

FITCH AFFIRMS RATINGS OF NEW ZEALAND'S SBS BANK

Fitch Ratings-Brisbane/Singapore-28 July 2009: Fitch Ratings has today affirmed New Zealand's Southland Building Society's (SBS Bank) Long-term foreign currency Issuer Default Rating (IDR) at 'BBB', Short-term foreign currency IDR at 'F2', Individual at 'C', Support Rating at '5', Support Rating Floor at 'NF', senior unsecured debt rating at 'BBB+' and subordinated notes at 'BBB-'. At the same time, the agency has assigned a Long-term local currency IDR of 'BBB' and a Short-term local currency IDR of 'F2'. The Outlook is Stable.

SBS Bank's ratings reflect its small size relative to NZ's larger banks, while recognising its robust risk management, strong liquidity and adequate capitalisation.

On 7 October 2008, Southland Building Society became a registered bank but retained its "mutual structure" (it is owned by its members who are holders of redeemable shares (deposit-like investments) or a mortgage advance). Fitch notes positively, the heightened governance, risk management and reporting practices that have accompanied the bank registration process.

SBS Bank's performance in the year ending 31 March 2009 (FYE09) was constrained by higher loan impairment charges due to deteriorating business conditions and rising unemployment in NZ. Loan growth was dampened by a conservative approach to lending and tighter credit controls, though operating profit remained stable at NZD22m due to strong non-interest income growth.

The loan portfolio is comprised mainly of residential mortgages, commercial and rural loans secured generally by property in the South Island of NZ. Although SBS Bank maintains a conservative approach to risk management, asset quality deteriorated further in FY09, with impaired loans representing 0.90% of gross loans (FYE08: 0.36%). Although this ratio is high compared with the average of 0.63% for the four major banks in NZ, the ratio comes off a low base and remains low by international standards.

SBS Bank is a predominantly retail-funded institution, with more than 90% of funding derived from retail sources. Although there is a level of concentration risk associated with a high reliance on retail funding, SBS Bank also has access to a residential mortgage securitisation facility which allows it to create additional liquidity, if required.

Excluding these mortgage-backed securities, that are eligible collateral for repurchase with the Reserve Bank of New Zealand, the ratio of liquid assets (including undrawn and committed bank funding lines) to total assets was a conservative 15.8% at FYE09 and was above the bank's internal target. Furthermore, Tier 1 capital accounted for 9.85% of risk-weighted assets (FYE08: 9.52%), which is above the average of 8.68% for NZ's four major banks at 31 March 2009.

SBS Bank is the only locally-owned mutual bank in NZ. Its activities are concentrated in the South Island, although it sourced around 20% of loans from the North Island at FYE09. It offers traditional retail banking products, and insurance and fund management products via subsidiaries.

Copies of Fitch's credit reports on SBS will be available shortly on the agency's subscription website, www.fitchresearch.com, or from the London Ratings Desk (Email: ratingsdesk@fitchratings.com/ Tel: +44 (0)20 7417 6300).

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