

# **TSB Bank**

# **General Short Form**

# **Disclosure Statement**

**For the Period Ended**  
**31 December 2007**

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# General Short Form Disclosure Statement

## For the Nine Months Ended 31 December 2007

This General Short Form Disclosure Statement contains information as required by the Registered Bank Disclosure Statement (Off Quarter - New Zealand Incorporated Registered Banks) Order 2007 ('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. DETAILS OF INCORPORATION

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

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

### 4. GUARANTEE ARRANGEMENTS

No material obligations of the Bank are guaranteed.

### 5. DIRECTORATE

All Directors of the Bank reside in New Zealand

E. (Elaine) Gill, ONZM, LLB  
(Chair – Board of Directors)  
Company Director

B.C. (Bruce) Richards, MNZM, B Com, CA, C.M.A.  
(Deputy Chair)  
Chartered Accountant

P.K. (Kemp) Broughton B.E, FIPENZ, J.P  
Company Director

D.L. (David) Lean Q.S.O., J.P  
Company Director

M.M. (Maeve) McCarthy, LLB  
Solicitor

K.W. (Kevin) Rimmington, J.P  
TSB Bank Managing Director/CEO

C. (Colleen) Tuuta  
Company Director

D.E (David) Walter, Q.S.O., J.P  
Company Director

There have been no transactions between the Bank and any Director or immediate relative or close business associate of any Director which either, has been entered into on terms other than those which would in the ordinary course of business of the Bank be given to any other person of the like circumstances or means or, which could be reasonably likely to influence materially the exercise of the Director's duties. Independent Directors are E Gill, B C Richards, D L Lean, M M McCarthy and D E Walter.

The Address to which any communication to the Directors may be sent is:-  
TSB Bank Limited  
PO Box 240  
New Plymouth

### 6. AUDITOR

Deloitte.  
80 London Street  
Hamilton

### 7. POLICY ON DIRECTORS CONFLICTS OF INTEREST

As per Clause 22 of the Constitution of the TSB Bank Ltd a Director who is in any way, whether directly or indirectly interested in a contract or proposed contract with the company shall declare the nature of his or her interest at a meeting of the Directors in accordance with section 140 of the Companies Act 1993 as amended, but failure to do so shall not disqualify the Director or invalidate the contract or proposed contract or render him or her liable to account. A general notice by a Director that he or she is a member of a specific firm or company and is to be regarded as interested in all transactions with that firm or company shall be sufficient disclosure under this Clause as regards such Director and any such transaction and after such general notice it shall not be necessary for such Director to give a special notice relating to any particular transaction with that firm or company. All declarations and notices given by Directors pursuant to this Clause shall be recorded in the minutes.

# General Short Form Disclosure Statement

## For the Nine Months Ended 31 December 2007

### 8. CONDITIONS OF REGISTRATION

A copy of the 'Conditions of Registration' is included in this General Short Form Disclosure Statement, dated as from 30 March 2007.

### 9. PENDING PROCEEDINGS OR ARBITRATION

In November 2006, the New Zealand Commerce Commission filed civil proceedings against a number of financial institutions, including the Bank, for alleged breaches of the Commerce Act 1986 relating to interchange fees. Seven major retailers have lodged a claim in the High Court seeking damages for anti-competitive behaviour over the charging by credit card companies and banks of interchange fees on transactions. As at the date of signing, the possible liability the Bank may face cannot be reliably measured.

In addition to the above, the Bank has received notification that the Commerce Commission is conducting an investigation into the level of default fees charged to individual card holders by the major credit card issuers in New Zealand. It is alleged that these default fees, including late payment fees and/or dishonour fees, may be unreasonable under section 41 of the Credit Contracts and Consumer Finance (CCCF) Act 2003. As at the date of signing, the possible liability the Bank may face cannot be reliably measured.

The Bank has also received further notification from the Commerce Commission that it is conducting an investigation into the fee charged and received by major credit card issuers to individual card holders in New Zealand when a credit card is used in overseas currency transactions. This "Overseas Transaction Fee" (OTF) may be a credit fee under the CCCF Act 2003, and may be unreasonable under section 41 of the CCCF Act 2003 when it is calculated at a certain percentage of the transaction value. As at the date of signing, the possible liability the Bank may face cannot be reliably measured.

### 10. 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 credit rating was given by Standard & Poor's (Australia) Pty Limited. The current rating is BBB and the outlook has changed to positive from stable on 11 September 2007. The current rating is BBB/positive/A2. The rating is not subject to any qualifications.

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.

# General Short Form Disclosure Statement

## For the Nine Months Ended 31 December 2007

### 11. FINANCIAL AND SUPPLEMENTARY DISCLOSURES

This General Short Form Disclosure Statement is inclusive of the Bank's unaudited interim financial statements for the nine months ended 31 December 2007. All necessary additional financial and supplementary disclosures are included in the notes attached to the interim financial statements.

### 12. DIRECTORS' STATEMENT

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

- a) The Short Form Disclosure Statement contains all the information required by the Registered Bank Disclosure Statement (Off Quarter - New Zealand Incorporated Registered Banks) Order 2007:
- b) The Short Form Disclosure Statement is not false or misleading.

The Directors believe, after due enquiry, that for the period ended 31 December 2007:

- a) The Bank complies with the Conditions of Registration;
- b) There are no Credit Exposures to Connected Persons; 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 and other business risks, and that these systems are being properly applied.



E. Gill  
(Chair - Board of Directors)



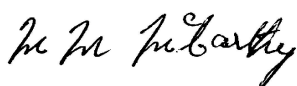
B. C. Richards  
(Deputy Chair)



P. K. Broughton



D. L. Lean



M. M. McCarthy



K. W. Rimmington  
(Managing Director/CEO)



C. Tuuta



D. E. Walter

28 February 2008

## CONDITIONS OF REGISTRATION

The registration of TSB Bank Limited ('the Bank') as a registered bank is subject to the following conditions:

1. That the Bank Group complies with the following requirements:

**Capital** of the Banking Group is not less than 8 percent of **risk weighted exposures**.

**Tier one capital** of the Banking Group is not less than 4 percent of **risk weighted exposures**.

**Capital** of the Banking Group is not less than NZ \$15 million.

For the purposes of this condition of registration, **capital**, **tier one capital** and **risk weighted exposures** shall be calculated in accordance with the Reserve Bank of New Zealand document entitled "Capital Adequacy Framework" (BS2) dated March 2007.

2. That the Banking Group does not conduct any non-financial activities that in aggregate are material relative to its total activities, where the term material is based on generally accepted accounting practice, as defined in the Financial Reporting Act 1993.
3. That the Banking Group's insurance business is not greater than 1% of its total consolidated assets. For the purposes of this condition:
- (i) Insurance business means any business of the nature referred to in section 4 of the Insurance Companies (Ratings and Inspection) Act 1994 (including those to which the Act is disapplied by sections 4(1)(a) and (b) and 9 of that Act), or any business of the nature referred to in section 3(1) of the Life Insurance Act 1908;
- (ii) In measuring the size of the Banking Group's insurance business:
- (a) where insurance business is conducted by any entity whose business predominantly consists of insurance business, the size of that insurance business shall be:
- the total consolidated assets of the group headed by that entity;
  - or if the entity is a subsidiary of another entity whose business predominantly consists of insurance business, the total consolidated assets of the group headed by the latter entity;
- (b) otherwise, the size of each insurance business conducted by an entity within the banking group shall equal the total liabilities relating to that insurance business, plus the equity retained by the entity to meet the solvency or financial soundness needs of the insurance business;
- (c) the amounts measured in relation to parts (a) and (b) shall be summed and compared to the total consolidated assets of the Banking Group. All amounts in parts (a) and (b) shall relate to on balance sheet items only, and shall be determined in accordance with generally accepted accounting practice, as defined in the Financial Reporting Act 1993;
- (d) where products or assets of which an insurance business is comprised also contain a non-insurance component, the whole of such products or assets shall be considered part of the insurance business.
4. That aggregate **credit exposures** (of a non-capital nature and net of specific provisions) of the Banking Group to all **connected persons** does not exceed the rating-contingent limit outlined in the following matrix:

Credit rating	Connected exposure limit (% of the Banking Group's Tier 1 capital)
AA/Aa2 and above	75
AA-/Aa3	70
A+/A1	60
A/A2	40
A-/A3	30
BBB+/Baa1 and below	15

Within the rating-contingent limit, credit exposures (of a non-capital nature and net of specific provisions) to non-bank connected persons shall not exceed 15 percent of the Banking Group's Tier 1 Capital.

For the purposes of this registration, compliance with the rating-contingent connected exposure limit is determined in accordance with Reserve Bank of New Zealand document entitled "Connected Exposure Policy" (BS8) dated March 2007.

5. That exposures to connected persons are not on more favourable terms (eg as relates to such matters as credit assessment, tenor, interest rates, amortisation schedules and requirement for collateral) than corresponding exposures to non-connected persons.

## CONDITIONS OF REGISTRATION

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6. That the Board of the Registered Bank contains at least two independent Directors. In this context an independent Director is a Director who is not an employee of the Registered Bank, and who is not a director, trustee or employee of any holding company of the Registered Bank, or any other entity capable of controlling or significantly influencing the Registered Bank.
  7. That the chairperson of the Bank's board is not an employee of the Registered Bank.
  8. That the Bank's constitution does not include any provision permitting a director, when exercising powers or performing duties as a Director, to act other than in what he or she believes is the best interest of the company (ie the Bank).
  9. That no appointment of any Director, Chief Executive Officer, or Executive who reports or is accountable directly to the Chief Executive Officer, shall be made in respect of the Bank unless:
    - (i) The Reserve Bank has been supplied with a copy of the curriculum vitae of the proposed appointee; and
    - (ii) The Reserve Bank has advised that it has no objection to that appointment
  10. That a substantial proportion of the Bank's business is conducted in and from New Zealand.

For the purposes of these conditions of registration, the term "Banking Group" means TSB Bank Limited's financial reporting group (as defined in section 2(1) of the Financial Reporting Act 1993).

## INCOME STATEMENT

### FOR THE NINE MONTHS ENDED 31 DECEMBER 2007

	Note	31 December 2007 Unaudited \$000	31 December 2006 Unaudited \$000	31 March 2007 Unaudited \$000
Interest Income	2	187,469	162,189	218,014
Interest Expense	3	121,433	103,169	139,047
<b>Net Interest Income</b>		<b>66,036</b>	<b>59,020</b>	<b>78,967</b>
Other Operating Income Received	4	10,292	8,629	11,470
<b>Net Operating Income</b>		<b>76,328</b>	<b>67,649</b>	<b>90,437</b>
Operating Expenses	5	29,618	27,708	38,182
<b>Net Profit before Taxation</b>		<b>46,710</b>	<b>39,941</b>	<b>52,255</b>
Taxation	6	15,414	13,181	17,253
<b>Net Profit after Taxation</b>		<b>31,296</b>	<b>26,760</b>	<b>35,002</b>

## STATEMENT OF RECOGNISED INCOME AND EXPENSE

### FOR THE NINE MONTHS ENDED 31 DECEMBER 2007

	31 December 2007 Unaudited \$000	31 December 2006 Unaudited \$000	31 March 2007 Unaudited \$000
Items Recognised Directly in Equity	-	-	-
<b>Net Income Recognised Directly in Equity</b>	<b>-</b>	<b>-</b>	<b>-</b>
Net Profit after Taxation	31,296	26,760	35,002
<b>Total Recognised Income and Expense for the period</b>	<b>31,296</b>	<b>26,760</b>	<b>35,002</b>

These interim financial statements are to be read in conjunction with the notes on pages 10 to 34.

## BALANCE SHEET

### AS AT 31 DECEMBER 2007

	Note	31 December 2007 Unaudited \$000	31 December 2006 Unaudited \$000	31 March 2007 Unaudited \$000
<b>Assets</b>				
Cash and Cash Equivalents	7	67,193	71,454	15,988
Derivative Financial Instruments	8	3,240	1,106	1,399
Investment Securities	9	979,514	935,330	902,894
Loans and Advances to Customers	10	2,027,523	1,820,205	1,916,026
Other Assets	11	12,824	11,813	11,595
Current Tax Asset		-	-	48
Deferred Tax Asset	14	4,930	4,451	4,930
Property, Plant and Equipment	15	16,938	12,864	14,132
Intangible Assets	16	918	1,072	1,064
<b>Total Assets</b>		<b>3,113,080</b>	<b>2,858,295</b>	<b>2,868,076</b>
<b>Liabilities</b>				
Deposits from Customers	17	2,766,559	2,564,182	2,592,432
Current Tax Liability		2,255	1,365	-
Other Liabilities	18	92,831	72,766	53,015
<b>Total Liabilities</b>		<b>2,861,645</b>	<b>2,638,313</b>	<b>2,645,447</b>
<b>Shareholder's Equity</b>				
Share Capital	19	10,000	10,000	10,000
Retained Earnings	19	241,435	209,982	212,629
<b>Total Shareholder's Equity</b>		<b>251,435</b>	<b>219,982</b>	<b>222,629</b>
<b>Total Liabilities and Shareholder's Equity</b>		<b>3,113,080</b>	<b>2,858,295</b>	<b>2,868,076</b>
<b>Total Interest Earning and Discount Bearing Assets</b>		<b>3,073,971</b>	<b>2,831,107</b>	<b>2,841,100</b>
<b>Total Interest and Discount Bearing Liabilities</b>		<b>2,628,327</b>	<b>2,441,945</b>	<b>2,455,721</b>

These interim financial statements are to be read in conjunction with the notes on pages 10 to 34.

## STATEMENT OF CASH FLOWS

### FOR THE NINE MONTHS ENDED 31 DECEMBER 2007

	31 December 2007 Unaudited \$000	31 December 2006 Unaudited \$000	31 March 2007 Unaudited \$000
<b>Cash Flows from Operating Activities</b>			
Cash provided from (applied to):			
Net Increase in Deposits from Customers	174,127	203,998	232,248
Interest Income Received	185,908	156,543	212,903
Other Income Received	9,025	11,171	13,622
Interest Paid	(67,303)	(58,891)	(134,461)
Operating Expenditure	(35,996)	(35,446)	(30,533)
Derivative Financial Instruments	(242)	(330)	(550)
Taxation Paid	(13,111)	(11,424)	(17,388)
<b>Net Cash Flow from Operating Activities</b>	<b>252,408</b>	<b>265,621</b>	<b>275,841</b>
<b>Cash Flows from Investing Activities</b>			
Cash provided from (applied to):			
Property, Plant and Equipment Sold	44	9	47
Net Increase in Investment Securities *	(76,620)	(85,296)	(52,860)
Net Increase in Loans and Advances to Customers	(112,247)	(130,732)	(227,303)
Property, Plant and Equipment Purchased	(4,250)	(1,632)	(3,241)
Intangible Assets Purchased	(45)	(31)	(11)
<b>Net Cash Flow from Investing Activities</b>	<b>(193,118)</b>	<b>(217,682)</b>	<b>(283,368)</b>
<b>Cash Flows from Financing Activities</b>			
Cash provided from (applied to):			
Dividends Paid	(8,085)	(7,180)	(7,180)
<b>Net Cash Flow from Financing Activities</b>	<b>(8,085)</b>	<b>(7,180)</b>	<b>(7,180)</b>
<b>Net Increase/(Decrease) in Cash and Cash Equivalents</b>	<b>51,205</b>	<b>40,759</b>	<b>(14,707)</b>
Add Cash and Cash Equivalents at Beginning of Year	15,988	30,695	30,695
<b>Cash and Cash Equivalents at End of Period</b>	<b>67,193</b>	<b>71,454</b>	<b>15,988</b>

\* Cash flows associated with Investment Securities have been netted because these are designated as held to maturity.

These interim financial statements are to be read in conjunction with the notes on pages 10 to 34.

**STATEMENT OF CASH FLOWS (CONTINUED)**  
**FOR THE NINE MONTHS ENDED 31 DECEMBER 2007**

	31 December 2007 Unaudited \$000	31 December 2006 Unaudited \$000	31 March 2007 Unaudited \$000
<b>Reconciliation of Net Profit after Taxation To Net Cash Flows from Operating Activities</b>			
Net Profit after Taxation	31,296	26,760	35,002
Add Movements in Balance Sheet Items			
Change in Accounts Payable	(8,719)	(10,587)	3,759
Change in Accrued Interest Payable	54,130	44,278	4,586
Change in Provision for Tax	2,303	1,757	344
Change in Deposits from Customers	174,127	203,998	232,248
Change in Deferred Tax Asset	-	-	(479)
Change in Accounts Receivable	332	2,542	2,406
Change in Derivative Financial Instruments	(1,841)	(511)	(804)
Change in Accrued Interest Receivable	(1,561)	(5,465)	(5,111)
	<b>218,771</b>	<b>236,012</b>	<b>236,949</b>
Add Non- Cash Items			
Depreciation	1,400	1,368	1,652
Impairment Losses on Advances to Customers	750	750	1,500
Amortisation of Intangible Assets	191	731	738
	<b>2,341</b>	<b>2,849</b>	<b>3,890</b>
<b>Net Cash Flow from Operating Activities</b>	<b>252,408</b>	<b>265,621</b>	<b>275,841</b>
<b>Reconciliation of Cash and Cash Equivalents to the Balance Sheet</b>			
Cash and Balances with Central Bank	56,684	66,807	12,660
Cash and Cash at Bank	10,509	4,647	3,328
Call Deposits Due from Other Banks	-	-	-
<b>Total Cash and Cash Equivalents at End of Period</b>	<b>67,193</b>	<b>71,454</b>	<b>15,988</b>

These interim financial statements are to be read in conjunction with the notes on pages 10 to 34.

## NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE NINE MONTHS ENDED 31 DECEMBER 2007

### 1. STATEMENT OF ACCOUNTING POLICIES

#### GENERAL ACCOUNTING POLICIES

TSB Bank Limited is a profit-oriented company registered under the Companies Act 1993 and incorporated in New Zealand. The Bank's principal business activities are retail banking in New Zealand. These financial statements have been prepared in accordance with the requirements of the Companies Act 1993, the Financial Reporting Act 1993, and the Registered Bank Disclosure Statement (Off Quarter – New Zealand Incorporated Registered Banks) Order 2007. The financial statements for the nine months ended 31 December 2007 incorporated in this General Short Form Disclosure Statement have been prepared in accordance with NZ IAS-34 "Interim Financial Reporting" and should be read in conjunction with the 31 March 2007 Annual Report. Compliance with NZ IAS-34 ensures compliance with IAS-34.

The Bank's financial statements have been prepared in accordance with New Zealand Generally Accepted Accounting Practice (NZ GAAP). They comply with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) and other applicable Financial Reporting Standards, as appropriate for profit-oriented entities. Compliance with NZ IFRS ensures that the financial statements also comply with International Financial Reporting Standards.

The interim financial statements were approved by the Board of Directors on 28 February 2008.

#### Change in Accounting Policies:

The Bank has adopted NZ IFRS with effect from 1 April 2007. An explanation of how the transition to NZ IFRS affected the reported Income Statement, Statement of Changes in Equity, Balance Sheet and Cash Flow Statement of the Bank is provided in Note 28.

#### Basis of Preparation

The measurement base adopted is that of historical cost as modified by the fair value measurement of Available for Sale Financial Assets, and other Financial Instruments at Fair Value through Profit or Loss, and all Derivative contracts.

The Accounting Policies have been consistently applied by the Bank to all periods presented in these financial statements and in preparing an opening NZ IFRS Balance Sheet as at 1 April 2006 for the purpose of transition to NZ IFRS. The principal accounting policies are set out below.

#### Presentation Currency and Rounding

The amounts contained in this disclosure statement and the financial statements are presented in New Zealand dollars and to the nearest thousand dollars.

### PARTICULAR ACCOUNTING POLICIES

#### a) Segment Reporting

The Bank operates in the retail banking industry and in accordance with NZ IAS 14, the primary format for reporting is by business segment. Segments reported are in line with the organisational structure of the Bank and take into account the nature of the product and services provided.

The Bank's operations are New Zealand based only, and on this basis geographical segment reporting is not applicable.

#### b) Foreign Currency Translation

The Bank operates a Retail Foreign Currency outlet. All foreign currency monetary assets and liabilities are converted at the rates of exchange ruling as at balance date. Unrealised gains and losses arising from these revaluations and gains and losses arising from foreign exchange dealings are recognised immediately in the Income Statement.

## NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE NINE MONTHS ENDED 31 DECEMBER 2007

### 1. STATEMENT OF ACCOUNTING POLICIES - continued

#### c) Revenue Recognition

Revenue is recognised to the extent that it is probable that economic benefits will flow to the Bank and that the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable. The principal sources of revenue are interest income, service charges and commission.

##### Interest Income and Expense

Financial Instruments are classified in the manner described in e). Some are measured by reference to amortised cost, others by reference to fair value.

For financial instruments measured at amortised cost, the effective interest method is used to measure the interest income or interest expense recognised in the Income Statement. The effective interest rate method exactly discounts estimated future cash receipts through the expected life of a financial asset or liability to that asset's or liability's net carrying amount. The method applies this rate to the outstanding carrying amount to determine interest expense each period.

For financial instruments measured at fair value through profit and loss, interest income or interest expense is recognised on an accrual basis, either daily or on a yield to maturity basis.

##### Lending Charges

Service charges and direct costs pertaining to loan origination, refinancing or restructuring, and commitments are deferred and amortised over the life of the loan using the effective interest rate method. Lending charges not directly related to the origination of a loan are recognised at the time of service.

##### Commission and Other Service Charges

When commissions or service charges relate to specific transactions or events, they are recognised in the Income Statement when the service is provided to the customer. When they are charged for services provided over a period, they are taken to other income on an accrual basis as the service is provided.

##### Other Income

Realised and unrealised gains and losses from re-measurement of Financial Instruments at fair value through profit or loss are included in other income.

#### d) Expense Recognition

All expenses are recognised in the Income Statement on an accrual basis.

#### e) Financial Instruments

##### Basis of Recognition and Measurement

The Bank is a full service financial institution offering an extensive range of financial instruments. Financial Instruments are transacted on a commercial basis to derive an interest yield/cost with terms and conditions having due regard to the nature of the transaction and the risks involved. All financial instruments are accounted for on a settlement date basis. They are classified in one of the following categories at initial recognition: Financial Assets at Fair Value through Profit or Loss, Available for Sale Financial Assets, Loans and Receivables, Held-to-Maturity, Financial Liabilities at Fair Value through Profit or Loss and Other Financial Liabilities.

For categories requiring measurement at fair value, quoted market prices are used as a measure of fair value. Where quoted market prices do not exist, fair values are estimated using present value or other market accepted valuation techniques, using methods and assumptions that are based on market conditions and risks existing as at balance date.

## NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE NINE MONTHS ENDED 31 DECEMBER 2007

### 1. STATEMENT OF ACCOUNTING POLICIES - continued

#### Financial Assets at Fair Value through Profit or Loss

A financial asset is classified in this category if it is a derivative or if it is acquired principally for the purpose of selling in the short term (Held for Trading), or if so designated by management due to accounting mismatches with other financial assets or liabilities or, where the assets are managed at fair value.

Assets in this category are measured at fair value and include:

(i) Cash and Cash Equivalents

This encompasses cash and demand balances with the Central Bank, deposits due from other banks, as well as cash and cash equivalents held for day to day operations. As this is all short duration the carrying amount, is a fair reflection of their fair value.

(ii) Derivative Financial Instruments

Derivative Financial instruments that do not meet the criteria for hedge accounting are classified as held for trading and recorded at Fair Value through Profit or Loss. Refer (g) for more details on derivatives.

The Bank does not have any other financial assets categorized as held for trading.

#### Available for Sale Financial Assets

Available for sale financial assets, are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within twelve months of the Balance Sheet date.

Available for Sale Financial Assets are measured initially at fair value plus transaction costs and subsequently at fair value, with changes in fair value recognised directly in Shareholder's Equity.

Changes in the value of Available for Sale Financial Assets are reported in an Available for Sale Reserve, until the assets are sold or otherwise disposed of, or until they are impaired. On disposal the accumulated change in fair value is transferred to the Income Statement and reported under Other Income. Interest, premiums and discounts are amortised through the Income Statement using the effective interest method.

#### Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. This arises when the Bank provides money, goods and services directly to a debtor, with no intention of selling the receivable. They are included in current assets, except for those with maturities greater than twelve months after the Balance Sheet date, which are classified as non-current assets.

Assets in this category are measured initially at fair value plus transaction costs that are directly attributable to the issue of the loan at issuance and subsequently at amortised cost using the effective interest rate method and include:

(i) Loans and Advances to Customers

This covers all forms of lending to customers, and includes mortgages, overdrafts, personal loans and credit card balances. They are recognised in the Balance Sheet when cash is advanced to the customer.

Loans and Advances to customers are reported net of Provisions for Impairment to reflect the estimated recoverable amounts. Refer to (h).

(ii) Other Assets

This includes the accrual of interest receivable and other service related income.

#### Held to Maturity Investments

Held to Maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Bank has the positive intention and ability to hold to maturity.

## NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE NINE MONTHS ENDED 31 DECEMBER 2007

### 1. STATEMENT OF ACCOUNTING POLICIES - continued

Assets in this category are measured initially at fair value plus transaction costs that are directly attributable to the acquisition of the asset and subsequently at amortised cost. The Bank's investment securities are designated as held to maturity.

#### Financial Liabilities at Fair Value through Profit or Loss

A financial liability is classified in this category if it is a derivative or if it is acquired principally for the purpose of selling in the short term or if so designated by management due to accounting mismatches with other financial assets or liabilities or, where the liabilities are managed at fair value.

Liabilities in this category are measured at fair value and include:

(i) Cash and Cash Equivalents

This includes settlement account balances to other banks if applicable and these deposits are short duration so the carrying amount equals their fair value.

(ii) Derivative Liabilities

Derivative Liabilities that do not meet the criteria for hedge accounting are classified as held for trading and recorded at Fair Value through Profit or Loss. Refer (g) for more details on derivatives.

#### Other Financial Liabilities

This category includes all financial liabilities other than those at Fair Value through Profit or Loss. Liabilities in this category are initially measured at fair value less transaction costs and subsequently measured at amortised cost using the effective interest rate method. These include:

(i) Deposits from Customers

Deposits from customers cover all forms of funding, and include savings accounts, term deposits, and credit balances on cards, apart from those classified as fair value through profit or loss.

(ii) Other Liabilities

Other Liabilities include the accrual of interest and other payables. For derivatives any accrued interest is recognised and measured as part of the derivative's fair value.

#### f) Other Assets

Other Assets includes the accrual of interest and other service related income, and the payment in advance of the delivery of goods or the rendering of services. For derivatives, any accrued interest is recognised and measured as part of the derivative's fair value.

#### g) Derivative Financial Instruments

The Bank uses derivatives as part of its asset and liability management activities to manage exposure to interest rate changes. The main derivatives types used by the Bank include interest rate options and interest rate swaps.

The Bank recognises derivatives in the Balance Sheet initially at their fair value and these are subsequently remeasured to their fair value at each Balance Sheet date. Fair Values are obtained from market yields and discounted cash flow models or option pricing models as appropriate. Derivative Assets are those derivatives, which have a positive fair value. Derivative Liabilities are those derivatives, which have a negative fair value.

The treatment of changes in the derivatives' fair value depends on their classification. Provided certain criteria are met for hedge accounting under NZ IAS 39, either fair value or cashflow hedge accounting can be applied.

The Bank does not hold derivatives for trading, and does not designate the derivatives into a qualifying hedge relationship, therefore all changes in their fair value of derivatives are recognised immediately in the income statement as an expense or income item.

## NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE NINE MONTHS ENDED 31 DECEMBER 2007

### 1. STATEMENT OF ACCOUNTING POLICIES - continued

#### h) Asset Quality

##### Impaired Assets

Impaired Assets consist of restructured assets, assets acquired through the enforcement of security and other impaired assets.

A restructured asset is any credit exposure for which:

- (a) The original terms have been changed to grant the counterparty a concession that would not otherwise have been available, due to the counterparty's difficulties in complying with the original terms;
- (b) The revised terms of the facility are not comparable with the terms of new facilities with comparable risks; and
- (c) The yield on the asset following restructuring is equal to, or greater than, the Bank's average cost of funds, or a loss is not otherwise expected to be incurred.

Assets acquired through the enforcement of security are those real estate and other assets acquired in full or partial satisfaction of a debt.

Other impaired assets, means any credit exposures for which an impairment loss is required to be recognised in accordance with NZ IAS 39.

##### Other Definitions

A Past Due Asset is any credit exposure which has not been operated by the counterparty within its key terms for at least 90 days and which is not a restructured asset, other individually impaired asset, or a financial asset acquired through the enforcement of security.

An Asset under Administration is any credit exposure which is not an Impaired Asset or a Past Due Asset but which is to a counterparty:

- (a) Who is in receivership, liquidation, bankruptcy, statutory management or any form of administration in New Zealand; or
- (b) Who is in any other equivalent form of voluntary or involuntary administration in an overseas jurisdiction.

##### Provision for Impairment

Loans and Advances to Customers are presented net of specific and collective allowances for uncollectibility. Loans are impaired and impairment losses incurred if:

- There is objective evidence of impairment as a result of one or more loss events that occurred after the initial recognition of the loan and,
- That loss event has an impact on the estimated future cashflows of the Loans and Advances to Customers or group of Loans and Advances to Customers that can be reliably estimated.

Specific allowances are made against the carrying amount of Loans and Advances to Customers, that are identified as being impaired based on regular reviews of outstanding balances, to reduce these Loans and Advances to Customers to their recoverable amounts. The recoverable amount is measured by estimating the future cashflows and discounting these to their present value using the original effective interest rate. A collective allowance is maintained to reduce the carrying amount of 'Loans and Advances to Customers' to its estimated recoverable amount as at balance date. This allowance relates to incurred losses not yet specifically identified in the portfolio. The expected future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cashflows of the assets in the group and historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based, and to remove the effects of conditions in the historical period that do not currently exist. In addition, the Bank uses its experienced judgement to estimate the amount of an impairment loss.

The use of such judgements and reasonable estimates is considered by management to be an essential part of the process and does not impact reliability.

The methodology and assumptions used for estimating future cashflows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

## NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE NINE MONTHS ENDED 31 DECEMBER 2007

### 1. STATEMENT OF ACCOUNTING POLICIES - continued

Increases in the specific and collective allowances are recognised in the Income Statement. When a loan is known to be uncollectible, all the necessary legal procedures have been completed, and the final loss has been determined, the loan is written off directly to the Income Statement, and the provision for doubtful debts is adjusted accordingly.

If in a subsequent period the amount of impairment loss decreases and the decrease can be linked objectively to an event occurring after the write-down, the write-down or allowance is reversed through the Income Statement.

Financial Assets at fair value through profit and loss are not assessed for impairment as their fair value reflects the credit quality of the instrument and changes in fair value are recognised in other income.

Allowances for credit losses on off-balance sheet items such as commitments are reported in other liabilities.

All other assets are reviewed for impairment at least annually.

#### i) Property, Plant and Equipment

Property, Plant and Equipment are recognised in the Balance Sheet at cost less Accumulated Depreciation and Impairment Losses.

The cost amount of Property, Plant and Equipment (excluding Land) less the estimated residual value is depreciated over their useful lives on a straight line basis. The range of useful lives of the asset classes are:

Buildings	40 to 100 years
Furniture and Fittings	5 to 10 years
Computer Equipment	2 to 5 years

The assets' residual values, useful lives and depreciation methods are reviewed and adjusted if appropriate at each balance date.

Assets are reviewed for indications of impairment at least annually and whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. Any impairment loss or write-down is recognised in the Income Statement as an expense.

When the Bank expects the carrying amount of assets held within Property, Plant and Equipment to be recovered principally through a sale transaction rather than through continuing use, these assets are classified as held for sale.

#### j) Intangible Assets

Intangible Assets comprise acquired computer software licences and certain application software

Acquired computer software licences are capitalised on the basis of costs incurred to acquire and bring to use the specific software. These costs are amortised over their expected useful lives (two to four years) on a straight line basis.

The identifiable and directly associated external and internal costs of acquiring and developing software are capitalised where the software is controlled by the Bank, and where it is probable that future economic benefits will flow from its use over more than one year. Costs associated with maintaining software are recognised as an expense as incurred.

Intangible Assets are subject to the same impairment review process as Property, Plant and Equipment. Any impairment loss is recognised under Operating Expenses in the Income Statement.

## NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE NINE MONTHS ENDED 31 DECEMBER 2007

### 1. STATEMENT OF ACCOUNTING POLICIES - continued

#### k) Taxation

Income tax on the Net Profit for the period comprises current and deferred tax. Income tax is recognised in the Income Statement except to the extent that it relates to items recognised directly in Equity, in which case it is recognised directly in Equity.

Current tax is the expected tax payable on the taxable income for the period, using tax rates enacted or substantively enacted at balance date after taking advantage of all allowable deductions under current taxation legislation and any adjustment to tax payable in respect of previous years.

Deferred tax is accounted for using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at balance date.

In accordance with NZ IAS 12 Income taxes, a Deferred Taxation Asset is recognised only to the extent that it is probable (i.e. more likely than not) that a future taxable profit will be available against which the asset can be utilised. Deferred Tax Assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

When the temporary differences cause the operating surplus to be higher than the taxable surplus, a deferred tax liability is recognised. When the operating surplus is lower than the taxable surplus, a future tax benefit is recognised.

Deferred tax related to fair value re-measurement of available for sale financial assets, Cash Flow Hedges and the revaluation of Non-Current Assets (if applicable), when the fair value changes are charged or credited directly to Shareholder's Equity, is also credited or charged directly to Shareholder's Equity. This is subsequently recognised in the Income Statement if and when the deferred gain or loss on the related asset or liability affects income.

Certain estimates are made for an interim period which are described in note 1 paragraph p).

#### l) Provisions

A provision is recognised in the Balance Sheet when:

- The Bank has a present legal or constructive obligation as a result of past events;
- It is probable that an outflow of resources will be required to settle the obligation; and
- A reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the Balance Sheet date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cashflows estimated to settle the present obligation, its carrying amount is the present value of those cashflows.

Liabilities and provisions to be settled beyond twelve months are recorded at their present value. Provisions are reassessed at each balance date. Changes in the present value of cash flow estimates are recognised in the Income Statement.

#### m) Employee Benefits

##### Short-term Employee Benefits

The Bank provides for the cost of employees' annual entitlements under the terms of their employment contracts. These amounts are expected to be settled within one year and are therefore recorded in current provisions.

##### Other Long-term Employee Benefits

The Bank provides for the liability for employees' long-service entitlements under the terms of their employment contracts. The liability is calculated as the present value of the expected future payments after allowing for salary reviews, years of service with the Bank, and other parameters affecting probability of payment.

## NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE NINE MONTHS ENDED 31 DECEMBER 2007

### 1. STATEMENT OF ACCOUNTING POLICIES - continued

#### n) Cash Flow Statement

The Cash Flow Statement has been prepared using the direct approach modified by the netting of cash flows associated with Investment Securities, Deposits from Customers, and Loan and Advances to Customers. This method provides more meaningful disclosure as many cash flows are on behalf of the Bank's customers and do not reflect the activities of the Bank.

Cash and Cash Equivalents comprise Cash, Cash at Bank, Cash in Transit and Call Deposits Due from/to Other Banks, all of which are used in the day-to-day cash management of the Bank.

The following are the definitions of the terms used in the Statement of Cash Flows:

- Cash is considered to be cash on hand and current accounts in banks, net of bank overdrafts;
- Investing activities are those activities relating to the acquisition, holding and disposal of Property, Plant and Equipment, Investment Securities, and Loans and Advances to Customers;
- Financing activities are those activities that result in changes in the size and composition of the capital structure of the Bank. This includes both equity and debt not falling within the definition of cash; and
- Operating activities include all transactions and other events that are not investing or financing activities.

#### o) Fair Value Estimates

For financial instruments not presented in the Bank's Balance Sheet at their fair value, fair value is estimated as follows:

##### Cash and Call Deposits with the Central Bank

These assets are short term in nature and the related carrying value is equivalent to their fair value.

##### Investment Securities

For Investment Securities, these are designated as being held to maturity, and are measured initially at fair value plus transaction costs that are directly attributable to the acquisition of the asset and subsequently at amortised cost. Where a market price in a liquid market is not readily available, the fair value is determined by reference to the market price available for a security with similar credit, maturity and yield characteristics or by using industry standard pricing models.

##### Loans and Advances to Customers

For Floating Rate Loans and Advances to customers, the carrying amount in the Balance Sheet is considered a reasonable estimate of their fair value after making allowances for impairment. For Fixed Rate Loans and Advances to customers, fair value is estimated using discounted cash flow models based on the interest rate repricing of the Advances. Discount rates applied in this calculation are based on the current market interest rates for Loans and Advances to customers with similar credit and maturity profiles. The current market interest rates are based on what the scheduled rate would be for a similar term and maturity profile as at reporting date.

##### Other Assets, Deposits from Customers and Other Liabilities

For Non-Interest Bearing Debt, call and variable rate Deposits, the carrying amounts in the Balance Sheet are a reasonable estimate of their fair value because all are short-term in nature. For other Term Deposits, fair value is estimated using discounted cash flow models based on the maturity of the Deposits. The discount rates applied in this calculation are based on current market interest rates for similar Deposits with similar maturity profiles. For all Other Assets, and Other Liabilities, the carrying amounts in the Balance Sheet are a reasonable estimate of their fair value.

##### Off Balance Sheet Items

For those off balance sheet items such as Direct Credit Substitutes (including acceptance and endorsement of Bills of Exchange), Trade Related Items, and Commitments, these are short-term in nature and therefore their initial value is not significant.

#### p) Critical Accounting Estimates, Assumptions and Judgements

The preparation of financial statements in conformity with NZ IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Bank's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in the relevant accounting policy or in the relevant note.

## NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE NINE MONTHS ENDED 31 DECEMBER 2007

### 1. STATEMENT OF ACCOUNTING POLICIES - continued

The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The determination of fair value for financial assets and liabilities for which there is no observable market price requires the use of valuation techniques as described in note 1 paragraph o). For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgement depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

#### Interim Tax

Income tax expense is recognised in each interim period based on the best estimate of the weighted average annual income tax rate expected for the full financial year. Amounts accrued for income tax expense in one interim period may have to be adjusted in a subsequent interim period of that financial year if the estimate of the annual income tax rate changes.

#### Collective Provision for Doubtful Debts

TSB Bank Limited has a policy of providing a provision for doubtful debts over its lending portfolio, as described in note 1 paragraph h). Currently the calculation of a collective provision is derived from an aggregate of three key components. The first component is weighting of the risk bands based on historical loan default payments. The second component is weighting of loan totals based on geographical location. The third component consists of the loan portfolio being weighted based on a sector breakdown and the perceived distress arising from the current economic cycle. The aggregation of the above three components gives the total collective provision to be provided for.

#### Categorisation of Financial Assets and Financial Liabilities

Management has made judgement regarding the categorisation and measurement of financial assets and financial liabilities. Categories and measurement of these items are disclosed in note 1 paragraph e).

### q) **Contingent Liabilities and Credit Commitments**

The Bank is involved in a range of transactions that give rise to contingent and/or future liabilities. The Bank discloses a contingent liability when it has a possible obligation arising from past events that will be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the Bank's control. A Contingent Liability is disclosed when a present obligation is not recognised because it is not probable that an outflow or resources will be required to settle an obligation, or the amount of the obligation cannot be measured with sufficient reliability.

The Banks issues commitments to extend credit, guarantees and other credit facilities. These financial instruments attract service charges in line with market process for similar arrangements. They are not sold or traded. The items generally do not involve cash payments other than in the event of default. The charge pricing is set as part of the broader customer credit process and reflects the probability of default. They are disclosed as Contingent Liabilities at their face value.

### r) **Offsetting Financial Instruments**

The Bank offsets financial assets and financial liabilities and reports the net balance in the Balance Sheet where there is a legally enforceable right to set-off and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

### s) **Comparative Data**

An explanation of how the transition to NZ IFRS affected the reported Income Statement, Statement of Changes in Equity, Balance Sheet and Cash Flow Statement of the Bank is provided in note 28. Comparative data for the period ended 31 December 2006, and the year ended 31 March 2007, has been restated and presented under NZ IFRS. Previously published amounts for the year ending 31 March 2007, were prepared and audited in accordance with NZ GAAP.

## NOTES TO THE INTERIM FINANCIAL STATEMENTS

### FOR THE NINE MONTHS ENDED 31 DECEMBER 2007

	31 December 2007 Unaudited \$000	31 December 2006 Unaudited \$000	31 March 2007 Unaudited \$000
<b>2. INTEREST INCOME</b>			
Cash and Cash Equivalents (fair value through profit & loss)	2,299	1,148	1,817
Investment Securities (held-to-maturity)	56,411	52,351	70,006
Loans and Advances to Customers (loans and receivables)	127,365	108,687	146,188
Derivative Financial Instruments (held for trading)	1,394	3	3
	<b>187,469</b>	<b>162,189</b>	<b>218,014</b>
<b>3. INTEREST EXPENSE</b>			
Deposits from Customers (financial liabilities measured at amortised cost)	<b>121,433</b>	<b>103,169</b>	<b>139,047</b>
<b>4. OTHER OPERATING INCOME RECEIVED</b>			
Lending and Credit Facility Related Income (loans and receivables)	1,674	3,355	2,591
Commission and Other Trading Income * (loans and receivables)	5,894	4,657	7,960
Gain in Fair Value on Derivatives (held for trading)	1,599	512	804
Other Income (loans and receivables)	1,125	105	115
	<b>10,292</b>	<b>8,629</b>	<b>11,470</b>
*Includes income from TSB Realty, TSB Holiday Shoppe and TSB Foreign Exchange income.			
<b>5. OPERATING EXPENSES</b>			
Auditing Services	106	80	107
Other Audit-Related Services – NZ IFRS transition assistance	55	-	-
Bad Debts	92	120	76
Depreciation:			
Buildings	461	192	272
Computer Equipment	429	746	947
Furniture and Fittings	510	362	433
Amortisation of Intangible Assets	191	730	738
Directors' Fees	150	143	191
Personnel Expenses	11,402	10,238	14,451
Defined Contribution Plan	251	237	312
Collective Provision for Doubtful Debts (loans and receivables)	750	750	1,500
Specific Provision for Doubtful Debts (loans and receivables)	-	15	20
Other Expenses	15,221	14,095	19,135
	<b>29,618</b>	<b>27,708</b>	<b>38,182</b>
<b>6. TAXATION</b>			
Current Taxation	<b>15,414</b>	<b>13,181</b>	<b>17,253</b>
<b>Reconciliation of Income Tax Expense</b>			
Net Profit before Taxation	<b>46,710</b>	<b>39,941</b>	<b>52,255</b>
Taxation at Domestic Rate of 33%	15,414	13,181	17,244
Adjustment in Prior Years	-	-	9
Taxation Expense	<b>15,414</b>	<b>13,181</b>	<b>17,253</b>
<b>7. CASH AND CASH EQUIVALENTS</b>			
Cash and Cash at Bank	10,509	4,647	3,328
Cash and Balances with Central Bank	56,684	66,807	12,660
Call Deposits due from Other Banks	-	-	-
	<b>67,193</b>	<b>71,454</b>	<b>15,988</b>

**NOTES TO THE INTERIM FINANCIAL STATEMENTS**  
**FOR THE NINE MONTHS ENDED 31 DECEMBER 2007**

**8. DERIVATIVE FINANCIAL INSTRUMENTS**

	As at 31 December 2007		
	Notional	Credit	Fair Value
	Amount	Equivalent	
\$000	\$000	\$000	
<b>Interest Rate Contracts</b>			
Swaps	26,656	890	775
Options	1,450,000	7,716	2,465
<b>Total Interest Rate Contracts</b>	<b>1,476,656</b>	<b>8,606</b>	<b>3,240</b>

Information on the credit equivalent amount is also disclosed in note 20

	As at 31 December 2006		
	Notional	Credit	Fair Value
	Amount	Equivalent	
\$000	\$000	\$000	
<b>Interest Rate Contracts</b>			
Swaps	22,915	471	388
Options	1,100,000	3,468	718
<b>Total Interest Rate Contracts</b>	<b>1,122,915</b>	<b>3,939</b>	<b>1,106</b>

Information on the credit equivalent amount is also disclosed in note 20

	As at 31 March 2007		
	Notional	Credit	Fair Value
	Amount	Equivalent	
\$000	\$000	\$000	
<b>Interest Rate Contracts</b>			
Swaps	32,415	563	429
Options	1,100,000	4,470	970
<b>Total Interest Rate Contracts</b>	<b>1,132,415</b>	<b>5,033</b>	<b>1,399</b>

Information on the credit equivalent amount is also disclosed in note 20

**9. INVESTMENT SECURITIES**

	31 December 2007 Unaudited \$000	31 December 2006 Unaudited \$000	31 March 2007 Unaudited \$000
New Zealand Government Securities	-	-	-
Treasury Bills	-	-	-
Local Authority Securities	333,867	314,000	316,000
Bank Registered Certificates of Deposit	495,524	536,740	493,013
Other Investments *	150,123	84,590	93,881
	<b>979,514</b>	<b>935,330</b>	<b>902,894</b>

\* Other Investments relate to investments in Commercial Paper with A1 Short Term or AA Long Term rating or better.

**10. LOANS AND ADVANCES TO CUSTOMERS**

Residential Mortgages	1,817,925	1,636,169	1,725,716
Community	8,392	7,307	9,743
Commercial	113,008	89,739	94,972
Farming	71,375	71,013	70,297
Other *	27,073	24,742	24,818
	<b>2,037,773</b>	<b>1,828,970</b>	<b>1,925,546</b>
Less Provision for Impairment Loss	(10,250)	(8,765)	(9,520)
<b>Total Loans and Advances to Customers</b>	<b>2,027,523</b>	<b>1,820,205</b>	<b>1,916,026</b>

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

**11. OTHER ASSETS**

Accrued Interest Receivable	11,169	9,962	9,608
Accounts Receivable	1,655	1,851	1,987
	<b>12,824</b>	<b>11,813</b>	<b>11,595</b>

## NOTES TO THE INTERIM FINANCIAL STATEMENTS

### FOR THE NINE MONTHS ENDED 31 DECEMBER 2007

#### 12. ASSET QUALITY

As set in the Accounting Policies, Other Impaired Assets are any credit exposures for which an impairment loss is required to be recognised in accordance with NZ IAS 39. The majority of the Bank's provisions for impairment are made on a collective basis and, as such, individual exposures are not identified. The Bank does not have any restructured assets, assets acquired through the enforcement of security, or assets under administration. Interest continues to be accrued on all loans. No interest has been foregone in either period.

	31 December 2007 Unaudited \$000	31 December 2006 Unaudited \$000	31 March 2007 Unaudited \$000
<b>Impaired Assets (Pre-provisions)</b>			
Balance at Beginning of Period	119	-	-
Additions	4	114	119
Deletions	(123)	-	-
<b>Balance at End of Period</b>	<b>-</b>	<b>114</b>	<b>119</b>
<b>Past Due Assets</b>			
Balance at Beginning of Period	1,110	1,273	1,273
Additions	1,583	1,682	2,678
Deletions	(2,018)	(2,225)	(2,841)
<b>Balance at End of Period</b>	<b>675</b>	<b>730</b>	<b>1,110</b>

#### 13. PROVISION FOR IMPAIRMENT

##### Collective Provision for Doubtful Debts

Balance at Beginning of Period	9,500	8,000	8,000
Charged to Income Statement	750	750	1,500
<b>Balance at End of Period</b>	<b>10,250</b>	<b>8,750</b>	<b>9,500</b>

##### Specific Provision for Doubtful Debts

Balance at Beginning of Period	20	-	-
Charged to Income Statement:			
Add New Provisions	-	15	70
Less Amounts Recovered	(20)	-	(50)
<b>Balance at End of Period</b>	<b>-</b>	<b>15</b>	<b>20</b>
<b>Total Provision for Impairment Loss</b>	<b>10,250</b>	<b>8,765</b>	<b>9,520</b>

##### Impairment Losses charged to Income Statement

Collective Provisions	750	750	1,500
Specific Provisions	-	15	20
<b>Total Impairment Losses charged to Income Statement</b>	<b>750</b>	<b>765</b>	<b>1,520</b>

#### 14. DEFERRED TAX ASSET

Balance at Beginning of Period	4,930	4,451	4,451
Net Movement in Temporary Differences	-	-	479
<b>Balance at End of Period</b>	<b>4,930</b>	<b>4,451</b>	<b>4,930</b>

##### Deferred Tax relates to:

Property, Plant, and Equipment	1,022	860	1,022
Provision for Impairment Losses	3,135	2,640	3,135
Fair value adjustments through profit and loss	(462)	(196)	(462)
Other	1,235	1,147	1,235
<b>Total Deferred Tax Assets</b>	<b>4,930</b>	<b>4,451</b>	<b>4,930</b>

The corporate tax rate in New Zealand was changed from 33% to 30% with effect from the 2008/2009 income tax year. This revised income tax rate has not impacted the current tax liability balance for the current income tax year, but will do so in future periods. The likely impact of this change in the income tax rate has not been taken into account in the measurement of deferred taxes for the interim period.

**NOTES TO THE INTERIM FINANCIAL STATEMENTS**  
**FOR THE NINE MONTHS ENDED 31 DECEMBER 2007**

**15. PROPERTY, PLANT AND EQUIPMENT**

**As at 31 December 2007**

<b>Unaudited \$'000</b>	<b>Land</b>	<b>Buildings</b>	<b>Computer Equipment</b>	<b>Furniture &amp; Fittings</b>	<b>Work in Progress</b>	<b>Total</b>
Cost	1,371	10,900	11,505	8,968	844	33,588
Accumulated Depreciation	-	(2,062)	(10,649)	(6,745)	-	(19,456)
<b>Opening Net Book Value</b>	<b>1,371</b>	<b>8,838</b>	<b>856</b>	<b>2,223</b>	<b>844</b>	<b>14,132</b>
Additions	225	1,936	1,058	1,145	898	5,262
Deletions	-	-	(20)	(109)	(927)	(1,056)
Depreciation	-	(461)	(429)	(510)	-	(1,400)
<b>Closing Net Book Value</b>	<b>1,596</b>	<b>10,313</b>	<b>1,465</b>	<b>2,749</b>	<b>815</b>	<b>16,938</b>
Cost	1,596	12,836	12,543	10,004	815	37,794
Accumulated Depreciation	-	(2,523)	(11,078)	(7,255)	-	(20,856)
<b>Closing Net Book Value</b>	<b>1,596</b>	<b>10,313</b>	<b>1,465</b>	<b>2,749</b>	<b>815</b>	<b>16,938</b>

**As at 31 December 2006**

<b>Unaudited \$'000</b>	<b>Land</b>	<b>Buildings</b>	<b>Computer Equipment</b>	<b>Furniture &amp; Fittings</b>	<b>Work in Progress</b>	<b>Total</b>
Cost	1,371	9,643	11,107	8,210	110	30,441
Accumulated Depreciation	-	(1,790)	(9,702)	(6,312)	-	(17,804)
<b>Opening Net Book Value</b>	<b>1,371</b>	<b>7,853</b>	<b>1,405</b>	<b>1,898</b>	<b>110</b>	<b>12,637</b>
Additions	-	647	324	717	286	1,974
Deletions	-	-	-	(62)	(317)	(379)
Depreciation	-	(192)	(746)	(430)	-	(1,368)
<b>Closing Net Book Value</b>	<b>1,371</b>	<b>8,308</b>	<b>983</b>	<b>2,123</b>	<b>79</b>	<b>12,864</b>
Cost	1,371	10,290	11,431	8,865	79	32,036
Accumulated Depreciation	-	(1,982)	(10,448)	(6,742)	-	(19,172)
<b>Closing Net Book Value</b>	<b>1,371</b>	<b>8,308</b>	<b>983</b>	<b>2,123</b>	<b>79</b>	<b>12,864</b>

**As at 31 March 2007**

<b>Unaudited \$'000</b>	<b>Land</b>	<b>Buildings</b>	<b>Computer Equipment</b>	<b>Furniture &amp; Fittings</b>	<b>Work in Progress</b>	<b>Total</b>
Cost	1,371	9,643	11,107	8,210	110	30,441
Accumulated Depreciation	-	(1,790)	(9,702)	(6,312)	-	(17,804)
<b>Opening Net Book Value</b>	<b>1,371</b>	<b>7,853</b>	<b>1,405</b>	<b>1,898</b>	<b>110</b>	<b>12,637</b>
Additions	-	1,257	398	1,004	734	3,393
Deletions	-	-	-	(246)	-	(246)
Depreciation	-	(272)	(947)	(433)	-	(1,652)
<b>Closing Net Book Value</b>	<b>1,371</b>	<b>8,838</b>	<b>856</b>	<b>2,223</b>	<b>844</b>	<b>14,132</b>
Cost	1,371	10,900	11,505	8,968	844	33,588
Accumulated Depreciation	-	(2,062)	(10,649)	(6,745)	-	(19,456)
<b>Closing Net Book Value</b>	<b>1,371</b>	<b>8,838</b>	<b>856</b>	<b>2,223</b>	<b>844</b>	<b>14,132</b>

## NOTES TO THE INTERIM FINANCIAL STATEMENTS

### FOR THE NINE MONTHS ENDED 31 DECEMBER 2007

#### 16. INTANGIBLE ASSETS

	31 December 2007 Unaudited \$000	31 December 2006 Unaudited \$000	31 March 2007 Unaudited \$000
Cost	4,679	4,668	4,668
Accumulated Amortisation	(3,615)	(2,877)	(2,877)
<b>Opening Net Book Value</b>	<b>1,064</b>	<b>1,791</b>	<b>1,791</b>
Additions	45	11	11
Amortisation	(191)	(731)	(738)
<b>Closing Net Book Value</b>	<b>918</b>	<b>1,072</b>	<b>1,064</b>
Cost	4,724	4,668	4,679
Accumulated Amortisation	(3,806)	(3,596)	(3,615)
<b>Closing Net Book Value</b>	<b>918</b>	<b>1,072</b>	<b>1,064</b>

#### 17. DEPOSITS FROM CUSTOMERS

Retail Term Deposits	1,297,106	1,152,935	1,142,660
On Call Deposits Bearing Interest	1,331,221	1,289,010	1,313,061
On Call Deposits Not Bearing Interest	138,232	122,237	136,711
	<b>2,766,559</b>	<b>2,564,182</b>	<b>2,592,432</b>

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

#### 18. OTHER LIABILITIES

Accrued Interest Payable	73,296	58,858	19,166
Employee Entitlements	5,496	4,722	5,510
Dividend Payable	-	-	5,595
Accounts Payable and Other Liabilities	14,039	9,186	22,744
	<b>92,831</b>	<b>72,766</b>	<b>53,015</b>

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

#### 19. SHARE CAPITAL & RETAINED EARNINGS

##### Share Capital

Issued and Fully Paid Up Capital: 20,000,000 Ordinary Shares	<b>10,000</b>	<b>10,000</b>	<b>10,000</b>
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All ordinary Shares have equal voting rights and share equally in dividends. All shares are held by the TSB Community Trust. Dividends are recognised in the financial year in which they are authorised and approved by the Board of Directors.

##### Retained Earnings

Balance at Beginning of Period	210,260	183,205	183,205
Adjustment on Transition to NZ IFRS	2,369	2,222	2,222
Restated Opening Balance	<b>212,629</b>	<b>185,427</b>	<b>185,427</b>
Net Profit after Taxation	31,296	26,760	35,002
	<b>243,925</b>	<b>212,187</b>	<b>220,429</b>
Dividends	(2,490)	(2,205)	(7,800)
Balance at End of Period	<b>241,435</b>	<b>209,982</b>	<b>212,629</b>

## NOTES TO THE INTERIM FINANCIAL STATEMENTS

### FOR THE NINE MONTHS ENDED 31 DECEMBER 2007

#### 20. CAPITAL ADEQUACY

##### (i) Risk Adjusted Capital Adequacy Ratios

Capital Adequacy Ratios are calculated as the percentage of Qualifying Capital to Total Risk-Weighted Exposures. The Reserve Bank of New Zealand currently requires Registered Banks to maintain Tier One Capital at a minimum of 4% of Total Risk-Weighted Exposures and Total Capital at a minimum of 8% of Total Risk-Weighted Exposures. In addition Total Tier Two Capital may not exceed Total Tier One Capital and lower Tier Two Capital may not exceed 50% of Total Tier One Capital.

Total Capital Adequacy Ratios for the Bank at balance date are:

	31 Dec 2007 Unaudited	31 Dec 2006 Unaudited	31 Mar 2007 Unaudited
Tier One	14.65%	14.45%	16.08%
Total Capital	16.55%	16.26%	16.08%

##### (ii) Qualifying Capital

	31 Dec 2007 Unaudited \$000	31 Dec 2006 Unaudited \$000	31 Mar 2007 Unaudited \$000
<b>Tier One Capital</b>			
Issued and fully paid up Share Capital	10,000	10,000	10,000
Retained Earnings	212,629	185,427	212,629
<b>Total Tier One Capital</b>	<b>222,629</b>	<b>195,427</b>	<b>222,629</b>
<b>Tier Two Capital</b>			
Current Retained Earnings	28,806	24,555	-
<b>Total Upper Tier Two Capital</b>	<b>28,806</b>	<b>24,555</b>	<b>-</b>
<b>Total Capital</b>	<b>251,435</b>	<b>219,982</b>	<b>222,629</b>

##### (iii) Total Risk Weighted Exposures – December 2007

	Principal Amount Dec-07 Unaudited \$000	Risk Weight	Risk Weighted Exposure Dec-07 Unaudited \$000
<b>On Balance Sheet Exposures</b>			
Cash and Short-Term Claims on Government	67,193	0%	-
Long-Term Claims on Government	-	10%	-
Claims on Banks	495,525	20%	99,105
Claims on Public Sector Entities	333,867	20%	66,773
Loans Secured By Residential Mortgage	1,821,953	50%	910,977
Other Assets	390,384	100%	390,384
Non-Risk Weighted Assets	4,158	0%	-
<b>Total On Balance Sheet Exposures</b>	<b>3,113,080</b>		<b>1,467,239</b>

	Principal Amount Dec-07 Unaudited \$000	Credit Conversion Factor	Credit Equivalent Amount Dec-07 Unaudited \$000	Risk Weight	Risk Weighted Exposure Dec-07 Unaudited \$000
<b>Off Balance Sheet Exposure</b>					
Commitments to lend < year	98,690	0%	-	100%	-
Commitments to lend > year	201,764	50%	100,883	50%	50,441
Market Related Contracts *	1,476,656	N/A	8,606	20%	1,721
<b>Total Off Balance Sheet Exposure</b>	<b>1,777,110</b>		<b>109,489</b>		<b>52,162</b>
<b>Total Risk Weighted Exposures</b>	<b>4,890,190</b>				<b>1,519,401</b>

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

## NOTES TO THE INTERIM FINANCIAL STATEMENTS

### FOR THE NINE MONTHS ENDED 31 DECEMBER 2007

#### (iv) Total Risk Weighted Exposures – December 2006

	Principal Amount Dec-06 Unaudited \$000	Risk Weight	Risk Weighted Exposure Dec-06 Unaudited \$000
<b>On Balance Sheet Exposures</b>			
Cash and Short-Term Claims on Government	71,454	0%	-
Long-Term Claims on Government	-	10%	-
Claims on Banks	536,731	20%	107,346
Claims on Public Sector Entities	291,292	20%	58,258
Loans Secured By Residential Mortgage	1,641,910	50%	820,955
Other Assets	314,730	100%	314,730
Non-Risk Weighted Assets	2,178	0%	-
<b>Total On Balance Sheet Exposures</b>	<b>2,858,295</b>		<b>1,301,289</b>

	Principal Amount Dec-06 Unaudited \$000	Credit Conversion Factor	Credit Equivalent Amount Dec-06 Unaudited \$000	Risk Weight	Risk Weighted Exposure Dec-06 Unaudited \$000
<b>Off Balance Sheet Exposure</b>					
Commitments to lend < year	95,673	0%	-	100%	-
Commitments to lend > year	202,194	50%	101,097	50%	50,549
Market Related Contracts *	1,122,915	N/A	3,939	20%	788
Other	500	100%	500	50%	250
<b>Total Off Balance Sheet Exposure</b>	<b>1,421,282</b>		<b>105,536</b>		<b>51,587</b>
<b>Total Risk Weighted Exposures</b>	<b>4,279,577</b>				<b>1,352,876</b>

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

#### (v) Total Risk Weighted Exposures – March 2007

	Principal Amount Mar-07 Unaudited \$000	Risk Weight	Risk Weighted Exposure Mar-07 Unaudited \$000
<b>On Balance Sheet Exposures</b>			
Cash and Short-Term Claims on Government	15,988	0%	-
Long-Term Claims on Government	-	10%	-
Claims on Banks	491,013	20%	98,203
Claims on Public Sector Entities	329,769	20%	65,953
Loans Secured By Residential Mortgage	1,730,958	50%	865,479
Other Assets	297,885	100%	297,885
Non-Risk Weighted Assets	2,463	0%	-
<b>Total On Balance Sheet Exposures</b>	<b>2,868,076</b>		<b>1,327,520</b>

	Principal Amount Mar-07 Unaudited \$000	Credit Conversion Factor	Credit Equivalent Amount Mar-07 Unaudited \$000	Risk Weight	Risk Weighted Exposure Mar-07 Unaudited \$000
<b>Off Balance Sheet Exposure</b>					
Commitments to lend < year	97,302	0%	-	100%	-
Commitments to lend > year	225,298	50%	112,649	50%	56,325
Market Related Contracts *	1,132,415	N/A	5,033	20%	1,007
<b>Total Off Balance Sheet Exposure</b>	<b>1,455,015</b>		<b>117,682</b>		<b>57,332</b>
<b>Total Risk Weighted Exposures</b>	<b>4,323,091</b>				<b>1,384,852</b>

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

## NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE NINE MONTHS ENDED 31 DECEMBER 2007

### 21. FOREIGN CURRENCY BALANCES

As at Balance Date there were no material holdings of Foreign Currency.

### 22. 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.

### 23. REPORTING BY SEGMENT

TSB Bank operates predominantly in the business of Retail Banking in New Zealand.

### 24. COMMITMENTS AND CONTINGENT LIABILITIES

Commitments approved to advance less than one year  
Commitments approved to advance greater than one year  
Capital Commitments

	31 December 2007 Unaudited \$000	31 December 2006 Unaudited \$000	31 March 2007 Unaudited \$000
	98,690	95,673	97,302
	201,764	202,194	225,298
	-	500	-
	<b>300,454</b>	<b>298,367</b>	<b>322,600</b>

Total Commitments are also split by maturity in Note 20.

In November 2006, the New Zealand Commerce Commission filed civil proceedings against a number of financial institutions, including the bank, for alleged breaches of the Commerce Act 1986 relating to interchange fees. Seven major retailers have lodged a claim in the High Court seeking damages for anti-competitive behaviour over the charging by credit card companies and banks of interchange fees on transactions. As at the date of signing, the possible liability the bank may face cannot be reliably measured.

In addition to the above, the Bank has received notification that the Commerce Commission is conducting an investigation into the level of default fees charged to individual card holders by the major credit card issuers in New Zealand. It is alleged that these default fees, including late payment fees and/or dishonour fees, may be unreasonable under section 41 of the Credit Contracts and Consumer Finance (CCCF) Act 2003. As at the date of signing, the possible liability the Bank may face cannot be reliably measured.

The Bank has also received further notification from the Commerce Commission that it is conducting an investigation into the fee charged and received by major credit card issuers to individual card holders in New Zealand when a credit card is used in overseas currency transactions. This "Overseas Transaction Fee" (OTF) may be a credit fee under the CCCF Act 2003, and may be unreasonable under section 41 of the CCCF Act 2003 when it is calculated at a certain percentage of the transaction value. As at the date of signing, the possible liability the Bank may face cannot be reliably measured.

### 25. MARKET RISK EXPOSURES

Aggregate Market Risk Exposure consists of three categories of exposure: Aggregate Interest Rate Exposure, Aggregate Foreign Currency Exposure and Aggregate Equity Exposure. The Bank has no material exposures in either Foreign Currency or Equities. Calculation of the Aggregate Interest Rate Exposure, as at balance date and peak exposure during the quarter, was made in accordance with clause 1 (1) (a) of the Seventh Schedule and clauses 2 to 7 of the Eighth Schedule of the Registered Bank Disclosure Statement (Off Quarter - New Zealand Incorporated Registered Banks) Order 2007. Percentages are calculated using the Bank's equity as at Balance Date.

#### Aggregate Interest Rate Exposure.

	31 Dec 2007 Unaudited		31 Dec 2006 Unaudited		31 March 2007 Unaudited	
	\$000's	% of Equity	\$000's	% of Equity	\$000's	% of Equity
Balance Date	8,124	3.23%	7,277	3.34%	8,731	3.96%
Peak Exposure	8,679	3.45%	7,277	3.34%	8,731	3.96%

## NOTES TO THE INTERIM FINANCIAL STATEMENTS

### FOR THE NINE MONTHS ENDED 31 DECEMBER 2007

#### 26. 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 OECD governments and connected persons), where the period end and peak end-of-day credit exposures equalled or exceeded 10% of the Bank's equity as at balance date. The peak aggregate end of day exposures relate to the most recent quarter. Credit exposures disclosed are based on actual exposures. Also shown below as at balance date, is the amount and percentage of aggregate credit exposures that is of an investment grade credit rating.

Percentage of Shareholder's Equity	31 December 2007 Unaudited			31 December 2006 Unaudited			31 March 2007 Unaudited		
	Number of Counterparties			Number of Counterparties			Number of Counterparties		
	Non Bank	Bank	Total	Non Bank	Bank	Total	Non Bank	Bank	Total
<b>As at balance date</b>									
10% - 20%	4	2	6	4	2	6	6	1	7
21% - 30%	1	3	4	2	1	3	1	1	2
31% - 40%	-	-	-	-	1	1	1	2	3
41% - 50%	-	2	2	-	2	2	-	2	2
51% - 60%	-	-	-	-	1	1	-	-	-
61% - 70%	-	-	-	-	-	-	-	-	-
<b>Peak Exposure</b>									
10% - 20%	4	1	5	5	2	7	7	2	9
21% - 30%	1	4	5	2	1	3	1	-	1
31% - 40%	-	-	-	-	1	1	1	2	3
41% - 50%	-	1	1	-	2	2	-	1	1
51% - 60%	-	1	1	-	1	1	-	2	2
61% - 70%	-	-	-	-	-	-	-	-	-
71% - 80%	-	-	-	-	-	-	-	-	-
81% - 90%	-	-	-	-	-	-	-	-	-

#### Credit Exposure by Credit Rating

The following table presents the Bank's credit exposure based on the credit rating of the issuer. Credit exposure concentrations are disclosed on the basis of actual credit exposures and calculated on a gross basis, (net of individual provisions and excluding advances of a capital nature). An investment credit rating means a credit rating of BBB- or Baa3 or above, or its equivalent. The amount and percentage of the Bank's credit exposure, excluding connected persons and OECD governments, where the period end aggregate exposure equalled or exceeded 10% of the Bank's shareholder's equity, as at balance date are:

	31 Dec 2007 Unaudited		31 Dec 2006 Unaudited		31 March 2007 Unaudited	
	Principal Amount \$000	% of Total Credit Exposure	Principal Amount \$000	% of Total Credit Exposure	Principal Amount \$000	% of Total Credit Exposure
<b>Bank Counterparties</b>						
Investment grade credit rating	483,000	100%	538,000	100%	470,000	100%
Below investment grade credit rating	-	-	-	-	-	-
Not rated	-	-	-	-	-	-
<b>Total Credit Exposure</b>	483,000	100%	538,000	100%	470,000	100%
<b>Non-Banks Counterparties</b>						
Investment grade credit rating	157,600	68%	137,000	51%	132,000	58%
Below investment grade credit rating	-	-	-	-	-	-
Not rated *	72,500	32%	132,500	49%	97,500	42%
<b>Total Credit Exposure</b>	230,100	100%	269,500	100%	229,500	100%

\* Not rated exposures are investment securities in unrated Local Authorities.

The credit rating is applicable to an entity's long term senior unsecured obligations payable in New Zealand, in New Zealand dollars.

An Investment grade credit rating means a credit rating of BBB- or Baa3, or above, or its equivalent.

## NOTES TO THE INTERIM FINANCIAL STATEMENTS

### FOR THE NINE MONTHS ENDED 31 DECEMBER 2007

#### 27. 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. The Board of Directors has approved the Bank's Treasury Management Policy. The Asset and Liability Management Committee meet on a regular basis to review the overall risk management framework for funding and investments. The following sections describe the risk management framework components.

##### (i) Credit Risk

Credit risk is the potential risk for loss arising from failure of a debtor or counterparty to meet their contractual obligations. Credit risk principally arises within the Bank from its core business of providing lending facilities. The Bank is predominantly a residential lender. Residential and non-residential loans are generally secured by way of 1st mortgage over Land and Buildings. Borrowers must satisfy a number of conditions when applying for credit including an ability to service the debt whilst satisfying loan to asset ratios. Discretionary lending limits exist at different levels within the Bank.

Regular reviews of loans by both Management and Internal Audit ensure that the Bank is well positioned to assess the financial position of borrowers. Investment in non-lending assets is controlled by limiting the concentration and type of investment, and through the establishment of formal limits permitted with each counterparty. The current policy permits investing with the New Zealand Government, Registered Banks, Local Authorities, State Owned Enterprises and other issuers of paper with a short term debt rating of A1 or better and excludes trading in Derivatives, Futures and Foreign Exchange options. The Bank has a comprehensive, clearly defined policy for the approval and management of all credit risk, including risk to other banks and related counterparties. Both intra-day and term credit risk exposures are monitored on a daily basis and form an integral part of the management reporting system.

The Bank relies primarily on the integrity of the debtor or counterparty and their ability to meet their obligations to the Bank.

##### (ii) Foreign Currency Risk

Foreign Exchange risk is the risk to earning and value caused by a change in foreign exchange rates. The Bank operates a Retail Foreign Currency outlet. Bank policy is to maintain minimal levels of holdings and therefore foreign currency exposure is immaterial.

##### (iii) Interest Rate Risk

Interest rate risk arises where the Bank is exposed to an adverse movement in interest rates, which would significantly affect the banks net interest income. Interest Rate related contracts hedge interest rate risk associated with the Bank's Statement of Financial Position.

The Bank controls its interest rate risk by paying close attention to ensuring a deemed appropriate margin between interest income and interest expense is maintained. Interest Rate Swaps and Interest Rate Options are tools that may be used to assist with the management of interest rate risk.

Interest rate risk is monitored on a day to day basis and forms an integral part of the management reporting system.

##### (iv) Equity Risk

Equity risk results from the repricing of equity investments. The Bank's current policy does not permit the investment in or trading of equities.

##### (v) Liquidity Risk

Liquidity risk is managing risk to ensure the Bank is able in the short term to meet its financial obligations as they fall due. The Bank's liquidity management policy requires that sufficient liquidity be maintained to meet demand as required. A ratio of liquid assets to total liabilities is applied to determine the minimum amount of liquid assets to be held. Liquid assets are maintained in the form of Cash, Registered Bank Bills, Local Authority and Treasury Bills, all of which are readily tradeable to provide for any unexpected patterns in cash movements. Uncommitted and committed credit lines are in place with other Registered Banks to assist in meeting liquidity requirements. Liquidity risk is monitored on a daily basis by forecasting future daily cash requirements and forms an integral part of the management reporting system.

## NOTES TO THE INTERIM FINANCIAL STATEMENTS

### FOR THE NINE MONTHS ENDED 31 DECEMBER 2007

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**(vi) Internal Audit**

The Bank's Audit and Compliance Manager reports ultimately to the Chair of the Audit and Compliance Committee and meets at least annually with the committee. The scope of internal audit ensures that aspects of the Bank's operational, compliance, financial and systems operations are reviewed based on an assessment of risk on an ongoing basis. A comprehensive audit program gives a good coverage of audit procedures to be applied in order to achieve the audit objectives.

The Audit and Compliance Committee's primary function is to liaise with the External Auditors and the Bank's Audit and Compliance Manager. The Audit and Compliance Committee comprises three directors who are B C Richards (independent director), P K Broughton, and M M McCarthy (independent director). A meeting with the External Auditor takes place at least annually.

There have been no material changes to the above policies in the year prior to this balance date.

## NOTES TO THE INTERIM FINANCIAL STATEMENTS

### FOR THE NINE MONTHS ENDED 31 DECEMBER 2007

#### 28. NEW ZEALAND EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (NZ IFRS)

The Bank's first annual report under New Zealand equivalents to International Financial Reporting Standards (NZ IFRS) will be for the year ending 31 March 2008. However, it is a requirement that the General Short Form Disclosure Statement for the period ended 31 December 2007, include interim financial statements under NZ IFRS. The Accounting Policies set out on pages 10 to 18 have been applied in preparing the financial statements for the period ended 31 December 2007. This also applies for the comparative information presented in these financial statements for the period ended 31 December 2006, and the year ended 31 March 2007, and in the preparation of an opening Balance Sheet as at 1 April 2006 (the Bank's date of transition to NZ IFRS).

In preparing its opening NZ IFRS Balance Sheet, the Bank has adjusted amounts reported previously in financial statements prepared in accordance with previous New Zealand Generally Accepted Accounting Practice (NZ GAAP). The adjustments involve two types of changes: those concerning presentation and disclosure of items in the financial statements, and those concerning recognition and measurement of items in the financial statements.

An explanation of how the transition from previous NZ GAAP to NZ IFRS has affected the Bank's financial position, financial performance and cash flows is set out in the following tables and the notes that accompany the tables.

#### a. Reconciliation of NZ IFRS Adjustments on Equity as at 1 April 2006

	Note	31 March 2006 NZ GAAP Audited \$000	Effect of Transition \$000	1 April 2006 Opening NZ IFRS \$000
<b>Assets</b>				
Cash and Cash Equivalents		30,695	-	30,695
Derivative Financial Instruments	(i)	-	595	595
Investment Securities		850,034	-	850,034
Loans and Advances to Customers	(ii)	1,698,223	(8,000)	1,690,223
Less Collective Provision for Doubtful Debts	(ii)	(11,700)	11,700	-
Receivables	(iii)	10,282	(10,282)	-
Other Assets	(iii)	-	8,890	8,890
Current Tax Asset	(iii)(iv)	-	392	392
Future Income Tax Benefit	(v)	5,396	(5,396)	-
Deferred Tax Asset	(v)(vi)	-	4,451	4,451
Property, Plant and Equipment	(vii)	13,381	(744)	12,637
Intangible Assets	(vii)	-	1,744	1,744
<b>Total Assets</b>		<b>2,596,311</b>	<b>3,350</b>	<b>2,599,661</b>
<b>Liabilities</b>				
Deposits from Customers		2,360,184	-	2,360,184
Provision for Dividend	(viii)	4,975	(4,975)	-
Payables	(ix)	37,947	(37,947)	-
Other Liabilities	(viii)(ix)	-	44,050	44,050
<b>Total Liabilities</b>		<b>2,403,106</b>	<b>1,128</b>	<b>2,404,234</b>
<b>Shareholder's Equity</b>				
Share Capital		10,000	-	10,000
Retained Earnings	(i)(ii)(vi)(ix)	183,205	2,222	185,427
<b>Total Shareholder's Equity</b>		<b>193,205</b>	<b>2,222</b>	<b>195,427</b>
<b>Total Liabilities and Shareholder's Equity</b>		<b>2,596,311</b>	<b>3,350</b>	<b>2,599,661</b>

**NOTES TO THE INTERIM FINANCIAL STATEMENTS**  
**FOR THE NINE MONTHS ENDED 31 DECEMBER 2007**

**b. Reconciliation of NZ IFRS Adjustments on Equity as at 31 December 2006**

	Note	31 Dec 2006 As reported NZ GAAP \$000	Effect of Transition \$000	31 Dec 2006 Restated NZ IFRS \$000
<b>Assets</b>				
Cash and Cash Equivalents		71,454	-	71,454
Derivative Financial Instruments	(i)	-	1,106	1,106
Investment Securities		935,330	-	935,330
Loans and Advances to Customers	(ii)	1,816,505	3,700	1,820,205
Receivables	(iii)	12,594	(12,594)	-
Other Assets	(iii)	-	11,813	11,813
Current Tax Asset	(iv)	-	-	-
Future Income Tax Benefit	(v)	5,396	(5,396)	-
Deferred Tax Asset	(v)(vi)	-	4,451	4,451
Property, Plant and Equipment	(vii)	13,155	(291)	12,864
Intangible Assets	(vii)	-	1,072	1,072
<b>Total Assets</b>		<b>2,854,434</b>	<b>3,861</b>	<b>2,858,295</b>
<b>Liabilities</b>				
Deposits from Customers		2,564,182	-	2,564,182
Provision for Dividend	(viii)	-	-	-
Payables	(ix)	72,549	(72,549)	-
Current Tax Liability		-	1,365	1,365
Other Liabilities	(viii)(ix)	-	72,766	72,766
<b>Total Liabilities</b>		<b>2,636,731</b>	<b>1,582</b>	<b>2,638,313</b>
<b>Shareholder's Equity</b>				
Share Capital		10,000	-	10,000
Retained Earnings	(i)(ii)(vi)(ix)	207,703	2,279	209,982
<b>Total Shareholder's Equity</b>		<b>217,703</b>	<b>2,279</b>	<b>219,982</b>
<b>Total Liabilities and Shareholder's Equity</b>		<b>2,854,434</b>	<b>3,861</b>	<b>2,858,295</b>

**NOTES TO THE INTERIM FINANCIAL STATEMENTS**  
**FOR THE NINE MONTHS ENDED 31 DECEMBER 2007**

**c. Reconciliation of NZ IFRS Adjustments on Equity as at 31 March 2007**

	Note	31 March 2007 NZ GAAP Audited \$000	Effect of Transition \$000	31 March 2007 Restated NZ IFRS \$000
<b>Assets</b>				
Cash and Cash Equivalents		15,988	-	15,988
Derivative Financial Instruments	(i)	-	1,399	1,399
Investment Securities		902,894	-	902,894
Loans and Advances to Customers	(ii)	1,925,526	(9,500)	1,916,026
Less Collective Provision for Doubtful Debts		(13,200)	13,200	-
Receivables	(iii)	12,503	(12,503)	-
Other Assets	(iii)	-	11,595	11,595
Current Tax Asset	(iv)	-	48	48
Future Income Tax Benefit	(v)	6,041	(6,041)	-
Deferred Tax Asset	(v)(vi)	-	4,930	4,930
Property, Plant and Equipment	(vii)	14,336	(204)	14,132
Intangible Assets	(vii)	-	1,064	1,064
<b>Total Assets</b>		<b>2,864,088</b>	<b>3,988</b>	<b>2,868,076</b>
<b>Liabilities</b>				
Deposits from Customers		2,592,432	-	2,592,432
Provision for Dividend	(viii)	5,595	(5,595)	-
Payables	(xi)	45,801	(45,801)	-
Other Liabilities	(viii)(ix)		53,015	53,015
<b>Total Liabilities</b>		<b>2,643,828</b>	<b>1,619</b>	<b>2,645,447</b>
<b>Shareholder's Equity</b>				
Share Capital		10,000	-	10,000
Retained Earnings	(i)(ii)(vi)(ix)	210,260	2,369	212,629
<b>Total Shareholder's Equity</b>		<b>220,260</b>	<b>2,369</b>	<b>222,629</b>
<b>Total Liabilities and Shareholder's Equity</b>		<b>2,864,088</b>	<b>3,988</b>	<b>2,868,076</b>

## NOTES TO THE INTERIM FINANCIAL STATEMENTS

### FOR THE NINE MONTHS ENDED 31 DECEMBER 2007

#### Notes to the Reconciliation of NZ IFRS Adjustments on Equity as at 1 April 2006 and 31 December 2006 and restatement of comparatives as at 31 March 2007.

- (i) Derivative Assets are now shown on the face of the Balance Sheet. This has resulted in an adjustment to opening Retained Earnings.
- (ii) On 1 April 2006 an adjustment was recorded against Loans and Advances to Customers, for collective provision for doubtful debts. This reflects the new methodology under NZ IFRS. Loans and Advances to Customers are presented net of specific and collective allowances as outlined in note 1, paragraph h).
- (iii) Receivables have been reclassified as Other Assets and Current Tax Asset.
- (iv) Taxation refund is now shown on the Balance Sheet as Current Tax Asset. This was subtracted from Other Assets.
- (v) Future Income Tax Benefit has been reclassified as Deferred Tax Asset.
- (vi) Deferred Tax Assets have been adjusted for the tax effect of measurement changes. These changes have been made to Property, Plant, and Equipment, provision for impairment loss, and fair value adjustments through profit and loss.
- (vii) Certain Application software has been reclassified from Property, Plant and Equipment to Intangible Assets.
- (viii) Provision for Dividend has been reclassified as part of Other Liabilities.
- (ix) Payables have been reclassified as Other Liabilities. Under NZ IFRS, certain yield related fees pertaining to loan origination that were recognised upfront, must now be deferred over the life of the loan. This adjustment is reflected here.

#### d. Reconciliation of Income Statement for the period ended 31 December 2006

	Note	As reported NZ GAAP \$000	Effect of Transition \$000	Restated NZ IFRS \$000
Interest Income		162,189	-	162,189
Interest Expense		103,169	-	103,169
<b>Net Interest Income</b>		<b>59,020</b>	<b>-</b>	<b>59,020</b>
Other Operating Income Received	(i)(ii)	8,543	86	8,629
<b>Total Operating Income</b>		<b>67,563</b>	<b>86</b>	<b>67,649</b>
Operating Expenses		27,708	-	27,708
<b>Net Profit before Taxation</b>		<b>39,855</b>	<b>86</b>	<b>39,941</b>
Taxation	(iii)	13,152	29	13,181
<b>Net Profit after Taxation</b>		<b>26,703</b>	<b>57</b>	<b>26,760</b>

- (i) Under NZ IFRS, Derivative Financial Instruments are now shown on the Balance Sheet at fair value. The change in fair value has resulted in an adjustment to Other Income.
- (ii) Under NZ IFRS, previously recognised yield related fees pertaining to loan origination that were recognised upfront, must now be deferred and recognised over the life of the loan.
- (iii) Tax has been adjusted for the above transactions.

**NOTES TO THE INTERIM FINANCIAL STATEMENTS**  
**FOR THE NINE MONTHS ENDED 31 DECEMBER 2007**

**e. Reconciliation of Income Statement for the year ended 31 March 2007**

	Note	NZ GAAP Audited \$000	Effect of Transition \$000	Restated NZ IFRS \$000
Interest Income		218,014	-	218,014
Interest Expense		139,047	-	139,047
<b>Net Interest Income</b>		<b>78,967</b>	<b>-</b>	<b>78,967</b>
Other Operating Income Received	(i)(ii)	11,252	218	11,470
<b>Total Operating Income</b>		<b>90,219</b>	<b>218</b>	<b>90,437</b>
Operating Expenses		38,182	-	38,182
<b>Net Profit before Taxation</b>		<b>52,037</b>	<b>218</b>	<b>52,255</b>
Taxation	(iii)	17,182	71	17,253
<b>Net Profit after Taxation</b>		<b>34,855</b>	<b>147</b>	<b>35,002</b>

- (i) Under NZ IFRS, Derivative Financial Instruments are now shown on the Balance Sheet at fair value. The change in fair value has resulted in an adjustment to Other Income.
- (ii) Under NZ IFRS, previously recognised yield related fees pertaining to loan origination that were recognised upfront, must now be deferred and recognised over the life of the loan.
- (iii) Tax has been adjusted for the above transactions.

**f. Material Adjustments to Cash Flow Statement**

The material differences between the Cash Flow Statement presented under NZ IFRS and the Cash Flow Statement presented under previous NZ GAAP for the period ended 31 December 2006, and the comparative year ended 31 March 2007 were:

- (i) Under previous NZ GAAP, the cash flows arising from movements in deposits from customers were treated as financing activities. Under NZ IFRS this is now treated as operating activities.
- (ii) New lines have been added and certain reclassification have been made to align with the new items presented in the Income Statement and the Balance Sheet.

**g. Disclosures on Transition**

The Bank has designated Cash and Cash Equivalents as fair value through profit and loss.

## GLOSSARY OF TERMS

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### **Amortised Cost of Financial Asset or Financial Liability**

The amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectibility.

### **Available for Sale Financial Asset**

Non-derivative financial assets intended to be held for an indefinite period of time, and which may be sold in response to needs for liquidity or changes in interest rates or exchange rates. They are recognised on acquisition at cost and thereafter at fair value. Changes in the value of Available for Sale Financial Assets are reported in an Available for Sale Reserve, until the assets are sold or otherwise disposed of, or until they are impaired. On disposal the accumulated change in fair value is transferred to the Income Statement and reported under Other Income. Interest, premiums and discounts are amortised through the Income Statement using the effective interest method.

### **Cash Flow Hedge**

A hedge of the exposure to variability in cash flows that is attributable to a particular risk associated with a recognised asset or liability or a highly probably forecast transaction, and could affect profit or loss.

### **Effective Interest Method**

A method of calculating the amortised cost of a financial asset or financial liability (or group of financial assets or financial liabilities) and of allocating the Interest Income or Interest Expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instrument, but does not consider future credit losses. The calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts. The interest income or expense is allocated through the life of the instrument and is measured for inclusion in the Income Statement by applying the effective interest rate to the instrument's amortised cost.

### **Fair Value**

The amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

### **Fair Value Hedge**

A hedge of the exposure to changes in fair value of a recognised asset or liability or an unrecognised firm commitment, or an identified portion of such an asset, liability or firm commitment, that is attributable to a particular risk and could affect profit or loss.

### **Financial Instruments at Fair Value through Profit or Loss**

All financial assets and financial liabilities held for trading and any financial asset or financial liability that on initial recognition is designated by the Bank as at Fair Value through Profit or Loss. Assets and Liabilities in this category are measured at fair value. Gains or losses arising from changes in fair value are recognised in Other Income.

### **Hedge Effectiveness**

The degree to which changes in the fair value or cash flows of the hedged items that are attributable to the hedged risk are offset by changes in the fair value or cash flows of the hedging instrument.

### **Hedge Ineffectiveness**

The amount by which changes in the cash flow of the hedging derivative differ from changes (or expected changes) in the cash flow of the hedged item, or the amount by which the changes in the fair value of the hedging derivative differ from changes in the fair value of the hedged item. Such gains and losses are recorded in current period earnings.

## GLOSSARY OF TERMS

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### **Hedged Item**

An asset, liability, firm commitment or highly probably forecast transaction that exposes the Bank to risk of changes in fair value or future cash flows, and that is designated as being hedged.

### **Hedging Instrument**

A designated derivative, the changes in fair value or cash flows of which are expected to offset changes in the fair value or cash flows of a designated hedged item.

### **Held to Maturity Investments (HTM)**

Non-derivative financial assets with fixed or determinable payments and a fixed maturity that the Bank has a positive intention and ability to hold to maturity. They are measured at amortised cost using the effective interest method.

### **Impairment Loss**

The amount by which the carrying amount of an asset exceeds its recoverable amount.

### **Loans and Receivables (L&R)**

Non-derivative financial assets with fixed or determinable payments that are not quoted on an active market. They are measured at amortised cost using the effective interest method.

## DIRECTORY

### Directors

E. (Elaine) Gill, ONZM, LLB, Chair  
 B.C. (Bruce) Richards, MNZM, B Com, CA, CMA, Deputy Chair  
 P.K. (Kemp) Broughton, BE, FIPENZ, J.P  
 D.L. (David) Lean, QSO, J.P  
 M.M. (Maeve) McCarthy, LLB  
 K.W. (Kevin) Rimmington, J.P, Managing Director/CEO  
 C. (Colleen) Tuuta  
 D.E. (David) Walter, QSO, J.P

### Management

K.W. (Kevin) Rimmington, J.P, Managing Director/CEO  
 K.J. (Kevin) Murphy, CA, Deputy Chief Executive  
 R. (Rod) Grant, National Business Manager  
 R. (Rod) Main, Taranaki Business Manager  
 C. (Charles) Duke, Manager Information Services  
 R.G. (Roddy) Bennett, B. Sci, Manager Finance  
 L.D. (Linda) Burczynski, Dipl. Mgmt, Manager Human Resources  
 P.D. (Phil) Gerrard, AAIBS, Manager Lending Services  
 C.D. (Carolyn) Wratislav, Manager Training  
 J. (John) Ainsworth, Manager Audit and Compliance

### National

H.D. (Heather) King, Manager, Bank Direct  
 S.J. (Stephanie) White, Manager, Loan Direct  
 L.N. (Lindsay) McElroy, Manager, Auckland Home Loan Lounge  
 S. (Sandra) Makein, Manager, Hamilton Service Centre  
 K.G. (Kerry) Clement, Manager, Tauranga Service Centre  
 J.E. (Jo) Robson, Manager, Hastings Service Centre  
 H.L. (Lynne) Russell, Manager, Wellington Service Centre  
 S.L. (Steven) Kirk, Manager, Christchurch Service Centre

### Taranaki

L.S. (Len) Walker, Manager, City  
 B.I. (Brian) Hulse, Manager, Fitzroy  
 V.J. (Viv) Hall, Manager, Waitara  
 F.J. (Fay) Bint, Manager, Inglewood  
 N.L. (Neal) Spragg, Manager, Stratford  
 P.J. (Paul) Drake, Manager, Westtown  
 L.A. (Lisa) Hardegger, Manager, Moturoa  
 C.M. (Campbell) Third, Manager, Hawera  
 D.M.A. (Davina) Keller, Manager, Eltham  
 K.H. (Kim) Dines, Manager, Opunake  
 P.S. (Paul) Wood, Manager, Centre  
 R.A. (Rebecca) Stanley, Manager, Frankleigh Park  
 S.R. (Steven) Dickson, Manager, Vogeltown  
 V.J. (Valmai) McEldowney, Manager, Bell Block  
 A.D. (Anjuma) Achary, Manager, Merrilands

### Divisions

S.J. (Stephen) McIntosh, Manager, TSB Foreign Exchange  
 R.J. (Ross) Robertson, Manager, TSB Holiday Shoppe  
 G.P. (Greg) Hull, Sales Manager, TSB Realty

### 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

Deloitte.  
 Fonterra House, 80 London Street, Hamilton