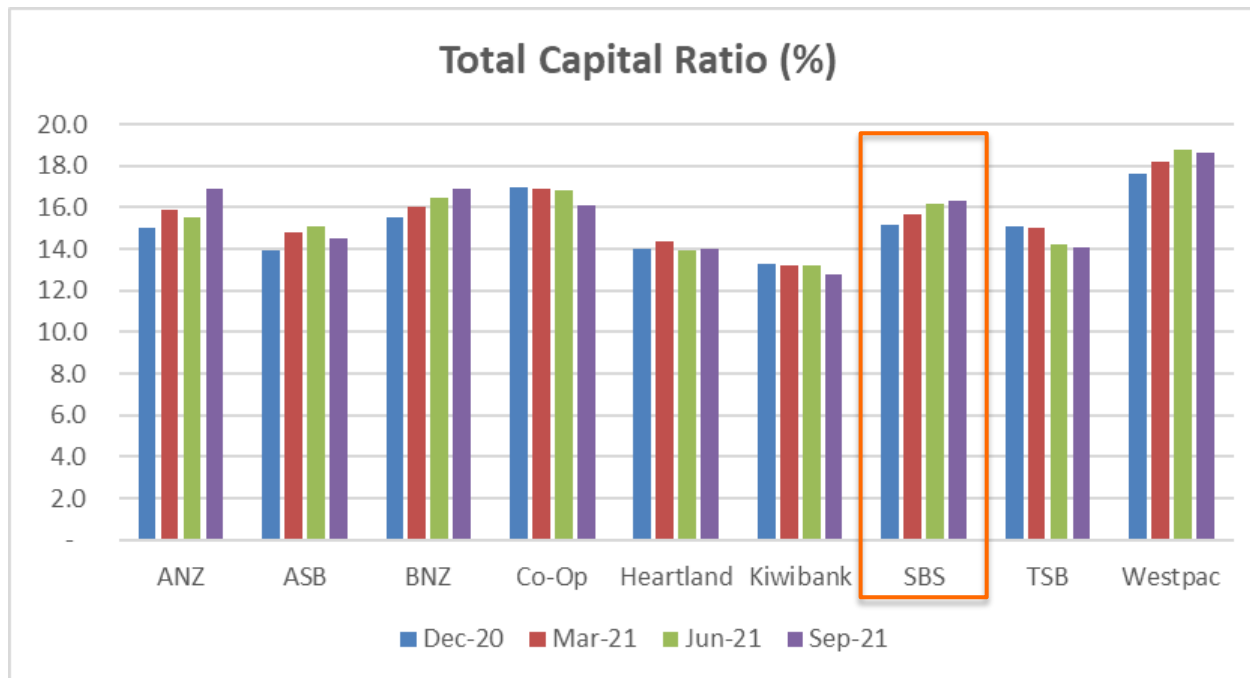
Stable Funding:

- 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.

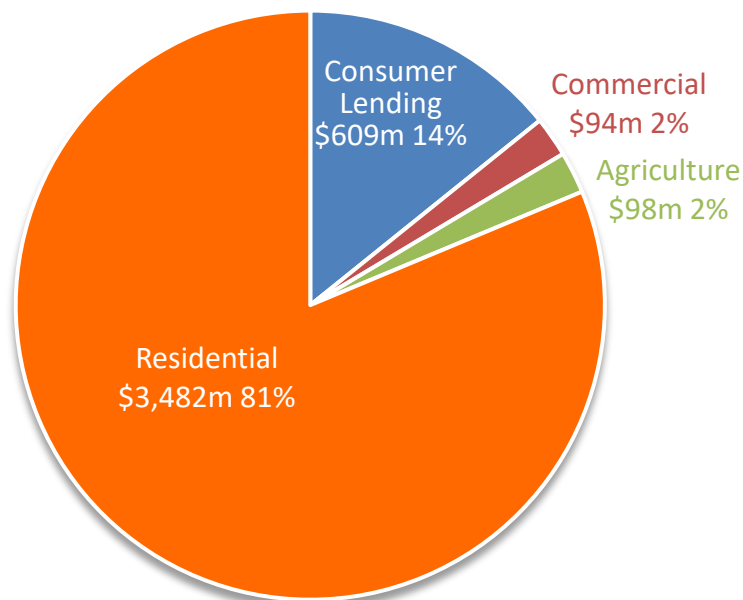
(Chart data source: RBNZ Dashboard).

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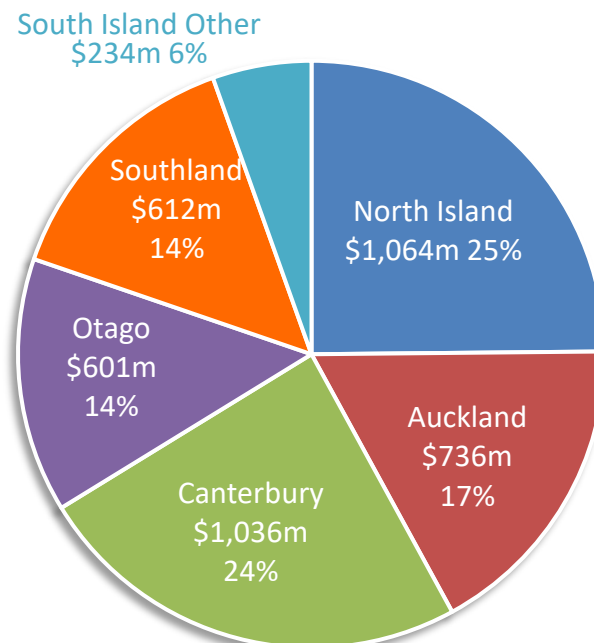
Loan Portfolio.

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

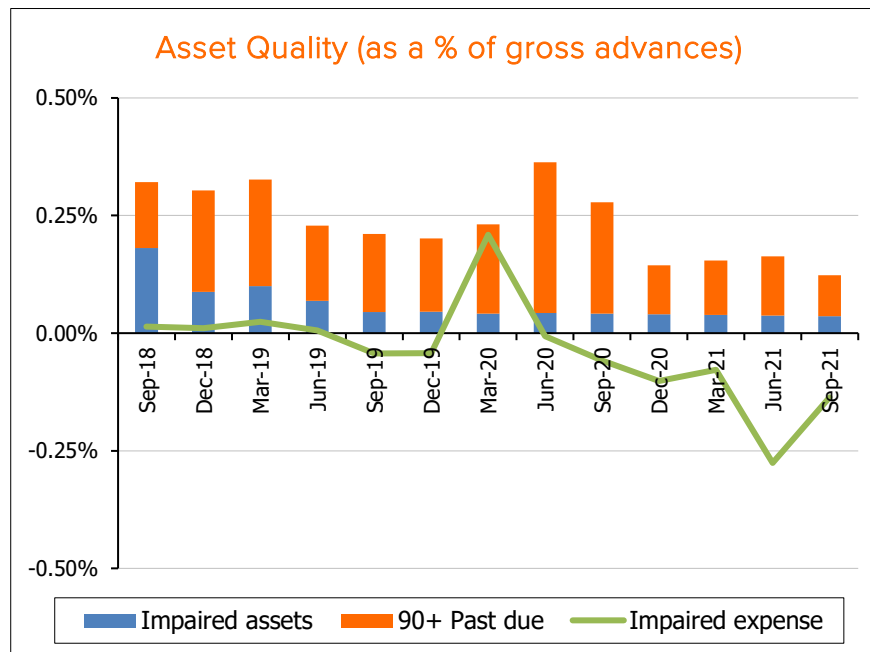
Asset quality – advances to customers

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.

\$'000

LVR range

0 - 80%

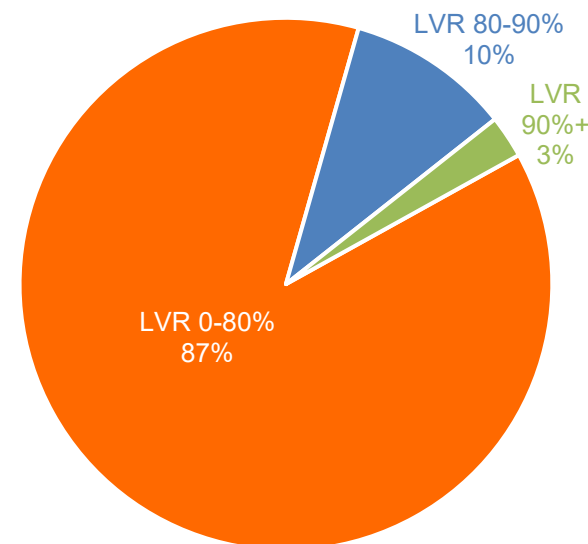
80 - 90%

90% +

Total residential mortgages

BANKING GROUP

On balance sheet	Off balance sheet	On balance sheet	Off balance sheet
31/12/2021	31/12/2021	31/03/2021	31/03/2021
3,054,951	238,036	2,670,691	198,194
369,666	5,443	476,925	4,785
94,913	2,136	116,928	2,674
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.



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

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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.</p> <p>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

