

# **TSB Bank General Short Form Disclosure Statement**

**for the three months ended  
30 June 2010**

---

## TABLE OF CONTENTS

<b>GENERAL SHORT FORM DISCLOSURE STATEMENT</b>	<b>PAGE 1</b>
<b>CONDITIONS OF REGISTRATION</b>	<b>PAGE 5</b>
<b>INTERIM FINANCIAL STATEMENTS</b>	<b>PAGE 7</b>
<b>NOTES TO THE INTERIM FINANCIAL STATEMENTS</b>	<b>PAGE 13</b>
<b>DIRECTORY</b>	<b>PAGE 33</b>

---

# General Short Form Disclosure Statement

## For the Three Months Ended 30 June 2010

This General Short Form Disclosure Statement contains information as required by the Registered Bank Disclosure Statement (Off Quarter - New Zealand Incorporated Registered Banks) Order 2008 ('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

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

---

### 4. DIRECTORATE

All Directors of the Bank reside in New Zealand

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

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

J.J. (John) Kelly  
Company Director

D.L. (David) Lean QSO, J.P.  
Company Director

K.J. (Kevin) Murphy, CA  
TSB Bank Managing Director/CEO

C.B. (Colleen) Tuuta  
Company Director

D.E (David) Walter, QSO, J.P.  
Company Director

H.P.W. (Hayden) Wano  
Company Director

The following changes have occurred to the composition of the Board of Directors since the publication date of the previous General Disclosure Statement. Maeve McCarthy and Kemp Broughton retired from the board, and Hayden Paul Waretini Wano was appointed as a director of TSB Bank Limited on 27 May 2010. 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, J J Kelly, D L Lean, 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

---

### 5. AUDITOR

KPMG  
10 Customhouse Quay  
Wellington 6011

---

### 6. 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 Three Months Ended 30 June 2010

### 7. CONDITIONS OF REGISTRATION

The following changes have been made to the Bank's Conditions of Registration in pursuance to section 74(2) of the Reserve Bank of New Zealand Act 1989.

Condition of Registration 11, is a new condition, effective 1 April 2010. This new condition requires the Bank to comply to certain ratios as part of its liquidity-risk management. For the purposes of this condition of registration, the ratios identified must be calculated in accordance with the Reserve Bank of New Zealand documents entitled "Liquidity Policy" (BS13) dated 20 October 2009 and "Liquidity Policy Annex: Liquid Assets" (BS13A) dated October 2009.

Condition of Registration 12, is a new condition, effective 1 April 2010. This new condition requires the Bank to have an internal framework for liquidity risk management.

A copy of the 'Conditions of Registration' is included in this General Disclosure Statement, as from 22 October 2009.

### 8. PENDING PROCEEDINGS OR ARBITRATION

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

### 9. CREDIT RATING

TSB Bank Limited has a credit rating applicable to its long term senior unsecured obligations payable in New Zealand, in New Zealand dollars. The current rating is **BBB+/Stable/A2**. This was reaffirmed on 17 September 2009. The credit rating was given by Standard & Poor's (Australia) Pty Limited. 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 Three Months Ended 30 June 2010

### 10. GUARANTEE ARRANGEMENTS

As at the date of the signing of this General Short Form Disclosure Statement, the following material obligations of the Bank are guaranteed.

On the 12 October 2008 the Minister of Finance announced a Deposit Guarantee Scheme, under which the Crown guarantees retail deposits of participating financial institutions under section 65ZD of the Public Finance Act 1989. The Guarantor is the New Zealand Government (the Crown) which has the address for service of:

Parliament Buildings  
 Molesworth Street  
 Wellington 6160  
 New Zealand.

TSB Bank Limited (the Principal Debtor) has a guarantee under the New Zealand Deposit Guarantee Scheme (Crown Deed of Guarantee). It is a facility where the Crown guarantees people who have deposits with institutions in the scheme. It covers all retail deposits of participating New Zealand registered banks, and retail deposits by locals in non-bank deposit taking entities. The Crown will pay the amount of any indebtedness or interest to the creditor (depositor) when due and payable, should TSB Bank be in default due to insolvency or bankruptcy. The maximum liability of the Crown, (through the Principal Debtor), and to each creditor (depositor) under the Crown Guarantee, is one million New Zealand dollars (\$1,000,000) per customer. The Crown Deed of Guarantee is effective against defaults occurring between the period 12 October 2008 and 12 October 2010.

On 13 September 2009 the Crown Retail Deposit Guarantee Scheme Act 2009 came into force, providing legislative authority for the extension of the Crown Guarantee. The extended Crown Retail Deposit Guarantee Scheme (the "Extended Scheme") operates in respect of defaults of institutions that are members of the Extended Scheme which occur during the period 12 October 2010 until 31 December 2011. The Extended Scheme has different terms and conditions from the Crown Guarantee. Institutions covered by the Crown Guarantee are not automatically covered by the Extended Scheme. As at the signing of this General Short Form Disclosure Statement, the Bank had not applied to be covered under the Extended Scheme.

On 1 January 2010, replacement Crown Guarantee Deeds were put in place. The replacement Crown Deed carries over many of the provisions of the previous Deed but clarify various arrangements that may arise if a deposit taking institution defaults. In particular, the replacement Deeds allow:

- a) Participating institutions to offer both guaranteed and non-guaranteed debt securities;
- b) a 14 day "stand down" between a potential default and invoking the Crown guarantee, which could provide time for the institution to resolve issues and avoid receivership; and
- c) the Crown to limit interest payable after an event of default, if the creditor does not submit a claim within a reasonable time frame.

Credit ratings currently assigned to the New Zealand Government's long term New Zealand dollar debt are:

Standard and Poor's	AAA
Fitch Ratings	AAA
Moody's Investor's Service	Aaa

No changes have been made to these long-term ratings in the last two years.

The table below groups and ranks the ratings classes of the three major international rating agencies.

Description	S&P Scale	Moody's Scale	Fitch Scale
Extremely Strong	AAA	Aaa	AAA
Very Strong	AA	Aa	AA
Strong	A	A	A
Adequate	BBB	Baa	BBB
Less Vulnerable	BB	Ba	BB
More Vulnerable	B	B	B
Currently Vulnerable	CCC	Caa	CCC
Currently Highly Vulnerable	CC	Ca	CC
Default	D	C	D

A copy of TSB Bank's Crown Deed of Guarantee and general information on the New Zealand Deposit Guarantee Scheme, and the most recent audited financial statements of the New Zealand government, can be accessed at the following internet address:

[www.treasury.govt.nz/government/financialstatements](http://www.treasury.govt.nz/government/financialstatements)

# General Short Form Disclosure Statement

## For the Three Months Ended 30 June 2010

### 11. FINANCIAL AND SUPPLEMENTARY DISCLOSURES

This General Short Form Disclosure Statement is inclusive of the Bank's unaudited interim financial statements for the three months ended 30 June 2010. 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 2008;
- b) The Short Form Disclosure Statement is not false or misleading.

The Directors believe, after due enquiry, that for the period ended 30 June 2010:

- a) The Bank complies with the Conditions of Registration;
- b) Credit Exposures to Connected Persons were not contrary to the interests of the Bank; and
- c) The Bank has systems in place to monitor and control adequately the Bank's material risks, including credit risk, concentration of credit risk, interest rate risk, currency risk, equity risk, liquidity risk, operational risks and other business risks, and that these systems are being properly applied.



E. Gill  
(Chair - Board of Directors)



B. C. Richards  
(Deputy Chair)



J. J. Kelly



D. L. Lean



K. J. Murphy  
(Managing Director/CEO)



C. Tuuta



D. E. Walter



H. P. W. Wano

19 August 2010

# 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:
  - (a) the total capital ratio of the banking group is not less than 8 percent;
  - (b) the tier one capital ratio of the banking group is not less than 4 percent; and
  - (c) the capital of the Banking Group is not less than NZ \$30 million.

For the purposes of this condition of registration, capital, the total capital ratio and the tier one capital ratio must be calculated in accordance with the Reserve Bank of New Zealand document entitled "Capital Adequacy Framework (Standardised Approach)" (BS2A) dated November 2007.

1A. That-

- (a) the Bank has an internal capital adequacy assessment process ("ICAAP") that accords with the requirements set out in the document "Guidelines on a Bank's Internal Capital Adequacy Assessment Process ("ICAAP")" (BS12) dated December 2007;
  - (b) under its ICAAP, the Bank identifies and measures its "other material risks" defined as all material risks of the Banking Group that are not explicitly captured in the calculation of tier one and total capital ratios under the requirements set out in the document "Capital Adequacy Framework (Standardised Approach)" (BS2A) dated November 2007; and
  - (c) the Bank determines an internal capital allocation for each identified and measured "other material risk".
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 disappplied 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 any allowances for impairment) of the Banking Group to all connected persons do not exceed the rating-contingent limited outlined in the following matrix:

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

## CONDITIONS OF REGISTRATION

---

Within the rating-contingent limit, credit exposures (of a non-capital nature and net of any allowances for impairment) 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 Exposures Policy" (BS8) dated March 2008.

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.
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.
11. That the banking group complies with the following quantitative requirements for liquidity-risk management with effect from 1 April 2010:
  - (a) The one-week mismatch ratio of the Banking group is not less than zero per cent at the end of each business day;
  - (b) The one-month mismatch ratio of the Banking group is not less than zero per cent at the end of each business day; and
  - (c) The one-year core funding ratio of the banking group is not less than 65 per cent at the end of each business day.

For the purposes of this condition of registration, the ratios identified must be calculated in accordance with the Reserve Bank of New Zealand documents entitled "Liquidity Policy" (BS13) dated 20 October 2009 and "Liquidity Policy Annex: Liquid Assets" (BS13A) dated October 2009.
12. That, with effect from 1 April 2010, the registered bank has an internal framework for liquidity risk management that is adequate in the Registered Bank's view for managing the Bank's liquidity risk at a prudent level, and that, in particular:
  - (a) Is clearly documented and communicated to all those in the organisation with responsibility for managing liquidity and liquidity risk;
  - (b) Identifies responsibility for approval, oversight and implementation of the framework and policies for liquidity risk management;
  - (c) Identifies the principal methods that the Bank will use for measuring, monitoring and controlling liquidity risk; and
  - (d) Considers the material sources of stress that the Bank might face, and prepares the Bank to manage stress through a contingency funding plan.

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 THREE MONTHS ENDED 30 JUNE 2010

	Note	2010 30 June Unaudited \$000	2009 30 June Unaudited \$000	2010 31 March Audited \$000
Interest Income	2	62,577	59,782	242,528
Derivative Financial Instruments		3,575	5,837	21,456
Interest Expense	2	42,280	37,416	153,713
<b>Net Interest Income</b>		<b>23,872</b>	<b>28,203</b>	<b>110,271</b>
Other Operating Income	3	3,721	3,290	13,709
<b>Net Operating Income</b>		<b>27,593</b>	<b>31,493</b>	<b>123,980</b>
Operating Expenses	4	9,108	9,790	45,131
<b>Net Profit before Impairment Loss and Taxation</b>		<b>18,485</b>	<b>21,703</b>	<b>78,849</b>
Provision for Impairment Loss	13	376	454	4,492
<b>Net Profit before Taxation</b>		<b>18,109</b>	<b>21,249</b>	<b>74,357</b>
Taxation		5,433	6,375	23,179
Deferred Tax Adjustment	5	3,985	-	-
<b>Net Profit after Taxation</b>		<b>8,691</b>	<b>14,874</b>	<b>51,178</b>

## STATEMENT OF COMPREHENSIVE INCOME FOR THE THREE MONTHS ENDED 30 JUNE 2010

		2010 30 June Unaudited \$000	2009 30 June Unaudited \$000	2010 31 March Audited \$000
<b>Net Profit after Taxation</b>		<b>8,691</b>	<b>14,874</b>	<b>51,178</b>
<b>Other Comprehensive Income:</b>				
Effective portion of changes in fair value hedges	16	135	2,492	4,467
Fair Value movements of cash flow hedges transferred to income statement	16	(3,575)	(5,837)	(21,456)
Income Tax on Other Comprehensive Income	16	1,032	1,004	5,097
<b>Other Comprehensive Income for the period</b>		<b>(2,408)</b>	<b>(2,341)</b>	<b>(11,892)</b>
<b>Total Comprehensive Income for the period</b>		<b>6,283</b>	<b>12,533</b>	<b>39,286</b>

These interim financial statements are to be read in conjunction with the notes on pages 13 to 32.

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

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

## STATEMENT OF CHANGES IN EQUITY FOR THE THREE MONTHS ENDED 30 JUNE 2009

	Share Capital \$000	Cash Flow Hedge Reserve \$000	Retained Earnings \$000	Total Equity \$000
<b>Balance at 1 April 2009</b>	<b>10,000</b>	<b>16,138</b>	<b>276,851</b>	<b>302,989</b>
<b>Total comprehensive income for the period</b>				
Net Profit after Tax	-	-	14,874	14,874
<b>Other Comprehensive Income:</b>				
Effective Portion of Changes in Fair Value (net of tax) 16	-	1,745	-	1,745
Fair Value Movements transferred to Income Statement (net of tax) 16	-	(4,086)	-	(4,086)
<b>Other Comprehensive Income for the period</b>	<b>-</b>	<b>(2,341)</b>	<b>-</b>	<b>(2,341)</b>
<b>Total Comprehensive Income for the period</b>		<b>(2,341)</b>	<b>14,874</b>	<b>12,533</b>
<b>Transactions with owners, recorded directly in equity</b>				
Dividends to Equity Holders	-	-	-	-
Total Transactions with Owners	-	-	-	-
<b>Balance at 30 June 2009</b>	<b>10,000</b>	<b>13,797</b>	<b>291,725</b>	<b>315,522</b>

## STATEMENT OF CHANGES IN EQUITY FOR YEAR ENDED 31 MARCH 2010

		Share Capital \$000	Cash Flow Hedge Reserve \$000	Retained Earnings \$000	Total Equity \$000
<b>Balance at 1 April 2009</b>		10,000	16,138	276,851	302,989
<b>Total comprehensive income for the period</b>					
Net Profit after Tax		-	-	51,178	51,178
<b>Other Comprehensive Income:</b>					
Effective Portion of Changes in Fair Value (net of tax)	16	-	3,127	-	3,127
Fair Value Movements transferred to Income Statement (net of tax)	16	-	(15,019)	-	(15,019)
<b>Other Comprehensive Income for the period</b>		-	<b>(11,892)</b>	-	<b>(11,892)</b>
<b>Total Comprehensive Income for the period</b>			<b>(11,892)</b>	<b>51,178</b>	<b>39,286</b>
<b>Transactions with owners, recorded directly in equity</b>					
Dividends to Equity Holders	17	-	-	(11,150)	(11,150)
Total Transactions with Owners		-	-	(11,150)	(11,150)
<b>Balance at 31 March 2010</b>		<b>10,000</b>	<b>4,246</b>	<b>316,879</b>	<b>331,125</b>

These interim financial statements are to be read in conjunction with the notes on pages 13 to 32.

## STATEMENT OF FINANCIAL POSITION

### AS AT 30 JUNE 2010

	Note	2010 30 June Unaudited \$000	2009 30 June Unaudited \$000	2010 31 March Audited \$000
<b>Assets</b>				
Cash and Cash Equivalents	6	47,461	68,805	94,063
Derivative Financial Instruments	7	5,227	23,739	9,127
Investment Securities	8	1,867,491	1,637,830	1,869,657
Loans and Advances to Customers	9	2,474,316	2,173,237	2,407,158
Other Assets	10	1,612	1,352	768
Deferred Tax Asset		2,110	218	5,063
Property, Plant and Equipment	11	18,844	18,461	18,743
Intangible Assets	12	446	653	503
<b>Total Assets</b>		<b>4,417,507</b>	<b>3,924,295</b>	<b>4,405,082</b>
<b>Liabilities</b>				
Deposits from Customers	14	4,048,979	3,576,968	4,023,884
Derivative Financial Instruments	7	1,215	1,513	1,248
Current Tax Liability		5,433	5,923	7,073
Other Liabilities	15	24,472	24,369	41,752
<b>Total Liabilities</b>		<b>4,080,099</b>	<b>3,608,773</b>	<b>4,073,957</b>
<b>Shareholder's Equity</b>				
Share Capital	17	10,000	10,000	10,000
Cash Flow Hedge Reserve	16	1,838	13,797	4,246
Retained Earnings	17	325,570	291,725	316,879
<b>Total Shareholder's Equity</b>		<b>337,408</b>	<b>315,522</b>	<b>331,125</b>
<b>Total Liabilities and Shareholder's Equity</b>		<b>4,417,507</b>	<b>3,924,295</b>	<b>4,405,082</b>
<b>Total Interest Earning and Discount Bearing Assets</b>		<b>4,402,082</b>	<b>3,890,819</b>	<b>4,381,987</b>
<b>Total Interest and Discount Bearing Liabilities</b>		<b>3,896,525</b>	<b>3,433,457</b>	<b>3,857,787</b>

These interim financial statements are to be read in conjunction with the notes on pages 13 to 32.

## STATEMENT OF CASH FLOWS

### FOR THE THREE MONTHS ENDED 30 JUNE 2010

	2010 30 June Unaudited \$000	2009 30 June Unaudited \$000	2010 31 March Audited \$000
<b>Cash Flows from Operating Activities</b>			
Cash provided from (applied to):			
Interest Income Received	66,181	65,492	258,875
Other Income Received	2,877	(2,054)	14,093
Interest Paid	(30,656)	(37,416)	(157,260)
Operating Expenditure	(17,388)	(24,734)	(50,855)
Taxation Paid	(7,073)	(6,223)	(22,629)
<b>Cash Flows from Operating Profits before changes in Operating Assets and Liabilities</b>	<b>13,941</b>	<b>(4,935)</b>	<b>42,224</b>
<b>Changes in Operating Assets and Liabilities</b>			
Increase in Loans and Advances to Customers	(67,696)	(43,382)	(279,259)
Derivative Financial Instruments	427	5,378	937
Increase in Deposits from Customers	13,471	102,617	553,080
<b>Cash Flow from Operating Assets and Liabilities</b>	<b>(53,798)</b>	<b>64,613</b>	<b>274,758</b>
<b>Net Cash Flow from Operating Activities</b>	<b>(39,857)</b>	<b>59,678</b>	<b>316,982</b>
<b>Cash Flows from Investing Activities</b>			
Cash provided from (applied to):			
Property, Plant and Equipment Sold	-	11	154
Investment Securities *	2,252	(46,201)	(273,100)
Property, Plant and Equipment Purchased	(647)	(409)	(2,871)
Intangible Assets Purchased	-	-	(28)
<b>Net Cash Flow from Investing Activities</b>	<b>1,605</b>	<b>(46,599)</b>	<b>(275,845)</b>
<b>Cash Flows from Financing Activities</b>			
Cash provided from (applied to):			
Dividends Paid	(8,350)	(6,600)	(9,400)
<b>Net Cash Flow from Financing Activities</b>	<b>(8,350)</b>	<b>(6,600)</b>	<b>(9,400)</b>
<b>Net Increase/(Decrease) in Cash and Cash Equivalents</b>	<b>(46,602)</b>	<b>6,479</b>	<b>31,737</b>
Add Cash and Cash Equivalents at Beginning of Year	94,063	62,326	62,326
<b>Cash and Cash Equivalents at End of Period</b>	<b>47,461</b>	<b>68,805</b>	<b>94,063</b>

\* Investment Securities are designated as held to maturity. Cash flows associated with Investment Securities arise when an existing investment security matures or cash positions enable further purchases.

These interim financial statements are to be read in conjunction with the notes on pages 13 to 32.

**STATEMENT OF CASH FLOWS (CONTINUED)**  
**FOR THE THREE MONTHS ENDED 30 JUNE 2010**

	2010 30 June Unaudited \$000	2009 30 June Unaudited \$000	2010 31 March Audited \$000
<b>Reconciliation of Net Profit after Taxation To Net Cash Flows from Operating Activities</b>			
Net Profit after Taxation	8,691	14,874	51,178
Add Movements in Balance Sheet Items			
Accounts Payable	2,694	(15,603)	(10,117)
Provision for Tax	(1,640)	152	1,302
Deposits from Customers	13,471	102,617	553,080
Deferred Tax Asset	3,985	-	(752)
Accounts Receivable	(815)	(327)	(4,725)
Derivative Financial Instruments	427	234	937
Loans and Advances to Customers	(67,696)	(43,382)	(279,259)
	<b>(49,574)</b>	<b>43,691</b>	<b>260,466</b>
Add Non- Cash Items			
Depreciation	546	614	2,651
Impairment Losses on Loans and Advances to Customers	423	420	2,430
Amortisation of Intangible Assets	57	79	257
	<b>1,026</b>	<b>1,113</b>	<b>5,338</b>
<b>Net Cash Flow from Operating Activities</b>	<b>(39,857)</b>	<b>59,678</b>	<b>316,982</b>
<b>Reconciliation of Cash and Cash Equivalents to the Balance Sheet</b>			
Cash and Balances with Reserve Bank	43,502	65,682	88,312
Cash and Cash at Bank	3,959	3,123	5,751
<b>Total Cash and Cash Equivalents at End of Period</b>	<b>47,461</b>	<b>68,805</b>	<b>94,063</b>

These interim financial statements are to be read in conjunction with the notes on pages 13 to 32.

## NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE THREE MONTHS ENDED 30 JUNE 2010

---

### 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 NZ IAS 34 Interim Financial Reporting, the Companies Act 1993, the Financial Reporting Act 1993, and the Registered Bank Disclosure Statement (Off Quarter – New Zealand Incorporated Registered Banks) Order 2008.

The Bank's financial statements have been prepared in accordance with New Zealand Generally Accepted Accounting Practice (NZ GAAP), and should be read in conjunction with the 31 March 2010 Annual Report. 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.

The interim financial statements were approved by the Board of Directors on 19 August 2010.

#### Change in Accounting Policies:

There have been no changes in accounting policies since the authorisation date of the previous General Disclosure Statement on 27 May 2010.

#### 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.

#### Comparative Data

To ensure consistency with the current period, comparative figures have been restated where appropriate.

#### Standards Issued But Not Yet Effective

The following new standards are not yet effective and have not been applied in the preparation of these financial statements.

NZ IFRS 9 – Financial Instruments. It is the intention of the IASB to replace IAS 39 with IFRS 9. This standard is effective for annual reporting period beginning on or after 1 January 2013.

NZ IAS 24 – Related Party Disclosures (revised 2009). This standard is effective for annual reporting period beginning on or after 1 July 2011.

## NOTES TO THE INTERIM FINANCIAL STATEMENTS

### FOR THE THREE MONTHS ENDED 30 JUNE 2010

	2010 30 June Unaudited \$000	2009 30 June Unaudited \$000	2010 31 March Audited \$000
--	---------------------------------------	---------------------------------------	--------------------------------------

#### 2. NET INTEREST INCOME

##### Interest Income

Cash and Cash Equivalents	336	444	1,479
Investment Securities	20,928	17,955	76,508
Loans and Advances to Customers*	41,313	41,383	164,541
<b>Total Interest Income</b>	<b>62,577</b>	<b>59,782</b>	<b>242,528</b>

##### Interest Expense

Deposits from Customers	42,280	37,416	153,713
-------------------------	--------	--------	---------

\* Interest income from Loans and Advances to Customers includes interest earned on Impaired Assets of \$0.062m (\$0.017m; 30 June 2009, \$0.343m; 31 March 2010)

Interest income from investment securities relates to investment securities that are held to maturity.

Interest income from Loans and Advances to Customers relates to financial assets that are designated as loans and receivables.

The only component of interest income that relates to financial assets carried at fair value through profit or loss is the income on derivative financial instruments.

Interest expense on deposits from customers relates to financial liabilities measured at amortised cost.

#### 3. OTHER OPERATING INCOME RECEIVED

Lending and Credit Facility Related Income	806	1,817	5,208
Commission and Other Trading Income *	2,284	2,023	8,709
Gain (Loss) in Fair Value on Derivatives	(191)	(579)	(925)
Other Income	822	29	717
	<b>3,721</b>	<b>3,290</b>	<b>13,709</b>

\*Includes income from TSB Realty and TSB Foreign Exchange income.

#### 4. OPERATING EXPENSES

Auditors Remuneration – Statutory Audit	32	30	120
Depreciation:			
Buildings	250	214	1,129
Computer Equipment	92	168	591
Other	204	232	931
Amortisation of Intangible Assets	57	79	257
Directors' Fees	96	73	311
Personnel Expenses	3,547	3,984	17,633
Defined Contribution Plan	66	146	1,018
Information Technology Expenses	1,250	1,247	5,307
Premises Occupancy	472	413	1,637
Marketing	1,023	1,102	8,273
Other Expenses	2,019	2,102	7,924
	<b>9,108</b>	<b>9,790</b>	<b>45,131</b>

#### 5. TAXATION

With effect from the 2011/2012 income year, a 0% depreciation rate will apply to “buildings” that have an estimated useful life of 50 years or more. This means, that from the beginning of the 2011/2012 income year, no further tax depreciation can be claimed. Also with effect from 2011/2012 income year, the company tax rate will drop from 30% to 28%.

The combined effect of the above changes and temporary differences has given rise to an adjustment to deferred tax of \$3.98m.

#### 6. CASH AND CASH EQUIVALENTS

Cash and Cash at Bank	3,959	3,001	5,751
Cash and Balances with Reserve Bank	43,502	65,804	88,312
	<b>47,461</b>	<b>68,805</b>	<b>94,063</b>

## NOTES TO THE INTERIM FINANCIAL STATEMENTS

### FOR THE THREE MONTHS ENDED 30 JUNE 2010

#### 7. DERIVATIVE FINANCIAL INSTRUMENTS

The Bank uses interest rate swaps to hedge the interest rate exposure on identified fixed rate Loans and Investment Securities. Interest rate swaps are used to maintain a margin for fixed rate interest rate arrangements.

	As at 30 June 2010		
	Notional Amount \$000	Fair Value	
		Assets \$000	Liabilities \$000
<b>Interest Rate Contracts</b>			
Swaps	24,500	-	1,215
	<b>24,500</b>	<b>-</b>	<b>1,215</b>

	As at 30 June 2009		
	Notional Amount \$000	Fair Value	
		Assets \$000	Liabilities \$000
<b>Interest Rate Contracts</b>			
Swaps	22,700	-	1,513
	<b>22,700</b>	<b>-</b>	<b>1,513</b>

	As at 31 March 2010		
	Notional Amount \$000	Fair Value	
		Assets \$000	Liabilities \$000
<b>Interest Rate Contracts</b>			
Swaps	24,500	-	1,248
	<b>24,500</b>	<b>-</b>	<b>1,248</b>

#### Cash Flow Hedges

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

	As at 30 June 2010		
	Notional Amount \$000	Fair Value	
		Assets \$000	Liabilities \$000
<b>Interest Rate Contracts</b>			
Options	1,700,000	5,227	-
	<b>1,700,000</b>	<b>5,227</b>	<b>-</b>

	As at 30 June 2009		
	Notional Amount \$000	Fair Value	
		Assets \$000	Liabilities \$000
<b>Interest Rate Contracts</b>			
Options	1,250,000	23,739	-
	<b>1,250,000</b>	<b>23,739</b>	<b>-</b>

	As at 31 March 2010		
	Notional Amount \$000	Fair Value	
		Assets \$000	Liabilities \$000
<b>Interest Rate Contracts</b>			
Options	1,650,000	9,127	-
	<b>1,650,000</b>	<b>9,127</b>	<b>-</b>

#### 8. INVESTMENT SECURITIES

	2010 30 June Unaudited \$000	2009 30 June Unaudited \$000	2010 31 March Audited \$000
Local Authority Securities	655,956	700,085	664,999
Bank Registered Certificates of Deposit	321,293	528,084	315,848
Registered Bank Term Investments	480,000	80,000	480,000
Other Investments *	410,242	329,661	408,810
	<b>1,867,491</b>	<b>1,637,830</b>	<b>1,869,657</b>

\* Other Investments relate to investments in Commercial Paper and Bonds of an investment grade or better.

**NOTES TO THE INTERIM FINANCIAL STATEMENTS**  
**FOR THE THREE MONTHS ENDED 30 JUNE 2010**

**9. LOANS AND ADVANCES TO CUSTOMERS**

	<b>2010</b>	<b>2009</b>	<b>2010</b>
	<b>30 June</b>	<b>30 June</b>	<b>31 March</b>
	<b>Unaudited</b>	<b>Unaudited</b>	<b>Audited</b>
	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>
Residential Mortgages	2,240,765	1,953,347	2,184,121
Community	3,820	6,224	5,418
Commercial	119,662	112,799	114,018
Farming	78,805	69,833	71,239
Other *	48,037	45,104	49,222
<b>Total Gross Loans and Advances to Customers</b>	<b>2,491,089</b>	<b>2,187,307</b>	<b>2,424,018</b>
Less Provision for Impairment Loss (see note 13(b))	(16,773)	(14,070)	(16,860)
<b>Total Loans and Advances to Customers</b>	<b>2,474,316</b>	<b>2,173,237</b>	<b>2,407,158</b>

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

**10. OTHER ASSETS**

Trade and Other Receivables	1,612	1,352	768
	<b>1,612</b>	<b>1,352</b>	<b>768</b>

**11. PROPERTY, PLANT AND EQUIPMENT**

As at 30 June 2010

<b>Unaudited</b>						
<b>\$000</b>	<b>Land</b>	<b>Buildings</b>	<b>Computer</b>	<b>Other *</b>	<b>Work in</b>	<b>Total</b>
			<b>Equipment</b>		<b>Progress</b>	
<b>Cost</b>						
Opening Balance	4,318	15,351	8,268	12,020	-	39,957
Additions	-	-	-	13	650	671
Disposals	-	-	-	(1)	-	(1)
Transfers	-	-	-	-	(16)	(24)
<b>Closing Balance</b>	<b>4,318</b>	<b>15,351</b>	<b>8,268</b>	<b>12,032</b>	<b>634</b>	<b>40,603</b>
<b>Depreciation and Impairment Losses</b>						
Opening Balance	-	4,541	7,754	8,919	-	21,214
Depreciation for the period	-	250	92	204	-	546
Impairment Loss	-	-	-	-	-	-
Accumulated Depreciation (Disposals)	-	-	-	(1)	-	(1)
<b>Closing Balance</b>	<b>-</b>	<b>4,791</b>	<b>7,846</b>	<b>9,122</b>	<b>-</b>	<b>21,759</b>
<b>Closing Net Book Value</b>						
Balance as at 1 April 2010	4,318	10,810	514	3,101	-	18,743
<b>Balance as at 30 June 2010</b>	<b>4,318</b>	<b>10,560</b>	<b>422</b>	<b>2,910</b>	<b>634</b>	<b>18,844</b>

\* Other is inclusive of Asset categories – Fixtures & Fittings, Plant & Equipment, Furniture, Office Equipment, and Motor Vehicles.

**NOTES TO THE INTERIM FINANCIAL STATEMENTS**  
**FOR THE THREE MONTHS ENDED 30 JUNE 2010**

**11. PROPERTY, PLANT AND EQUIPMENT - continued**

**As at 30 June 2009**

**Unaudited  
\$000**

	<b>Land</b>	<b>Buildings</b>	<b>Computer Equipment</b>	<b>Other *</b>	<b>Work in Progress</b>	<b>Total</b>
<b>Cost</b>						
Opening Balance	4,318	13,779	8,046	11,297	23	37,463
Additions	-	41	65	149	984	1,239
Disposals	-	-	-	(33)	-	(33)
Transfers	-	-	-	-	(835)	(835)
<b>Closing Balance</b>	<b>4,318</b>	<b>13,820</b>	<b>8,111</b>	<b>11,413</b>	<b>172</b>	<b>37,834</b>

**Depreciation and Impairment Losses**

Opening Balance	-	3,412	7,163	8,211	-	18,786
Depreciation for the period	-	214	168	232	-	614
Impairment Loss	-	-	-	-	-	-
Accumulated Depreciation (Disposals)	-	-	-	(27)	-	(27)
<b>Closing Balance</b>	<b>-</b>	<b>3,626</b>	<b>7,331</b>	<b>8,416</b>	<b>-</b>	<b>19,373</b>

**Closing Net Book Value**

Balance as at 1 April 2009	4,318	10,367	883	3,086	23	18,677
<b>Balance as at 30 June 2009</b>	<b>4,318</b>	<b>10,194</b>	<b>780</b>	<b>2,997</b>	<b>172</b>	<b>18,461</b>

\* Other is inclusive of Asset categories – Fixtures & Fittings, Plant & Equipment, Furniture, Office Equipment, and Motor Vehicles.

**As at 30 March 2010**

**Audited  
\$000**

	<b>Land</b>	<b>Buildings</b>	<b>Computer Equipment</b>	<b>Other *</b>	<b>Work in Progress</b>	<b>Total</b>
<b>Cost</b>						
Opening Balance	4,318	13,779	8,046	11,297	23	37,463
Additions	-	1,572	222	1,167	2,938	5,899
Disposals	-	-	-	(444)	-	(444)
Transfers	-	-	-	-	(2,961)	(2,961)
<b>Closing Balance</b>	<b>4,318</b>	<b>15,351</b>	<b>8,268</b>	<b>12,020</b>	<b>-</b>	<b>39,957</b>

**Depreciation and Impairment Losses**

Opening Balance	-	3,412	7,163	8,211	-	18,786
Depreciation for the period	-	1,129	591	931	-	2,651
Impairment Loss	-	-	-	-	-	-
Accumulated Depreciation (Disposals)	-	-	-	(223)	-	(223)
<b>Closing Balance</b>	<b>-</b>	<b>4,541</b>	<b>7,754</b>	<b>8,919</b>	<b>-</b>	<b>21,214</b>

**Closing Net Book Value**

Balance as at 1 April 2009	4,318	10,367	883	3,086	23	18,677
<b>Balance as at 31 March 2010</b>	<b>4,318</b>	<b>10,810</b>	<b>514</b>	<b>3,101</b>	<b>-</b>	<b>18,743</b>

\* Other is inclusive of Asset categories – Fixtures & Fittings, Plant & Equipment, Furniture, Office Equipment, and Motor Vehicles.

**NOTES TO THE INTERIM FINANCIAL STATEMENTS**  
**FOR THE THREE MONTHS ENDED 30 JUNE 2010**

**12. INTANGIBLE ASSETS**

	<b>2010</b> <b>30 June</b> <b>Unaudited</b> <b>\$000</b>	<b>2009</b> <b>30 June</b> <b>Unaudited</b> <b>\$000</b>	<b>2010</b> <b>31 March</b> <b>Audited</b> <b>\$000</b>
<b>Cost</b>			
Opening Balance	4,063	4,035	4,035
Additions	-	-	28
Disposals	-	-	-
<b>Closing Balance</b>	<b>4,063</b>	<b>4,035</b>	<b>4,063</b>
<b>Amortisation and Impairment</b>			
Opening Balance	3,560	3,303	3,303
Amortisation for the period	57	79	257
Impairment Loss	-	-	-
Accumulated Amortisation (Disposals)	-	-	-
<b>Closing Balance</b>	<b>3,617</b>	<b>3,382</b>	<b>3,560</b>
<b>Closing Net Book Value</b>			
Balance as at 1 April 2010	503	732	732
<b>Closing Balance as at 30 June 2010</b>	<b>446</b>	<b>653</b>	<b>503</b>

## NOTES TO THE INTERIM FINANCIAL STATEMENTS

### FOR THE THREE MONTHS ENDED 30 JUNE 2010

#### 13. CREDIT RISK MANAGEMENT AND 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. The loan portfolio is predominantly residential mortgages which are secured by a first mortgage over freehold dwellings. For overdrafts and visa balances, some are unsecured as well as secured by obligation mortgages, which cover all undertakings with the Bank. The Bank does not have any restructured assets, or assets under administration. The credit quality of Loans and Advances to Customers that were neither past due or impaired can be assessed by reference to the bank's internal rating system. At origination of Loans and Advances to Customers, loans are risk graded based on debt servicing and Loan-to-Valuation (LVR) ratios. These risk grades are reviewed periodically for adverse changes during the loans life. Interest continues to be accrued on all loans. No interest has been foregone in either period.

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

	2010 30 June Unaudited \$000	2009 30 June Unaudited \$000	2010 31 March Audited \$000
--	---------------------------------------	---------------------------------------	--------------------------------------

#### Gross Advances to Customers by Credit Quality

Neither Past Due or Impaired	2,469,146	2,168,652	2,401,761
Past Due Assets	19,901	18,042	18,836
Impaired Assets	2,042	613	3,421
<b>Total Gross Loans and Advances to Customers</b>	<b>2,491,089</b>	<b>2,187,307</b>	<b>2,424,018</b>

Lending commitments to customers were \$85.7m as at 30 June 2010 (\$90.5m; 30 June 2009 and \$78m; 31 March 2010)

#### Aging Analysis of Past Due Assets

Over 30 days	10,435	6,585	9,486
60 to 89 days	3,643	4,598	2,496
Over 90 days	5,823	6,859	6,854
<b>Balance at End of Period</b>	<b>19,901</b>	<b>18,042</b>	<b>18,836</b>

#### 90 - day Past Due Assets

Balance at Beginning of Period	6,854	8,055	8,055
Additions	4,097	2,397	13,648
Deletions	(5,128)	(3,593)	(14,849)
<b>Balance at End of Period</b>	<b>5,823</b>	<b>6,859</b>	<b>6,854</b>

#### Impaired Assets

Balance at Beginning of Period	3,421	2,429	2,429
Additions	64	147	6,345
Amounts Written Off	(210)	(1,963)	(1,343)
Transfers back to Loans and Advances to Customers	(1,233)	-	(4,010)
<b>Balance at End of Period</b>	<b>2,042</b>	<b>613</b>	<b>3,421</b>

#### Real Estate Assets Acquired through Enforcement of Security

Balance at Beginning of Period	-	-	-
Transfers to Real Estate Assets Acquired through Enforcement of Security	630	-	-
<b>Balance at End of Period</b>	<b>630</b>	<b>-</b>	<b>-</b>

#### (b) Provision for Impairment Loss

##### Collective Provision for Doubtful Debts

Balance at Beginning of Period	15,100	13,600	13,600
Charged to Income Statement	250	250	1,500
<b>Balance at End of Period</b>	<b>15,350</b>	<b>13,850</b>	<b>15,100</b>

##### Specific Provision for Doubtful Debts

Balance at Beginning of Period	1,760	830	830
Add New Provisions	173	170	2,589
Less Amounts Written Off	(210)	-	(1,343)
Less Amounts Received	(300)	(780)	(316)
<b>Balance at End of Period</b>	<b>1,423</b>	<b>220</b>	<b>1,760</b>
<b>Total Provision for Impairment Loss</b>	<b>16,773</b>	<b>14,070</b>	<b>16,860</b>

## NOTES TO THE INTERIM FINANCIAL STATEMENTS

### FOR THE THREE MONTHS ENDED 30 JUNE 2010

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

	2010 30 June Unaudited \$000	2009 30 June Unaudited \$000	2010 31 March Audited \$000
<b>Impairment Losses charged to Income Statement</b>			
Collective Provisions	250	250	1,500
Specific Provisions	173	170	930
Bad Debts Written Off	(47)	34	2,062
<b>Total Impairment Losses charged to Income Statement</b>	<b>376</b>	<b>454</b>	<b>4,492</b>

The estimated fair value of collateral and other charges related to financial assets that are individually impaired is \$0.950 million.

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

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

Percentage of Shareholder's Equity	30 June 2010 Unaudited			30 June 2009 Unaudited			31 March 2010 Audited		
	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%	10	2	12	8	1	9	11	3	14
21% - 30%	2	1	3	3	2	5	2	-	2
31% - 40%	-	-	-	-	1	1	-	-	-
41% - 50%	-	-	-	-	1	1	-	-	-
51% - 60%	-	-	-	-	1	1	-	-	-
61% - 70%	-	-	-	-	-	-	-	-	-
71% - 80%	-	1	1	-	-	-	-	-	-
81% - 90%	-	-	-	-	-	-	-	1	1
91% - 100%	-	1	1	-	-	-	-	1	1
<b>Peak Exposure</b>									
10% - 20%	10	2	12	9	-	9	10	2	12
21% - 30%	3	1	4	4	1	5	4	1	5
31% - 40%	-	-	-	-	3	3	-	-	-
41% - 50%	-	-	-	-	1	1	-	-	-
51% - 60%	-	-	-	-	1	1	-	-	-
61% - 70%	-	-	-	-	-	-	-	-	-
71% - 80%	-	-	-	-	-	-	-	-	-
81% - 90%	-	-	-	-	-	-	-	-	-
91% - 100%	-	2	2	-	-	-	-	2	2

## NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE THREE MONTHS ENDED 30 JUNE 2010

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

#### (d) 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 central government of any country with a long-term credit rating of A- or A3 or above, or its equivalent, where the period end aggregate exposure equalled or exceeded 10% of the Bank's shareholder's equity, as at balance date are:

	30 June 2010 Unaudited		30 June 2009 Unaudited		31 March 2010 Audited	
	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	764,901	100%	605,680	100%	762,511	100%
Below investment grade credit rating	-	-	-	-	-	-
Not rated	-	-	-	-	-	-
<b>Total Credit Exposure</b>	<b>764,901</b>	<b>100%</b>	<b>605,680</b>	<b>100%</b>	<b>762,511</b>	<b>100%</b>
<b>Non-Banks Counterparties</b>						
Investment grade credit rating	497,750	74%	437,390	74%	497,750	74%
Below investment grade credit rating	-	-	-	-	-	-
Not rated *	177,000	26%	155,000	26%	176,000	26%
<b>Total Credit Exposure</b>	<b>674,750</b>	<b>100%</b>	<b>592,390</b>	<b>100%</b>	<b>673,750</b>	<b>100%</b>

\* 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.

#### (e) Credit exposures to connected persons

Credit exposure concentrations are disclosed on the basis of actual credit exposures and calculated on a gross basis (net of specific provisions and excluding advances of a capital nature). The Bank only has credit exposures to non-bank connected persons. Peak end-of-day credit exposures to connected and non-bank connected persons are calculated using the Bank's tier one capital at the end of the period. The rating-contingent limit, which is applicable to the Bank as at balance date, is 15%. There have been no rating-contingent limit changes during the last quarter. Within the rating-contingent limit there is a sub-limit of 15%, which applies to non-bank connected persons. All limits on aggregate credit exposure to all connected persons and non-bank connected persons in the Bank's Conditions of Registration have been complied with at all times over the last quarter. There are no specific provisions against credit exposures to connected persons as at 30 June 2010 (30 June 2009: nil).

	2010 30 June Unaudited \$000	2009 30 June Unaudited \$000	2010 31 March Audited \$000
Credit exposures to non-bank connected persons at period end	269	491	271
Credit exposures to non-bank connected persons at period end expressed as a percentage of total tier one capital	0.1%	0.2%	0.1%
Peak credit exposures to non-bank connected persons during the period	271	491	495
Peak credit exposures to connected and non-bank connected persons during the period expressed as a percentage of total tier one capital	0.1%	0.2%	0.2%

## NOTES TO THE INTERIM FINANCIAL STATEMENTS

### FOR THE THREE MONTHS ENDED 30 JUNE 2010

#### 14. DEPOSITS FROM CUSTOMERS

	2010 30 June Unaudited \$'000	2009 30 June Unaudited \$'000	2010 31 March Audited \$'000
Retail Term Deposits	1,948,440	1,743,463	1,878,189
On Call Deposits Bearing Interest	1,948,085	1,689,994	1,955,491
On Call Deposits Not Bearing Interest	152,454	143,511	190,204
	<b>4,048,979</b>	<b>3,576,968</b>	<b>4,023,884</b>

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

#### 15. OTHER LIABILITIES

Employee Entitlements	3,770	5,374	5,677
Dividend Payable	-	-	8,350
Trade and Other Payables	20,702	18,995	27,725
	<b>24,472</b>	<b>24,369</b>	<b>41,752</b>

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

#### 16. CASH FLOW HEDGE RESERVE

Opening Balance	4,246	16,138	16,138
Effective Portion of Changes in Fair Value	135	2,492	4,467
Fair Value Movements Transferred to Income Statement	(3,575)	(5,837)	(21,456)
Deferred Income Tax	1,032	1,004	5,097
Balance at End of Period	<b>1,838</b>	<b>13,797</b>	<b>4,246</b>

#### 17. 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>
---	---------------	---------------	---------------

All ordinary shares have equal voting rights and share equally in dividends and assets on winding up. 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

Opening Balance	316,879	276,851	276,851
Net Profit after Taxation	8,691	14,874	51,178
	<b>325,570</b>	<b>291,725</b>	<b>328,029</b>
Dividends	-	-	(11,150)
Balance at End of Period	<b>325,570</b>	<b>291,725</b>	<b>316,879</b>

## NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE THREE MONTHS ENDED 30 JUNE 2010

### 18. CAPITAL ADEQUACY

#### (i) Capital Management Policies

The Bank's objectives for the management of capital adequacy is to comply at all times with the regulatory capital requirements set by the Reserve Bank of New Zealand (RBNZ); to maintain a strong capital base to cover the inherent risks of the business in excess of that required by rating agencies to maintain an investment credit grading; and to support the future development and growth of the business to maximize shareholders value.

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

Regulatory capital is divided into Tier One and Tier Two Capital. Tier One Capital primarily consists of Shareholder's Equity and other capital instruments acceptable to the RBNZ, less Intangible Assets and a deduction for any advances of a capital nature to Connected Persons. Tier Two Capital consists of two levels with Upper Tier Two Capital comprising Asset Revaluation Reserves and Lower Tier Two Capital comprising Subordinated Debt. Tier Two Capital also includes other hybrid and debt instruments acceptable to the RBNZ. The tangible element of investments in subsidiaries that are not wholly owned or funded is deducted from the sum of Tier One and Tier Two Capital to arrive at Total Regulatory Capital. The Bank does not have any Tier Two Capital components.

Regulatory capital adequacy ratios are calculated by expressing capital as a percentage of Risk Weighted Exposures. Risk Weighted Exposures are derived by assigning a risk weight percentage to certain categories of exposures, including Statement of Financial Position assets (excluding Intangible Assets and Capital Deductions for Investments in Subsidiaries not Wholly Owned or Funded), and Off Balance Sheet Assets. There are six risk weighting categories – 0%, 20%, 35%, 50%, 75%, and 100%. It should be noted that the regulatory risk weightings may not be consistent with the loss experience of the Bank.

As a condition of Registration, the Bank must comply with the following minimum requirements set by RBNZ:

- (a) Total Regulatory Capital must not be less than 8% of Risk Weighted Exposure.
- (b) Tier One Capital must not be less than 4% of Risk Weighted Exposures.
- (c) Capital must not be less than NZ\$30m.

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

The Capital Adequacy tables set out on the following pages summarise the composition of regulatory capital and the capital adequacy ratios for the Bank for the period ended 30 June 2010. During the period and the comparative period shown, the Bank complied with all of the RBNZ capital requirements to which it is subject. No changes have been made to the Board approved levels of regulatory capital to be held during the period.

#### Basel II

The Basel Committee has issued a revised framework for the calculation of capital adequacy for banks, commonly known as Basel II. The Bank has adopted the "Standardised Approach" as per BS2A to calculate regulatory capital requirements under Basel II from the first quarter of 2008. The objective of the Basel II Framework is to develop capital adequacy guidelines that are more accurately aligned with the individual risk profile of banks. Basel II consists of 3 pillars – Pillar One covers the capital requirements for banks for credit, operation, and market risks, Pillar Two covers all other material risks not already included in Pillar One, and Pillar Three relates to market disclosure.

Pillar 2 of Basel II is intended to ensure that Banks have adequate capital to support all risks in their business, and includes the requirement on Banks to have an "Internal Capital Adequacy Assessment Process (ICAAP)" for assessing their overall capital adequacy in relation to risk profile and a strategy for maintaining adequate capital to support risk. The Bank's ICAAP has identified other areas of risk not covered by Pillar I (credit risk, market risk, and operational risk) and assigned a level of capital to them. These risks include but are not limited to strategic risk, reputational risk, environmental risk, and liquidity risk, and ownership structure. The Bank has made an internal capital allocation of \$125m to cover these identified risks.

## NOTES TO THE INTERIM FINANCIAL STATEMENTS

### FOR THE THREE MONTHS ENDED 30 JUNE 2010

#### 18. CAPITAL ADEQUACY - continued

Total Capital Adequacy Ratios for the Bank as at 30 June 2010 are:

	2010 30 June Unaudited	2009 30 June Unaudited	2010 31 March Audited
Tier One	15.76%	16.21%	15.90%
Total Capital	16.18%	17.05%	15.90%

#### (ii) Qualifying Capital

##### Tier One Capital

Issued and fully paid up Share Capital	10,000	10,000	10,000
Retained Earnings	316,879	276,851	276,851
Current period's Audited Retained Earnings	-	-	40,028

##### Less Deductions from Tier One Capital

Intangible Assets	(446)	(653)	(503)
-------------------	-------	-------	-------

<b>Total Tier One Capital</b>	<b>326,433</b>	<b>286,198</b>	<b>326,376</b>
-------------------------------	----------------	----------------	----------------

##### Upper Tier Two Capital

Unaudited Current Retained Earnings	8,691	14,874	-
-------------------------------------	-------	--------	---

##### Lower Tier Two Capital

	-	-	-
--	---	---	---

<b>Total Tier Two Capital</b>	<b>8,691</b>	<b>14,874</b>	<b>-</b>
-------------------------------	--------------	---------------	----------

<b>Total Capital</b>	<b>335,124</b>	<b>301,072</b>	<b>326,376</b>
----------------------	----------------	----------------	----------------

#### (iii) Total Risk Weighted Exposures – June 2010

	Total Exposure after credit risk mitigation Jun-10 Unaudited \$000	Risk Weight	Risk Weight Exposure Jun-10 Unaudited \$000	Minimum Pillar One Capital Requirement Jun-10 Unaudited \$000
<b>On Balance Sheet Exposures</b>				
Cash	3,959	0%	-	-
Reserve Bank of New Zealand	43,502	0%	-	-
Public Sector Entities	705,004	20%	141,001	11,280
Banks	767,788	20%	153,558	12,285
Banks	43,505	50%	21,752	1,740
Corporate	47,400	20%	9,480	758
Corporate	111,063	50%	55,531	4,443
Corporate	175,826	100%	175,826	14,066
Residential Bonds	3,153	35%	1,104	88
Residential Mortgages <80% LVR	1,852,242	35%	648,285	51,863
Residential Mortgages 80%<90% LVR	163,271	50%	81,636	6,531
Residential Mortgages Welcome Home Loans	197,916	50%	98,958	7,917
Residential Mortgages 90%<100% LVR	19,469	75%	14,602	1,168
Past Due Residential Mortgages	7,865	100%	7,865	629
Other Assets	269,871	100%	269,871	21,590
Non-Risk Weighted Assets	5,673	0%	-	-
<b>Total On Balance Sheet Exposures</b>	<b>4,417,507</b>		<b>1,679,467</b>	<b>134,358</b>

## NOTES TO THE INTERIM FINANCIAL STATEMENTS

### FOR THE THREE MONTHS ENDED 30 JUNE 2010

#### 18. CAPITAL ADEQUACY - continued

	Total Exposure	Credit Conversion Factor	Credit Equivalent Amount	Average Risk Weight	Risk Weighted Exposure	Minimum Pillar One Capital Requirement
	June-10 Unaudited \$000		June-10 Unaudited \$000		June-10 Unaudited \$000	June-10 Unaudited \$000
<b>Off Balance Sheet Exposure</b>						
Revolving Credit Facility	20,000	50%	10,000	20%	2,000	160
Commitments where original maturity is more than one year	227,425	50%	113,712	35%	39,799	3,184
Is less than one year	105,465	20%	21,093	100%	21,093	1,687
<b>Market Related Contracts</b>						
Interest Rate Contracts*	1,724,500	N/A	9,797	20%	1,959	157
<b>Sub Totals</b>	<b>2,077,390</b>		<b>154,602</b>		<b>64,851</b>	<b>5,188</b>

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

#### Operational Risk and Market Risk Analysis

	Implied Risk Weighted Exposure	Capital Requirement
Operational Risk	239,158	19,133
Market Risk	87,455	6,996
<b>Sub Total</b>	<b>326,613</b>	<b>26,129</b>

#### Total Capital Requirements

	Total Exposure after credit risk mitigation	Risk Weighted exposure or Implied RWE	Capital Requirement
Total credit risk plus equity	4,572,109	1,744,318	139,545
Operational Risk	N/A	239,158	19,133
Market Risk	N/A	87,455	6,996
<b>Total</b>		<b>2,070,931</b>	<b>165,675</b>

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

LVR Range	0%-80%	80% - 90%	Over 90%
Value of Exposure	1,859,522	166,096	217,555

	Implied Risk Weighted Exposure	Aggregate Capital Charge	Aggregate Capital Charge as % of Banks Equity	Banks Equity
<b>Market Risk</b>				
End of Period capital charges	87,455	6,996	2.09%	335,124
Peak end of day capital charges	93,873	7,510	2.24%	335,124

In accordance with clause 8 of Schedule 4A of the Registered Bank Disclosure Statement (Off Quarter – New Zealand Incorporated Registered Banks) Order 2008, peak end-of-day aggregate capital charge and peak end-of-day aggregate capital charge as a percentage of the Bank's Equity at the end of the period, is derived by following the risk methodology for measuring capital requirements within Part 10 of – Capital Adequacy Framework (Standardised Approach) (BS2A).

## NOTES TO THE INTERIM FINANCIAL STATEMENTS

### FOR THE THREE MONTHS ENDED 30 JUNE 2010

#### 18. CAPITAL ADEQUACY – continued

##### (iv) Total Risk Weighted Exposures – June 2009

	Total Exposure after credit risk mitigation	Risk Weight	Risk Weight Exposure	Minimum Pillar One Capital Requirement
	June-09 Unaudited \$000		June-09 Unaudited \$000	June-09 Unaudited \$000
<b>On Balance Sheet Exposures</b>				
Cash	3,123	0%	-	-
Reserve Bank of New Zealand	65,682	0%	-	-
Public Sector Entities	700,085	20%	140,017	11,201
Banks	608,083	20%	121,617	9,729
Banks	10,000	50%	5,000	400
Corporate	75,707	20%	15,141	1,211
Corporate	164,973	50%	82,487	6,599
Corporate	56,000	100%	56,000	4,480
Residential Bonds	14,243	35%	4,985	399
Residential Mortgages <80% LVR	1,718,538	35%	601,488	48,119
Residential Mortgages 80%<90% LVR	131,613	50%	65,807	5,265
Residential Mortgages Welcome Home Loans	93,829	50%	46,915	3,753
Residential Mortgages 90%<100% LVR	2,507	75%	1,880	150
Past Due Residential Mortgages	6,859	100%	6,859	549
Other Assets	248,659	100%	248,659	19,893
Non-Risk Weighted Assets	24,394	0%	-	-
<b>Total On Balance Sheet Exposures</b>	<b>3,924,295</b>		<b>1,396,855</b>	<b>111,748</b>

	Total Exposure	Credit Conversion Factor	Credit Equivalent Amount	Average Risk Weight	Risk Weighted Exposure	Minimum Pillar One Capital Requirement
	June-09 Unaudited \$000		June-09 Unaudited \$000		June-09 Unaudited \$000	June-09 Unaudited \$000
<b>Off Balance Sheet Exposure</b>						
Revolving Credit Facility	20,000	50%	10,000	20%	2,000	160
Commitments where original maturity is more than one year	328,556	50%	164,278	35%	57,497	4,600
<b>Market Related Contracts</b>						
Interest Rate Contracts*	1,272,700	N/A	28,396	20%	5,679	454
<b>Sub Totals</b>	<b>1,621,256</b>		<b>202,674</b>		<b>65,176</b>	<b>5,214</b>

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

#### Operational Risk and Market Risk Analysis

	Implied Risk Weighted Exposure	Capital Requirement
Operational Risk	222,864	17,829
Market Risk	81,188	6,495
<b>Sub Total</b>	<b>304,052</b>	<b>24,324</b>

#### Total Capital Requirements

	Total Exposure after credit risk mitigation	Risk Weighted exposure or Implied RWE	Capital Requirement
Total credit risk plus equity	4,126,968	1,462,031	116,962
Operational Risk	N/A	222,864	17,829
Market Risk	N/A	81,188	6,495
<b>Total</b>		<b>1,766,083</b>	<b>141,286</b>

## NOTES TO THE INTERIM FINANCIAL STATEMENTS

### FOR THE THREE MONTHS ENDED 30 JUNE 2010

#### 18. CAPITAL ADEQUACY – continued

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

LVR Range	0% - 80%	80% - 90%	Over 90%
Value of Exposure	1,718,538	131,613	103,195

		Implied Risk Weighted Exposure	Aggregate Capital Charge	Aggregate Capital Charge as % of Banks Equity	Banks Equity
<b>Market Risk</b>					
End of Period capital charges	Interest Risk	81,188	6,495	2.16%	301,072
Peak end of day capital charges	Interest Risk	82,950	6,636	2.20%	301,072

In accordance with clause 8 of Schedule 4A of the Registered Bank Disclosure Statement (Off Quarter – New Zealand Incorporated Registered Banks) Order 2008, peak end-of-day aggregate capital charge and peak end-of-day aggregate capital charge as a percentage of the Bank's Equity at the end of the period, is derived by following the risk methodology for measuring capital requirements within Part 10 of – Capital Adequacy Framework (Standardised Approach) (BS2A).

##### (v) Total Risk Weighted Exposures – March 2010

	Total Exposure after credit risk mitigation Mar-10 \$000	Risk Weight Mar-10	Risk Weight Exposure Mar-10 \$000	Minimum Pillar One Capital Requirement Mar-10 \$000
<b>On Balance Sheet Exposures</b>				
Cash	5,751	0%	-	-
Reserve Bank of New Zealand	88,312	0%	-	-
Public Sector Entities	714,050	20%	142,810	11,425
Banks	762,342	20%	152,468	12,197
Banks	43,505	50%	21,752	1,740
Corporate	45,500	20%	9,100	728
Corporate	111,214	50%	55,607	4,449
Corporate	176,024	100%	176,024	14,082
Residential Bonds	3,356	35%	1,175	94
Residential Mortgages <80% LVR	1,819,140	35%	636,699	50,936
Residential Mortgages 80%<90% LVR	159,714	50%	79,857	6,389
Residential Mortgages Welcome Home Loans	177,481	50%	88,740	7,099
Residential Mortgages 90%<100% LVR	17,512	75%	13,134	1,051
Past Due Residential Mortgages	10,275	100%	10,275	822
Other Assets	261,276	100%	261,276	20,902
Non-Risk Weighted Assets	9,630	0%	-	-
<b>Total On Balance Sheet Exposures</b>	<b>4,405,082</b>		<b>1,648,917</b>	<b>131,914</b>

	Total Exposure Mar-10 \$000	Credit Conversion Factor	Credit Equivalent Amount Mar-10 \$000	Average Risk Weight	Risk Weighted Exposure Mar-10 \$000	Minimum Pillar One Capital Requirement Mar-10 \$000
<b>Off Balance Sheet Exposure</b>						
Revolving Credit Facility	20,000	50%	10,000	20%	2,000	160
Commitments where original maturity is more than one year	217,151	50%	108,576	35%	38,001	3,040
Is less than one year	103,500	20%	20,700	100%	20,700	1,656
<b>Market Related Contracts</b>						
Interest Rate Contracts*	1,674,500	N/A	13,820	20%	2,764	221
<b>Sub Totals</b>	<b>2,015,151</b>		<b>153,096</b>		<b>63,465</b>	<b>5,077</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 THREE MONTHS ENDED 30 JUNE 2010**

**18. CAPITAL ADEQUACY - continued**

	<b>Implied Risk Weighted Exposure</b>	<b>Capital Requirement</b>
<b>Operational Risk and Market Risk Analysis</b>		
Operational Risk	230,860	18,469
Market Risk	109,589	8,767
<b>Sub Total</b>	<b>340,449</b>	<b>27,236</b>

	<b>Total Exposure after credit risk mitigation</b>	<b>Risk Weighted exposure or Implied RWE</b>	<b>Capital Requirement</b>
<b>Total Capital Requirements</b>			
Total credit risk plus equity	4,558,178	1,712,382	136,991
Operational Risk	N/A	230,860	18,469
Market Risk	N/A	109,589	8,767
<b>Total</b>	<b>2,052,831</b>	<b>164,227</b>	

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

LVR Range	<b>0% - 80%</b>	<b>80% - 90%</b>	<b>Over 90%</b>
Value of Exposure	1,826,420	162,538	195,162

		<b>Implied Risk Weighted Exposure</b>	<b>Aggregate Capital Charge</b>	<b>Aggregate Capital Charge as % of Banks Equity</b>	<b>Banks Equity</b>
<b>Market Risk</b>					
End of Period capital charges	Interest Risk	109,589	8,767	2.68%	326,376
Peak end of day capital charges	Interest Risk	127,975	10,238	3,13%	326,376

In accordance with clause 9 of Schedule 5A of the Registered Bank Disclosure Statement (Full and Half Year – New Zealand Incorporated Registered Banks) Order 2008, peak end-of-day aggregate capital charge and peak end-of-day aggregate capital charge as a percentage of the Bank's Equity at the end of the period, is derived by following the risk methodology for measuring capital requirements within Part 10 of – Capital Adequacy Framework (Standardised Approach) (BS2A).

## NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE THREE MONTHS ENDED 30 JUNE 2010

### 19. FOREIGN CURRENCY BALANCES

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

### 20. 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.

On the 1 October 2008, the TSB Bank PIE Cash Fund commenced. TSB Bank Limited is the manager and promoter of the TSB Bank PIE Unit Trust, and the New Zealand Guardian Trust Company Limited is the trustee. Units in the Fund do not directly represent deposits or other liabilities of TSB Bank. However, the Trust Deed stipulates that 100% of the TSB Bank PIE Cash Fund is invested exclusively in TSB Bank debt securities. As at 30 June 2010, the TSB Bank PIE Unit Trust had \$81.7m invested with the Bank.

### 21. REPORTING BY SEGMENT

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

	<b>30 June 2010 Unaudited \$000</b>	<b>30 June 2009 Unaudited \$000</b>	<b>31 March 2010 Audited \$000</b>
<b>22. COMMITMENTS AND CONTINGENT LIABILITIES</b>			
Commitments approved to advance less than one year	105,465	103,366	103,500
Commitments approved to advance greater than one year	247,425	348,556	237,151
Capital Commitments	-	1,025	-
	<b>352,890</b>	<b>452,947</b>	<b>340,651</b>

Lending Commitments are also split by maturity in Note 18.

There are no material contingent liabilities and outstanding claims known by the Directors as at 30 June 2010 that would impact on the financial statements.

## NOTES TO THE INTERIM FINANCIAL STATEMENTS

### FOR THE THREE MONTHS ENDED 30 JUNE 2010

#### 23. 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 (ALMC) 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.

**(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 Retail Foreign Currency outlets. 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**

TSB Bank defines its Liquidity Risk as the risk that the Bank is unable to meet its obligations as they become payable as a result of:

- an unanticipated change in customer demand (such as a "run" on Call deposits);
- an unexpected difficulty in accessing adequate funding (for example, a credit rating downgrade resulting in reduced bank funding lines); or
- an unanticipated level of asset write-down (for example, from defaulting loans).

The Bank has an internal framework and policy in place to ensure it maintains sufficient liquidity to enable it to meet its obligations as they become payable and more specifically to:

- a) meet its minimum liquidity requirements as defined in the Reserve Bank of New Zealand regulation (BS13); and
- b) meet its minimum liquidity requirements as modelled by the Bank.

The Liquidity Risk Management Policy sets out the minimum liquidity requirements to be met by the Liquidity Portfolio. The precise structure of the Liquidity Portfolio, however, is governed by the Asset Management Policy and Credit Risk Management Policy.

## NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE THREE MONTHS ENDED 30 JUNE 2010

### 23. RISK MANAGEMENT POLICIES - continued

Key points of the policy are:

- TSB Bank will not place reliance on committed bank funding facilities for the purpose of maintaining its minimum desired liquidity risk profile. Any such stand-by facilities will be treated as a secondary or buffer source of liquidity only.
- Investment Limits for assets held for liquidity management purposes are set out in the Asset Management Policy, subject to the Credit Risk Policy.
- Modelling of the Bank's liquidity requirements will be undertaken regularly. Modelling should explicitly break down the source of liquidity requirement, based on an assessment of likely movements in the event of a crisis. For example, it may be considered that all bank and capital markets funding may be withdrawn on the first day of the crisis, or that a given percentage of cheque account balance will remain after the first week of the crisis. A key output of the model will be a "crisis time-line", detailing the speed and extent of deposit and funding source withdrawal compared with the Bank's ability to source funds from its Liquidity Portfolio (or other source).
- The Bank has set internal limits that will ensure it exceeds Liquidity Policy Quantitative requirements are met at all times.
- A liquidity contingency plan is in place which is to include the following scenarios:
  - Regular breaches of internal limits;
  - Difficulty or being unable to borrow in the wholesale markets;
  - Lenders demanding a higher than standard funding premium or seeking collateral for funding provided;
  - Deteriorating cash flow positions as evidenced by increasing liquid asset requirements in the short term time bands in order to meet normal cash flow requirements;
  - Unusual volatility in the deposit base;
  - Frequent utilisation of overdraft or standby facilities;
  - Deterioration in asset quality or profitability; or
  - An adverse rating change.

Liquidity Management:

Daily cash flow requirements will be managed through:

1. A minimum holding in the Reserve Bank ESAS (Exchange Settlement Account System) account. The main purpose of ESAS is to provide settlement accounts for the settlement of all real time payments. There are no overdrafts permitted on these accounts.
2. Tactical investing of short term investments in the form of bank paper to ensure regular maturities or maturity dates to cover known events.
3. Use of overnight autorepo facilities or inter bank borrowing when short in the ESAS account.
4. Tactical pricing of liability products to attract funding

Daily cash flow requirements can be projected from historical movements through the ESAS account which reflect current trends in retail deposit products and lending products.

Liquidity risk may be minimised through either or both of:

- committed bank funding (a "stand-by" facility), which may be drawn upon to obtain funds if required; and/or
- Securitisation of lending assets which may be used as collateral with the Reserve Bank; and/or
- a portfolio of high quality liquid assets (the "Liquidity Portfolio"), which may be sold to realise funds if required. The Liquidity Portfolio comprises highly-rated and highly-liquid assets, for the purpose of maintaining the Bank's desired liquidity position. These assets comprise of those listed as Primary Liquidity Assets in BS13A.

It is recognised, however, that stand-by facilities may become unavailable in a crisis, either due to defaults or other breaches by the Bank, or due to the external circumstances affecting the Bank's liquidity also being classified as a force majeure for the providing bank. TSB Bank will therefore rely primarily on the Liquidity Portfolio to provide its liquidity requirements.

**NOTES TO THE INTERIM FINANCIAL STATEMENTS**  
**FOR THE THREE MONTHS ENDED 30 JUNE 2010**

---

**23. RISK MANAGEMENT POLICIES - continued**

All breaches are to be reported immediately to the Deputy CEO (and Reserve Bank if applicable) and remedial action undertaken. All breaches are reported via the ALMC to the Board. Liquidity risk is managing risk to ensure the Bank is able in the short term to meet its financial obligations as they fall due.

**(vi) Operational Risk**

Operational Risk is defined as the risk of economic gain or loss resulting from inadequate or failed internal processes and methodologies, people, systems or external events. Senior management are accountable to the Board for maintaining an adequate and effective control environment. While operational risk can never be eliminated, TSB Bank endeavours to minimise the impact of operational incidents by ensuring that the appropriate infrastructure of controls, systems, staff and processes are in place.

**(vii) 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 four directors who are B C Richards (independent director), E Gill (independent director), D L Lean (independent director), and C B Tuuta. 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

## DIRECTORY

---

### Directors

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

### Management

K.J. (Kevin) Murphy, CA, Managing Director/CEO  
 C.L. (Charles) Duke, Deputy Chief Executive  
 R.G. (Roddy) Bennett, B. Sci, ACA, Chief Financial Officer  
 R. (Rod) Grant, National Business Manager - Marketing  
 R. (Rod) Main, National Business Manager - Operations  
 M.D. (Marie) Collins, Manager Technology Services  
 L.D. (Linda) Burczynski, Dipl. Mgmt, Manager Human Resources  
 P.D. (Phil) Gerrard, AAIBS, Manager Lending Services  
 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, Network Support  
 L.N. (Lindsay) McElroy, Business Development Manager, Auckland  
 S.A. (Sharon) Young, Manager, Auckland Central  
 N.M. (Neil) Carrie, Manager, Takapuna Service Centre  
 S. (Sandra) Makein, Manager, Hamilton Service Centre  
 K.G. (Kerry) Clement, Manager, Tauranga Service Centre  
 C.P. (Chris) Greatholder, Manager, Napier Service Centre  
 J.E. (Jo) Robson, Manager, Hastings Service Centre  
 G.J. (Graham) Clarke, Manager, Palmerston North 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  
 P.J. (Paul) Drake, Manager, Fitzroy  
 V.J. (Viv) Hall, Manager, Waitara  
 F.J. (Fay) Bint, Manager, Inglewood  
 N.L. (Neal) Spragg, Manager, Stratford  
 K.H. (Kim) Dines, Manager, Westown  
 L.A. (Lisa) Hardegger, Manager, Moturoa  
 R.A. (Rachel) Werder, Manager, Hawera  
 J.A. (Jill) Sutton, Manager, Eltham  
 L. (Linda) Bishop, Manager, Opunake  
 C.M. (Campbell) Third, Manager, Centre  
 E.A. (Elizabeth) Dobson, Manager, Frankleigh Park  
 S.R. (Steven) Dickson, Manager, Vogeltown  
 V.J. (Valmai) McEldowney, Manager, Bell Block  
 J.A. (Jade) Hopkinson, Manager, Merrilands

### Divisions

S.J. (Stephen) McIntosh, Manager TSB Foreign Exchange  
 G.P. (Greg) Hull, AREINZ, 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

KPMG  
 10 Customhouse Quay, Wellington