

**TSB Bank Ltd**

**Disclosure Statement**

**for the Three Months Ended**  
**30 June 2017**

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# Disclosure Statement

## For the Three Months Ended 30 June 2017

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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 5, TSB Centre, 120 Devon Street East, New Plymouth.

### 2. Corporate Information

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

### 3. Ownership

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

There have been no changes to Directors since the 31 March 2017 full year Disclosure Statement was signed on 8 June 2017.

### 5. Pending Proceedings or Arbitration

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

### 6. Credit Rating

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.

### 7. Guarantee Arrangements

No material obligations of the Bank are guaranteed.

### 8. Conditions of Registration

No changes have been made to the Bank's Conditions of Registration since the last Disclosure Statement issued for the year ended 31 March 2017.

Internal Audit identified a failure to calculate capital in accordance with BS2A which represented a minor breach of the Bank's conditions of registration, minor as the adjustment to the reported March 2017 Total Capital Ratio would have been 0.02% lower.

**9. 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"); and
- b. The Disclosure Statement is not false or misleading.

The Directors believe, after due enquiry that for the period ended 30 June 2017:

- a. The Bank has complied with the Conditions of Registration;
- b. Credit Exposures to Connected Persons were not contrary to the interests of the Bank; and
- c. Subject to the comment under the heading "Risk Management Policies" on page 21, the Bank has systems in place to monitor and control adequately the Bank's material risks, including credit risk, concentration of credit risk, interest rate risk, currency risk, equity risk, liquidity risk, operational risks and other business risks, and that these systems are being properly applied.

Director  
J. J. Kelly  
(Chair - Board of Directors)



Director  
M. I. Bain  
(Deputy Chair)



Director  
M. A. Blackburn



Director  
K. M. Marriner




Director  
K. J. Murphy  
(Managing Director/CEO)



Director  
N. Pearce



Director  
P. M. Schuyt



Director  
D. J. Tuuta



Director  
H. P. W. Wano



Dated this 31<sup>st</sup> day of August 2017

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## Interim Financial Statements

### Income Statement

For the Three Months ended 30 June 2017

	Note	2017 30 June Unaudited \$000's	2016 30 June Unaudited \$000's	2017 31 March Audited \$000's
Interest Income	2	72,327	73,892	290,385
Interest Expense		41,423	41,673	158,850
<b>Net Interest Income</b>		<b>30,904</b>	<b>32,219</b>	<b>131,535</b>
Other Operating Income	3	4,368	3,450	17,224
<b>Net Operating Income</b>		<b>35,272</b>	<b>35,669</b>	<b>148,759</b>
Operating Expenses	4	19,398	16,143	80,241
<b>Profit before Impairment and Tax</b>		<b>15,874</b>	<b>19,526</b>	<b>68,518</b>
Impairment Losses	9.1.ii	984	684	4,010
<b>Net Profit before Tax</b>		<b>14,890</b>	<b>18,842</b>	<b>64,508</b>
Income Tax Expense		4,169	5,276	18,168
<b>Net Profit after Tax</b>		<b>10,721</b>	<b>13,566</b>	<b>46,340</b>

### Statement of Comprehensive Income

For the Three Months ended 30 June 2017

	Note	2017 30 June Unaudited \$000's	2016 30 June Unaudited \$000's	2017 31 March Audited \$000's
<b>Net Profit after Tax</b>		<b>10,721</b>	<b>13,566</b>	<b>46,340</b>
<b>Other Comprehensive Income, Net of Tax</b>				
<b>Items that may be reclassified subsequently to Profit or Loss</b>				
Movement in Fair Value of Available for Sale Investments		1,578	(2,469)	(7,014)
Movement in Effective Portion of Changes in Fair Value of Cash Flow Hedges		(415)	(657)	3,369
Income Tax on items that may be reclassified to Profit or Loss		(326)	875	1,021
<b>Other Comprehensive Income for the Period, Net of Tax</b>		<b>837</b>	<b>(2,251)</b>	<b>(2,624)</b>
<b>Total Comprehensive Income for the Period</b>		<b>11,558</b>	<b>11,315</b>	<b>43,716</b>

These interim financial statements are to be read in conjunction with the notes on pages 11 to 21.

Interim Financial Statements

**Statement of Changes in Equity**  
For the Three Months ended 30 June 2017

	Share Capital \$000's	Available for Sale Investments Revaluation Reserve \$000's	Cash Flow Hedge Reserve \$000's	Retained Earnings \$000's	Total Equity \$000's
<b>Balance at 1 April 2017</b>	<b>10,000</b>	<b>14,083</b>	<b>(1,842)</b>	<b>565,883</b>	<b>588,124</b>
<b>Total Comprehensive Income for the Period</b>					
Net Profit after Tax	-	-	-	10,721	10,721
<b>Other Comprehensive Income:</b>					
Movement in Effective Portion of Changes in Fair Value of Cash Flow Hedges (net of tax)	-	-	(299)	-	(299)
Movement in Fair Value of Available for Sale Investments (net of tax)	-	1,136	-	-	1,136
<b>Total Other Comprehensive Income</b>	<b>-</b>	<b>1,136</b>	<b>(299)</b>	<b>-</b>	<b>837</b>
<b>Total Comprehensive Income for the Period</b>	<b>-</b>	<b>1,136</b>	<b>(299)</b>	<b>10,721</b>	<b>11,558</b>
<b>Transactions with Owner, recorded directly in Equity</b>					
Dividends to Equity Holder	-	-	-	-	-
<b>Total Transactions with Owner</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Balance at 30 June 2017 (Unaudited)</b>	<b>10,000</b>	<b>15,219</b>	<b>(2,141)</b>	<b>576,604</b>	<b>599,682</b>

Interim Financial Statements

**Statement of Changes in Equity**  
For the Three Months ended 30 June 2016

	Share Capital \$000's	Available for Sale Investments Revaluation Reserve \$000's	Cash Flow Hedge Reserve \$000's	Retained Earnings \$000's	Total Equity \$000's
<b>Balance at 1 April 2016</b>	10,000	19,133	(4,268)	529,543	554,408
<b>Total Comprehensive Income for the Period</b>					
Net Profit after Tax	-	-	-	13,566	13,566
<b>Other Comprehensive Income:</b>					
Movement in Effective Portion of Changes in Fair Value of Cash Flow Hedges (net of tax)	-	-	(473)	-	(473)
Movement in Fair Value of Available for Sale Investments (net of tax)	-	(1,778)	-	-	(1,778)
<b>Total Other Comprehensive Income</b>	-	(1,778)	(473)	-	(2,251)
<b>Total Comprehensive Income for the Period</b>	-	(1,778)	(473)	13,566	11,315
<b>Transactions with Owner, recorded directly in Equity</b>					
Dividends to Equity Holder	-	-	-	-	-
<b>Total Transactions with Owner</b>	-	-	-	-	-
<b>Balance at 30 June 2016 (Unaudited)</b>	10,000	17,355	(4,741)	543,109	565,723

These interim financial statements are to be read in conjunction with the notes on pages 11 to 21.



Interim Financial Statements

Statement of Changes in Equity

For the Year ended 31 March 2017

	Share Capital \$000's	Available for Sale Investments Revaluation Reserve \$000's	Cash Flow Hedge Reserve \$000's	Retained Earnings \$000's	Total Equity \$000's
<b>Balance at 1 April 2016</b>	10,000	19,133	(4,268)	529,543	554,408
<b>Total Comprehensive Income for the Period</b>					
Net Profit after Tax	-	-	-	46,340	46,340
<b>Other Comprehensive Income:</b>					
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)
<b>Total Other Comprehensive Income</b>	-	(5,050)	2,426	-	(2,624)
<b>Total Comprehensive Income for the Period</b>	-	(5,050)	2,426	46,340	43,716
<b>Transactions with Owner, recorded directly in Equity</b>					
Dividends to Equity Holder	-	-	-	(10,000)	(10,000)
<b>Total Transactions with Owner</b>	-	-	-	(10,000)	(10,000)
<b>Balance at 31 March 2017 (Audited)</b>	10,000	14,083	(1,842)	565,883	588,124

Interim Financial Statements

Statement of Financial Position

As at 30 June 2017

	Note	2017 30 June Unaudited \$000's	2016 30 June Unaudited \$000's	2017 31 March Audited \$000's
<b>ASSETS</b>				
Cash and Cash Equivalents	5	105,655	107,230	144,200
Derivative Financial Instruments		38	22	350
Investment Securities	6	2,026,472	2,378,814	1,969,995
Loans and Advances to Customers	7	4,796,505	3,954,967	4,657,668
Current Tax Asset		-	6,045	-
Deferred Tax Asset		2,072	2,985	3,248
Property, Plant and Equipment		16,622	20,003	17,662
Other Assets	8	10,154	4,657	9,557
<b>TOTAL ASSETS</b>		<b>6,957,518</b>	<b>6,474,723</b>	<b>6,802,680</b>
<b>LIABILITIES</b>				
Deposits	10	6,316,694	5,872,632	6,156,809
Derivative Financial Instruments		7,818	10,027	8,285
Current Tax Liability		2,621	-	2,451
Other Liabilities		30,703	26,341	47,011
<b>TOTAL LIABILITIES</b>		<b>6,357,836</b>	<b>5,909,000</b>	<b>6,214,556</b>
<b>EQUITY</b>				
Share Capital		10,000	10,000	10,000
Available for Sale Investments Revaluation Reserve		15,219	17,355	14,083
Cash Flow Hedge Reserve		(2,141)	(4,741)	(1,842)
Retained Earnings		576,604	543,109	565,883
<b>TOTAL EQUITY</b>		<b>599,682</b>	<b>565,723</b>	<b>588,124</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>6,957,518</b>	<b>6,474,723</b>	<b>6,802,680</b>
Total Interest Earning and Discount Bearing Assets		6,883,213	6,404,881	6,722,094
Total Interest and Discount Bearing Liabilities		5,993,142	5,575,630	5,838,074

These interim financial statements are to be read in conjunction with the notes on pages 11 to 21.

Interim Financial Statements

Statement of Cash Flows

For the Three Months ended 30 June 2017

Note	2017 30 June Unaudited \$000's	2016 30 June Unaudited \$000's	2017 31 March Audited \$000's
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
<b>Cash provided from (applied to)</b>			
	73,282	75,813	292,911
	3,938	3,299	17,021
	(33,511)	(35,522)	(159,492)
	(27,662)	(28,055)	(75,078)
	(4,000)	(7,000)	(11,512)
	<b>12,047</b>	<b>8,535</b>	<b>63,850</b>
<b>Net changes in Operating Assets and Liabilities:</b>			
	(140,968)	(125,035)	(831,077)
	(570)	(1,555)	400
	151,973	53,289	344,259
	<b>10,435</b>	<b>(73,301)</b>	<b>(486,418)</b>
	<b>22,482</b>	<b>(64,766)</b>	<b>(422,568)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
<b>Cash provided from (applied to)</b>			
	213	(1,571)	(1,561)
	(53,857)	64,709	468,394
	(555)	-	(5,750)
	<b>(54,199)</b>	<b>63,138</b>	<b>461,083</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>			
<b>Cash provided from (applied to)</b>			
	(6,828)	(9,475)	(12,648)
	<b>(6,828)</b>	<b>(9,475)</b>	<b>(12,648)</b>
	<b>(38,545)</b>	<b>(11,103)</b>	<b>25,867</b>
	144,200	118,333	118,333
5	<b>105,655</b>	<b>107,230</b>	<b>144,200</b>

These interim financial statements are to be read in conjunction with the notes on pages 11 to 21.

## Interim Financial Statements

### Statement of Cash Flows (continued)

For the Year ended 31 March 2017

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

Note	2017 30 June Unaudited \$000's	2016 30 June Unaudited \$000's	2017 31 March Audited \$000's
<b>Net Profit after Tax</b>	<b>10,721</b>	<b>13,566</b>	<b>46,340</b>
<b>Non-cash Items:</b>			
- Amortisation of Intangible Assets	388	150	1,052
- Depreciation	827	732	3,063
- Impairment Losses	984	684	4,010
	<b>2,199</b>	<b>1,566</b>	<b>8,125</b>
<b>Add Movements in Statement of Financial Position Items:</b>			
- Accounts Payable	(1,568)	(6,643)	406
- Current Tax	169	(1,567)	6,930
- Deposits	151,974	53,289	344,259
- Deferred Tax Asset	-	(158)	(274)
- Accounts Receivable	525	1,770	2,323
- Derivative Financial Instruments	(570)	(1,555)	400
- Loans and Advances to Customers	(140,968)	(125,034)	(831,077)
	<b>9,562</b>	<b>(79,898)</b>	<b>(477,033)</b>
<b>Net Cash Flows from Operating Activities</b>	<b>22,482</b>	<b>(64,766)</b>	<b>(422,568)</b>

#### Reconciliation of Cash and Cash Equivalents to the Statement of Financial Position

Note	2017 30 June Unaudited \$000's	2016 30 June Unaudited \$000's	2017 31 March Audited \$000's
Balances with Reserve Bank	5	80,370	116,508
Cash and Cash at Bank	5	25,285	27,692
<b>Total Cash and Cash Equivalents at End of Period</b>	<b>105,655</b>	<b>107,230</b>	<b>144,200</b>

These interim financial statements are to be read in conjunction with the notes on pages 11 to 21.

## Notes to the Interim Financial Statements

### 1 Statement of Accounting Policies

The Financial Statements of the Bank incorporated in this Disclosure Statement have been prepared in accordance with the requirements of NZ IAS 34 Interim Financial Reporting and should be read in conjunction with the 31 March 2017 Annual Report. The Bank's Financial Statements have been prepared in accordance with New Zealand Generally Accepted Accounting Practice (NZ GAAP), as appropriate for profit-oriented entities.

There have been no changes in accounting policies since the authorisation date of the 31 March 2017 Annual Report and Disclosure Statement on 8 June 2017.

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

### 2 Interest Income

	2017 30 June Unaudited \$000's	2016 30 June Unaudited \$000's	2017 31 March Audited \$000's
Cash and Cash Equivalents	388	474	1,671
Investment Securities	16,554	22,948	81,024
Loans and Advances to Customers	55,385	50,470	207,690
<b>Total Interest Income</b>	<b>72,327</b>	<b>73,892</b>	<b>290,385</b>

### 3 Other Operating Income

	2017 30 June Unaudited \$000's	2016 30 June Unaudited \$000's	2017 31 March Audited \$000's
Gain on Sale of Fixed Assets	-	-	19
Lending and Credit Facility Related Income	672	690	2,639
Commission and Other Trading Income	3,052	2,746	11,204
Other Income	260	14	2,169
Cumulative Gain transferred from Available for Sale Investments Revaluation Reserve	740	-	-
(Loss)/ Gain on Derivative Financial Instruments at Fair Value	(356)	-	1,193
<b>Total Other Operating Income</b>	<b>4,368</b>	<b>3,450</b>	<b>17,224</b>

## Notes to the Interim Financial Statements

### 4 Operating Expenses

	2017 30 June Unaudited \$000's	2016 30 June Unaudited \$000's	2017 31 March Audited \$000's
Fees Paid to Auditor:			
Audit and Review of Financial Statements	42	47	145
Other Services	12	17	347
Depreciation	827	732	3,063
Amortisation of Intangible Assets	388	150	1,052
Directors' Fees	139	143	603
Personnel	9,082	7,505	34,564
Defined Contribution Plan	401	335	1,635
Information Technology	2,469	1,757	9,058
Premises Occupancy	830	740	3,039
Marketing	1,818	1,609	11,678
Other	3,390	3,108	15,057
<b>Total Operating Expenses</b>	<b>19,398</b>	<b>16,143</b>	<b>80,241</b>

### 5 Liquidity Risk

	2017 30 June Unaudited \$000's	2016 30 June Unaudited \$000's	2017 31 March Audited \$000's
Cash and Cash at Bank	25,285	26,508	27,692
Balances with Reserve Bank	80,370	80,722	116,508
<b>Total Cash and Cash Equivalents</b>	<b>105,655</b>	<b>107,230</b>	<b>144,200</b>
<b>Investment Securities</b>			
Local Authority Securities	456,261	402,125	443,235
Government Securities	391,366	194,570	190,943
Registered Bank Securities	521,602	420,078	499,472
Registered Bank Term Investments	40,159	25,268	-
Other Investments	284,635	285,385	338,709
<b>Total Investment Securities</b>	<b>1,694,023</b>	<b>1,327,426</b>	<b>1,472,359</b>
<b>Total Core Liquid Assets</b>	<b>1,799,678</b>	<b>1,434,656</b>	<b>1,616,559</b>

## Notes to the Interim Financial Statements

### 6 Investment Securities

	2017 30 June Unaudited \$000's	2016 30 June Unaudited \$000's	2017 31 March Audited \$000's
<b>Available for Sale</b>			
Local Authority Securities	464,064	480,650	493,336
Government Securities	391,366	194,570	190,943
Registered Bank Securities	559,116	670,104	536,680
Registered Bank Term Investments	40,159	25,268	-
Other Investments *	571,767	1,008,222	749,036
<b>Total Investment Securities</b>	<b>2,026,472</b>	<b>2,378,814</b>	<b>1,969,995</b>

\* Other Investments relate to investments in Utility Companies, SOE's and Commercial Paper, and Bonds of New Zealand corporates. Included in this amount are \$11.433m for Solid Energy (SENZ) (Subject to Deed of Company Arrangement) Restructured Asset (30 June 2016; \$15.875m). The decrease in the value of SENZ investment is due to the cash flow from SENZ, partly offset by the revision of the estimated recoveries from the sale of SENZ.

### 7 Loans and Advances to Customers

	2017 30 June Unaudited \$000's	2016 30 June Unaudited \$000's	2017 31 March Audited \$000's
Residential Mortgages	3,970,339	3,231,245	3,851,176
Commercial	437,353	390,096	438,265
Agricultural	306,422	259,053	289,672
Community	4,117	4,915	4,504
Other *	101,761	89,645	97,299
<b>Total Gross Loans and Advances to Customers</b>	<b>4,819,992</b>	<b>3,974,954</b>	<b>4,680,916</b>
Provision for Doubtful Debts (see note 9.1.i)	<b>(23,487)</b>	<b>(19,987)</b>	<b>(23,248)</b>
<b>Total Loans and Advances to Customers</b>	<b>4,796,505</b>	<b>3,954,967</b>	<b>4,657,668</b>

\* Other is inclusive of lending through Harmony platform, other retail lending and credit card balances.

### 8 Other Assets

	2017 30 June Unaudited \$000's	2016 30 June Unaudited \$000's	2017 31 March Audited \$000's
Trade and Other Receivables	1,648	1,166	1,218
Intangible Assets	8,506	3,491	8,339
<b>Total Other Assets</b>	<b>10,154</b>	<b>4,657</b>	<b>9,557</b>

## Notes to the Interim Financial Statements

### 9 Credit Risk Management and Asset Quality

#### 9.1 Credit Quality Information for Loans and Advances to Customers

##### 9.1.i Period End Balances

As at 30 June 2017

Unaudited

	Residential Mortgage Loans \$000's	Rural Exposures \$000's	Corporate Exposures \$000's	Other Exposures \$000's	Total Credit Exposures \$000's
90 day Past Due Assets Not Impaired	6,382	1,112	-	95	7,589
Individually Impaired Assets	471	6,325	246	36	7,078
Specific Provision for Doubtful Debts	-	400	160	36	596
Collective Provision for Doubtful Debts	17,723	2,546	2,267	355	22,891
<b>Total Provision for Doubtful Debts</b>	<b>17,723</b>	<b>2,946</b>	<b>2,427</b>	<b>391</b>	<b>23,487</b>

##### 9.1.ii Charges to the Income Statement

As at 30 June 2017

Unaudited

	Residential Mortgage Loans \$000's	Rural Exposures \$000's	Corporate Exposures \$000's	Other Exposures \$000's	Total Credit Exposures \$000's
Movement in Specific Provision	(330)	(100)	-	(112)	(542)
Movement in Collective Provision	467	407	(104)	11	781
Mortgage Write-offs	348	-	-	397	745
<b>Total Charges to the Income Statement</b>	<b>485</b>	<b>307</b>	<b>(104)</b>	<b>296</b>	<b>984</b>



## Notes to the Interim Financial Statements

### 9.2 Concentrations of Credit Exposures to Individual Counterparties

The following disclosures show the number of individual counterparties (not being members of groups of closely related counterparties) or groups of closely related counterparties (excluding central government of any country with a long-term credit rating of A- or A3 or above, or its equivalent, and connected persons), where the period end and peak end-of-day credit exposures equalled or exceeded 10% of the Bank's equity as at reporting date. The peak aggregate end of day credit exposure is the largest daily actual credit exposure 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 three months ended 30 June 2017.

	30 June 2017				30 June 2016			
	Number of Non-Bank Counterparties				Number of Non-Bank Counterparties			
	"A" Rated	"B" Rated	Unrated	Total	"A" Rated	"B" Rated	Unrated	Total
<b>As at Balance Date</b>								
11% - 15%	2	-	-	2	2	2	-	4
16% - 20%	1	-	-	1	1	1	-	2
21% - 25%	-	-	-	-	-	1	-	1
26% - 30%								
<b>Total</b>	<b>3</b>	<b>-</b>	<b>-</b>	<b>3</b>	<b>3</b>	<b>4</b>	<b>-</b>	<b>7</b>
<b>Peak Exposure</b>								
11% - 15%	3	1	-	4	2	2	-	4
16% - 20%	1	-	-	1	1	1	-	2
21% - 25%	-	-	-	-	-	1	-	1
26% - 30%	-	-	-	-	-	-	-	-
<b>Total</b>	<b>4</b>	<b>1</b>	<b>-</b>	<b>5</b>	<b>3</b>	<b>4</b>	<b>-</b>	<b>7</b>

	31 March 2017			
	Number of Non-Bank Counterparties			
	"A" Rated	"B" Rated	Unrated	Total
<b>As at Balance Date</b>				
11% - 15%	3	1	-	4
16% - 20%	1	-	-	1
21% - 25%	-	-	-	-
<b>Total</b>	<b>4</b>	<b>1</b>	<b>-</b>	<b>5</b>
<b>Peak Exposure</b>				
11% - 15%	5	1	-	6
16% - 20%	-	1	-	1
21% - 25%	1	-	-	1
<b>Total</b>	<b>6</b>	<b>2</b>	<b>-</b>	<b>8</b>

**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, being Local Authorities and Utilities.

## Notes to the Interim Financial Statements

### 10 Deposits

	2017 30 June Unaudited \$000's	2016 30 June Unaudited \$000's	2017 31 March Audited \$000's
Retail Term Deposits	3,299,921	2,737,277	3,080,422
On Call Deposits Bearing Interest	2,663,951	2,838,353	2,737,705
On Call Deposits Not Bearing Interest	327,882	297,002	318,736
Wholesale Deposits Bearing Interest	24,940	-	19,946
<b>Total Deposits</b>	<b>6,316,694</b>	<b>5,872,632</b>	<b>6,156,809</b>

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

### 11 Capital Adequacy

#### 11.1 Capital Management Policies

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

The Board of Directors has ultimate responsibility for Capital Adequacy, and approves capital policy and minimum capital levels and limits. These are typically at a higher level than required by the Regulator to reduce the risk of breaching Conditions of Registration. The Bank monitors its Capital Adequacy and reports this on a monthly basis to the Board and the 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 30 June 2017. During the period and the comparative periods shown, the Bank complied with all of the RBNZ capital requirements to which it is subject.

#### 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 RBNZ released capital adequacy standards which apply to locally incorporated registered banks in New Zealand and implemented 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 the types of financial instruments which may be treated as regulatory capital.

Pillar 2 of Basel III 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 \$171m (30 June 2016 \$256m; 31 March 2017, \$218m) to cover these identified risks.

## Notes to the Interim Financial Statements

### 11 Capital Adequacy – continued

	RBNZ Minimum Ratio Requirement	2017 30 June Unaudited Basel III	2016 30 June Unaudited Basel III	2017 31 March Audited Basel III
Common Equity Tier 1 Capital ratio	4.5%	14.85%	14.62%	14.60%
Tier 1 Capital ratio	6.0%	14.85%	14.62%	14.60%
Total Capital ratio	8.0%	14.85%	14.62%	14.60%
Buffer ratio	2.5%	6.85%	6.62%	6.60%

#### 11.2 Capital

	2017 30 June Unaudited Basel III
<b>Tier 1 Capital</b>	
<b>Common Equity Tier 1 (“CET1”) Capital</b>	
Issued and fully paid up Share Capital	10,000
Retained Earnings	565,883
Current period’s Unaudited Retained Earnings	10,721
Available for Sale Investment Revaluation Reserve	15,219
Cash Flow Hedge Reserve	(2,141)
	<b>599,682</b>
<b>Less Deductions from CET1 Capital</b>	
Intangible Assets	8,506
Cash Flow Hedge Reserve	(2,141)
Deferred Tax Asset	2,072
	<b>8,437</b>
<b>Total Common Equity Tier 1 Capital</b>	<b>591,245</b>
<b>Additional Tier 1</b>	-
<b>Total Tier 1 Capital</b>	<b>591,245</b>
<b>Tier 2 Capital</b>	-
<b>Total Capital</b>	<b>591,245</b>

Notes to the Interim Financial Statements

11 Capital Adequacy – continued

11.3 Total Risk Weighted Exposures – June 2017

	Risk Weight	Total Exposure after Credit risk mitigation	Risk Weight Exposure	Minimum Pillar One Capital Requirement
		June-17 Unaudited \$000	June-17 Unaudited \$000	June-17 Unaudited \$000
<b><u>On Balance Sheet Exposures</u></b>				
Cash	0%	4,335	-	-
Sovereigns & RBNZ	0%	471,737	-	-
Multilateral Development Banks	0%	194,495	-	-
	20%	72,340	14,468	1,158
Public Sector Entities	20%	480,970	96,194	7,695
Banks	20%	207,078	41,416	3,313
	50%	413,148	206,574	16,526
Corporate	20%	17,800	3,560	285
	50%	47,518	23,759	1,901
	100%	239,613	239,613	19,169
<b><u>Residential Mortgages Not Past Due</u></b>				
Non-property Investment Residential <80% LVR *	35%	2,563,057	897,070	71,766
Non-property Investment Residential 80%<90% LVR *	50%	203,886	101,943	8,155
Non-property Investment Residential 90%<100% LVR *	75%	19,936	14,952	1,196
Non-property Investment Residential >100% LVR *	100%	764	764	61
Property Investment Residential <80% LVR *	40%	996,689	398,676	31,894
Property Investment Residential 80%<90% LVR *	70%	9,660	6,762	541
Property Investment Residential 90%<100% LVR *	90%	369	332	27
Welcome Home <80% LVR *	35%	3,589	1,256	100
Welcome Home 80%<90% LVR *	35%	52,884	18,509	1,481
Welcome Home 90%<100% LVR *	50%	79,371	39,686	3,175
Welcome Home >100% LVR *	100%	4,950	4,950	396
Reverse Mortgages <60% LVR *	50%	10,686	5,343	427
Reverse Mortgages 60%<80% LVR *	80%	113	91	7
Reverse Mortgages >80% LVR *	100%	27	27	2
Past Due Residential Mortgages *	100%	6,493	6,493	519
Other Past Due Assets	100%	34	34	3
	150%	6,871	10,307	825
Other Lending	100%	820,219	820,219	65,617
Other Assets	100%	18,308	18,308	1,465
Non-Risk Weighted Assets	0%	10,578	-	-
<b>Total On-Balance Sheet Exposures</b>		<b>6,957,518</b>	<b>2,971,306</b>	<b>237,704</b>

\* Total residential mortgages \$3,952,474k.

## Notes to the Interim Financial Statements

### 11 Capital Adequacy – continued

	Total Exposure June 2017	Credit Conversion Factor	Credit Equivalent Amount June 2017	Average Risk Weight	Risk Weighted Exposure June 2017	Minimum Pillar One Capital Requirement June 2017
<b>Off Balance Sheet Exposures</b>						
Revolving Credit Facilities	548,586	50%	274,293	55%	151,953	12,156
Other Commitments	148,686	100%	148,686	49%	73,334	5,867
<b>Market Related Contracts</b>						
Foreign Exchange Contracts	527	Various	5	50%	3	-
Interest Rate Contracts *	200,000	Various	1,000	20%	200	16
Interest Rate Contracts *	796,561	Various	4,296	50%	2,148	172
Credit valuation adjustment (CVA)					1,480	118
<b>Total Off-Balance Sheet Exposures</b>	<b>1,694,360</b>		<b>428,280</b>		<b>229,118</b>	<b>18,329</b>

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

	Implied Risk Weighted Exposure \$000's	Capital Requirement \$000's
<b>Operational Risk, Implicit Risk and Market Risk Analysis</b>		
Operational Risk	422,655	33,812
Implicit Risk *	257,083	20,567
Market Risk	101,485	8,119
<b>Sub Total</b>	<b>781,223</b>	<b>62,498</b>

\* As per Condition 1C and 1D of Conditions of registration for TSB Bank Limited, that apply on and after 1 October 2016.

	Total Exposure after credit risk mitigation \$000's	Risk Weighted Exposure or Implied RWE \$000's	Capital Requirement \$000's
<b>Total Capital Requirements</b>			
Total credit risk plus equity	7,385,798	3,200,424	256,034
Operational Risk		422,655	33,812
Implicit Risk *		257,083	20,567
Market Risk		101,485	8,119
<b>Total</b>		<b>3,981,647</b>	<b>318,532</b>

## Notes to the Interim Financial Statements

### 11 Capital Adequacy – continued

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

LVR Range	0% - 80%	80% - 90%	90% - 100%	>100%	Total
On Balance Sheet Exposures	3,589,840	267,677	100,220	5,749	3,963,486
Past Due and Impaired	6,286	128	287	152	6,853
Total Value On Balance Sheet Exposures (refer Note)	<b>3,596,126</b>	<b>267,805</b>	<b>100,507</b>	<b>5,901</b>	<b>3,970,339</b>
Less Provisions:					
Collective	(16,067)	(1,220)	(543)	(35)	(17,865)
Specific	-	-	-	-	-
<b>Total Residential Mortgages</b>	<b>3,580,059</b>	<b>266,585</b>	<b>99,964</b>	<b>5,866</b>	<b>3,952,474</b>
Off Balance Sheet Exposures	427,796	14,397	773	-	442,966
<b>Total Residential Mortgages</b>	<b>4,007,855</b>	<b>280,982</b>	<b>100,737</b>	<b>5,866</b>	<b>4,395,440</b>

### 12 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 arm's 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 30 June 2017, the TSB Bank PIE Unit Trust had \$25.8m (30 June 2016 \$37.9m) invested with the Bank.

### 13 Commitments and Contingent Liabilities

	2017 30 June Unaudited \$000's	2016 30 June Unaudited \$000's	2017 31 March Audited \$000's
Commitments approved to advance less than one year	107,498	92,401	101,276
Commitments approved to advance greater than one year *	589,774	523,578	597,669
Rental/Lease Commitments less than one year	3,030	2,878	3,095
Rental/Lease Commitments great than one year	10,789	9,163	11,528
Capital Commitments	608	1,524	878
	<b>711,699</b>	<b>629,544</b>	<b>714,446</b>

\* Includes \$31.0m (30 June 2016 \$16.5m; 31 March 2017 \$32.2m) related to the facility granted to TSB Group Limited, a related entity.

There are no material contingent liabilities and outstanding claims known by the Directors as at 30 June 2017 that would impact on the financial statements.

## Notes to the Interim Financial Statements

### 14 Related Parties

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 normal bank account facilities which were on normal customer terms and conditions. As at 30 June 2017 the Trust had \$16.5m invested with the Bank at market rates, with interest accrued of \$0.2m (30 June 2016 \$21.6m with interest accrued of \$0.2m).

Loans and Advances (Note 7) include a Commercial Loan to TSB Group Limited of \$47.5m with a total facility limit of \$78.5m (30 June 2016 \$53.5m with a total facility limit of \$70m) on normal customer terms and conditions. Income received from TSB Group Limited for the 3 months ended 30 June 2017 totalled \$0.4m (30 June 2016, \$0.6m). TSB Group Limited was also paid a final dividend of \$6.8m (30 June 2016, \$9.5m) that was accrued at 31 March 2017.

The Bank markets Fisher Funds KiwiSaver products through the Bank's Branch Network. Fisher Funds Management Ltd. is part-owned (49%) by TSB Group Investments Limited, a company that shares ultimate common ownership with the Bank. For the 3 months ended 30 June 2017 commissions received from Fisher Funds totalled \$0.1m (30 June 2016, \$0.1m).

### 15 Risk Management Policies

The Bank is committed to the management of risk and has management structures and information systems to manage individual risks. The Board of Directors has overall responsibility for the establishment and oversight of the Bank's risk management framework.

Apart from the items outlined below, there have been no material changes to the risk management policies since publication of the previous Disclosure Statement. The changes below are either refinements to existing policies or centralisation of existing risk management processes to reflect the latest market approaches to the management of these risks and changes in the overall Board risk appetite in these areas:

- ICAAP Update - an update to the Bank's Internal Capital Adequacy Assessment Programme, as required by BS12;
- Operational Risk - Employment Practices and Workplace Safety Management;
- Operational Risk - Operational Execution, Delivery and Process Management;
- Operational Risk - Compliance Policy;
- Enterprise Risk Management Framework.

Furthermore, as indicated in the 31 December 2016 Disclosure Statement, the Bank continues to update and enhance its overall Enterprise Risk Management programme with specific focus being placed on the control frameworks around regulatory compliance as recommended by an independent review in 2016. This implementation is expected to be complete by the end of this financial year.

Finally, as required by legislation an independent review of the Bank's AML risk assessment and programme has been completed during the period. This review concluded that the Bank's risk assessment complied in all material aspects with s58(3) of the AML/CFT legislation. The review also determined that the AML/CFT programme was built around the risk assessment and complied in all material respects with the requirements of s57 of the Act. In addition the policies, procedures and controls forming the AML/CFT programme are suitably designed and operated effectively, in all material respects, throughout the period. However the review identified that there were a number of areas of non-compliance which required remediation. These included aspects of staff training, enhanced due diligence, transaction monitoring, and compliance assurance and monitoring. The areas of non-compliance identified by the review are being actively managed by the Bank and will be rectified within the next reporting period.

### 16 Subsequent Events

On 3 August 2017, the Bank's 100% owner, TSB Community Trust announced its commercial arm had reached an unconditional agreement to acquire the 51% shareholding in Fisher Funds it does not currently own and separately agreed to sell a stake (between 24.99% and 34%) to an unrelated company.

On 24 August 2017, the bank has paid a special dividend of \$10m to TSB Group Limited and increased their loan facility limit from \$78.5m to \$83.6m. The facility has been drawn down to an amount of \$71.2m.

No matters or circumstances have arisen since the end of the quarter which significantly affected or could significantly affect the operations of the Bank, the results of those operations or the state of affairs of the Bank in future financial years.

## Directory

### 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  
 M.D. (Marie) Collins, GM Technology & Support  
 S.L. (Steve) O'Shea, Dip Bank, MBA, FFin, GM Customer Sales & Service  
 D.R. (Doug) Widdowson, M. Comm, CA, GM Risk  
 B.A. (Brent) Woodhead, MBA, GM Marketing  
 A.A. (Audrey) Young, BSc (Hons), GM People & Culture

### Registered Office

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

### Principal Solicitors to the Company

Auld Brewer Mazengarb & McEwen  
 9 Vivian Street, New Plymouth

### Auditor

KPMG  
 10 Customhouse Quay, Wellington

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