TSB Bank

TSB Bank Annual Report 2017

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

TSB Bank

Contents

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.

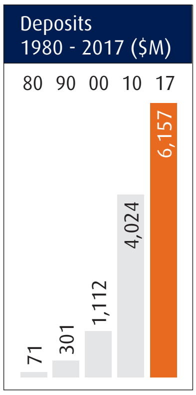
Last year we reported that our core strategy was to support nationwide growth and this year's results reflect achievements in line with this. We have been reviewing our distribution channels and sales processes, enhancing our technology platforms and growing our people resources and capabilities to enable 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.

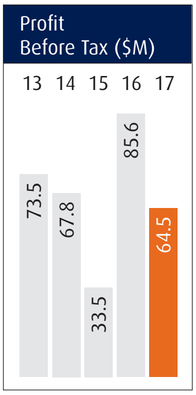
Economy: Whilst economic growth in New Zealand has been relatively stable over the past year, the economy continues to perform well. Strong net migration, tourism spending and price increases for many of New Zealand's key commodities are just some of the factors that have contributed to a strong economic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

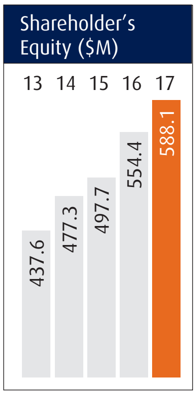
The benign inflation environment that prevailed both globally and domestically throughout most of 2016 has seen the Reserve Bank of New Zealand reduce the Official Cash Rate to an all-time low of 1.75%.

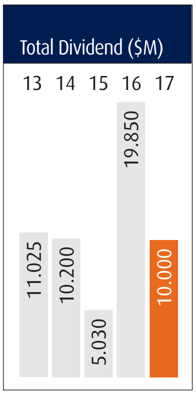
Competition amongst banks for funding intensified during 2016, which has increased the costs of deposits and put pressure on margins. It is more challenging to attract customers in this environment because they are increasingly motivated to secure competitive rates and are comparative shopping. Despite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

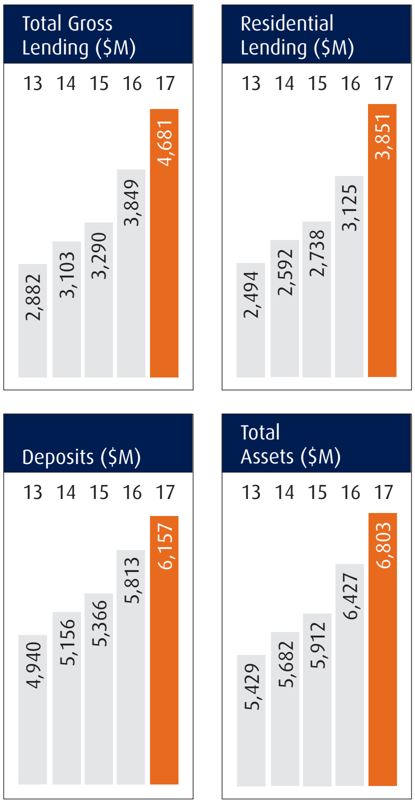
In the home loan market, the downward trend of mortgage interest rates over the last couple of years has reversed largely as a consequence of higher funding costs and tightening margins for banks. Loan to Value Ratio (LVR) restrictions introduced by the Reserve Bank are taking some of the heat out of 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 Harmoney – a New Zealand peer-to-peer lending marketplace. We have funded $50 million as an institutional investor with Harmoney 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

*Nielsen Customer Satisfaction Survey March 2017 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

Directors' Report for the year ended 31 March 2017

The Directors are pleased to present the Financial Statements of TSB Bank Limited for the year ended 31 March 2017.

Principal Activity

The Bank continues to offer a full range of Retail Banking Services to its customers along with support areas of operation in Real Estate and Foreign Exchange. The Bank has no direct exposure to the Funds Management industry, though it promotes the sale of Fisher Funds products, a Related Party.

Results and Distributions	$000
Net Profit after Tax	46,340
Dividends	
Interim Dividend Paid	3,173
Final Dividend	6,827
Retained Profit for the Year	36,340

Directors' and Officers' Liability Insurance

The Bank has effected insurance for Directors and Officers in respect of liability and costs that may arise from their positions in accordance with Section 162 of the Companies Act 1993. The insurance does not cover liabilities arising from criminal actions.

Items Excluded By Shareholder Agreement

The report has been prepared so as to include all information required to be disclosed under the Companies Act 1993 except where the Shareholder has resolved to take advantage of the reporting concessions available to them under Section 211 (3) of the Companies Act 1993.

The Shareholder has resolved to exclude remuneration received by the most highly paid employees during the accounting period.

Auditor

It is proposed that our Auditor, KPMG, continue in accordance with Section 196 of the Companies Act 1993.

Directors' Fees

Fees paid to Directors of the Bank for the year totalled $602,746.

Directors' Interests

Directors maintain personal banking relationships with the Bank and these are undertaken fulfilling normal Bank criteria. Directors are required to table all possible conflicts of interest at the Board of Directors' meetings and are required to abstain from any vote on those proceedings. The Bank complies with all the requirements of the Companies Act 1993 in terms of registers and notices for Directors' conflict of interest.

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

Historical Summary of Financial Statements

	2017	2016	2015	2014	2013
All in $000's					
Financial Performance					
Interest Income	290,385	317,809	314,785	286,985	280,604
Interest Expense	158,850	187,810	189,120	176,277	173,583
Net Interest Income	131,535	129,999	125,665	110,708	107,021
Income from Associate	-	-	5,656	4,407	-
Other Income	17,224	13,829	15,450	15,068	17,531
Net Operating Income	148,759	143,828	146,771	130,183	124,552
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
Profit before Tax	64,508	85,548	33,476	67,772	73,511
Tax Expense	18,168	23,985	7,959	17,819	20,400
Net Profit Attributable to Shareholder	46,340	61,563	25,517	49,953	53,111
Dividend	10,000	19,850	5,030	10,200	11,025
Retained Profit for the Year	36,340	41,713	20,487	39,753	42,086
Financial Position					
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
Shareholder's Equity					
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
Performance					
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%
Prudential					
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.

Income Statement for the year ended 31 March 2017

All in $000's	Note	2017	2016
Interest Income	2	290,385	317,809
Interest Expense	2	158,850	187,810
Net Interest Income		**131,535**	**129,999**
Other Operating Income	3	17,224	13,829
Net Operating Income		**148,759**	**143,828**
Operating Expenses	4	80,241	67,003
Profit before Impairment and Tax		**68,518**	**76,825**
Impairment Losses/(Reversal of Impairment Losses)	12	4,010	(8,723)
Profit before Tax		**64,508**	**85,548**
Tax Expense	5	18,168	23,985
Net Profit after Tax		**46,340**	**61,563**

Statement of Comprehensive Income for the year ended 31 March 2017

All in $000's	Note	2017	2016
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)
Other Comprehensive Income for the year, net of Tax		**(2,624)**	**14,980**
Total Comprehensive Income for the year		**43,716**	**76,543**

These financial statements are to be read in conjunction with the notes on pages 14 to 46.

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

All in $000's	Note	Share Capital	Available For Sale Investments Revaluation Reserve	Cash Flow Hedge Reserve	Retained Earnings	Total Equity
Balance at 1 April 2016		10,000	19,133	(4,268)	529,543	554,408
Total Comprehensive Income for the period						
Net Profit after Tax		-	-	-	46,340	46,340
Other Comprehensive Income:						
Movement in Effective Portion of Changes in Fair Value of Cash Flow Hedges (net of tax)		-	-	2,426	-	2,426
Movement in Fair Value of Available for Sale Investments (net of tax)		-	(5,050)	-	-	(5,050)
Total Other Comprehensive Income		-	(5,050)	2,426	-	(2,624)
Total Comprehensive Income for the period		-	(5,050)	2,426	46,340	43,716
Transactions with Owner, recorded directly in equity						
Dividends to Equity Holder	16	-	-	-	(10,000)	(10,000)
Total Transactions with Owner		-	-	-	(10,000)	(10,000)
Balance at 31 March 2017		10,000	14,083	(1,842)	565,883	588,124

Statement of Changes in Equity for the year ended 31 March 2016

All in $000's	Note	Share Capital	Available For Sale Investments Revaluation Reserve	Cash Flow Hedge Reserve	Retained Earnings	Total Equity
Balance at 1 April 2015		10,000	-	(115)	487,830	497,715
Total Comprehensive Income for the period						
Net Profit after Tax		-	-	-	61,563	61,563
Other Comprehensive Income:						
Movement in Effective Portion of Changes in Fair Value of Cash Flow Hedges (net of tax)		-	-	(4,153)	-	(4,153)
Movement in Fair Value of Available for Sale Investments (net of tax)		-	19,133	-	-	19,133
Total Other Comprehensive Income		-	19,133	(4,153)	-	14,980
Total Comprehensive Income for the period		-	19,133	(4,153)	61,563	76,543
Transactions with Owner, recorded directly in equity						
Dividends to Equity Holder	16	-	-	-	(19,850)	(19,850)
Total Transactions with Owner		-	-	-	(19,850)	(19,850)
Balance at 31 March 2016		10,000	19,133	(4,268)	529,543	554,408

These financial statements are to be read in conjunction with the notes on pages 14 to 46.

Statement of Financial Position as at 31 March 2017

All in $000's	Note	2017	2016
Assets			
Cash and Cash Equivalents	6	144,200	118,333
Derivative Financial Instruments	7	350	29
Investment Securities	8	1,969,995	2,448,547
Loans and Advances to Customers	9	4,657,668	3,829,983
Current Tax Asset		-	4,479
Deferred Tax Asset	11	3,248	1,952
Property, Plant and Equipment		17,662	19,164
Other Assets	10	9,557	4,656
Total Assets		6,802,680	6,427,143
Liabilities			
Deposits	13	6,156,809	5,813,192
Derivative Financial Instruments	7	8,285	10,933
Current Tax Liability		2,451	-
Other Liabilities	14	47,011	48,610
Total Liabilities		6,214,556	5,872,735
Shareholder's Equity			
Share Capital	15	10,000	10,000
Available for Sale Investments Revaluation Reserve		14,083	19,133
Cash Flow Hedge Reserve		(1,842)	(4,268)
Retained Earnings	15	565,883	529,543
Total Shareholder's Equity		588,124	554,408
Total Liabilities and Shareholder's Equity		6,802,680	6,427,143
Total Interest Earning and Discount Bearing Assets		6,722,094	6,362,662
Total Interest and Discount Bearing Liabilities		5,838,074	5,509,719

These financial statements are to be read in conjunction with the notes on pages 14 to 46.

Statement of Cash Flows for the year ended 31 March 2017

All in $000's	2017	2016
Cash Flows from Operating Activities		
Cash provided from (applied to):		
Interest Income Received	292,911	320,244
Other Income Received	17,021	17,094
Interest Paid	(159,492)	(191,323)
Operating Expenditure	(75,078)	(63,234)
Taxes and Subvention Payments	(11,512)	(23,375)
Cash Flows from Operating Profits before Changes in Operating Assets and Liabilities	63,850	59,406
Net Changes in Operating Assets and Liabilities:		
Increase in Loans and Advances to Customers	(831,077)	(559,282)
Derivative Financial Instruments	400	4,649
Increase in Deposits	344,259	448,492
Cash Flows from Operating Assets and Liabilities	(486,418)	(106,141)
Net Cash Flows from Operating Activities	(422,568)	(46,735)
Cash Flows from Investing Activities		
Cash provided from (applied to):		
Net Maturity of Investment Securities	468,394	38,957
Sale of Investment in Associate	-	36,831
Property, Plant and Equipment Purchased	(1,561)	(5,911)
Intangible Assets Purchased	(5,750)	(223)
Net Cash Flows from Investing Activities	461,083	69,654
Cash Flows from Financing Activities		
Cash provided from (applied to):		
Dividends Paid	(12,648)	(11,755)
Net Cash Flows from Financing Activities	(12,648)	(11,755)
Net Increase 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

These financial statements are to be read in conjunction with the notes on pages 14 to 46.

Statement of Cash Flows for the year ended 31 March 2017 - continued

All in $000's

Reconciliation of Net Profit after Tax to Net Cash Flows from Operating Activities

	2017	2016
Net Profit after Tax	46,340	61,563
Add Movements in Statement of Financial Position Items:		
Accounts Payable	406	(673)
Current Tax	6,930	(11,849)
Deposits from Customers	344,259	448,492
Deferred Tax Asset	(274)	12,459
Accounts Receivable	2,323	3,516
Derivative Financial Instruments	400	4,649
Loans and Advances to Customers	(831,077)	(559,282)
	(477,033)	(102,688)
Add Non-Cash Items:		
Depreciation	3,063	2,626
Impairment Losses/(Gains)	4,010	(8,723)
Amortisation of Intangible Assets	1,052	487
	8,125	(5,610)
Net Cash Flows from Operating Activities	(422,568)	(46,735)
Reconciliation of Cash and Cash Equivalents to the Statement of Financial Position		
Cash and Balances with Reserve Bank	116,508	93,330
Cash and Cash at Bank	27,692	25,003
Total Cash and Cash Equivalents at End of Year	144,200	118,333

These financial statements are to be read in conjunction with the notes on pages 14 to 46.

Notes to the Financial Statements

Contents

ERRATUM

For the period from 9th June 2017 to 10th July 2017 the previously published 31 March 2017 disclosure statement overstated the Bank's peak end-of-day concentration of credit risk to individual counterparties (note 12, page 29) and understated the Bank's credit exposures to connected persons (note 12, page 29).

Notes to the Financial Statements

1. Statement of Accounting Policies

Statement of Compliance

TSB Bank Limited (the Bank) 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 financial statements have been prepared in accordance with the requirements of the Companies Act 1993, the Financial Reporting Act 2013, and the Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order 2014 (as amended) (the "Order"). The financial statements also comply with the requirements of the Financial Markets Conduct Act 2013 and the Order.

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

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

Basis of Preparation

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.

Presentation Currency and Rounding

The amounts contained in this disclosure statement and the financial statements are presented in New Zealand dollars and are rounded to the nearest thousand dollars. New Zealand dollars is the functional currency of the Bank.

Change in Accounting Policy

Derivative Financial Instruments

From 31 July 2016, 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. This new implementation has been applied prospectively, with no adjustment necessary to any of the amounts previously recognised. The adoption of this method has the effect of reducing any accounting mismatch existing between the hedged item and the hedging instrument.

Significant Accounting Policies

A) Segment Reporting

The Bank operates as one segment, in the business of Retail Banking in New Zealand.

The Bank has no debt or equity instruments trading in the public market. The Bank therefore falls outside the scope of NZ IFRS 8 Operating Segments. On this basis no detailed segment information is presented as it is not required.

B) Foreign Currency Translation

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

C) Revenue Recognition

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

Interest Income and Expense

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

Notes to the Financial Statements

1. Statement of Accounting Policies - continued

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

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

<u>Lending and Credit Facility Related Income</u>
Lending charges and direct costs pertaining to loan origination, refinancing or restructuring, and commitments are deferred and amortised over the life of the loan using the effective interest rate method. Lending charges not directly related to the origination of a loan are recognised at the time of service.

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

<u>Other Income</u>
Realised and unrealised gains and losses from re-measurement of Financial Instruments at fair value through profit or loss are included in other income, and also includes the interest income or interest expense accrued.

D) Expense Recognition

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

E) Financial Instruments

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

<u>Financial Assets at Fair Value through Profit or Loss</u>
A financial asset is classified in this category if it is a derivative that is not designated and effective as a hedging instrument or if it is acquired principally for the purpose of selling in the short term (Held-for-Trading), or if so designated by management due to accounting mismatches with other financial assets or liabilities or, where the assets are managed at fair value.

Assets in this category are measured at fair value and include derivative assets (refer G)).

<u>Loans and Receivables</u>
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. This arises when the Bank provides money, or goods and services directly to a debtor, with no intention of selling the receivable.

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

(i) Loans and Advances to Customers
This covers all forms of lending to customers, and includes mortgages, overdrafts, personal loans and credit card balances. They are recognised in the Statement of Financial Position when cash is advanced to the customer.

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

(ii) Other Assets
This includes the accrual of other service related income.

Notes to the Financial Statements

1. Statement of Accounting Policies - continued

(iii) Cash and Cash Equivalents
This encompasses cash and demand balances with the Reserve Bank, deposits due from other banks, as well as cash and cash equivalents held for day to day operations.

Investment Securities (Available for Sale)

Available for sale investments are non-derivative financial assets that are designated as available for sale or are not classified as another category of financial assets. Available for sale investments are intended to be held for an indefinite period of time and may be sold in response to needs for liquidity or changes in interest rates or exchange rates.

Available for sale investments are initially measured at fair value, including transaction costs, and subsequently carried at fair value. Interest income is recognised in the Income Statement using the effective interest rate method. Impairment losses are recognised directly in the Income Statement. Other fair value changes, other than impairment losses, are recognised directly in Other Comprehensive Income and presented in the Available for Sale Investment Revaluation Reserve within the Statement of Changes in Equity. When the financial asset is de-recognised or impaired, the cumulative gains or losses previously recognised in Other Comprehensive Income are reclassified to the Income Statement. Financial assets classified in this category include certificates of deposit, commercial paper and other debt securities, which are used to manage liquidity and may be sold prior to maturity.

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

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

(i) Derivative Liabilities
Derivative Liabilities that do not meet the criteria for hedge accounting are classified as held for trading and recorded at Fair Value through Profit or Loss. For derivatives, any accrued interest is recognised and measured as part of the derivative's fair value. Refer G) for more details on derivatives.

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

(i) Deposits
Deposits cover all forms of funding, and include savings, transactional accounts, term deposits, Registered Certificate of deposits (RCD's) and credit balances on cards, apart from those classified as fair value through profit or loss.

(ii) Other Liabilities
Other Liabilities include the accrual of trade and other payables.

F) Other Assets

Other Assets includes the accrual of other service related income, and the payment in advance of the delivery of goods or the rendering of services.

G) Derivative Financial Instruments

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

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

The Bank designates interest rate swaps as hedges of variability in future cash flows attributable to a recognised asset or liability. Cash Flow Hedge accounting is used for derivatives designated in this way, provided certain criteria are met. Derivative Financial instruments that do not meet the criteria for hedge accounting are classified as held for trading and recorded at Fair Value through Profit or Loss. For derivatives, any accrued interest is recognised and measured as part of the derivative's fair value.

The Bank documents, at inception of the transaction, the relationship between hedging instruments and hedged items, as well as the Bank's risk management objective and strategy for undertaking these hedge transactions. In addition, the documents outline how effectiveness will be measured throughout the life of the hedge relationship and its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedge transactions are highly effective in offsetting changes in cash flows of hedged items.

1. Statement of Accounting Policies - continued

Any derivative that is de-designated as a hedging derivative will be accounted for as held for trading from the time that it is de-designated, with all subsequent movements in fair value recognised in the Income Statement.

(i) Cash Flow Hedge
The effective portion of changes in fair value of derivatives that are designated and qualify as cash flow hedges are recognised in other comprehensive income and presented in the cash flow hedge reserve in equity, while the gain or loss relating to any ineffective portion is recognised immediately in the Income Statement. The carrying value of the hedged item is not adjusted.

Amounts accumulated in equity are transferred to the Income Statement in the year in which the hedged item will affect profit and loss.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised in the Income Statement when the forecast transaction ultimately affects profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the Income Statement.

H) Asset Quality

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

A restructured asset is any credit exposure for which:

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

Assets acquired through the enforcement of security are where the Bank assumes ownership of an asset (primarily real estate) in settlement of all or part of the debt.

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

Other Definitions
A Past Due Asset is any credit exposure where a counterparty has failed to make payment when contractually due, and which is not a restructured asset, other individually impaired asset, or a financial asset acquired through the enforcement of security. A 90-day Past Due Asset is any past due asset which has not been operated by the counterparty within its key terms for at least 90 days and which is not a restructured asset, other individually impaired asset, or a financial asset acquired through the enforcement of security.

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

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

Impairment of Assets
Loans and Advances to Customers are presented net of specific and collective allowances for uncollectibility. Loans are impaired and impairment losses incurred if:
(a) There is objective evidence of impairment as a result of one or more loss events that occurred after the initial recognition of the loan and,
(b) That loss event has an impact on the estimated future cash flows of the Loans and Advances to Customers or group of Loans and Advances to Customers that can be reliably estimated. Individually significant assets are reviewed for impairment individually and other assets are reviewed individually or collectively.

Specific allowances are made against the carrying amount of Loans and Advances to Customers, that are identified as being impaired based on regular reviews of outstanding balances, to reduce these Loans and Advances to Customers to their recoverable amounts. The recoverable amount is measured by estimating the future cash flows and discounting these to their present value using the original effective interest rate. A collective allowance is maintained to reduce the carrying amount of 'Loans and Advances to Customers' to its estimated recoverable amount as at balance date. This allowance relates to incurred losses not yet specifically identified in the portfolio.

Notes to the Financial Statements

1. Statement of Accounting Policies - continued

The expected future cash flows in a group of financial assets that are collectively evaluated for impairment, are estimated on the basis of the contractual cash flows of the assets in the group, and historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions. In addition, the Bank uses its experienced judgement to estimate the amount of an impairment loss.

The use of such judgement and reasonable estimates is considered by management to be an essential part of the process and does not impact reliability. The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

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

If in a subsequent period the amount of impairment loss decreases, the write-down or allowance is reversed through the Income Statement.

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

All other assets are reviewed for impairment at least annually.

I) Property, Plant and Equipment

Property, Plant and Equipment are recognised in the Statement of Financial Position at cost less Accumulated Depreciation and Impairment Losses, if any.

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

Buildings	50 to 100 years
Furniture and Fittings	5 to 10 years
Computer Equipment	1 to 5 years

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

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

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

J) Intangible Assets

Intangible Assets comprise acquired computer software licences, certain application software and internally generated software.

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

The identifiable and directly associated external and internal costs of acquiring and developing software are capitalised where the software is controlled by the Bank, and where it is probable that future economic benefits will flow from its use over more than one year. These costs are amortised over their expected useful lives (two to four years) on a straight line basis. Costs associated with maintaining software are recognised as an expense as incurred.

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

K) Tax

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

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

1. Statement of Accounting Policies - continued

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

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

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

Movements in fair value (and deferred tax) related to Investment Securities, Cash Flow Hedges and the revaluation of Non-Current Assets (if applicable), are recognised in other comprehensive income and presented in Shareholder's Equity

L) Provisions

A provision is recognised in the Statement of Financial Position when:
(a) The Bank has a present legal or constructive obligation as a result of past events;
(b) It is probable that an outflow of resources will be required to settle the obligation; and
(c) A reliable estimate can be made of the amount of the obligation.

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

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

M) Employee Benefits

Short-term Employee Benefits
The Bank provides for the cost of employees' annual entitlements under the terms of their employment contracts. A provision is recognised for the amount expected to be paid and therefore recorded in other liabilities.

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

N) Statement of Cash Flows

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

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

The following are the definitions of the terms used in the Statement of Cash Flows:
(a) Cash is considered to be cash on hand and current accounts in banks, net of bank overdrafts;
(b) Investing activities are those activities relating to the acquisition, holding and disposal of Property, Plant and Equipment, Intangible Assets and Investment Securities;
(c) Financing activities are those activities that result in changes in the size and composition of the capital structure of the Bank; and
(d) Operating activities include all transactions and other events that are not investing or financing activities.

O) Fair Value Estimates

For financial instruments measured in the Bank's Statement of Financial Position at their fair value, fair value is estimated as follows:

Cash and Call Deposits with the Reserve Bank
These assets are short term in nature and the related carrying value is equivalent to their fair value.

Notes to the Financial Statements

1. Statement of Accounting Policies - continued

Investment Securities

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

Loans and Advances to Customers

Loans and Advances to Customers are categorised within Financial Instruments as Loans and Receivables. Assets in this category are measured at amortised cost using the effective interest rate method. Within Note 17, the fair value of Loans and Advances to Customers is estimated using discounted cash flow models based on the interest rate repricing of the Loans and Advances. Discount rates applied in this calculation are based on the current market interest rates for Loans and Advances to Customers with similar credit and maturity profiles. The current market interest rates are based on what the scheduled rate would be for a similar term and maturity profile as at reporting date.

Other Assets, Deposits from Customers and Other Liabilities

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

P) Contingent Liabilities and Credit Commitments

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

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

Q) Offsetting Financial Instruments

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

R) Comparative Data

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

S) Critical Accounting Estimates, Assumptions and Judgements

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

The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

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

1. Statement of Accounting Policies - continued

Collective Provision for Doubtful Debts

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

Categorisation of Financial Assets and Financial Liabilities

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

T) Standards Issued but not yet Effective

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

NZ IFRS 9 Financial Instruments. NZ IFRS 9 will replace NZ IAS 39 and covers the classification and measurement of financial assets and liabilities, introduces a new expected credit loss model for calculating impairment and general hedge accounting requirements which will align hedge accounting more closely with risk management. This standard will be effective for the Bank from 1 April 2018. The Bank is currently assessing the impact of adoption of NZ IFRS 9.

NZ IFRS 16 Leases. This standard introduces a single, on-balance sheet accounting model for lessees to increase transparency and comparability. This standard will be effective for the Bank from 1 April 2019. The Bank is currently assessing the impact of adoption of NZ IFRS 16.

Management have considered amendments to NZ IFRS which became relevant for the Bank for the first time during the year ended 31 March 2017 and have concluded they have no material impact on the Bank’s financial position or performance. No new standards, amendments or interpretations to existing standards that are not yet effective have been early adopted by the Bank in these financial statements.

Notes to the Financial Statements

All in $000's

2. Net Interest Income

	2017	2016
Interest Income		
Cash and Cash Equivalents	1,671	2,576
Investment Securities	81,024	108,739
Loans and Advances to Customers	207,690	206,494
Total Interest Income	**290,385**	**317,809**
Interest Expense		
Deposits from Customers	158,850	187,810
Total Interest Expense	**158,850**	**187,810**
Net Interest Income	**131,535**	**129,999**

Interest income on Loans and Advances to Customers includes interest earned on Impaired Assets of $0.523m (31 March 2016; $0.592m).
Interest income from investment securities relates to investment securities that are available for sale.
Interest expense on deposits from customers relates to financial liabilities measured at amortised cost.

3. Other Operating Income

	2017	2016
Gain on Sale of Fixed Assets	19	6
Lending and Credit Facility Related Income	2,639	2,675
Commission and Other Trading Income*	11,204	11,002
Gain/(Loss) on Derivative Financial Instruments at Fair Value	1,193	(2,183)
Other Income	2,169	2,329
	17,224	13,829

* Includes income from TSB Realty and TSB Foreign Exchange. The only component of other operating income that relates to financial assets carried at fair value through profit or loss is the income/(expense) on derivative financial instruments.

4. Operating Expenses

	2017	2016
Fees paid to auditor:		
Audit and review of financial statements[1]	145	154
Other Services[2]	347	168
Total Fees paid to Auditor	**492**	**322**
Auditor Remuneration	492	322
Depreciation	3,063	2,626
Amortisation of Intangible Assets	1,052	487
Directors' Fees	603	590
Personnel	34,564	29,213
Defined Contribution Plan	1,635	1,293
Information Technology	9,058	7,401
Premises Occupancy	3,039	2,870
Marketing	11,678	10,300
Other	15,057	11,901
	80,241	67,003

Notes:

1. The audit fee includes the audit fees for both the annual audit of the financial statements and the review of the interim financial statements.
2. Other services in 2017 relate to regulatory advisory services in relation to AML and ICAAP $191k (2016; $38k); risk advisory services in relation to treasury and compliance $130k (2016; Nil); and technical accounting services $26k (2016; $130k).

Notes to the Financial Statements

All in $000's	2017	2016
5. Tax		
Reconciliation of Net Profit Before Tax to Tax Expense		
Net Profit before Tax	64,508	85,548
Tax at 28%	18,062	23,954
Adjustments to Prima Facie Tax	106	31
Tax Expense	18,168	23,985
Reconciliation of Income Tax Expense		
Current Tax	18,452	11,521
Prior Period Adjustments	(9)	5
Deferred Tax (refer to Note 11)	(275)	12,459
Tax Expense	18,168	23,985

The imputation credits available to carry forward and utilise in future periods are $249.2m (2016; $242.6m).

6. Liquidity Risk

	2017	2016
Cash and Cash Equivalents		
Cash and Cash at Bank	27,692	25,003
Balances with Reserve Bank	116,508	93,330
Total Cash and Cash Equivalents	144,200	118,333
Investment Securities		
Local Authority Securities	443,235	410,537
Government Securities	190,943	168,455
Registered Bank Securities	499,472	510,601
Registered Bank Term Investments	-	25,099
Other Investments	338,709	284,365
Total Investment Securities	1,472,359	1,399,057
Total Core Liquid Assets	1,616,559	1,517,390

7. Derivative Financial Instruments

The Bank uses interest rate swaps to manage the interest rate exposure on identified fixed rate Loans, Investment Securities and Deposits.

As at 31 March 2017	Notional Amount	Fair Value Assets	Fair Value Liabilities
Interest Rate Swaps			
Derivatives held as Economic hedges	119,561	281	2,189
Derivatives held as Cash-Flow hedges	923,000	-	6,096
Derivatives held as Fair Value hedges	29,000	36	-
	1,071,561	317	8,285
As at 31 March 2016			
Interest Rate Swaps			
Derivatives held as Economic hedges	132,972	-	5,005
Derivatives held as Cash-Flow hedges	248,000	-	5,928
	380,972	-	10,933

Notes to the Financial Statements

All in $000's

7. Derivative Financial Instruments - continued

FX Forward Exchange Currency Assets

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

The Bank enters into Forward Exchange Contracts (FEC) on its own and on behalf of customers with other banks. Where the contract is entered on behalf of customers, a separate contract is signed between the customer and TSB for any liability/asset that may arise as a result of the FEC. In the Statement of Financial Position both an asset and a liability are recorded to reflect both the payable to the counterparty bank and the receivable from the customer.

As at 31 March 2017	Notional Amount	Fair Value Assets	Fair Value Liabilities
FX Forward Exchange Currency Assets	839	33	-
As at 31 March 2016			
FX Forward Exchange Currency Assets	1,144	29	-

8. Investment Securities

	Note	2017	2016
Available for Sale			
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
		1,969,995	2,448,547
Reversal of Impairment Losses credited to Income Statement*	12	-	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.

9. Loans and Advances to Customers

	2017	2016
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
Total Gross Loans and Advances To Customers	4,680,916	3,849,389
Less Provision for Doubtful Debts (see note 12)	(23,248)	(19,406)
Total Loans and Advances to Customers	4,657,668	3,829,983

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

10. Other Assets

	2017	2016
Trade and Other Receivables	1,218	1,015
Intangible Assets	8,339	3,641
Total Other Assets	9,557	4,656

All in $000's

11. Deferred Tax Asset

All in $000's	2017	2016
Balance at Beginning of Year	1,952	20,236
Deferred Tax recognised in the Income Statement	275	(12,459)
Deferred Tax recognised in Other Comprehensive Income	1,021	(5,825)
Balance at End of Year	3,248	1,952
Deferred Tax relates to:		
Property, Plant, and Equipment	(910)	(906)
Amortisation of Intangibles	(167)	47
Provision for Impairment Losses	6,509	5,434
Fair value adjustments for Derivative Financial Instruments	1,240	3,060
Fair value movements on Available for Sale Investments	(5,477)	(7,441)
Depreciation Recovery	(60)	(60)
Other Temporary Differences*	2,113	1,818
Total Deferred Tax Asset	3,248	1,952
Deferred Tax Recognised in the Income Statement:		
Depreciation	(4)	(48)
Amortisation of Intangibles	(214)	(17)
Provision for Impairment Losses	1,075	1,202
Derivative Financial Instruments	(877)	1,309
Doubtful Debts Provision SENZ	-	(15,085)
Other Temporary Differences*	295	180
Total Deferred Tax Recognised in the Income Statement	275	(12,459)
Deferred Tax Recognised in Other Comprehensive Income:		
Cash Flow Hedge Reserve	(943)	1,616
Available for Sale Revaluation Reserve	1,964	(7,441)
Total Deferred Tax Recognised in Other Comprehensive Income:	1,021	(5,825)

* Other Temporary Differences reflects adjustments for employee benefits.

12. Credit Risk Management and Asset Quality

As set out in the Accounting Policies, 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 (82%) residential mortgages (2016; 81%), 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.

The Bank does not have any assets under administration, or material assets acquired through the enforcement of security.

Undrawn balances on lending commitments to counterparties for whom drawn balances are classified as individually impaired, total $54k (2016; Nil).

The Bank has reviewed its holdings of Investment Securities in terms of its counterparty credit policy and based on this review, and other information on hand, does not believe it is necessary to provide a collective or specific provision against possible credit losses in this portfolio. The collective provision against this portfolio is assessed on a quarterly basis. Furthermore, no specific provisions are being held against possible non-performance by any investment in this portfolio (2016; Nil).

At 31 March 2017 the Bank had one lending restructured asset totalling $48k (2016; $48k) and one investment restructured asset (refer Note 8). Interest foregone on lending restructured assets throughout the year was Nil (2016; Nil), and on investment restructured assets Nil (2016; Nil).

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 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. Interest continues to be accrued on all loans. With the exception of the restructured assets above, no interest has been foregone in any period.

Notes to the Financial Statements

All in $000's

12. Credit Risk Management and Asset Quality - continued

(a) Credit Quality Information for Loans and Advances to Customers	Note	2017	2016
Gross Loans and Advances to Customers by Credit Quality			
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
Total Gross Loans and Advances to Customers	9	4,680,916	3,849,389

Lending commitments to customers were $164.1m as at 31 March 2017 (31 March 2016; $147.5m).

Past Due Assets Not Impaired

As at 31 March 2017 All in $000's	Residential Mortgage Loans	Rural Exposures	Corporate Exposures	Other Exposures	Total Credit Exposures
Less than 30 days	31,192	-	10,292	136	41,620
Over 30 days	7,304	625	-	29	7,958
60 to 89 days	518	-	1,010	33	1,561
Over 90 days	6,503	1,101	294	95	7,993
Balance at End of Period	45,517	1,726	11,596	293	59,132

As at 31 March 2016 All in $000's	Residential Mortgage Loans	Rural Exposures	Corporate Exposures	Other Exposures	Total Credit Exposures
Less than 30 days	32,139	1,054	2,094	94	35,381
Over 30 days	4,752	1,098	249	10	6,109
60 to 89 days	1,611	-	512	7	2,130
Over 90 days	2,234	-	460	-	2,694
Balance at End of Period	40,736	2,152	3,315	111	46,314

Movements in Individually Impaired Assets

As at 31 March 2017 All in $000's	Residential Mortgage Loans	Rural Exposures	Corporate Exposures	Other Exposures	Total Credit Exposures
Balance at Beginning of Period	242	9,945	247	-	10,434
Additions	1,733	6,595	-	236	8,564
Amounts Written Off/Loans Closed Out	(168)	-	-	-	(168)
Transfers back to Loans and Advances to Customers	(604)	(9,307)	-	-	(9,911)
Balance at End of Period	1,203	7,233	247	236	8,919
Specific Provisions	330	500	160	148	1,138

As at 31 March 2016 All in $000's	Residential Mortgage Loans	Rural Exposures	Corporate Exposures	Other Exposures	Total Credit Exposures
Balance at Beginning of Period	448	-	244	-	692
Additions	1,742	9,945	3	22	11,712
Amounts Written Off/Loans Closed Out	(690)	-	-	-	(690)
Transfers back to Loans and Advances to Customers	(1,258)	-	-	(22)	(1,280)
Balance at End of Period	242	9,945	247	-	10,434
Specific Provisions	163	1,170	165	-	1,498

All in $000's

12. Credit Risk Management and Asset Quality - continued

Impairment Losses charged to Income Statement	2017	2016
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 8)	-	(13,705)
Total Impairment Losses charged to Income Statement	4,010	(8,723)

The estimated fair value of collateral and other charges related to financial assets that are individually impaired is $8.595 million (31 March 2016, $9.302 million).

(b) Movement in balances of Total Credit Impairment Allowances

Specific Provision for Doubtful Debts

As at 31 March 2017 All in $000's	Residential Mortgage Loans	Rural Exposures	Corporate Exposures	Other Exposures	Total Credit Exposures
Balance at Beginning of Period	163	1,170	165	-	1,498
Add New Provisions	398	230	-	148	776
Current Year Amounts Written Off	(172)	-	-	-	(172)
Reversal of Previously Recognised Provision	(59)	(900)	(5)	-	(964)
Balance at End of Period	330	500	160	148	1,138

As at 31 March 2016 All in $000's	Residential Mortgage Loans	Rural Exposures	Corporate Exposures	Other Exposures	Total Credit Exposures
Balance at Beginning of Period	260	-	165	-	425
Add New Provisions	793	1,170	-	-	1,963
Current Year Amounts Written Off	(690)	-	-	-	(690)
Reversal of Previously Recognised Provision	(200)	-	-	-	(200)
Balance at End of Period	163	1,170	165	-	1,498

Collective Provision for Doubtful Debts

As at 31 March 2017 All in $000's	Residential Mortgage Loans	Rural Exposures	Corporate Exposures	Other Exposures	Total Credit Exposures
Balance at Beginning of Period	14,153	1,903	1,650	202	17,908
Charged to Income Statement	3,103	236	721	142	4,202
Balance at End of Period	17,256	2,139	2,371	344	22,110

As at 31 March 2016 All in $000's	Residential Mortgage Loans	Rural Exposures	Corporate Exposures	Other Exposures	Total Credit Exposures
Balance at Beginning of Period	11,309	1,765	1,494	121	14,689
Charged to Income Statement	2,844	138	156	81	3,219
Balance at End of Period	14,153	1,903	1,650	202	17,908

Notes to the Financial Statements

All in $000's	Note	2017	2016

12. Credit Risk Management and Asset Quality - continued

Total Provision for Impairment Loss

Specific Provision for Doubtful Debts	1,138	1,498
Collective Provision for Doubtful Debts	22,110	17,908
Total Provision for Impairment Loss	23,248	19,406

(c) Concentrations of Credit Exposures

Concentrations of Credit Exposures arise where the Bank is exposed to risk in activities or industries of a similar nature. Credit exposure is calculated on the basis of selected items On and Off Balance Sheet.

On Balance Sheet	Note	2017	2016
Cash and Cash Equivalents	6	144,200	118,333
Investment Securities	8	1,969,995	2,448,547
Loans and Advances to Customers	9	4,657,668	3,829,983
Off Balance Sheet	22	698,945	579,593
Total Credit Exposures		7,470,808	6,976,456

Australian and New Zealand Standard Industrial Classification ("ANZSIC") codes have been used as the basis for disclosing customer industry sectors. An analysis of financial assets by geographical region and industry sector as at balance date is as follows:

Concentration of Credit Exposure by Sector

Cash on Hand	27,692	25,003
Local Government Lending and Investments	557,969	505,338
New Zealand Registered Banks	550,926	788,973
Multilateral Development Banks and Other International Institutions	340,819	269,409
Sovereigns and RBNZ	308,194	281,686
Food Product and Beverages	19,510	19,842
Rural Lending	306,490	272,362
Utilities	296,757	426,379
Mining	17,825	15,586
Transport, Postal and Warehousing	32,396	141,966
Information Media and Telecommunications	28,667	110,785
Other Commercial Investments	-	30,013
Residential Lending	4,301,945	3,447,160
Personal and Other Lending	201,970	172,274
Community Lending	5,690	7,412
Commercial Lending	497,206	481,674
Provision for Impairment Loss	(23,248)	(19,406)
Total Credit Exposure	7,470,808	6,976,456

Concentration of Credit Exposure by Geographical Location

Cash and Cash Equivalents		
New Zealand	144,200	118,333
Total	144,200	118,333
Investment Securities		
New Zealand	1,634,172	2,199,497
Outside New Zealand	335,823	249,050
Total	1,969,995	2,448,547

All in $000's	2017	2016
12. Credit Risk Management and Asset Quality - continued		
Loans and Advances to Customers		
Taranaki	2,189,206	2,074,350
Auckland	1,469,389	1,004,104
Rest of North Island	660,830	534,190
South Island	361,491	236,745
Provision for Impairment Loss	(23,248)	(19,406)
Total	4,657,668	3,829,983
Off Balance Sheet		
New Zealand	698,945	579,593
Total	698,945	579,593
Total Credit Exposure	7,470,808	6,976,456

(d) Concentrations Of Credit Exposures to Individual Counterparties -

The following disclosures show the number of individual counterparties (not being members of groups of closely related counterparties) or groups of closely related counterparties (excluding central government of any country with a long-term credit rating of A- or A3 or above, or its equivalent, or any bank with a long-term credit rating of A- or A3 or above, and connected persons), where the period end and peak end-of-day credit exposures equalled or exceeded 10% of the Bank's equity as at balance date. The peak aggregate end of day credit exposure is the largest daily actual credit exposures for the most recent quarter. Credit exposures disclosed are based on actual exposures. The credit rating is applicable to an entity's long term senior unsecured obligations payable in New Zealand, in New Zealand dollars.

There were no peak or balance date credit exposures to bank counterparties with a long-term credit rating below A- or A3, or its equivalent, which exceeded 10% of Equity for the year ended 31 March 2017.

Percentage of Shareholder's Equity	Year Ended 31 March 2017				Year Ended 31 March 2016			
	Number of Non Bank Counterparties				Number of Non Bank Counterparties			
	"A" Rated	"B" Rated	Unrated	Total	"A" Rated	"B" Rated	Unrated	Total
As at Balance Date								
11% - 15%	3	1	-	4	1	2	-	3
16% - 20%	1	-	-	1	1	1	-	2
21% - 25%	-	-	-	-	1	1	-	2
26% - 30%	-	-	-	-	-	-	-	-
Total	4	1	-	5	3	4	-	7
Peak Exposure								
11% - 15%	5	1	-	6	1	2	-	3
16% - 20%	-	1	-	1	1	1	-	2
21% - 25%	1	-	-	1	-	1	-	1
26% - 30%	-	-	-	-	1	-	-	1
36% - 40%	-	-	-	-	-	-	-	-
Total	6	2	-	8	3	4	-	7

Note:
"A" Rated - those counterparties that have a long-term credit rating of A- or A3 or above, or its equivalent.
"B" Rated – those counterparties that have a long-term credit rating of at least BBB- or Baa3, or its equivalent, and at most BBB+ or Baa1, or its equivalent.
Unrated – those counterparties that do not have a long-term credit rating. For 31 March 2017 these relate to Local Authorities and Utilities.

(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 have credit exposures to non-bank connected persons. Peak end-of-day credit exposures to 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 30%. There have been no rating-contingent limit changes during the last year. 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 year. The information on credit exposures to connected persons has been derived in accordance with the Reserve Bank of New Zealand document entitled "Connected Exposures Policy (BS8)" dated November 2015. There are no specific provisions against credit exposures to connected persons as at 31 March 2017 (30 March 2016: Nil).

Notes to the Financial Statements

All in $000's	2017	2016

12. Credit Risk Management and Asset Quality - continued

	2017	2016
Credit exposures to non-bank connected persons at period end	78,500	70,000
Credit exposures to non-bank connected persons at period end expressed as a percentage of total tier one capital	13.57%	12.66%
Peak credit exposures to non-bank connected persons during the period	78,500	70,000
Peak credit exposures to non-bank connected persons during the period expressed as a percentage of total tier one capital	13.57%	12.66%

(f) Maximum Exposure to Credit Risk

The Bank does not have any material exposures on which balances have been netted. As such, the carrying amount of loans and advances (gross of provisions), investment securities, plus commitments as set out in Note 22 represent the Bank's maximum exposure to credit risk for on and off Balance Sheet financial instruments.

(g) Coverage provided by Collateral Held on Loan

The table below presents the maximum exposure to credit risk for balance sheet financial instruments before taking account of the financial effect of any collateral held, unless such collateral meets the offsetting criteria in NZ IAS 32 Financial Instruments: Presentation.

The most common types of collateral include:

- Security over real estate
- Cash deposits
- Other security over business assets.

Balance Sheet Positions As at 31 March 2017	Maximum Exposure to Credit Risk	Financial effect of Collateral	Unsecured portion of Credit Exposure
Assets			
Cash and Cash Equivalents	144,200	144,200	-
Derivative Financial Instruments	350	-	350
Investment Securities	1,969,995	437,460	1,532,535
Loans and Advances to Customers	4,657,668	4,571,562	86,106
Other Financial Assets	1,218	1,218	-
Total Exposure to Credit Risk	**6,773,431**	**5,154,440**	**1,618,991**

Balance Sheet Positions As at 31 March 2016	Maximum Exposure to Credit Risk	Financial effect of Collateral	Unsecured portion of Credit Exposure
Assets			
Cash and Cash Equivalents	118,333	118,333	-
Derivative Financial Instruments	29	-	29
Investment Securities	2,448,547	489,916	1,958,631
Loans and Advances to Customers	3,829,983	3,754,402	75,581
Other Financial Assets	5,494	5,494	-
Total Exposure to Credit Risk	**6,402,386**	**4,368,145**	**2,034,241**

13. 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
Total Deposits	**6,156,809**	**5,813,192**

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

All in $000's	2017	2016

13. Deposits - continued

Concentrations of Funding

Concentrations of Funding arise where the Bank is funded by industries of a similar nature or in particular geographics. An analysis of financial liabilities by industry sector and geography at balance date is as follows.

Retail Deposits	2017	2016
Taranaki	2,891,680	2,836,666
Rest of New Zealand	3,084,608	2,790,991
Outside New Zealand	180,521	185,535
Total Funding by Geographic Region	6,156,809	5,813,192
Government and Public Authorities	4,558	2,149
Finance	19,946	24,874
Households	6,018,088	5,676,923
Community	44,742	45,270
Commercial	69,475	63,976
Total Funding by Industry	6,156,809	5,813,192

14. Other Liabilities

	2017	2016
Employee Entitlements	10,801	9,521
Dividend Payable	6,827	9,475
Trade and Other Payables	28,660	29,614
Other Liabilities	723	-
Total Other Liabilities	47,011	48,610

All creditors and depositors are ranked equally.

15. Share Capital and Retained Earnings

Share Capital

Issued and Fully Paid Up Capital	2017	2016
20,000,000 Ordinary Shares	10,000	10,000

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 and its fully owned subsidiary. Dividends are recognised in the financial year in which they are authorised and approved by the Board of Directors.

Retained Earnings	2017	2016
Opening Balance	529,543	487,830
Net Profit after Taxation	46,340	61,563
	575,883	549,393
Dividends	(10,000)	(19,850)
Balance at End of Period	565,883	529,543

16. Dividend

	31 March 2017		31 March 2016	
	$000	$ Per Share	$000	$ Per Share
Interim	3,173	0.159	3,375	0.169
Special	-	-	7,000	0.350
Final	6,827	0.341	9,475	0.474
Total	10,000	0.500	19,850	0.993

Notes to the Financial Statements

All in $000's

17. Fair Value of Financial Instruments

The following table summarises the carrying amounts and fair values of financial assets and financial liabilities.

	Note	Available For Sale	Held-for-Trading	Loans and Receivables	Other Amortised Cost	Total Carrying Amount	Fair Value
As at 31 March 2017							
Financial Assets							
Cash and Cash Equivalents	6	-	-	137,391	6,809	144,200	144,200
Derivative Financial Instruments	7	-	350	-	-	350	350
Investment Securities	8	1,969,995	-	-	-	1,969,995	1,969,995
Loans and Advances to Customers	9	-	-	4,657,668	-	4,657,668	4,626,794
Other Assets	10	-	-	1,218	-	1,218	1,218
Total Financial Assets		1,969,995	350	4,796,277	6,809	6,773,431	6,742,557
Financial Liabilities							
Deposits	13	-	-	-	6,156,809	6,156,809	6,175,192
Derivative Financial Instruments	7	-	8,285	-	-	8,285	8,285
Other Liabilities	14	-	-	-	48,739	48,739	48,739
Total Financial Liabilities		-	8,285	-	6,205,548	6,213,833	6,232,216
As at 31 March 2016							
Financial Assets							
Cash and Cash Equivalents	6	-	-	113,352	4,981	118,333	118,333
Derivative Financial Instruments	7	-	29	-	-	29	29
Investment Securities	8	2,448,547	-	-	-	2,448,547	2,448,547
Loans and Advances to Customers	9	-	-	3,829,983	-	3,829,983	3,834,915
Other Assets	10	-	-	5,494	-	5,494	5,494
Total Financial Assets		2,448,547	29	3,948,829	4,981	6,402,386	6,407,318
Financial Liabilities							
Deposits	13	-	-	-	5,813,192	5,813,192	5,842,286
Derivative Financial Instruments	7	-	10,933	-	-	10,933	10,933
Other Liabilities	14	-	-	-	48,610	48,610	48,610
Total Financial Liabilities		-	10,933	-	5,861,802	5,872,735	5,901,829

Fair Value Valuation Methodology

Certain financial instruments are carried on the Statement of Financial Position at fair value. The best evidence of fair value is a quoted market price in an active market. Therefore, where possible, fair value is based on quoted market prices. Where a quoted market price for an instrument is not available, the fair value is based on discounted cash flow models incorporating current market observable data for similar instruments or other valuation techniques based on current market conditions.

The following fair value hierarchy, as set out in NZ IFRS 13: Fair Value Measurement, has been used to categorise the inputs to valuation techniques used to measure the financial assets and financial liabilities which are carried at fair value:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the assets or liabilities, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the assets or liabilities that are not based on observable market data (unobservable inputs).

All of the Bank's financial instruments that are recognised and measured at fair value on a recurring basis sit within Level 2.

There were no transfers between Level 1 and Level 2 of the fair value hierarchy during the reporting period.

The Bank determines the valuation of financial instruments classified in Level 2 as follows:

Derivative Assets and Derivative Liabilities

The fair values are obtained from market yields and discounted cash flow models. The fair values are estimated using present value or other market acceptable valuation techniques, using methods or assumptions that are based on observable market conditions and risks existing as at the reporting date.

All in $000's

18. Market Risk Management

Market risk is the risk that movements in the level or volatility of market rates and prices will affect the Bank's income or the value of its holdings of financial instruments.

(a) Interest Rate Repricing Schedule

The interest rate repricing schedule of on-balance sheet financial assets and financial liabilities has been prepared on the basis of contractual maturity or next repricing date, whichever is earlier.

As at 31 March 2017	0-3 Months	3-6 Months	6-12 Months	1-2 Years	Over 2 Years	Non Interest Sensitive	Total
Assets							
Cash and Cash Equivalents	137,391	-	-	-	-	6,809	144,200
Investment Securities	1,144,661	121,382	144,082	226,033	333,837	-	1,969,995
Loans and Advances to Customers	1,088,235	334,300	720,172	1,677,025	861,184	(23,248)	4,657,668
Other Financial Assets [1]	-	-	-	-	-	1,568	1,568
Total Financial Assets	2,370,287	455,682	864,254	1,903,058	1,195,021	(14,871)	6,773,431
Liabilities							
Deposits	3,712,021	614,760	1,104,954	233,558	195,902	295,614	6,156,809
Other Financial Liabilities [2]	-	-	-	-	-	57,024	57,024
Total Financial Liabilities	3,712,021	614,760	1,104,954	233,558	195,902	352,638	6,213,833
Lending Commitments	698,945	-	-	-	-	-	698,945
Derivative Notional Principals	1,072,401	(220,194)	(45,550)	(701,057)	(105,600)	-	-
Interest Sensitivity Gap	429,612	(379,272)	(286,250)	968,443	893,519	(367,509)	1,258,543

As at 31 March 2016	0-3 Months	3-6 Months	6-12 Months	1-2 Years	Over 2 Years	Non Interest Sensitive	Total
Assets							
Cash and Cash Equivalents	113,352	-	-	-	-	4,981	118,333
Investment Securities	1,596,555	166,590	106,577	191,756	387,069	-	2,448,547
Loans and Advances to Customers	1,376,048	331,745	616,168	1,184,192	341,236	(19,406)	3,829,983
Other Financial Assets [1]	-	-	-	-	-	5,523	5,523
Total Financial Assets	3,085,955	498,335	722,745	1,375,948	728,305	(8,902)	6,402,386
Liabilities							
Deposits	3,655,257	604,325	752,943	323,603	220,512	256,552	5,813,192
Other Financial Liabilities [2]	-	-	-	-	-	59,543	59,543
Total Financial Liabilities	3,655,257	604,325	752,943	323,603	220,512	316,095	5,872,735
Lending Commitments	579,592	-	-	-	-	-	579,592
Derivative Notional Principals	380,972	(3,411)	(10,000)	(264,904)	(102,657)	-	-
Interest Sensitivity Gap	391,262	(109,401)	(40,198)	787,441	405,136	(324,997)	1,109,243

1 Other Financial Assets include Receivables, Current Tax Asset (2017; Nil) Derivative Financial Instruments (2016; Nil), and FX Fwd Exchange Currency Assets.
2 Other Financial Liabilities include Accounts Payable, Current Tax Liability (2016; Nil), Provision for Dividend, and Derivative Financial Instruments.

Notes to the Financial Statements

18. Market Risk Management - continued

(b) Sensitivity Analysis

In accordance with NZ IFRS 7, an assessment has been undertaken of the market risk sensitivity of net interest income and Shareholders equity based on fluctuations in interest rates.

The primary objective of the Bank's framework for the management of interest rate risk is to minimise the impact of changes in wholesale interest rates on the Bank's earnings. The Risk Framework includes limits for both earnings at risk and economic value, as well as re-pricing gap analysis.

Next 12 Months Net Interest Earnings

The earnings at risk measure looks at the sensitivity of net interest earnings over the next twelve months to potential changes in interest rates and is measured on a monthly basis.

Earnings at risk is measured assuming immediate one percent and two percent parallel movement in interest rates across the yield curve. Sensitivity of net interest earnings is measured using a model that takes into account current and projected future Balance Sheet changes in terms of asset and liability levels as well as product mix.

The figures in the table below indicate the outcome of the earnings at risk measure for the current period.

Scenarios	Change in Net Interest Earnings ($m)	
	31 March 2017	31 March 2016
-2.0%	1.5	0.8
-1.0%	0.7	0.2
+1.0%	(1.1)	(0.6)
+2.0%	(2.1)	(1.2)

Economic Value of Shareholder's Equity

The Economic Value of Shareholders Equity (EVE) risk measure looks at the sensitivity of the economic value of the Bank to changes in wholesale interest rates and is measured on a monthly basis.

The current Economic value for both On and Off-Balance Sheet assets and liabilities is derived from their contractual cash flows, which are discounted to reflect current market rates. The sensitivity of the EVE is measured assuming immediate one percent and two percent parallel movements in interest rates across the yield curve.

The figures in the table below indicate the outcome of the EVE measure for the current period.

Scenarios	Change in EVE ($m)	
	31 March 2017	31 March 2016
-2.0%	21.9	19.9
-1.0%	10.5	9.3
+1.0%	(11.8)	(10.2)
+2.0%	(23.2)	(20.6)

All in $000's

19. 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	On Demand	0-1 Month	1-3 Months	3-12 Months	1-5 Years	Over 5 Years	Total
As at 31 March 2017							
Assets							
Cash and Cash Equivalents	144,200	-	-	-	-	-	144,200
Investment Securities	-	237,242	153,644	389,525	1,241,174	50,232	2,071,817
Loans and Advances to Customers	31,926	380,878	54,880	256,264	1,355,481	4,173,439	6,252,868
Other Financial Assets [1]	-	1,231	-	20	317	-	1,568
Total Financial Assets	176,126	619,351	208,524	645,809	2,596,972	4,223,671	8,470,453
Liabilities							
Deposits	3,076,387	500,280	540,030	1,687,772	454,654	-	6,259,123
Other Financial Liabilities [2]	-	43,549	2,416	510	10,549	-	57,024
Total Financial Liabilities	3,076,387	543,829	542,446	1,688,282	465,203	-	6,316,147
Lending Commitments (Off Balance Sheet)	698,945	-	-	-	-	-	698,945
Net Financial Assets/(Liabilities)	(2,201,316)	75,522	(333,922)	(1,042,473)	2,131,769	4,223,671	2,853,251
As at 31 March 2016							
Assets							
Cash and Cash Equivalents	118,333	-	-	-	-	-	118,333
Investment Securities	-	206,845	211,617	634,261	1,400,281	161,622	2,614,626
Loans and Advances to Customers	-	349,416	49,527	206,667	1,176,423	3,623,080	5,405,113
Other Financial Assets [1]	-	5,494	-	29	-	-	5,523
Total Financial Assets	118,333	561,755	261,144	840,957	2,576,704	3,784,702	8,143,595
Liabilities							
Deposits	3,151,299	384,991	494,318	1,317,887	577,845	-	5,926,340
Other Financial Liabilities [2]	-	43,716	-	80	7,235	8,512	59,543
Total Financial Liabilities	3,151,299	428,707	494,318	1,317,967	585,080	8,512	5,985,883
Lending Commitments (Off Balance Sheet)	579,592	-	-	-	-	-	579,592
Net Financial Assets/(Liabilities)	(2,453,374)	133,048	(233,174)	(477,010)	1,991,624	3,776,190	2,737,304

1 Other Financial Assets include Receivables, Current Tax Asset (2017; Nil) Derivative Financial Instruments (2016; Nil), and FX Fwd Exchange Currency Assets.
2 Other Financial Liabilities include Accounts Payable, Current Tax Liability (2016; Nil), Provision for Dividend, and Derivative Financial Instruments.

Notes to the Financial Statements

All in $000's

19. Liquidity Risk Management - continued

Current and Non-current Assets and Liabilities

As at 31 March 2017	Current	Non Current	Total
Assets			
Cash and Cash Equivalents	144,200	-	144,200
Derivative Financial Instruments	350	-	350
Investment Securities	727,350	1,242,645	1,969,995
Loans and Advances to Customers	1,679,182	2,978,486	4,657,668
Deferred Tax Asset	-	3,248	3,248
Property, Plant and Equipment	-	17,662	17,662
Other Assets [1]	1,218	8,339	9,557
Total Assets	2,552,300	4,250,380	6,802,680
Liabilities			
Deposits	5,725,803	431,006	6,156,809
Derivative Financial Instruments	2,926	5,359	8,285
Current Tax Liability	2,451	-	2,451
Other Liabilities [2]	41,821	5,190	47,011
Total Liabilities	5,773,001	441,555	6,214,556

As at 31 March 2016	Current	Non Current	Total
Assets			
Cash and Cash Equivalents	118,333	-	118,333
Derivative Financial Instruments	29	-	29
Investment Securities	906,793	1,541,754	2,448,547
Loans and Advances to Customers	1,304,319	2,525,664	3,829,983
Current Tax Asset	4,479	-	4,479
Deferred Tax Asset	-	1,952	1,952
Property, Plant and Equipment	-	19,164	19,164
Other Assets [1]	1,015	3,641	4,656
Total Assets	2,334,968	4,092,175	6,427,143
Liabilities			
Deposits	5,269,077	544,115	5,813,192
Derivative Financial Instruments	80	10,853	10,933
Other Liabilities [2]	43,716	4,894	48,610
Total Liabilities	5,312,873	559,862	5,872,735

Assets and liabilities are classified as current if it is expected they will be realised, consumed or settled within 12 months of the reporting date.

Non-current assets include property, plant and equipment and intangible assets as well as financial assets of a long term nature. Non-current liabilities include financial and non-financial liabilities which are expected to be settled after twelve months from reporting date. For the purposes of this disclosure, the fair value of derivatives has been classified as current.

1 Other Financial Assets include Receivables, Current Tax Asset (2017; Nil) Derivative Financial Instruments (2016; Nil), and FX Fwd Exchange Currency Assets.
2 Other Financial Liabilities include Accounts Payable, Current Tax Liability (2016; Nil), Provision for Dividend, and Derivative Financial Instruments

20. Capital Adequacy (Unaudited)

(i) Capital Management Policies

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.

Total Regulatory capital is divided into Tier One and Tier Two Capital. Tier One Capital comprises Common Equity Tier 1 ("CET1") capital and Additional Tier 1 ("AT1") capital. Tier One primarily consists of Shareholder's Equity and other capital instruments acceptable to the RBNZ, less Intangible Assets, Cash Flow Hedge Reserve, Deferred Tax Assets and a deduction for any advances of a capital nature to Connected Persons. Tier Two Capital comprises capital instruments as defined by the RBNZ.

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 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 Exposures.
- 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%.

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 and RBNZ.

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 31 March 2017. 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 III

The Basel III capital framework was introduced by the Basel Committee on Banking Supervision (BCBS) in December 2010 to raise the quality and level of capital in the global banking system. On 11 December 2012 the Reserve Bank released capital adequacy standards which apply to locally incorporated registered banks in New Zealand and implement the Basel III capital requirements. The bulk of the new standards took effect from 1 January 2013 and set higher minimum requirements around how much regulatory capital must be held by registered banks, along with which financial instruments may be treated as regulatory capital. The key benefit of higher capital ratios is the reduced probability that there will be a financial crisis.

The adoption of Basel III necessitated changes to a number of Banking Supervision Handbook documents as well as the "Standardised Approach" as per BS2A that the Bank adopts to calculate regulatory capital requirements. The main changes affecting the Bank as a result of Basel III are increased capital deductions from Common Equity Tier One Capital and the increase in capitalisation rates referred to above.

Pillar 2 is intended to ensure that Banks have adequate capital to support all risks in their business, and includes the requirement on banks to have an "Internal Capital Adequacy Assessment Process (ICAAP)" for assessing their overall Capital Adequacy in relation to risk profile and a strategy for maintaining adequate capital to support risk. The Bank's ICAAP has identified other areas of risk not covered by Pillar I (credit risk, market risk, and operational risk) and assigned a level of capital to them. These risks include but are not limited to strategic risk, reputational risk, environmental risk, liquidity risk, investment portfolio risk, sector and regional concentration risk, natural disaster risk, brand risk and ownership structure. The Bank has made an internal capital allocation of $218m (2016; $248m) to cover these identified risks.

All in $000's	2017 Basel III	2016 Basel III
Total Capital Adequacy Ratios for the Bank at balance date are:		
Common Equity Tier 1 Capital ratio (RBNZ minimum ratio requirement 4.5%)	14.60%	14.52%
Tier 1 Capital ratio (RBNZ minimum 6%)	14.60%	14.52%
Total Capital ratio (RBNZ minimum 8%)	14.60%	14.52%
Buffer ratio (RBNZ Buffer Requirement 2.5%)	6.60%	6.52%

Notes to the Financial Statements

All in $000's

20.Capital Adequacy - continued (Unaudited)

	2017 Basel III	2016 Basel III
(ii) Capital		
Tier 1 Capital		
Common Equity Tier 1 ("CET1") Capital		
Issued and fully paid-up Share Capital	10,000	10,000
Retained Earnings	529,543	487,830
Current period's Audited Retained Earnings	36,340	41,713
Available for Sale Investments Revaluation Reserve	14,083	19,133
Cash Flow Hedge Reserve	(1,842)	(4,268)
	588,124	554,408
Less Deductions from CET1 Capital		
Intangible Assets	8,339	3,641
Cash Flow Hedge Reserve	(1,842)	(4,268)
Deferred Tax Assets	3,248	1,952
	9,745	1,325
Total Common Equity Tier 1 Capital	578,379	553,083
Additional Tier 1 ("AT1") Capital	-	-
Total Tier 1 Capital	578,379	553,083
Tier 2 Capital		
Unrealised Revaluation on Security Holdings at 45%	-	-
Total Capital	578,379	553,083

(iii) Total Risk Weighted Exposures – March 2017

	Risk Weight	Total Exposure after credit risk mitigation March 2017	Risk Weight Exposure March 2017	Minimum Pillar One Capital Requirement March 2017
On Balance Sheet Exposures				
Cash	0%	27,692	-	-
Sovereigns & RBNZ	0%	308,194	-	-
Multilateral Development Banks	0%	243,432	-	-
	20%	97,387	19,478	1,558
Public Sector Entities	20%	503,117	100,624	8,050
Banks	20%	407,996	81,599	6,528
	50%	142,930	71,465	5,717
Corporate	20%	1,804	361	29
	50%	47,625	23,813	1,905
	100%	345,726	345,726	27,658
Residential Mortgages Not Past Due				
Non-property Investment <80% LVR*	35%	2,445,503	855,926	68,474
Non-property Investment 80%<90% LVR*	50%	197,532	98,766	7,901
Non-property Investment 90%<100% LVR*	75%	19,456	14,592	1,167
Non-property Investment >100% LVR*	100%	500	500	40

Notes to the Financial Statements

All in $000's

20.Capital Adequacy - continued (Unaudited)

	Risk Weight	Total Exposure after credit risk mitigation March 2017	Risk Weight Exposure March 2017	Minimum Pillar One Capital Requirement March 2017
Property Investment <80% LVR*	40%	994,195	397,678	31,814
Property Investment 80%<90% LVR*	70%	12,242	8,569	686
Property Investment 90%<100% LVR*	90%	1,457	1,311	105
Welcome Home <80% LVR*	35%	3,693	1,293	103
Welcome Home 80%<90% LVR*	35%	49,838	17,444	1,396
Welcome Home 90%<100% LVR*	50%	86,438	43,218	3,458
Welcome Home >100% LVR*	100%	5,150	5,150	412
Reverse Mortgages <60% LVR*	50%	10,418	5,209	417
Reverse Mortgages 60%<80% LVR*	80%	112	90	7
Reverse Mortgages >80% LVR*	100%	28	28	2
Past Due Residential Mortgages*	100%	7,028	7,028	562
Other Past Due Assets	100%	862	862	69
	150%	7,234	10,851	868
Other Lending	100%	804,274	804,274	63,342
Other Assets	100%	19,230	19,230	1,539
Non-Risk Weighted Assets	0%	11,587	-	-
Total On Balance Sheet Exposures	43.15%	6,802,680	2,935,085	234,807

* Total residential mortgages $3,833,590k

	Total Exposure March 2017	Credit Conversion Factor	Credit Equivalent Amount March 2017	Average Risk Weight	Risk Weighted Exposure March 2017	Minimum Pillar One Capital Requirement March 2017
Off Balance Sheet Exposures						
Revolving Credit Facilities:						
Local Authority	54,800	50%	27,400	20%	5,480	438
Residential <80% LVR *	311,605	50%	155,803	35%	54,531	4,363
Residential 80%<90% LVR *	1,835	50%	918	50%	459	37
Residential 90%<100% LVR *	140	50%	70	75%	53	4
Residential >100% LVR *	47	50%	23	100%	23	2
Commercial	65,120	50%	32,560	100%	32,560	2,605
Visa & Overdrafts	101,276	50%	50,638	100%	50,638	4,051
Commitments:						
Residential <80% LVR *	125,086	100%	125,086	35%	43,780	3,502
Residential 80%<90% LVR *	11,246	100%	11,246	50%	5,623	450
Residential 90%<100% LVR *	810	100%	810	75%	607	49
Commercial & Others	26,980	100%	26,980	100%	26,980	2,158
Market Related Contracts						
Foreign Exchange Contracts	840	Various	8	20%	2	-
Interest Rate Contracts*	915,904	Various	4,193	20%	839	67
Interest Rate Contracts*	155,657	Various	679	50%	339	27
Sub Totals	1,771,346		436,414		221,914	17,753

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

Notes to the Financial Statements

All in $000's

20.Capital Adequacy - continued (Unaudited)

Operational Risk, Implicit Risk and Market Risk Analysis	Implied Risk Weighted Exposure	Capital Requirement
Operational Risk	415,131	33,210
Implicit Risk*	257,276	20,582
Market Risk	131,774	10,542
Sub Total	804,181	64,334

* As per Condition 1C and 1D of Conditions of registration for TSB Bank Limited, that apply on and after 1 November 2015.

Total Capital Requirements	Total Exposure after credit risk mitigation	Risk Weighted Exposure or Implied RWE	Capital Requirement
Total credit risk plus equity	7,239,094	3,156,999	252,560
Operational Risk	N/A	415,131	33,210
Implicit Risk	N/A	257,276	20,582
Market Risk	N/A	131,774	10,542
Total		3,961,180	316,894

Residential Mortgages by Loan-to-Valuation Ratio

LVR Range	0% - 80%	80% - 90%	90% - 100%	> 100%	Total
On Balance Sheet Exposures	3,469,092	260,819	107,875	5,684	3,843,470
Past Due and Impaired	6,583	197	772	154	7,706
Total Value of On Balance Sheet Exposures (refer Notes 9 and 12)	3,475,675	261,016	108,647	5,838	3,851,176
Less Provisions:					
- Collective	(15,519)	(1,179)	(524)	(34)	(17,256)
- Specific	(330)	-	-	-	(330)
Total Residential Mortgages	3,459,826	259,837	108,123	5,804	3,833,590
Off Balance Sheet Exposures	436,691	13,082	950	46	450,769
Total Residential Mortgages	3,896,517	272,919	109,073	5,850	4,284,359

Market Risk		Implied Risk Weighted Exposure	Aggregate Capital Charge	Aggregate Capital Charge as % of Banks Equity	Banks Equity
End of Period capital charges	Interest Risk	131,774	10,542	1.82%	578,379
Peak end of day capital charges	Interest Risk	134,127	10,730	1.86%	578,379

In accordance with clause 9 of Schedule 9 of the Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order 2014, 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).

21. Securitisation, Funds Management, Other Fiduciary Activities and the Marketing and Distributing of Insurance Products

The Bank has no involvement with any Securitisation, Custodial, or other Fiduciary activities. The Bank does not conduct any insurance business, however general insurance, life insurance, and KiwiSaver 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 or wealth products are marketed. External third party insurance companies underwrite these, and the Bank has no financial association with them.

TSB Bank Limited is the manager and promoter of the TSB Bank PIE Unit Trust, and the New Zealand Guardian Trust Company Limited is the trustee. Units in the Fund do not directly represent deposits or other liabilities of TSB Bank. However, the Trust Deed stipulates that the TSB Bank PIE Unit Trust is invested exclusively in TSB Bank debt securities. As at 31 March 2017, the TSB Bank PIE Unit Trust had $29.1m (31 March 2016; $43.6m) invested with the Bank.

All in $000's

22. Commitments and Contingent Liabilities

	2017	2016
Commitments approved to advance less than one year	101,276	89,910
Commitments approved to advance greater than one year*	597,669	489,683
Rental/Lease Commitments less than one year	3,095	2,881
Rental/Lease Commitments greater than one year	11,528	9,853
Capital Commitments	878	2,060
	714,446	594,387

Lending Commitments are also split by maturity in Notes 18 and 19.

There are no material contingent liabilities and outstanding claims known by the Directors as at 31 March 2017 that would impact on the financial statements.

* Includes $32.173m (31 March 2016, $11.879m) related to the facility granted to TSB Group Limited, a related entity.

23. Related Party Transactions and Balances

Parent and Ultimate Controlling Party

The Bank is wholly owned by the TSB Community Trust through the Trust's fully owned subsidiary, TSB Group Limited. During the period the Trust operated bank account facilities which were on normal customer terms and conditions. As at 31 March 2017 the Trust had $17.009m invested with the Bank at market rates, with interest accrued of $0.192m (31 March 2016, $13.845m invested with interest accrued of $0.163m). Interest paid to the Trust for the twelve months to 31 March 2017 was $0.633m (31 March 2016, $0.765m). The Trust also received dividends as detailed in Note 16.

Loans and Advances to Customers (Note 9) include a Commercial Loan to TSB Group Limited of $46.327m on normal customer terms and conditions (31 March 2016, $58.121m). Income received from TSB Group Limited for the year ended 31 March 2017 totalled $1.974m (31 March 2016, $2.196m).

The Bank markets Fisher Funds KiwiSaver products through the Bank's Branch Network. Fisher Funds is part-owned (49%) by TSB Group Investments Limited, a company that shares ultimate common ownership with the Bank. For the twelve months to 31 March 2017, commissions received from Fisher Funds totalled $335.7k (31 March 2016, $190.3k).

Transactions with Directors and Key Management Personnel	2017	2016
Key Management Compensation		
Short-term Employee Benefits	4,399	4,805
Other long-term Benefits	158	(265)
	4,557	4,540
Loans to Directors and Key Management Personnel		
Balance at Beginning of Period	3,699	4,541
Net Loans (repaid) during the Period	(747)	(842)
Balance at End of Period	2,952	3,699
Deposits from Directors and Key Management Personnel		
Balance at Beginning of Period	2,557	2,776
Net Deposits received/(repaid) during the Period	644	(219)
Balance at End of Period	3,201	2,557

Key management personnel are defined as the Directors and senior management of the Bank - those persons having the authority and responsibility for planning, directing, and controlling the activities of the entity. Loans made to and deposits held by the key management personnel are made in the course of ordinary business on normal terms and conditions, other than some loans made to key management personnel, which are made with an interest rate at a slight discount to market.

24. Subsequent Events

In accordance with NZ IAS 10 – "Events after the Reporting Period", there have been no material non-adjusting events requiring disclosure in these financial statements.

Notes to the Financial Statements

25. 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.

(i) Risk Governance and the Role of the Board

The Board of the Bank has the primary responsibility for ensuring that the Bank's acceptance and management of risk is in accordance with the wishes or expectations of its Shareholder, Regulators, and Legislation. These responsibilities can however be delegated in some form to the Management of the Bank.

The Bank's risk management framework embeds risk authority and accountability throughout the Bank.

Accordingly, 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 – e.g. credit risk asset reviews, internal audit, and compliance complimented by separate reporting lines directly to the Board, Board sub-committees or Senior Management;
- Clearly defined risk management policies and procedures covering risk identification, acceptance, measurement, monitoring, reporting and control;
- Mechanisms for the on-going review of systems, policies, and procedures, including independent review by Internal and External Audit.

The Board determines the risk domain, risk appetite, statement of policy and metrics to measure risk exposures and delegates authority and accountability where appropriate. The various sub-committees of the Board monitor performance against the appetite, policy and metrics. The Executive of the Bank ensures that the policy is managed appropriately. In doing this, the Executive makes use of Standing Management Committees. The tactical implementation of policies through the Executive ensure that operational processes are appropriately implemented and risks taken on by the organisation are effectively identified, measured, allocated and managed in accordance with the appetite of the Board.

(ii) Standing Committees of the Board and Executive Management

Audit Committee (Board Committee)

The role of the Audit Committee is to assist the Board in discharging its oversight responsibilities by:

1.1 overseeing the effectiveness and integrity of the Bank's financial controls; financial reporting process; and internal audit function;

1.2 reviewing and recommending to the Board appropriate actions around the:

- appointment of external auditor;
- integrity of the financial statements and financial reporting systems;
- compliance with financial reporting regulatory requirements; and
- compliance with non-financial regulatory requirements.

1.3 Approving the:

- External Audit Plan;
- Internal Audit Plan.

Risk Committee (Board Committee)

The role of the Risk Committee is to assist the Board in discharging its oversight responsibilities by overseeing the effectiveness and integrity of the risk management framework and risk reporting in the context of the approved strategic objectives and risk appetite of the Bank.

Nominations and Remuneration Committee (Board Committee)

The role of the Nominations and Remuneration Committee is to assist the Board in discharging its responsibilities by:

1.1 Working with the Chairman of the Board in planning the Board composition, evaluating the competencies required of prospective directors, identifying those prospective directors, evaluating their independence and competencies, developing succession plans for the Board, setting board remuneration policies and making recommendations to the Board accordingly;

1.2 Providing oversight surrounding Executive Management, people management processes, including specifically appointments, remuneration, performance assessments, succession management and making recommendations to the Board accordingly; and

1.3 Overseeing the effectiveness and integrity of people management policies of the Bank.

Asset and Liability Committee (Executive Committee)

The role of the Asset and Liability Committee (ALCO) is to assist Management with its oversight responsibilities with respect to asset and liability management, liquidity and capital management, as well as the management of interest rate and FX market risk. The ALCO will oversee the implementation of an effective process for managing the Bank's FX & interest rate market risk (including pricing and product approval), liquidity risk, and Internal and Regulatory Capital risks relating to the Bank's balance sheet and associated activities, including the adoption from time to time of policies, risk limits and capital levels. The Committee is also responsible for the oversight and effective management processes in relation to the credit risk arising from the Bank's Investment and Liquidity Portfolio.

Credit Committee (Executive Committee)

The role of the Credit Committee is to assist Management in discharging its oversight responsibilities with respect to credit risk management. The Committee will oversee the implementation of an effective process for managing credit risk relating to the Bank's retail, agri, commercial and business lending portfolio. The Committee also has the delegated authority to review and approve credit exposures outside of the CEO's delegated authority. The terms of reference of this committee and its membership is set by the Risk Committee of the Board.

(iii) Areas of Risk Management

The primary risks arising from the activities of the Bank are credit risk, market risk (mainly interest rate risk), liquidity risk, and operational risk. As indicated earlier, the Board of the Bank, through the Risk Committee is responsible for the governance and risk appetite declaration in respect of these risks, as well as the review and approval of the Banks systems of risk management, internal control, code of conduct and legal compliance management.

The Board exercises its authority through policy statements and performance metric requirements, and through a comprehensive set of delegated authorities for both the lending and non-lending activities of management. These authorities are reviewed annually, and the exercise of material CEO and Credit Committee discretions are reported back to the Board for noting.

(iv) Credit Risk

Credit risk is the potential risk for loss arising from failure of a debtor or counterparty to meet their contractual obligations to the Bank. Credit risk principally arises within the Bank from its core business of providing lending facilities, and comprises both on-balance sheet and off balance sheet exposures.

The Bank seeks to provide credit across its core customer base that is retail, agribusiness and the commercial and business sector. The Bank does not seek to remove risks across this sector, rather it seeks to offer credit to sound customers that have the intent, willingness and ability to repay. Entry into new product or market segments is to be undertaken with caution, piloted as necessary to gain necessary experience and resource before significant growth is undertaken.

The Bank seeks to manage its exposures by focusing its activities on areas that it is most able to manage and influence, avoiding areas where the Bank has limited experience or knowledge.

Credit risk is managed through a framework that sets out policies and procedures covering the measurement and management of credit risk. There is clear segregation of duties between transaction originators in the business and approvers – apart from structural delegation processes in the retail portfolio. All credit exposure limits are approved within a defined credit approval authority framework and the Bank manages its exposures following the principle of diversification across products, regions, industries, collateral types and client segments.

Credit risk governance is managed through a delegation framework from the Board Risk Committee to the Credit Committee, CEO and Head of Credit, who all have specific roles within the credit function. Regular meetings are undertaken and reports to the CEO, executive management and the risk committee are provided to ensure that risks arising from credit activities are within parameters set by the Board through the Risk Committee.

Overarching credit risk policies are approved by the Risk Committee of the Board and are consistent with the overall and specific Risk Appetite Statement (RAS) associated with the individual areas of credit risk. The principles of credit delegation are outlined in the credit policies and the Credit Committee is responsible for the oversight of these delegations, their performance, and overall portfolio performance.

Risk measurement plays a key role, along with judgement and experience, in informing risk taking and portfolio management decisions. A standard application risk grading system is used to support and inform retail credit decisions. The Bank refers to external ratings from credit bureaus where these are available, but are not the only input used to determine retail risk grades. Higher grades are indicative of a higher probability of default. Risk grades are also assigned to non-performing and default loans as well as loans that have been restructured.

Agribusiness, commercial and business bank loans are also risk graded at initiation using standardised models, experience and data provided on application. These grades are updated at least annually for material exposures through an annual review process, which is independently reviewed by the second line credit risk function.

Credit risk is managed through the use of trained, competent lenders, structured approval processes considering the character, capacity, capability, collateral and condition of the borrower; validation of this information; hind sighting reviews; and portfolio and exposure performance management. Non-standard, non-retail lending activities are undertaken by specialist units within the Bank to ensure that the Bank's exposures are appropriately managed.

Loans which are showing signs of stress are initially managed through the front line, but are escalated for management by the credit risk management function, which is responsible for taking action to realise securities where appropriate and to minimise losses in the event of default. All defaults are reported to credit bureaus.

Wholesale counterparty credit arrangements in respect of the Bank's investment and liquidity portfolio are managed through an approved counterparty approach, derived from Board policy and delegations. This allows maximum limits in respect of credit risk associated with the counterparty relating to the credit rating of the counterparty, the type of instrument that has been issued by the counterparty, and the maturity profile of the counterparty.

Major credit exposures to individual counterparties, groups, connected persons, and portfolios of retail exposures are reviewed and approved by the Credit Committee.

All other credit approval authorities are delegated through the Risk Committee of the Board to the CEO and the Head of Credit, who have the ability to delegate further to individuals based upon their proven competence and experience, and the size and characteristics of the loan. Delegations are managed through a delegation policy and all decisions made through the delegation process are subject to independent hindsight review.

Notes to the Financial Statements

Credit concentration risk is managed through counterparty or group limits, industry limits (where appropriate), product limits, collateral type limits and regional exposure limits.

Credit risk is further mitigated through the use of tools such as collateral, netting arrangements, credit insurance and guarantees. The reliance that can be placed on such mitigants is assessed in the light of legal certainty and enforceability, market valuation, correlation and counterparty risk of the credit insurance provider. However, the existence of credit mitigations do not substitute for the ability of the borrower to pay, which is the primary consideration of any lending decision.

All credit risk is denominated in New Zealand dollars, and for non-wholesale credit exposure, is based in New Zealand.

Details of asset quality are shown in Note 12 Credit Risk Management and Asset Quality.

(v) Foreign Currency Risk

Foreign Currency risk is the risk to the Bank's earnings or market value caused by movements in foreign exchange rates.

The Bank provides foreign exchange services via its branch network and offers foreign currency deposit accounts to customers via a third party.

Limits are in place to control the amount of foreign currency exposure the Bank's policy is to maintain minimal levels of foreign currency cash balances and therefore foreign currency exposure is immaterial. The Bank also ensures customers who have foreign currency deposit accounts with the Bank are aware that they could be exposed to foreign currency fluctuations in their own right.

(vi) Interest Rate Risk

Interest Rate Risk (IRR) refers to the risk to the Bank's economic value or earnings arising from adverse movements in interest rates. The Bank has a preference for stability of earnings, which is consistent with the Shareholder's expectations of stable dividend payments over time.

When interest rates change, the present value and timing of future cash flows change. This in turn changes the underlying value of the bank's assets, liabilities and off-balance sheet instruments and in turn, their economic value. Changes in interest rates also affect the bank's earnings by altering interest rate-sensitive income and expenses, affecting its net interest income (NII).

The Bank measures and manages its interest rate risk using a combination of economic value and earnings-based measures.

Under the economic value approach, the measure of interest rate risk is the theoretical change in the market value of the entire balance sheet. The economic value for both on and off-balance sheet items is derived from their contractual cash flows, which are discounted to reflect current market rates.

Under the earnings-based measure, the focus is on the impact of changes in interest rates on future reported net interest income (NII). This focus reflects both the importance of NII the bank's overall earnings and the direct link to changes in interest rates.

The bank is exposed to IRR from mismatches in the repricing dates, or differences in the repricing characteristics of its assets and liabilities. The bank closely monitors the repricing behaviour of its assets and liabilities and ensures that any mismatches remain within policy limits. This may be done with the use approved derivative transactions. The Bank does not seek to eliminate interest rate risk, rather to limit downside variability in NII.

Details of interest rate risk management are shown in Note 18.

(vii) Liquidity Risk

The Bank defines liquidity risk generally as the inability of the bank to access the funds that it needs to meet its obligations when they become due. Liquidity can be in the form of cash on hand, securities available for sale, or borrowing arrangements that the Bank can utilise when required.

The Bank's business model gives rise to liquidity risk largely through its role in the maturity transformation between its assets (loans and investments) and its liabilities (deposits and other funding). The Bank acknowledges that it takes on liquidity risk as a core part of its business strategy and that the Bank's shareholder is unlikely to be able to provide additional liquidity support should it be required.

The liquidity risks faced by the bank can be generally be classified into three different types:

Operational Liquidity Risk: the risk that the bank does not have sufficient cash or collateral to make payments to its counterparties and customers as they fall due.

Structural Liquidity Risk: the risk associated with longer term liquidity mismatches that might exist within the bank's balance sheet and which may create an unnecessarily large funding need in the future.

Market Liquidity Risk: the risk that an asset cannot be sold in the market quickly, or if its sale is executed very rapidly, that this can only be achieved at a heavily discounted price.

The Reserve Bank of New Zealand's Liquidity Policy (BS13) sets regulatory minimums for liquidity risk that the bank is required to meet as part of its conditions of registration. As part of its over-arching risk management practices, the Bank has adopted a conservative approach to liquidity management and aims for liquidity to be well in excess of the minimum regulatory requirements. The Bank's Treasury Policy, which is approved by the Board of Directors, sets out the minimum internal liquidity requirements for the Bank as well as providing guidance for the Bank's portfolio of liquid assets.

The Bank manages its liquidity risk through a combination of forward looking cash flow management, as well as maintaining a portfolio of high quality liquid assets that can be realised quickly if required. The Bank also closely monitors a series of potential leading indicators for liquidity risk, including term deposit reinvestment rates and the weighted average term of funding.

In the event of a severe liquidity event, the bank has a Contingency Funding Plan in place which outlines the actions the Bank would take in order to manage the situation.

Details of liquidity rate risk management are shown in Note 19.

(viii) Operational Risk

Operational risk arises from the day to day operational activities not performing as expected resulting in either direct loss, increased cost, or other indirect loss to the Bank (such as reduced revenue). These losses may arise as a result of failure to comply with policies, processes, laws and regulations; inadequate or inappropriate policies or processes; fraud and forgery; breakdown in the availability or integrity of services, systems or information; human error through incompetence or lack of training or oversight or damage to the Bank's reputation through innocent actions by the Bank.

The Bank understands that efforts to reduce operational risk to zero could impact on ease of doing business and will therefore seek to cost effectively minimise operational risk by either reducing the probability or impact of its occurrence. It does not and cannot reasonably expect to seek to eliminate all instances of operational risk.

The management of operational risk is a challenge due to its broad scope as operational risks arise from all activities conducted across the Bank. To address this challenge the Bank maps risks across the Bank at an operational/outcome level with controls installed and monitored to mitigate these risks. Management benchmark practices against peers and regulatory obligations, furthermore, where appropriate, residual operational risk is transferred by the Bank, through its insurance programme.

Effective operational risk management helps increase the probability of success and reduces the probability of failure. The requirements for management of operational risks are applicable to all of the Bank business units. It applies to all Bank staff, particularly managers, who have the primary accountability for day-to-day management of operational risk, and those who assist management in fulfilling their operational risk management accountabilities. However, staff are expected to minimise and mitigate any operational risk arising from their own activities and to bring unmitigated risks to the attention of Management where they are unable to mitigate the risk themselves.

The Risk Committee of the Board provides oversight of operational risk management across the Bank. This committee, as well as the executive management team of the Bank receive regular reports on the Bank's operational risk profile.

To implement its operational risk management approach, the Bank applies the three lines of defence model in the context of operational risk. The first line of defence is responsible for identifying and managing the inherent operational risks in processes they own. The second line of defence is responsible for setting and maintaining control standards and policies, and monitoring adherence to these standards. The third line of defence is the independent assurance provided by the outsourced internal audit function of the Bank, as well as the external auditors of the Bank.

Detailed policy parameters around operational risk are more comprehensively detailed in the operational risk policies for fraud management; employment practices and workplace safety management ; management of non-financial assets (including information and virtual assets); product, client and business practice management; business disruption and system failure management; execution, delivery and process failure management; outsourcing management; and legal & contractual compliance management.

(ix) Internal Audit

Internal Audit's role is to evaluate and improve the effectiveness of governance, risk management and control processes and act as the third line of defence. This provides members of the Board and Management with assurance that assists them in fulfilling their duties to the Bank and its stakeholders.

The Internal Audit function is outsourced to PwC. It has no direct reporting line to Management, but attends executive meetings on a monthly basis. The function reports directly to the Chairman of the Audit Committee. In performance of this role, the Internal Audit function adopts a risk based approach, encompassing reviews of major risks that could impact upon the Bank, and is supported by the Risk function in its reviews of branch based activities, and the implementation of Management action plans. Significant findings and the status of Management corrective actions are reported quarterly to the Audit Committee.

26. Risk Management Systems Reviews

Apart from the items outlined below, there have been no material changes to the risk management policies since publication of the previous Annual Report. The changes below are refinements to existing policies which have been implemented to reflect the latest market approaches to the management of these risks and changes in the overall Board risk appetite in these areas:

- Retail Credit Risk; - an update of the credit policies and practices to reflect the current risk appetite of the Board.
- Agribusiness Credit Risk; - an update of the credit policies and practices to reflect the current risk appetite of the Board.
- Business and Commercial Credit Risk; - an update of the credit policies and practices to reflect the current risk appetite of the Board.
- Treasury Counterparty Credit Risk - an update of the credit policies and practices to reflect the current risk appetite of the Board.
- Balance Sheet Interest Rate Risk; - an update of the interest rate risk policies and practices to reflect the current risk appetite of the Board.
- Liquidity Risk - an update of the liquidity risk policies and practices to reflect the current risk appetite of the Board.
- Capital Management Policy; - an enhancement of the capital management programme arising from an updated review of the ICAAP programme.
- General Risk Management - Internal Capital Adequacy Assessment Processes (ICAAP); - an improved and focussed update of the existing ICAAP to ensure that it meets the requirements of the regulator and the Board
- Capital Management Policy; - an enhancement of the capital management programme arising from an updated review of the ICAAP programme.
- Operational Risk – Non Financial Asset Management (including Information Assets) – an update of existing policies and processes to reflect the current risk appetite of the Board.
- Operational Risk – Health and Safety – an update of existing policies and processes to reflect material regulatory changes in this area.
- •Operational Risk – Anti-Money Laundering (AML) – an update of existing policies and processes to reflect changes identified through the updated AML risk assessment processes.

Notes to the Financial Statements

Furthermore, an independent review has recommended that the Bank enhances its overall Enterprise Risk Management programme with specific focus being placed on the control frameworks around regulatory compliance. The Bank has invested resources to implement these recommendations and will be implementing them in the next financial year.

Finally, the Bank was subject to an AML inspection by the Reserve Bank as its AML regulator. The inspection found that the Bank had breached its obligations under the Anti-Money Laundering and Countering Financing of Terrorism Act 2009 (AML/CFT), in that its current risk assessment was not up to date. The Bank received a formal warning from the RBNZ for this breach on 28 November 2016. Since receiving that formal warning, the Bank has rectified this breach and, as part of its rectification programme, is currently undergoing an external review of its AML risk assessment and compliance programme by an independent party.

The following reviews of the Bank's Risk Management Systems have been undertaken. The recommendations arising from these reviews have either been implemented, or are in the process of being implemented by the Bank. Apart from the reviews required by legislation, these reviews have been requested by the Board or Management to ensure that the Bank is appropriately equipped for future change. The reviews are as follows:

- Overall Board Governance Review – An in-depth review of the governance arrangement of the Board of the Bank. This review was conducted at the request of the Board by an independent third party and its findings are in the process of being implemented. This was an ad-hoc review;
- TSB Agri-lending Credit Review – An in-depth review of the overall risk management processes and reporting around the recently introduced agribusiness unit. This review was conducted at the request of Management by an independent third party and its findings are being implemented. This was an ad-hoc review;
- TSB Information Security Risk Review – An overarching review of the Bank's information security policy, processes and practices comparative to NZ best practice. This review was conducted at the request of Management by an independent third party, and its findings are currently being implemented across the Bank. This was an ad-hoc review;
- Treasury review – An in-depth review of the Bank's Treasury Policy in relation to treasury best practice was carried out by external parties at the request of the Board and Management. An amended Treasury Policy was approved by the Board in September 2015;
- TSB Credit Risk review – An independent overarching review of risk governance and risk management of the proposed restructure of the Bank's credit function. This review was requested by management as a result of corporate structural changes and changes implemented to improve the three lines of defence in credit risk at the Bank. The recommendations made by this review are being implemented and will continue over the next 12 months;
- AML Compliance Review – An independent review of the AML risk management architecture and programme of the Bank as required by legislation. This review is conducted at least every two years.

The Bank has also commissioned a review of its Internal Capital Adequacy Management Process, which is currently underway and it is intended that the review will be presented for Board assessment in July 2017.

Contents

Disclosure Statement

This Disclosure Statement contains information as required by the Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order 2014 (as amended) ('the Order').

1. Name and Registered Office of Registered Bank

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

2. Details of Incorporation

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

3. Ownership

The Bank is wholly owned by the TSB Community Trust (an independent body), through the Trust's fully owned subsidiary, TSB Group Limited, and is domiciled in New Zealand. TSB Community Trust appoints the Board of Directors. Address for Service is 21 Dawson Street, PO Box 667, New Plymouth 4340.

4. Directorate

All Directors of the Bank reside in New Zealand.

J.J. (John) Kelly
(Chair – Board of Directors)
Company Director

M.I. (Murray) Bain, M Com (Hons), BSc, C.F.Inst.D
(Deputy Chair)
Company Director

M.A. (Anne) Blackburn, MA, BA
Company Director

K.M. (Kelly) Marriner, LLB, BA
Company Director

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

N. (Natalie) Pearce, B.Com
Company Director

P.M. Schuyt, B Com, C.F.Inst.D
Company Director

D.J. (Dion) Tuuta
Company Director

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

The following changes to the composition of the Board of Directors have occurred since the publication date of the 31 March 2016 Annual Report/Full Year Disclosure Statement:

- Bruce Carlaw Richards retired from the Board with effect from 2 June 2016;
- Natalie Pearce was appointed a Director on 2 June 2016.

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 J.J. Kelly, M.I. Bain, M.A. Blackburn, N. Pearce, P.M. Schuyt, and D.J. Tuuta.

Address to which any communication to the Directors may be sent is:-
TSB Bank Limited
PO Box 240
New Plymouth 4310

Disclosure Statement

5. Auditor

KPMG
10 Customhouse Quay
Wellington 6011

6. Policy on Directors' Conflicts of Interest

As per Clause 22 of the Constitution of the Bank 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.

7. Conditions of Registration

The following changes have been made to the Bank's Conditions of Registration since 31 March 2016 pursuant to section 74(2) of the Reserve Bank of New Zealand Act 1989:

- Conditions 19 to 21 relate to Loan-to-valuation measurement and have all been modified to reflect an updated version of BS19 "Framework for Restrictions on High-LVR Residential Mortgage Lending", dated October 2016. These restrictions relate to property-investment residential mortgage loans and non property-investment residential mortgage loans.

A copy of the full 'Conditions of Registration' is included in this Disclosure Statement, as from 1 October 2016, refer Page 53.

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

The Bank has a credit rating applicable to its long term senior unsecured obligations payable in New Zealand, in New Zealand dollars. The current rating is A-/Stable, a Long-Term Issuer Default Rating assigned by Fitch Ratings on 16 September 2016.

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.

10. Directorships

The following directors are also directors of the following companies outside TSB Bank Limited.

J.J. Kelly - John Kelly Livestock Limited, Te Tapu Lands Limited, Taranaki Veterinary Centre Limited, J & M Kelly Trustees Limited.

M.I. Bain - Oryx Technologies Limited, M.I. Bain & Associates Limited, Central Region's Technical Advisory Services Limited, TSB Group Capital Limited, TSB Group Investments Limited, Top Energy Ngawha Spa Limited, Ngawha Generation Limited, Top Energy Limited, ESA Publications (NZ) Limited, Optimum Services Limited, Open Polytechnic of NZ.

M.A. Blackburn - New Zealand Venture Investment Fund, Fidelity Life Assurance Group Limited, Warren and Mahoney Limited, Ten Gracie Square Limited, Committee for Auckland Limited, Panuku Development Auckland Limited, Fisher Funds Management Limited, TSB Group Capital Limited, TSB Group Investments Limited, Wairaka Land Company Limited, Treasury Commercial Operations Advisory Board.

K.M. Marriner - 42 Limited, Zoe Limited, TSB Group Limited, Marriner Nominees Limited, Zahk Limited.

K.J. Murphy - Payments NZ Limited.

N.Pearce - Boosted.

P.M. Schuyt - Pumpkin Patch Limited (In Receivership and in Liquidation), Tax Management New Zealand Limited, Dairy NZ Limited, Dairy Investment Fund Limited, The Tatua Co-operative Dairy Company Limited, Foodstuffs North Island Limited.

D.J. Tuuta - Port Nicholson Fisheries General Partner Limited, Koura Inc General Partner Limited, Te Ohu Kaimoana Custodian Limited, Tuuta Waetford Tapui Limited, Seafood New Zealand Limited, Te Wai Maori Trustee Limited, Southern Seabird Solutions Trust.

H.P.W. Wano - Tui Ora Limited, TSB Group Limited.

11. Directors Fees

Directors Fees received by the Directors for the year ended 31 March 2017.

Name of Director	Board Fee	Audit Committee	Risk Committee	Nomination & Remuneration Committee	Total
J.J. Kelly	(Chair) $123,167	-	-	-	$123,167
M.I. Bain	(Deputy Chair) $70,875	$3,544	(Chair) $3,544	$3,037	$81,000
P.M. Schuyt	$60,750	(Chair) $3,544	$3,544	-	$67,838
H.P.W. Wano	$60,750	-	-	$3,037	$63,787
K.M. Marriner	$60,750	$3,544	$583	-	$64,877
M.A. Blackburn	$60,750	$3,544	$3,544	-	$67,838
D.J. Tuuta	$60,750	$584	$583	(Chair) $3,037	$64,954
B.C. Richards (Retired 2 June 2016)	$15,575	-	-	-	$15,575
N. Pearce (Appointed 2 June 2016)	$50,750	-	$2,960	-	$53,710
K.J. Murphy*	-	-	-	-	-*
Total	$564,117	$14,760	$14,758	$9,111	$602,746

* Excluding any salary received for executive services.

12. Guarantee Arrangements

No material obligations of the Bank are guaranteed.

13. Financial and Supplementary Disclosures

This Disclosure Statement is inclusive of the Bank's audited financial statements for the year ended 31 March 2017. All necessary additional financial and supplementary disclosures are included in the notes attached to the financial statements.

14. Directors' Statement

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

a) The Disclosure Statement contains all the information required by the Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order 2014 (as amended) (the "Order");

b) The Disclosure Statement is not false or misleading.

The Directors believe, after due enquiry, that over the financial year to 31 March 2017:

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) Taking into account the comments under the heading "Risk Management Systems Reviews" on Page 46, 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 risk and other business risks, and that these systems are being properly applied.

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

M.I. Bain
(Deputy Chair)
8 June 2017

M.A. Blackburn
8 June 2017

K.M. Marriner
8 June 2017

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

N.Pearce
8 June 2017

P.M. Schuyt
8 June 2017

D.J. Tuuta
8 June 2017

H.P.W. Wano
8 June 2017

Conditions of Registration

Conditions of registration for TSB Bank Limited .

These conditions will apply on and after 1 October 2016.

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

1. That—
   (a) the Total capital ratio of the banking group is not less than 8%;
   (b) the Tier 1 capital ratio of the banking group is not less than 6%;
   (c) the Common Equity Tier 1 capital ratio of the banking group is not less than 4.5%;
   (d) the Total capital of the banking group is not less than $30 million;
   (e) the bank must not include the amount of an Additional Tier 1 capital instrument or Tier 2 capital instrument issued after 1 January 2013 in the calculation of its capital ratios unless it has received a notice of non-objection to the instrument from the Reserve Bank; and
   (f) the bank meets the requirements of Part 3 of the Reserve Bank of New Zealand document "Application requirements for capital recognition or repayment and notification requirements in respect of capital" (BS16) dated November 2015 in respect of regulatory capital instruments.

   For the purposes of this condition of registration,—

   except to the extent modified by Condition 1C, the Total capital ratio, the Tier 1 capital ratio, the Common Equity Tier 1 capital ratio and Total capital must be calculated in accordance with the Reserve Bank of New Zealand document: "Capital Adequacy Framework (Standardised Approach)" (BS2A) dated November 2015;

   an Additional Tier 1 capital instrument is an instrument that meets the requirements of subsection 8(2)(a) or (c) of the Reserve Bank of New Zealand document "Capital Adequacy Framework (Standardised Approach)" (BS2A) dated November 2015.

   a Tier 2 capital instrument is an instrument that meets the requirements of subsection 9(2)(a) or (c) of the Reserve Bank of New Zealand document "Capital Adequacy Framework (Standardised Approach)" (BS2A) dated November 2015.

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 the Common Equity Tier 1 capital ratio, the Tier 1 capital ratio and the Total capital ratio under the requirements set out in the document "Capital Adequacy Framework (Standardised Approach)" (BS2A) dated November 2015; and
   (c) the bank determines an internal capital allocation for each identified and measured "other material risk".

1B. That, if the buffer ratio of the banking group is 2.5% or less, the bank must:
   (a) according to the following table, limit the aggregate distributions of the bank's earnings to the percentage limit to distributions that corresponds to the banking group's buffer ratio:

Banking group's buffer ratio	Percentage limit to distributions of the bank's earnings
0% – 0.625%	0%
>0.625 – 1.25%	20%
>1.25 – 1.875%	40%
>1.875 – 2.5%	60%

   (b) prepare a capital plan to restore the banking group's buffer ratio to above 2.5% within any timeframe determined by the Reserve Bank for restoring the buffer ratio; and
   (c) have the capital plan approved by the Reserve Bank..

   For the purposes of this condition of registration, except to the extent modified by Condition 1C —

   "buffer ratio", "distributions", and "earnings" have the same meaning as in Part 3 of the Reserve Bank of New Zealand document: "Capital Adequacy Framework (Standardised Approach)" (BS2A) dated November 2015.

1C. That when calculating the banking group's Common Equity Tier 1 capital ratio, Tier 1 capital ratio and Total capital ratio for the purposes of Condition 1, and the banking group's buffer ratio for the purposes of Condition 1B, the bank calculates "total capital requirement for operational risk" used in the definitions of those ratios in Part 3 of BS2A as the sum of the operational risk capital requirement determined in accordance with Part 9 of BS2A, and an additional capital charge for the implicit risk arising from the bank's association with Fisher Funds Management Limited, which must be the greater of—
   (a) an amount determined by the formula set out in the document "TSB Implicit Risk Capital Policy" dated 17 August 2015, as approved by the board of the bank; and

Conditions of Registration

(b) an amount equal to 0.25% of total funds under management of Fisher Funds Management Limited.

For the purposes of this condition of registration, "BS2A" means the Reserve Bank of New Zealand document "Capital Adequacy Framework (Standardised Approach)" (BS2A) dated November 2015.

1D. That the bank, in every full year and half year disclosure statement that it is required to publish, discloses the amount of the implicit risk capital charge required by Condition 1C as a separate item within the required disclosure of operational risk capital requirement.

2. That the banking group does not conduct any non-financial activities that in aggregate are material relative to its total activities.
In this condition of registration, the meaning of "material" is based on generally accepted accounting practice.

3. That the banking group's insurance business is not greater than 1% of its total consolidated assets.
For the purposes of this condition of registration, the banking group's insurance business is the sum of the following amounts for entities in the banking group:
(a) if the business of an entity predominantly consists of insurance business and the entity is not a subsidiary of another entity in the banking group whose business predominantly consists of insurance business, the amount of the insurance business to sum is the total consolidated assets of the group headed by the entity; and
(b) if the entity conducts insurance business and its business does not predominantly consist of insurance business and the entity is not a subsidiary of another entity in the banking group whose business predominantly consists of insurance business, the amount of the insurance business to sum is the total liabilities relating to the entity's insurance business plus the equity retained by the entity to meet the solvency or financial soundness needs of its insurance business.
In determining the total amount of the banking group's insurance business—
(a) all amounts must relate to on balance sheet items only, and must comply with generally accepted accounting practice; and
(b) if products or assets of which an insurance business is comprised also contain a non-insurance component, the whole of such products or assets must be considered part of the insurance business.
For the purposes of this condition of registration,—
"insurance business" means the undertaking or assumption of liability as an insurer under a contract of insurance:
"insurer" and "contract of insurance" have the same meaning as provided in sections 6 and 7 of the Insurance (Prudential Supervision) Act 2010.

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 limit outlined in the following matrix:

Credit rating of the bank[1]	Connected exposure limit (% of the banking group's Tier 1 Capital)
AA/Aa2 and above	75
AA-/Aa3	70
A+/A1	60
A/A2	40
A-/A3	30
BBB+/Baa1 and below	15

Within the rating-contingent limit, credit exposures (of a non-capital nature and net of any allowances for impairment) to non-bank connected persons shall not exceed 15% of the banking group's Tier 1 capital.

For the purposes of this condition of registration, compliance with the rating-contingent connected exposure limit is determined in accordance with the Reserve Bank of New Zealand document entitled "Connected exposure policy" (BS8) dated November 2015.

5. That exposures to connected persons are not on more favourable terms (e.g. 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 bank complies with the following corporate governance requirements:
(a) the board of the bank must have at least five directors;
(b) the majority of the board members must be non-executive directors;
(c) at least half of the board members must be independent directors;
(d) an alternate director,—
    (i) for a non-executive director must be non-executive; and
    (ii) for an independent director must be independent;

[1] This table uses the rating scales of Standard & Poor's, Fitch Ratings and Moody's Investors service. (Fitch Ratings' scale is identical to Standard & Poor's.)

(e) at least half of the independent directors of the bank must be ordinarily resident in New Zealand;

(f) the chairperson of the board of the bank must be independent; and

(g) the bank's constitution must 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 interests of the company (i.e. the bank).

For the purposes of this condition of registration, "non-executive" and "independent" have the same meaning as in the Reserve Bank of New Zealand document entitled "Corporate Governance" (BS14) dated July 2014.

7. That no appointment of any director, chief executive officer, or executive who reports or is accountable directly to the chief executive officer or to the deputy chief executive officer, is made in respect of the bank unless:
   (a) the Reserve Bank has been supplied with a copy of the curriculum vitae of the proposed appointee; and
   (b) the Reserve Bank has advised that it has no objection to that appointment.

8. That a person must not be appointed as chairperson of the board of the bank unless:
   (a) the Reserve Bank has been supplied with a copy of the curriculum vitae of the proposed appointee; and
   (b) the Reserve Bank has advised that it has no objection to that appointment.

9. That the bank has a board audit committee, or other separate board committee covering audit matters, that meets the following requirements:
   (a) the mandate of the committee must include: ensuring the integrity of the bank's financial controls, reporting systems and internal audit standards;
   (b) the committee must have at least three members;
   (c) every member of the committee must be a non-executive director of the bank;
   (d) the majority of the members of the committee must be independent; and
   (e) the chairperson of the committee must be independent and must not be the chairperson of the bank.

   For the purposes of this condition of registration, "non-executive" and "independent" have the same meaning as in the Reserve Bank of New Zealand document entitled "Corporate Governance" (BS14) dated July 2014.

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:
   (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 75 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 July 2014 and "Liquidity Policy Annex: Liquid Assets" (BS13A) dated December 2011.

12. That the bank has an internal framework for liquidity risk management that is adequate in the 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.

13. That no more than 10% of total assets may be beneficially owned by a SPV

   For the purposes of this condition,—

   "total assets" means all assets of the banking group plus any assets held by any SPV that are not included in the banking group's assets:

   "SPV" means a person—
   (a) to whom any member of the banking group has sold, assigned, or otherwise transferred any asset;
   (b) who has granted, or may grant, a security interest in its assets for the benefit of any holder of any covered bond; and
   (c) who carries on no other business except for that necessary or incidental to guarantee the obligations of any member of the banking group under a covered bond:

   "covered bond" means a debt security issued by any member of the banking group, for which repayment to holders is guaranteed by a SPV, and investors retain an unsecured claim on the issuer.

Conditions of Registration

14. That —
    (a) no member of the banking group may give effect to a qualifying acquisition or business combination that meets the notification threshold, and does not meet the non-objection threshold, unless:
        (i) the bank has notified the Reserve Bank in writing of the intended acquisition or business combination and at least 10 working days have passed; and
        (ii) at the time of notifying the Reserve Bank of the intended acquisition or business combination, the bank provided the Reserve Bank with the information required under the Reserve Bank of New Zealand Banking Supervision Handbook document "Significant Acquisitions Policy" (BS15) dated December 2011; and
    (b) no member of the banking group may give effect to a qualifying acquisition or business combination that meets the non-objection threshold unless:
        (i) the bank has notified the Reserve Bank in writing of the intended acquisition or business combination;
        (ii) at the time of notifying the Reserve Bank of the intended acquisition or business combination, the bank provided the Reserve Bank with the information required under the Reserve Bank of New Zealand Banking Supervision Handbook document "Significant Acquisitions Policy" (BS15) dated December 2011; and
        (iii) the Reserve Bank has given the bank a notice of non-objection to the significant acquisition or business combination.

    For the purposes of this condition of registration, "qualifying acquisition or business combination", "notification threshold" and "non-objection threshold" have the same meaning as in the Reserve Bank of New Zealand Banking Supervision Handbook document "Significant Acquisitions Policy" (BS15) dated December 2011.

15. That the bank is pre-positioned for Open Bank Resolution and in accordance with a direction from the Reserve Bank, the bank can—
    (a) close promptly at any time of the day and on any day of the week and that effective upon the appointment of the statutory manager—
        (i) all liabilities are frozen in full; and
        (ii) no further access by customers and counterparties to their accounts (deposits, liabilities or other obligations) is possible;
    (b) apply a de minimis to relevant customer liability accounts;
    (c) apply a partial freeze to the customer liability account balances;
    (d) reopen by no later than 9 am the next business day following the appointment of a statutory manager and provide customers access to their unfrozen funds;
    (e) maintain a full freeze on liabilities not pre-positioned for open bank resolution; and
    (f) reinstate customers' access to some or all of their residual frozen funds.

    For the purposes of this condition of registration, "de minimis", "partial freeze", "customer liability account", and "frozen and unfrozen funds" have the same meaning as in the Reserve Bank of New Zealand document "Open Bank Resolution (OBR) Pre-positioning Requirements Policy" (BS17) dated September 2013.

16. That the bank has an Implementation Plan that—
    (a) is up-to-date; and
    (b) demonstrates that the bank's prepositioning for Open Bank Resolution meets the requirements set out in the Reserve Bank document: "Open Bank Resolution Pre-positioning Requirements Policy" (BS 17) dated September 2013.

    For the purposes of this condition of registration, "Implementation Plan" has the same meaning as in the Reserve Bank of New Zealand document "Open Bank Resolution (OBR) Pre-positioning Requirements Policy" (BS17) dated September 2013.

17. That the bank has a compendium of liabilities that—
    (a) at the product-class level lists all liabilities, indicating which are—
        (i) pre-positioned for Open Bank Resolution; and
        (ii) not pre-positioned for Open Bank Resolution;
    (b) is agreed to by the Reserve Bank; and
    (c) if the Reserve Bank's agreement is conditional, meets the Reserve Bank's conditions.

    For the purposes of this condition of registration, "compendium of liabilities", and "pre-positioned and non pre-positioned liabilities" have the same meaning as in the Reserve Bank of New Zealand document "Open Bank Resolution (OBR) Pre-positioning Requirements Policy" (BS17) dated September 2013.

18. That on an annual basis the bank tests all the component parts of its Open Bank Resolution solution that demonstrates the bank's prepositioning for Open Bank Resolution as specified in the bank's Implementation Plan.

    For the purposes of this condition of registration, "Implementation Plan" has the same meaning as in the Reserve Bank of New Zealand document "Open Bank Resolution (OBR) Pre-positioning Requirements Policy" (BS17) dated September 2013.

Conditions of Registration

19. That, for a loan-to-valuation measurement period, the total of the bank's qualifying new mortgage lending amount in respect of property-investment residential mortgage loans with a loan-to-valuation ratio of more than 60%, must not exceed 5% of the total of the qualifying new mortgage lending amount in respect of property-investment residential mortgage loans arising in the loan-to-valuation measurement period.

20. That, for a loan-to-valuation measurement period, the total of the bank's qualifying new mortgage lending amount in respect of non property-investment residential mortgage loans with a loan-to-valuation ratio of more than 80%, must not exceed 10% of the total of the qualifying new mortgage lending amount in respect of non property-investment residential mortgage loans arising in the loan-to-valuation measurement period.

21. That the bank must not make a residential mortgage loan unless the terms and conditions of the loan contract or the terms and conditions for an associated mortgage require that a borrower obtain the registered bank's agreement before the borrower can grant to another person a charge over the residential property used as security for the loan.

In these conditions of registration,—

"banking group" means TSB Bank Limited (as reporting entity) and all other entities included in the group as defined in section 6(1) of the Financial Markets Conduct Act 2013 for the purposes of Part 7 of that Act.

"generally accepted accounting practice" has the same meaning as in section 8 of the Financial Reporting Act 2013.

In conditions of registration 19 to 21,—

"loan-to-valuation ratio", "non property-investment residential mortgage loan", "property-investment residential mortgage loan", "qualifying new mortgage lending amount in respect of property-investment residential mortgage loans", "qualifying new mortgage lending amount in respect of non property-investment residential mortgage loans", and "residential mortgage loan" have the same meaning as in the Reserve Bank of New Zealand document entitled "Framework for Restrictions on High-LVR Residential Mortgage Lending" (BS19) dated October 2016:

"loan-to-valuation measurement period" means a period of six calendar months ending on the last day of the sixth calendar month, the first of which ends on the last day of March 2017.

Independent Auditor's Report

To the shareholder of TSB Bank Limited

Report on the Bank disclosure statement

Opinion

In our opinion, the accompanying financial statements (excluding supplementary information relating to Capital Adequacy) of TSB Bank Limited (the bank) on pages 8 to 46:

i. give a true and fair view of the bank's financial position as at 31 March 2017 and its financial performance and cash flows for the year ended on that date; and

ii. comply with New Zealand Generally Accepted Accounting Practice, which in this instance means New Zealand Equivalents to International Financial Reporting Standards ("NZIFRS") and International Financial Reporting Standards.

In our opinion, the supplementary information (excluding supplementary information relating to Capital Adequacy) that is required to be disclosed in accordance with Schedules 4, 7, 13, 14, 15 and 17 of the Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order 2014 (as amended) (the "Order") and is included within notes 12, 21 and 25 of the disclosure statement:

i. has been prepared, in all material respects, in accordance with the guidelines issued pursuant to section 78(3) of the Reserve Bank of New Zealand Act 1989 and any conditions of registration;

ii. is in accordance with the books and records of the in all material respects; and

iii. fairly states the matters to which it relates in accordance with those Schedules

We have audited the accompanying financial statements and supplementary information (excluding supplementary information relating to Capital Adequacy) which comprise:

— the statement of financial position as at 31 March 2017;

— the income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended;

— notes, including a summary of significant accounting policies and other explanatory information; and

— the information that is required to be disclosed in accordance with Schedules 4, 7, 13, 14, 15 and 17 of the Order.

Basis for Opinion

We conducted our Audit in accordance with International Standards on Auditing (New Zealand) (ISA's (NZ)). We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

We are independent of the bank in accordance with Professional and Ethical Standard 1 (Revised) Code of Ethics for Assurance Practitioners issued by the New Zealand Auditing and Assurance Standards Board and the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA

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Code), and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

Our responsibilities under ISA (NZ) are further described in the Auditor's Responsibilities for the Audit of the financial statements (excluding supplementary information relating to Capital Adequacy) section of our report.

Our firm has also provided other services to the bank in relation to regulatory advisory services, risk advisory services and technical accounting services. 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.

Other Information

The Directors, on behalf of the bank, are responsible for the other information included in the bank's Annual Report. Other information includes the Chairman and Managing Director's report and information required to be included in the Disclosure Statement in accordance with Schedule 2 of the Order and is included on pages 1 to 7 and 49 to 57. Our opinion on the financial statements does not cover any other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Report on other legal and regulatory requirements

In accordance with the requirements of clauses 2(1)(d) and 2(1)(e) of Schedule 1 of the Order, we report that:

- we have obtained all the information and explanations we have required; and
- in our opinion, proper accounting records have been kept by the bank, as far as appears from our examination of those records.

Responsibilities of Directors for the financial statements and supplementary information (excluding supplementary information relating to Capital Adequacy)

The Directors, on behalf of the bank, are responsible for:

- the preparation and fair presentation of the financial statements in accordance with Clause 24 of the Order, NZIFRS and International Financial Reporting Standards;
- the preparation and fair presentation of supplementary information (excluding the supplementary information relating to Capital Adequacy), in accordance with Schedules 2, 4, 7, 13, 14, 15 and 17 of the Order;
- implementing necessary internal control to enable the preparation of financial statements that are fairly presented and free from material misstatement, whether due to fraud or error; and
- assessing the ability to continue as a going concern. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the financial statements and supplementary information (excluding supplementary information relating to Capital Adequacy)

Our objective is:

- to obtain reasonable assurance about whether the disclosure statement, including the financial statements prepared in accordance with Clause 24 of the Order, and supplementary information (excluding the supplementary information relating to Capital Adequacy), in accordance with Schedules 4, 7, 13, 14, 15 and 17 of the Order as a whole is free from material misstatement, whether due to fraud or error; and
- to issue an Auditor's Report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing (New Zealand) will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error. They are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial statements.

A further description of our responsibilities for the Audit of these financial statements is located at the External Reporting Board (XRB) website at:

https://www.xrb.govt.nz/Site/Auditing_Assurance_Standards/Current_Standards/Page2.aspx.

This description forms part of our Auditor's Report.

Review conclusion on the supplementary information relating to Capital Adequacy

Based on our review, nothing has come to our attention that causes us to believe that the supplementary information relating to Capital Adequacy, disclosed in note 20 to the disclosure statement, is not, in all material respects:

i. prepared in accordance with the bank's conditions of registration; and

ii. disclosed in accordance with Schedule 9 of the Order.

We have reviewed the supplementary information relating to Capital Adequacy, as disclosed in note 20 of the disclosure statement for the year ended 31 March 2017. The supplementary information relating to Capital Adequacy comprises the information that is required to be disclosed in accordance with Schedule 9 of the Order.

Basis for conclusion on the supplementary information relating to Capital Adequacy

A review of the supplementary information relating to Capital Adequacy in accordance with NZ SRE 2410 *Review of Financial Statements Performed by the Independent Auditor of the Entity* ("NZ SRE 2410") is a limited assurance engagement. The auditor performs procedures, primarily consisting of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. Our responsibilities under that standard are further described in the Auditor's Responsibilities for the Review of the supplementary information relating to capital adequacy section of our report.

As the auditor of TSB Bank Limited, NZ SRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial statements.

Responsibilities of Directors for the supplementary information relating to capital adequacy

The directors are responsible for the preparation of supplementary information relating to Capital Adequacy that is required to be disclosed under Schedule 9 of the Order and prepared in accordance with the Capital Adequacy Framework (Standardised Approach) (BS2A) and described in note 20 to the disclosure statement.

Auditor's Responsibilities for the Review of the supplementary information relating to capital adequacy

Our responsibility is to express a conclusion on the Capital Adequacy information based on our review. We conducted our review in accordance with NZ SRE 2410 Review of Financial Statements Performed by the Independent Auditor of the Entity ("NZ SRE 2410") issued by the New Zealand External Reporting Board. As the auditor of TSB Bank Limited, NZ SRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial statements, and plan and perform the review to obtain limited assurance about whether the capital adequacy information is, in all material respects:

- prepared in accordance with the 's conditions of registration; and
- disclosed in accordance with Schedule 9 of the Order.

A review of the Capital Adequacy information in accordance with NZ SRE 2410 is a limited assurance engagement. The auditor performs procedures, primarily consisting of making enquiries, of persons responsible for financial and accounting matters, and applying analytical and other review procedures.

The procedures performed in a review are substantially less than those performed in an audit conducted in accordance with International Standards on Auditing (New Zealand). Accordingly we do not express an audit opinion on the supplementary information relating to Capital Adequacy disclosures.

Use of this Auditor's Report

This report is made solely to the shareholder as a body. Our work has been undertaken so that we might state to the shareholder those matters we are required to state to them in the 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 work, this report, or any of the opinions or conclusions we have formed.

KPMG

Brent Manning

For and on behalf of

KPMG
Wellington

8 June 2017

Glossary of Terms

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

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

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

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

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

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

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

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

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

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

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

Loans and Receivables (L&R)
Non-derivative financial assets with fixed or determinable payments that are not quoted on an active market.
They are measured at amortised cost using the effective interest method.

Directory 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

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Principal Solicitors to the Company

Auld Brewer Mazengarb & McEwen

9 Vivian Street, New Plymouth

Auditor

KPMG

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TSB Bank

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