# TSB Bank
# Disclosure Statement

## for the three months ended
## 30 June 2011

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# Disclosure Statement

## For the Three Months Ended 30 June 2011

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This Disclosure Statement contains information as required by the Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order (No 2) 2011 ('the Order').

### 1. Name and Registered Office of Registered Bank

TSB Bank Limited is a registered bank (elsewhere in this statement referred to as the "Bank").
Registered Office: Level Five, TSB Centre, 120 Devon Street East, New Plymouth.

### 2. Corporate Information

The Bank was established in 1850, incorporated under the provisions of the Trustee Bank Restructuring Act 1988, and the Companies Act 1955 on 30 August 1988 and reregistered under the Companies Act 1993 in May 1997.

### 3. Ownership

TSB Community Trust, an independent body, owns all the shares in TSB Bank Limited, and is domiciled in New Zealand. TSB Community Trust appoints the Board of Directors. Address for Service is 64-66 Vivian Street, PO Box 667, New Plymouth.

### 4. Directorate

Colleen Bernadine Tuuta retired from the board with effect from 26 May 2011.

Marise Lynne James was appointed as a director on 26 May 2011.

There have been no other changes to Directors since the 31 March 2011 full year Disclosure Statement was signed.

### 5. Pending Proceedings or Arbitration

This Bank has no proceedings or arbitration pending in New Zealand or elsewhere which may have a material adverse effect on the Bank.

### 6. Credit Rating

TSB Bank Limited has a credit rating applicable to its long term senior unsecured obligations payable in New Zealand, in New Zealand dollars. The current rating is **BBB+/Stable/A2**. The credit rating was given by Standard & Poor's (Australia) Pty Limited and was reaffirmed on 9 November 2010.

Rating scale for long term senior unsecured obligations:

**AAA** Extremely strong capacity to pay interest and repay principal in a timely manner.

**AA** Very strong capacity to pay interest and repay principal in a timely manner.

**A** Strong capacity to pay interest and repay principal in a timely manner but may be more susceptible to adverse effects of changes in circumstances and economic conditions than higher rated entities.

**BBB** Adequate capacity to pay interest and repay principal in a timely manner but are more likely to be weakened by adverse changes in circumstances and economic conditions than higher rated entities.

**BB** A degree of speculation exists with respect to the ability of an entity with this credit rating to pay interest and repay principal in a timely manner. Adverse business, financial or economic conditions could impair the borrower's capacity or willingness to meet debt service commitments in a timely manner.

**B** Entities rated B are more vulnerable to adverse business, financial or economic conditions than entities in higher rated categories. Adverse business, financial or economic conditions will likely impair the borrower's capacity or willingness to meet debt service commitments in a timely manner.

**CCC** Entities rated CCC are currently vulnerable to default and are dependent on favourable business, financial or economic conditions to meet debt service commitments in a timely manner. In the event of adverse business, financial or economic conditions the entity is likely to default.

**CC** Entities rated CC are currently vulnerable to non-payment of interest and principal.

**C** Entities rated C have filed a bankruptcy petition or taken similar action, but payment of obligations are being continued.

**D** 'D' rated entities are in default. This is assigned when interest or principal payments are not made on the date due or when an insolvency petition or a request to appoint a receiver is filed.

Plus (+) or Minus (-). The ratings from 'AA' to 'CCC' may be modified by the addition of a plus or minus sign to show relative standing within the major rating categories.

### 7. Guarantee Arrangements

No material obligations of the Bank are guaranteed.

## 8. Conditions of Registration

On 1 July 2011 the following changes have been made to the Bank's Conditions of Registration:

- condition 4 refers to application of an updated version of BS8 "Connected exposure policy" dated June 2011; and section 11 increases the daily one-year core funding ratio to be not less than 70 per cent and refers to updated RBNZ document "Liquidity Policy" (BS13) dated March 2011.

## 9. Other Material Matters

On 22 February 2011 a significant earthquake struck the Canterbury region. The Bank has Loans and Advances to customers, a branch operation and employees in the region which have been impacted by the earthquake. To date there have been no individually impaired assets or significant past due assets (not impaired) resulting from the earthquake. The Collective Provision for Doubtful Debts has been reviewed following the February 2011 Christchurch Earthquake and the provision is considered sufficient.

## 10. Directors' Statement

The Directors believe, after due enquiry, that as at the date of this Disclosure Statement:

**a)** The Disclosure Statement contains all the information required by the Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order (No 2) 2011; and

**b)** The Disclosure Statement is not false or misleading.

The Directors believe, after due enquiry, that for the period ended 30 June 2011:

**a)** The Bank complies with the Conditions of Registration;

**b)** Credit Exposures to Connected Persons were not contrary to the interests of the Bank; and

**c)** The Bank has systems in place to monitor and control adequately the Bank's material risks, including credit risk, concentration of credit risk, interest rate risk, currency risk, equity risk, liquidity risk, operational risks and other business risks, and that these systems are being properly applied.

E. Gill
(Chair – Board of Directors)

B. C. Richards
(Deputy Chair)

M. L. James

J. J. Kelly

D. L. Lean

K. J. Murphy
Managing Director

D. E. Walter

H. P. W. Wano

17 August 2011

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# INCOME STATEMENT
## FOR THE THREE MONTHS ENDED 30 JUNE 2011

| | Note | 2011 30 June Unaudited $000 | 2010 30 June Unaudited $000 | 2011 31 March Audited $000 |
|---|---|---|---|---|
| Interest Income | 2 | 68,147 | 62,577 | 265,203 |
| Derivative Financial Instruments Income | 2 | 262 | 3,575 | 6,527 |
| Interest Expense | 2 | 44,306 | 42,280 | 179,052 |
| **Net Interest Income** | | **24,103** | **23,872** | **92,678** |
| Other Operating Income | 3 | 3,834 | 3,721 | 12,884 |
| **Net Operating Income** | | **27,937** | **27,593** | **105,562** |
| Operating Expenses | 4 | 10,588 | 9,061 | 41,999 |
| **Net Profit before Impairment Loss and Taxation** | | **17,349** | **18,532** | **63,563** |
| Impairment Losses | | 1,018 | 423 | 3,314 |
| **Net Profit before Taxation** | | **16,331** | **18,109** | **60,249** |
| Taxation | | 4,573 | 5,433 | 18,091 |
| Effect of Change in Tax Legislation | | - | 3,985 | 2,311 |
| **Net Profit after Taxation** | | **11,758** | **8,691** | **39,847** |

# STATEMENT OF COMPREHENSIVE INCOME
## FOR THE THREE MONTHS ENDED 30 JUNE 2011

| | Note | 2011 30 June Unaudited $000 | 2010 30 June Unaudited $000 | 2011 31 March Audited $000 |
|---|---|---|---|---|
| **Net Profit after Taxation** | | **11,758** | **8,691** | **39,847** |
| **Other Comprehensive Income:** | | | | |
| Effective portion of changes in fair value of cash flow hedges | 11 | 26 | 135 | 1,350 |
| Fair Value movements of cash flow hedges transferred to income statement | 11 | (262) | (3,575) | (6,527) |
| Income Tax on Other Comprehensive Income | 11 | 66 | 1,032 | 1,571 |
| **Other Comprehensive Income for the period** | | **(170)** | **(2,408)** | **(3,606)** |
| **Total Comprehensive Income for the period** | | **11,588** | **6,283** | **36,241** |

These interim financial statements are to be read in conjunction with the notes on pages 11 to 18.

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## STATEMENT OF CHANGES IN EQUITY
### FOR THE THREE MONTHS ENDED 30 JUNE 2011

| | Note | Share Capital $000 | Cash Flow Hedge Reserve $000 | Retained Earnings $000 | Total Equity $000 |
|---|---|---|---|---|---|
| **Balance at 1 April 2011** | | **10,000** | **640** | **347,676** | **358,316** |
| **Total Comprehensive Income for the period** | | | | | |
| Net Profit after Tax | | - | - | 11,758 | 11,758 |
| **Other Comprehensive Income:** | | | | | |
| Effective Portion of Changes in Fair Value (net of tax) | 11 | - | 19 | - | 19 |
| Fair Value Movements transferred to Income Statement (net of tax) | 11 | - | (189) | - | (189) |
| **Other Comprehensive Income for the period** | | **-** | **(170)** | **-** | **(170)** |
| **Total Comprehensive Income for the period** | | | **(170)** | **11,758** | **11,588** |
| **Transactions with owners, recorded directly in equity** | | | | | |
| Dividends to Equity Holders | | - | - | - | - |
| **Total Transactions with Owners** | | **-** | **-** | **-** | **-** |
| **Balance at 30 June 2011** | | **10,000** | **470** | **359,434** | **369,904** |

## STATEMENT OF CHANGES IN EQUITY
### FOR THE THREE MONTHS ENDED 30 JUNE 2010

| | Note | Share Capital $000 | Cash Flow Hedge Reserve $000 | Retained Earnings $000 | Total Equity $000 |
|---|---|---|---|---|---|
| **Balance at 1 April 2010** | | **10,000** | **4,246** | **316,879** | **331,125** |
| **Total Comprehensive Income for the period** | | | | | |
| Net Profit after Tax | | - | - | 6,283 | 6,283 |
| **Other Comprehensive Income:** | | | | | |
| Effective Portion of Changes in Fair Value (net of tax) | 16 | - | 94 | - | 94 |
| Fair Value Movements transferred to Income Statement (net of tax) | 16 | - | (2,502) | - | (2,502) |
| **Other Comprehensive Income for the period** | | **-** | **(2,408)** | **-** | **(2,408)** |
| **Total Comprehensive Income for the period** | | | **(2,408)** | **6,283** | **3,875** |
| **Transactions with owners, recorded directly in equity** | | | | | |
| Dividends to Equity Holders | | - | - | - | - |
| **Total Transactions with Owners** | | **-** | **-** | **-** | **-** |
| **Balance at 30 June 2010** | | **10,000** | **1,838** | **323,162** | **335,000** |

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# STATEMENT OF CHANGES IN EQUITY
## FOR YEAR ENDED 31 MARCH 2011

| | Note | Share Capital $000 | Cash Flow Hedge Reserve $000 | Retained Earnings $000 | Total Equity $000 |
|---|---|---|---|---|---|
| **Balance at 1 April 2010** | | **10,000** | **4,246** | **316,879** | **331,125** |
| **Total Comprehensive Income for the Year** | | | | | |
| Net Profit after Tax | | - | - | 39,847 | 39,847 |
| **Other Comprehensive Income:** | | | | | |
| Effective Portion of Changes in Fair Value (net of tax) | 16 | - | 945 | - | 945 |
| Fair Value Movements transferred to Income Statement (net of tax) | 16 | - | (4,551) | - | (4,551) |
| **Total Other Comprehensive Income** | | **-** | **(3,606)** | **-** | **(3,606)** |
| **Total Comprehensive Income for the Year** | | | **(3,606)** | **39,847** | **36,241** |
| **Transactions with owners, recorded directly in equity** | | | | | |
| Dividends to Equity Holders | | - | - | (9,050) | (9,050) |
| **Total Transactions with Owners** | | **-** | **-** | **(9,050)** | **(9,050)** |
| **Balance at 31 March 2011** | | **10,000** | **640** | **347,676** | **358,316** |

These interim financial statements are to be read in conjunction with the notes on pages 11 to 18.

# STATEMENT OF FINANCIAL POSITION
## AS AT 30 JUNE 2011

| | Note | 2011 30 June Unaudited $000 | 2010 30 June Unaudited $000 | 2011 31 March Audited $000 |
|---|---|---|---|---|
| **Assets** | | | | |
| Cash and Cash Equivalents | 5 | 71,128 | 47,461 | 86,170 |
| Derivative Financial Instruments | 6 | 920 | 5,227 | 1,065 |
| Investment Securities | 7 | 2,155,948 | 1,867,491 | 2,110,334 |
| Loans and Advances to Customers | 8 | 2,658,495 | 2,474,316 | 2,625,884 |
| Other Assets | | 3,358 | 1,612 | 2,964 |
| Deferred Tax Asset | | 4,823 | 2,110 | 4,738 |
| Property, Plant and Equipment | | 17,829 | 18,844 | 18,366 |
| Intangible Assets | | 391 | 446 | 431 |
| **Total Assets** | | **4,912,892** | **4,417,507** | **4,849,952** |
| | | | | |
| **Liabilities** | | | | |
| Deposits from Customers | 10 | 4,511,422 | 4,048,979 | 4,441,969 |
| Derivative Financial Instruments | 6 | 931 | 1,215 | 1,157 |
| Current Tax Liability | | 4,569 | 5,433 | 5,907 |
| Other Liabilities | | 26,066 | 24,472 | 42,603 |
| **Total Liabilities** | | **4,542,988** | **4,080,099** | **4,491,636** |
| | | | | |
| **Shareholder's Equity** | | | | |
| Share Capital | | 10,000 | 10,000 | 10,000 |
| Cash Flow Hedge Reserve | 11 | 470 | 1,838 | 640 |
| Retained Earnings | | 359,434 | 325,570 | 347,676 |
| **Total Shareholder's Equity** | | **369,904** | **337,408** | **358,316** |
| **Total Liabilities and Shareholder's Equity** | | **4,912,892** | **4,417,507** | **4,849,952** |
| | | | | |
| **Total Interest Earning and Discount Bearing Assets** | | **4,879,124** | **4,384,118** | **4,814,495** |
| **Total Interest and Discount Bearing Liabilities** | | **4,299,364** | **3,857,633** | **4,246,102** |

These interim financial statements are to be read in conjunction with the notes on pages 11 to 18.

# STATEMENT OF CASH FLOWS
## FOR THE THREE MONTHS ENDED 30 JUNE 2011

| | 2011 30 June Unaudited $000 | 2010 30 June Unaudited $000 | 2011 31 March Audited $000 |
|---|---|---|---|
| **Cash Flows from Operating Activities** | | | |
| Cash provided from (applied to): | | | |
| Interest Income Received | 69,089 | 66,181 | 268,353 |
| Other Income Received | 3,438 | 2,877 | 10,689 |
| Interest Paid | (34,897) | (30,656) | (173,677) |
| Operating Expenditure | (20,039) | (17,388) | (38,022) |
| Taxation Paid | (5,996) | (7,073) | (19,423) |
| **Cash Flows from Operating Profits before changes in Operating Assets and Liabilities** | **11,595** | **13,941** | **47,920** |
| **Changes in Operating Assets and Liabilities** | | | |
| Increase in Loans and Advances to Customers | (33,884) | (67,696) | (220,848) |
| Derivative Financial Instruments | (251) | 427 | 2,545 |
| Increase in Deposits from Customers | 60,043 | 13,471 | 412,710 |
| **Cash Flow from Operating Assets and Liabilities** | **25,908** | **(53,798)** | **194,407** |
| **Net Cash Flow from Operating Activities** | **37,503** | **(39,857)** | **242,327** |
| | | | |
| **Cash Flows from Investing Activities** | | | |
| Cash provided from (applied to): | | | |
| Property, Plant and Equipment Sold | - | - | - |
| Investment Securities | (46,038) | 2,252 | (237,283) |
| Property, Plant and Equipment Purchased | (33) | (647) | (1,800) |
| Intangible Assets Purchased | (24) | - | (187) |
| **Net Cash Flow from Investing Activities** | **(46,095)** | **1,605** | **(239,270)** |
| | | | |
| **Cash Flows from Financing Activities** | | | |
| Cash provided from (applied to): | | | |
| Dividends Paid | (6,450) | (8,350) | (10,950) |
| **Net Cash Flow from Financing Activities** | **(6,450)** | **(8,350)** | **(10,950)** |
| | | | |
| **Net Increase/(Decrease) in Cash and Cash Equivalents** | **(15,042)** | **(46,602)** | **(7,893)** |
| Add Cash and Cash Equivalents at Beginning of the Year | 86,170 | 94,063 | 94,063 |
| **Cash and Cash Equivalents at End of Period** | **71,128** | **47,461** | **86,170** |

These interim financial statements are to be read in conjunction with the notes on pages 11 to 18.

# STATEMENT OF CASH FLOWS (CONTINUED)
## FOR THE THREE MONTHS ENDED 30 JUNE 2011

| | 2011<br>30 June<br>Unaudited<br>$000 | 2010<br>30 June<br>Unaudited<br>$000 | 2011<br>31 March<br>Audited<br>$000 |
|---|---|---|---|
| **Reconciliation of Net Profit after Taxation To Net Cash Flows from Operating Activities** | | | |
| **Net Profit after Taxation** | **11,758** | **8,691** | **39,847** |
| **Add Movements in Balance Sheet Items** | | | |
| Accounts Payable | (677) | 2,694 | 8,125 |
| Provision for Tax | (1,338) | (1,640) | (3,476) |
| Deposits from Customers | 60,043 | 13,471 | 412,710 |
| Deferred Tax Asset | (84) | 3,985 | 2,144 |
| Accounts Receivable | 284 | (815) | (5,572) |
| Derivative Financial Instruments | (251) | 427 | 2,545 |
| Loans and Advances to Customers | (33,884) | (67,696) | (220,848) |
| | **24,093** | **(49,574)** | **195,628** |
| **Add Non- Cash Items** | | | |
| Depreciation | 570 | 546 | 2,177 |
| Effect of Change In Tax Legislation | - | - | 2,311 |
| Impairment Losses on Loans and Advances to Customers | 1,018 | 423 | 2,105 |
| Amortisation of Intangible Assets | 64 | 57 | 259 |
| | **1,652** | **1,026** | **6,852** |
| **Net Cash Flow from Operating Activities** | **37,503** | **(39,857)** | **242,327** |
| | | | |
| **Reconciliation of Cash and Cash Equivalents to the Statement of Financial Position** | | | |
| Cash and Balances with Reserve Bank | 67,182 | 43,502 | 82,442 |
| Cash and Cash at Bank | 3,946 | 3,959 | 3,728 |
| **Total Cash and Cash Equivalents at End of Period** | **71,128** | **47,461** | **86,170** |

These interim financial statements are to be read in conjunction with the notes on pages 11 to 18.

# NOTES TO THE INTERIM FINANCIAL STATEMENTS
## FOR THE THREE MONTHS ENDED 30 JUNE 2011

## 1. STATEMENT OF ACCOUNTING POLICIES

The financial statements of the Bank incorporated in this Disclosure Statement have been prepared in accordance with the requirements of NZ IAS 34 Interim Financial Reporting and should be read in conjunction with the 31 March 2011 Annual Report.

There have been no changes in accounting policies since the authorisation date of the previous Disclosure Statement on 26 May 2011.

Due to changes in disclosure requirements, certain comparative periods have been removed as they are no longer required. To ensure consistency with the current period, comparative figures have been restated where appropriate.

## 2. NET INTEREST INCOME

| | 2011 30 June Unaudited $000 | 2010 30 June Unaudited $000 | 2011 31 March Audited $000 |
|---|---|---|---|
| **Interest Income** | | | |
| Cash and Cash Equivalents | 397 | 336 | 1,816 |
| Investment Securities | 25,454 | 20,928 | 93,582 |
| Loans and Advances to Customers | 42,296 | 41,313 | 169,805 |
| **Total Interest Income** | **68,147** | **62,577** | **265,203** |
| **Derivative Financial Instrument Income** | | | |
| Derivative Financial Instrument Income | **262** | **3,575** | **6,527** |
| **Interest Expense** | | | |
| Deposits from Customers | **44,306** | **42,280** | **179,052** |
| Net Interest Income | **24,103** | **23,872** | **92,678** |

## 3. OTHER OPERATING INCOME

| | | | |
|---|---|---|---|
| Lending and Credit Facility Related Income | 1,056 | 806 | 3,291 |
| Commission and Other Trading Income * | 2,533 | 2,284 | 9,014 |
| Gain (Loss) in Fair Value on Derivatives | 214 | (191) | (378) |
| Other Income | 31 | 822 | 957 |
| | **3,834** | **3,721** | **12,884** |

*Includes income from TSB Realty and TSB Foreign Exchange.

## 4. OPERATING EXPENSES

| | | | |
|---|---|---|---|
| Auditors Remuneration | | | |
| Statutory Audit | 30 | 32 | 125 |
| Depreciation: | | | |
| Buildings | 280 | 250 | 1,018 |
| Computer Equipment | 90 | 92 | 374 |
| Other | 200 | 204 | 785 |
| Amortisation of Intangible Assets | 64 | 57 | 259 |
| Directors' Fees | 98 | 96 | 363 |
| Personnel Expenses | 3,884 | 3,547 | 16,583 |
| Defined Contribution Plan | 117 | 66 | 456 |
| Information Technology Expenses | 1,425 | 1,250 | 5,426 |
| Premises Occupancy | 511 | 472 | 2,062 |
| Marketing | 1,607 | 1,023 | 6,368 |
| Other Expenses | 2,282 | 2,019 | 8,180 |
| | **10,588** | **9,108** | **41,999** |

## 5. LIQUIDITY RISK

The Bank holds the following financial assets for the purpose of managing liquidity risk:
Other term securities held are available for liquidity should circumstances necessitate.

| | 2011<br>30 June<br>Unaudited<br>$000 | 2010<br>30 June<br>Unaudited<br>$000 | 2011<br>31 March<br>Audited<br>$000 |
|---|---|---|---|
| **Cash and Cash Equivalents** | | | |
| Cash and Cash at Bank | 3,946 | 3,959 | 3,728 |
| Cash and Balances with Reserve Bank | 67,182 | 43,502 | 82,442 |
| | **71,128** | **47,461** | **86,170** |
| **Registered Bank Term Investments** | **530,000** | **480,000** | **545,000** |
| **Total Core Liquid Assets** | **601,128** | **527,461** | **631,170** |

## 6. DERIVATIVE FINANCIAL INSTRUMENTS

The Bank uses Interest Rate Swaps to manage the interest rate exposure on identified fixed rate Loans and Investment Securities.

| | As at 30 June 2011 | | |
|---|---|---|---|
| | Notional Amount $000 | Fair Value Assets $000 | Fair Value Liabilities $000 |
| **Interest Rate Contracts – Swaps** | **24,500** | **-** | **931** |

| | As at 30 June 2010 | | |
|---|---|---|---|
| | Notional Amount $000 | Fair Value Assets $000 | Fair Value Liabilities $000 |
| **Interest Rate Contracts – Swaps** | **24,500** | **-** | **1,215** |

| | As at 31 March 2011 | | |
|---|---|---|---|
| | Notional Amount $000 | Fair Value Assets $000 | Fair Value Liabilities $000 |
| **Interest Rate Contracts – Swaps** | **24,500** | **-** | **1,157** |

**Cash Flow Hedges**

The Bank uses interest rate options to hedge the interest rate risk on interest bearing assets and liabilities. Interest Rate Options (CAPS and FLOORS) are used to hedge the forecasted interest cash flows affected by the rise and fall of interest rates.

| | As at 30 June 2011 | | |
|---|---|---|---|
| | Notional Amount $000 | Fair Value Assets $000 | Fair Value Liabilities $000 |
| **Interest Rate Contracts – Options** | **1,300,000** | **920** | **-** |

| | As at 30 June 2010 | | |
|---|---|---|---|
| | Notional Amount $000 | Fair Value Assets $000 | Fair Value Liabilities $000 |
| **Interest Rate Contracts – Options** | **1,700,000** | **5,227** | **-** |

| | As at 31 March 2011 | | |
|---|---|---|---|
| | Notional Amount $000 | Fair Value Assets $000 | Fair Value Liabilities $000 |
| **Interest Rate Contracts – Options** | **1,200,000** | **1,065** | **-** |

## 7. INVESTMENT SECURITIES

| | 2011 30 June Unaudited $000 | 2010 30 June Unaudited $000 | 2011 31 March Audited $000 |
|---|---|---|---|
| Local Authority Securities | 616,921 | 655,956 | 640,751 |
| Registered Bank Securities | 421,051 | 321,293 | 399,671 |
| Registered Bank Term Investments | 530,000 | 480,000 | 545,000 |
| Other Investments * | 587,976 | 410,242 | 524,912 |
| | **2,155,948** | **1,867,491** | **2,110,334** |

* Other Investments relate to investments in Utility Companies, SOE's and Commercial Paper and Bonds of an investment grade of New Zealand corporates.

## 8. LOANS AND ADVANCES TO CUSTOMERS

| | 2011 30 June Unaudited $000 | 2010 30 June Unaudited $000 | 2011 31 March Audited $000 |
|---|---|---|---|
| Residential Mortgages | 2,392,680 | 2,240,765 | 2,364,311 |
| Community | 6,013 | 3,820 | 4,873 |
| Commercial | 136,603 | 119,662 | 143,260 |
| Farming | 92,000 | 78,805 | 80,251 |
| Other * | 49,389 | 48,037 | 50,394 |
| **Total Gross Loans and Advances to Customers** | **2,676,685** | **2,491,089** | **2,643,089** |
| Less Provision for Doubtful Debts (see note 9(a)i) | (18,190) | (16,773) | (17,205) |
| **Total Loans and Advances to Customers** | **2,658,495** | **2,474,316** | **2,625,884** |

* Other is inclusive of other Retail Lending and Visa balances.

## 9. CREDIT RISK MANAGEMENT AND ASSET QUALITY

### (a) Credit Quality Information for Loans and Advances to Customers

### (i) End Period Balances

| As at 30 June 2011 Unaudited $000 | Residential Mortgage Loans | On Balance Sheet Corporate Exposures | Other On Balance Sheet Exposures | Total Credit Exposures |
|---|---|---|---|---|
| 90 day Past Due Assets Not Impaired | 7,705 | - | 14 | **7,719** |
| Individually Impaired Assets | 3,774 | 730 | - | **4,504** |
| Specific Provision for Doubtful Debts | 1,595 | 370 | - | **1,965** |
| Collective Provision for Doubtful Debts | 665 | 422 | 15,138 | **16,225** |
| Total Provision for Doubtful Debts | 2,260 | 792 | 15,138 | **18,190** |

### (ii) Charges to the Income Statement

| As at 30 June 2011 Unaudited $000 | Residential Mortgage Loans | On Balance Sheet Corporate Exposures | Other On Balance Sheet Exposures | Total Credit Exposures |
|---|---|---|---|---|
| Increase (Decrease) in Specific Provision for Doubtful Debts | 568 | 370 | - | **938** |
| Increase (Decrease) in Collective Provision for Doubtful Debts | 125 | - | - | **125** |
| Bad Debts Written Off | (99) | | 54 | **(45)** |
| Total Charges to the Income Statement | 594 | 370 | 54 | **1,018** |

## 9. CREDIT RISK MANAGEMENT AND ASSET QUALITY - continued

### (b) Concentrations of Credit Exposures to Individual Counterparties

The following disclosures show the number of individual counterparties (not being members of groups of closely related counterparties) or groups of closely related counterparties (excluding central government of any country with a long-term credit rating of A- or A3 or above, or its equivalent, or any bank with a long-term credit rating of A- or A3 or above, and connected persons), where the period end and peak end-of-day credit exposures equalled or exceeded 10% of the Banks equity as at balance date. The peak aggregate end of day credit exposures is the greater of actual credit exposures for the most recent quarter. The amount is then divided by Shareholder's Equity as at the end of the quarter. Credit exposures disclosed are based on actual exposures.

Note there are no bank counterparties with a long-term credit rating below A- or A3. The credit rating is applicable to an entity's long term senior unsecured obligations payable in New Zealand, in New Zealand dollars.

| | 30 June 2011 Unaudited | | | | 30 June 2010 Unaudited | | | |
|---|---|---|---|---|---|---|---|---|
| **Percentage of Shareholder's Equity** | **Number of Non Bank Counterparties** | | | | **Number of Non Bank Counterparties** | | | |
| | **"A" Rated** | **"B" Rated** | **Unrated** | **Total** | **"A" Rated** | **"B" Rated** | **Unrated** | **Total** |
| **As at Balance Date** | | | | | | | | |
| 11% - 15% | 2 | 3 | 1 | 6 | 5 | - | 1 | 6 |
| 16% - 20% | - | 1 | 1 | 2 | 1 | 1 | 2 | 4 |
| 21% - 25% | 1 | - | - | 1 | - | 1 | - | 1 |
| 26% - 30% | - | - | - | - | 1 | - | - | 1 |
| 46% - 50% | 1 | - | - | 1 | - | - | - | - |
| **Total** | **4** | **4** | **2** | **10** | **7** | **2** | **3** | **12** |
| | | | | | | | | |
| **Peak Exposure** | | | | | | | | |
| 11% - 15% | 2 | 2 | 2 | 6 | 6 | - | - | 6 |
| 16% - 20% | - | 2 | 1 | 3 | 1 | 1 | 2 | 4 |
| 21% - 25% | 1 | - | - | 1 | | 1 | 1 | 2 |
| 26% - 30% | - | - | - | - | 1 | - | - | 1 |
| 46% - 50% | 1 | - | - | 1 | - | - | - | - |
| **Total** | **4** | **4** | **3** | **11** | **8** | **2** | **3** | **13** |

| | Year Ended 31 March 2011 Audited | | | |
|---|---|---|---|---|
| **Percentage of Shareholder's Equity** | **Number of Non Bank Counterparties** | | | |
| | **"A" Rated** | **"B" Rated** | **Unrated** | **Total** |
| **As at Balance Date** | | | | |
| 11% - 15% | 1 | 2 | 2 | 5 |
| 16% - 20% | - | - | 1 | 1 |
| 21% - 25% | 1 | 1 | - | 2 |
| 46% - 50% | 1 | - | - | 1 |
| Total | **3** | **3** | **3** | **9** |
| | | | | |
| **Peak Exposure** | | | | |
| 11% - 15% | 2 | 2 | 2 | 6 |
| 16% - 20% | - | - | 1 | 1 |
| 21% - 25% | 1 | 1 | - | 2 |
| 46% - 50% | 1 | - | - | 1 |
| Total | **4** | **3** | **3** | **10** |

Note:
"A" Rated - those counterparties that have a long-term credit rating of A- or A3 or above, or its equivalent.
"B" Rated – those counterparties that have a long-term credit rating of at least BBB- or Baa3, or its equivalent, and at most
BBB+ or Baa1, or its equivalent.
Unrated – those counterparties that do not have a long-term credit rating. For 30 June 2011 these relate to Local Authorities and Utilities.

## 10. DEPOSITS FROM CUSTOMERS

| | 2011 30 June Unaudited $000 | 2010 30 June Unaudited $000 | 2011 31 March Audited $000 |
|---|---|---|---|
| Retail Term Deposits | 2,206,148 | 1,948,440 | 2,141,652 |
| On Call Deposits Bearing Interest | 2,076,797 | 1,948,085 | 2,083,248 |
| On Call Deposits Not Bearing Interest | 179,048 | 152,454 | 172,267 |
| Wholesale Deposits | 49,429 | - | 44,802 |
| | **4,511,422** | **4,048,979** | **4,441,969** |

All creditors and depositors are ranked equally and have equal priority to any creditor claims.

## 11. CASH FLOW HEDGE RESERVE

| | 2011 30 June Unaudited $000 | 2010 30 June Unaudited $000 | 2011 31 March Audited $000 |
|---|---|---|---|
| Opening Balance | 640 | 4,246 | 4,246 |
| Effective Portion of Changes in Fair Value | 26 | 135 | 1,350 |
| Fair Value Movements Transferred to Income Statement | (262) | (3,575) | (6,527) |
| Deferred Income Tax | 66 | 1,032 | 1,571 |
| Balance at End of Period | **470** | **1,838** | **640** |

## 12. CAPITAL ADEQUACY

### (i) Capital Management Policies

The Bank is subject to regulation by the RBNZ. The RBNZ has set minimum regulatory capital requirements for banks that are consistent with the internationally agreed framework developed by the Basel Committee on Banking Supervision. These requirements define what is acceptable as capital and provide for methods of measuring the risks incurred by the Bank. The Bank must comply with RBNZ minimum capital adequacy ratios under its Conditions of Registration.

The Board of Directors has ultimate responsibility for capital adequacy, and approves capital policy and minimum capital levels and limits. These are typically at a higher level than required by the Regulator to reduce the risk of breaching conditions of registration. The Bank monitors its capital adequacy and reports this on a regular basis to the Board.

The Capital Adequacy tables set out on the following pages summarise the composition of regulatory capital and the capital adequacy ratios for the Bank for the period ended 30 June 2011. During the period the Bank complied with all RBNZ capital requirements to which it is subject. No changes have been made to the Board approved levels of regulatory capital to be held during the period.

**Basel II**

The Basel Committee has issued a revised framework for the calculation of capital adequacy for banks, commonly known as Basel II. The Bank has adopted the "Standardised Approach" as per BS2A to calculate regulatory capital requirements under Basel II.

Pillar 2 of Basel II is intended to ensure that banks have adequate capital to support all risks in their business, and includes the requirement on banks to have an "Internal Capital Adequacy Assessment Process (ICAAP)" for assessing their overall capital adequacy in relation to risk profile and a strategy for maintaining adequate capital to support risk. The Bank's ICAAP has identified other areas of risk not covered by Pillar I (credit risk, market risk, and operational risk) and assigned a level of capital to them. These risks include but are not limited to strategic risk, reputational risk, environmental risk, liquidity risk, and ownership structure. The Bank has made an internal capital allocation of $137m to cover these identified risks.

## 12. CAPITAL ADEQUACY - continued

Total Capital Adequacy Ratios for the Bank as at 30 June 2011 are:

| | 2011 30 June Unaudited | 2010 30 June Unaudited | 2011 31 March Audited |
|---|---|---|---|
| Tier One | 15.64% | 15.76% | 15.78% |
| Total Capital | 16.16% | 16.18% | 15.78% |

**(ii) Qualifying Capital**

| | | | |
|---|---|---|---|
| **Tier One Capital** | | | |
| Issued and fully paid up Share Capital | 10,000 | 10,000 | 10,000 |
| Retained Earnings | 347,676 | 316,879 | 316,879 |
| Current period's Audited Retained Earnings | - | - | 30,797 |
| **Less Deductions from Tier One Capital** | | | |
| Intangible Assets | (391) | (446) | (431) |
| **Total Tier One Capital** | **357,285** | **326,433** | **357,245** |
| **Upper Tier Two Capital** | | | |
| Unaudited Current Retained Earnings | 11,758 | 8,691 | - |
| **Lower Tier Two Capital** | **-** | **-** | **-** |
| **Total Tier Two Capital** | **11,758** | **8,691** | **-** |
| **Total Capital** | **369,043** | **335,124** | **357,245** |

**(iii) Total Risk Weighted Exposures – June 2011**

| | Total Exposure after credit risk mitigation Jun-11 Unaudited $000 | Risk Weight | Risk Weight Exposure Jun-11 Unaudited $000 | Minimum Pillar One Capital Requirement Jun-11 Unaudited $000 |
|---|---|---|---|---|
| **On Balance Sheet Exposures** | | | | |
| Cash | 3,946 | 0% | - | - |
| Reserve Bank of New Zealand | 67,182 | 0% | - | - |
| Public Sector Entities | 655,961 | 20% | 131,192 | 10,495 |
| Banks | 947,546 | 20% | 189,509 | 15,161 |
| Banks | 3,505 | 50% | 1,753 | 140 |
| Corporate | 75,500 | 20% | 15,100 | 1,208 |
| Corporate | 159,059 | 50% | 79,530 | 6,362 |
| Corporate | 270,181 | 100% | 270,181 | 21,614 |
| Residential Bonds | 27,533 | 35% | 9,636 | 771 |
| Residential Mortgages <80% LVR | 1,927,125 | 35% | 674,494 | 53,960 |
| Residential Mortgages 80%<90% LVR | 173,461 | 50% | 86,730 | 6,939 |
| Residential Mortgages Welcome Home Loans | 250,765 | 50% | 125,382 | 10,031 |
| Residential Mortgages 90%<100% LVR | 29,106 | 75% | 21,830 | 1,746 |
| Past Due Residential Mortgages | 12,223 | 100% | 12,223 | 978 |
| Other Assets | 308,347 | 100% | 308,347 | 24,668 |
| Non-Risk Weighted Assets | 1,452 | 0% | - | - |
| **Total On Balance Sheet Exposures** | **4,912,892** | | **1,925,907** | **154,073** |

## 12. CAPITAL ADEQUACY - continued

| | Total Exposure | Credit Conversion Factor | Credit Equivalent Amount | Average Risk Weight | Risk Weighted Exposure | Minimum Pillar One Capital Requirement |
|---|---|---|---|---|---|---|
| | June-11 Unaudited $000 | | June-11 Unaudited $000 | | June-11 Unaudited $000 | June-11 Unaudited $000 |
| **Off Balance Sheet Exposure** | | | | | | |
| Revolving Credit Facility | 20,500 | 50% | 10,250 | 20% | 2,050 | 164 |
| Commitments where original maturity is more than one year | 243,116 | 50% | 121,558 | 35% | 42,545 | 3,403 |
| Is less than one year | 104,384 | 20% | 20,877 | 100% | 20,877 | 1,670 |
| **Market Related Contracts** | | | | | | |
| Interest Rate Contracts* | 1,324,500 | N/A | 5,420 | 20% | 1,084 | 87 |
| **Sub Totals** | **1,692,500** | | **158,105** | | **66,556** | **5,324** |

* The credit equivalent amount for market related contracts (which are all interest rate contracts) were calculated using the current exposure method.

| Operational Risk and Market Risk Analysis | Implied Risk Weighted Exposure | Capital Requirement |
|---|---|---|
| Operational Risk | 274,429 | 21,954 |
| Market Risk | 17,092 | 1,368 |
| **Sub Total** | **291,521** | **23,322** |

| Total Capital Requirements | Total Exposure after credit risk mitigation | Risk Weighted exposure or Implied RWE | Capital Requirement |
|---|---|---|---|
| Total credit risk plus equity | 5,070,997 | 1,992,463 | 159,397 |
| Operational Risk | N/A | 274,429 | 21,954 |
| Market Risk | N/A | 17,092 | 1,368 |
| **Total** | | **2,283,984** | **182,719** |

**Residential Mortgages by Loan-to-Valuation Ratio**

| LVR Range | 0%-80% | 80% -90% | Over 90% | Total |
|---|---|---|---|---|
| On Balance Sheet Exposures | 1,936,221 | 175,316 | 281,143 | 2,392,680 |
| Off Balance Sheet Exposures | 232,303 | 8,073 | 2,740 | 243,116 |
| **Total Value of Exposures** | **2,168,524** | **183,389** | **283,883** | **2,635,796** |

| | | Implied Risk Weighted Exposure | Aggregate Capital Charge | Aggregate Capital Charge as % of Banks Equity | Banks Equity |
|---|---|---|---|---|---|
| **Market Risk** | | | | | |
| End of Period capital charges | Interest Risk | 17,093 | 1,367 | 0.37% | 369,043 |
| Peak end of day capital charges | Interest Risk | 52,626 | 4,210 | 1.14% | 369,043 |

In accordance with clause 9 of Schedule 9 of the Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order 2011, peak end-of-day aggregate capital charge and peak end-of-day aggregate capital charge as a percentage of the Bank's Equity at the end of the period, is derived by following the risk methodology for measuring capital requirements within Part 10 of – Capital Adequacy Framework (Standardised Approach) (BS2A).

## 13. SECURITISATION, FUNDS MANAGEMENT, OTHER FIDUCIARY ACTIVITIES AND THE MARKETING AND DISTRIBUTING OF INSURANCE PRODUCTS

The Bank has no involvement with any Securitisation, Custodial, Funds Management or other Fiduciary activities. The Bank does not conduct any insurance business, however general and life insurance products are marketed through the Bank's branch network. These have been provided on arms length terms and conditions and at fair value. The Bank provides no funding to the entities on whose behalf the insurance products are marketed. External third party insurance companies underwrite these, and the Bank has no financial association with them.

TSB Bank Limited is the manager and promoter of the TSB Bank PIE Unit Trust, and the New Zealand Guardian Trust Company Limited is the trustee. Units in the Fund do not directly represent deposits or other liabilities of TSB Bank. However, the Trust Deed stipulates that 100% of the TSB Bank PIE Unit Trust is invested exclusively in TSB Bank debt securities. As at 30 June 2011, the TSB Bank PIE Unit Trust had $70.8m (30 June 2010, $81.7m) invested with the Bank.

## 14. REPORTING BY SEGMENT

The Bank operates as one segment, in the business of Retail Banking in New Zealand, as defined by NZ IFRS-8 Operating Segments. On this basis no detailed segment information is presented as this would merely repeat the information provided in the primary financial statements.

| | 30 June 2011 Unaudited $000 | 30 June 2010 Unaudited $000 | 31 March 2011 Audited $000 |
|---|---|---|---|
| **15. COMMITMENTS AND CONTINGENT LIABILITIES** | | | |
| Commitments approved to advance less than one year | 104,384 | 105,465 | 103,101 |
| Commitments approved to advance greater than one year | 263,616 | 247,425 | 252,538 |
| Capital Commitments | - | - | - |
| | **368,000** | **352,890** | **355,639** |

There are no material contingent liabilities and outstanding claims known by the Directors as at 30 June 2011 that would impact on the financial statements.

## 16. RELATED PARTY TRANSACTIONS AND BALANCES

The Bank is wholly owned by the TSB Community Trust. During the period the Trust operated normal bank account facilities which were on normal customer terms and conditions. As at 30 June 2011 the Trust had $14.221m invested with the Bank at market rates, with interest accrued of $0.198m. The Trust was also paid a final 2011 dividend of $6.450m that was accrued at 31 March 2011.

## 17. RISK MANAGEMENT POLICIES

The Bank is committed to the management of risk and has management structures and information systems to manage individual risks. The Board of Directors has overall responsibility for the establishment and oversight of the Bank's risk management framework. There have been no material changes to the above policies since publication of the previous Disclosure Statement.

## 18. SUBSEQUENT EVENTS

There have been no material events requiring adjustment to these financial statements.

# DIRECTORY

## Directors

E. (Elaine) Gill, ONZM, J.P, LLB, Chair
B.C. (Bruce) Richards, MNZM, B Com, CA, CMA, Deputy Chair
M.L. (Marise) James, CA
J.J. (John) Kelly
D.L. (David) Lean, QSO, J.P
K.J. (Kevin) Murphy, J.P, CA, Managing Director/CEO
D.E. (David) Walter, QSO, J.P
H.P.W. (Hayden) Wano

## Executive Management

K.J. (Kevin) Murphy, J.P, CA, Managing Director/CEO
C.L. (Charles) Duke, Deputy Chief Executive
R.G. (Roddy) Bennett, B. Sci, ACA, Chief Financial Officer
R. (Rod) Grant, National Business Manager - Marketing
R. (Rod) Main, National Business Manager - Operations
M.D. (Marie) Collins, Manager Technology Services
L.D. (Linda) Burczynski, Dipl. Mgmt, Manager Human Resources
P.D. (Phil) Gerrard, AAIBS, Manager Lending Services

## Registered Office

Level 5, TSB Centre, 120 Devon St East, New Plymouth

## Principal Solicitors to the Company

Auld Brewer Mazengarb & McEwen
9 Vivian Street, New Plymouth

## Auditor

KPMG
10 Customhouse Quay, Wellington

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