



SBS Bank Subordinated Bond Offer.

Investor Presentation // February 2024



Important Notice and Disclosure



This presentation has been prepared by Southland Building Society (trading as **SBS Bank**) in connection with an offer (the **Offer**) of unsecured, subordinated debt securities (**Bonds**). The Offer will be undertaken using the registered bank exclusion set out in clause 21 of Schedule 1 to the Financial Markets Conduct Act 2013 (**FMCA**).

A limited disclosure document (**LDD**) has been prepared in respect of the Offer. The LDD is available on the online Disclose Register maintained by the Companies Office at <https://disclose-register.companiesoffice.govt.nz> (offer number OFR13709) or can be obtained from the Joint Lead Managers or your usual financial advice provider.

Information

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All currency amounts in this presentation are in NZ Dollars.

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Quotation

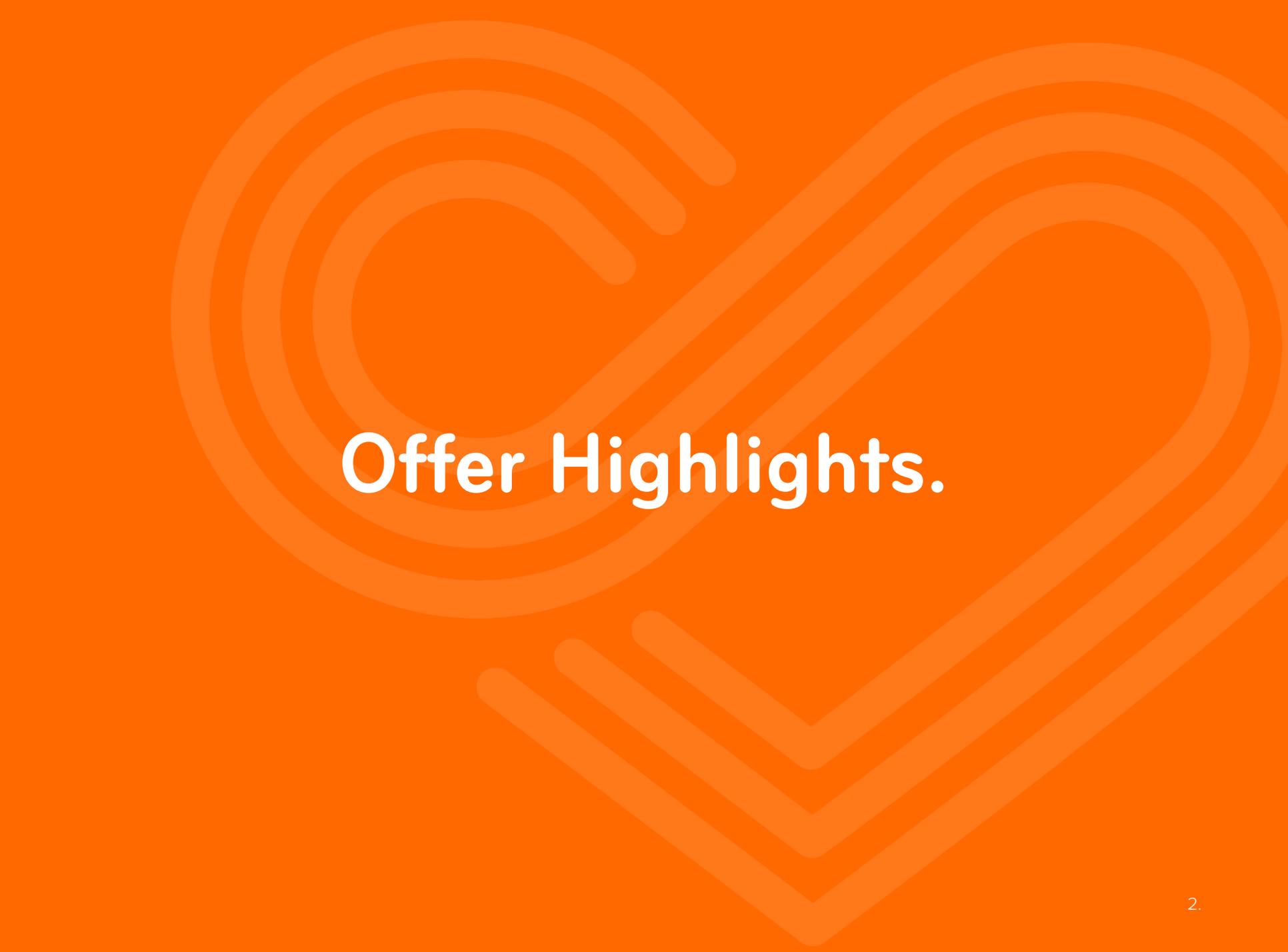
Application has been made to NZX for permission to quote the Bonds on the NZX Debt Market. However, the Bonds have not yet been approved for trading and NZX accepts no responsibility for any statement in this presentation. NZX is a licensed market operator, and the NZX Debt Market is a licensed market under the FMCA.

For purposes of this important notice and disclosure, “presentation” shall mean these 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.

Defined Terms

Full definitions of terms in this presentation can be found in the LDD. The LDD is available on the online Disclose Register maintained by the Companies Office at <https://disclose-register.companiesoffice.govt.nz> (offer number OFR13709) or can be obtained from the Joint Lead Managers or your usual financial advice provider.

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The background is a solid orange color. It features a large, faint, stylized graphic composed of concentric circles on the left and downward-pointing chevrons on the right, both rendered in a lighter shade of orange. The text "Offer Highlights." is centered in the middle of the page in a white, bold, sans-serif font.

Offer Highlights.

Offer Highlights

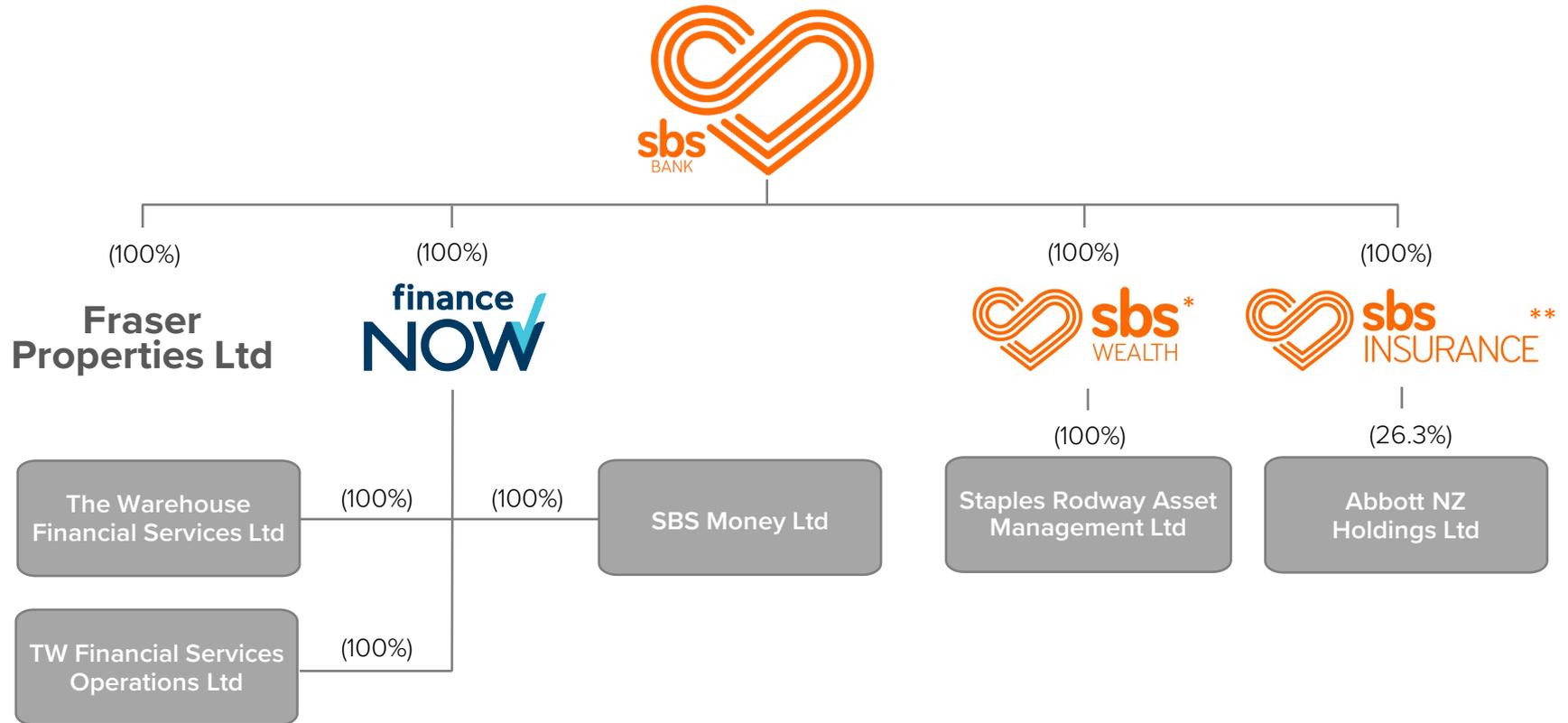


Issuer	Southland Building Society, trading as SBS Bank.
Description	The Bonds are unsecured, subordinated debt securities which are issued as redeemable shares and qualify as Tier 2 Regulatory Capital.
Bonds' Credit Rating	BB+ by Fitch Australia Pty Limited (Fitch).
Offer Amount	Up to \$60,000,000.
Term	10.5 years maturing on 22 August 2034 (subject to SBS Bank's right to redeem the Bonds early on any Optional Redemption Date).
Optional Redemption Date	The five and a half year anniversary of the Issue Date (being the First Optional Redemption Date) and each Interest Payment Date thereafter.
Issue Price and Principal Amount	The Bonds will be issued at \$1.00 per Bond, which is also the Principal Amount.
Interest Rate	The interest rate for the first five and a half years from the Issue Date will be fixed, after which it will change to a floating rate that resets quarterly.
Purpose	The purpose of this Offer, and the money raised under it, will be used to support continued business operation and growth and will be treated by SBS Bank as Tier 2 Regulatory Capital.
Quotation	Application has been made to NZX for permission to quote the Bonds on the NZX Debt Market. Ticker code SBS1T2 has been reserved for the Bonds. It is expected that quotation of the Bonds on the NZX Debt Market will occur on Friday, 23 February 2024.
Who May Apply Under the Offer	All of the Bonds offered under this Offer have been reserved for subscription by clients of the Joint Lead Managers, Primary Market Participants and other approved financial intermediaries. There will be no public pool for the Bonds.
Arranger	Westpac
Joint Lead Managers	Bank of New Zealand, Forsyth Barr Limited, Jarden Securities Limited and Westpac.

The background features a large, faint watermark of the SBS Bank logo, which consists of a stylized 'S' and 'B' intertwined. The entire slide has an orange gradient background.

SBS Bank Overview.

SBS Group Structure as at 31 Dec 23



- SBS Group provides a broad range of products and services including retail banking, funds management, financial advisory services, insurance, and consumer lending.
- \$6.3 billion total assets as at 30 September 2023.
- Structure diagram excludes various securitisation trusts.
- Other associates - Your Car NZ Limited 9.9% (online vehicle purchase platform), Raizor Global Ltd 15.9% (social enterprise).

* SBS Wealth is the trading name of Funds Administration New Zealand Limited (**FANZ**).

** 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 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 Bank.
- ▶ Kiwisaver/investment and insurance products offered through our subsidiaries to provide a full suite of financial services to our members.



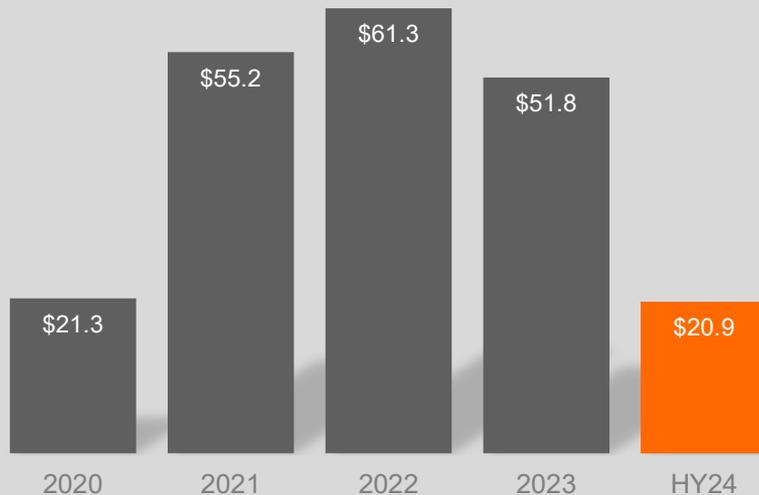


Financials.

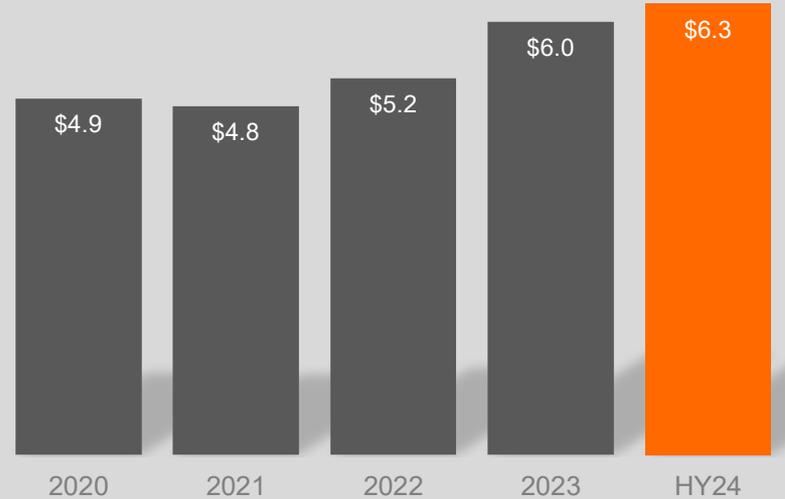
Financial Summary



Operating Surplus (Million)



Total Assets (Billion)



As at 30 September 2023:

- Operating surplus of \$20.9m.
- SBS Bank regulatory capital increased to \$499.7m (up from \$474.0m, 31 March 2023).
- Retail deposits \$4.3b.
- Loan advances \$5.3b.
- Total assets \$6.3b.

Results at a Glance



Income Statement

All in \$000's

	1H24	FY23	FY22	FY21	FY20
Interest income	206,242	287,452	192,337	216,375	254,542
Interest expense	40,609	48,466	21,746	31,073	37,156
Dividends on redeemable shares	91,923	98,326	37,401	66,101	98,249
	132,535	146,792	59,165	97,174	135,405
Net interest income	73,707	140,660	133,172	119,201	119,137
Net fee and commission income	13,117	24,557	24,785	24,511	24,844
Other income	2,196	5,766	5,868	7,546	10,406
Total operating income	89,020	170,983	163,825	151,258	154,387
Operating expenses	59,985	106,557	96,567	91,423	96,092
Credit impairment losses	8,121	12,671	5,977	4,641	36,973
Operating surplus	20,914	51,755	61,281	55,194	21,322
Net gain/(loss) from financial instruments at fair value through profit or loss	899	(32)	(207)	729	(269)
Share of associates profit net of tax	789	1,230	819	1,203	1,274
Surplus before income tax	22,602	52,953	61,893	57,126	22,327
Less income taxation expense	6,435	14,711	17,030	15,987	3,576
Net surplus	16,167	38,242	44,863	41,139	18,751
Attributed to:					
Members' interests	16,167	38,242	44,863	41,139	18,626
Non-controlling interests	-	-	-	-	125
	16,167	38,242	44,863	41,139	18,751

Half Year to Sep 23:

- YTD interest margin 2.49% (down from 2.60% in FY23).
- Operating surplus tracking lower than prior year primarily due to tighter interest margin environment.

Results at a Glance (cont.)



Statement of Financial Position

All in \$000's

	1H24	FY23	FY22	FY21	FY20
Assets					
Liquid assets and securities	672,649	758,138	645,944	679,854	675,578
Advances to customers	5,341,035	5,024,728	4,400,578	4,036,055	4,138,394
Other assets	242,700	221,890	173,273	120,437	127,556
	6,256,384	6,004,756	5,219,795	4,836,346	4,941,528
Liabilities					
Redeemable shares	4,136,043	4,096,601	3,337,489	3,361,335	3,378,387
Deposits from customers	72,584	69,007	131,980	191,151	134,655
Medium term notes	319,456	148,924	148,597	-	-
Commercial paper	345,963	346,284	345,891	344,422	336,592
Due to other financial institutions	685,542	668,065	600,797	341,019	540,517
Subordinated redeemable shares	71,643	64,221	105,330	105,574	103,865
Other liabilities	101,553	105,468	86,759	104,129	116,224
	5,732,784	5,498,570	4,756,843	4,447,630	4,610,240
Equity					
Attributable to members of the society	523,600	506,186	462,952	388,716	331,288
Attributable to non-controlling interests	-	-	-	-	-
	523,600	506,186	462,952	388,716	331,288

Half Year to Sep 23:

- Strong home lending growth relative to market, at 3.4x the system.
- Wholesale funding growth led by our second successful senior MTN issuance.

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Funding and Capital.

Group Funding

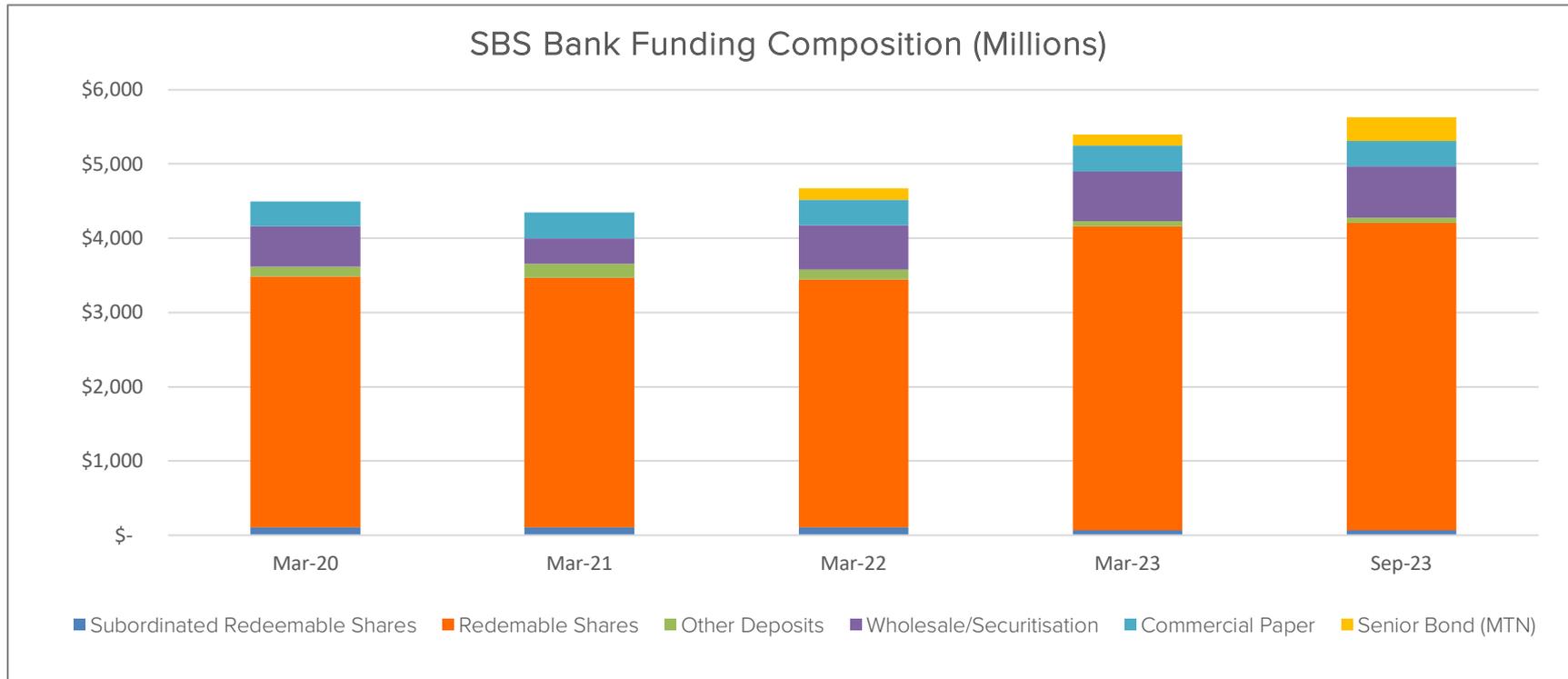


	Funding Description	Credit Rating	30 Sep 2023*
Higher Ranking	Unsecured, senior debt securities which do not include member status of SBS Bank: <ul style="list-style-type: none"> • medium term note programme (SBS010, SBS020) • commercial paper • deposits from customers which are not issued as redeemable shares (i.e. other deposits) 	BBB+	\$738m
	Redeemable shares are unsecured securities of SBS Bank and include member status with SBS Bank. These are commonly referred to as retail term deposits and are issued through the Bank's branch network and digital platform.	BBB	\$4,136m
	Subordinated redeemable shares are unsecured, subordinated debt obligations of SBS Bank (Tier 2 Capital), which also include member status.	BB+	\$72m**
Lower Ranking	Retained earnings.		\$524m

* Excludes \$686m funding due to other financial institutions which is primarily securitised funding which would be ringfenced in the event of liquidation, and also excludes \$102m other liabilities.

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

Group Funding (cont.)



Diversified Sources of Funding:

Deposits (BBB+)

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

Redeemable Shares (BBB)

- Rank behind Deposits.

Subordinated Redeemable Shares (BB+)

- Rank behind Redeemable Shares.

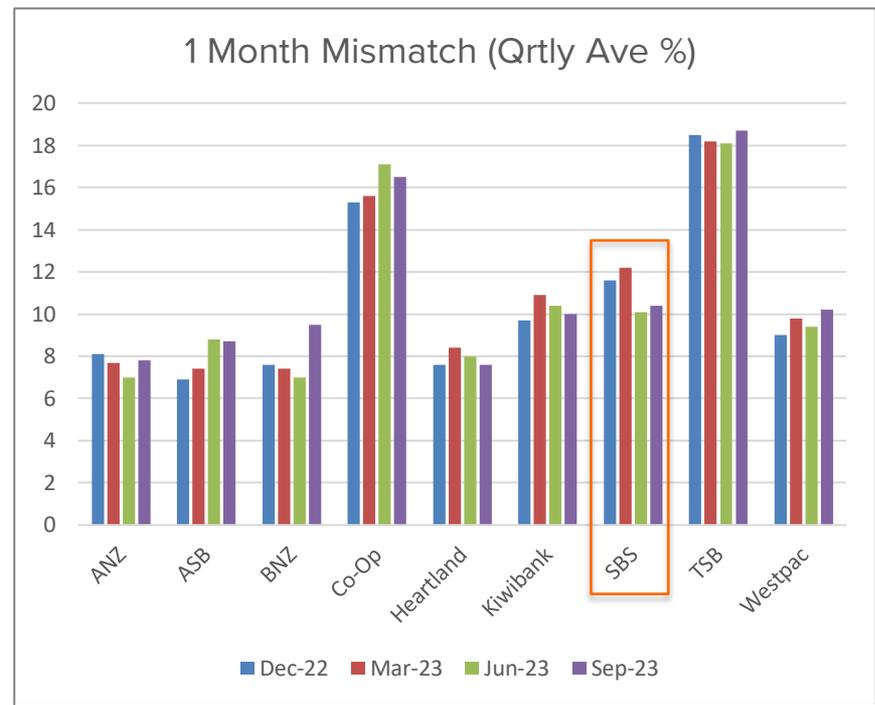
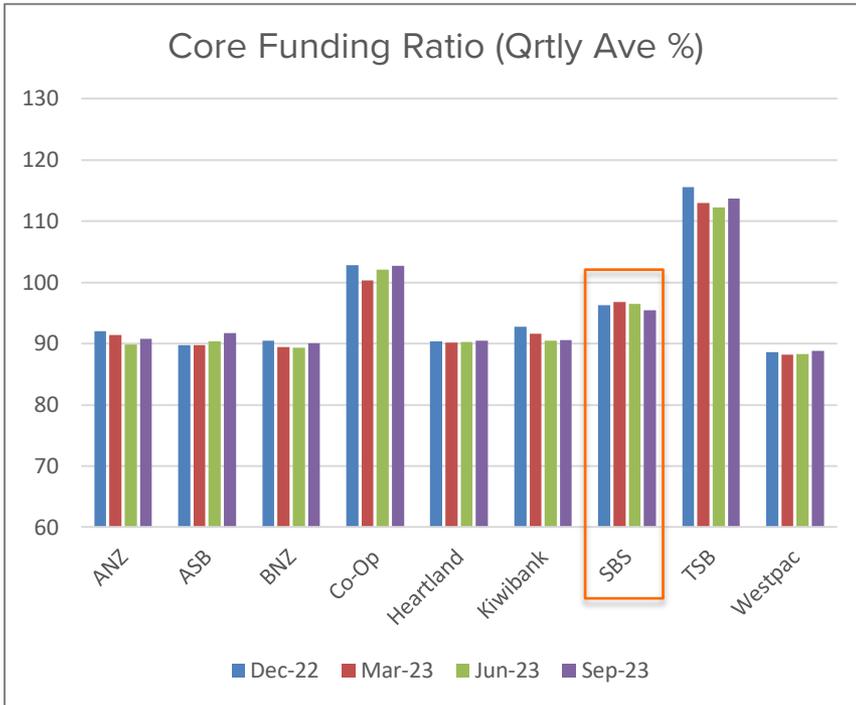
Redeemable Shares Treated as Debt:

- ▶ SBS Bank is a registered bank, but it is also a mutual building society owned by its members. This ownership structure means SBS Bank issues most of its deposits, and all of its capital instruments, as redeemable shares.
- ▶ SBS Bank is issuing these Bonds as redeemable shares to maintain the principles of mutuality and ensure consistency with its existing Tier 2 retail continuous issue. The redeemable share structure is a tested path for SBS Bank, meets RBNZ and FMCA requirements for debt instruments, and has been used for previous SBS Bank Tier 2 issuances.
- ▶ Although the Bonds' legal form is redeemable shares they have the substance of debt instruments with a contractual term, redemption date and contractual interest payments. Under New Zealand securities law, the principal invested and interest accrued are treated as debt.

Additional Benefits:

- ▶ The SBS Bank Bonds offer all the same benefits as conventional subordinated bonds, but additionally provide holders with a mutual ownership interest in SBS Bank.
- ▶ The holders of the Bonds are given rights which align with the principle of mutuality i.e. one member, one vote. This means that each holder of the Bonds has the right to a vote at SBS Bank's AGM (or any other special vote of members) and to participate equally in any surplus assets that may arise in the event of a liquidation.
- ▶ Whilst all holders of the Bonds will receive a single membership right, it should be noted that if those Bonds are registered in the name of a custodian, only the custodian (as the registered holder) will have one membership right and be able to vote. If an investor wishes to exercise their right to vote as a member, they will need to have the Bonds registered in their own name on the Bond Register. This applies only to the membership right, not to any other rights conferred on a Bond holder.

Liquidity and Funding



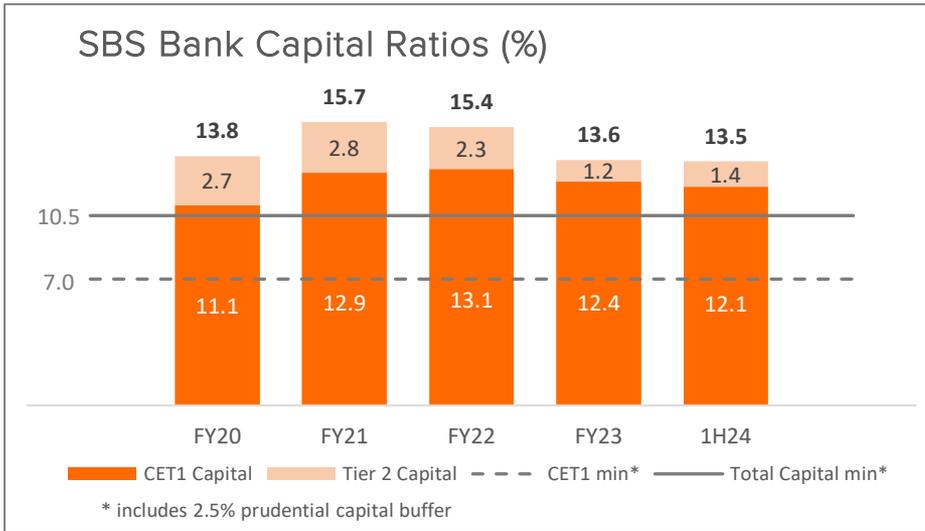
Stable Funding:

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

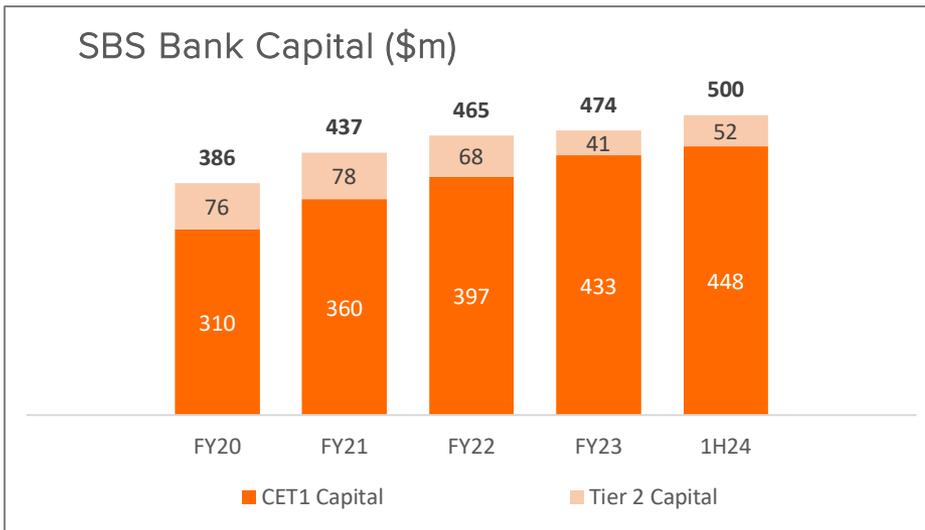
Liquid Assets:

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

Capital Adequacy



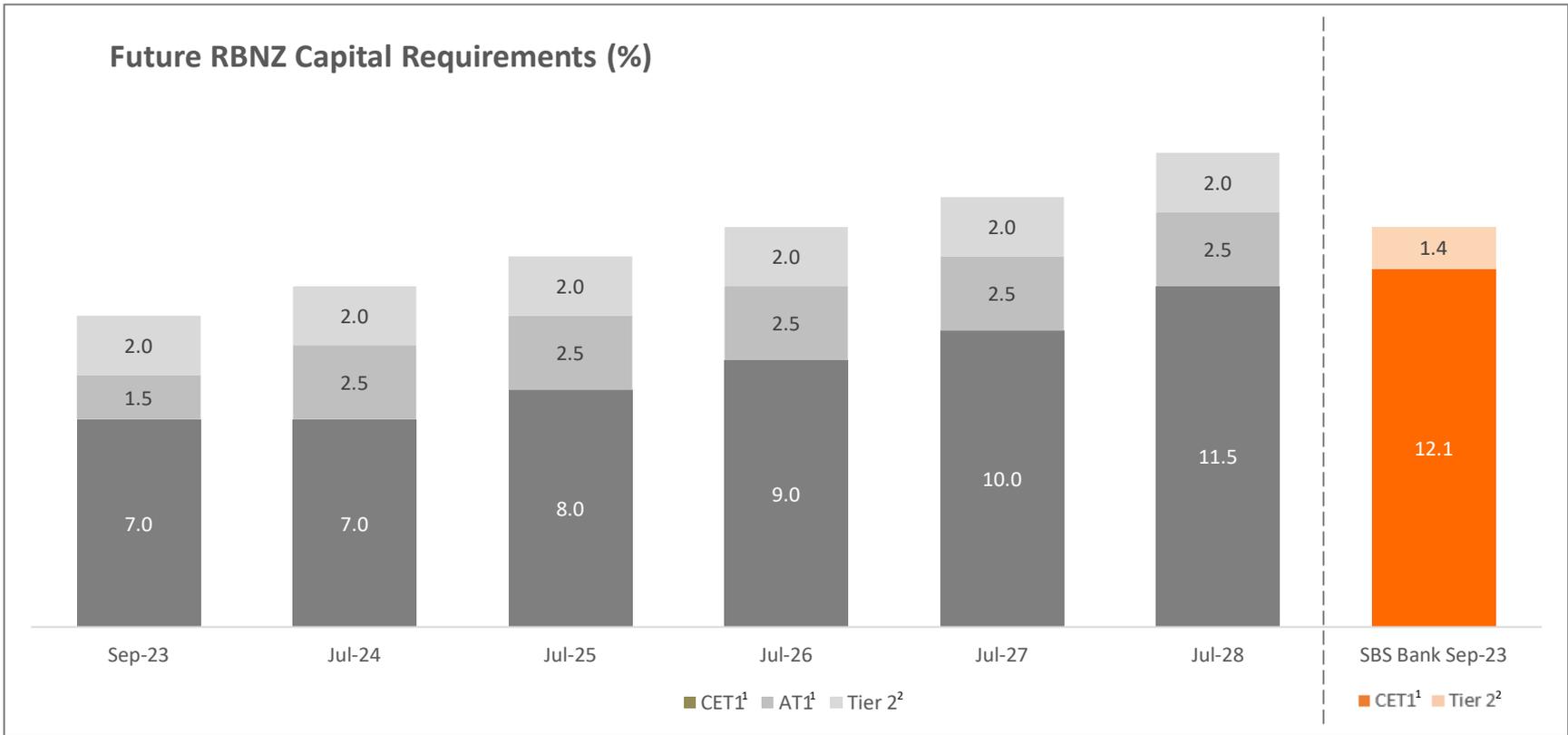
	Regulatory Minimum Sep 23	Prudential Capital Buffer	Regulatory Minimum (incl. Buffer)	SBS Bank Sep 23
Common Equity Tier 1 (CET1) capital ratio	4.5%	2.5%	7.0%	12.1%
Tier 1 capital ratio	6.0%	2.5%	8.5%	12.1%
Total capital ratio	8.0%	2.5%	10.5%	13.5%



Capital:

- Provided a buffer of 5.5% over minimum capital ratios as at Sept 2023 with Total Capital Ratio at 13.5%.
- Ratios remain comfortably above regulatory minimums.
- New 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.

Capital Adequacy (cont.)



Increasing capital requirements:

- The RBNZ carried out a Capital Review in December 2019, which has resulted in the need for New Zealand Banks to hold more capital. For all banks deemed non-Domestic-Systemically Important Banks, the minimum capital requirement 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 comprise no more than 2.5% of the Tier 1 capital ratio

² Total capital can comprise CET1, AT1 and Tier 2 capital. However, AT1 capital can comprise no more than 2.5% of the total capital ratio and Tier 2 capital can comprise no more than 2% of the total capital ratio

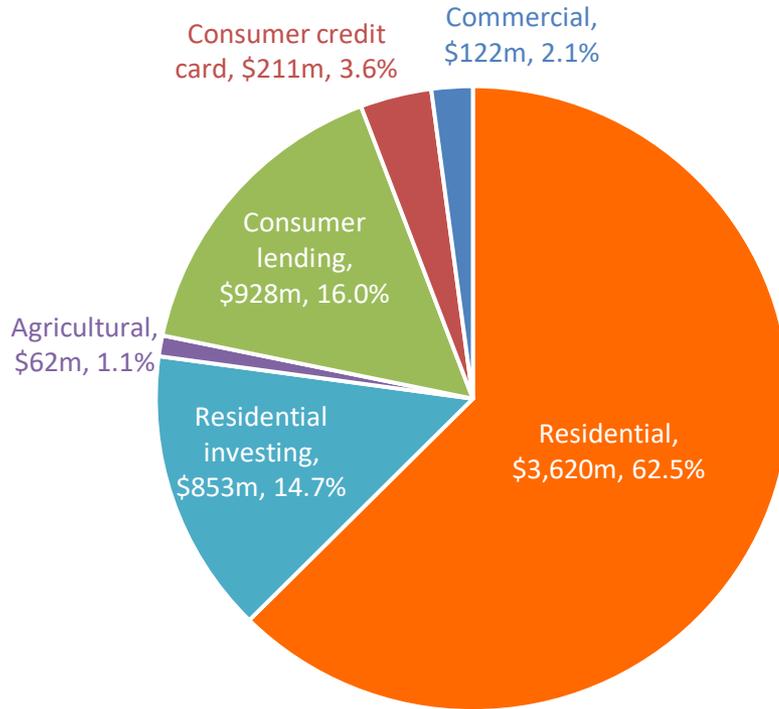


Loan Portfolio.

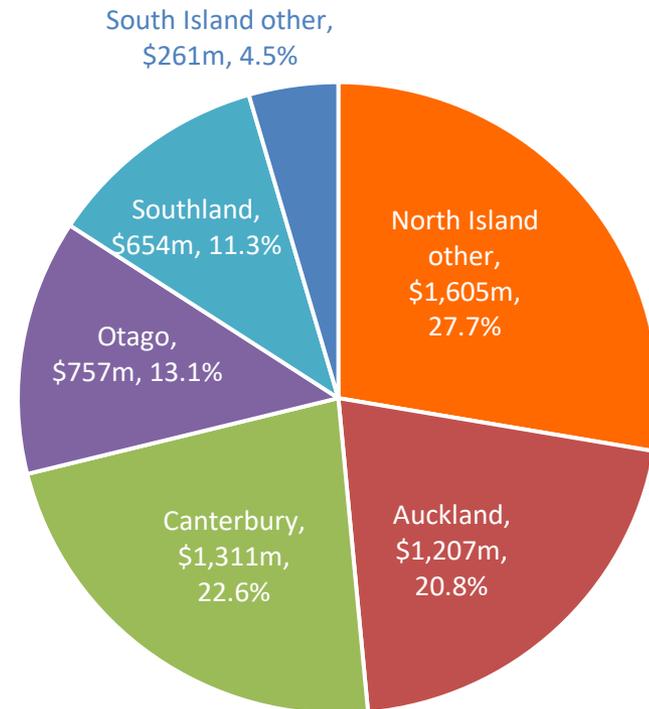
Lending Concentrations



Lending Concentration by Sector
as at 30 September 2023 (\$m)



Lending Concentration by Geography
as at 30 September 2023 (\$m)

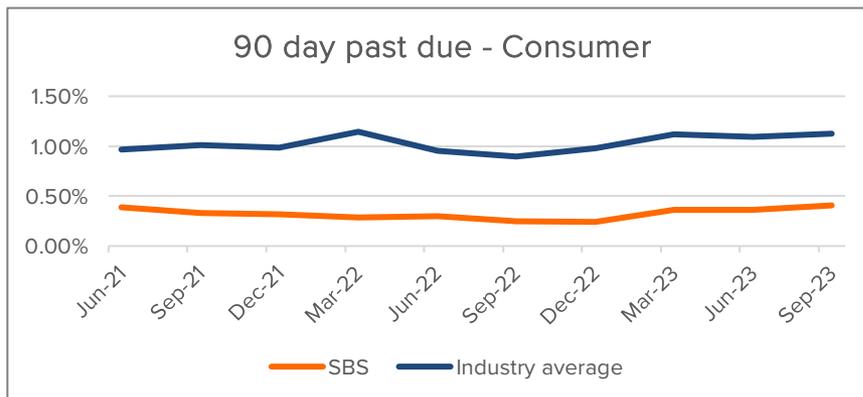
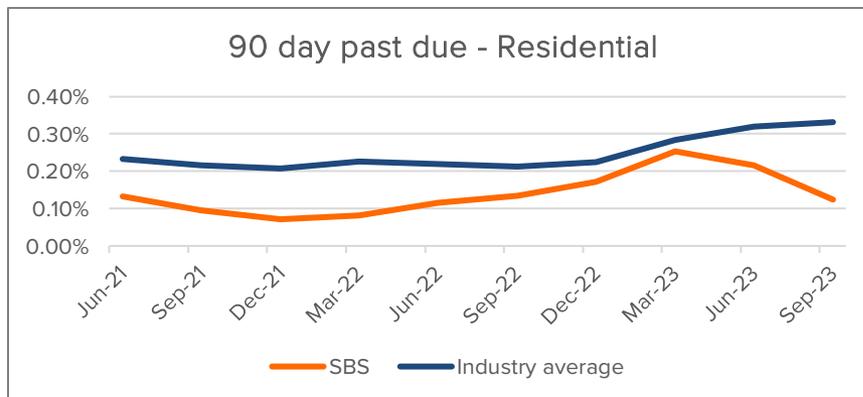


- Lending is largely concentrated in residential property.
- 51% of total SBS Group lending is in the South Island.
- In excess of 80% of loan advances are secured by first mortgage over real property as a minimum.
- Board review proposals > \$5 million.
- No individual lending advances in excess of 10% of SBS Group equity.

Asset Quality



Asset quality – advances to customers	Banking Group	
	30/09/2023	31/03/2023
Neither past due or impaired	5,244,552	4,953,365
Individually impaired amount	498	1,431
Past due amount	131,609	104,431
Total provision for credit impairment	(35,624)	(34,499)
Total carrying amount	5,341,035	5,024,728
Ageing of past due but not impaired assets		
Past due 0–29 days	97,336	72,257
Past due 30–59 days	15,263	11,931
Past due 60–89 days	7,287	5,800
Past due 90 days +	11,723	14,443
Carrying amount	131,609	104,431



- 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.
- The Group's 90-day past dues remain very low relative to industry levels.

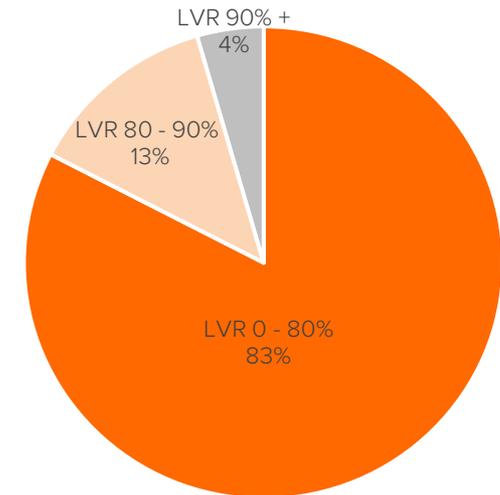
Residential Mortgages by LVR



Residential Mortgages
by Loan to Value Ratio
as at 30 Sept 2023

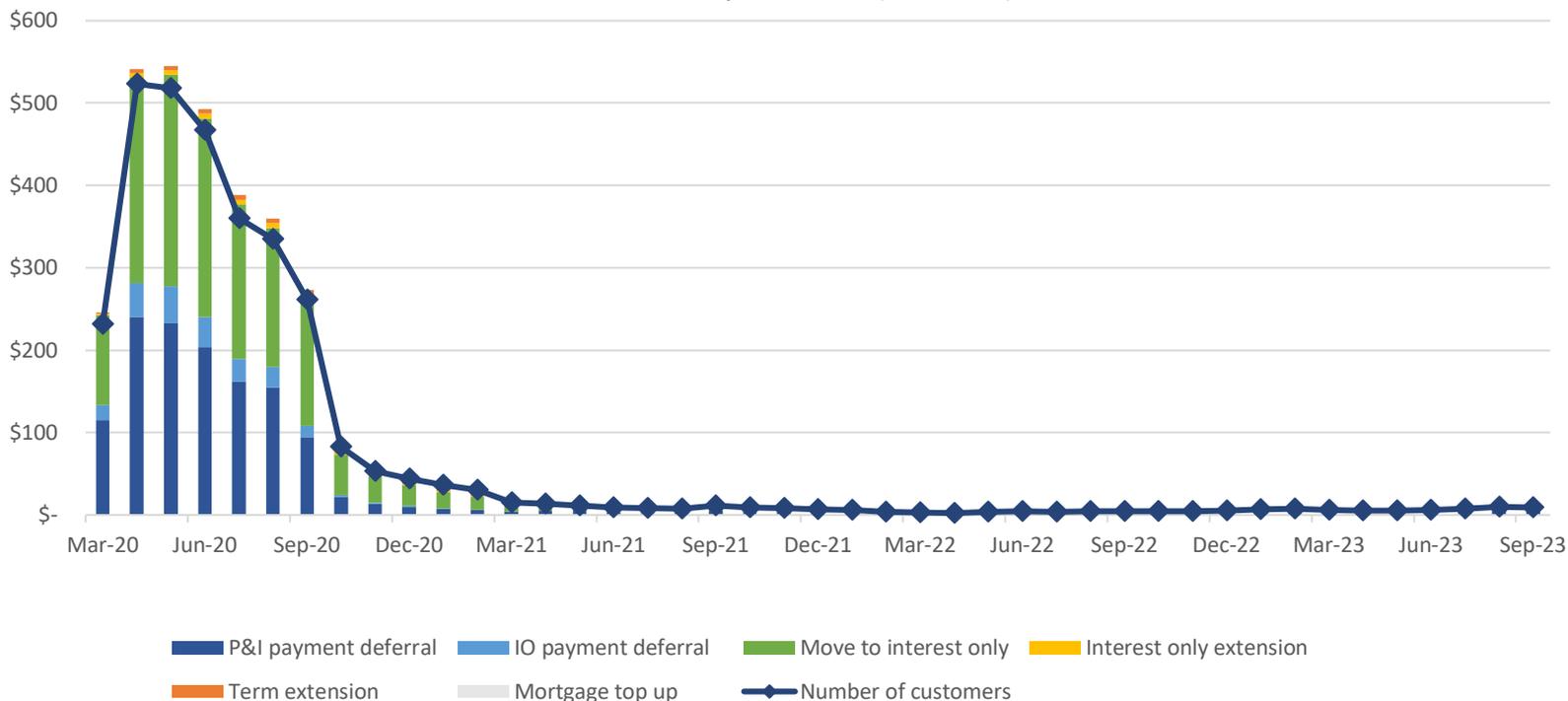
BANKING GROUP

\$'000	30/09/2023		31/03/2023	
	On balance sheet	Off balance sheet	On balance sheet	Off balance sheet
LVR range				
0 - 80%	3,509,399	267,173	3,454,524	253,566
80 - 90%	549,538	8,756	444,830	9,546
90% +	190,508	46,112	148,623	7,879
Total residential mortgages	4,249,445	322,041	4,047,977	270,991



- First Home Loans make up 97% of the residential mortgages in the 90%+ loan to valuation grouping as at 30 Sept 2023 (31 March 2023 97%) and 81% of the 80-90% loan to valuation grouping (31 March 2023 82%).
- 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.

SBS Bank Hardship Actions (Millions)



- SBS Bank continues to support customers with various hardship actions, however those impacted during the COVID-19 peak have largely been resolved.
- At 30 September 2023 there were 30 customers (51 accounts) with lending equating to \$13.7m who have received some form of hardship support (this equates to 0.28% of the bank's total lending book).
- Any new hardship applications are assessed using the standard hardship process & approved as per credit policy.



Sustainability.

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

- ▶ SBS Group has zero lending exposure to the fossil fuel industry and actively avoids investment in firearms, tobacco and nuclear among other harmful industries.
- ▶ 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.
- ▶ SBS Group supports community organisations such as the Breast Cancer Foundation NZ, Ronald McDonald House, Loss and Grief Centre, among others.
- ▶ SBS Group has quantified and will commence reporting on all material climate-related risks in its FY24 Climate Disclosure statement.



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Key Information.

Key Terms of the Offer



Issuer	Southland Building Society, trading as SBS Bank.
Description	The Bonds are unsecured, subordinated debt securities which are issued as redeemable shares and qualify as Tier 2 Regulatory Capital.
Offer Amount	Up to \$60,000,000.
Term	10.5 years maturing on 22 August 2034 (subject to SBS Bank's right to redeem the Bonds on any Optional Redemption Date).
Purpose of the Offer	The purpose of this Offer, and the money raised under it, will be used to support continued business operation and growth and will be treated by SBS Bank as Tier 2 Regulatory Capital.
Issuer Credit Rating	BBB (stable outlook) by Fitch.
Bonds' Credit Rating	BB+ by Fitch.
Interest Rate	<p>The interest rate for the first five and a half years from the Issue Date will be fixed, after which it will change to a floating rate that resets quarterly.</p> <p>The interest rate for the first five and a half years until the First Optional Redemption Date (22 August 2029) will be a fixed rate equal to the sum of the Base Rate and the Issue Margin, but in any case will be no less than the minimum interest rate announced via NZX on or about the Opening Date.</p> <p>The interest rate from (and including) the First Optional Redemption Date will be a floating rate and will:</p> <ul style="list-style-type: none"> • be reset quarterly and apply from the first day of each Interest Period; and • be equal to the sum of the 3 Month Bank Bill Rate (applying at the time the interest rate is set) and the Issue Margin. <p>The Interest Rate will be announced by SBS Bank via NZX on Thursday, 15 February 2024 (the Rate Set Date) and available on the Disclose Register.</p>
Issue Margin	<p>The Issue Margin is the percentage rate per annum determined by SBS Bank in consultation with the Joint Lead Managers through the Bookbuild. SBS Bank expects to announce an indicative Issue Margin range (which may be subject to change) via NZX on or about the Opening Date. The actual Issue Margin (which may be above, below or within the announced indicative Issue Margin range) will be announced by SBS Bank via NZX on or about the Rate Set Date.</p> <p>The Issue Margin will not change throughout the term.</p>

Key Terms of the Offer (cont.)



Early Redemption on Optional Redemption Dates	<p>SBS Bank may repay the Principal Amount of your Bonds (together with accrued interest) on any Optional Redemption Date, provided SBS Bank gives you notice of the early repayment and receives the approval of the RBNZ.</p>
Optional Redemption Dates	<p>The five and a half year anniversary of the Issue Date (being Wednesday, 22 August 2029) and each scheduled Interest Payment Date thereafter.</p>
Early Redemption by SBS Bank for Tax or Regulatory Event	<p>SBS Bank may redeem the Principal Amount of the Bonds early if a Regulatory Event or a Tax Event occurs. In brief:</p> <ul style="list-style-type: none"> • a Regulatory Event would occur if SBS Bank determined that, because of a material change in law, regulation or directive or a change in interpretation or administration of any relevant law, regulation or directive (that was not anticipated by SBS Bank at the time of issuing the Bonds), SBS Bank's treatment of the Bonds as Tier 2 Regulatory Capital of SBS Bank is adversely affected, or will be adversely affected. • a Tax Event would occur if SBS Bank determined that, because of a material change in law or practice affecting taxation (that was not anticipated by SBS Bank at the time of issuing the Bonds), there would be a more than minimal increase in SBS Bank's costs in respect of the Bonds. <p>In each case, SBS Bank must first satisfy the Solvency Condition, obtain the consent of the RBNZ to repay the Principal Amount early and SBS Bank is required to give you notice of that early repayment.</p>
Minimum Subscription and Minimum Holding Amounts	<p>The minimum subscription and holding amounts for the Bonds is \$5,000 and multiples of \$1,000 thereafter.</p>
Subordination	<p>The Bonds are unsecured, subordinated obligations of SBS Bank, meaning that if SBS Bank goes into liquidation, you will not be entitled to any payment of the Principal Amount of your Bonds, or interest thereon, until all Senior Creditors (including preferred creditors, depositors and the holders of SBS Bank everyday redeemable shares) have been paid in full.</p>
Quotation	<p>Application has been made to NZX for permission to quote the Bonds on the NZX Debt Market. Ticker code SBSIT2 has been reserved for the Bonds.</p>
Joint Lead Managers	<p>Bank of New Zealand, Forsyth Barr Limited, Jarden Securities Limited and Westpac.</p>
No Guarantee	<p>The Bonds are not guaranteed by any member of the SBS Banking Group or any other person and SBS Bank is solely responsible for repayment of the Principal Amount of the Bonds (including interest thereon).</p>

Key Terms of the Offer (cont.)



Interest Payments

Until the First Optional Redemption Date (22 August 2029), interest will be paid in arrear in equal quarterly instalments on each Interest Payment Date, being 22 February, 22 May, 22 August, 22 November in each year, commencing on the First Interest Payment Date (or if that date is not a Business Day, the next Business Day without adjustment, interest or further payment as a result thereof).

The first Interest Payment Date is 22 May 2024.

From (and including) the First Optional Redemption Date, interest will be paid in arrear quarterly on each Interest Payment Date on the basis of the actual number of days in the relevant Interest Period and a year of 365 days (366 days in a leap year) (subject to early redemption by SBS Bank).

An Interest Period is the period from (and including) an Interest Payment Date (or the Issue Date in the case of the first Interest Period) to (but excluding) the next Interest Payment Date (or the Maturity Date in the case of the final Interest Period).

The payment of interest on each Interest Payment Date (other than on the Maturity Date) is conditional on SBS Bank satisfying the Solvency Condition (set out below).

Events of Default

The Bonds have very limited events of default, as described in section 5 of the LDD (Key Features of the Bonds).

An Event of Default will occur if:

- SBS Bank does not pay any amount payable under the Master Deed within 10 Business Days of its due date; or
- an order is made, or an effective resolution is passed, for the liquidation of SBS Bank.

However, to the extent that a payment on the Bonds is not required to be made because SBS Bank does not satisfy the Solvency Condition, the amount is not due and payable and a payment default cannot occur.

If a payment default occurs, you may only bring proceedings:

- to recover any amount then due and payable but unpaid on your Bonds (subject to satisfaction of the Solvency Condition if the payment of the unpaid amount was subject to the Solvency Condition);
- to obtain an order for specific performance of any other obligation in respect of your Bonds; or
- for the liquidation of SBS Bank.

Where an Event of Default occurs due to the commencement of the liquidation of SBS Bank, in addition to the rights listed above, the Principal Amount of each Bond and any accrued but unpaid interest on the Bonds will immediately become due and payable, and you may claim in the liquidation for that amount. It is unlikely that you will receive payment of any amount owing on your Bonds in a liquidation.

Key Dates



Key Dates for the Offer

LDD Registration	Monday, 5 February 2024.
Opening Date	Monday, 12 February 2024.
Rate Set Date	Thursday, 15 February 2024.
Closing Date/Time	Thursday, 15 February 2024, 11:00am (NZ time) or earlier at SBS Bank's discretion.
Issue Date	Thursday, 22 February 2024.
Expected Date of Quotation and Trading of the Bonds on the NZDX Debt Market	Friday, 23 February 2024.

Key dates for the Bonds

First Interest Payment Date	Wednesday, 22 May 2024.
Interest Payment Dates	22 February, 22 May, 22 August, 22 November in each year during the term of the Bonds.
First Optional Redemption Date	Wednesday, 22 August 2029.
Maturity Date	Tuesday, 22 August 2034 (subject to early redemption by SBS Bank).

Note: All dates are indicative only and are subject to change.

Key Highlights



1

100% profits retained
in New Zealand.

2

SBS Bank Listed Tier
2 Capital Bond issue
credit rating is BB+.

3

Strong prudential
ratios.

4

77% of SBS Group
Loan Advances are
Residential Lending.*

5

Arrears rates
consistently better than
industry average.^

*As at 30 September 2023.

^Refer RBNZ Financial Strength Dashboard.

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.

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



Dennis Quayle
General Manager Retail



Hamish McKenzie
General Manager People & Support



Southland Building Society
trading as SBS Bank

Indicative Terms Sheet

For an offer of unsecured, subordinated, debt securities issued as redeemable shares.

5 February 2024

Joint Lead Managers:



This indicative terms sheet (**Terms Sheet**) is prepared in respect of an offer (**Offer**) by Southland Building Society, trading as SBS Bank (**SBS Bank**) of up to \$60,000,000 unsecured, subordinated debt securities which are issued as redeemable shares (**Bonds**) under its Master Deed dated 30 April 2014 (as amended and restated on 26 September 2017), as modified and supplemented by the Supplemental Deed dated 5 February 2024.

This is a summary only. Full details of the Offer are contained in the limited disclosure document dated 5 February 2024 (**LDD**) and the Master Deed and Supplemental Deed.

The Bonds are debt securities issued by SBS Bank. You give SBS Bank money, and in return we promise to pay you interest and repay the money at the end of the term. If SBS Bank runs into financial trouble, you might lose some or all of the money you invested. This investment has a higher risk profile than a bank deposit. The Bonds are complex financial products that are not suitable for all investors. If you do not fully understand how they work or the risks associated with them, you should not invest in them. You should read the LDD and you can seek advice from a financial advice provider to help you make an investment decision.

Capitalised terms used in this Terms Sheet are defined in the LDD unless the context otherwise requires.

Key dates for the Offer

LDD Registration	Monday, 5 February 2024.
Opening Date	Monday, 12 February 2024.
Rate Set Date	Thursday, 15 February 2024.
Closing Date/Time	Thursday, 15 February 2024 at 11am (NZ time) or earlier at SBS Bank's discretion.
Issue Date	Thursday, 22 February 2024.
Expected date of initial quotation and trading of the Bonds on NZX Debt Market	Friday, 23 February 2024.

Key dates for the Bonds

First Interest Payment Date	Wednesday, 22 May 2024.
Interest Payment Dates	22 February, 22 May, 22 August, 22 November in each year during the term of the Bonds.
First Optional Redemption Date	Wednesday, 22 August 2029.
Maturity Date	Tuesday, 22 August 2034.

Dates may change

The "Key dates for the Offer" (listed above) are indicative only and subject to change. SBS Bank may, in its absolute discretion, vary these dates (including by opening or closing the Offer early and/or extending the Closing Date/Time). If the Closing Date/Time is extended, all subsequent dates may also be extended. Any such changes will not affect the validity of any applications received.

SBS Bank reserves the right to cancel the Offer and the issue of the Bonds.

Key risks

Investments in debt securities have risks. Key risks are that SBS Bank does not meet its commitments to repay you or pay you interest, and/or that if you want to sell the Bonds, you are unable to find a buyer or the amount received is less than the amount you paid for the Bonds. Section 6 of the LDD (Risks of Investing) discusses the main factors that give rise to this risk.

Overview of the Bonds

Issuer	Southland Building Society, trading as SBS Bank.
Description	The Bonds are unsecured, subordinated debt securities which are issued as redeemable shares and qualify as Tier 2 Regulatory Capital.
Offer Amount	Up to \$60,000,000.
Term	10.5 years, maturing on 22 August 2034 (subject to SBS Bank's right to redeem the Bonds on any Optional Redemption Date).
Issue Price and Principal Amount	The Bonds will be issued at \$1.00 per Bond, which is also the Principal Amount.
Key Features	<p>The Bonds are debt securities that have the features of Regulatory Capital instruments and building society shares. They are different to most bonds issued by banks or other corporates because:</p> <ul style="list-style-type: none"> • they are able to be repaid early by SBS Bank in some situations, with the approval of the Reserve Bank of New Zealand (the RBNZ); and • they give Holders the right to: <ul style="list-style-type: none"> - vote at meetings of members of SBS Bank; and - participate (equally with all other members of SBS Bank) in surplus assets of SBS Bank on a liquidation; and • Holders have no right to require SBS Bank to repay the Bonds early including where SBS Bank is unable to make, or default on, scheduled interest payments. <p>Where your Bonds are held by a custodian (i.e. your name is not entered in the Register), only the custodian will have the right to vote at meetings of SBS Bank's members (subject to the terms of any custodial arrangement with you). If you would like the right to vote your membership interest, you will need to hold the Bonds in your own name.</p> <p>The rights of Holders on default by SBS Bank under the Master Deed, are more limited than is typical of a debt instrument which is not Regulatory Capital.</p>
Ranking of the Bonds on a Liquidation	<p>The Bonds are unsecured, subordinated debt obligations of SBS Bank. This means that if SBS Bank goes into liquidation or is dissolved (other than for the purposes of a solvent reconstruction or amalgamation), you will not be entitled to any payment of the Principal Amount of, or accrued interest on, your Bonds until all of SBS Bank's prior ranking creditors have been paid in full.</p> <p>This means that in a liquidation of SBS Bank, if there are insufficient funds to repay all of the Bonds, you will be repaid by SBS Bank:</p> <ul style="list-style-type: none"> • only after SBS Bank has repaid: <ul style="list-style-type: none"> - creditors preferred by law and secured creditors (for example, Inland Revenue and employees); - all holders of unsecured and unsubordinated debt securities not issued as redeemable shares; and - all holders of unsubordinated redeemable shares (which includes redeemable shares issued in respect of our everyday transactional and savings accounts and call and term deposits); and • on a proportionate basis (at the same time and to the same extent) together with SBS Bank's debt securities issued as subordinated redeemable shares; and • before equity and holders of other securities and obligations that rank behind the Bonds. <p>You will also have the right (equally with all of SBS Bank's other members) to participate in SBS Bank's surplus assets (if any) on liquidation.</p> <p>In a liquidation of SBS Bank, it is unlikely that there will be surplus assets available for the liquidator to pay any amount to Holders in respect of the Bonds.</p>
Purpose of the Offer	The money raised under this Offer will be used by SBS Bank to support continued business operation and growth and will be treated by SBS Bank as Tier 2 Regulatory Capital.

Credit Rating	<p>Issuer Credit Rating BBB (stable outlook) by Fitch Australia Pty Limited (Fitch).</p> <p>Bonds' Credit Rating BB+ by Fitch.</p> <p>A credit rating is not a recommendation to buy, sell or hold securities and may be revised or withdrawn by the rating agency at any time.</p>
Who May Apply Under the Offer	<p>All of the Bonds offered under this Offer have been reserved for subscription by clients of the Joint Lead Managers, Primary Market Participants and other approved financial intermediaries. No person may apply for Bonds (including through a Joint Lead Manager, Primary Market Participant or other approved financial intermediary) unless they have obtained a copy of the LDD.</p> <p>There will be no public pool for the Bonds.</p>
Interest Rate	<p>The interest rate for the first five and a half years from the Issue Date will be fixed, after which it will change to a floating rate that resets quarterly.</p> <p>The interest rate for the first five and a half years until the First Optional Redemption Date (22 August 2029) will be a fixed rate equal to the sum of the Base Rate and the Issue Margin, but in any case will be no less than the minimum interest rate announced via NZX on or about the Opening Date.</p> <p>The interest rate from (and including) the First Optional Redemption Date will be a floating rate and will:</p> <ul style="list-style-type: none"> • be reset quarterly and apply from the first day of each Interest Period; and • be equal to the sum of the 3 Month Bank Bill Rate (applying at the time the Interest rate is set) and the Issue Margin. <p>If the sum of the 3 Month Bank Bill Rate plus the Issue Margin is less than 0%, the floating rate will be deemed to be 0% per annum.</p> <p>The initial interest rate will be determined by SBS Bank in conjunction with the Joint Lead Managers following the Bookbuild on the Rate Set Date (15 February 2024) and announced via NZX on or about this date.</p> <p>Each time the interest rate is reset after the First Optional Redemption Date, SBS Bank will announce the new interest rate via NZX on or about the date it is reset (it will also be available on the Offer Register and on SBS Bank's website).</p>
3 Month Bank Bill Rate	<p>The 3 Month Bank Bill Rate will, in relation to an Interest Period, be the interest rate that is the 'FRA' rate (expressed as a percentage per annum) for bank bills having a term of 3 months (rounded, if necessary, to the nearest 4 decimal places with 5 being rounded up) as quoted on Reuters screen 'BKBM' (or its successor or replacement page) at or about 10:45 a.m. on any date that the interest rate is reset by SBS Bank.</p> <p>If the 3 Month Bank Bill Rate becomes unavailable, SBS Bank will replace it with an alternative reference rate. In doing so SBS Bank will act in good faith and in a commercially reasonable manner and may consult with such sources of market practice as it considers appropriate. Any such replacement may result in the Bonds performing differently (which may include payment of a lower interest rate) than if the 3 Month Bank Bill Rate had continued to be available and apply to the Bonds.</p>
Issue Margin	<p>The Issue Margin is the percentage rate per annum determined by SBS Bank in consultation with the Joint Lead Managers through the Bookbuild. SBS Bank expects to announce an indicative Issue Margin range (which may be subject to change) via NZX on or about the Opening Date. The actual Issue Margin (which may be above, below or within the announced indicative Issue Margin range) will be announced by SBS Bank via NZX on or about the Rate Set Date.</p> <p>The Issue Margin will not change throughout the term.</p>
Base Rate	<p>The Base Rate will be the mid-market rate for an interest rate swap with a term of 5 and a half years commencing on the Issue Date, as calculated by the Arranger, according to market convention, with reference to Bloomberg Page ICNZ4 (or any successor page) on the Rate Set Date, expressed as a percentage per annum, adjusted for quarterly payments and rounded, if necessary, to the nearest 2 decimal places with 0.005 being rounded up.</p>

Interest Payments	<p>Until the First Optional Redemption Date (22 August 2029), interest will be paid in arrear in equal quarterly instalments on each Interest Payment Date, being 22 February, 22 May, 22 August, 22 November in each year, commencing on the First Interest Payment Date (or if that date is not a Business Day, the next Business Day without adjustment, interest or further payment as a result thereof).</p> <p>The first Interest Payment Date is 22 May 2024.</p> <p>From (and including) the First Optional Redemption Date, interest will be paid in arrear quarterly on each Interest Payment Date on the basis of the actual number of days in the relevant Interest Period and a year of 365 days (366 days in a leap year) (subject to early redemption by SBS Bank).</p> <p>An Interest Period is the period from (and including) an Interest Payment Date (or the Issue Date in the case of the first Interest Period) to (but excluding) the next Interest Payment Date (or the Maturity Date in the case of the final Interest Period).</p> <p>The payment of interest on each Interest Payment Date (other than on the Maturity Date) is conditional on SBS Bank satisfying the Solvency Condition (set out below).</p>
No Early Redemption by Holder	<p>You have no right to require early redemption of the Bonds, including in relation to an Event of Default as described in section 5 of the LDD (Key Features of the Bonds) and the Master Deed. This means that subject to early redemption by SBS Bank, or you selling your Bonds to another Holder, you will have to hold your Bonds until maturity to receive repayment of the Principal Amount.</p>
Early Redemption on Optional Redemption Dates	<p>SBS Bank may repay the Principal Amount of your Bonds (together with accrued interest) on any Optional Redemption Date, provided SBS Bank gives you notice of the early repayment and receives the approval of the RBNZ.</p>
Optional Redemption Dates	<p>The five and a half year anniversary of the Issue Date (being 22 August 2029) and each scheduled Interest Payment Date thereafter.</p>
Early Redemption by SBS Bank for Tax or Regulatory Event	<p>SBS Bank may redeem the Principal Amount of the Bonds early if a Regulatory Event or a Tax Event occurs. In brief:</p> <ul style="list-style-type: none"> • a Regulatory Event would occur if SBS Bank determined that, because of a material change in law, regulation or directive or a change in interpretation or administration of any relevant law, regulation or directive (that was not anticipated by SBS Bank at the time of issuing the Bonds), SBS Bank's treatment of the Bonds as Tier 2 Regulatory Capital of SBS Bank is adversely affected, or will be adversely affected. • a Tax Event would occur if SBS Bank determined that, because of a material change in law or practice affecting taxation (that was not anticipated by SBS Bank at the time of issuing the Bonds), there would be a more than minimal increase in SBS Bank's costs in respect of the Bonds. <p>In each case, SBS Bank must first satisfy the Solvency Condition, obtain the consent of the RBNZ to repay the Principal Amount early and SBS Bank is required to give you notice of that early repayment.</p>
Minimum Subscription Amount and Minimum Holding Amount	<p>The minimum subscription and holding amounts for the Bonds is \$5,000 and multiples of \$1,000 thereafter.</p>
Business Day	<p>Any day (other than a Saturday or a Sunday) on which registered banks are generally open for business in Auckland and Invercargill except that in the context of the Listing Rules it means a day on which the NZX Debt Market is open for trading.</p>
Business Day Convention	<p>If an Interest Payment Date on or before the First Optional Redemption Date is not a Business Day, SBS Bank will make payment on the next Business Day, and no adjustment will be made to the amount of interest payable as a result of the delay in payment.</p> <p>If an Interest Payment Date after the First Optional Redemption Date is not a Business Day, then the Interest Payment Date will be the next Business Day, unless that day falls in the next calendar month, in which case it will be the preceding Business Day, and, in either case, the amount of interest payable will be adjusted to reflect the actual payment date.</p>

Record Date	The Record Date for any payment due in respect of the Bonds is 5:00pm on the close of business on the tenth day before the due date for that payment or, if that day is not a Business Day, the preceding Business Day.
Entitlement to Payments	Payments on the Bonds will be made to the persons who are the registered Holders of the Bonds as at the Record Date.
Solvency Condition	<p>Where interest payments or early repayment of the Principal Amount are suspended because SBS Bank doesn't have a current Solvency Certificate (or can no longer rely on a Solvency Certificate given) in accordance with the terms of the Master Deed, SBS Bank is not required to make such payment and this will not constitute a default by SBS Bank under the Master Deed.</p> <p>Failure to make any interest payment or repay the Principal Amount when due where SBS Bank is otherwise solvent, is a default under the Master Deed, but does not allow the Holder (or any other person) to call for early repayment of the Bonds. Any interest not paid because SBS Bank is not solvent, remains owing by SBS Bank. That unpaid Interest will also accrue interest at the relevant interest rate. That interest will be payable on the earlier of the first Business Day on which the Solvency Condition is satisfied, and the Maturity Date.</p> <p>The Solvency Condition does not apply to payments that are required to be made on the Maturity Date or if SBS Bank is in liquidation.</p>
Events of Default	<p>The Bonds have very limited events of default, as described in section 5 of the LDD (Key Features of the Bonds). An Event of Default will occur if:</p> <ul style="list-style-type: none"> • SBS Bank does not pay any amount payable under the Master Deed within 10 Business Days of its due date; or • an order is made, or an effective resolution is passed, for the liquidation of SBS Bank. <p>However, to the extent that a payment on the Bonds is not required to be made because SBS Bank does not satisfy the Solvency Condition, the amount is not due and payable and a payment default cannot occur.</p> <p>If a payment default occurs, you may only bring proceedings:</p> <ul style="list-style-type: none"> • to recover any amount then due and payable but unpaid on your Bonds (subject to satisfaction of the Solvency Condition if the payment of the unpaid amount was subject to the Solvency Condition); • to obtain an order for specific performance of any other obligation in respect of your Bonds; or • for the liquidation of SBS Bank. <p>Where an Event of Default occurs due to the commencement of the liquidation of SBS Bank, in addition to the rights listed above, the Principal Amount of each Bond and any accrued but unpaid interest on the Bonds will immediately become due and payable, and you may claim in the liquidation for that amount. It is unlikely that you will receive payment of any amount owing on your Bonds in a liquidation.</p>
No Restrictions on Issuing Further Securities or Creating Further Liabilities	There are no restrictions on SBS Bank incurring liabilities which rank equally with, or in priority to, the Bonds in a liquidation of SBS Bank. This includes further debt securities issued under the Master Deed. SBS Bank could therefore, at any time after the Issue Date, issue further securities or create further liabilities that rank equally with or in priority to the Bonds. In addition, SBS Bank may repay any of its debt securities which rank equally with, or behind the Bonds, provided it has satisfied the Solvency Condition.
Rights of Members	The Bonds give Holders the right to vote at meetings of members of SBS Bank and participate (equally with all other members) in surplus assets of SBS Bank on a liquidation.
Transfers Restrictions	<p>You are entitled to sell or transfer your Bonds at any time, subject to the terms of the Master Deed, Supplemental Deed and any applicable laws and regulations. SBS Bank will not register any transfers of Bonds if the transfer would result in you holding Bonds less than the Minimum Holding (but greater than zero).</p> <p>This Offer is subject to certain selling restrictions, and you will be required to indemnify certain people if you breach these restrictions. See section 3 (Terms of the Offer) and section 10 (Other Information Relating to the Offer) of the LDD for more information.</p>

Selling Restrictions	<p>The LDD only constitutes an offer of Bonds to investors in New Zealand and to certain overseas institutional investors in accordance with the selling restrictions set out in the LDD.</p> <p>SBS Bank has not taken and will not take any action that would permit a public or regulated offering of the Bonds, or possession or distribution of any offering material in respect of the Bonds, in any country or jurisdiction where action for that purpose is required (other than New Zealand).</p> <p>The Bonds may only be offered for sale or sold in compliance with all applicable laws and regulations in any jurisdiction in which they are offered, sold or delivered. The LDD and any disclosure statement, information memorandum, prospectus, circular, advertisement or other offering material in respect of the Bonds may only be published, delivered or distributed in compliance with all applicable laws and regulations (including those of the country or jurisdiction in which the material is published, delivered or distributed).</p> <p>Specific selling restrictions will apply to an initial offer of the Bonds in Australia, the European Union (excluding Austria), Hong Kong, Japan, Singapore, the United Kingdom and the United States or to US Persons.</p>
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 this 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 this Terms Sheet. NZX is a licensed market operator, and the NZX Debt Market is a licensed market, under the FMCA.</p> <p>Ticker code SBS1T2 has been reserved for the Bonds.</p>
Arranger	Westpac Banking Corporation (ABN 33 007 457 141) (acting through its New Zealand branch) (Westpac).
Joint Lead Managers	Bank of New Zealand, Forsyth Barr Limited, Jarden Securities Limited and Westpac.
Bond Registrar, Paying Agent and Calculation Agent	<p>Computershare Investor Services Limited.</p> <p>The Bonds will be accepted for settlement within the NZClear system.</p>
ISIN	NZSBBDT390C6
Brokerage	0.50% brokerage plus 0.50% on firm allocations, paid by SBS Bank.
Approved Issuer Levy	SBS Bank intends to register the Bonds for approved issuer levy (AIL) and, where it is eligible to do so in respect of interest paid to a non-resident Holder that is subject to the non-resident withholding tax rules (and unless otherwise elected by the Holder), to pay AIL in lieu of deducting non-resident withholding tax. If the Bonds qualify for the 0% rate of AIL, SBS Bank intends to apply the 0% rate, otherwise it will apply AIL at the applicable rate. The amount of any AIL paid will be deducted from payments to the relevant Holder.
Documents	<p>LDD relating to the Offer of the Bonds dated 5 February 2024.</p> <p>The terms and conditions of the Bonds are set out in the Master Deed and Supplemental Deed. Holders are bound by, and are deemed to have notice of, the Master Deed and Supplemental Deed.</p> <p>If you require further information in relation to these documents, you may obtain a copy free of charge from the Offer Register at www.disclose-register.companiesoffice.govt.nz (offer number OFR13709).</p>
No Guarantee	The Bonds are not guaranteed by any member of the Group or any other person and SBS Bank is solely responsible for repayment of the Principal Amount of the Bonds (including interest thereon).
No Underwriting	The Offer is not underwritten.
Currency	The Bonds will be denominated in New Zealand dollars.
Governing Law	New Zealand.