

# **TSB Bank Disclosure Statement**

**for the nine months ended  
31 December 2011**

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# Disclosure Statement

## For the Nine Months Ended 31 December 2011

This Disclosure Statement contains information as required by the Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order (No 4) 2011 ('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. 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

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

### 4. DIRECTORATE

Colleen Bernadine Tuuta retired from the board with effect from 26 May 2011.

Marise Lynne James was appointed as a director on 26 May 2011.

There have been no other changes to Directors since the 31 March 2011 full year Disclosure Statement was signed.

### 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

TSB Bank Limited has a credit rating applicable to its long term senior unsecured obligations payable in New Zealand, in New Zealand dollars. The current rating is **BBB+/Stable/A2**. The credit rating was given by Standard & Poor's (Australia) Pty Limited and affirmed on 6 December 2011, based on Standard & Poor's revised bank criteria.

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.

### 7. GUARANTEE ARRANGEMENTS

No material obligations of the Bank are guaranteed.

## Disclosure Statement

### For the Nine Months Ended 31 December 2011

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#### 8. CONDITIONS OF REGISTRATION

The following Conditions of Registration applying to the Bank have changed since 31 March 2011 and apply as detailed below:

- Condition 3 has been updated to incorporate a new definition of insurance business, to align with sections 6 and 7 of the Insurance (Prudential Supervision) Act 2010 (effective 30 September 2011);
- Condition 4 refers to application of an updated version of BS8 "Connected exposure policy" dated June 2011 (effective 1 July 2011);
- Condition 11 increases the daily one-year core funding ratio to be not less than 70 per cent and refers to updated RBNZ document "Liquidity Policy" (BS13) dated March 2011 (effective 1 July 2011). This Condition also refers to application of an updated version of BS13A "Liquidity Policy Annex: Liquid Assets" dated December 2011 (effective 31 December 2011); and
- Condition 14 relates to qualifying acquisitions or business combinations. This is a new condition and refers to application of BS15 "Significant Acquisitions Policy" dated December 2011 (effective 31 December 2011).

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#### 9. OTHER MATERIAL MATTERS

On 22 February 2011 a significant earthquake struck the Canterbury region. The Bank has Loans and Advances to customers, a branch operation and employees in the region which have been impacted by the earthquake. To date there have been no material individually impaired assets or significant past due assets (not impaired) resulting from the earthquake. The Collective Provision for Doubtful Debts has been reviewed following the February 2011 Christchurch Earthquake and the provision is considered sufficient.

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## Disclosure Statement

### For the Nine Months Ended 31 December 2011

#### 10. 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 (No 4) 2011; and
- b) The Disclosure Statement is not false or misleading.

The Directors believe, after due enquiry, that for the period ended 31 December 2011:

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



E. Gill  
(Chair – Board of Directors)



B. C. Richards  
(Deputy Chair)



M. L. James



J. J. Kelly



D. L. Lean



K. J. Murphy  
Managing Director



D. E. Walter



H. P. W. Wano

23 February 2012

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# Interim Financial Statements

## INCOME STATEMENT FOR THE NINE MONTHS ENDED 31 DECEMBER 2011

	Note	2011 31 December Unaudited \$000	2010 31 December Unaudited \$000	2011 31 March Audited \$000
Interest Income	2	207,475	196,583	265,203
Derivative Financial Instruments Income	2	693	6,074	6,527
Interest Expense	2	131,682	132,068	179,052
<b>Net Interest Income</b>		<b>76,486</b>	<b>70,589</b>	<b>92,678</b>
Other Operating Income	3	11,967	9,956	12,884
<b>Net Operating Income</b>		<b>88,453</b>	<b>80,545</b>	<b>105,562</b>
Operating Expenses	4	34,194	31,452	41,999
<b>Net Profit before Impairment Loss and Taxation</b>		<b>54,259</b>	<b>49,093</b>	<b>63,563</b>
Impairment Losses		2,984	1,770	3,314
<b>Net Profit before Taxation</b>		<b>51,275</b>	<b>47,323</b>	<b>60,249</b>
Taxation		14,372	14,212	18,091
Effect of Change in Tax Legislation		-	3,461	2,311
<b>Net Profit after Taxation</b>		<b>36,903</b>	<b>29,650</b>	<b>39,847</b>

## STATEMENT OF COMPREHENSIVE INCOME FOR THE NINE MONTHS ENDED 31 DECEMBER 2011

	Note	2011 31 December Unaudited \$000	2010 31 December Unaudited \$000	2011 31 March Audited \$000
<b>Net Profit after Taxation</b>		<b>36,903</b>	<b>29,650</b>	<b>39,847</b>
<b>Other Comprehensive Income:</b>				
Effective portion of changes in fair value of cash flow hedges	11	36	397	1,350
Fair Value movements of cash flow hedges transferred to income statement	11	(693)	(6,074)	(6,527)
Income Tax on Other Comprehensive Income	11	184	1,703	1,571
<b>Other Comprehensive Income for the period</b>		<b>(473)</b>	<b>(3,974)</b>	<b>(3,606)</b>
<b>Total Comprehensive Income for the period</b>		<b>36,430</b>	<b>25,676</b>	<b>36,241</b>

These interim financial statements are to be read in conjunction with the notes on pages 11 to 18.

# Interim Financial Statements

## STATEMENT OF CHANGES IN EQUITY FOR THE NINE MONTHS ENDED 31 DECEMBER 2011

	Note	Share Capital Unaudited \$000	Cash Flow Hedge Reserve Unaudited \$000	Retained Earnings Unaudited \$000	Total Equity Unaudited \$000
<b>Balance at 1 April 2011</b>		<b>10,000</b>	<b>640</b>	<b>347,676</b>	<b>358,316</b>
<b>Total Comprehensive Income for the period</b>					
Net Profit after Tax		-	-	36,903	36,903
<b>Other Comprehensive Income:</b>					
Effective Portion of Changes in Fair Value (net of tax)	11	-	26	-	26
Fair Value Movements transferred to Income Statement (net of tax)	11	-	(499)	-	(499)
<b>Other Comprehensive Income for the period</b>		<b>-</b>	<b>(473)</b>	<b>-</b>	<b>(473)</b>
<b>Total Comprehensive Income for the period</b>			<b>(473)</b>	<b>36,903</b>	<b>36,430</b>
<b>Transactions with owners, recorded directly in equity</b>					
Dividends to Equity Holders	16	-	-	(2,630)	(2,630)
<b>Total Transactions with Owners</b>		<b>-</b>	<b>-</b>	<b>(2,630)</b>	<b>(2,630)</b>
<b>Balance at 31 December 2011</b>		<b>10,000</b>	<b>167</b>	<b>381,949</b>	<b>392,116</b>

## STATEMENT OF CHANGES IN EQUITY FOR THE NINE MONTHS ENDED 31 DECEMBER 2010

	Note	Share Capital Unaudited \$000	Cash Flow Hedge Reserve Unaudited \$000	Retained Earnings Unaudited \$000	Total Equity Unaudited \$000
<b>Balance at 1 April 2010</b>		<b>10,000</b>	<b>4,246</b>	<b>316,879</b>	<b>331,125</b>
<b>Total Comprehensive Income for the period</b>					
Net Profit after Tax		-	-	29,650	29,650
<b>Other Comprehensive Income:</b>					
Effective Portion of Changes in Fair Value (net of tax)	11	-	278	-	278
Fair Value Movements transferred to Income Statement (net of tax)	11	-	(4,252)	-	(4,252)
<b>Other Comprehensive Income for the period</b>		<b>-</b>	<b>(3,974)</b>	<b>-</b>	<b>(3,974)</b>
<b>Total Comprehensive Income for the period</b>		<b>-</b>	<b>(3,974)</b>	<b>29,650</b>	<b>25,676</b>
<b>Transactions with owners, recorded directly in equity</b>					
Dividends to Equity Holders	16	-	-	(2,600)	(2,600)
<b>Total Transactions with Owners</b>		<b>-</b>	<b>-</b>	<b>(2,600)</b>	<b>(2,600)</b>
<b>Balance at 31 December 2010</b>		<b>10,000</b>	<b>272</b>	<b>343,929</b>	<b>354,201</b>



# Interim Financial Statements

## STATEMENT OF CHANGES IN EQUITY FOR YEAR ENDED 31 MARCH 2011

	Note	Share Capital Audited \$000	Cash Flow Hedge Reserve Audited \$000	Retained Earnings Audited \$000	Total Equity Audited \$000
<b>Balance at 1 April 2010</b>		<b>10,000</b>	<b>4,246</b>	<b>316,879</b>	<b>331,125</b>
<b>Total Comprehensive Income for the Year</b>					
Net Profit after Tax		-	-	39,847	39,847
<b>Other Comprehensive Income:</b>					
Effective Portion of Changes in Fair Value (net of tax)	11	-	945	-	945
Fair Value Movements transferred to Income Statement (net of tax)	11	-	(4,551)	-	(4,551)
<b>Total Other Comprehensive Income</b>		<b>-</b>	<b>(3,606)</b>	<b>-</b>	<b>(3,606)</b>
<b>Total Comprehensive Income for the Year</b>			<b>(3,606)</b>	<b>39,847</b>	<b>36,241</b>
<b>Transactions with owners, recorded directly in equity</b>					
Dividends to Equity Holders	16	-	-	(9,050)	(9,050)
<b>Total Transactions with Owners</b>		<b>-</b>	<b>-</b>	<b>(9,050)</b>	<b>(9,050)</b>
<b>Balance at 31 March 2011</b>		<b>10,000</b>	<b>640</b>	<b>347,676</b>	<b>358,316</b>

These interim financial statements are to be read in conjunction with the notes on pages 11 to 18.

# Interim Financial Statements

## STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2011

	Note	2011 31 December Unaudited \$000	2010 31 December Unaudited \$000	2011 31 March Audited \$000
<b>Assets</b>				
Cash and Cash Equivalents	5	89,082	75,875	86,170
Derivative Financial Instruments	6	393	1,224	1,065
Investment Securities	7	2,322,728	2,051,240	2,110,334
Loans and Advances to Customers	8	2,712,014	2,569,735	2,625,884
Other Assets		3,968	329	2,964
Deferred Tax Asset		4,940	3,306	4,738
Property, Plant and Equipment		17,065	18,798	18,366
Intangible Assets		308	510	431
<b>Total Assets</b>		<b>5,150,498</b>	<b>4,721,017</b>	<b>4,849,952</b>
<b>Liabilities</b>				
Deposits from Customers	10	4,713,564	4,321,171	4,441,969
Derivative Financial Instruments	6	796	1,102	1,157
Current Tax Liability		8,769	8,112	5,907
Other Liabilities		35,253	36,431	42,603
<b>Total Liabilities</b>		<b>4,758,382</b>	<b>4,366,816</b>	<b>4,491,636</b>
<b>Shareholder's Equity</b>				
Share Capital		10,000	10,000	10,000
Cash Flow Hedge Reserve	11	167	272	640
Retained Earnings		381,949	343,929	347,676
<b>Total Shareholder's Equity</b>		<b>392,116</b>	<b>354,201</b>	<b>358,316</b>
<b>Total Liabilities and Shareholder's Equity</b>		<b>5,150,498</b>	<b>4,721,017</b>	<b>4,849,952</b>
<b>Total Interest Earning and Discount Bearing Assets</b>		<b>5,110,980</b>	<b>4,685,515</b>	<b>4,814,495</b>
<b>Total Interest and Discount Bearing Liabilities</b>		<b>4,477,762</b>	<b>4,106,667</b>	<b>4,246,102</b>

These interim financial statements are to be read in conjunction with the notes on pages 11 to 18.

# Interim Financial Statements

## STATEMENT OF CASH FLOWS FOR THE NINE MONTHS ENDED 31 DECEMBER 2011

	2011 31 December Unaudited \$000	2010 31 December Unaudited \$000	2011 31 March Audited \$000
<b>Cash Flows from Operating Activities</b>			
Cash provided from (applied to):			
Interest Income Received	206,238	199,616	268,353
Other Income Received	10,962	10,395	10,689
Interest Paid	(100,173)	(89,564)	(173,677)
Operating Expenditure	(33,186)	(26,642)	(38,022)
Taxation Paid	(11,711)	(13,173)	(19,423)
<b>Cash Flows from Operating Profits before changes in Operating Assets and Liabilities</b>	<b>72,130</b>	<b>80,632</b>	<b>47,920</b>
<b>Changes in Operating Assets and Liabilities</b>			
Increase in Loans and Advances to Customers	(88,227)	(165,091)	(220,848)
Derivative Financial Instruments	(162)	2,079	2,545
Increase in Deposits from Customers	240,085	254,783	412,710
<b>Cash Flow from Operating Assets and Liabilities</b>	<b>151,696</b>	<b>91,771</b>	<b>194,407</b>
<b>Net Cash Flow from Operating Activities</b>	<b>223,826</b>	<b>172,403</b>	<b>242,327</b>
<b>Cash Flows from Investing Activities</b>			
Cash provided from (applied to):			
Property, Plant and Equipment Sold	-	-	-
Investment Securities	(211,351)	(177,778)	(237,283)
Property, Plant and Equipment Purchased	(412)	(1,676)	(1,800)
Intangible Assets Purchased	(71)	(187)	(187)
<b>Net Cash Flow from Investing Activities</b>	<b>(211,834)</b>	<b>(179,641)</b>	<b>(239,270)</b>
<b>Cash Flows from Financing Activities</b>			
Cash provided from (applied to):			
Dividends Paid	(9,080)	(10,950)	(10,950)
<b>Net Cash Flow from Financing Activities</b>	<b>(9,080)</b>	<b>(10,950)</b>	<b>(10,950)</b>
<b>Net Increase/(Decrease) in Cash and Cash Equivalents</b>	<b>2,912</b>	<b>(18,188)</b>	<b>(7,893)</b>
Add Cash and Cash Equivalents at Beginning of the Year	86,170	94,063	94,063
<b>Cash and Cash Equivalents at End of Period</b>	<b>89,082</b>	<b>75,875</b>	<b>86,170</b>

These interim financial statements are to be read in conjunction with the notes on pages 11 to 18.

# Interim Financial Statements

## STATEMENT OF CASH FLOWS (CONTINUED) FOR THE NINE MONTHS ENDED 31 DECEMBER 2011

	2011 31 December Unaudited \$000	2010 31 December Unaudited \$000	2011 31 March Audited \$000
<b>Reconciliation of Net Profit after Taxation To Net Cash Flows from Operating Activities</b>			
<b>Net Profit after Taxation</b>	<b>36,903</b>	<b>29,649</b>	<b>39,847</b>
<b>Add Movements in Balance Sheet Items</b>			
Accounts Payable	30,610	45,533	8,125
Provision for Tax	2,862	1,039	(3,476)
Deposits from Customers	240,085	254,783	412,710
Deferred Tax Asset	(201)	-	2,144
Accounts Receivable	(2,935)	(2,601)	(5,572)
Derivative Financial Instruments	(162)	2,079	2,545
Loans and Advances to Customers	(88,227)	(165,091)	(220,848)
	<b>182,032</b>	<b>135,742</b>	<b>195,628</b>
<b>Add Non- Cash Items</b>			
Depreciation	1,712	1,621	2,177
Effect of Change In Tax Legislation	-	3,461	2,311
Impairment Losses on Loans and Advances to Customers	2,984	1,750	2,105
Amortisation of Intangible Assets	195	180	259
	<b>4,891</b>	<b>7,012</b>	<b>6,852</b>
<b>Net Cash Flow from Operating Activities</b>	<b>223,826</b>	<b>172,403</b>	<b>242,327</b>
<b>Reconciliation of Cash and Cash Equivalents to the Statement of Financial Position</b>			
Cash and Balances with Reserve Bank	81,782	69,320	82,442
Cash and Cash at Bank	7,300	6,555	3,728
<b>Total Cash and Cash Equivalents at End of Period</b>	<b>89,082</b>	<b>75,875</b>	<b>86,170</b>

These interim financial statements are to be read in conjunction with the notes on pages 11 to 18.

**NOTES TO THE INTERIM FINANCIAL STATEMENTS**  
**FOR THE NINE MONTHS ENDED 31 DECEMBER 2011**

**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 2011 Annual Report.

There have been no changes in accounting policies since the authorisation date of the 31 March 2011 Annual Report and Disclosure Statement on 26 May 2011.

Due to changes in disclosure requirements, certain comparative periods have been removed as they are no longer required. To ensure consistency with the current period, comparative figures have been restated where appropriate.

**2. NET INTEREST INCOME**

	2011 31 December Unaudited \$000	2010 31 December Unaudited \$000	2011 31 March Audited \$000
<b>Interest Income</b>			
Cash and Cash Equivalents	1,156	1,364	1,816
Investment Securities	77,914	68,153	93,582
Loans and Advances to Customers	128,405	127,066	169,805
<b>Total Interest Income</b>	<b>207,475</b>	<b>196,583</b>	<b>265,203</b>
<b>Derivative Financial Instrument Income</b>	<b>693</b>	<b>6,074</b>	<b>6,527</b>
<b>Interest Expense</b>			
Deposits from Customers	131,682	132,068	179,052
<b>Net Interest Income</b>	<b>76,486</b>	<b>70,589</b>	<b>92,678</b>

**3. OTHER OPERATING INCOME**

Lending and Credit Facility Related Income	3,190	2,486	3,291
Commission and Other Trading Income *	7,579	6,633	9,014
Gain (Loss) in Fair Value on Derivatives	246	(90)	(378)
Other Income	952	927	957
	<b>11,967</b>	<b>9,956</b>	<b>12,884</b>

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

**4. OPERATING EXPENSES**

Auditors Remuneration			
Statutory Audit	111	120	125
Other Assurance Services	41	-	-
Depreciation:			
Buildings	857	754	1,018
Computer Equipment	251	277	374
Other	604	590	785
Amortisation of Intangible Assets	195	180	259
Directors' Fees	294	274	363
Personnel Expenses	12,945	12,072	16,583
Defined Contribution Plan	391	311	456
Information Technology Expenses	4,637	4,064	5,426
Premises Occupancy	1,598	1,498	2,062
Marketing	5,321	5,110	6,368
Other Expenses	6,949	6,202	8,180
	<b>34,194</b>	<b>31,452</b>	<b>41,999</b>

**NOTES TO THE INTERIM FINANCIAL STATEMENTS**  
**FOR THE NINE MONTHS ENDED 31 DECEMBER 2011**

**5. LIQUIDITY RISK**

The Bank holds the following financial assets for the purpose of managing liquidity risk: Other term securities held are available for liquidity should circumstances necessitate.

	2011 31 December Unaudited \$000	2010 31 December Unaudited \$000	2011 31 March Audited \$000
<b>Cash and Cash Equivalents</b>			
Cash and Cash at Bank	7,300	6,555	3,728
Cash and Balances with Reserve Bank	81,782	69,320	82,442
	<b>89,082</b>	<b>75,875</b>	<b>86,170</b>
<b>Registered Bank Term Investments</b>	<b>555,000</b>	<b>580,000</b>	<b>545,000</b>
<b>Total Core Liquid Assets</b>	<b>644,082</b>	<b>655,875</b>	<b>631,170</b>

**6. DERIVATIVE FINANCIAL INSTRUMENTS**

The Bank uses Interest Rate Swaps to manage the interest rate exposure on identified fixed rate Loans and Investment Securities.

	As at 31 December 2011		
	Notional Amount \$000	Fair Value	
		Assets \$000	Liabilities \$000
<b>Interest Rate Contracts – Swaps</b>	<b>25,311</b>	-	<b>796</b>

	As at 31 December 2010		
	Notional Amount \$000	Fair Value	
		Assets \$000	Liabilities \$000
<b>Interest Rate Contracts – Swaps</b>	<b>24,500</b>	-	<b>1,102</b>

	As at 31 March 2011		
	Notional Amount \$000	Fair Value	
		Assets \$000	Liabilities \$000
<b>Interest Rate Contracts – Swaps</b>	<b>24,500</b>	-	<b>1,157</b>

**Cash Flow Hedges**

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

	As at 31 December 2011		
	Notional Amount \$000	Fair Value	
		Assets \$000	Liabilities \$000
<b>Interest Rate Contracts – Options</b>	<b>1,000,000</b>	<b>393</b>	-

	As at 31 December 2010		
	Notional Amount \$000	Fair Value	
		Assets \$000	Liabilities \$000
<b>Interest Rate Contracts – Options</b>	<b>1,400,000</b>	<b>1,224</b>	-

	As at 31 March 2011		
	Notional Amount \$000	Fair Value	
		Assets \$000	Liabilities \$000
<b>Interest Rate Contracts – Options</b>	<b>1,200,000</b>	<b>1,065</b>	-

**NOTES TO THE INTERIM FINANCIAL STATEMENTS**  
**FOR THE NINE MONTHS ENDED 31 DECEMBER 2011**

**7. INVESTMENT SECURITIES**

	2011 31 December Unaudited \$000	2010 31 December Unaudited \$000	2011 31 March Audited \$000
Local Authority Securities	581,337	652,354	640,751
Registered Bank Securities	505,333	351,344	399,671
Registered Bank Term Investments	555,000	580,000	545,000
Other Investments *	681,058	467,542	524,912
	<b>2,322,728</b>	<b>2,051,240</b>	<b>2,110,334</b>

\* Other Investments relate to investments in Utility Companies, SOE's and Commercial Paper and Bonds of an investment grade of New Zealand corporates.

**8. LOANS AND ADVANCES TO CUSTOMERS**

Residential Mortgages	2,429,100	2,318,038	2,364,311
Community	6,049	4,913	4,873
Commercial	146,935	132,947	143,260
Farming	95,753	80,660	80,251
Other *	51,932	49,430	50,394
<b>Total Gross Loans and Advances to Customers</b>	<b>2,729,769</b>	<b>2,585,988</b>	<b>2,643,089</b>
Less Provision for Doubtful Debts (see note 9(a)i)	(17,755)	(16,253)	(17,205)
<b>Total Loans and Advances to Customers</b>	<b>2,712,014</b>	<b>2,569,735</b>	<b>2,625,884</b>

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

**9. CREDIT RISK MANAGEMENT AND ASSET QUALITY**

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

**(i) End Period Balances**

**As at 31 December 2011**  
**Unaudited**  
**\$000**

90 day Past Due Assets Not Impaired

Individually Impaired Assets

Specific Provision for Doubtful Debts  
 Collective Provision for Doubtful Debts  
**Total Provision for Doubtful Debts**

	Residential Mortgage Loans	On Balance Sheet Corporate Exposures	Other On Balance Sheet Exposures	Total Credit Exposures
90 day Past Due Assets Not Impaired	5,944	1,491	-	7,435
Individually Impaired Assets	436	1,892	-	2,328
Specific Provision for Doubtful Debts	310	970	-	1,280
Collective Provision for Doubtful Debts	15,338	659	478	16,475
<b>Total Provision for Doubtful Debts</b>	<b>15,648</b>	<b>1,629</b>	<b>478</b>	<b>17,755</b>

**(ii) Charges to the Income Statement**

**As at 31 December 2011**  
**Unaudited**  
**\$000**

Increase (Decrease) in Specific Provision for  
 Doubtful Debts  
 Increase (Decrease) in Collective Provision for  
 Doubtful Debts  
 Bad Debts Written Off  
**Total Charges to the Income Statement**

	Residential Mortgage Loans	On Balance Sheet Corporate Exposures	Other On Balance Sheet Exposures	Total Credit Exposures
Increase (Decrease) in Specific Provision for Doubtful Debts	(167)	970	-	803
Increase (Decrease) in Collective Provision for Doubtful Debts	349	15	11	375
Bad Debts Written Off	1,396	-	410	1,806
<b>Total Charges to the Income Statement</b>	<b>1,578</b>	<b>985</b>	<b>421</b>	<b>2,984</b>

# NOTES TO THE INTERIM FINANCIAL STATEMENTS

FOR THE NINE MONTHS ENDED 31 DECEMBER 2011

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

### (b) 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 Banks equity as at balance date. The peak aggregate end of day credit exposures is the greater of actual credit exposures for the most recent quarter. The amount is then divided by Shareholder's Equity as at the end of the quarter. Credit exposures disclosed are based on actual exposures.

Note there are no bank counterparties with a long-term credit rating below A- or A3. The credit rating is applicable to an entity's long term senior unsecured obligations payable in New Zealand, in New Zealand dollars.

Percentage of Shareholder's Equity	31 December 2011 Unaudited				31 December 2010 Unaudited			
	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	-	4	2	1	1	4
16% - 20%	-	3	-	3	-	1	1	2
21% - 25%	1	-	-	1	1	-	-	1
26% - 30%	1	-	-	1	-	-	-	-
41% - 45%	-	-	-	-	1	-	-	1
<b>Total</b>	<b>4</b>	<b>5</b>	<b>-</b>	<b>9</b>	<b>4</b>	<b>2</b>	<b>2</b>	<b>8</b>
<b>Peak Exposure</b>								
11% - 15%	1	2	-	3	3	1	1	5
16% - 20%	1	3	-	4	-	1	1	2
21% - 25%	1	-	-	1	1	-	-	1
41% - 45%	1	-	-	1	1	-	-	1
<b>Total</b>	<b>4</b>	<b>5</b>	<b>-</b>	<b>9</b>	<b>5</b>	<b>2</b>	<b>2</b>	<b>9</b>

Percentage of Shareholder's Equity	Year Ended 31 March 2011 Audited			
	Number of Non Bank Counterparties			
	"A" Rated	"B" Rated	Unrated	Total
<b>As at Balance Date</b>				
11% - 15%	1	2	2	5
16% - 20%	-	-	1	1
21% - 25%	1	1	-	2
46% - 50%	1	-	-	1
<b>Total</b>	<b>3</b>	<b>3</b>	<b>3</b>	<b>9</b>
<b>Peak Exposure</b>				
11% - 15%	2	2	2	6
16% - 20%	-	-	1	1
21% - 25%	1	1	-	2
46% - 50%	1	-	-	1
<b>Total</b>	<b>4</b>	<b>3</b>	<b>3</b>	<b>10</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. For 31 December these relate to Local Authorities and Utilities.



**NOTES TO THE INTERIM FINANCIAL STATEMENTS**  
**FOR THE NINE MONTHS ENDED 31 DECEMBER 2011**

**10. DEPOSITS FROM CUSTOMERS**

	2011 31 December Unaudited \$000	2010 31 December Unaudited \$000	2011 31 March Audited \$000
Retail Term Deposits	2,318,584	2,104,203	2,141,652
On Call Deposits Bearing Interest	2,109,639	1,962,641	2,083,248
On Call Deposits Not Bearing Interest	235,801	214,505	172,267
Wholesale Deposits	49,540	39,822	44,802
	<b>4,713,564</b>	<b>4,321,171</b>	<b>4,441,969</b>

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

**11. CASH FLOW HEDGE RESERVE**

Opening Balance	640	4,246	4,246
Effective Portion of Changes in Fair Value	36	397	1,350
Fair Value Movements Transferred to Income Statement	(693)	(6,074)	(6,527)
Deferred Income Tax	184	1,703	1,571
Balance at End of Period	<b>167</b>	<b>272</b>	<b>640</b>

**12. CAPITAL ADEQUACY**

**(i) 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 regular basis to the Board.

The Capital Adequacy tables set out on the following pages summarise the composition of regulatory capital and the capital adequacy ratios for the Bank for the period ended 31 December 2011. During the period the Bank complied with all RBNZ capital requirements to which it is subject. No changes have been made to the Board approved levels of regulatory capital to be held during the period.

**Basel II**

The Basel Committee has issued a revised framework for the calculation of capital adequacy for banks, commonly known as Basel II. The Bank has adopted the "Standardised Approach" as per BS2A to calculate regulatory capital requirements under Basel II.

Pillar 2 of Basel II is intended to ensure that banks have adequate capital to support all risks in their business, and includes the requirement on banks to have an "Internal Capital Adequacy Assessment Process (ICAAP)" for assessing their overall capital adequacy in relation to risk profile and a strategy for maintaining adequate capital to support risk. The Bank's ICAAP has identified other areas of risk not covered by Pillar I (credit risk, market risk, and operational risk) and assigned a level of capital to them. These risks include but are not limited to strategic risk, reputational risk, environmental risk, liquidity risk, and ownership structure. The Bank has made an internal capital allocation of \$150m to cover these identified risks.

**NOTES TO THE INTERIM FINANCIAL STATEMENTS**  
**FOR THE NINE MONTHS ENDED 31 DECEMBER 2011**

**12. CAPITAL ADEQUACY - continued**

Total Capital Adequacy Ratios for the Bank as at 31 December 2011 are:

	<b>2011 31 Dec Unaudited</b>	<b>2010 31 Dec Unaudited</b>	<b>2011 31 March Audited</b>
Tier One	15.10%	15.81%	15.78%
Total Capital	15.63%	16.29%	15.78%

**(ii) Qualifying Capital**

**Tier One Capital**

Issued and fully paid up Share Capital	10,000	10,000	10,000
Retained Earnings	347,676	316,879	316,879
Current period's Audited Retained Earnings	21,067	16,689	30,797

**Less Deductions from Tier One Capital**

Intangible Assets	(308)	(510)	(431)
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<b>Total Tier One Capital</b>	<b>378,435</b>	<b>343,058</b>	<b>357,245</b>
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**Upper Tier Two Capital**

Unaudited Current Retained Earnings	13,206	10,360	-
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**Lower Tier Two Capital**

	-	-	-
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<b>Total Tier Two Capital</b>	<b>13,206</b>	<b>10,360</b>	<b>-</b>
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<b>Total Capital</b>	<b>391,641</b>	<b>353,418</b>	<b>357,245</b>
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**(iii) Total Risk Weighted Exposures – December 2011**

	<b>Total Exposure after credit risk mitigation Dec-11 Unaudited \$000</b>	<b>Risk Weight Dec-11 Unaudited</b>	<b>Risk Weight Exposure Dec-11 Unaudited \$000</b>	<b>Minimum Pillar One Capital Requirement Dec-11 Unaudited \$000</b>
<b>On Balance Sheet Exposures</b>				
Cash	7,300	0%	-	-
Reserve Bank of New Zealand	81,782	0%	-	-
Public Sector Entities	627,726	20%	125,545	10,044
Banks	1,041,805	20%	208,361	16,669
Banks	28,483	50%	14,242	1,139
Corporate	101,000	20%	20,200	1,616
Corporate	112,931	50%	56,466	4,517
Corporate	367,654	100%	367,654	29,412
Residential Bonds	25,000	35%	8,750	700
Residential Mortgages <80% LVR	1,935,637	35%	677,473	54,198
Residential Mortgages 80%<90% LVR	184,453	50%	92,226	7,378
Residential Mortgages Welcome Home Loans	269,886	50%	134,943	10,795
Residential Mortgages 90%<100% LVR	29,360	75%	22,020	1,762
Past Due and Impaired Residential Mortgages	9,763	100%	9,763	781
Other Assets	327,017	100%	327,017	26,162
Non-Risk Weighted Assets	701	0%	-	-
<b>Total On Balance Sheet Exposures</b>	<b>5,150,498</b>		<b>2,064,660</b>	<b>165,173</b>

**NOTES TO THE INTERIM FINANCIAL STATEMENTS**  
**FOR THE NINE MONTHS ENDED 31 DECEMBER 2011**

**12. CAPITAL ADEQUACY - continued**

	<b>Total Exposure</b>	<b>Credit Conversion Factor</b>	<b>Credit Equivalent Amount</b>	<b>Average Risk Weight</b>	<b>Risk Weighted Exposure</b>	<b>Minimum Pillar One Capital Requirement</b>
	<b>Dec-11 Unaudited \$000</b>		<b>Dec-11 Unaudited \$000</b>		<b>Dec-11 Unaudited \$000</b>	<b>Dec-11 Unaudited \$000</b>
<b>Off Balance Sheet Exposure</b>						
Revolving Credit Facility	37,000	50%	18,500	20%	3,700	296
Commitments where original maturity is more than one year	228,377	50%	114,189	35%	39,966	3,197
Is less than one year	103,652	20%	20,730	100%	20,730	1,659
<b>Market Related Contracts</b>						
Interest Rate Contracts*	1,025,311	N/A	1,364	20%	273	22
<b>Sub Totals</b>	<b>1,394,340</b>		<b>154,783</b>		<b>64,669</b>	<b>5,174</b>

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

**Operational Risk and Market Risk Analysis**

	<b>Implied Risk Weighted Exposure</b>	<b>Capital Requirement</b>
Operational Risk	291,864	23,349
Market Risk	84,935	6,795
<b>Sub Total</b>	<b>376,799</b>	<b>30,144</b>

**Total Capital Requirements**

	<b>Total Exposure after credit risk mitigation</b>	<b>Risk Weighted exposure or Implied RWE</b>	<b>Capital Requirement</b>
Total credit risk plus equity	5,305,281	2,129,329	170,346
Operational Risk	N/A	291,864	23,349
Market Risk	N/A	84,935	6,795
<b>Total</b>		<b>2,506,128</b>	<b>200,490</b>

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

LVR Range	<b>0%-80%</b>	<b>80% -90%</b>	<b>Over 90%</b>	<b>Total</b>
On Balance Sheet Exposures	1,942,719	186,168	300,213	2,429,100
Off Balance Sheet Exposures	215,540	8,512	4,325	228,377
<b>Total Value of Exposures</b>	<b>2,158,259</b>	<b>194,680</b>	<b>304,538</b>	<b>2,657,477</b>

**Market Risk**

	<b>Implied Risk Weighted Exposure</b>	<b>Aggregate Capital Charge</b>	<b>Aggregate Capital Charge as % of Banks Equity</b>	<b>Banks Equity</b>
End of Period capital charges	84,935	6,795	1.73%	391,641
Peak end of day capital charges	99,299	7,944	2.03%	391,641

# NOTES TO THE INTERIM FINANCIAL STATEMENTS

## FOR THE NINE MONTHS ENDED 31 DECEMBER 2011

### 13. SECURITISATION, FUNDS MANAGEMENT, OTHER FIDUCIARY ACTIVITIES AND THE MARKETING AND DISTRIBUTING OF INSURANCE PRODUCTS

The Bank has no involvement with any Securitisation, Custodial, Funds Management or other Fiduciary activities. The Bank does not conduct any insurance business, however general and life insurance products are marketed through the Bank's branch network. These have been provided on arms length terms and conditions and at fair value. The Bank provides no funding to the entities on whose behalf the insurance products are marketed. External third party insurance companies underwrite these, and the Bank has no financial association with them.

TSB Bank Limited is the manager and promoter of the TSB Bank PIE Unit Trust, and the New Zealand Guardian Trust Company Limited is the trustee. Units in the Fund do not directly represent deposits or other liabilities of TSB Bank. However, the Trust Deed stipulates that 100% of the TSB Bank PIE Unit Trust is invested exclusively in TSB Bank debt securities. As at 31 December 2011, the TSB Bank PIE Unit Trust had \$65.9m (31 December 2010, \$78.4m) invested with the Bank.

### 14. REPORTING BY SEGMENT

The Bank operates as one segment, in the business of Retail Banking in New Zealand, as defined by NZ IFRS-8 Operating Segments. On this basis no detailed segment information is presented as this would merely repeat the information provided in the primary financial statements.

	2011 31 December Unaudited \$000	2010 31 December Unaudited \$000	31 March 2011 Audited \$000
<b>15. COMMITMENTS AND CONTINGENT LIABILITIES</b>			
Commitments approved to advance less than one year	103,652	104,112	103,101
Commitments approved to advance greater than one year	265,377	232,522	252,538
Capital Commitments	-	-	-
	<b>369,029</b>	<b>336,634</b>	<b>355,639</b>

There are no material contingent liabilities and outstanding claims known by the Directors as at 31 December 2011 that would impact on the financial statements.

### 16. DIVIDEND

	31 December 2011		31 December 2010		31 March 2011	
	\$000	\$ Per Share	\$000	\$ Per Share	\$000	\$ Per Share
Interim	2,630	0.132	2,600	0.130	2,600	0.130
Final	-	-	-	-	6,450	0.323
	<b>2,630</b>	<b>0.132</b>	<b>2,600</b>	<b>0.130</b>	<b>9,050</b>	<b>0.453</b>

### 17. RELATED PARTY TRANSACTIONS AND BALANCES

The Bank is wholly owned by the TSB Community Trust. During the period the Trust operated normal bank account facilities which were on normal customer terms and conditions. As at 31 December 2011 the Trust had \$13.195m invested with the Bank at market rates, with interest accrued of \$0.144m. The Trust was also paid an interim dividend of \$2.630m in November 2011 (refer Note 16. above).

### 18. 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. There have been no material changes to the above policies since publication of the previous Disclosure Statement.

### 19. SUBSEQUENT EVENTS

There have been no material events requiring adjustment to these financial statements.

## DIRECTORY

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### Directors

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

### Executive Management

K.J. (Kevin) Murphy, J.P, CA, Managing Director/CEO  
C.L. (Charles) Duke, Deputy Chief Executive  
R.G. (Roddy) Bennett, B. Sci, ACA, Chief Financial Officer  
R. (Rod) Grant, National Business Manager - Marketing  
R. (Rod) Main, Manager – Transformation and Change  
M.D. (Marie) Collins, Manager Technology Services  
L.D. (Linda) Burczynski, Dipl. Mgmt, Manager Human Resources  
P.D. (Phil) Gerrard, AAIBS, Manager Lending Services

### Registered Office

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

### Principal Solicitors to the Company

Auld Brewer Mazengarb & McEwen  
9 Vivian Street, New Plymouth

### Auditor

KPMG  
10 Customhouse Quay, Wellington

### Contact Us

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