

TSB Bank **Summary Report 2017**



Proudly New Zealand owned since 1850



TSB BANK BECAME A MAJOR PARTNER OF SURF LIFE SAVING NEW ZEALAND IN NOVEMBER 2016

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## Highlights 2017

The financial year has again delivered a mix of milestone achievements, record results and award-winning customer satisfaction recognition.

- The Bank reported profit before tax of \$64.5 million.
- The Bank's loan portfolio grew by 21.6% during a very competitive home loan market environment.
- Depositors' funds for the year increased by \$343.6 million to a record \$6.1 billion.
- The Bank provided a dividend of \$10 million for the TSB Community Trust.
- A new multi-year flagship sponsorship was announced in partnership with Surf Life Saving New Zealand.
- Natalie Pearce joined the Board of Directors in June 2016.
- Consumer NZ awarded TSB Bank the People's Choice Award in Banking for the second year running with an 87% customer satisfaction level.
- The Bank won the Human Resources Institute of New Zealand (HRINZ) Workplace Engagement Programme of the Year 2017 Award for significant improvement of workforce engagement culture.

## Chairman and Managing Director's Report



JOHN KELLY: CHAIR – BOARD OF DIRECTORS



KEVIN MURPHY: MANAGING DIRECTOR/CEO

Amongst increased competition and international political and economic uncertainty, TSB Bank ended the financial year in a strong position. Over the past 12 months we focused on positioning our organisation for further growth, strengthening our competitive advantage and building bench strength. All of this has been achieved without losing focus on our commitment to deliver a superior customer experience.

The lower interest rate environment and funding demands are putting further pressure on banks to control costs. We will see this trend continue in the coming year making the banking industry even more competitive. During this period we have an opportunity to establish our point of difference by remaining focused on what we are great at – keeping customers at the centre of everything we do.

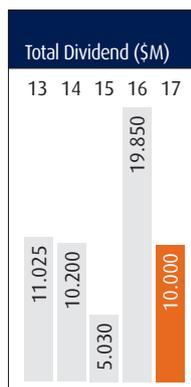
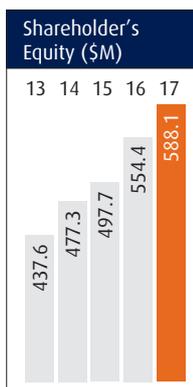
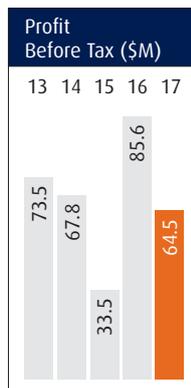
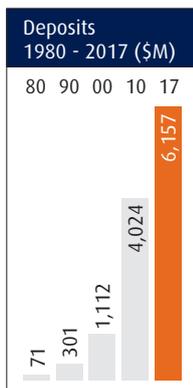
Last year we reported that our core strategy was to support nationwide growth and this year's results reflect achievements in line with this. We have been reviewing our distribution channels and sales processes, enhancing our technology platforms and growing our people resources and capabilities to enable us to achieve our goals. Alongside this, we are expanding our profile throughout the country in relevant and meaningful ways to position us as an attractive bank for both new and existing customers.

**Economy:** Whilst economic growth in New Zealand has been relatively stable over the past year, the economy continues to perform well. Strong net migration, tourism spending and price increases for many of New Zealand's key commodities are just some of the factors that have contributed to a strong economic backdrop for our industry.

The benign inflation environment that prevailed both globally and domestically throughout most of 2016 has seen the Reserve Bank of New Zealand reduce the Official Cash Rate to an all-time low of 1.75%.

Competition amongst banks for funding intensified during 2016, which has increased the costs of deposits and put pressure on margins. It is more challenging to attract customers in this environment because they are increasingly motivated to secure competitive rates and are comparative shopping. Despite this, we remain very well-funded and capitalised versus regulatory minimums.

Like our industry counterparts, we continue to develop our risk management capabilities and this has seen increased use of hedges over the past year to manage interest rate risk



in our Balance Sheet. This is to assist in mitigating fluctuations in earnings as a result of movements in wholesale interest rates.

**Financial Results:** We had a strong year with profit before tax of \$64.5 million. Our deposits increased 5.9% throughout the year and hit a record high of \$6.1 billion. We attribute this to record customer growth, our continued market leading customer service, and competitive pricing of our deposit product offerings. The highly competitive nature for deposits is expected to continue as banks realign their funding requirements, lending rates trend upwards and margins tighten.

Our lending portfolio grew steadily with our book increasing 21.6% over our previous year's growth of 16.9% and well ahead of industry growth.

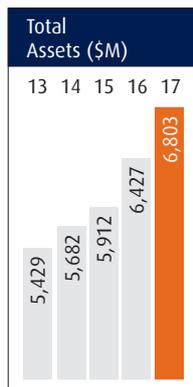
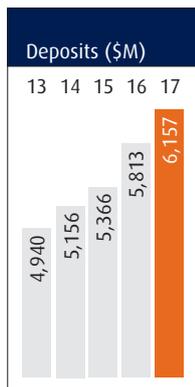
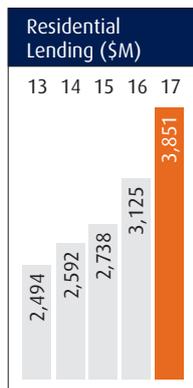
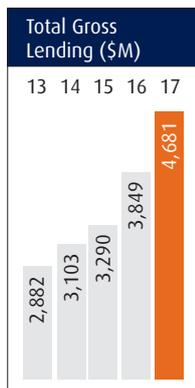
In the home loan market, the downward trend of mortgage interest rates over the last couple of years has reversed largely as a consequence of higher funding costs and tightening margins for banks. Loan to Value Ratio (LVR) restrictions introduced by the Reserve Bank are taking some of the heat out of the housing market. However housing undersupply in Auckland and strong immigration continues to underpin house prices.

We adapted well to working within the LVR restrictions. While there was a general slowing in the residential property investment space, we have continued to secure quality deals, although high LVR lending is not a key target for us. Whilst growth was achieved across the country we experienced above market growth in the "golden triangle" area of Auckland, Hamilton and Tauranga which now comprises 35.3% of our total book. This growth is attributed to increasing contributions from branches opened in the past couple of years as well as ongoing customer advocacy and referrals. We have also increased our mobile mortgage manager network and progressed our relationships with third party business providers, such as brokers, to better serve our customers in a timely and flexible manner.

Our Agribusiness and Business Banking units comprise a small part of our portfolio and continue to grow as they embed their teams and strategies. Our Agribusiness division remains primarily focused on Taranaki, with limited acquisition in the Manawatu and Waikato regions. Our team of rural experts provide specialist knowledge to regional farmers. Our rural loan book grew by 13.0% – a good result considering the recent market downturn due to reduced dairy prices. Our team worked closely supporting customers in the sector during this challenging period while continuing to look for quality opportunities which contributed to our book growth.

Our specialist Business Banking team entered their second year of operation leading our business banking strategy. Our commercial lending book increased by 14.6% as a result of significant increases in commercial property finance enquiries and opportunities. The team's assessment criteria remains focussed on property location, construction quality, multi-use capability, tenant quality and the TSB Bank relationship.

A relatively new lending facility for us has been through Harmony – a New Zealand peer-to-peer lending marketplace. We have funded \$50 million as an institutional investor with Harmony with our funds designated to the personal lending market in New Zealand. This relationship aligns with our diversification strategy and provides a means for us to support customers indirectly in achieving their financial goals.



We continued to invest in our people, systems and technology throughout the year to strengthen our point of difference for future growth. As anticipated, this investment is reflected in an increase of our cost to income ratio from 46.6% to 53.9%.

**Technology:** This year we invested in technology to strengthen our internal systems as well as to build customer-centric, data driven, digital customer experiences that make it easier to engage with us and deliver what is important to customers.

We completed a restructure of our technology teams this year to be able to support our growing number of systems and develop specialist knowledge to support them. Our newly defined teams are each focused on a specific layer of our technology stack and have full operational responsibility of the technology roadmap they support.

We also established an Info Insights team to enhance our capability to use data to drive decisions and enable insights. The team work across the business and brings further potential to explore customer insights that lead to innovation and opportunity and ultimately better customer experiences.

Other technology projects completed this year included two major core banking platform upgrades, the implementation of TechOne as our new financial management system and a number of new security systems and processes to protect our data and our customers.

In September, we launched a redesigned website with improvements in response to customer feedback. In addition to a modern and fresh design, some of the improvements we made included easy-to-use calculators, resizing for smaller screens, improved search and navigation as well as easier ways for customers to join us and access services and information. Since launching the website, we have seen greater numbers of visitors and requests to join, and more visitors staying on the website to complete an enquiry from mobiles and tablets. Ongoing improvements to Online and Mobile Banking are also helping us provide enhanced and accessible technology to our customers.

In August, we launched a new lending application system to improve our lending experience for customers across the country. The system substantially reduces the time to process a loan from application to contract with multiple business efficiencies and customer benefits. The process mirrors the natural flow of a conversation with a customer and automates aspects of the process by pulling data from other platforms from both within and outside our systems. We have already realised benefits from the process for both our employees and customers through improved efficiency, less double-handling and more transparency. The lending system is being implemented in phases with standard residential lending already launched and increased functionality is being introduced every month with personal loans, complex residential lending (involving trusts, companies and guarantors) in process.

**Customer Satisfaction:** Our focus on continuous improvement in our customer experience remains strong. We regularly engage customer feedback via our “Voice of Customer” programme. This helps us to understand and measure our customers’ needs and experiences with us and proactively improve our services to them. Our Customer Satisfaction ratings remain strong, and this year 95.6%\* of our customers rate our service

as very good or excellent. We are proud that our activities to retain and enhance our high levels of quality service are proving successful.

This year we were awarded the Consumer NZ People's Choice Award for Banking for the second year running. Winners are identified through detailed analysis of Consumer NZ surveys that ask respondents to rate their 'main' bank across a number of variables. TSB Bank shares the 2017 award with two other New Zealand owned banks but we the top the overall customer satisfaction result at 87%.

We were also proud to be recognised through other awards including the 2017 Canstar Blue Most Satisfied Customers Award in banking and Reader's Digest 2017 Quality Service Award. It is rewarding when third parties acknowledge our accomplishments in delivering quality products and exceptional service to our customers. It proves that we are delivering our promise of putting people first.

**Our Community:** As a community owned bank we continue to support all of our communities nationwide. This year, we paid an annual dividend of \$10 million to support the TSB Community Trust in its work. The Trust owns TSB Bank through its 100% ownership of TSB Group.

Across the country we have enhanced our community connections through our robust and diverse sponsorship activity, volunteerism and community support programmes. Two significant activities in this space included entering into a multi-year partnership with Surf Life Saving New Zealand and being a founding partner for the new Christchurch central library, via the Christchurch City Foundation.

Our sponsorship of Surf Life Saving New Zealand supports the national body and its 74 clubs nationwide, extending our community commitment from coast to coast in all directions. Our partnership is a natural fit because putting people first and protecting individuals' and families' futures are shared values between our organisations. Our partnership has been positively received by our customers, employees and communities and we look forward to building our relationship over the coming seasons.

We are looking forward to the development of Christchurch's new central library or Knowledge Centre. As a community owned bank, contributing to Christchurch's regeneration through this property aligns strongly with our community mindedness and provides us with the means to embrace our social responsibility within a community in which we have had a long-standing presence.

**Our People:** Building the capability of our people has been the foundation of our growth strategy and we continue to focus on this. We increased our number of full time equivalent employees by 14% by creating new specialist roles and then placing the right people into the right roles to retain a strong focus on customer delivery and performance objectives. We have significantly invested in our Learning and Development programmes to equip our people with the skills and abilities they need to meet our strategic objectives. We enhanced the depth and diversity of our leadership teams whom in turn are fostering a robust internal culture aligned to our values. In an environment of rapid change we have retained an engaged workforce as measured by our annual Kenexa

survey. We launched a major culture transformation programme in March 2016 to embed new corporate values, organisation purpose and goal. This major internal programme led to us being recognised by the Human Resources Institute of New Zealand (HRINZ) with the presentation of the Workplace Engagement Programme of the Year Award for 2017. Our Board, management team and all employees are very proud of this recognition.

In June 2016 we welcomed Natalie Pearce to our Board of Directors. Natalie holds a Commerce degree from Canterbury University and started her career in the financial services industry. She has held a number of governance roles and is the founder and director of Home of the Brave, a boutique brand consultancy. At our last Annual General Meeting we said goodbye to long-serving Board member Bruce Richards who retired from the Board after 28 years of service to the bank.

In summary, we spent the past year strengthening the foundation of our business for growth and expansion. Our investments in people, technology and processes have improved our customers' experiences and empowered our employees. Amongst all of the change and growth we are appreciative for the support of our long-term and new customers for choosing to bank with us. Looking forward, we will continue to build on our strengths, implement our strategy, become more relevant to our customers and aim to be an even better bank.



J.J. Kelly  
Chair – Board of Directors  
8 June 2017



K.J. Murphy  
Managing Director/CEO  
8 June 2017



"KNOWLEDGE CENTRE" CHRISTCHURCH. TSB BANK PARTNERSHIP WITH CHRISTCHURCH CITY FOUNDATION



POET'S BRIDGE: TSB BANK TUNNEL OF LIGHT INSTALLATION AT THE TSB BANK FESTIVAL OF LIGHTS IN NEW PLYMOUTH

## Historical Summary of Financial Statements

|   | 2017           | 2016           | 2015           | 2014           | 2013           |
|---|----------------|----------------|----------------|----------------|----------------|
| <b>All in \$000's</b>                             |                |                |                |                |                |
| <b>Financial performance</b>                      |                |                |                |                |                |
| Interest Income                                   | 290,385        | 317,809        | 314,785        | 286,985        | 280,604        |
| Interest Expense                                  | 158,850        | 187,810        | 189,120        | 176,277        | 173,583        |
| <b>Net Interest Income</b>                        | <b>131,535</b> | <b>129,999</b> | <b>125,665</b> | <b>110,708</b> | <b>107,021</b> |
| Income from Associate                             | -              | -              | 5,656          | 4,407          | -              |
| Other Income                                      | 17,224         | 13,829         | 15,450         | 15,068         | 17,531         |
| <b>Net Operating Income</b>                       | <b>148,759</b> | <b>143,828</b> | <b>146,771</b> | <b>130,183</b> | <b>124,552</b> |
| Operating Expenses                                | 80,241         | 67,003         | 57,243         | 50,919         | 48,901         |
| Impairment Losses/(Reversal of Impairment Losses) | 4,010          | (8,723)        | 56,052         | 11,492         | 2,140          |
| <b>Profit before Tax</b>                          | <b>64,508</b>  | <b>85,548</b>  | <b>33,476</b>  | <b>67,772</b>  | <b>73,511</b>  |
| Tax Expense                                       | 18,168         | 23,985         | 7,959          | 17,819         | 20,400         |
| <b>Net Profit Attributable to Shareholder</b>     | <b>46,340</b>  | <b>61,563</b>  | <b>25,517</b>  | <b>49,953</b>  | <b>53,111</b>  |
| Dividend  | 10,000         | 19,850         | 5,030          | 10,200         | 11,025         |
| <b>Retained Profit for the Year</b>               | <b>36,340</b>  | <b>41,713</b>  | <b>20,487</b>  | <b>39,753</b>  | <b>42,086</b>  |
| <b>Financial position</b>                         |                |                |                |                |                |
| Total Assets                                      | 6,802,680      | 6,427,143      | 5,912,151      | 5,681,875      | 5,428,822      |
| Total Impaired Assets – Loans and Advances        | 8,919          | 10,434         | 692            | 3,960          | 2,074          |
| Impaired Asset – Solid Energy                     | -              | -              | 53,874         | 13,757         | -              |
| Deposits  | 6,156,809      | 5,813,192      | 5,366,029      | 5,155,881      | 4,939,659      |
| Total Liabilities                                 | 6,214,556      | 5,872,735      | 5,414,436      | 5,204,532      | 4,991,232      |
| <b>Shareholder's Equity</b>                       |                |                |                |                |                |
| Retained Profit for the Year                      | 36,340         | 41,713         | 20,487         | 39,753         | 42,086         |
| Total Shareholder's Equity                        | 588,124        | 554,408        | 497,715        | 477,343        | 437,590        |
| <b>Performance</b>                                |                |                |                |                |                |
| Return on Shareholder's Equity                    | 7.88%          | 11.10%         | 5.13%          | 10.46%         | 12.14%         |
| Return on Average Total Assets                    | 0.70%          | 1.00%          | 0.44%          | 0.90%          | 1.00%          |
| Growth in Total Assets                            | 5.84%          | 8.71%          | 4.05%          | 4.66%          | 5.11%          |
| Growth in Depositors' Funds                       | 5.91%          | 8.33%          | 4.08%          | 4.38%          | 4.76%          |
| Residential Lending                               | 3,851,176      | 3,125,154      | 2,738,069      | 2,592,508      | 2,494,399      |
| Total Lending                                     | 4,657,668      | 3,829,983      | 3,275,292      | 3,088,354      | 2,863,532      |
| Net Profit after Tax                              |                |                |                |                |                |
| - as a % of Average Shareholder's Equity          | 8.11%          | 11.70%         | 5.23%          | 10.92%         | 12.75%         |
| - per employee                                    | 105.26         | 158.67         | 76.86          | 162.71         | 189.01         |
| Operating Expenses to Net Operating Income        | 53.94%         | 46.59%         | 39.00%         | 39.11%         | 39.26%         |
| <b>Prudential</b>                                 |                |                |                |                |                |
| Shareholder's Equity as a % of Total Assets       | 8.65%          | 8.63%          | 8.42%          | 8.40%          | 8.06%          |
| Common Equity Tier 1 Capital Ratio                | 14.60%         | 14.52%         | 13.53%         | 13.91%         | 14.56%         |
| Total Capital                                     | 14.60%         | 14.52%         | 13.85%         | 14.21%         | 14.68%         |

The amounts set out in the Financial Summary have been prepared from audited financial statements of the Bank. The Bank has no extraordinary items or minority interests.

## Summary Income Statement for the year ended 31 March 2017

|   | 2017           | 2016           |
|---|----------------|----------------|
| <b>All in \$000's</b>                             |                |                |
| Interest Income                                   | 290,385        | 317,809        |
| Interest Expense                                  | 158,850        | 187,810        |
| <b>Net Interest Income</b>                        | <b>131,535</b> | <b>129,999</b> |
| Other Operating Income                            | 17,224         | 13,829         |
| <b>Net Operating Income</b>                       | <b>148,759</b> | <b>143,828</b> |
| Operating Expenses                                | 80,241         | 67,003         |
| <b>Profit before Impairment and Tax</b>           | <b>68,518</b>  | <b>76,825</b>  |
| Impairment Losses/(Reversal of Impairment Losses) | 4,010          | (8,723)        |
| <b>Profit before Tax</b>                          | <b>64,508</b>  | <b>85,548</b>  |
| Tax Expense                                       | 18,168         | 23,985         |
| <b>Net Profit after Tax</b>                       | <b>46,340</b>  | <b>61,563</b>  |
| Dividend  | 10,000         | 19,850         |
| <b>Retained Profit for the Year</b>               | <b>36,340</b>  | <b>41,713</b>  |

## Summary Statement of Comprehensive Income for the year ended 31 March 2017

|  | 2017           | 2016          |
|--|----------------|---------------|
| <b>All in \$000's</b>  |                |               |
| Net Profit after Tax   | 46,340         | 61,563        |
| Other Comprehensive Income:  |                |               |
| <u>Items that may be reclassified subsequently to Profit or Loss:</u>      |                |               |
| Movement in Effective portion of Changes in Fair Value of Cash Flow Hedges | 3,369          | (5,769)       |
| Movement in Fair Value of Available for Sale Investments                   | (7,014)        | 26,574        |
| Income Tax on items that may be reclassified to Profit or Loss             | 1,021          | (5,825)       |
| <b>Other Comprehensive Income for the year, net of Tax</b>                 | <b>(2,624)</b> | <b>14,980</b> |
| <b>Total Comprehensive Income for the year</b>                             | <b>43,716</b>  | <b>76,543</b> |

## Summary Statement of Changes in Equity for the year ended 31 March 2017

|  | Note | 2017           | 2016           |
|--|------|----------------|----------------|
| <b>All in \$'000's</b>                         |      |                |                |
| Balance at 1 April 2016                        |      | 554,408        | 497,715        |
| Total Comprehensive Income for the Year        |      |                |                |
| Net Profit after Tax                           |      | 46,340         | 61,563         |
| Total Other Comprehensive Income               |      | (2,624)        | 14,980         |
| <b>Total Comprehensive Income for the Year</b> |      | <b>43,716</b>  | <b>76,543</b>  |
| Dividends to Equity Holder                     |      | (10,000)       | (19,850)       |
| <b>Balance at 31 March 2017 <sup>1</sup></b>   |      | <b>588,124</b> | <b>554,408</b> |

<sup>1</sup> 2017 Equity of \$588.1m comprises Share Capital \$10.0m; Available for Sale Investments Revaluation Reserve \$14.0m (net of Deferred Tax); Cash Flow Hedge Reserve (\$1.8m); and Retained Earnings \$565.9m.

2016 Equity of \$554.4m comprises Share Capital \$10.0m; Available for Sale Investments Revaluation Reserve \$19.1m (net of Deferred Tax); Cash Flow Hedge Reserve (\$4.3m); and Retained Earnings \$529.6m.

## Summary Statement of Financial Position as at 31 March 2017

|   |   | 2017             | 2016             |
|---|---|------------------|------------------|
| <b>All in \$'000's</b>                            |   |                  |                  |
| <b>Assets</b>                                     |   |                  |                  |
| Cash and Cash Equivalents                         |   | 144,200          | 118,333          |
| Investment Securities                             | 4 | 1,969,995        | 2,448,547        |
| Loans and Advances to Customers                   | 5 | 4,657,668        | 3,829,983        |
| Other Assets                                      |   | 30,817           | 30,280           |
| <b>Total Assets</b>                               |   | <b>6,802,680</b> | <b>6,427,143</b> |
| <b>Liabilities</b>                                |   |                  |                  |
| Deposits  | 7 | 6,156,809        | 5,813,192        |
| Other Liabilities                                 |   | 57,747           | 59,543           |
| <b>Total Liabilities</b>                          |   | <b>6,214,556</b> | <b>5,872,735</b> |
| <b>Total Shareholder's Equity</b>                 |   | <b>588,124</b>   | <b>554,408</b>   |
| <b>Total Liabilities and Shareholder's Equity</b> |   | <b>6,802,680</b> | <b>6,427,143</b> |

## Summary Statement of Cash Flows for the year ended 31 March 2017

|  | 2017      | 2016     |
|--|-----------|----------|
| All in \$000's   |           |          |
| Net Cash Flows from Operating Activities               | (422,568) | (46,735) |
| Net Cash Flows from Investing Activities               | 461,083   | 69,654   |
| Net Cash Flows from Financing Activities               | (12,648)  | (11,755) |
| Net Increase/(Decrease) in Cash and Cash Equivalents   | 25,867    | 11,164   |
| Add Cash and Cash Equivalents at beginning of the Year | 118,333   | 107,169  |
| Cash and Cash Equivalents at End of Year               | 144,200   | 118,333  |

For and on behalf of the Board of Directors



J.J. Kelly  
Chair – Board of Directors  
8 June 2017



K.J. Murphy  
Managing Director/CEO  
8 June 2017

# Notes to the Summary Financial Statements

## 1. Statement of Accounting Policies

### Statement of Compliance

TSB Bank Limited is a profit-oriented company registered under the Companies Act 1993 and incorporated in New Zealand. The Bank's principal business activity is retail banking in New Zealand.

These summary financial statements have been prepared in compliance with FRS-43: Summary Financial Statements and comply with New Zealand Generally Accepted Accounting Practice (NZ GAAP) as it relates to summary financial statements. The specific disclosures included in the summary financial statements have been extracted from the full financial statements dated 8 June 2017. The full financial statements from which the summary financial statements have been produced have been audited by KPMG, who expressed an unmodified opinion in relation to those statements at 8 June 2017. These summary financial statements have been reviewed by KPMG for consistency with the full financial statements.

Users should note that these summary financial statements cannot be expected to provide as complete an understanding as provided by the full financial statements. A user may obtain a copy of the full financial statements by accessing the TSB Annual Report on the TSB website at [www.tsbbank.co.nz](http://www.tsbbank.co.nz).

The full financial statements have been prepared in accordance with the requirements of the Financial Reporting Act 2013 and 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; as well as with the requirements of the Financial Markets Conduct Act 2013 and the Order. The full financial statements comply with International Financial Reporting Standards as issued by the International Accounting Standards Board (IASB).

The financial statements were approved by the Board of Directors on 8 June 2017.

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

The amounts contained in these summary financial statements are presented in New Zealand dollars and are rounded to the nearest thousand dollars. Accounting policies adopted are consistent with those used in previous periods. There has been one change in accounting policy. The Bank has adopted Fair Value Hedge accounting to record the derivative financial instruments associated with Investment Securities that are in a fair value hedge relationship. The Bank has not restated prior periods as the new classification was effective from 31 July 2016.

## 2. Critical Accounting Estimates, Assumptions and Judgements

The preparation of the full financial statements, on which these summary financial statements are based, requires the use of certain critical accounting estimates and requires management to exercise its judgement in the process of applying the Bank's accounting policies. Some areas involve a high degree of judgement or complexity and there are areas where assumptions and estimates are significant.

## 3. Risk Management Policies

The Bank is committed to the appropriate management of all risks arising from its activities, in accordance with the stated risk appetite of the Board of Directors. The Bank has governance 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 and setting the risk appetite for the material risks facing the Bank.

The Bank's risk management framework embeds risk authority and accountability throughout the Bank. This framework is grounded on the following principles:

- A well constituted organisational structure defining clearly the roles and responsibilities of individuals involved in instigating, accepting, managing and reporting risk;
- Separation of risk-taking from risk review functions;
- Clearly defined risk Management policies and procedures;
- Mechanisms for the on-going review of systems, policies, and procedures, including independent review by Internal and External Audit.

The role of Internal Audit is to evaluate and improve the effectiveness of governance, risk management and control processes. The Internal Audit function is outsourced, and the function reports directly to the Chair of the Audit Committee.

A number of Standing Committees of the Board and Executive Management assist in the management of risk, as follows: Audit Committee (Board Committee); Risk Committee (Board Committee); Nominations and Remuneration Committee (Board Committee); Asset and Liability Committee (Executive Committee); and Credit Committee (Executive Committee).

The Bank's principal risk areas are as follows:

**Credit Risk:** the potential risk for loss arising from failure of a debtor or counterparty to meet their contractual obligations. This arises within the Bank from its core business of providing lending facilities.

**Interest Rate Risk:** refers to the risk to the Bank's economic value or earnings arising from adverse movements in interest rates.

**Liquidity Risk:** the inability of the bank to access the funds that it needs to meet its obligations when they become due, which arises largely through the Bank's role in the maturity transformation between its assets (loans and investments) and its liabilities (deposits and other funding).

**Operational Risk:** the risk of economic gain or loss resulting from inadequate or failed internal processes and methodologies, people, systems or external events.

## Notes to the Summary Financial Statements

|  | Note | 2017             | 2016             |
|--|------|------------------|------------------|
| <b>All in \$000's</b>  |      |                  |                  |
| <b>4. Investment Securities</b>                              |      |                  |                  |
| <b>Available for Sale</b>                                    |      |                  |                  |
| Local Authority Securities                                   |      | 493,336          | 489,915          |
| Government Securities  |      | 190,943          | 168,455          |
| Registered Bank Securities                                   |      | 536,680          | 780,755          |
| Registered Bank Term Investments                             |      | -                | 25,099           |
| Other Investments*   |      | 749,036          | 984,323          |
|  |      | <b>1,969,995</b> | <b>2,448,547</b> |
| Reversal of Impairment Losses credited to Income Statement** | 6    | -                | 13,705           |

\* Other Investments relate to investments in Utility Companies, SOE's and Commercial Paper, and Bonds of New Zealand corporates. Included in this amount are \$17.825m for Solid Energy (SENZ) (Subject to Deed of Company Arrangement) Restructured Asset (31 March 2016 \$15.586m). The increase in the value of investment is due to the revision of the estimated recoveries from the sale of SENZ.

### 5. Loans and Advances to Customers

Loans and Advances to Customers cover all forms of lending to customers, and include mortgages, overdrafts, personal loans and credit card balances.

|  |  |                  |                  |
|--|--|------------------|------------------|
| Residential Mortgages                              |  | 3,851,176        | 3,125,154        |
| Community  |  | 4,504            | 5,968            |
| Commercial   |  | 438,265          | 382,388          |
| Agricultural                                       |  | 289,672          | 255,956          |
| Other*   |  | 97,299           | 79,923           |
| <b>Total Gross Loans and Advances to Customers</b> |  | <b>4,680,916</b> | <b>3,849,389</b> |
| Less Provision for Doubtful Debts (see note 6)     |  | (23,248)         | (19,406)         |
| <b>Total Loans and Advances to Customers</b>       |  | <b>4,657,668</b> | <b>3,829,983</b> |

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

## Notes to the Summary Financial Statements

All in \$000's

### 6. Credit Risk Management and Asset Quality

The Accounting Policies in the full Financial Statements set out all technical definitions in compliance with Accounting Standards. The following definitions are for guidance purposes in order to provide a general understanding.

The loan portfolio is predominantly (82%) residential mortgages which are secured by a first mortgage over freehold dwellings. For overdrafts and credit card balances, some are unsecured as well as secured by obligation mortgages, which cover all undertakings with the Bank.

An internal rating system is maintained by the Bank to assess the credit quality of Loans and Advances to Customers. At the origination of Loans and Advances to Customers, loans are risk graded based on debt servicing ability and Loan-to-Valuation (LVR) ratios. These risk grades are reviewed periodically for adverse changes during the loan's life.

TSB Bank Limited has a policy of providing a Collective Provision for Doubtful Debts over its lending portfolio. Specific allowances are made against individual Loans and Advances to Customers that are identified as being impaired in order to reduce the carrying amount to their estimated recoverable amounts.

A Past Due Asset is any credit exposure where a counterparty has failed to make payment when contractually due.

Impaired Assets arise where original terms have been changed to grant the counterparty a concession that would not otherwise have been available; or where revised terms of a facility are not comparable with the terms of new facilities with comparable risks; where the Bank assumes ownership of an asset (primarily real estate) in settlement of all or part of the debt; or other individually impaired assets.

|  | 2017             | 2016             |
|--|------------------|------------------|
| <b>Gross Loans and Advances to Customers by Credit Quality</b> |                  |                  |
| Neither Past Due or Impaired                                   | 4,612,865        | 3,792,641        |
| Past Due Assets Not Impaired                                   | 59,132           | 46,314           |
| Impaired Assets  | 8,919            | 10,434           |
| <b>Total Gross Loans and Advances to Customers</b>             | <b>4,680,916</b> | <b>3,849,389</b> |
| <b>Specific Provision for Doubtful Debts</b>                   |                  |                  |
| Balance at Beginning of Period                                 | 1,498            | 425              |
| Charged to Income Statement                                    | (360)            | 1,073            |
| <b>Balance at End of Period</b>                                | <b>1,138</b>     | <b>1,498</b>     |
| <b>Collective Provision for Doubtful Debts</b>                 |                  |                  |
| Balance at Beginning of Period                                 | 17,908           | 14,689           |
| Charged to Income Statement                                    | 4,202            | 3,219            |
| <b>Balance at End of Period</b>                                | <b>22,110</b>    | <b>17,908</b>    |
| <b>Total Provision for Credit Impairment</b>                   | <b>23,248</b>    | <b>19,406</b>    |
| <b>Impairment Losses charged to Income Statement</b>           |                  |                  |
| Movement in Collective Provision                               | 4,202            | 3,219            |
| Movement in Specific Provision                                 | (360)            | 1,073            |
| Mortgage Write-Offs  | 168              | 690              |
| Impairment Charge – Loans and Advances                         | 4,010            | 4,982            |
| Provision for Solid Energy NZ (refer Note 4)                   | -                | (13,705)         |
| <b>Total Impairment Losses charged to Income Statement</b>     | <b>4,010</b>     | <b>(8,723)</b>   |

## Notes to the Summary Financial Statements

All in \$000's

### 7. Deposits

|                                       | 2017             | 2016             |
|---------------------------------------|------------------|------------------|
| Retail Term Deposits                  | 3,080,422        | 2,661,894        |
| On Call Deposits Bearing Interest     | 2,737,705        | 2,822,951        |
| On Call Deposits Not Bearing Interest | 318,736          | 303,473          |
| Wholesale Deposits Bearing Interest   | 19,946           | 24,874           |
| <b>Total Deposits</b>                 | <b>6,156,809</b> | <b>5,813,192</b> |

All creditors and depositors are ranked equally. Wholesale Deposits consist of Registered Certificates of Deposit.

### 8. Liquidity Risk Management

The following tables analyse the Bank's financial assets and financial liabilities into relevant maturity groupings based on the remaining period as at balance date to the contractual maturity date. The amounts disclosed in the tables are the contractual undiscounted cash flows and include principal and future interest cash flows, and therefore will not agree to the carrying values on the Statement of Financial Position.

| Contractual Cash Flows                     | 31 March 2017       |                         |                  | 31 March 2016       |                         |                  |
|--|---------------------|-------------------------|------------------|---------------------|-------------------------|------------------|
|  | Current Assets      | Non-current Assets      | Total            | Current Assets      | Non-current Assets      | Total            |
| <b>Assets</b>                              |                     |                         |                  |                     |                         |                  |
| Liquid Assets and Securities               | 924,611             | 1,291,406               | 2,216,017        | 1,171,056           | 1,561,903               | 2,732,959        |
| Loans and Advances to Customers            | 723,948             | 5,528,920               | 6,252,868        | 605,610             | 4,799,503               | 5,405,113        |
| Other Financial Assets                     | 1,251               | 317                     | 1,568            | 1,044               | -                       | 1,044            |
| <b>Total Financial Assets</b>              | <b>1,649,810</b>    | <b>6,820,643</b>        | <b>8,470,453</b> | <b>1,777,710</b>    | <b>6,361,406</b>        | <b>8,139,116</b> |
|  |                     |                         |                  |                     |                         |                  |
|  | Current Liabilities | Non-current Liabilities | Total            | Current Liabilities | Non-current Liabilities | Total            |
| <b>Liabilities</b>                         |                     |                         |                  |                     |                         |                  |
| Deposits                                   | 5,804,469           | 454,654                 | 6,259,123        | 5,348,495           | 577,845                 | 5,926,340        |
| Other Financial Liabilities                | 46,475              | 10,549                  | 57,024           | 43,796              | 15,747                  | 59,543           |
| <b>Total Financial Liabilities</b>         | <b>5,850,944</b>    | <b>465,203</b>          | <b>6,316,147</b> | <b>5,392,291</b>    | <b>593,592</b>          | <b>5,985,883</b> |
| <b>Net Financial Assets/ (Liabilities)</b> | <b>(4,201,134)</b>  | <b>6,355,440</b>        | <b>2,154,306</b> | <b>(3,614,581)</b>  | <b>5,767,814</b>        | <b>2,153,233</b> |

For the purposes of the Table above, Current Assets/Liabilities are where contractual maturity is 12 months or fewer; and Non-current Assets/Liabilities are where contractual maturity is over 12 months.

## Notes to the Summary Financial Statements

### 9. Capital Adequacy (Unaudited)

The Bank's objectives for the management of capital adequacy are 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 maximise shareholder's 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.

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

- Total Capital must not be less than 8% of Risk Weighted Exposure.
- Tier One Capital must not be less than 6% of Risk Weighted Exposure.
- Common Equity Tier One Capital must not be less than 4.5% of Risk Weighted Exposure.
- Capital must not be less than NZ\$30m.
- Buffer Ratio must be not less than 2.5%.

|   | 2017   | 2016   |
|---|--------|--------|
| Total Capital Adequacy Ratios for the Bank at balance date are:                 |        |        |
| Common Equity Tier One capital as a percentage of total risk weighted exposures | 14.60% | 14.52% |
| Tier One Capital as a percentage of total risk weighted exposures               | 14.60% | 14.52% |
| Total Capital as a percentage of total risk weighted exposures                  | 14.60% | 14.52% |
| Buffer Ratio  | 6.60%  | 6.52%  |

### 10. Subsequent Events

There have been no material non-adjusting events requiring disclosure in these financial statements.



# Independent Auditor's Report

To the shareholder of TSB Bank Limited

## Report on the summary financial statements

### Opinion

In our opinion, the accompanying summary financial statements on pages 8 to 15:

- i. has been correctly derived from the audited financial statements of TSB Bank Limited (the "bank"); and
- ii. is a fair summary of the financial statements, in accordance with FRS-43 *Summary Financial Statements*.

The accompanying summary financial statements comprises:

- the summary statement of financial position as at 31 March 2017;
- the summary income statement, statements of comprehensive income, changes in equity and cash flows for the year then ended; and
- notes, including a summary of significant accounting policies and other explanatory information.



### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand) (ISA (NZ)) 810 *Engagements to Report on Summary Financial Statements*.

Our firm has also provided other services to the bank in relation to regulatory advisory services, risk advisory services and technical accounting services during the year ended 31 March 2017. Subject to certain restrictions, partners and employees of our firm may also deal with the bank on normal terms within the ordinary course of trading activities of the business of the bank. These matters have not impaired our independence as auditor of the bank. The firm has no other relationship with, or interest in, the bank.



### Use of this Independent Auditor's Report

This report is made solely to the shareholder as a body. Our audit work has been undertaken so that we might state to the shareholder those matters we are required to state to them in the Independent Auditor's Report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the shareholder as a body for our audit work, this report, or any of the opinions we have formed.



### Responsibilities of the Director's for the summary financial statements

The Directors are responsible for the preparation of a summary of the audited financial statements, in accordance with FRS-43 Summary Financial Statements.



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**x Auditor's Responsibilities for the Audit of the summary financial statements**

Our responsibility is to express an opinion on the summary financial statements based on our procedures.

We expressed an unmodified audit opinion on the financial statements in our audit report dated 8 June 2017.

The summary financial statements do not contain all the disclosures required for full financial statements under generally accepted accounting practice in New Zealand. Reading the summary financial statements, therefore, is not a substitute for reading the audited financial statements of the bank.

A handwritten signature of the KPMG firm, written in blue ink, located below the main text.

8 June 2017  
Wellington

## Directory for the year ended 31 March 2017

### Directors

J.J. (John) Kelly, Chair  
M.I. (Murray) Bain, M Com (Hons), BSc, C.F.Inst.D, Deputy Chair  
M.A. (Anne) Blackburn, MA, BA  
K.M. (Kelly) Marriner, LLB, BA  
K.J. (Kevin) Murphy, FCA, J.P, Managing Director/CEO  
N. (Natalie) Pearce, B.Com  
P.M. (Peter) Schuyt, B.Com, C.F.Inst.D  
D.J. (Dion) Tuuta  
H.P.W. (Hayden) Wano

### Executive Management

K.J. (Kevin) Murphy, FCA, J.P, Managing Director/CEO  
C.L. (Charles) Duke, Deputy Chief Executive  
R.G. (Roddy) Bennett, B. Sci, ACA, GM Finance  
D.R. (Doug) Widdowson, M. Comm, CA, GM Risk  
B.A. (Brent) Woodhead, MBA, GM Marketing  
S.L. (Steve) O'Shea, Dip Bank, MBA, FFin, GM Customer Sales & Service  
M.D. (Marie) Collins, GM Technology & Support  
A.A. (Audrey) Young, BSc (Hons), GM People & Culture

### Registered Office

Level 5, TSB Centre, 120 Devon St East, New Plymouth, 4310

### Principal Solicitors to the Company

Auld Brewer Mazengarb & McEwen  
9 Vivian Street, New Plymouth

### Auditor

KPMG  
10 Customhouse Quay, Wellington

### Contact us

Postal Address: PO Box 240, Taranaki Mail Centre, New Plymouth, 4340  
Phone Number: (06) 968 3700  
Fax Number: (06) 968 3740  
Web Address: <https://www.tsbbank.co.nz/contact>



